House of Commons
CANADA

Standing Committee on Transport

TRAN • NUMBER 017 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Monday, February 14, 2005

Chair

The Honourable Roger Gallaway

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● (1535)

[*English*]

The Chair (Hon. Roger Gallaway (Sarnia—Lambton, Lib.)): I'd like to call this meeting to order.

We're a few minutes late because we've been waiting for some of our guests, our witnesses, today.

I'm not going to read all of their titles, but we have with us, Mr. Brandt, Mr. Dean, Ms. Gravitis-Beck, Ms. Pagliarello, and Mr. Barrette; it's from B to B, from one side to the other. I understand Ms. Dufour is on her way.

All of these witnesses are from Transport Canada and are charged with policy-making with respect to airports and air programs.

I understand, Ms. Beck, that you're going to lead off.

Mrs. Brigita Gravitis-Beck (Director General, Air Policy, Department of Transport): I'm happy to do so.

The Chair: Okay.

Try to keep your comments relatively within the 10-minute range, if you can. If you want to proceed, please do so.

Mrs. Brigita Gravitis-Beck: Thank you very much, Mr. Chair.

I'll introduce our approach very, very briefly, and hopefully, Valérie Dufour will join us in the course of our conversation.

We know that you are going to be heading out across the country to have a number of discussions with the airport community, and we thought the overview we could provide to you today on a number of key airport issues might be helpful as you begin that tour. It's with that in mind that we've prepared a couple of presentations that we hope to take you through fairly quickly. We recognize that you have about an hour's time for us, and we certainly want to give you enough time for questions as well as have an opportunity to brief you.

Rod Dean will take you through the first presentation that we propose. I'll turn the floor over to him.

Mr. Rod Dean (Director General, Airport Programs, Department of Transport): Thank you, Mr. Chairman.

I'm going to present the deck of slides entitled "Study of Canadian Airports: History, Context and Current Initiatives". I wanted to give you a bit of the context as to how we arrived at the airport situation we have today, some of the history of it. It will serve as a platform for some more specific discussions later on other subjects that you have expressed interest in.

If you look on page 2, you will see how the federal role in Canadian airports has evolved. As early as 1975, Transport Canada was studying the possibility of alternative ways of delivering airports for a variety of reasons. It wasn't until 1987 that the political and fiscal forces came into balance and the government actually published a policy document called *A Future Framework for the Management of Airports in Canada*.

Basically, it said two things, that Transport Canada would try to run airports in a more commercial fashion, but that it would also be open to discussions with local bodies who wanted to take over the management of airports. The policy was reactive. In other words, unless there was local interest expressed, the department would continue to operate the airports.

It's important to know that prior to 1992, Transport Canada owned, operated, or subsidized 149 airports in Canada. In 1992, four airports, Vancouver, Edmonton, Calgary, and Montreal, were actually transferred to local entities after three years of negotiation. That was, of course, under the 1987 policy framework. It was also enabled by the Airport Transfers (Miscellaneous Matters) Act, which was a piece of mechanistic legislation that dealt with things like employee transfer proposals, official languages, and subjects like that.

Now in 1994, the government approved a new policy called the national airports policy, which had many features similar to the 1987 policy, but it went further. It was a proactive policy that said the government would transfer the operation of airports to others for a variety of reasons. It was no longer reactive; it was now proactive, and there was a protocol you went through about who you would offer an airport to, provinces, municipalities, commissions, private enterprise, and so on and so forth. All of the subsequent transfers took place under that policy.

As of today we have 26 national airports system airports, which are leased to 21 airport authorities and one city. The others have been transferred to territorial governments. We have 63 regional/local airports that have been transferred either to municipalities or local commissions. Those are airports that handle scheduled passenger service but are smaller than the NAS airports. There are eight still under Transport Canada's umbrella that remain to be transferred.

Thirty small airports, which are airports that have no scheduled passenger service, have been transferred. We have one that's been decommissioned; it's actually under active disposal right now. Eight airports were transferred to the territorial governments. Those are the Arctic airports. We have thirteen remote airports, which are airports that serve communities with no other reliable year-round access. We continue to support those.

