



Speaking Notes

Jim Facette,
President and CEO

Canadian Airports Council

"Airports as economic facilitators in the local economy"

To the

Chartered Institute of Logistics
and Transport

February 16, 2005

Good afternoon and thank you for the introduction.

Since joining the Canadian Airports Council I have very quickly realized that airports are more than concrete or steel buildings to hang around in before I board my flight. This afternoon my objective is to give you a snap shot of the modern day airport industry and how it fits into the local community for which it serves as a major economic facilitator of growth.

Which brings me to my first point, airports are an industry, and the Canadian Airports Council is the voice of the airport industry in Canada.

The Canadian Airports Council (CAC) is one of Canada's newest industry associations representing our members in matters of air policy, legislation, and regulations. One hundred percent of international air travellers and air cargo pass through CAC member airports as well as more than 95% of all domestic passengers.

Although Canada's network of airports has served Canadians for decades, privatised, local control of airports has only existed since 1992 when the first federal airports were transferred to local airport authorities. Even though the first airports were transferred in 1992, it is interesting to note that, on average, airports have only been operated by local airport authorities for 7 years.

Airports are a major force in the Canadian economy with an economic impact well beyond the airport fence. Canada-wide, airports generate \$34 billion in economic activity and are responsible for 300,000 Canadians earning their livings directly or indirectly from airport activities.

Airports provide significant economic and transportation benefits and have become an integral part of the local, regional and national economies. They are a key catalyst for economic growth through employment and the utilization of goods and services, and have a profound influence on the quality of life of populations around the globe.

They integrate world markets and promote the international exchange of people, products, investment and ideas. They also provide a variety of other public benefits such as time and cost savings associated with transportation.

In 2004 the Ottawa airport conducted an economic impact study and concluded that with over 3,900 full-time jobs and \$541 million in direct output, the Ottawa Airport is a powerful economic generator for the Region. The Airport is a gateway to the National Capital Region and plays a major role in supporting business, tourism and the overall quality of life.

The Victoria International Airport supports an estimated 2,920 person years of employment, and generates \$440.8 million for the provincial economy in British Columbia.

As a result of airport activity in 2001 Toronto Pearson International Airport businesses generated more than \$14 billion in sales and over 138,000 paying upward of \$3.6 billion in combined wages. Governments at all levels benefit from \$2.8 billion generated in corporate, personal and property taxes.

By any measure the transfer of the national airports systems (NAS) airports has been a success: a success for communities, air travellers, airlines and even government. In the last year that Transport Canada operated airports, taxpayer subsidies to airports totalled more than \$125 million. Twelve years later, the federal treasury annually receives some \$280 million in rent.

Before I go any further it is important that I explain how airport authorities in Canada are governed, and to whom they are accountable. This goes to the very heart of not just their success, but why they are important facilitators in local economies.

Airport authorities are incorporated under Part II of the Canada Corporations Act as Not-for-Profit Corporations without shareholder capital. That is no different than my Association and any other Association in Canada. But there is one very important distinction to keep in mind, they do not have members in the same sense that a normal Association would.

This means that Airport Authority revenues are derived from aeronautical fees; concessions, parking and ground transportation; and Airport Improvement Fees. The AIF accounts for 15 – 20% of total revenues but must be dedicated for capital improvements. This leaves the remaining 80% of the revenue that can be used to meet operating expenses.

Like any other Association, airport authorities are governed by a board of directors that represent the community of which they serve.

The corporate behaviour of airports identified as National Airport System (NAS) airports is currently governed by a lease between the Federal Government and the local airport authority. The lease, in addition to other documents, lay out specific requirements for good governance including qualifications of board members, good fiscal management, transparency and active consultations with the community.

It is a point of pride for CAC member airports that their boards reflect their community. Each local Board takes on the flavour of the community it serves. A staff report of the City of Toronto dated December 1, 2004 concluded that any review of corporate governance structure keep in mind that a one-size-fits-all approach may not be appropriate.

