

InterVISTAS
CONSULTING INC.

Air Travellers Security Charge Monitoring Report

*strategic
transportation
& tourism
solutions*

*Prepared for
Minister Responsible for
Tourism in Alberta*

22 May 2003



Air Traveller Security Charge Monitoring Report

Final Report

Supplemental Provincial Analysis: Alberta

22 May 2003

Prepared By

InterVISTAS Consulting Inc.



Table of Contents

1.0	The Impact of the ATSC on Domestic Air Travel Demand: Alberta	1
1.1	Incidence of the ATSC in Alberta	1
1.2	Domestic air traffic impact.....	2
1.3	ATSC (original) revenues collected by the government on domestic travel.....	3
1.4	ATSC (reduced rate) revenues collected by the government on domestic travel	3
1.5	Tourism impact	4
1.6	Conclusions for the Alberta domestic air travel market.....	5

List of Tables

Table 1-1: Proportion of Domestic Carrier Flight Segments and Capacity to/from Alberta Affected by the ATSC	1
Table 1-2: Estimated Annual One-Way Passengers in Alberta- 2001	2
Table 1-3: Estimated Annual Domestic Demand Impacts in Alberta.....	2
Table 1-4: ATSC Remittances on Remaining Domestic Traffic in Alberta	3
Table 1-5: ATSC (Reduced Level) Remittances on Remaining Domestic Traffic in Alberta	3

1.0 The Impact of the ATSC on Domestic Air Travel Demand: Alberta

The main report quantified the impact of the Air Travellers Security Charge (ATSC) on the national air travel market. This supplemental chapter provides information on the impact of the ATSC on the province of Alberta. The analysis below reports:

- The incidence of the ATSC on domestic air services in Alberta.
- The impact of the ATSC on domestic air traffic in Alberta;
- ATSC remittances generated by travel originating in the province, for the original and reduced ATSC levels; and,
- The impact of the ATSC on total tourism traffic and revenues in the province.

Each of these four components is discussed in turn below.

1.1 Incidence of the ATSC in Alberta

Table 1-1 presents the number of domestic carrier flight segments to which the ATSC applies, and the capacity to/from Alberta on these routes, by carrier. Overall, 90% of Alberta scheduled carrier flight segments and 99% of seats were subject to the ATSC in mid-2002.

Table 1-1: Proportion of Domestic Carrier Flight Segments and Capacity to/from Alberta Affected by the ATSC

Carrier	Monthly Carrier Flight Segments (August 2002)			Monthly Seat Capacity (August 2002)		
	ATSC Applied	Flight Segment	% Affected	Affected	Total	% Affected
Air Canada	36	42	86%	353,175	358,001	99%
Air North	2	2	100%	3,172	3,172	100%
Air Transat	5	5	100%	18,408	18,408	100%
Canadian North	4	5	80%	15,357	17,307	89%
Northwestern Air Lease	0	3	0%		513	0%
Skyservice Airlines	6	6	100%	9,092	9,092	100%
Westjet	29	29	100%	299,595	299,595	100%
Tango	6	6	100%	40,734	40,734	100%
Alberta Total	88	98	90%	739,533	746,822	99%

Source: OAG Max Flight Schedules and Tango printed schedule, August 2002.

1.2 Domestic air traffic impact

As concluded in Chapter 4 of the main report, it is estimated that the ATSC caused a 9.2% drop in domestic short-haul traffic and a 4.4% drop in domestic mid to long-haul traffic. These same percentages are applied here to estimate the provincial air traffic impact.

To determine how many passengers left the market due to the ATSC, a base estimate of provincial traffic was calculated using IATA BSP data, supplemented by estimates of tickets sold for services not captured by the BSP database.¹ **Table 1-2** shows the estimated annual one-way passengers in the Alberta domestic market. The estimate of one-way passengers captures all passengers that flew within the province, flew into the province from elsewhere in Canada, and who flew out of the province to other domestic destinations in 2001.

Table 1-2: Estimated Annual One-Way Passengers in Alberta- 2001

	Annual One-Way Passengers
Short-Haul Domestic	2.3 Million
Mid to Long-Haul Domestic	1.1 Million
<i>Total</i>	<i>3.4 Million</i>

Source: IATA BSP supplemented by data from Transport Canada, OAG and WestJet Airlines.

Applying the percentage impacts from Chapter 4 of the main report (-9.2% for short-haul and -4.4% for long-haul), to the proportion of domestic passenger traffic subject to the ATSC results in the travel demand impacts shown in **Table 1-3**.²

Table 1-3: Estimated Annual Domestic Demand Impacts in Alberta

	ATSC Impact	Annual One-Way Passengers Lost
Short-Haul Domestic	-9.2%	215,000
Mid to Long-Haul Domestic	-4.4%	48,000
<i>Total</i>		<i>263,000</i>

¹ See Appendix E of the main report for data sources and methodology used to estimate national market. Using the provincial distribution of Canada's 34.9 million domestic Origin/Destination travellers in 2001, the total domestic ticket stock of 9.3 million was allocated to each province. Next, an analysis of domestic travel patterns based on IATA BSP data was undertaken to identify the volume of tickets associated with inbound travel to each province and the volume of travel originating in each province. Using the ratio between these directional flows, the distribution of the 9.3 million tickets by province was further segmented into inbound and outbound travel. The analysis of tourism impacts was based on inbound travel, while the calculation of ATSC collected by province was based on outbound travel.

² The ATSC is assumed to apply to 99.5% of passengers – this figure is higher than the 99% of seats subject to the ATSC in Table 1-1, as the exempt flights are generally very short-haul services operating at low load factors.