You had expressed interest in what the principles were for the NAS negotiations. We cover them on page 4. There were quite a few principles, but these are the most important ones. Airport authorities were required to offer government employees a minimum of two years of employment. Airport authorities were charged with maintaining all safety and security certifications. Transport Canada retained regulatory authority and enforcement powers for safety and security. Airport authorities would finance the operation, maintenance, and future development of their airports without further recourse to the federal government. So they're solely responsible for raising the revenues necessary to meet the demand on their individual airports.

Another principle was that airport authorities would pay rent that would result in fair value for the federal government, with appropriate consideration to the airport's future earning potential. We'll have more discussion on that shortly. There were no limits placed on the investments that airport authorities could make, subject to certain obligations in their ground leases. There was no regulation of pricing.

We've been on this road for about 15 years now, under two very similar policy frameworks. What has changed that has brought us to certain initiatives that we're embarked on today? One is that Transport Canada conducted a review of the implementation and the results of the first four NAS transfers, the four airports that went in 1992.

● (1540)

Commencing in late 1997, we launched a program to evaluate the results of those transfers, and we made certain observations during that review. The most basic observation was that the transfers were a great success; however, there were a couple of areas that caused a bit of concern.

The Auditor General also reported in 2000 and noted that TC could not demonstrate a consistent, uniform, and equitable basis for the determination of fair value in negotiating individual airport financial arrangements. Concerns about some apparent risks in the governance regime for airports were noted as well.

As a result of that report, the Standing Committee on Public Accounts made similar observations in 2001. Also in 2001, the government announced its intention to conduct a comprehensive review of the national airports rent policy—and that will be the discussion of a further deck this afternoon. At the same time, plans for airport legislation were announced. They resulted in Bill C-27, which ultimately died on the order paper.

I know the committee had also expressed some interest in small regional airports, so I just want to bring you up to date on those. Transport Canada has conducted a study of the financial state of small regional airports that were transferred. The report was released in September 2004 and it's available on our website. I want to make the point that not all of the divested airports participated in the study. We could only report on the ones that did actively participate.

Of those airports that participated, we found that 52% were generating operating surpluses. We also found that the vast majority of the airports transferred had either vastly reduced or eliminated operating deficits since the time of transfer. Basically we found that divestiture, in and of itself, had a neutral or positive effect on the airports' financial performance.

If an airport was running a deficit, it really didn't matter whether the government was running the airport or whether the community was running it. Chances were that it would be better with the community running it, but it would still have an operating deficit simply because all these airports had the same problem: a dwindling potential passenger base. Populations are declining, and if there are not enough people to buy tickets, you simply can't attract air carriers to support the airport.

Recently, federal, provincial, and territorial ministers agreed to work collaboratively to identify criteria to establish the mission of these airports. We need to determine once and for all what an airport's role or mission is if an airport does not have scheduled carrier service and can't attract scheduled carrier service. Perhaps that will lead us to what the ultimate viability solution for that airport may or may not be. That work is under way. The status report will be tabled with the provinces and territories in the spring of 2005.

You may be interested to note just a couple of key facts on that page. The population handled by the airports we're talking about here is 6% of the total passenger traffic in Canada. The other 94% of it travels through the national airport system. To highlight what the problem is at some of these airports, excluding remotes, where the passenger loads remain the same or actually go up, traffic at non-mass airports decreased by 23% between 1992 and 2002.

You should also be aware—and I'm sure you are—of the airports capital assistance program. The slide on page 8 describes the program as it exists today, so I won't go through the whole thing. You should know the program was recently renewed by Treasury Board for a further five-year period, up to 2010, and we're very happy about that.

And again on the subject of non-mass airports, on the last page I just wanted to show that the federal government has been very present in this enterprise of non-mass airports. We have actually provided more financial support than all of the other jurisdictions combined. I think the slide on the last page will show you the magnitude we're talking about. The total contributions since 1994 have been approximately $400 million. A quarter of that money came with contributions we negotiated at the time of transfer, and the rest has been ACAP.

