

Improving Competitiveness: Breaking the Grip of Monopolies

FINAL

Notes for Remarks by:

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Good afternoon ladies and gentlemen.

It is a pleasure to be here today and I would like to extend my thanks to ATAC for inviting the Canadian Airports Council to participate in the discussion this afternoon.

I must admit that the title of today's symposium.....*Improving Competitiveness: Breaking the Grip of Monopolies*..... made me pause for a moment or two...as it no doubt did for a number of our members.

The notion of monopolies, and the need to break them apart implies a somewhat adversarial relationship. It creates an image of one versus another, conflict and aggression.

I would like to suggest that perhaps we need to take a slightly different perspective.

I believe that we do indeed need to improve competitiveness in our industry.....and indeed in all parts of our industry.

But I suggest that it is not with the objective of breaking anything up.....but rather building everyone up.

I suggest that it is not with the objective of making our industry more competitive with each other here in Canada, but rather making us all more competitive in the global marketplace.

Because today we are all part of what is an immense global network of trade and opportunity.

And to take advantage of that opportunity our local, regional and national transportation systems must be multi-modal, and integrated in a fashion that makes us competitive as a country on the global stage.

Therefore, I would like to begin by presenting a brief overview of Canada's airports from a competitiveness perspective, before they were transferred to community-based airport authoritiesand then compare that to our airports as they exist today. As most of you know, airports in Canada used to be constructed and operated by the federal government.

Canadian taxpayers subsidized the construction and operation of these airports, whether they used the airport services or not. In fact, airport operations were subsidized by taxpayers to the tune of about \$150 million annually.

The facilities were locally managed, but centrally controlled and they had little, if any, responsibilities to their local communities.

They were subject to the government of the day's fiscal constraints. Capital investments in airports were severely limited and sometimes politically based and it was no secret that capital investment had fallen far behind the need.

By the early 1990's many Canadian airports were old, tired and in desperate need of repair.

At the time of transfer to local governing authorities, our airports were a burden on the taxpayer and uncompetitive in the world marketplace.

As well, The Canada Transportation Act Review published in 2001, correctly brought attention to the fact that for more than 60 years the government had exercised its responsibilities with no statutory, regulatory or policy framework to clearly define the role of the federal government in the operation of airports.

However this situation began to slowly change, not just in Canada, but around the world.

In 1987, the United Kingdom sold its federal airport system. The newly privatized company immediately began to make major investments and changed a number of operating policies to become more efficient and more customer service focused.

Here in Canada, the federal government pursued a not-for-profit model that created airport governance authorities with long-term leases for the facilities with the federal government. This approach has some advantages and disadvantages, which I will touch on later.

No sooner was the new model in place than Canadian airports, like others around the world, began to make major capital investments, improving efficiency and creating a more customer friendly environment.

This was clearly the intent of government at the time.

One of the initial core principles of the change was to ***“Bring capital expansion more quickly than under federal government stewardship”*** and that certainly occurred.

Since the first airport was transferred to a local airport authority in 1992, more than \$8 billion of new resources have been invested in Canada’s airports. Most terminal buildings have been either renovated or totally rebuilt to meet growing demand and changing markets.

Airport capital investment has also included runway and taxiway improvements, maintenance sheds, fire halls and other essential improvements.

The \$8 billion in capital investment highlights the initial success of the National Airports Policy.

Had nothing changed from the previous status quo, the federal government would have spent \$2 billion of taxpayers' money for operation and capital subsidies, with, only \$600 million of it allocated to capital projects.

Instead, not only has the federal government not paid out this \$2 billion of taxpayers' money, but they have collected \$2 billion in rent! A \$4 billion turnaround.

Airports in Canada made these capital investments to stay competitive.

Improved passenger and cargo services are essential for healthy, sustainable airports and they are essential for vibrant economic growth in our communities.

It is true that all Canadian airports compete for air carrier traffic. We all want as much traffic as possible.

However, ever increasingly we rely on other airports, both large and small, to support us in maintaining an efficient and effective national air transportation network.

