A Competitive Flight Plan for Canada's Air Infrastructure

A policy paper for the Government of Canada
June, 2006

CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

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The Canadian Airports Council

Canada's Airports: Working Together, Moving Forward

The Canadian Airports Council (CAC) is the voice for Canada's airports. Formed in 1991, as the devolution of airports to local control was beginning, the CAC has established itself as the reliable and credible federal representative for airports on a wide range of significant issues and concerns.

Canada's airports are engines for economic development in the communities they serve and one of their most important elements of local infrastructure: Our communities' vital links to intra-provincial, national and international trade and commerce. Our 45 members include more than 150 airports, including all of the National Airports System (NAS) airports and most significant municipal airports in every province and territory.

Together, CAC members handle virtually all of the nation's air cargo and international passenger traffic and 95% of domestic passenger traffic. The economic impact of CAC member airports is staggering. They create well in excess of $30 billion in economic activity in the communities they serve. And more than 150,000 jobs are directly associated with CAC member airports, generating a payroll of more than $8 billion annually.

The privatization of Canada's airports has been a real success story. Since devolution, CAC member airports have committed to more than $9.5 billion in infrastructure improvements completed or underway. Canada's airports have constructed new terminal buildings, access roads, bridges, runways and taxiways. This investment is a significant contribution to Canada's role in global trade, and Canada's airports have made this investment in lasting infrastructure at no cost to Canada's taxpayers.

There is no doubt that air transportation is an economic growth enabler and airports are the essential link that connects communities and air travel. From safety and security to facilitation and infrastructure to economic issues, Canada's airports speak with one voice through the CAC. That is why our organization's vision is: Canada's Airports: *Working Together, Moving Forward.*

Introduction and Executive Summary

In many ways, federal government policy since the 1990s treats Canada's airports as pieces of real estate, as concrete buildings from which to generate as much tax revenue as possible. But Canada's airports are so much more than just real estate. They are an essential element of Canadian infrastructure for domestic and international trade and tourism. They produce and facilitate immeasurable economic activity for the regions and communities they serve.

The federal government today has the opportunity to turn airport policy of the past 15 years on its face and take a bold new approach to how Canada views its airports. An approach that recognises the trade infrastructure value of Canada's airports and commits to ensuring the global competitiveness of Canada's airports must play an essential part of Canada's international trade strategy going forward.

One of the biggest hindrances on Canada's airports is the continued imposition of a rent tax, which in 2005 drove $300 million to the federal government. This is money that otherwise would have been reinvested into airport infrastructure or passed on to air travellers and cargo users to stimulate even greater traffic and economic growth.

The airport rent tax is a heavy financial burden for which Canada's airports receive nothing in return. It also places Canadian airports at a competitive disadvantage to U.S. airports and other modes of transportation. It serves as yoke on the ability of an airport, and the community it serves, to further invest and expand on trade opportunities. It is essential that the rent tax be lowered, or ideally, abolished altogether.

Another top priority for Canada's airports is to facilitate the competitiveness of the communities and regions they serve within the global economy. Canada is a major trading nation, but in today's environment, a liberalized international air regime is an essential requirement for Canada to take full advantage of the opportunities for international trade. Canada's falls behind in this area, while around the world countries have been embracing a liberalized approach to international air service for some time.

In recent years, the federal government has awaken to the need for liberalization and has concluded historic Open Skies agreements with the United States and United Kingdom, and more liberal agreements with the People's Republic of China and India. But unfortunately Canada's air regime remains largely dominated by archaic bilateral agreements that restrict new service and give veto power to a handful of already dominant carriers. This situation needs to change if Canada is to continue to attract the kind of new international air service that drives increased trade and tourism opportunities for Canada and the communities our airports serve.

Japan and the European Union also represent huge markets for Canada where potential is restrained, for example, by the restrictive air regimes currently in place. But they are just two of the markets with which a liberalized air service environment is needed. South Africa, Singapore, states in the Middle East, and other regions all hold tremendous economic potential for Canada under an Open Skies environment.

Overseas, nations have proven the net economic benefits of Open Skies – where economic demand drives international service. Also in practice with success abroad is the "right of establishment," which would allow foreign airlines to set-up Canadian owned and operated subsidiaries to operate domestic service.

One area in which the Canadian government could move unilaterally now to initiate an Open Skies environment is in cargo. Canada has the potential to play a leading role in the world in air cargo, but the market currently is small compared to major cargo states like South Korea, Hong Kong and Singapore. The federal government should consider unilaterally establishing an Open Skies policy for international cargo, regardless of reciprocity by foreign nations.

Liberalization of the international skies, however, will have muted economic benefits if it is not accompanied by a commensurate increase in funding for the Canada Border Services Agency (CBSA). CBSA has a tremendous influence on a Canadian airport's ability to grow through the addition of international and transborder services. But a change in the federal government's attitude toward border services needs to take place if the provision of border services is to keep up with demand.

Canadian communities are working hard to promote themselves as international destinations for tourism and trade, but the current inadequacies in the provision of border services at many airports are inhibiting communities from realizing their full potential.

Another government service provider with a major impact on airport operations is the Canadian Air Transport Security Authority (CATSA). With the possible exception of cargo screening, the CAC strongly feels that CATSA's mandate should not be expanded. It is important that the government "stay the course" on CATSA to ensure its focus on the security of Canada's skies.

As Canada's national service provider for air travel security, CATSA is very much a partner in the "airport experience" for members of the travelling public. The scope of CATSA's business, and the manner in which it is conducted, not only affects the security and efficiency of the airport, but it very significantly affects airport decisions on capital planning, retail development, baggage and passenger flows, and a broad range of other activities.

From its inception, CATSA has been plagued by underfunding that has hindered its ability to fulfill its mandate of passenger and baggage security screening in an effective manner. This has in turn led to an increase in passenger processing times that have led some passengers avoid air travel altogether – an unfortunate, but very real harness on trade and tourism for Canadian communities.