With that general overview, we can go on to the next presentation or entertain questions at this point.

● (1545)

The Chair: What is the nature of the next presentation?

Mrs. Valérie Dufour (Senior Policy Advisor, Assistant Deputy Minister's Office, Policy Group, Department of Transport): Mr. Chairman, we had calculated that to give you a total picture, all our decks would take about 25 minutes.

The Chair: I think we'll move to questions at this point, having regard for the limit on time today. I'm certain that Mr. Gouk has questions.

Mr. Jim Gouk (British Columbia Southern Interior, CPC): Thank you, Mr. Chairman.

First, I want to go back to the main presentation you just did, the study of Canadian airports. On page 4, you talk about having the airports pay rents that result in fair value for the government, with consideration for the airports' future earning potential.

We've had airport authorities come before us who have testified that they have paid in rent to date more than the value of the airport at the time they took it over. By any stretch, would that constitute fair value in terms of rent?

Mrs. Brigita Gravitis-Beck: If I could respond to that question, the deck on airport rent will address some of that, but not entirely, in the sense that the purpose of our review was to determine a fair value for airport authorities to pay to government for the properties they manage on our behalf. One of the questions we looked at was the appropriateness of existing rent levels, their impact on competitiveness, and the viability of the airports. We've indicated as part of the package on airport rent—there is a list of 14 studies that were done, a substantial number of which dealt with valuation. So those questions were looked at in great depth, but they're not issues that we can bring to a bottom line with you today as a result of ongoing policy—

Mr. Jim Gouk: When you talk in terms of valuation of these studies, are you doing valuation at the time of the study?

Mrs. Brigita Gravitis-Beck: We're doing valuations based on forecast data provided to us by the airport authorities themselves over the 50-year period of the leases.

Mr. Jim Gouk: So you're talking of valuation in terms of potential income stream as opposed to valuation of the airport itself?

Mrs. Brigita Gravitis-Beck: We are looking at the forecasts for rents to be paid under existing formulae.

Mr. Jim Gouk: You're not answering my question.

Mrs. Brigita Gravitis-Beck: I'm sorry, I'm not understanding it.

Mr. Jim Gouk: My question is, is your valuation based on the value of the airport, and if so, is it the value at the time the study was done or is it based on the potential earning ability of the airport, given what they can charge and what they are charging?

Mrs. Brigita Gravitis-Beck: Both factors were taken into consideration.

Mr. Jim Gouk: Okay. In terms of valuation of the airport, it was at the time of the study?

Mrs. Brigita Gravitis-Beck: It includes values at the time of the study, correct.

Mr. Jim Gouk: This is wonderful. Transport Canada has collected more rent from a lot of these airports than the value of the airports at the time they took them over. They turned them over with crumbling infrastructure. These airport authorities are paying it as a leasehold improvement, and you take the value of what they provide and add it on to their rent base. That's quite astounding. I'm sure any commercial landlord would love to be able to apply that kind of rental formula. That's just absolutely astounding.

Mrs. Brigita Gravitis-Beck: We know there are difficulties and problems with the existing rent formula, and that was the premise for why we did the review in the first place.

Mr. Jim Gouk: Okay. Has the department made any kind of recommendation to the minister with regard to this committee's recommendation that rents be frozen until such time as this committee can enter its study—and presumably your studies can come in as well—to not continue to put it up even higher than it already is?

Mrs. Brigita Gravitis-Beck: The minister is very aware of the expressed view of the committee, that they would like to see a freeze on rents, and it is something that has been taken into consideration.

Mr. Jim Gouk: Has the department itself made any recommendations to the minister or given advice to the minister with regard to the concept of freezing rents?

● (1550)

Mrs. Brigita Gravitis-Beck: I can't get into the specific policy advice that we're giving to the minister because of confidentiality constraints, but I can tell you that all of the views we have heard with respect to the direction for future rents have been taken into consideration.

Mr. Jim Gouk: When you talk in terms of your other document dealing with airport rents specifically, on page 8 the last bullet talks about—

Mrs. Brigita Gravitis-Beck: Sorry, which deck are you now in?

