



BACKGROUND

The Economic Impact of the Air Transportation Industry in Canada

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BACKGROUND

THE CANADIAN AIR TRANSPORTATION INDUSTRY GENERATES WEALTH, EMPLOYMENT & TAXES

- **141,000** people are directly employed by the Canadian air transportation industry
- The industry's total economic footprint, which includes supplier industries, is **\$34.9 billion** in GDP, and supports a total of almost **405,000** jobs in many different sectors
 - Each direct job in the industry results in **\$248,000** in total GDP
 - Air Transportation supports over **330** jobs for every **100,000** passengers carried
- It contributes over **\$12 billion** to federal & provincial coffers, including over **\$7 billion** in taxes

INTRODUCTION

An economic impact assessment is useful in assisting industry, stakeholders, and decision makers to better understand what projects, facilities or even whole industries contribute to the economy. It helps communities and governments determine investment priorities in an era of fiscal restraint.

Canada's air transportation industry already provides great economic and socio-economic value. There are, however, opportunities to make air transport in Canada more attractive and accessible, promoting economic growth in Canada and growing Canada's share of the world's passenger and air cargo market, particularly with emerging markets.

Key stakeholders in the Canadian air transportation industry see much potential for growth in the coming years. In order to assess the impacts of changes in policy that may be required to capture that potential, it is important first to understand and quantify the economic impacts as they are today.

Why Air Transportation Is Important to Canadians

The air transportation industry enhances Canada's prosperity by:

- Generating employment and income in the industry itself, and indirectly through the many companies supporting the industry's activities, such as logistics firms and a range of domestic & technical suppliers from coffee to hi-tech equipment;
- Improving connectivity of regions to other parts of the country and to other parts of the world, acting as a catalyst to enhance business and tourism growth; and
- Enhancing the welfare of Canadians. Simply put, air transportation better allows Canadians to go where they want, when they want.

Stats & Facts about Canada's Airports

- 725 certified airports
- 26 airports in the National Airports System (NAS)
- 225 regional airports with scheduled service
- 120 million plus passengers in 2012
- 95 airlines provide commercial scheduled service linking 251 communities in Canada, 68 cities in the U.S. and another 125 worldwide

Canada's Air Transportation Industry and How Airports Fit In

The air transportation industry includes firms directly involved in the transportation of people and cargo by air, and those providing aviation related services to them.

Airports are a vital component of the air transportation sector providing infrastructure not only for air carriers and their support services - such as aircraft maintenance and repair, fuelling, flight catering and de-icing - but also



