



# Border Service Requirements

April 2006

## Executive Summary

In October, 2005, a survey of CAC member airports was undertaken to ascertain inconsistencies in the delivery of service to Canadian airports and to determine expectations for the future. Thirty-seven airports responded, representing all classes of airport, from the largest international airports to community airports with transborder charter operations. All provinces and one territory were included in the sample.

The CAC survey has identified airports' concerns over the provision of border services under five key areas: level of service, cost recovery, duty free, space and facilities and technology. Specific examples are cited when available.

In general, the survey demonstrates that those airports with extensive coverage are concerned with deteriorating levels of service and increasing demands as traffic increases. Airports that have either limited or no service are most concerned with expanding or acquiring service. For those airports that are required to pay for services, the cost to the airport is a principal concern.

In addition to border services for passengers and goods, some airports are experiencing challenges in obtaining duty free services. Restrictions that applied when the government operated the airports are hampering the ability of small airports to attract duty free service. These restrictions apply only to airports and not to other modes of transport.

The use of technology has not been developed to its full potential. Programs to facilitate trusted traveler programs, such as Canpass and Nexus would greatly enhance service delivery and help to meet the anticipated future demands.

The provision of services at Canadian airports has not changed appreciably over the past 20 years. The number of Airports of Entry (AOEs) is predominantly based on historical demand and, other than the major international sites, is dependent on proximity to another border location such as a port or bridge.

A recent increase in the budget for CBSA, \$433 million over five years, has been deemed inadequate to maintain the status quo, let alone meet new demands. In order to address new and increasing demands for service, the Agency has implemented a cost recovery policy based on an outdated definition of core service which is inherently discriminatory towards small airports.

CBSA provides, by definition, an essential public service to Canadians that is paid for through general tax revenues, and from a contribution of \$383 million from the Air Transportation Security Charge which is funded entirely by air travellers. The application of a cost recovery policy under the current guidelines is completely contrary to the concept of a public service, as it arbitrarily segregates the public beneficiaries and penalizes air travel.

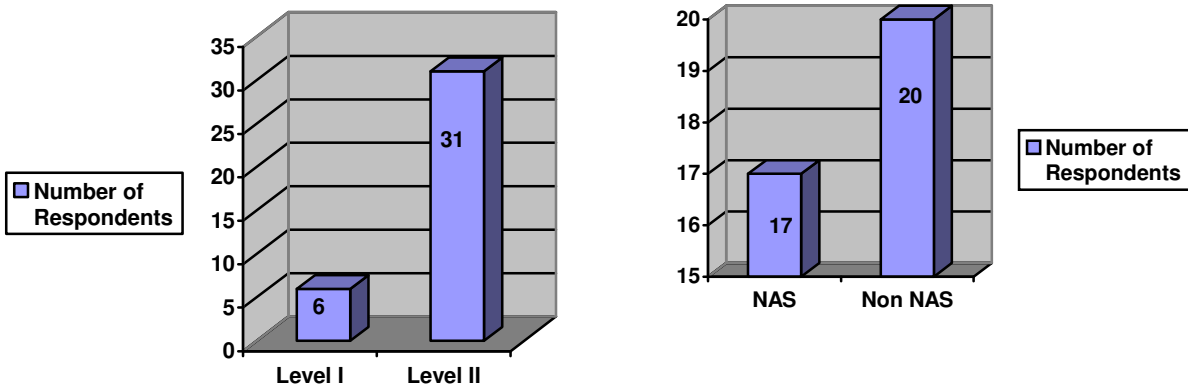
The Interim report of the Standing Committee on Transport (SCOT) recognized the public purpose and responsibility for border services. Recommendation # 4 states: "The government pay for CBSA services at airports that can demonstrate that they have regular transborder and/or international service.

Airports, as ports of entry, play a significant role in trade and tourism and in order to meet the objectives of the Agency, services must be able to keep pace with demand. CAC calls on the Minister of Safety and Emergency Preparedness to recognize the demonstrated need for border services, and to allocate sufficient resources to meet border services requirements across the country at no cost to the airports.