Mr. Jim Gouk: That is your airport rents document—fiscal considerations on page 8—where again you talk about revenue streams expected to be provided. How can you quantify this in order to do a study, given that the airport can charge basically whatever it wants to charge? Every time you heap on a rental cost to the airport, the airport just raises everybody's rents, because they're a non-profit group. They have to raise the rents to recover enough money. So how can you quantify that to do a study and determine what the future rent stream is?

Mrs. Brigita Gravitis-Beck: We took into account the fact that rent is an important component of costs and a major driver of the costs that airports have to impose on their stakeholders—their carriers and eventually their passengers. That has been built into the assessment we've done as part of the policy review.

Mr. Jim Gouk: So you took into consideration the ability of the airport authority to just pass on costs, whatever they might be. They're able to squeeze, and you want your pound of flesh for whatever they manage to squeeze.

Mrs. Brigita Gravitis-Beck: We looked into what would be an appropriate fair value to the government as rent, and we took into account the fact that any rent the government does impose is passed on to carriers and to passengers.

Mr. Jim Gouk: Given that a lot of the airport infrastructure was in pretty bad shape when these airport authorities took them over, and given that the Department of Transport still retains ownership of these airports, along with any leasehold improvements, have they given any consideration to amending the formula in such a way that the value of what is invested by the airport authorities on behalf of the government would be given consideration in reduction of rents? Has that specific model been looked at?

Mrs. Brigita Gravitis-Beck: Again, we have looked at what would be a fair return to government. I'm not in a position today to talk about all the models or variants we looked at, but we have given the analysis a very thorough overview.

Mr. Jim Gouk: You mentioned the former Bill C-27, which had a provision in it that would essentially stop YVR as a corporation. YVR markets itself around the world in terms of its airport expertise. It would have essentially banned them from doing that; it would have cut off that revenue stream. Are you familiar with that provision in Bill C-27? What is the department's position with regard to the potential of its reappearance in a future bill?

Mrs. Valérie Dufour: I'm the project team leader for the future airports legislation, and I'm well aware of YVR's view of what was put in Bill C-27. We believe we put something in Bill C-27 that would allow considerable margin for Vancouver to continue investing, but there are a number of principles at the base of some limit on how much money generated by airport revenues from carriers and passengers a not-for-profit entity can actually take off the airport. The notion of a limit is not gone, but the concept put in Bill C-27 will be revisited.

Mr. Jim Gouk: I certainly hope it's revisited, because it's ridiculous to have a government that can arbitrarily raise the rents beyond any normal ability to pay, and expect them to pass that on, and then remove their ability to offset those charges through some innovative marketing of their technology.

My last question.... We'll be coming back, and I'd like to talk more about this. Actually, rather than get into it now, Mr. Chair, I'll waive and I'll start on it as a separate topic when we come around.

The Chair: Mr. Carrier.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Good morning.

The management of Aéroports de Montréal have been complaining recently about the excessive increase of their rent costs because of the importance of the airport in Dorval. Are you doing a specific study in order to solve that problem as soon as possible?

Mrs. Valérie Dufour: Of course, Mr. Carrier, we have studied the issue of rents in Montreal. We are studying anomalies and inconsistencies as those that ADM is experiencing. Our goal is to propose to the government new options that would eliminate all those anomalies from their agreements so that they pay a rent as fair and equitable as all others.

● (1555)

Mr. Robert Carrier: Thank you.

[*English*]

The Chair: Ms. Desjarlais.

Mrs. Bev Desjarlais (Churchill, NDP): Thank you. I have a couple of questions.

In regard to the airport authorities being able to get rental or leasing income from businesses on the airport lands, are there any restrictions built into the agreements signed with those airport authorities? Let's say, for instance, that the RCMP is operating a hangar at the Winnipeg airport and the airport authority says their lease time is up on the hangar, and either they're going to increase the rent for leasing that spot on the airport authority's land or they're gone. Are there any kinds of restrictions in the legislation to protect businesses that might have infrastructure on airport land?

Mr. Rod Dean: You complicate the question by making it the RCMP, which is a federal body.

