A Level Playing Field:

A Competitive Aviation Policy for a Competitive Canada

Brief to the House of Commons Standing Committee on Finance

August, 2008

CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

Executive Summary

- Aviation is an important facilitator of Canadian trade and tourism.
- Canada has among the highest aviation tax regimes in the developed world.
- High aviation taxes have an important negative impact on the competitiveness of Canadian trade and tourism.
- As a result of an uncompetitive tax environment, Canadian airports are losing traffic to nearby U.S. airports.
- The highest government cost on aviation today is airport rent.
- Revenue lost from the elimination of airport rent would be offset by new revenue from increased economic activity.
- Airport rent should be eliminated.
- **Recommendation: That the Standing Committee on Finance recommend in its report to the Minister of Finance that airport rent be eliminated.**

Aviation is an important facilitator of Canadian tourism and trade

In addition to linking Canadian communities spread out across our large country, aviation connects Canadians with the outside world. As the world's second largest country with just 33 million people, Canada is a justifiably outward looking economy – one that is heavily depend on international trade and tourism.

Canada exported $450 billion worth of goods in 2007 and tourism is a $70 billion industry for this country. Aviation is one of the most important facilitators of trade and tourism. It helps Canadian businesses bring their goods and services to market and in 2007 brought some 8.7 million foreign visitors to Canada.

A worldwide report for the International Air Transport Association[1] studied the link between air service connectivity and labour productivity and GDP growth. It found that a 10% increase in connectivity to the global transportation network can produce along-term increase in productivity and ultimately GDP of 0.07% a year or greater.

The report looked at the $1.8 billion investment in Vancouver International Airport's infrastructure between 1995 and 2000 and found it resulted in a 25% rise in the city's connectivity to the world, a rise that can be credited with lifting Canada's GDP by some $348 million a year.

Canada has among the highest aviation tax regimes of any nation in the developed world.

The Canadian aviation sector pays a lot of tax. In addition to airport rent, the Air Travellers Security Charge, fuel excise tax, sales tax and border service cost recovery fees all contribute to the cost to buy a ticket within, to or from Canada.

We believe that Canada's aviation tax regime is among the highest of any nation in the developed world. A recent World Economic Forum[2] study ranked Canada 114 out of 130 countries in terms of cost competitiveness in the travel and tourism sectors.

The Canadian aviation cost regime continues to attract the attention of multiple sector groups not only in Canada, but also in the U.S. and internationally.

High aviation taxes have an important negative impact on the competitiveness of Canadian trade and tourism.

In 2007, the House of Commons Standing Committee on International Trade included in its recommendations on improving Canada's international competitiveness the recognition of the role of aviation in Canada's ability to compete. Unfortunately, cost plays an important role in this competitiveness, and in aviation Canada is not cost competitive.

A high aviation tax regime serves as a yoke on traffic demand. Canada was once one of the top 10 destinations in the world for international tourists. This no longer is the case. According to a recent report from the Tourism Industry Association of Canada (TIAC),[3] Canada's travel deficit has ballooned to $10.3 billion in 2007 and the latest numbers for 2008 show a continued deterioration. Reducing the "structural costs of aviation," including airport rent, was one of five main pillars in the TIAC report.

In *Compete to Win*, the final report from the Government of Canada's Competition Review Panel, the panel notes that "Air transportation facilitates social and business transactions, thereby increasing economic advantage and opportunity. An air transport sector characterized by competitive choices, fares and costs will be critical for Canadian businesses to realize their ambitions in foreign markets."

Canada's airports couldn't agree more. Airports also agree that "Ultimately, the benefits of lower industry costs could be passed on to the public in lower fares and better service in a competitive environment. **Improving productivity in the industry is important for Canada's economic future."**

As a result of an uncompetitive tax environment, Canadian airports are losing traffic to nearby U.S. airports.

The effects of Canada's high aviation taxes on Canadian airport competitiveness can be easily seen in border communities, where Canada is losing millions of passengers to nearby U.S. airports able to offer lower fares because they operate at reduced costs. About 1.5 million Canadians flew out of Buffalo-Niagara International Airport last year.[4] Plattsburgh, which has received nearly $90 million (USD) in government funding, markets itself as "Montréal's U.S. airport" and says that 80% of its passengers are from Québec. Airports in Bellingham, Wash. and Burlington, Vt. also primarily serve Canadian consumers.