Airports do not exist in isolation. We rely on each other, as there is always a point of origin and a destination in air transportation.

Increasingly today, many of our airports compete with our American counterparts. Some of our airports are in fact competing on a global basis.

It is that international competitiveness, for our entire air transportation system, that will help this country and our industry, seize the opportunities of the future.

Unfortunately however, we compete against a system in the United States that does not pay airport rent and has access to significant capital project funding.

The fuel tax and air transportation taxes collected by the U.S. government are deposited into an Airport and Airways Trust Fund. This Trust Fund supports capital improvements in their aviation system.

Which brings me back to my earlier comment about advantages and disadvantages of our airport governance model here in Canada and to the subject of airport rents.

Canadian airports have already paid more than \$2 billion in rent to the federal government since 1992, for assets that had an initial book value of only \$1.5 billion.

The federal government has been relieved of the financial burden of operating and maintaining these facilities and their value has increased substantially due to the investments in infrastructure and facilities made by the airport authorities.

Despite the fact that airport authorities receive nothing in return for the rent paid, given that they have the responsibility for the operation, maintenance and upgrading of the facilities, the annual rents continue to increase.

As not-for-profit authorities, airports have no option but to pass these massively increased costs on to tenants and ultimately that means they go to the airline passengers and cargo shippers, increasing the cost of travel and of doing business.

The increased costs bring no benefit whatsoever to those customers as they are not reinvested back into the air transportation system.

In effect, they are nothing more than a regressive tax on Canadians.

As such these rents place an extraordinary burden on airports and they are a major barrier to Canada's air transportation system's ability to be more competitive on an international scale.

Additionally, not only are the federal rents a significant burden for airports, they are not applied equitably across the system.

This places an extra burden on some airports, especially those smaller airports that have lower passenger and cargo volumes and are thus less able to accommodate large rent increases.

Therefore the CAC supports and encourages the elimination of federal airport rents as soon as possible to improve the competitiveness of our entire industry.

At the same time I strongly believe that Canada's current restrictive air policies are significantly

impairing our ability, across the country, to compete internationally.

Renegotiating the existing Canada – U.S. bilateral agreement is a critical first step in encouraging the development of new air services, lower prices and greater competition that can ultimately deliver net benefits to Canada and to Canadians.

History has demonstrated that the 1995 Canada – U.S. “open skies” agreement worked to the benefit of Canadians, but that it did not go nearly far enough.

An even less restrictive market will enable Canada’s airport system and economy to strengthen and grow.

Unfortunately, the momentum begun during the recent CAC Open Skies conference appears to have slowed, and there seems to be greater interest by our partners to the South - the U.S. than Canada to keep this initiative moving forward.

The reality is that the costs of protectionism in the air industry are far greater than the benefits. In the long term and in the overall picture, restrictive air policies protect no one.

Therefore, the CAC continues to encourage renegotiation of the 1995 Canada – U.S air service agreement to provide for open 5th freedom rights, open cargo 7th freedom rights and air cargo co-terminalization.

Enabling cargo co-terminalization would result in improved service delivery capabilities in many Canadian markets. The improved and expedited air courier/cargo services would contribute positively to enhancing the competitiveness of regional business enterprises.

If we look at changes in the cargo business and just-in-time delivery, we see that the efficient shipment of cargo is more and more critical because companies cannot afford to tie up working capital. They need to respond to just-in-time demands.

Why?

Customers can't and won't wait. They go anywhere in the world to source the materials they want or to sell their products. So business will go to the fastest and most agile service providers.

42% of the world's cargo is now moved by air.

Predictions are that air cargo traffic will triple over the next 18 years and demand for express service is expected to grow three times faster.

We need to be positioned to be competitive enough to take advantage of those opportunities.

As well, we support and strongly encourage an increase in the limit on foreign ownership of Canadian air carriers from the existing cap of 25% to 49%.

An increased access to global capital will enable Canadian airlines to better respond to the expansion opportunities that will be created through more liberalized air policies.

