Canadian Airline Industry

Gaps in the CTA Review

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Air Transport in Canada Symposium *TIME FOR REAL CHANGE POWERED BY PILOTS*

alpa http://canadaairtransport.alpa.org

April 29 2016
Ottawa Marriott Hotel
Ottawa, ON, Canada

CTA Review

Terms of Reference:

"How the **vitality of the Canadian aviation sector**, air connectivity, and Canada's ability to attract visitors and transiting travellers can be maintained and augmented in light of the range of cost factors and **competitive global markets**."

CTA Review

Recommendations targeted to following objectives:

- Increasing competition
- Supporting and improving health of the air transport sector in Canada
- Supporting and strengthening governance in the sector

CTA Review

But system marked by:

- Weak accountability constraints on fees and charges;
- High costs for users and operators;
- **Aggressive capital expenditure programs at airports**; and
- **Limited competition.**

Almost got it right!

What Do We Know?

- **Direct and indirect taxes**
  - User fees (FY 2014) – airport rents ($294M), Air Travellers Security Charge ($662M, federal federal fuel taxes ($97M)
- **Importance of hub carriers** for airports, region, and country
  - Consider Dubai without Emirates; Atlanta without Delta
- **Importance of connectivity for productivity**
  - Subsidize activities with positive externalities; do not tax
  - Gulf States, Turkey, and China understand

What We Should Know

- **Governance pathetic at airport authorities**
  - Airport authorities creation of Liberals
  - Corporate governance not much better with private companies (remember O&Y, Nortel, RIM, Barrick, and Valeant once among most valuable companies on TSX)
- **No regulatory oversight of capital investments and fees**
  - GTAA: original plans – $3-4B; 2011 gross debt – $7.7B; 2015 – $6.3B
  - GTAA: net interest expense in 2015 – $358M; ground rents – $128M
- **Limited competition globally**
  - Schumpeter, Porter – flaws in economic models of competition
  - ULCC unable to attract financing in Canada – private markets telling government something something
  - Seat densities main cost advantage of ULCC – legacy carriers have learned (shortcoming of (shortcoming of CSeries)

Going Forward

- Eliminate rents
  - Reimburse GTAA for acquisition of T3(?)
- Eliminate security fees
- Change governance structure for airports
  - Airline representation, regulatory oversight
- Big data and CATSA
  - Politics and fear of profiling
- Technology
  - RFID, facial recognition
- Level playing fields
  - Prohibited subsidies, actionable subsidies

Going Forward

- Climate change – level playing fields
- Privatization
  - Not panacea
  - Private capital readily available – in form of debt
  - Is there need for equity capital?
- Ignore self-serving drivel of airlines such as Qatar

"One or two airlines cannot possibly connect Canadians to the world in a convenient way and still provide competitive fares to consumers. Foreign airlines have an important providing new destinations, better connectivity through their networks, and competitive Canadians."

CTA Review – Right

- Light-touch regulations covering fees and charges (almost right)
- Requiring airline reps on boards of airports
- Consultation for major capital investments
- Replace “one size fits all” passenger screening
- Reducing ATSC
- Reducing or eliminating fuel taxes on international flights
- Include fair trade and competition requirements in all new and expanded air service agreements

CTA Review – Wrong

- Policy governing air transport has yielded excellent airport facilities and air navigation systems; financially sound carriers
- Privatization of airports (not necessary)
- Light-touch regulation
- Adopt policies and stable, predictable regulatory frameworks that de-risk investor cash flows and inspire greater confidence among institutional investors in P3 and private infrastructure projects
- Minimum allowance of seven flights per week in all new and existing air service agreements
- Consumer protection and compensation
- Views on competition