The appointment process seeks to identify the most qualified people to serve on airport boards. Some have a significant number of appointees from the business communities, others have appointees from several local municipalities, and others have a mix. The imposition of a national standardized structure just doesn't work.

The annual reports of airports provide a wealth of information. They are readily available on the internet. The annual report lists the members of the board and their backgrounds. The members of a NAS airport authority board would be welcome at just about any corporate board in Canada. They come from banking, unions, law firms, engineering, retail, business, tourism, accounting, municipal government and more.

Yesterday we were pleased to read that the Auditor General herself recognized this. In her 2005 Status Report she took notice of the extensive governance transparency at airports. The Auditor General congratulated Transport Canada lease monitoring processes and highlighted no situations of non-compliance were found by Transport Canada. As illustrated in the report, airport authorities are complying with lease provisions on public interest and governance – they hold annual meetings, produce annual reports, and prepare performance reviews.

The report also noted many good practices of airport authorities in areas of ISO certification for environmental management; providing training of Transport Canada employees in areas of governance and capital improvements; noise monitoring; and financial data disclosure in Annual Reports.

The Greater Toronto Airport Authority (GTAA), like others, is a not-for-profit corporation with out share capital and governed by a 15-member board drawn from nominees from the City of Toronto, the Regional Municipalities of Durham, Halton, Peel, York, the Province of Ontario, the Government of Canada, and from the Toronto region business and professional community. The people that occupy the seats on the boards of directors bring airline, business, community leadership and professional experience to the table.

Like every not-for-profit Canadian entity, airports in Canada will be covered, when passed, under Bill C-21, an Act respecting not-for-profit corporations and other corporations without share capital.

Simply put, the member airports of the CAC are happy to comply. The Minister of Industry, himself the former president and CEO of the Vancouver International Airport, has said that C-21 would apply to airports. Its provisions, in combination with the current governance requirements of the lease and public accountability principles establish strong and effective rules for airport boards.

I would be remiss today if I did not spend a little time addressing the issue of rent paid by my members to the Federal government.

The industry's position on rent paid to the federal government is simple, it should be eliminated or drastically reduced. We are supported by organizations that included the Canadian Chamber of Commerce, and the Air Transport Association of Canada, even the Standing Committee on Transportation supports the elimination of rent.

In her status report yesterday the Auditor General said, "When the National Airports Rent Policy Review is completed, in light of its significance, Transport Canada should clearly explain to Parliament the financial implications for the government, airport authorities, and users."

We agree.

The National Airports Rent Policy Review was to have been completed in 2002, it is long overdue.

The aforementioned City of Toronto staff report also said that the federal government should recognize the substantial capital investment that, in this case, GTAA has made and substantially reduce or eliminate Crown Rent payments.

To understand where airports are today, one must consider the time before the first airports were transferred to local authorities. At the time of transfer Transport Canada was providing subsidies to airports of about \$125 million annually. Instead, the government has received rent revenues of \$2 billion to date and is projected to receive another \$2.3 billion over the next 5 years.

Once transferred, local airport authorities faced the daunting task of operating the airport they acquired and upgrading their facilities to meet the demands of both passengers and airlines. To date airports have invested some \$8.9 billion in capital improvements to terminal buildings, runway and taxiways, and such mundane things as services building and garages. All are necessary for airport operations.

The world of commercial air transport has changed significantly since the original leases were negotiated and rents established for local airport authorities. The national airports policy was developed at a time when air service in Canada was effectively a duopoly. Air Canada and Canadian Airlines International dominated the market. Their costs were high and their fares reflected those high costs. There were few low cost options except certain charter carriers who offered seasonal services to very few Canadian markets. In fact, Air Canada and Canadian dominated the market with well over 90% of the passenger traffic.

Westjet was formed in 1996 as the first truly low cost carrier. Since then every new airline in Canada has taken up the low cost model. Including Westjet, five new jet airlines have been established in Canada all offering low cost travel. Canjet, Jetsgo, Zoom, Harmony and a number of smaller regional carriers now provide Canadian's with real choice in travel.