Canada's airports believe national security is a federal responsibility and should be covered by general tax revenue. But failing a federal commitment to shoulder the financial costs of security, the CAC believes the Air Travellers Security Charge should be set at a level to fund all of CATSA's functions and CATSA should be required to account for the spending of these fees.

An increased reliance on technology and a risk-based approach to aviation security would go a long way to mitigate the increase in security costs that would be expected with increased traffic.

Sometimes innovation alone is not enough to ensure viable air service infrastructure. For Canada's smaller airports, revenue generating opportunities and efficiencies in operations are maxed out. The money required for infrastructure projects simply is not there.

The federal government has not provided adequately for the infrastructure needs of small airports, which play a vital role in the economic livelihood of the communities they serve. Small airports require adequate and predictable federal funding for infrastructure projects.

In its National Airports Policy, the federal government pledged an Airports Capital Assistance Program (ACAP) to fund essential safety-related infrastructure projects. But the program has been underfunded, with too many airports competing for too few dollars. When in opposition, the current government pledged to increase ACAP funds and simplify the process to apply

Outside the limitations of ACAP, the current federal government recently reinforced its commitment to small airports when it agreed to invest $15 million to the infrastructure development program of Québec City's Jean

Lesage Airport, acknowledging that the move "is expected to generate major economic spin-offs for the region of Québec."

But a proper Small Airports Infrastructure Program is required to ensure fair access nationwide to federal community infrastructure dollars, which currently usually go to high-profile land infrastructure projects such as roads and pothole repairs.

On all of Canada's airports, successive governments since 1992 have imposed an ever-increasing regulatory burden – a situation the Standing Committee on Transportation in 2005 deemed "regulatory creep." The cost burden from over regulation of the airport sector places Canadian airports at a competitive disadvantage compared to other forms of transportation, as well as with other airports, as gateways to regional and international trade.

Fortunately, a regulatory alternative exists that would ensure Canada's airports continue to maintain a high standard of safety and security but simultaneously reduce the financial burden. Regulatory stewardship for the airports sector would allow Canadian airports to follow the example of the business aviation sector and self-regulate. To maintain Transport Canada standards, but have the industry set its own body to be responsible for monitoring and recognising compliance.

Nearly 15 years after the federal government devolved control of airports to local bodies, Canada's airports have prepared themselves to compete in the global competition for international trade. But federal government policy has not managed to keep up, and in many ways has actually increased the barriers to fair trade for Canada's airports.

The new federal government has tasked itself with reinvigorating Canada's place of prominence in the world, including leadership in international trade. As part of this goal, a review of federal policies impacting Canada's gateways to world – our airports – is essential.

For our part, Canada's airports have committed to more than $9.5 billion in infrastructure investments completed or ongoing. We encourage the federal government to match this commitment by lowering our barriers to fair trade.

Part 1: Policy Issues

Airport Rent Tax

Issue

Canada's airports will pay nearly $290 million this year in rent tax to the federal government – a heavy financial burden for which Canada's airports receive nothing in return. The airport rent tax also places Canadian airports at a competitive disadvantage to U.S. airports and other modes of transportation. It also serves as yoke on the ability of an airport, and the community it serves, to further invest and expand on trade opportunities.

The competitive disadvantage for Canada's airports created by the imposition of the airport rent tax was acknowledged by the Standing Committee on Transport (SCOT) in May 2005. SCOT called the rent situation "unacceptable" and wrote that "the federal government has a major influence on the competitiveness of Canada's air industry through the fees it charges, especially rent."

SCOT recommended an immediate minimum 75% reduction in rent, that airports with fewer than two million passengers a year pay no rent at all and that any rent collected be reinvested in Canadian airports. During the winter 2005-06 election campaign, in response to a question about the airport rent tax, the Conservative Party pledged to lower federal government taxes, fees and charges affecting the aviation sector.

Background

Canada's airports are essential components of Canada's infrastructure for global trade. The imposition of the airport rent tax is an ongoing impediment to Canadian communities enjoying full advantage of the opportunities available to them for global trade by making the cost of air travel and cargo more expensive and by placing Canadian airports at a competitive disadvantage over other world airports in the quest for international air service.

Since airport devolution, Canada's National Airports System (NAS) airports have paid more than $2.5 billion in rent tax to Ottawa--well in excess of the airports' combined historical book value of $2 billion. While the previous government took a step in 2005 to address this issue, our members feel it does not go nearly far enough and represents a significant competitive disadvantage and hindrance on trade.

Airport devolution in 1992 transferred 100% of airport operating and capital expansion costs, along with the associated risks, to airport authorities.

Between 1992 and 2003, airports have either invested or committed over $8 billion to improve the terminals and airside facilities that they inherited from Transport Canada. This massive level of infrastructure improvement would not have been possible had these airports remained in government hands. Indeed, prior to 1992, the federal treasury subsidized airports to the tune of $135 million a year.

Furthermore, under the revised rent tax policy announced last year, the federal government says it anticipates collecting an additional $5 billion in rent tax from airports over the remainder of the 60-year leases. But under the revised formula, which collects the rent tax based on gross revenues, the CAC anticipates that rent tax collected would in fact be much higher.

Airport authorities continue to find themselves obligated to pass on part of their rent tax costs to airlines. This places Canadian airports at a competitive disadvantage when airlines are considering which destinations to serve with their aircraft. Airlines consider a city's comparative airport costs as an important factor in new route selection.

While the financial fortunes of Canada's airlines have improved from the years immediately following the terror attacks of Sept. 11, 2001, Canada's airlines' long-term viability hinges on being able to keep their costs competitive. CAC member airports have committed to pass on to air carriers a significant portion of the savings from a reduction in rent tax to assist them in containing their airport-related costs.