Mrs. Bev Desjarlais: Okay. We'll look at both models, the complicated RCMP one and the not so complicated other business one.

Mr. Rod Dean: Federal government agencies have a right to be at the airport to the extent they provide services to the airport itself. The lease agreements clearly define that office space for a security inspector, for example, is provided free of charge by the airport authority.

It becomes a little less clear when it's a government agency that is not there to provide service to the airport but is there simply to provide service to the region. The usual model for that is that we attempt to have the government pay a reasonable amount of rent, because why should the passenger at that airport ultimately pay to support that if the service is not being consumed by that passenger?

Now, for non-federal transactions or typical commercial transactions, when we transferred an airport we assigned all of our rights in all existing leases and licences to the airport authority. They in turn assumed all of our obligations. So whatever the terms were of the lease that we had negotiated originally, they are extended then through the natural term or life of those lease agreements between the airport authority and the third party.

Once those expire, it's up to those two parties as private sector entities to negotiate whatever the commercial arrangement is that's to their mutual benefit.

Mrs. Bev Desjarlais: So there would be no restriction on those airport authorities then upping the rent by 100%?

Mr. Rod Dean: If there was a sound commercial basis for it, that could certainly happen. We don't expect to see just bloody minded monopolistic behaviour. I mean, if that's the market value of the property, then yes.

Mrs. Bev Desjarlais: Then the market value of the property would be based on, say, what that business might do outside the normal real estate property.

Mr. Rod Dean: Yes. Typically it's an appraised value of the property and the enterprise, and you apply a capitalization rate to it and come up with a rental formula.

Mrs. Bev Desjarlais: Okay.

In regard to the work that is done on the airports—and it's been mentioned that they've paid for this airport infrastructure a hundred times over—is it not paid for in a large way from the airport improvement fees that passengers are paying? So it's not as if the airport authorities are having to just come up with this money on their own; they're actually charging passengers, the Canadian taxpayers, for the improvements at the airport.

Mr. Rod Dean: Airport authorities are solely responsible for financing the operation and development of the airport. They can raise rent revenues any way they can.

They have a variety of revenue sources. There are aeronautical revenues they charge air carriers, landing fees, for example, and there are general terminal fees, and so on and so forth. There's an abundance of commercial revenues, depending on the size of the airport. One of the most lucrative sources at an airport is car parking, for example. There's also all of the land development that goes on, where they lease land—people put up hangars, or whatever the business happens to be.

Also, most of the airports—in fact all of them that I can think of—have instituted airport improvement fees, which are directed not at the intermediate customer but at the ultimate customer, the passenger. Typically those are used to finance things you can see, such as capital improvements. At a smaller airport, some of those might have to be used to offset operating deficits.

Mrs. Bev Desjarlais: So the bottom line, no matter how you look at it, is that the passenger or person using the airport is the one ultimately paying pretty much everything, because it's the parking fees.... You know what it's like when you're paying $8 to $30 a day for parking fees, depending on which airport you're at. You're paying the airport improvement fee, and I think you're sometimes paying the transfer fee now. I think there are some airports that are talking about having a transfer fee for going from one place to the other.

● (1600)

Mr. Rod Dean: It's a subset of an airport improvement fee.

Mrs. Valérie Dufour: Only Pearson has a connection fee.

Mrs. Bev Desjarlais: They count.

Ultimately it's the taxpayer that's paying, though.

Mrs. Valérie Dufour: No, it's the passenger. Make a distinction: it's the taxpayer.

Mrs. Bev Desjarlais: It's the passenger, that's fair enough. It's the passenger. It's just because I'm here representing Canadians that I'm thinking about the taxpayer.

Mr. Rod Dean: We would point out that 20 years ago it was the taxpayer as opposed to the user.

Mrs. Bev Desjarlais: Yes. Fair enough.

Again, I don't know how each and every country operates, but has any comparison been done in regard to rates that are charged out of other airports in other jurisdictions, such as the U.S. or other countries? How do they go about operating their airports?

Mrs. Maria Pagliarello (Director, National Airports Policy, Department of Transport): Maybe I'll take a stab at responding to that.

