ECONOMICS BRIEFING

IMPACT OF REDUCING CROWN RENTS ON TORONTO PEARSON INTERNATIONAL AIRPORT

KEY CONCLUSIONS

- The proposed reduction in crown rents at Toronto Pearson International Airport (YYZ) of $3.72 per arriving passenger would reduce landing fees by 13% and a typical C$200 ticket for short-haul travel by almost 2%
- Arriving passengers at YYZ would be boosted by 2.2% or more than 340,000 a year
- The fiscal impact of the proposed reduction in crown rents of an average C$57.6 million a year would be offset by the extra C$62 million in tax revenues generated from the economic activity associated with the additional airport passengers
- There would also be wider economic benefits including an estimated additional C$300 million in business revenues, 3000 jobs and C$80 million wage income in the southern Ontario economy

ANALYSIS

- This note uses available analyses to estimate the economic and tax revenue impact of reducing crown rents on YYZ, as proposed by Transport Pearson.
- The Transport Pearson (ibid) proposal reduces rent payments during 2006-2010 by C$288 million as compared to the existing ground lease. Assuming a straight-line reduction of C$57.6 million a year that implies a reduction for each of the 15.5 million passengers arriving at YYZ of C$3.72.
- This would produce a 13% reduction in landing fees at YYZ per arriving passenger and a reduction of almost 2% on a typical C$200 ticket for short-haul travel
- The increasing sensitivity of airline passengers to the price of a ticket is widely documented, including a recent literature review by the Department of Finance in Ottawa. Liberalisation of air transport markets in N America has led to a dramatic increase in competition between airlines and choice for the consumer. New low cost entrants and innovation by incumbent carriers has led to a substantial increase in the ‘no frills/low fare’ segment of the market, which is highly price sensitive. Moreover, the air fare transparency delivered by the internet and new corporate travel buyers has meant that the previously less price sensitive business segment of the air travel market is now much more responsive to price changes. Past estimates (ibid) that short-haul leisure passengers have a price elasticity of 1.5 (will fly 15% more if prices fall 10%) is probably a lower bound of today’s situation in Canadian air travel markets
- As a result we use the results of a recent econometric study which measured the impact on air traffic traffic in Canada of the aviation security charge (ATSC) of C$12, using detailed origin-destination passenger and yield data. On short-haul travel (43% of YYZ’s 2005 passengers were domestic) traffic fell 11% as prices paid by passengers rose 5.9% as a result of the security charge. On medium/long haul routes traffic fell 4.4%

1 Transport Pearson (March 2006) ‘Airport Rent and Toronto Pearson: A Principled-Based Solution’
2 15.5 million is the forecast for 2006 enplanements given in GTAA’s Lester B. Pearson International Airport ‘2006 Airline Rates and Charges’
4 InterVISTAS Consulting (11 January 2004) ‘Aviation Taxes and Charges; International Perspectives’

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The proposed reduction in crown rents is estimated to be around C$3.72 per arriving passenger, equivalent to 30% of the ATSC (there is no reason to think passengers will not react symmetrically to a fall as to a rise in the price of travel). On that basis YYZ might expect to see short-haul traffic rise 3.3% and medium/long-haul by 1.3%. That implies the crown rent reduction would boost overall passenger arrivals by 2.2% or over 340,000 each year.

YYZ’s economic impact in southern Ontario is estimated to already generate:
- C$14 billion in business revenue
- C$3.6 billion in wages
- C$2.8 billion in tax revenue
- 138,000 jobs

Since this impact is generated using a broadly linear input-output model of the economy it should be a valid approximation to estimate the incremental economic impact of reducing crown rents by the incremental increase in passenger arrivals. It follows that if crown rents were reduced as proposed, producing a 2.2% increase in the number of passenger arrivals, there would be the following benefits for the southern Ontario economy:
- Tax revenues would rise C$62 million a year
- Business revenues would be boosted by C$300 million a year
- An extra 3,000 jobs would be created
- Wage income would rise by C$80 million a year

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