Meanwhile, U.S. airports pay virtually no rent, no municipal taxes and are able to issue tax-free bonds. In addition, they receive billions of dollars in U.S. government funding. Again, this puts Canadian airports at a competitive disadvantage since a significant portion of CAC members' traffic and revenue comes from connecting passengers using Canadian airports as gateways between Europe/Asia and the Americas. Many passengers will choose to fly via the U.S. instead of via Canada if the cost of their travel is cheaper.

Canadian Airports Council Position

CAC member airports already have paid $2.5 billion in rent tax to the federal government on airport assets that were valued at $2 billion at the time of their transfer to local authorities. CAC members' preferred option is the elimination of federal rent, in recognition of the importance of air transportation to Canada and the airport authorities' mandate for regional economic development. However, the CAC supports the May 2005 Standing Committee on Transport recommendation for an immediate reduction in rent and no rent for airports handling fewer than two million passengers a year.

Recommendation

The Conservative Party has pledged to lower taxes and fees affecting the aviation sector. Consistent with this pledge, the CAC urges the federal government to implement a policy that would see the rent tax for airports decline over the life of the airport leases – or eliminate the rent tax altogether. The CAC urges the government, at a minimum to eliminate the rent tax for airports handling fewer than two million passengers a year.

Liberalized International Air Policy: Open Skies

Issue

Canada is a major trading nation, but in today's environment, a liberalized international air regime is an essential requirement for Canada to take full advantage of the opportunities for trade in the global economy. Canada's falls behind in this area, while around the world countries are embracing a liberalized approach to international air service.

Unfortunately, until recently the Canadian government has been reluctant to liberalize Canada's international aviation policy. Especially when compared to Canada's major trading partner, the United States, this has put the Canadian aviation sector at a distinct competitive disadvantage. This disadvantage negatively impacts the ability for Canadian communities to take full advantage of the opportunities available today for global trade.

It also is essential that Canadian airports, which have a vested interest in the outcome of international air service talks, be allowed to always participate in these talks. In response to a questionnaire posed by the CAC during the most recent federal election campaign, the Conservative Party agreed that CAC-nominated representatives should be able to participate in international air service talks.

Background

Since 2005, landmark agreements were reached between Canada and four of the biggest aviation markets in the world – the United States, China, the U.K. and India. But the Canadian government's air policy strategy remains far too restrictive: There are many additional, important markets with which Canada's air service relationship is non-existent or has major restrictions.

This restrictive air regime means lost international business and trade opportunities for Canada's airports and the communities they serve. It also places Canada at a competitive disadvantage: While the United States has negotiated Open Skies agreements with some 75 nations around the world, Canada has concluded just two, with the U.S. and Britain.

The new agreement with the U.S., Canada's biggest trading partner, was an important achievement. Among the new measures, Canadian carriers now have fifth freedom rights to operate flights from Canada to the U.S. and on to a third nation. But in order for Canada to take full advantage of the U.S.

agreement, new Open Skies agreements also need to be reached with these other nations.

For example, the new agreement with the U.S. allows a Canadian carrier to fly from Winnipeg to New York, pick up passengers and then continue on to Jamaica. But an Open Skies agreement with Jamaica would need to be concluded before an airline could start such a flight. Conclusion of more Open Skies agreements with nations around the world is essential to ensuring that Canada can take full advantage of its U.S. agreement and open new air routes benefiting Canadian travellers.

A more liberal agreement between Canada and one country, also has the added benefit of increasing options and lowering air fares between Canada and other markets. Several markets, such as Singapore and the United Arab Emirates, are some of the biggest world hubs for service between North America and India, for example. But there is a very restrictive environment in place with these markets today. Japan and the European Union also represent huge markets for Canada where potential is restrained by the restrictive air regimes currently in place.

One area in which the Canadian government could move unilaterally now to initiate an Open Skies environment is in cargo. Canada has the potential to play a leading role in the world in air cargo, but the market currently is small compared to major cargo states like South Korea, Hong Kong and Singapore.

On a related matter, the CAC participated in air service agreement talks for the first time with the fall talks between Canada and the U.S. This participation was extremely valuable but this was a one-time arrangement. Full observer status participation of the CAC and Canadian airports is essential to ensuring community values and needs are reflected in the international agreements Canada negotiates with other nations.

CAC Position

The CAC supports a far more liberalized international air policy for Canada – one that sees Canada negotiate the best possible Open Skies agreements for Canadians through open competition. CAC members' ability to remain competitive depends on their ability to offer passengers more choices.

The Canada-U.S. and U.K. Open Skies agreements create many opportunities for Canadian airports and the traveling public, but only additional Open Skies agreements with other nations will enable Canadian airlines to take full advantage of these opportunities. Since the U.S. already has concluded 75 Open Skies agreements, Canadian communities and airlines face a growing competitive disadvantage if Canada's international aviation policy does not open up more quickly.

Increased options for international air service have corresponding links to international trade opportunities in today's global economy. It is essential that a liberalized international air regime be seen as a key component of trade policy.

In addition to liberalization in passenger service, there is tremendous potential for cargo service development in Canada through liberalization, and the federal government should consider unilaterally establishing an Open Skies policy for international cargo, regardless of reciprocity by foreign nations.

And representatives of Canada's airports must be allowed to participate in international air service talks.

Recommendation

The CAC urges the federal government to:

- ***Pursue an "Open Skies" policy globally on a reciprocal basis for passenger service, including open and unlimited Fifth Freedom Rights.***

- ***Include liberalized air service – ideally Open Skies – as a key component in bilateral or multi-lateral trade talks between Canada and other nations.***

- ***Pursue continued liberalization with the U.S., including modified sixth freedom rights, and explore the net benefits of a "Common North American Aviation Market.***

- ***Consider unilaterally establishing an Open Skies policy for international cargo, regardless of reciprocity by foreign nations, as a strategy to stimulate cargo growth in Canada.***

- ***Consistent with a Conservative Party election pledge, include representatives of the Canadian Airports Council and Canada's airports in international aviation discussions from the initial stages until new agreements are finalized.***

Liberalized International Air Policy: The Right of Establishment

The Issue

Canada still prohibits the "right of establishment," which would allow foreign airlines to set-up Canadian subsidiaries to operate domestic air service. This keeps out international innovators that might otherwise inject capital and creativity into the Canadian airline sector, creating new services and increase competition to the benefit of Canadian consumers.