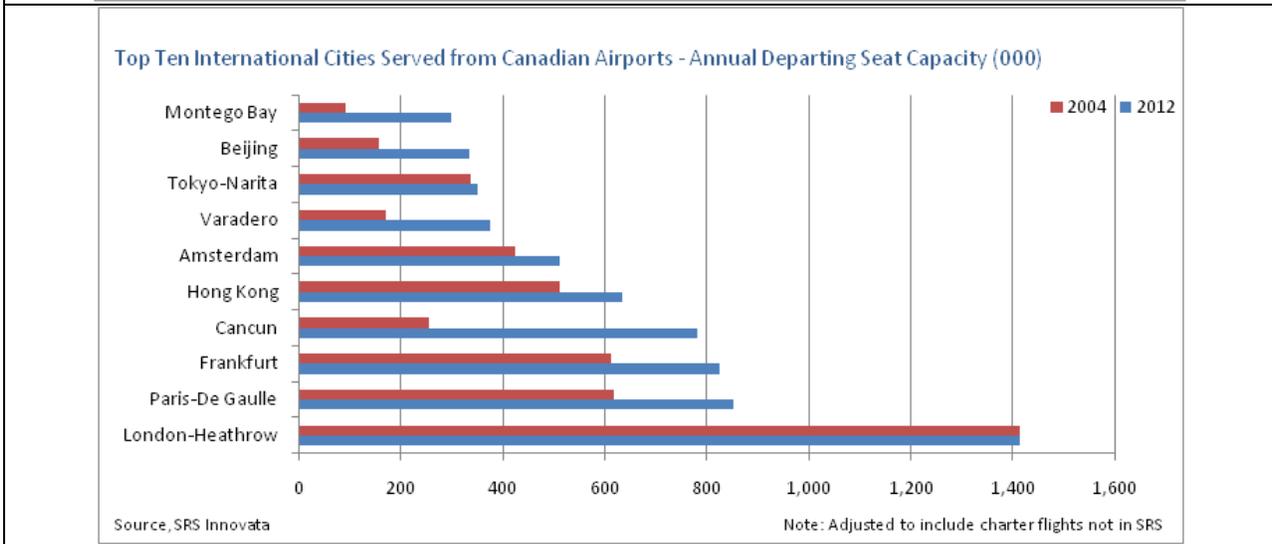
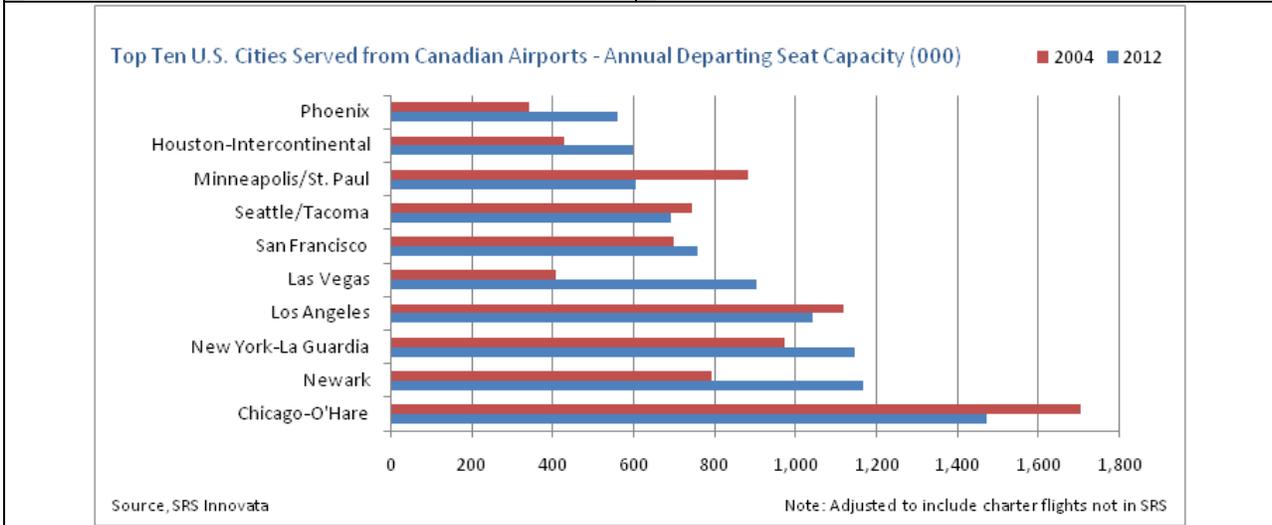
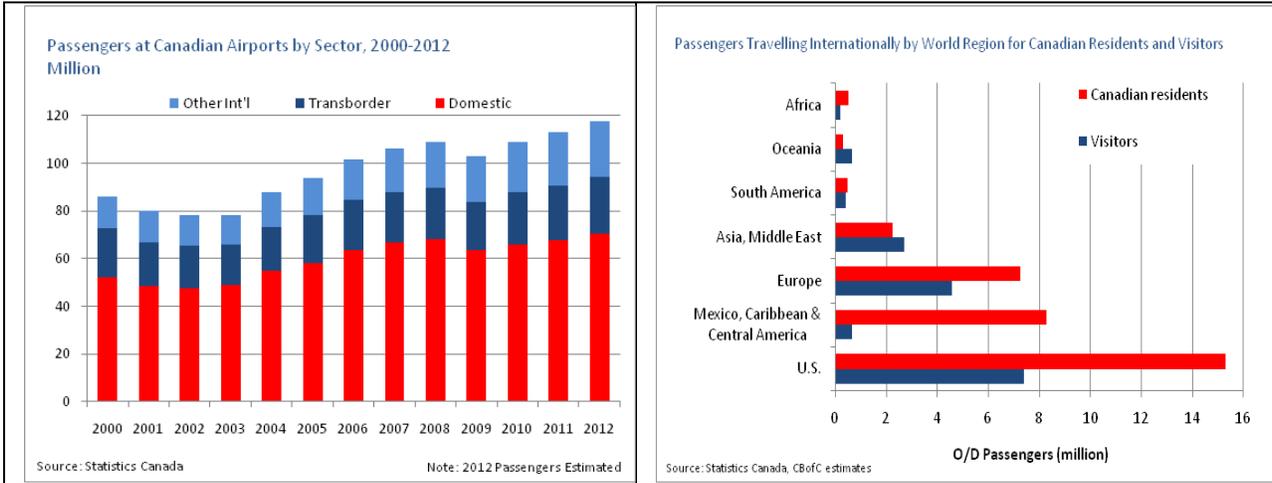
directly for passengers and shippers, such as parking and retail outlets. The range is shown in the graphic.

