CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

Federal Budget 2017: Submission to the House of Commons Standing Committee on Finance Pre-Budget Consultations

The Canadian Airports Council (CAC) has 50 members operating more than 100 airports across Canada, including all of the non-governmentally operated National Airports System (NAS) airports. The CAC was founded in 1992 after the control of airports was transferred from the Government of Canada to local airport authorities, which manage, operate and fund airports under long-term leases.

CAC member airports handle more than 90 per cent of the commercial air traffic in Canada, and an even greater share of international traffic. Canada's air transport sector employs more than 140,000 direct workers and generates about $35 billion in economic activity and contributes $7 billion in federal taxes.

The CAC and its members respectively submit the following considerations and requests for Budget 2017.

Helping Canadian Consumers, Business and Communities

As non-share capital corporations that operate on a not-for-profit basis, Canada's airports have as core to their mandates the provision of safe, secure, efficient, and quality air transportation services to their travellers, as well as support of economic development in the communities they serve. They operate on a commercial basis, like any other business, and have made significant investments in infrastructure to support growth in air services, as well as in non-aeronautical charges to offset charges to air carriers.

Central to the CAC's advocacy considerations are the needs of Canadian air travel consumers for leisure, work and family, as well as the communities and businesses that rely on strong air links. Airports seek measures to help grow their businesses and support travellers and communities in the following areas:

- **Facilitation of Passengers and Goods** – The federal government operates and funds security screening and border services at airports in Canada – two core services with a fundamental impact on the safe, secure, efficient, quality air travel experience in Canada.

- **Capital Funding for Small Airport Infrastructure** – The National Airports Policy has always recognised that airports with fewer than 600,000 passengers would have challenges self-funding both operations and their long-term infrastructure needs. However, existing programs no longer serve the needs of Canadian communities without some changes.

- **Cost of Air Travel/Airport Rent** – Canada has world class air transport infrastructure built through user fees, an approach that has served Canada well. A less rigid adherence to this approach, however, would improve Canada's cost competitiveness relative to the U.S. and other competitive markets.

- **Arrivals Duty Free** – Providing duty free sales upon arrival from an international trip would provide travellers with an improved level of service and repatriate tens of millions in sales lost to foreign duty free operators.

Facilitation of Passenger and Goods: Security Screening and Border Services

Security Screening

Security screening at 89 airports in Canada is currently provided by the Canadian Air Transport Security Authority – a crown corporation – and is to be funded by user fees generated through the Air Travellers Security Charge (ATSC). However, at peak travel times in Canada's primary gateway airports, waits in excess of an hour are occurring regularly.

That is why Canadian airports and air carriers continue to call on the government to enact a service level standard for Class 1 airports that would see 95 per cent of originating passengers screened within 10 minutes – much closer to world expectations with other large hub airports like London Heathrow and Hong Kong achieving even stricter standards. This is particularly important for Canadian airports and carriers competing on the global stage.

The Government of Canada must ensure that CATSA is funded and accountable to a predictable service level standard. The ATSC came into effect in 2002 to fund the air travel security system, including all of the functions performed by CATSA, but funds are not fully allocated to CATSA. Between 2010/11 and 2013/14, passenger numbers increased by 13 per cent and ATSC revenue increased by 10.3 per cent but CATSA funding decreased by 9.9 per cent. The travelling public is paying for a service, but in terms of the passenger experience they are not receiving value for money.

At the same time, government has approached industry about potentially downloading the financial and operational responsibility for the screening of "non-passengers" (i.e. airport workers) and their vehicles at an estimated impact to airports and their passengers of $150 million a year. In the interests of providing value to travellers and improving transparency, ATSC revenue should be fully dedicated to covering CATSA's complete mandate for Pre-Board Screening, Hold Baggage Screening, Non Passenger Screening (NPS & NPS-V) and Restricted Area Identification Cards.

In addition, the CAC also encourages the Government of Canada to proceed quickly with the financial investment required to deploy existing and new technologies and processes, such as CATSA Plus, that can vastly improve passenger throughput while lowering operating costs.

Border Services:

Aviation is an international business and Canadian airports and air carriers compete for the business of the domestic traveller, for international tourist dollars and for travellers who can choose to fly through Canada instead of other countries as a transit point to their primary destination. Canada's airports are experiencing record levels of passenger demand, but, long lines at the border can leave travellers frustrated: For those who have a choice about where to travel or connect, they will choose elsewhere if Canada cannot offer a predictable, consistent, quality experience.

Innovative programs and the use of technology have enabled the Canada Border Services Agency over the past few years to improve the level of service it provides air travellers, however, even with this approach, the strong growth in air travel has seen wait times at airport borders grow over the past year. Investments in technology, such as the Primary Inspection Kiosk, need to be made in a timely manner to ensure the experience doesn't deteriorate further.