Background

The "right of establishment" – the right of a foreign carrier to set-up a domestic Canadian subsidiary – is another roadblock preventing foreign airlines from participating more fully in the Canadian aviation sector. Lifting this restriction would provide Canada with enhanced access for foreign carriers beyond the gateway markets to which they are currently limited, along with added capacity and more choices for communities and travellers.

In Australia, a minority-owned affiliate of Britain's Virgin Group, Virgin Blue, began domestic passenger service in Australia in 2001 as the country's first low-cost carrier. The airline, which is majority owned by Australians, now is the second largest airline in the country with 30% of the domestic market. The dominant carrier in the market has since responded with two low-fare carriers of its own.

The biggest beneficiary of the entry of the Virgin franchise in Australia has been the Australian consumer, through fares more than 30 lower than they were before the entry of Virgin Blue.[1] But a franchise like Virgin is less likely to be created in Canada due to Canada's restrictions, including its prohibition of the right of establishment.

CAC Position

The "right of establishment" also should be allowed, enabling foreign carriers to inject their capital and ideas into the Canadian aviation sector for the benefit of consumers.

[1] According to domestic discounted fare data from Australia's Bureau of Transport and Regional Economics

Recommendation

The CAC urges the federal government to allow the "Right of Establishment", the ability for a foreign airline or entity (up to 100% foreign owned) to set up a Canadian subsidiary for domestic-only service.

Small Airport Infrastructure

Issue

The federal government has not provided adequately for the infrastructure needs of small airports, which play a vital role in the economic livelihood of the communities they serve. Small airports require adequate and predictable federal funding for essential, safety-related airside capital projects.

In response to a questionnaire posed by the CAC during the most recent election, the Conservative Party agreed with the CAC that the federal government must work with provincial and municipal authorities to ensure the viability of small and regional airports. The party also pledged to increase the amount of funding available under the ACAP program, and to simplify the application process.

Outside the limitations of ACAP, the current federal government further reinforced its commitment to small airports when it agreed to invest $15 million to the infrastructure development program of Québec City's Jean Lesage Airport, acknowledging that the move "is expected to generate major economic spin-offs for the region of Québec."[2]

Background

Canada's small airports play an extremely important role in the economic development of the communities they serve – connecting small communities with national and international opportunities for trade.

More than half the traffic at small airports is business-related, and almost half the aircraft movements are cargo flights. Small airports also play an essential emergency service role to their communities through such services as MedEvac and firefighting.

But small airports have more difficulty obtaining capital for infrastructure maintenance and upgrades through commercial markets due to less stable traffic, fewer, less favourable balance sheets as well as fewer and less valuable assets. Many small airports are dependent on the Airports Capital Assistance Program (ACAP) as their only source of capital.

The ACAP fund was created through the 1994 National Airports Policy (NAP) to provide for the infrastructure needs of Canada's small airports. But

[2] Canada Economic Development press release – May 25, 2006

despite the fact that Transport Canada's net financial result for airports has changed from a negative $130 million to a positive $260 million annually, capital assistance in support of smaller airports has not reflected this improved performance. In the years since devolution of airports in 1992, Transport Canada's reinvestment in Canada's small airports has totalled less than $229 million, which amounts to less than one year's net result. Over this period, total reinvestment accounts for only 12% of Transport Canada's accumulated revenue.

The ACAP fund itself is oversubscribed. Currently, the list of approved but not funded projects totals $10 million, of a total $38 million annual expenditure. Since the program began, only those projects that fall into the top two priority classes have been granted funding. No analysis of the impact on operations of not funding lower category projects has ever been undertaken. Transport Canada does not track the number of projects that are rejected at the regional level, which further underestimates the actual need.

There are approximately 200 airports that are currently eligible for ACAP support. Assuming that each airport has at least one runway that requires major maintenance every 15 years, the average annual cost just to maintain runways would be in the order of $30 million, or almost all of the currently available annual funding on an on-going basis. This leaves only $8 million annually to support such essential safety needs as lighting, visual aids, runway sweepers, snow ploughs, friction testing equipment, sand storage sheds and utilities.

Meanwhile, small National Airports System (NAS) airports have no access to federal funding but some have less traffic and less revenue than regional airports that are eligible for ACAP funding. The eligibility criteria inappropriately distinguish airports by status, rather than need.

The current funding regime for small airports is inadequate to meet the long-term infrastructure of Canadian communities. In the minimum, clearly a change is needed for small airports to maintain essential facilities and ensure the continuation of safe operations. However, a proper Small Airport Infrastructure Program is truly needed if Canada's smaller airports are to fully enjoy access to the opportunities for trade within Canada and with the world.

CAC Position

Small airports play an essential role in the national transportation system by feeding traffic to the larger airports. They make significant contributions to local and regional economies through direct and indirect employment as well as providing efficient access to national and international markets in the carriage of people as well as goods.

Capital funding should be increased through the creation of a proper Small Airports Infrastructure Program to support the social and trade needs of small airports and the communities they serve. Funding for infrastructure also should be made eligible to small NAS airports that can demonstrate need.

Recommendation

In line with the Conservative Party's election pledge and other airport infrastructure program commitments already made, the CAC urges the federal government to acknowledge its role in the viability of small airports and the communities they serve by:

- ***Creating a Small Airports Infrastructure Program to ensure that small airports have access to capital that will enable the communities they serve to participate fully in opportunities for trade within Canada and with the rest of the world.***

- ***Increasing the level of ACAP funding for small airports to meet demand, simplify the application process, and ensure that adequate and predictable government funding is available.***

- ***Making infrastructure funding eligible to small NAS airports that can demonstrate a need.***

Regulation

Issue

Airports today face a high-degree of regulatory burdens, such as new environmental and security regulations. But each new regulation adds to an airport's costs. This cost burden places Canadian airports at a competitive disadvantage compared to other forms of transportation, as well as with other airports, as gateways to regional and international trade.

