



APPENDIX 4

AIRLINES: ECONOMIC ARGUMENTS

There is little published material on the economic impact of airline smoking bans to carriers. It is, however, obvious that voluntary or legislated bans do:

- reduce the number of smokers travelling on the airline, which cannot be easily made up by market share gain from non-smokers. Recent surveys by Canadian Airlines show that as a result of the legislated smoking ban on international flights, 15 % of their customers will switch to foreign carriers who are not required to impose such a ban. They also indicated that there would be no more than a 3 % market share gain from non-smokers, which would in no way compensate for the loss in business. On their Pacific routes alone, Canadian Airlines are predicting a 12 % drop in smoking passengers. Air Canada has recently launched a vigorous advertising campaign in the UK to try to recoup some of its lost business.
- provide a competitive edge to those airlines that do not impose such restrictions.

Canadian Airlines estimate that on their Japan to Canada route 53 % of its passengers are smokers and the lost revenue in business class alone will be \$ Canadian 16-24 million. Canadian Airlines believe they will lose a substantial proportion of their revenue as a result of the ban, as over 50 % of their operating income comes from international routes. Air Canada has also confirmed that the ban will cost them up to \$ Canadian 40 million in lost revenue.

The Canadian carriers claim they are being forced into operating at a commercial disadvantage compared to foreign airlines with routes out of Canada. They are so concerned about the implications for their business that carriers are actively supporting the Canadian government's approaches to ICAO to implement bilateral non-smoking agreements with other countries.

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With regard to self-imposed restrictions by individual carriers on domestic routes, they do inevitably lose smoking passengers to competitors. In the UK for example, British Airways lost a large number of passengers to their domestic competitor British Midland as a direct result of their ban. However, because all UK internal flights are of under 2 hours duration many passengers have returned to BA for other reasons.

The situation is, however, very different on the short-haul regional routes, where as a result of deregulation, no carrier can afford to lose smoking passengers. There are for example few major European carriers who have imposed smoking bans outside of their national boundaries except Air France and Alitalia.

In countries such as Australia, Canada and the USA where smoking bans have been imposed through legislation, the arguments on competition are not so compelling. With all domestic carriers affected by the ban, no airline can claim competitive loss, unless foreign carriers are permitted access to domestic routes.

- reduce in-flight duty free sales, thereby forcing up prices for the non-smoking passengers. The banning of smoking on international flights will undoubtedly mean that smokers will be less inclined to purchase duty free tobacco products on board. The loss in smoking passengers will also mean overall duty free sales will decline and as a consequence non-smokers may be forced to pay higher ticket prices to compensate for losses.