Part I - Survey Results

1. General

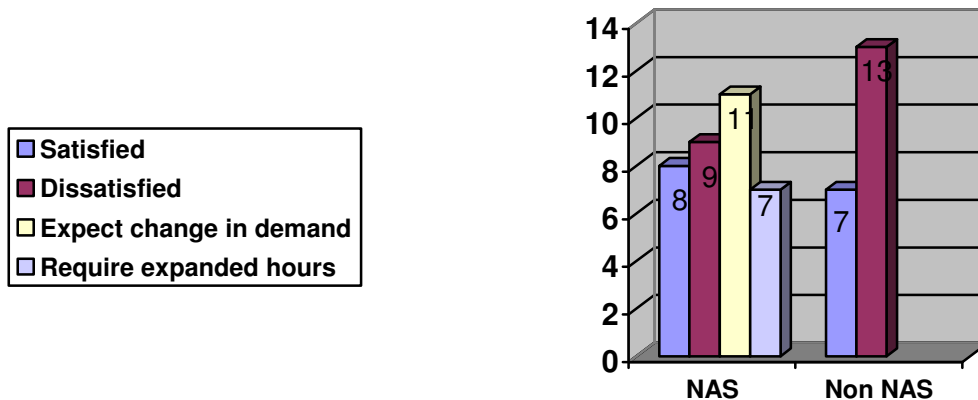
In October, 2005, a survey of CAC member airports was undertaken to ascertain the effectiveness of border services at Canadian airports and to determine expectations for the future. Thirty-seven airports responded, representing all classes of airport, from the largest international airports to community airports with transborder charter operations. All provinces and one territory were included in the sample.



2. Satisfaction with Service Provided

Two-thirds of respondents indicated they were dissatisfied with the current service. Those who indicated dissatisfaction were either concerned with insufficient staffing to process passengers in a timely manner or a lack of service to meet requirements. More than half of the airports that responded expressed concern that public interests will not be met in the future as demand increases.

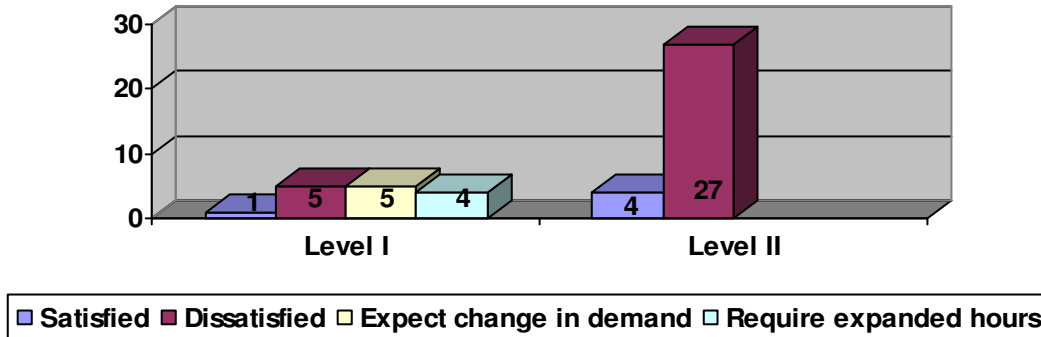
**CBSA Service Satisfaction Among NAS and Non-NAS Airports**



Of those who currently have CBSA service, half anticipate increases in demand in the near future. Those airports that reported satisfaction with the current level of service expect CBSA to keep pace with future demands.

All airports are concerned about the costs of providing space and facilities to CBSA free of charge.

