



## Speaking Notes

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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 the direction the Canadian Airport Council, the voice of airports in Canada is going.

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.

Incorporated in 1991 and hired the first staff only in 1999, 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.

A visit to the Winnipeg International Airport website you will learn that the airport is a significant economic engine. Not inclusive of the new capital program, the airport has a total annual economic output is \$2.6b, with 20800 direct, indirect and induced jobs attributable to the Airport.

Night-time cargo operations alone at the airport, support about 564 jobs, generating \$14 million in labour income and over \$57 million in airport-related expenditures.

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 that 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 is 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.

Two weeks ago we were pleased to read that the Auditor General of Canada 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.

Five years ago the Conference Board of Canada co-founded the Conference Board/Spencer Stuart National Awards in Governance. In December 2004 the Winnipeg Airports Authority Inc. was among the winners for excellence in good governance. The airport authority was held up as a example of good corporate governance by creating a new governance model based on four principles.

Accountability; clear delineation of responsibilities between the board and management; decision-making by the full board; and transparency are the four principles that propelled the Winnipeg Airport Authority to the top.

The Greater Toronto Airport Authority, 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 entity in Canada, 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 and the absence of any relief in last week's Federal Budget.

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 Transit Association of Canada, even the Standing Committee on Transportation supports the elimination of rent.

The lack of rent relief in the federal government's budget last week was more than surprising, it was a shock. With the litany of expenditures in the budget, the federal government was unable to decrease rent by \$150 million per year.

Why we asked? When we asked Transport Canada officials last week at our Open Skies conference I have to tell you that they were in shock themselves. I am convinced that they

thought there would be rent relief in the budget, how much I don't know, but I can tell you this, they were shocked!

So what are we doing about it? Prior to the budget I made the case that, similar to that of the Speech from the Throne, the Federal Budget will be a multi-Act play – we are now in to Act II. Act one in the budget speech itself, Act two are all the activities that take place before the Budget enabling legislation is introduced in the House of Commons and Act III is what is contained in it and the vote.

Like any good national association, we are very active in the play. The Canadian Airports Council is working hard to affect the outcome of what gets introduced in the House of Commons.

In her status report 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 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.

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.

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, and effective April 1<sup>st</sup> there will be 10, airports that

currently pay federal rent, compete in a North American market. Halifax, Montreal, Ottawa, Toronto, Winnipeg, Calgary, Edmonton, Vancouver, Victoria and Quebec City 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 Winnipeg, 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.

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.

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 loose \$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.