In the same way that there is only one taxpayer, there is only one source of revenues for all segments of the air transportation business, including the federal government, and that is the passenger.

The passenger pays for the airfare, car parking, their meals, a magazine, scarf or watch and pays the government GST, HST, Air Traveler Security Charge.

Canadian airports, especially the nine airports that currently pay federal rent, compete in a North American market. Halifax, Montreal, Ottawa, Toronto, Winnipeg, Calgary, Edmonton, Vancouver and Victoria work hard to provide good local services but they are all very aware that growth will be found in attracting international traffic.

The issue of rent raises even greater concerns when it is applied to small airports, particularly those with less than 2 million passengers annually. Victoria Airport is the only small airport currently paying rent. In 2003 Victoria paid \$1.09 million in rent. Other small airports will begin paying rent over the next few years. Quebec City starts this year. Regina, Saskatoon and St. John's are scheduled to pay rent in 2006. Although these airports have been financially self sufficient to this point, the rent projected for 2006 will cripple their ability to remain viable.

The CAC feels strongly that no small airport should be paying rent.

Notwithstanding the CAC's strong view that federal rent should be eliminated, last May, the CAC proposed a rent scheme that our members felt was reasonable. The current rent regime imposes rent levels that make no sense. The Ottawa International Airport, for example, currently pays more than \$11 million in annual rent. That's more than Montreal, Edmonton and Halifax airports combined.

Perhaps there is no better example of airports as facilitators of economic growth than the airports that serve smaller Canadian cities and towns.

Small airports, those airports with less than 2 million passengers annually, is a subject that has been studied at length over the past few years, yet agreement on key issues, let alone their resolution, remains elusive.

The National Airports Policy made it clear that the federal government wanted to get out of the business of operating airports. Unlike the airports within the National Airports System, the regional and local airports were sold to their respective owner/operators. At least 180 communities are served by local and regional airports that receive scheduled air service.

These airports are an important link to the wider world. Additionally, these airports provide services for medevac, forest fire fighting and local services like flying schools and air taxi operations. Small airports are important drivers for social and economic development.

But these small airports were plagued by years of neglect and faced degradation of essential infrastructure. Since divestiture, they have faced declines in service and revenues due to restructuring of the airline industry which favours the more lucrative routes between major centres.

Nevertheless, most small airport operators have met the objectives of divestiture by reducing costs and increasing revenues in an effort to remain viable. Transport Canada's own internal review concluded that small airports have done all they can to cut costs and attract new revenues. In short, they have done the best they could under trying circumstances.

The reality is that some small airports are quite capable of managing without any outside financial support but others, in order to continue to serve their communities and contribute to the national system, will require some form of government assistance.

If our smaller airports in Canada are to continue as the backbone of economic growth and transportation link for many communities, federal government support to pay for safety related capital projects.

Since its inception in 1993, the Airport Capital Assistance Program (ACAP) has provided \$227 million to small airports, an average of only \$22 million per year. The financial assistance is targeted to safety related capital projects at small airports. Transport Canada has estimated the demand on ACAP to be \$237 million over the five year period to 2010 but has only funded \$175 million leaving more than 25% of safety-related projects unfunded.

Whether it be an airport serving a large metropolitan city or serving a small community, the link between the airport, its roles as a facilitator of economic activity, and the community itself are undeniable.

The Conference Board of Canada Special Briefing paper of May 2003 it said that the outbreak of SARS resulted in significant damage to the travel and tourism industry in Canada, and especially in the Toronto. When they examined the impact on Pearson International Airport the Conference Board of Canada calculated that the airport would lose \$222 million in economic activity as a direct result of SARS.

Creating both direct and indirect jobs, tax revenues, and a symbol to visitors from around the world, our airports are more than just buildings to arrive and depart from. They are economic engines and most of all a reflection of the community they represent.

Thank you for the opportunity to speak with you today.