Canada's airports request:

- ***Strengthen resources for Canada Border Services Agency to support growing demand on service as well as continued innovation through technology, such as the Primary Inspection Kiosk currently under development.***
- ***Institute comprehensive reforms to screening in Canada, including the establishment of service level standards at PBS and a funding mechanism that better matches screening resources to growing demand.***

Capital Funding for Small Airport Infrastructure

The National Airports Policy established that newly private National Airports System airports would be responsible for funding their own operating and capital costs. However, the NAP also recognised that airports with fewer than 600,000 would have challenges self-funding these with fewer revenue options available to them. This is the challenge shared by six NAS airports in this predicament who find themselves barred from most federal programs for infrastructure as a result of being on federal land.

The six small NAS airports in Charlottetown, Fredericton, Gander, London, Prince George and Saint John have pursued a change in this ban from federal programs for the past several years. The federal approach today is inconsistent, with communities served by NAS airports barred from programs freely available to airports with much larger traffic volumes but not burdened by NAS status.

The CAC was pleased to see a recommendation in the CTA review report to increase funding to ACAP, which has remained static for many years, as well as expanding eligibility to include lengthening and resurfacing runways but should not be limited to “remote and northern” airports. Expected new requirements for Runway End Safety Areas (at the end of each runway) will require millions in construction costs for airports affected.

Since the transfer of small airports began some 20 years ago, safety standards and regulations have changed significantly. The last two years alone have seen the unveiling of new aerodrome standards impacting future construction and new requirements for facilities to support the screening of airport workers and vehicles. Airports support initiatives designed to improve safety, but many of these standards did not exist when ACAP was first formulated. An update to the federal approach to funding airport infrastructure is timely and warranted.

Canada’s airports request:

- ***Develop an infrastructure funding vehicle for small NAS airports’ short/medium term needs to keep costs down at smaller airports.***
- ***Eliminate the eligibility ban on NAS airports participating in federal infrastructure funding programs.***
- ***Implement changes to Airports Capital Assistance Program to improve program accessibility and effectiveness in safety at small airports across the country.***
- ***Introduce a funding alternative (a new or existing program) for airports mandated to introduce a Runway End Safety Area.***

<u>Cost of Air Travel/Airport Rent</u>

For nearly 25 years, local airport authorities have been running, operating and funding their airports under long-term leases, investing more than $19-billion in airport improvements since 1992 with virtually no funding from taxpayers. This approach has allowed Canada to develop world class air transport infrastructure through user fees, however, this reliance on user funding is more strictly followed in Canada than in much of the world, where taxes pay for much more of the system.

While airports in the U.S. receive funds from government for infrastructure investments, airports in Canada instead provide funds to government. In 2015, NAS airports paid $323 million in airport rent – nearly $5 billion has been paid since the transfer of airports began in 1992. Airports also make big payments to municipal governments, and as they operate on a not-for-profit basis. Rent, municipal payments and any other additional costs are passed on to travellers, who also pay a high Air Travellers Security Charge and sales tax.

Together, a high level of fees and taxes impact consumers’ pockets directly, but the greater impact may be in stifling demand for new competitors expanding into Canada or launching new competitive air services within Canada. One would only need to look at U.S. low cost carriers that began flying to places outside the U.S. more than a decade ago, however, they still choose not to serve Canada citing high costs. Many U.S. carriers say they simply pick up Canadians at

U.S. border airports instead – with an estimated 5 million passengers that Canadian airports, air carriers and support service providers lose to the U.S.

This is why the CAC supports the CTA Review recommendation to phase out airport rent and draw on general government revenues in addition to user fees to fund some components of the system. In the very least, the formula for calculating rent should be reformed. As a tax on gross revenue today, rent impacts the way airports evaluate business opportunities and can serve as a deterrent to keep airports out of business lines with low margin financial returns as airports would have to pay as much as 12% from any revenue generated in rent that other businesses don't have to pay.

Airports also agree with increasing capital assistance to small airports, reducing the Air Travellers Security Charge (as long as there are alternative approaches to appropriately funding the screening function to support growing demand) and initiating discussions on cost competitiveness with the provinces, as they have a role to play.

Canada's airports request:

- ***Implement reforms to airport rent, such as a cap and/or changes to the rent formula, to better incent revenue diversification at airports, and lower over time, the impact on cost of air travel.***

Arrivals Duty Free

Air transport is truly a global industry and Canada's air sector must be able to provide globally competitive standards of service in order for airports to maximize their contribution to Canada's economic growth. One way to enable airports to generate more revenue would be to allow airports to offer duty free sales to international travellers as they arrive in Canada.

Arrivals Duty Free (ADF) is available in more than 50 countries around the world. The introduction of ADF would help Canadian duty free operators compete more effectively with their foreign counterparts that can sell on both departure and arrival. It would allow Canada's airports to repatriate about $100 million in overseas sales, generate close to 600 new direct and indirect jobs across Canada and deliver some $9 million in new tax revenue to the federal government.

Canada's airports request:

- ***Work with the provinces to introduce arrivals duty free, as expected by international travellers and in line with other jurisdictions around the world.***