The Standing Committee on Transport, in its May 2005 Interim Report, noted what it termed the "regulatory creep," of Transport Canada regulations that have placed a heavy burden on airports in examining and complying with new regulations imposed in a wide range of areas. The Committee recommended that the federal government cover the increased costs associated with additional regulations placed on small and regional airports.

In response to a questionnaire posed by the CAC during the last federal election, the Conservative Party also pledged to take steps to reduce the regulatory burden on Canada's airports and ensure that regulations make sense and are necessary to promote safety at Canada's airports.

Background

Since devolution of airports in 1992, the federal government has gradually increased the regulatory burden on Canadian airports. The costs associated with examining regulations in a wide array of subject areas, as well complying with them, has steadily added to airports' operating costs over the years.

Meanwhile, airports compete with other modes of transportation that don't have such a high regulatory burden. Particularly for short-haul travel, overzealous regulation simply adds to the cost disadvantage airports suffer compared to rail and highway modes of transportation.

With limited budgets already stretched by operating costs, capital expenditures, and in the case of National Airports System (NAS) airports – federal rent tax, many of the CAC's member airports cannot afford to assume the additional costs. For Canada's smaller airports, limited traffic numbers limit their ability to raise revenue or cut costs sufficiently to make up for the financial burden posed by increased regulation.

CAC Position

The CAC seeks steps that would alleviate the regulatory burden on airports without compromising safety, and create a more level playing field for airports competing with other transportation modes. The CAC also supports the SCOT Interim Report recommendation that the government cover any increase in costs associated with additional Transport Canada regulations being placed on small and regional airports.

Recommendation

The CAC urges the federal government to examine the "regulatory creep" that has steadily placed an additional cost burden on airports since 1992. The CAC also calls on the minister to:

- ***Take steps to reduce regulatory burden and ensure regulations imposed are necessary to promote aviation safety, consistent with the Conservative Party's election pledge.***

- ***Consider the cumulative economic and competitive impact of regulations and act on the SCOT recommendation that additional regulatory costs imposed on small and regional airports be borne by the government.***

Canada Border Services Agency

Issue

The Canada Border Services Agency (CBSA) currently has a very important influence on a Canadian airport's ability to grow through the addition of international and transborder services. Canadian communities are working hard to promote themselves as international destinations for tourism and trade, but the current inadequacies in the provision of border services at many airports are inhibiting communities from realizing their full potential.

Background

While not brick and mortar in nature, CBSA services are an essential element of Canada's infrastructure for international travel and trade. Canadian airports and the communities they serve need CBSA services to be provided in such a way that these services keep up with demand. This traditionally has not been the case, and it is an incredibly important limitation on many of our members' growth, stifling trade and tourism potential for the communities our airports serve.

Use of new technology, in particular, is of primary importance for airports to ensure a more efficient processing of passengers through the border process. Meanwhile many of Canada's airports need greatly expanded services if they are to take advantage of U.S. trans-border opportunities that already are available to them.

Visa regulations also make Canadian airports comparatively uncompetitive with other connecting airports in North America. Passengers traveling through Canadian airports between two other countries currently are required to see a border official, even if they have no intention of staying in Canada. In addition to adding to the passenger's aggravation, this also reduces the time they have available to use Canadian airport concession and food facilities and unnecessarily adds to the strain on CBSA services for everyone.

Furthermore, CBSA sees its services as benefiting airports, and accordingly seeks to recover the costs. This fails to take into account the total economic benefit of tourism and trade to Canadian communities that result from international service. Additional tax revenue from the increase in tourism and trade that comes from new international air service far exceeds the cost of providing border services. This includes passenger travel, but also cargo.

Looking to the future, the Canada-U.S. Perimeter Clearance initiative promises to significantly improve bilateral trade and tourism with the U.S. – Canada's biggest and most important trading partner. It also promises to increase Canada's trade with other nations by making Canada a more attractive gateway for cargo throughout North America. But progress on Perimeter Clearance will only be made if it is a federal priority.

<u>CAC Position</u>

Canadian communities are being penalized by CBSA policy for airport border services since service levels are not adjusted to reflect current demand. Where airports are forced to contract with CBSA for additional service, airports either lose a large portion of the net revenue from the incremental transborder and international traffic, or must increase aeronautical fees to recover the costs. Carriers and passengers both lose in this situation as the costs are invariably passed on to users and the ability to attract new service for the community suffers.

Additionally, current in-transit visa regulations place an unnecessary burden on CBSA services while adding aggravation to passengers. In a similar thread, a greater reliance on technology could go a long way to improving the border process for passengers traveling through Canadian airports.

The economic benefits resulting from increased transborder and international air traffic far outweighs the cost of providing border services. The CAC, thus, believes that the costs associated with enhanced services should be covered by general tax revenues.

For the future, the Canada-U.S. Perimeter Clearance initiative promises to significantly improve trade and tourism with the U.S. and other nations. It is essential that Canada remain actively engaged with the U.S. to make Perimeter Clearance a priority.

<u>Recommendation</u>

The CAC urges the federal government to recognise the essential role that Canada's border infrastructure plays in Canada's international trade and increase CBSA services at airports where it is warranted by demand. The CAC also urges the government to:

- ***Provide enhanced border services from general tax revenues, in recognition of the economic benefits from increased international travel to Canada.***

- ***Pursue technologies such as CANPASS Air and NEXUS Air to improve the border process for traveling Canadians.***

- ***Review visa policies for travellers using Canada to connect between overseas destinations to ensure Canada's larger airports remain competitive in-transit hubs.***

- ***Continue work with U.S. officials to advance Perimeter Clearance border standards to facilitate improved trade and tourism.***

Air Travellers Security Charge

Issue

The role of protecting Canada against terrorist attacks is the responsibility of government and, like policing; the costs should be borne by all Canadians. However, this is not the case today, as passengers are charged an Air Traveller's Security Charge to pay for air travel security (while airports also shoulder an increasing financial burden for airport policing).

