Non-Competitive Market Driving Passengers Away from Canada's Airports

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COLLEGE PARK, Md. - Some airlines are losing more than $1 billion in revenue each year because travelers are avoiding Canadian airports to use facilities south of the border - this despite the 2005 U.S.-Canada Open Skies Act - concludes a new study from the University of Maryland's Robert H. School of Business.

The researchers say millions of passengers drive to and from U.S. airports in search of cheaper fares, at times saving hundreds of dollars. Lack of airline competition may be the culprit they add.

A Chicago-Toronto round trip, for example, often becomes a Chicago-Buffalo flight with a two-plus hour drive to and from Toronto. This type of detour by 4.7 of 21 million travelers in a recent, single year translated to $1.3 billion in missing revenue to airlines using Canada's airports.

The findings are from a 2012 study, "Transborder Demand Leakage and the U.S.-Canadian Air Passenger Market," accepted for publication in *Transportation Research Part E: Logistics and Transportation Review.*

"Higher taxes and fees levied at Canadian airports are widely blamed, but a 28-percent average price gap remains when you remove that differential," said Smith Ph.D. student Omar Sherif Elwakil, one of the authors. "For example, a recent $400 Toronto-New York City roundtrip fare and its counterpart $177 Buffalo-New York City flight included an $82-to-$21 tax-fee differential that still left a substantial $162 overall differential."

Canadian officials have initiated steps to bridge the tax-fee gap, but more is needed, the researchers conclude. "Policymakers should re-think the 'Open Skies' agreement to promote low-cost carrier participation in this market and re-evaluate carrier antitrust immunity," said co-author Martin Dresner, professor and chair of Logistics, Business and Public Policy. "(Antitrust immunity) leads airlines into alliances to share costs and agree on prices. Simply, they don't compete."

The dominant U.S.-Canada transborder carriers, Air Canada and United-Continental, are members of the global airline network Star Alliance. "These carriers pursued an explicit U.S.-Canada joint venture which the Canada Competition Bureau has blocked out of concern fares would become even higher," Elwakil said.

Moreover, "Air Canada appears committed to serving time-sensitive business travelers at the expense of price-sensitive leisure or nonbusiness travelers," said Dresner, an Ontario native and frequent transborder traveler who often flies into Buffalo and drives to his Toronto destination. "Discount carriers like Southwest and Jet Blue subsequently stay out of the transborder market and take advantage of the passengers leaking to the U.S. airports along the border."

Though the airlines may have adapted to this dysfunctional market, consumers - especially those from north of the border - are inconvenienced. "Canadians tend to be sensitive about paying more than Americans for the same products and services, and with the Canadian dollar strengthening, they're increasingly vigilant about monitoring and comparing prices," said Dresner, who characterized the study as among the first of its kind in broadly quantifying an issue for which evidence was mostly anecdotal.

The study accounted for airport substitutions involving Toronto for Buffalo, Montreal for Burlington (Vt.), Windsor for Detroit and Seattle for Vancouver among others.

The researchers also utilized 2004-2008 passenger figures from the U.S. Department of Transportation and analyzed data from Internet travel search engines.

FULL TEXT STUDY

An electronic version of the research study is available to media on request. Contact Greg Muraski: gmuraski@rhsmith.umd.edu.

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