This new level of foreign investment would support a more vibrant and viable future for Canadian airlines in the global market without threatening the integrity of a Canadian airline industry.

In the area of capital investment and upgrades, our airports must now be built to attract future new carriers, carriers with many different sizes of aircraft.

And this speaks to the need for consultation with our airline partners. Capital investment decisions are and must remain the responsibility of the airport authority; however the best decisions are developed through ongoing consultation.

Capital investments must be long-term commitments to buildings and runways that you cannot simply pick up and park in the desert when the business declines.

In that context, airports are incredibly dependent on decisions made by individual air carriers.

While airports are required to give 60 days notice of fee changes, there is little accountability when carriers decide to change the gauge of the aircraft or frequency of the service, with the resulting reduction in revenues to the airport.

As not-for-profit corporations airports must plan revenues to meet operations costs. When a carrier decides to reduce their gauge or frequencies, airports are left to try to make up the difference....and there are not a lot of options available.

In fact the primary option is through increased fees to airport users...and what that does is further decrease our competitiveness and potentially further decrease revenues over the longer term.

Our airports are fully entitled to recover 100% of all airside costs. However for competitive reasons, many airports are still not recovering 100% of these costs and we look to alternative and creative revenue generation to help offset these losses and to keep our fees as low as possible.

In fact, as an example, Edmonton Airports now has the diversification of revenues as a key pillar of our business plan.

But competitiveness is not just about fees and infrastructure.

If our airports are not meeting the specific needs of the carriers, the passengers, and our local and regional businesses, communities and governments, then we hear about it.

Today, carriers and passengers expect airports to have all the services and space you need to conduct your business safely and with appropriate levels of customer service.

David Pang, CEO of the magnificent Hong Kong airport says airports are in the personal experience business.

Passengers expect and demand the ability to purchase gifts, books, and have a drink or eat a meal if desired.

They want to wait in areas that are visually appealing, clean, well kept and comfortable.

Airlines are faced with the same expectations with passengers expecting the aircraft to be well kept and clean, to have leather seats...and even satellite TVs!

Passengers expect far more today, than they did 20 years ago. Airports are at the beginning and end of the air travel experience and passengers demand a pleasant and efficient travel experience.

Airports are part of that experience and if we don't meet expectations then again, we reduce our competitiveness and the competitiveness of Canada.

If investing in capital, marketing, and paying attention to customer needs are part of being efficient and competitive in today's business world, then our airports must meet this test.

Airports are also making use of modern technology to improve the efficiency of our operations.

Common-use facilities, including boarding bridges, departure gates, baggage facilities or new check-in kiosks reduce airline capital costs and add to the airport's efficiency.

NO matter what the airport's size, essential investments that go to making airports as efficient and competitive as we can are critical.

So, how do we come together and realize our collective potential as we all move forward in our competitive world.

We do so by understanding that our communities, our businesses, our air carriers and our airports can't survive on their own – they're all part of that global network.

It is a network that involves connecting our goods and people competitively to international markets. We therefore need to look for every opportunity to bring our airports, our air carriers and our communities together to learn more about our challenges and prospects, so that we can forge a strong collective response to our country's significant opportunities and to that very competitive global market.

As I stated previously, all of us in this room have a symbiotic relationship -- we need each other to further our own separate goals.

And if we look a level above our own operational goals, we see that we share an over-arching goal.

Our *shared goal* is to provide the best, most efficient, safe and secure service possible to our *shared customers*.

Strength through cohesion will enable our country to establish a solid position. From there we can reach out and grasp the opportunities of change.

It demands that airports, airlines and communities work together to the best advantage of the industry as a whole -- and to the best advantage of *our customers*.

So perhaps the bottom line is that our competitiveness is not about monopolies or breaking the grip of monopolies.

It is not about pitting one segment of the industry against another, or one operator or airport against another.

Perhaps the bigger picture is about looking beyond our own specific goals and looking at how we can all prosper together.

I believe that by working together we can each achieve our full potential and gain a competitive edge in the world...a competitive edge that will benefit everyone.

Thank you very much.