CANADA AND ITS SHARE OF GLOBAL AIR TRAFFIC

Passenger Traffic Facts

- Canada's airports handled approximately 120 million passengers in 2012, an increase of 3.6% over the previous year.
- Passenger traffic has grown at an average of 2.6% since 2000.
- The largest eight airports, each with over 3.5 million passengers, handle 81% of total passenger traffic.
- Over 60% of passengers on domestic flights start or end their journey at smaller regional airports.
- Air service to the U.S. has improved both in terms of city-pairs and flights, increasing on average by 1% to 2% per year since 2004. Chicago-O'Hare and two of the airports serving the New York area – La Guardia and Newark - are the top U.S. airports served from Canadian airports.
- Since 2000, international sector traffic has grown the strongest, averaging 4.9% per year.
- There were 27.4 million overseas (i.e., international excluding U.S. transborder) passengers in 2012, with Canadian residents accounting for 70% of the total.
- The number of overseas cities served increased by over 30% between 2004 and 2012, and the number of overseas flights has increased by 7.2% per year in that period. London-Heathrow has by far the greatest capacity of all the international airports served from Canada, with service to Paris and Frankfurt having increased greatly as well as that to Beijing. The strongest international growth market has been to vacation destinations in Mexico and the Caribbean.

With approximately 120 million passengers, Canada's airports processed almost 3.5 times the national population in 2012



Air Cargo

- Almost 1.5 million tonnes of cargo was handled at Canadian airports in 2011, half of which was international (incl. U.S.).
- Air cargo represented almost \$28 billion of trade with the U.S. from Canada in 2011, and over \$82 billion of trade with the rest of the world: this equates to 5% of total trade (by value) with the U.S. and over 24% of total trade with other countries – and those figures are increasing.

Air transportation accounts for 25% of total Canadian trade with countries other than the U.S.

Canada's Share of the Global Market

The good news is, the pie is big and getting larger, and Canada has an opportunity to grow its share of the market given the right commercial and regulatory approach.

On a global scale, Canadian hub airports are smaller compared to major world hubs but provide better connectivity in terms of numbers of cities served outside of the hub airport's local region. Toronto fairs well on this measure, ranked sixth just behind New York's-JFK and London-Heathrow, and well ahead of Chicago, Los Angeles, Houston and Atlanta. Montréal also fairs well, ranked tenth, ahead of Tokyo, Beijing and Hong Kong, and just behind Newark and Atlanta.

THE ECONOMIC FOOTPRINT OF THE AIR TRANSPORTATION INDUSTRY IN CANADA

Total Industry Economic Footprint

- **141,000 people** are directly employed by the Canadian air transportation industry.
- The industry's total economic footprint, which includes the impact on the supplier industries, is estimated to be **\$34.9 billion in GDP**. This economic activity supports a total of almost **405,000 jobs**.
- Overall job creation in the air transportation industry and those that benefit indirectly or through induced impacts results in over **\$17 billion in personal income**.
- Increased economic activity supported by the industry also benefits businesses with pre-tax corporate profits of **\$3.5 billion**. This increased income provides more than **\$7.4 billion in taxes**.

Total Economic Footprint – Air Transportation Industry

	GDP (2012\$)	EMPLOYMENT (000)	
	Total	Direct	Total
Base Economic Footprint	\$30.9 B	99.2	343.8
Additional Impacts	\$4.0 B	41.8	61.1
TOTAL	\$34.9 B	141.0	404.9

DOWNSTREAM / CATALYTIC IMPACTS

The air transportation industry provides downstream or catalytic impacts, particularly in tourism and trade dependent industries.