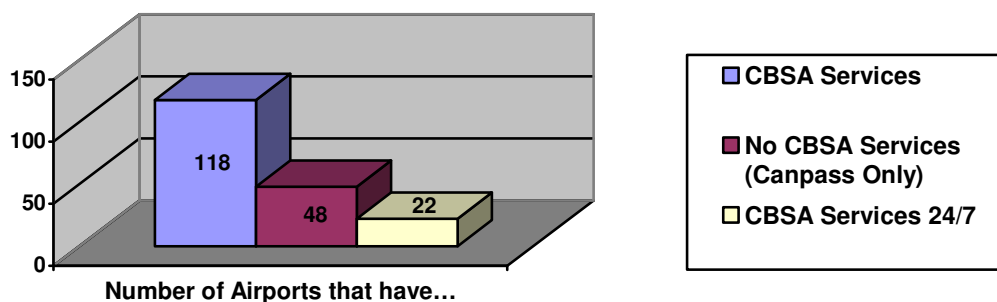
**CBSA Service Satisfaction Among Big and Small Airports**



### 3. Level of Service

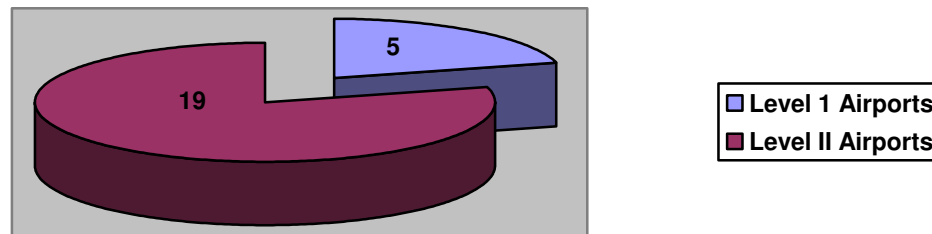
Border services are offered at 118 airports across the country. Another 48 airports have Canpass (Corporate or Private Aircraft) services only. A total of 22 airports, including 6 of the 8 major international sites, currently have 24 hour, 7 day per week passenger service, not including commercial and immigration services. Five of the small airports that responded have been unable to get service at all.

**Level of Service**



Twenty-four of the airports that responded to the survey, including five of the major international airports, anticipate an increase in international traffic in the short term. Three of the major international airports are already experiencing unacceptable delays in the processing of passengers.

### Airports Expect Increase in International Traffic



The majority of Airports of Entry (AOEs) have operating hours between 8:00 a.m. and 4:30 p.m., Monday to Friday, and reduced hours on weekends and holidays, which is not consistent with international schedules at most airports. To accommodate business travellers and those headed to sun destinations, flights are normally early in the morning or late in the evening and, therefore, outside of scheduled hours.

### 3. Cost Recovery

One third of the airports that participated in the survey reported that CBSA recovers costs for after-hours service. Where these costs are known, they range from \$15,000 to \$200,000 annually, or between \$300 and \$4,500 per flight.

Where charges for after hours service are billed directly to the users, the costs ranged from \$8,000 to \$200,000 annually (where this cost is known) or between \$5 and \$50 per passenger when charged directly to the traveller. In some instances, charges are imposed both on the flight and on the individual passenger.

## Part II - Analysis of Border Service Requirements

### 1. Demand for Service

Traffic levels in Canada were quick to recover from the impact of 9/11, the war in Iraq and SARS and at many airports the rate of increase is now in the double digits. Recent changes to air bilateral agreements, especially a liberalized policy with the US, have increased the demand for border services significantly. In spite of these dramatic increases, border services have not kept up with demand.

Generally speaking, those airports that currently have extensive coverage are concerned with deteriorating levels of service and increasing demands as traffic increases. Airports that have either limited or no service are most concerned with expanding what they have or acquiring new service. For those airports that are required to pay for services, the cost to the airport is a principal concern. In order to attract international or transborder flights, smaller airports often have to absorb the cost of CBSA services rather than passing the cost to the carrier or the passenger. For those airports that are prepared to pay but still can't obtain service, the cost is expressed entirely in missed economic opportunity.

Following the terrorist attacks of 2001, some smaller airports had their services either reduced or discontinued and not all have been reinstated. Since 2003, increases in public demand have either been subject to direct cost recovery or not provided at all. The ability of the Agency to respond to increased demand has been further exacerbated by increased security requirements which has put an additional financial strain on the CBSA budget and reduced some already existing Customs services.