The ATSC reduced domestic air travel demand by an estimated 263,000 one-way passengers per annum. The short-haul market suffered the greatest loss, losing 215,000 one-way passengers annually. The long-haul market is less affected, but still lost in the order of 48,000 one-way passengers per annum.

**Domestic one-way
passengers lost in Alberta
due to the ATSC
approximately:
263,000 per annum**

1.3 ATSC (original) revenues collected by the government on domestic travel

The ATSC remittances on domestic travel attributable to Alberta are assumed to be funds collected on return air travel originating in the province. Accounting for the drop in air traffic caused by the ATSC, **Table 1-4** shows that air traffic in Alberta generates \$38 million per annum in ATSC remittances to the Federal Government.

Table 1-4: ATSC Remittances on Remaining Domestic Traffic in Alberta

Remaining Annual Passengers Originating in the Province	ATSC plus GST	Total Annual ATSC Remittances
1.6 Million	\$24	\$38 Million

1.4 ATSC (reduced rate) revenues collected by the government on domestic travel

The ATSC on domestic travel was reduced by 40% on March 1, 2003. The new charge is \$14 including GST for a roundtrip domestic ticket (\$7 one-way). According to economic theory, the reduced ATSC should have less of a negative impact on air traffic than its previous rate of \$24. Taking into consideration the increase in traffic under the lower rate, **Table 1-5** shows the Federal Government generates \$23 million per annum with the reduced ATSC. With the ATSC lowered, a greater number of outbound passengers remain in the market (1.7 million rather than 1.6 million) than with the higher charge.

Table 1-5: ATSC (Reduced Level) Remittances on Remaining Domestic Traffic in Alberta

Remaining Annual Passengers Originating in the Province	ATSC plus GST	Total Annual ATSC Remittances
1.7 Million	\$14	\$23 Million

1.5 Tourism impact

As outlined in the main report, the ATSC had a direct impact on the airline industry, causing a reduction in air travel, revenues and profits. However, these impacts are felt not only by the airline industry, but also by downstream industries such as tourism, which depend on air travel demand. As the tourism industry is arguably one of the most economically important downstream industry in the province, it is the focus of the following analysis.

The ATSC causes a loss of 112,000 tourists to Alberta per annum.

- 93,000 domestic
- 13,000 transborder
- 6,000 international

This decrease translates into a loss of \$63 million in tourism revenues per annum.

The imposition of the ATSC affected the tourism industry in three ways: first, by reducing air travel and thus tourism; second, by increasing the price of air travel, and consequently raising the price of tourism as a whole; and third, tourism operators responded just as air carriers did to the reduction in traffic and lowered their prices, thus incurring revenue losses, and likely reducing their profits and viability.

Tourism fell in the province. As shown in Table 1-3, the ATSC reduced air travel by 263,000 one-way domestic passengers per annum in Alberta. Of these passengers, an estimated 48% are tourism related.³ Assuming that about a third of lost short-haul passengers still make their trip but by another mode (e.g., car, bus or rail), the loss of air passengers translates into a reduction of approximately 93,000 domestic tourist visits. In addition, a decline in some 19,000 transborder and international visitors to Alberta are expected to result from the ATSC on an annual basis.⁴ Given an assumed spend rate of \$300 per visit for short-haul travelers, \$600 per visit for mid to long-haul travelers and \$1,500 per visit for both transborder and international visitors, the loss of tourists resulted in a loss of an estimated \$63 million per annum to the tourism industry in Alberta due to the ATSC.⁵

The price of tourism rose. By raising the price of an airfare, the ATSC implicitly raised the price of tourism as a whole. Tourists may have still chosen to fly, but due to the increase in airfare they would have been inclined to spend less on other tourism-related expenses. For example, tourists may have chosen to stay in less expensive hotels or shorten their stay. For the tourists that continued to fly despite the higher airfares, they would not have spent as much as they would have without the ATSC, injecting fewer dollars into the Alberta economy.

³ Tourism is defined here as travel into the province by residents of other provinces or travel within the province business or leisure purposes. The estimate of tourism traffic is based on analysis of IATA BSP data.

⁴ The reduction in nation-wide international and transborder traffic was allocated by province in accordance with the provincial distribution of these visitors in the Canadian Tourism Commission 2001 International Visitor Survey.

⁵ See Appendix L in the main report for an explanation of the spend-rate estimates.

Tourism operators lost revenues. The ATSC also induced a tertiary impact on the tourism industry. Just as air carriers responded to the loss of traffic from the ATSC by accepting lower yields, tourism operators also responded to the loss of traffic by lowering their prices. As tourism operators lowered their prices to recapture some tourists lost due to the rise in price of tourism, their revenues fell. Revenues fell due to both the decrease in tourism and the lowering of prices.

The price effect is expected to be smaller in the tourism industry than the airline industry. But given the larger size of the tourism industry, even a small percentage drop in prices to tourism operators can result in significant dollars lost. Alberta's tourism revenues (excluding the air travel component) are estimated to be \$2.48 billion.⁶ Even if the provincial tourism industry dropped its prices by only 1%, this small drop in price translates into a loss of \$24.8 million per annum.

1.6 Conclusions for the Alberta domestic air travel market

The ATSC has imposed multiple costs on the province of Alberta:

- Domestic air traffic dropped in the province by 263,000 one-way passengers per annum.
- 112,000 fewer domestic tourists visited the province, resulting in a reduction in annualised tourist expenditures of \$63 million.
- Tourists spent less in the province because the ATSC caused the price of tourism as a whole to rise.
- Furthermore, tourism operators lost additional revenues as they lowered their prices to recapture tourists lost due to the ATSC.

⁶ Source: Statistics Canada – Trips by Canadians in Canada in 2001.