The Standing Committee on Transportation (SCOT) reiterated this position in May 2005 when it recommended that "The government eliminate the Air Transport Security passenger fee and pay for this service through the Consolidated Revenue Fund."

Background

Canada imposes Air Travelers Security Charges (ATSCs) that are among the highest in the developed world, adding significantly to the cost of air travel. No other passenger transportation mode faces similar security requirements or charges. This situation places Canadian airports at a competitive disadvantage against both international airports for overseas travel and other transportation sources available to the Canadian traveling public.

Prior to the terrorist attacks of Sept. 11, 2001, Canadian airports and airlines were gradually improving the level of security at Canada's airports. Post 9/11 the Canadian Air Transport Security Authority (CATSA) was created to undertake passenger screening and manage the equipment used for such screening. The ATSC was established to recover the massive costs associated with CATSA's programs. Although many other nations such as the United States took similar action, only Canada sought to recover all of its security costs through a passenger fee.

Price elasticity models suggest that the ATSC results in a revenue loss to airlines (via reduced air travel from the ATSC) of almost $300 million annually. This has played a critical role in the weak financial performance of the airline industry and contributed to the bankruptcy of Air Canada and Jazz. Add to that the $400 million collected by the government annually through the ATSC and this charge has had a negative impact of more than 5% on the air transport industry's total annual revenues.

CAC Position

Canadian airports must compete with other modes of transportation for travelers, but are put at a competitive price disadvantage since the ATSC charge is levied only on air passengers.

Charging air travelers to recover security costs through the ATSC places an unreasonable burden on the air transport industry in Canada. It also unfairly targets air travel providers in a way that other modes of transportation don't suffer, often creating an unfair cost disadvantage. The net result is a cost disincentive to trade and tourism with far greater economic costs than those associated with securing Canadian air travel.

Consistent with the recommendation of the May 2005 Interim Report of the Standing Committee on Transport, the CAC believes that the cost of aviation security, like the cost of policing, should be borne by all Canadians, as they are the beneficiaries of the services provided.

Additionally, the ATSC is an impediment to the renewal of the air transport industry in Canada; being especially burdensome when applied to the low fares now available in Canada. The CAC is part of a broad coalition of organizations representing all facets of the tourism industry concerned with rising government imposed charges and fees. With one voice, these organizations are calling for the removal of the ATSC.

Recommendation

The CAC urges the federal government to support the efforts of the coalition of leading Canadian industry associations, including the CAC, to have the ATSC withdrawn and air transport security costs borne by all Canadian taxpayers.

Canadian Air Transport Security Authority

Issue

From its inception, the Canadian Air Transport Security Authority (CATSA) has been plagued by underfunding that has hindered its ability to fulfill its mandate of passenger and baggage security screening in an effective manner. This has in turn led to an increase in passenger processing times that have led some passengers avoid air travel altogether – an unfortunate, but very real yoke on trade and tourism for Canadian communities.

Meanwhile, with the five-year review of CATSA underway, there are some suggestions today that CATSA's role be expanded. Some would like to see CATSA's mandate expanded to include airport policing and security for non-aviation modes of travel.

Background

As the service provider for national air travel security in Canada, CATSA is very much a partner in the "airport experience" for members of the travelling public. The scope of CATSA's business, and the manner in which it is conducted, not only affects the security and efficiency of the airport, but it very significantly affects airport decisions on capital planning, retail development, baggage and passenger flows, and a broad range of other activities.

Today many airports consider passenger and baggage screening as the most important prospective choke points in their systems as passenger volume continues to steadily increase. In short, the manner in which CATSA is funded, the way that it conducts its business, and the range of services that it provides unavoidably influence the business of running an airport. This in turn has the potential to stifle trade and tourism opportunities for the communities our members serve.

In a business that is largely focused on facilitating the safe and efficient movement of passengers and their bags on and off aircraft, CATSA's functions represent a key element of airport operations that airports must have the opportunity to influence in a significant way.

With the five-year review of CATSA underway, the CAC conducted a comprehensive survey of its members, both small and large, to gauge opinion on CATSA and its future. While the opinions varied, a consensus emerged in favour of CATSA being limited to its current role.

Underscoring this position is the experience of airports that CATSA is not paying its own way at airports. The authority does not pay for the space it occupies and airports find themselves forced to design, manage and implement work on CATSA's behalf without a formal funding agreement in place.

CAC Position

The CAC's full set of recommendations for CATSA are outlined in the position paper filed with the CATSA Five-Year Review Panel. In summary, with the possible exception of cargo screening, the CAC strongly feels that CATSA's mandate should not be expanded. The CAC believes, rather, that CATSA's funding should be increased in order for the agency to be more effective in its current role.

The CAC also supports the current model of CATSA as a crown corporation reporting to the Minister of Transport, Infrastructure and Communities. The CAC opposes suggestions that the authority operate under an agency model, have a closer relationship to Transport or that it report to the Minister of Public Safety and Emergency Preparedness.

CAC members also support the current model of CATSA as a service provider that contracts screening services rather than hiring its own screeners as CATSA employees. However, some airports have expressed an interest in having the option of taking on this role as a contracted screener. This should be considered, as Canadian airports can provide the same high level of screening but also can realize efficiencies through the integration of screening and policing workforces.

Finally, while the CAC believes national security is a federal responsibility and should be covered by general tax revenue, there exists an alternate vehicle for security funding: The Air Travellers Security Charge (ATSC). Failing a federal commitment to shoulder the financial costs of security, the CAC believes the ATSC should be set at a level to fund all of CATSA's functions and CATSA should be required to account for the spending of these fees.