New bilateral air agreements have increased international flights and smaller airports are increasingly taking advantage of sun spot flights. Open Skies negotiations have provided more options for Canadian airports to attract US carriers and more competitive prices for consumers. Efforts by the Canadian government to encourage trade and travel, such as the Security and Prosperity Partnership, place greater emphasis on the capacity to process persons and goods across borders.

## 2. Level of Service

The current schedule of services is outdated and, in almost all cases, does not reflect reality. Of those airports that have service, referred to as Airports of Entry or AOE's, most have not had their throughput, measured in the number of passengers that can be processed in a specified time period, increased over the years to meet existing demands, particularly during peak periods. An example of the effect of this approach is a case of two airports that serve roughly the same catchment area. One airport, with no scheduled service, is a designated AOE/30 (Airport of Entry, 30 passenger maximum) with 24/7 service. The other, with scheduled international charter service, is not an AOE and must pay an annual fee for passenger service in addition to a direct charge per passenger. An increase in the services provided at airports is urgently required to keep pace with current and future demand.

## 3. Cost Recovery Policy

In order to meet the demand for service that falls outside of the current schedule, CBSA has relied on a cost recovery policy. The calculation of a cost recovery fee is based on general guidelines but is ultimately site specific and arbitrary. The ability to respond to an individual airport's needs depends entirely on the proximity of the site to a local office and the level of staffing available. If the office is at the airport, or near the airport, and the hours of operation and staffing permit, no fee is required. If, however, the local office is a distance away and the hours of operation are limited, the cost to provide the service at the airport is based on the specific incremental costs incurred by the local office.

Incremental costs that users are required to pay include the salary costs of the inspection officers, which often include an overtime charge, time to travel to the location and the cost of the transportation. Where services are not already available, users have been asked to pay the cost of recruitment and training of inspection officers, including the cost of uniforms. Where a specific charge per

flight is not determined, an average charge per passenger is applied. Amounts are not negotiable.

The basis for cost recovery lies in the determination of core service, which is defined as service provided at a specific location during a specific time period and at a pre-determined level of service. Under the current system, any traveller arriving at a designated port of entry during published hours is entitled to a public service, free of charge. Travellers arriving outside of published hours are determined to be direct beneficiaries and subject to cost recovery. Similarly, an increase in arriving passengers, beyond the designated capacity, is also subject to cost recovery. There is no distinction made between scheduled, commercial passenger flights and private operations.

Smaller airports are especially disadvantaged under the current cost recovery system. It is the smaller airports that have either limited or no service and who have the greatest challenges in attracting and retaining transborder and international services to their market. A new carrier is generally not in a position to absorb the costs of CBSA services which then falls to the responsibility of the airport operator. This is not generally the case at the larger airports where there is a sufficient market to encourage competition and ensure profitability. In those cases, the carrier absorbs any additional charge. In either case, the passenger ultimately pays the costs through direct charges or an increase in the ticket price.

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The federal government is indivisible and any new international trade brings additional revenues to the government that, in most cases, far exceeds the cost. As an example, it can be demonstrated that the revenue from the GST on the average airline ticket alone is more than double the cost of providing CBSA services. The total economic benefit resulting from increased international tourism and trade is that much higher again. Any attempt to limit the provision of a public service that results in a demonstrable economic benefit is not good public policy and only serves to discourage growth and prosperity.

#### 4. Duty Free

A select group of airports, predominantly major international sites, have been granted the right to offer Duty Free services, which are under the control of CBSA. While the airports were under Transport Canada operation, the federal government was obliged to tender these services. In a January, 2005 memorandum, airport authorities are being required to abide by federal rules respecting the tendering of contracts even though this is not required under the ground lease. At small airports, the cost associated with this process, for both the airport and the duty free

operator, is prohibitive even when competition is present. In contrast, Duty Free shops at land border crossings are tendered directly by the CBSA which absorbs the associated costs internally.

