



Remarks before the Senate Committee on Transportation and Communications Study of Emerging Issues in the Airline Industry

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Remarks:

Ladies and gentlemen of the Senate, thank you for the opportunity to address you this evening on your timely study of emerging issues in the airline industry. We have followed the testimony taking place over the past few weeks with great interest.

The Canadian Airports Council represents the airports sector in Canada on common areas of industry concern. CAC member airports create in excess of \$45 billion in economic activity in the communities they serve. And more than 200,000 jobs are directly associated with CAC member airports, generating a payroll of more than \$8 billion annually.

We are a very diverse group. Our membership includes 47 organizations that operate more than 200 airports throughout Canada, including all 26 National Airports System airports. Our members operate the

largest airports in the country. This includes airports with which you are undoubtedly very familiar such as Toronto's Pearson International Airport. I am joined today by Lloyd McCoomb, who is President and CEO of the Greater Toronto Airports Authority and also Chair of our Large Airports Caucus.

The CAC includes all sizes of airports; such as Saskatoon. In addition to being Chair of the CAC, I also am President and CEO of the Saskatoon Airport Authority. Our membership includes all geographical areas of Canada including the three territorial governments.

I am joined also by the CAC's Vice Chair, Tom Ruth, who operates Halifax International Airport, an important airport in Atlantic Canada.

Airports agree that this is a very timely study of aviation in Canada. Aviation is a complex industry and we are just one segment in a value chain that comes together to make up the traveller's experience from origin to destination. It is a role we take very seriously.

Airports across Canada are striving to be as competitive as possible to meet the needs of our local, provincial and national economies. When I speak about competitiveness, I mean more than just costs. To be truly competitive, airports need to be safe and secure, we need facilities that work, we need to have processes in place to efficiently move people and goods, and we need to satisfy our customers with excellent customer service. Sure, costs matter, but they are only part of the competitiveness story.

This is why airports in Canada have invested more than \$14 billion in capital infrastructure commitments since the devolution of airports began in 1992. In fact, we rank first in the world in airport infrastructure according to the World Economic Forum's annual report on travel and tourism

competitiveness. At a time when communities across this country find themselves challenged by transportation infrastructure deficits, Canada has new, modern and efficient airports to support economic activity and extend Canada's global reach.

These investments have been financially funded not by government, however, but by air travellers through Airport Improvement Fees and this has an impact on ticket costs. We also must remember that, like all transportation infrastructure, airports have continual capital investment needs. Our NAS airports pay rent to the federal government but have few if any federal funding opportunities under programs such as the recent high profile stimulus programs. This isn't true for other modes of transportation in Canada.

As governments, businesses and ordinary Canadians work to recover from the recent economic downturn, airports find themselves equally challenged to recover from drops in business activity that occurred in 2009. We operate like any other business, only with an obligation to reinvest any surpluses we generate back into the airport. But I am pleased to report that aviation traffic across Canada is rebounding and we are seeing very positive growth, especially in the international sectors.

Our industry has some particular challenges. As we saw our traffic numbers fall, we also were increasingly challenged to maintain vigilance to address security issues and deliver a high level of customer service to continue to attract passengers and airlines that have a multitude of choices about where to fly.

You have heard many questions during these hearings about the passenger experience. Airports are keenly aware that travellers have high expectations, and we are very focused on customer service and working hard to satisfy the expectations of our customers.

When it takes a long time for a suitcase to reach the baggage carousel, the passenger doesn't care that it was an airline employee responsible for delivering that bag. She just cares that the bag was late at a particular airport. When a traveller faces a long line at customs or pre-board screening, he doesn't care that government agencies are performing these roles, only that the lines are long at another particular airport.

Travellers care about the quality of the whole experience. That's one of the reasons why we have made the capital investments that we have made to our facilities. We want our travellers to be proud of the airports in their communities. We want them to be comfortable and entertained. We provide restaurants and retail options unmatched from just a few years ago. By providing the retail options that people are looking for, we also generate millions of dollars in revenue each year – revenue that goes to offset the charges paid by air carriers.

As you can imagine many of the factors that impact the passenger experience are outside of our direct control. That doesn't mean we absolve ourselves of responsibility to our customers in these areas. Quite the contrary, we work closely with air carriers and with the two federal agencies with a significant impact on the passenger experience – the Canadian Air Transport Security Authority and the Canada Border Services Agency.

Airports are international borders and we work with CBSA on a host of programs to improve the passenger experience. We now have NEXUS terminals at the eight largest airports and are seeking to have that network expanded. Vancouver Airport Authority and CBSA are piloting an initiative that allows most Canadian passport holders to submit to an automated process that uses innovative technology to re-enter Canada.”