Recommendation

The CAC urges the federal government to support the CAC's recommendations made in its position paper to the CATSA Five-Year Review Panel. Most notably, the CAC recommends that the government:

- ***Maintain, but not expand, CATSA's mandate to its current role as a national service provider for air travel security.***

- ***Maintain CATSA's status as a crown corporation reporting to the Minister of Transport, Infrastructure and Communities.***
- ***Failing a federal decision to shoulder the costs of aviation security, provide sufficient funding to cover ALL costs related to CATSA's mandate and provide more predictability and stability to CATSA's funding.***
- ***Consult airports fully before any other new responsibilities are transferred to CATSA.***
- ***Engage airports in the process for assessing CATSA's effectiveness and articulate national performance standards against which CATSA's performance can be gauged.***
- ***Task CATSA with pursuing a more risk-based approach to aviation security and adopt more technology-based measures.***
- ***Provide airports with the option of serving as the screening provider to CATSA for airports interested in assuming this role.***

Part 2: Technical Issues

Accurate and Timely Industry Statistics

Issue

The lack of useful current and accurate Canadian aviation statistics is a major obstacle to Canadian airport competitiveness in international trade. Airports and airlines need data to review current traffic and forecast the potential for new routes. Airports also need the data for business related activities, such as the collection of user fees, business and airport planning, and credible capital needs assessment.

While intangible, a base of accurate and timely statistics on domestic and international passenger and cargo traffic nevertheless is an essential component of our air system infrastructure – a grossly underdeveloped component. Hindering the ability for Canada's airports to present a clear picture of the potential for this market, the lack of statistics is crutch to attracting new international service and the global trade and tourism benefits that would result.

Background

While the importance of data to airports has increased with the transfer of airports to local authorities, the data available, almost entirely through Statistics Canada, has deteriorated significantly. There are too few data elements collected and their dissemination is often years after the fact. The result is information that is nice history but far from useful for the essential business and planning requirements of an airport in the 21st century.

For one example, aviation data is readily available in the U.S. and other countries, allowing other airports to show prospective carriers a more complete picture of their potential as new markets. This represents a distinct competitive advantage foreign airports enjoy in attracting new air service.

The CAC has been actively pursuing access to timely and accurate data for some time. In 2001 Transport Canada was provided with a study prepared by Sypher on behalf of the CAC, which highlighted the mechanism used in Germany to collect and disseminate data. An important conference on aviation data collection and dissemination was hosted by Transport Canada in June of 2001 resulting in a pilot project on the electronic collection of air transportation statistics (ECATS). The collection process proved to be very successful but the vital issue of dissemination was not addressed.

Revisions to the Canada Transportation Act coming out of the pilot project died on the order paper when Parliament rose for the election. The revisions contained important provisions that would have enabled the collection and dissemination of vital industry data. Airports and policy makers need that data on a timely basis to be effective in today's market place. Canada is substantially out of step with peer states in both data availability and timeliness, and without change the current situation will deteriorate further. The need for better data can be met through beneficial changes to the Act.

CAC Position

Canadian airports require credible and timely data in order to develop new air services and for other business related activities, such as the collection of user fees, business and airport planning, and credible capital needs assessment. Transport Canada should take a leadership role in ensuring that such data is available to all components of the air transport industry.

Recommendation

The CAC urges the federal government to make timely data collection and dissemination a priority by supporting changes to the Canada Transportation Act and ensure that these changes enable the distribution of aviation data in a desegregated, electronic format using modern technology to reduce costs and improve data utility.

Approach Ban

Issue

Proposed amendments to Canadian Aviation Regulations (CARs) on Approach Ban rules, scheduled to go into effect soon, will significantly limit access to Canadian airports, and particularly smaller airports, under adverse weather conditions.

Background

Following Air Canada's CL65 regional jet incident in Fredericton on April 8, 1996, Transport Canada embarked on an initiative to modify the Approach Ban rules in Canada. The proposed new rules will effectively raise the Instrument Flight Rules (IFR) approach ban limits at many of Canada's large and small airports, and may limit access to airports under adverse weather conditions.

The proposed new rules will affect the use of precision and non-precision approaches and will drive the installation of expensive new precision approach facilities and lighting systems at Canadian airports that already are struggling financially. Prospectively the new rules will result in reduced access by a wide variety of commercial operations, including MedEvac operations, and will result in the unnecessary use of alternate airports and significant inconvenience to air carriers and their customers.

CAC and the Air Transport Association of Canada (ATAC) in July 2004 presented Transport with a study that was critical of the proposed changes, and the two organizations have sponsored an industry proposal that would enhance safety but would also be less onerous on airports and airlines. Little progress has been made in working with Transport to consider the proposed changes.

CAC Position

The CARs Approach Ban amendments will have a particularly negative effect on access to smaller and remote communities served by aircraft on non-precision approaches. These are communities that depend on commercial air transport for primary passenger and cargo service. The CAC and ATAC have proposed changes to the amendments that would make them less onerous for airports and airlines without compromising safety. The proposals have been largely rejected by the department.

<u>Recommendation</u>

The CAC urges the Minister of Transport, Infrastructure and Communities to re-consider the implications of the proposed changes against their potential negative impact on safety and airport access in Canada through a re-examination of the ATAC-CAC study and a meaningful consideration of the ATAC-CAC proposal.

Regulatory Stewardship

Issue

Proposed amendments to the Aeronautics Act enable the Minister of Transport, Infrastructure and Communities to designate organizations to establish certification standards and aeronautical rules, as well as to assume the responsibility for the certification process. Such an application within the airports arena would go a long way toward the goal of reducing the regulatory burden on Canada's airports.

The CAC and other aviation stakeholders have been in discussions with Transport Canada to explore the self-certification of airports and self-auditing/inspections, as is currently in place within the business aviation community. However, in recent months, Transport Canada has indicated to the CAC that it is not prepared to consider an alternative accountability framework that would provide airport participation in the content of regulated safety or certification standards.