- **Tourism.** In 2012, there were **20 million** domestic person-trips by air and total spending by these travellers, excluding airfares, was **over \$9.95 billion**. A total of 7.5 million visitors to Canada spent almost \$7.6 billion in Canada in 2012; the large majority (73%) by overseas (non-U.S.) visitors. In addition, air transportation also facilitates travel by Canadians abroad to an increasing number of destinations.

- **Trade.** Distance is a natural barrier to trade. Air transportation helps bridge that gap. The level of trade between Canada and other countries correlates to the numbers of flights to those countries – the larger the number of flights, the greater the trade value. Considering all trading partners, a 1% increase in flights is associated with a 0.88% increase in trade. While availability of direct flights is not a sufficient condition to increase trade between Canada and other countries, direct connections act as a catalyst for business opportunities.
- **Increase Foreign Direct Investment.** Air transport connectivity (including flight frequency and number of destinations weighted by the importance of each destination) correlates with higher amounts of foreign direct investment (FDI) relative to a country's GDP.
- **Increase Labour Productivity.** Previous studies have found that an increase in air transportation connectivity of 10% would be estimated to increase labour productivity by 0.07%. In the context of Canadian GDP, this would amount to approximately **\$1 billion** in increased output. Good air service encourages people to move to where they are most productive, while allowing them to keep in close contact with family and friends.

IMPACTS BEYOND DOLLARS AND CENTS

Air transportation has value beyond just the cumulative amount of output produced by the industry. Air transportation and airports:

Air transportation is to this Century what the train was to the 19th Century. It is the thread that binds us together

- **Are Vital to the Livelihood of Canadians in Remote Regions.** During times when winter roads are not available, air transportation is the only way in and out of many remote communities. Northerners depend on air transportation for the delivery of necessities such as food products and access to emergency care.
- **Promote the Economic Growth of Canada's North.** Mining is one of the most important economic drivers in Canada's north and its importance is expected to increase with climate change. Air transportation is essential for delivering oversized cargo to remote mining and exploration sites, and for the movement of large crew and supplies. As the economy in the north grows, so will demand for air services.
- **Help Protect the Country's Natural Resources.** Provincial and territorial governments attempt to minimize the number of forestry resources destroyed by forest fires, and rely heavily on air transportation to move fire crews, equipment, fuel and supplies, and use specialized aircraft to suppress forest fires.
- **Are Necessary for Emergency Response and Humanitarian Relief.** Air transportation plays a critical role in supporting the movement of specialized emergency personnel, equipment and supplies be they involved in police, military, health care, search and rescue, or hydro maintenance activities.
- **Broaden People's Leisure and Cultural Experiences, and Keep Families Connected.** Historically, air transportation has provided a wider choice of holiday destinations and has made them more accessible and affordable to ordinary Canadians. Moreover, with an ever more mobile work force, particularly in Canada's developing regions, air transportation provides that essential link to "down home".
- **Enhance Business Operations and Efficiency.** Air transportation allows firms to shorten delivery times, minimize inventory costs and limit interruptions to production. It allows workers to move to areas where their skills are best utilized, benefiting themselves and Canada as a whole. It also allows firms to develop natural resources in isolated areas using air transport to fly-in workers on rotational shifts.

While it is not possible to quantify the values of each of these benefits, an analysis of the consumer surplus generated by air travel provides a method of estimating, at least approximately, their total benefit as well as the benefits associated with trade and connectivity. In many cases, passengers would have been willing to pay more than the actual price of the ticket. The difference between that willingness to pay and the airfare itself is termed the “consumer surplus”. In 2009 , previous studies estimated that the total consumer surplus that Canadians derived from air travel was approximately **\$32 billion**.

Canadians value air travel at \$32 billion beyond the direct cost of the air ticket

IMPACTS OF TRAFFIC DIVERSION

Diversion of passenger and cargo traffic from Canadian airports can occur in a number of ways, including: diversion to U.S. border airports; overseas visitors entering Canada by surface mode; diversion from local airports to larger airports in the region; and diversion to surface modes. Competition among different modes and airports is beneficial for Canadians. However, if the playing field is not level, the welfare of Canadians is hurt and economic value is destroyed.