The prevalence of Canadian travellers using U.S. airports is growing. While many airports in the U.S. have lost as much as 30% of their capacity this year, it is growing at the airports cited above – a whopping 21% in Bellingham, nearly 10% in Burlington and 2.4% in Buffalo.[5] Plattsburgh Airport is new, but it already has three air carriers that have started service in the past 15 months and announced a terminal expansion on August 4th through $6.5 million (USD) in fresh federal funding.

The highest government cost to aviation today is airport rent.

At nearly $300 million a year, we believe airport rent to be the biggest sector-specific generalized tax on aviation today – far greater than the revenue from fuel excise taxes.[6]

Canada is fairly unique in the world in charging airports rent; an expense which only add costs to airports operations which is added to operating and capital investment costs.

Airport rent has become a key point of contention over the years, not only from the Canadian Airports Council, but also the following organizations:

Air Transport Association (in the U.S.)
Air Transport Association of Canada
Association of Canadian Travel Agencies
Canadian Chamber of Commerce
Canadian International Freight Forwarders Association
International Air Transport Association.
National Business Travellers Association of Canada
Tourism Industry Association of Canada
Tourism Industry Association of Ontario

Revenue lost from the elimination of airport rent would be offset by new tax revenue from increased economic activity.

The only reason why airport rent still exists today is its $300 million a year benefit to the federal treasury. This argument, however, ignores the tax revenue benefits that would result from increased economic activity that would be generated by the elimination of airport rent.

An International Air Transport Association (IATA) report in 2007, for example, concluded that just a $58 million reduction in Toronto Pearson Airport's $153 million in rent (2007) would create about 3,000 jobs. The increased economic activity would offset the lost revenue with some $62 million in new federal government tax revenues from increased economic activity.[7]

Airport rent should be eliminated.

Canada's airports have many recommendations for improving the competitiveness of Canada's aviation sector in ways that would improve our country's overall ability to take advantage of trade and tourism opportunities available. However, since the committee has requested only one recommendation from the sector, airports contend the single biggest impact would come from elimination of airport rent.

Since 1992, when Canada's airports began assuming local control for airports, some $2.5 billion a year has been paid to the federal government in the form of rent. This amount exceeds the book value of the airport assets at the time of transfer, yet airport rent continues to be imposed on airports at about $300 million a year.

Today airports in other parts of the world, many of them government supported, find themselves struggling with congestion and growth constraints. However, over the past fifteen years Canada's airports have committed to more than $9.5 billion in infrastructure investments. Without tax payer support, Canada's airports have built the facilities required to meet the more than 50% growth in air traffic growth experienced since the early 1990s. Today, Canada is ranked number one in the world in air transport infrastructure, by the World Economic Forum.

The federal government has been reimbursed for its initial investment in airports. At the same time, Canada's airports have self-funded the improvements needed to position Canada as a world leader in aviation infrastructure. What remains is an aviation cost regime in which Canadian air carriers and communities are limited in their ability to prosper.

If airport rent is eliminated, what will happen? The continued imposition of airport rent only serves as a yoke on the aviation sector – one that negatively impacts Canadian trade and tourism competitiveness.

If airports, both large and small, no longer have to pay airport rent, this savings will provide airport authorities an opportunity to pass those saving on the airlines. The elimination of airport rent would be an important first step in improving the competitiveness of Canada's aviation sector, and in turn the competitiveness of Canada.

Recommendation: That the Standing Committee on Finance recommend in its report to the Minister of Finance that airport rent be eliminated.

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[1] *Aviation Economic Benefits*, IATA and InterVISTAS, 2007
[2] *Travel & Tourism Competitiveness Report 2008*, World Economic Forum
[3] *The report on Canada's Tourism Competitiveness*, Tourism Industry Association of Canada, 2008
[4] According to the airport authority in press statements
[5] Airline Schedule Changes at 300 U.S. Airports, USAToday.com
[6] Fuel excise taxes in excess of $100 million, as estimated by the Air Transport Association of Canada. The Air Travellers Security Charge traditionally has brought in more revenue than rent, but these are funds that are supposed to be allocated to a service - airport security.
[7] *2007 Pre-Budget Submission of the International Air Transport Association*