Background

The Canadian Business Aviation Association (CBAA) for three years now has been self-certifying its own members, and conducting audits and inspections against a standard that it is responsible for amending. A number of other stakeholders have approached Transport Canada concerning the prospect of similar programs for other stakeholders in the aviation community, and it has been part of the CAC's mandate to explore similar options that might be available to the Canadian airport community.

Until recently, the CAC was actively engaged in discussions with Transport Canada on regulatory stewardship for Canadian airports, as is the case for the Canadian Business Aviation Association. The CAC had been led to believe that the widest possible range of regulated activities would be considered in the study phase of the Airports AAF project.

However, the CAC has been informed by Transport Canada that the CARS, the CASS, and the content of TP312 would not be considered for airports. All that was left on-the-table was the potential for airports to approve their own 'plans' (i.e. Bird & Wildlife Control, Snow Plans, etc.), which is something that Transport already has indicated will be available to airports, as well as the ability to self-audit, inspect and enforce against its own members.

CAC Position

CAC members are reluctant to accept all of the costs of regulated safety and certification standards without any 'ownership', or control over their content. The CAC maintains an interest in pursuing an AAF under a scenario that envisions airport participation in the standards set, consistent with the arrangement that has proven successful in the business aviation community.

Recommendation

The CAC urges the Minister of Transport, Infrastructure and Communities to work with the CAC to develop a new accountability framework in which airports can be expected to accept more responsibility for identifying and acting upon risks inside their own operations against standards they have control in establishing and amending.

Government Recommendations

The Airport Rent Tax

- ***Lower taxes and fees affecting the aviation sector by implementing a policy that would see the rent tax for airports decline over the life of the airport leases, or eliminate the rent tax altogether.***

- ***Eliminate the rent tax for airports handling fewer than two million passengers a year, as a minimum.***

Liberalized International Air Policy: Open Skies

- ***Pursue an "Open Skies" policy globally on a reciprocal basis for passengers, including open and unlimited Fifth Freedom Rights.***

- ***Include liberalized air service – ideally Open Skies – as a key component in bilateral or multi-lateral trade talks between Canada and other nations.***

- ***Pursue continued liberalization with the U.S., including modified sixth freedom rights, and explore the net benefits of a "Common North American Aviation Market."***

- ***Consider unilaterally establishing an Open Skies policy for international cargo, regardless of reciprocity by foreign nations, as a strategy to stimulate cargo growth in Canada.***

- ***Include representatives of the Canadian Airports Council and Canada's airports in international aviation discussions from the initial stages until new agreements are finalized.***

Liberalized International Air Policy: The Right of Establishment

- ***Allow the "Right of Establishment", the ability for a foreign airline or entity (up to 100% foreign owned) to set up a Canadian subsidiary for domestic-only services; and***

Small Airport Infrastructure

- ***Create a Small Airports Infrastructure Program to ensure that small airports have access to capital that will enable the communities they serve to participate fully in opportunities for trade within Canada and with the rest of the world.***

- ***Increase the level of ACAP funding for small airports to meet demand, simplify the application process, and ensure that adequate and predictable government funding is available.***

- ***Make infrastructure funding eligible to small NAS airports that can demonstrate a need.***

Regulation

- ***Examine the "regulatory creep" that has steadily placed an additional cost burden on airports since 1992.***

- ***Take steps to reduce regulatory burden and ensure regulations imposed are necessary to promote aviation safety.***

- ***Consider the cumulative economic and competitive impact of regulations and act on the SCOT recommendation that additional regulatory costs imposed on small and regional airports be borne by the government.***

Canada Border Services Agency

- ***Recognise the essential role that Canada's border infrastructure plays in Canada's international trade and increase CBSA services at airports where it is warranted by demand. The CAC also urges the government to:***

- ***Provide enhanced border services from general tax revenues, in recognition of the economic benefits from increased international travel to Canada.***

- ***Pursue technologies such as CANPASS Air and NEXUS Air to improve the border process for traveling Canadians.***

- ***Review visa policies for travellers using Canada to connect between overseas destinations to ensure Canada's larger airports remain competitive in-transit hubs.***

- ***Continue work with U.S. officials to advance Perimeter Clearance border standards to facilitate improved trade and tourism.***

Air Travellers Security Charge

- ***Support the efforts of the coalition of leading Canadian industry associations, including the CAC, to have the ATSC withdrawn and air transport security costs borne by all Canadian taxpayers.***

Canadian Air Transport Security Authority

- ***Support the CAC's recommendations made in its position paper to the CATSA Five-Year Review Panel.***

- ***Maintain, but not expand, CATSA's mandate to its current role as a national service provider for air travel security.***

- ***Maintain CATSA's status as a crown corporation reporting to the Minister of Transport, Infrastructure and Communities.***

- ***Failing a federal decision to shoulder the costs of aviation security, provide sufficient funding to cover ALL costs related to CATSA's mandate and provide more predictability and stability to CATSA's funding.***

- ***Consult airports fully before any other new responsibilities are transferred to CATSA.***

- ***Engage airports in the process for assessing CATSA's effectiveness and articulate national performance standards against which CATSA's performance can be gauged.***

- ***Task CATSA with pursuing a more risk-based approach to aviation security and adopt more technology-based measures.***

- ***Provide airports with the option of serving as the screening provider to CATSA for airports interested in assuming this role.***

Accurate and Timely Industry Statistics

- ***Make timely data collection and dissemination a priority by supporting changes to the Canada Transportation Act and ensure that these changes enable the distribution of aviation data in a desegregated, electronic format using modern technology to reduce costs and improve data utility.***

Approach Ban

- ***Re-consider the implications of the proposed changes against their potential negative impact on safety and airport access in Canada through a re-examination of the Air Transport Association of Canada-CAC study and a meaningful consideration of the ATAC-CAC proposal.***

Alternative Accountability Framework

- ***Work with the CAC to develop a new accountability framework in which airports can be expected to accept more responsibility for identifying and acting upon risks inside their own operations against standards they have control in establishing and amending.***