These are great programs with a lot of potential to improve the passenger experience in the coming years.

Security can be a particular irritant to the passenger experience. In the post 9-11 environment we have seen an ever changing array of security measures put in place to keep us safe. Many of these take place behind the scenes and are never seen by the public. Many others, particularly those put in place following terrorist-related incidents in 2001, 2006 and last December, have a significant impact on the travel experience. As I said, we work closely with CATSA and the regulator, Transport Canada, to offer a safe and secure environment while mitigating the impact of these measures on the passenger experience as best as possible. The services provided by the airlines and government agencies impact a travellers’ experience and we need to work collaboratively to ensure that processes are safe, effective and customer-oriented.

As I have said, CAC members operate a diverse network of airports across the country. What is right for Toronto Pearson will not be the same as what my community needs for Saskatoon. One size does not fit all. We need to look at how we treat our gateway airports so that these airports can not only thrive, but also support and feed traffic to other airports in the

Canadian system. Similarly, we need to look at how we treat our medium and small airports to ensure that they are thriving and meet the aviation needs of their communities. Together with government, we can develop a new set of principles that will allow all of Canada's airports to better compete in the future. We recognize that such a solution also needs to represent the right formula for tax payers as well.

We are working with the Minister of Transport to propose ways to improve the system and participated in a recent review of CATSA by the Minister of State for Transport. One size does not fit all when it comes to the provision of aviation security. For Saskatoon, for example, the system works fairly well, while some larger airports seek significant reform. My colleague Lloyd can speak to you in greater detail about how the events last December greatly impacted travellers through Toronto Pearson over the busy Christmas months. Collectively, we need to do a better job at coordinating how changes in security or other processes are implemented at airports, and airport authorities have the right vantage point to play a leadership role in this regard. We need to be innovative and use new ways of thinking to address today's challenges.

Beyond offering excellent customer service, Canada's airports need to be able to compete on the basis of costs. And, we accept that airport authorities have a role to play in ensuring the cost competitiveness of the system. In the past number of years, we have taken steps to do what we can to reduce cost. We will continue to work hard to improve our cost competitiveness.

Under the current airport model, the AIF is the primary mechanism we have for paying for the airport infrastructure investments we have made. It is important to note that these investments have been made in complete consultation with air carriers. Both locally and nationally, we work very closely with our air carriers because we accept that we have a shared responsibility in serving our communities and our air travellers. With air carriers in particular, we enjoy a very collaborative relationship. We don't always see things exactly the same way but we work closely with our carrier representatives in the community. We also work with them nationally through the National Airlines Council of Canada and the Air Transport Association of Canada. We appreciate their supportive comments expressed during these hearings so far.

We know you have heard from our colleagues at the nation's air carriers who are losing passengers to airlines able to offer lower cost tickets south of the border. We share their concerns. It is very difficult to calculate the extent of this passenger leakage. We don't have the hard data, but we estimate it could be as high as 2 million Canadians¹ flying through airports like Bangor, Plattsburgh, Buffalo, Grand Forks, Minot, Bellingham and others. To put this into context, that's equal to an airport somewhere between the size of Halifax and Edmonton.

While airports can and will work vigilantly to reduce the costs within their control and seek new revenue streams, many of the costs facing airports are outside our control. The Air Traveller Security charge, airport rent, fuel taxes, the harmonized sales tax – these all add to the cost of the ticket, as does the Airport Improvement Fee. These are costs that the

Americans do not impose on travellers to the same extent, if at all. We need to work more closely with government to ensure that these fees and charges are fair and reasonable and do not unduly hamper the economic activity that's required to pull Canada out of recession and put us on the path of full economic recovery.

Finally, we have heard you ask questions about airport governance and accountability. The leases in place between the federal government and airports outline clear requirements in both of these areas. Airport leaders like Lloyd, Tom and I report to boards of directors with local representatives nominated by federal, provincial, and municipal governments and local community based groups. Our financials are published every year in annual reports. We consult on changes to fees, capital investment programs and master planning and terminal design.

In closing, in Canada we have been fortunate to have developed a modern system of airports without relying upon public resources. Our airports policy is one that served its purpose but we think its time to reassess our approach. It is time for the current successful Airport model to evolve to the next stage.

Thank you once again for the opportunity to participate in this important and timely study of the aviation industry. We are pleased to answer any questions you may have.

¹ The estimate is 4 million enplaned/deplaned passengers. Accordingly I cut it in half