CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

Presentation to the Standing Committee on Finance

This time last year, the Canadian Airports Council addressed the standing committee with our five-point plan for airport competitiveness. Over the months since, we have made significant progress in a few areas.

Most notably, we have secured a new international air policy. We believe, as it is implemented the government's Blue Sky policy will increase opportunities for our members and level part of the competitive imbalance that Canada's airports currently face in securing new service from international air carriers that enjoy far more liberalized access to U.S. airports.

One year later, however, the competitiveness of Canada's airports, and indeed of Canada itself, is as important as ever. We agreed with your colleagues at the Standing Committee on International Trade when they said that Canada should be pursuing more liberalized air agreements. Canadian communities and businesses will benefit from increased trade and tourism.

At the same time, however, it will become increasingly evident that Canada is competing in a global economy and that Canada's aviation sector must be globally competitive. That's why we also agreed with the Standing Committee on International Trade when it said, as one of Canada's 10 steps to a better trade policy, that Canada should improve its domestic policy to help Canadian companies compete globally.

Airport Competitiveness

Perhaps nowhere does this apply more than in the imposition of airport rent. Of all of the countries in the world, we are aware of only two small countries in South America that charge airport rent. Most notably, airports in the U.S. to our south not only do not pay rent, and pay no municipal property taxes and they benefit from federal and municipal funds to cover their infrastructure needs.

Canada's airports compete with U.S. airports in two very important ways. They compete with airports in the U.S., and indeed with airports around the world, in securing service from the air carriers of the world. Airlines today have many options open to them when it comes to deciding which markets warrant their attention. If an airport in Canada is more expensive to service than a similarly sized market elsewhere, the Canadian airport is at a competitive disadvantage.

Meanwhile, for many of our member airports near the border with the U.S., the competitive nature of air service is even more obvious. About 1.7 million Canadian travellers each year travel through Buffalo Niagara International Airport in upstate New York, for example. That is one third of Buffalo's 5 million passengers and the airport is getting ready to expand.

Why are these Canadian travellers choosing Buffalo? Because Buffalo is able to offer services to air carriers at a lower cost and they, in turn, pass the savings on to the consumer.

The same phenomenon takes place in Bellingham, Washington, which is not far from Vancouver. And a brand new airport in Plattsburgh, New York is preparing to do the same thing again to Montréal.

This is happening because U.S. airports enjoy a cost advantage. According to the World Economic Forum, Canada ranks 7th in the world in terms of tourism competitiveness, but due to factors such as rent, taxation levels and the excise tax on aviation fuel, Canada is ranked 110th (out of 124 countries) in terms of price competitiveness.

Rent is one of the biggest expenses that Canadian airports have to pass on to air carriers and their passengers. According to the World Economic Forum, Canada ranks 7th in the world in terms of tourism competitiveness, but due to factors such as rent, taxation levels and the excise tax on aviation fuel, Canada is ranked 110th (out of 124 countries) in terms of price competitiveness.

Canada's airports will pay just under $300 million this year in rent. To-date they have paid back more than $2.5 billion in rent on assets worth $2 billion at the time of transfer. And at the same time Canada's biggest airports have invested more than $9 billion in improving and expanding their infrastructure in order to keep up with the tremendous growth in traffic we have witnessed. These investments were all made without government support.

Canada's airports believe that rent should be eliminated. However, as an interim measure, the definition of revenue that is used to calculate rent should be reformed. Specifically, Airport Improvement Fees and revenue raised to cover debt servicing costs should be excluded from the total revenue used to calculate rent. As currently written, the definition punishes airports for making the very capital infrastructure investments that were tasked to them under Canada's National Airports Policy.

With this simple change, we estimate that Canada's airports would save millions – including $31 million at Toronto Pearson alone. To put it another way, changing the definition of rent would save Pearson just under 8% of the money it needs to charge in landing fees.

Airports Capital Assistance Program

For our smallest airports, a little government support is needed to support the essential role airports have in Canada's smaller communities. The federal Airports Capital Assistance Program (ACAP) is underfunded and oversubscribed. Yet the role of the airport to many of Canada's smaller communities cannot be overstated – they are essential economic links to the outside world. They enable community businesses to trade globally and compete in the worldwide market for tourism.

One need only look to Deer Lake, Newfoundland for an example of how a community's airport helps them compete globally. In Newfoundland's rugged West Coast, Deer Lake decided to invest in its tourism sector. By building upon the region's natural beauty and making sure that its tourism infrastructure was in place, the community now enjoys an international reputation. European charter flights now bring in thousands of visitors who contribute millions of dollars to the local economy.

What is happening in Deer Lake is happening elsewhere in Canada. But in order for these communities to be successful in competing for the world's tourism dollars, the federal government's domestic policies need to support their objectives. When it comes to international tourists, this includes ensuring that the Canada Border Services Agency has adequate resources to perform its important job.

Economic Importance

In addition to continuing to invest in technology like NEXUS Air and E-Pil, which allows CBSA to do more with less, CBSA needs more staff to manage our borders at a time when more and more people are visiting Canada and contributing to our $67 billion tourism sector.

As part of this, the cost recovery approach must be re-evaluated. As we told you last year, Fredericton Airport pays out $250,000 per year for custom officials just to so that Fredericton and the surrounding communities can be serviced by one U.S. carrier. Fredericton is but one example.

Arrivals duty free is one area in which the federal government could quickly move to improve the competitiveness of Canada's airports without any cost to the federal government.

Simply by changing the rules on duty free to allow passengers to buy products upon both departure and arrival would allow Canadian airports to repatriate some $50 million in duty free sales that is lost mostly to foreign airports. We estimate allowing arrivals duty free would positively impact the federal treasury by about $3.2 million, in addition to creating about 340 jobs nationwide.

These are a few key areas in which we believe changes in domestic policy would greatly improve the competitiveness of Canada's airports. And this is good for Canada. Canada's airports create more than $35 billion in direct economic output, in addition to being an enabler of tourism and trade.

To put it into context, Toronto's cargo sector alone employs 16,000 people and generates $380 million in taxes. Every time a long-haul airliner lands in Calgary, it generates about $77,000 of annual labour income and $149,000 in GDP activity. Just one transborder flight from the U.S. into Regina over the course of a year can be credited for about 140 jobs and $10 million in GDP.

Conclusion

But improving the competitiveness of our airports also improves the competitiveness of Canada and Canadian business. A worldwide report for the International Air Transport Association 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 a long-term increase in productivity – and ultimately GDP – of 0.07% [point zero seven percent] 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.

To conclude, Canada's airports are an important part of the competitiveness of Canada in the world. They facilitate trade, connecting Canadians and Canadian business with our global markets.

But to fulfil their potential in this role, they need government domestic policy that recognises the importance of an even playing field for Canada's airports among their global competitors. At the CAC, we believe that with this equal footing, Canada's airports, and indeed Canada itself, are well positioned to lead.

Thank-you for your time.