## 5. Provision of Facilities

Airports are required to provide space and facilities to CBSA at no cost. Although CBSA has published guidelines in a document entitled, *Facilities Operating Requirements and Planning Guide for Canadian Inspection Services at Airports, June 1999*, the actual determinations vary by site. Generally speaking, airports must provide inspection space and office space complete with furnishings and utilities. In addition, airports provide lunchrooms, washrooms, storage areas and vehicle parking, all of which must meet federal standards.

Requirements for new facilities are negotiated when a new passenger terminal, or cargo terminal, building is being constructed or when an airport requests new or expanded service. There is no guarantee that if facilities are constructed that the services will be provided. In some cases, airports have incurred significant capital expenditures in anticipation of new or expanded services but were unable to get the services they had planned for.

NAS airports pay rent to the federal government for the lease of the airport land which is now based on the generation of gross revenue. All airports, NAS and non-NAS, are required to provide space and facilities to government departments, free of charge, for the provision of public services. Where this space would normally be used for commercial purposes, a loss of potential income is incurred in addition to the capital and operating costs.

## 6. Technology

Technology plays an important role in service delivery. The services of Canpass Air, to facilitate the processing of passengers, are currently only available at seven of the international airports. In some instances, this has led to the diversion of flights away from the smaller airports to those sites where Canpass Air is available. Canpass Corporate and Private Aircraft programs are especially useful at smaller airports that do not have access to Customs Inspectors.

The Nexus program is currently being used successfully at land border crossings and is currently being tested at the Vancouver Airport. Plans to expand Nexus Air beyond the Vancouver Airport have not yet been determined. Access to this program, especially at airports where there is inadequate service during peak periods, would greatly improve processing times.

According to CBSA, Canpass Air is a cost recovery program and has been determined to be cost effective only at those airports where there are high volumes of frequent international and transborder travellers. Consequently, in a letter from then Minister Anne McLellan, dated May, 2005, it was stated that, "there are no plans to implement the Canpass and Nexus Air programs at smaller Canadian

airports because of the low volume of frequent travellers and the cost associated with the implementation of these programs.” This is an unacceptable position and one that is likely to have serious consequences for transborder travel and trade. Moreover, these programs contribute to essential risk management should be regarded as enhancements to national security. Rather than adding costs to the government, programs that identify trusted travellers facilitate security processing and free up resources that can be used process higher risk travellers.

Where Canpass services are introduced, airports are required to provide the enrolment office space and facilities as well as the passenger kiosks. The provision of free space and facilities should be considered a positive contribution to the programs and used to off-set operating costs when considering the overall cost to the government.

Some airports have been pursuing satellite PILs to relieve congestion at the primary facility, but this has not yet materialized.

### Conclusion

CBSA provides an essential service to Canadian public that is funded through general taxes and a contribution from the Air Transportation Security Charge. *An Act to Establish the Canada Border Services Agency* formally defines the CBSA's mandate “to provide integrated border services that support national security priorities and facilitate the free flow of persons and goods, including animals and plants, which meet all requirements under the program legislation”. The 2004-2005 Departmental Performance Report placed emphasis on a Port of Entry Vision (POE Vision) that included recommendations to provide “consistent and recognizable levels of service across Canada”. Yet only two airports actually benefited from increased staffing levels in that year.

A new Open Skies agreement was negotiated in November, 2005. The new agreement was to “encourage development of new markets, new services, lower prices and greater competition” and to offer “more options for Canadian airports to attract US carriers and lower prices for consumers”. But without adequate border services, those new markets cannot be served, new services will not materialize and the potential economic benefit will not be realized.

Similarly, the Security and Prosperity Partnership, signed in June, 2005, was designed to “strengthen security and economic relationships among the three North American partners.” A specific commitment was made to devise a single, integrated global enrolment program for North American trusted travellers, such as Nexus. Yet no plans have been made for implementing Nexus Air or expanding Canpass.

Airports, as ports of entry, play a significant role in trade and tourism and in order to meet the objectives of the Agency, public services must be able to keep pace with demand. The Interim report of the Standing Committee on Transport (SCOT) recognized the public purpose and responsibility for border services.

Recommendation # 4 states: "The government pay for CBSA services at airports that can demonstrate that they have regular transborder and/or international service.

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