There are similarities and dissimilarities between Canada's airport model and other airport models around the world. By and large, what we found through our studies is that the Canadian airport model is unique. You're not going to find that many leased, not-for-profit models where the assets come back to the federal government at the end. Therefore, while the comparisons have been good, they have been limited in what we can compare.

We have looked at other fees and charges charged at other airports. But again, you have to take the entire economic context into account, including the regulatory regime and whether there are federal government subsidies going to those airports, etc., so it's very difficult to compare.

Mrs. Bev Desjarlais: Do I still have time?

The Chair: Yes.

Mrs. Bev Desjarlais: I recognize that it may vary from state to state, but if you were comparing to the U.S., what type of model would they use?

Mrs. Valérie Dufour: If you're going to focus on rates, the University of British Columbia does a benchmark study of 150 airports in the world. Vancouver is the second best airport in the world, by the UBC benchmark. Calgary and other airports figure extremely well, not only on rates, which are highly competitive, but also in terms of other services and offerings at the airport.

Mrs. Bev Desjarlais: If there is a study on this, is it possible to have it made available to us?

The Chair: Why don't you provide it to our clerk?

Mrs. Valérie Dufour: I'll have to find out. It's a purchasable piece from UBC.

The Chair: Do you have that somewhere in Transport Canada?

Mrs. Valérie Dufour: We have the summaries of it, sir. We don't have the runs.

The Chair: I think if you refer to it, you must have it.

Mrs. Valérie Dufour: Yes. We'll try to find something.

The Chair: Thank you, Ms. Desjarlais.

Mr. Scarpaleggia.

Mr. Francis Scarpaleggia (Lac-Saint-Louis, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Dean, for that excellent presentation. It was very clear. I certainly learned a lot from it.

I'd like to ask questions on things other than airport rents, in terms of airport administration.

I don't expect you to necessarily know this firsthand. You may have come to the department afterwards or to this particular group that you work in afterwards. But back in 1992 when some of the first airports were transferred to private entities, the government at that time set up boards of directors for the airport authorities and never thought of having one or two positions on the board of directors reserved for federal government representatives.

Mrs. Valérie Dufour: That's not the case, sir. There are federal reps.

Mr. Francis Scarpaleggia: There are now because the government, after 1993, realizing that this was not an acceptable situation and after negotiations with the airports, passed a law or regulation requiring representatives.

Mr. Rod Dean: You're absolutely correct.

Mr. Francis Scarpaleggia: I'm not saying you're responsible for the original decision, but I'm curious. What would lead a government to want to so totally wash its hands of running airports that it forgets to have at least a couple of representatives on the board?

My second question flows from that. Philosophically, why do we transfer airports to the private sector yet not transfer ports? I'm not saying that is a bad thing in all cases, but philosophically, what's the difference? They're both important national assets.

● (1605)

Mr. Rod Dean: On your first observation, you're quite right. For the first four airports under that particular policy framework, there was no federal representation on the board. For my sins, I have been in the department 27 years. I can only say at the time that the ethos was that it was completely at arm's length. These entities could run it better, smarter, and faster, and the less government interference the better. That was the idea at the time. That thinking has ultimately changed and continued to evolve. We're dealing with governance issues even today, but I can report that at this time all airport authorities have federal representatives on the board.

As for the comparison with ports, I'm not really an expert on the subject. Unlike airports, ports are not a discrete property in many cases. For an airport, you can draw a line around it and say this is the airport and everything outside is not. Ports are an amalgam. In many cases, they're a jigsaw puzzle of little pieces of federal property and private property, and in some cases water lots, which is a completely bizarre concept to me. They don't lend themselves to the same sort of instrument.

Also, Val, maybe you're more familiar with the whole issue of core and non-core activities. In some cases for core activities, they're considered to be agents of the Crown, but for non-core activities they are not, whereas an airport authority is not an agent of the Crown and it is not a joint venture; it is a commercial transaction between entities.

Mr. Francis Scarpaleggia: Could you elaborate on that last point? I'm not familiar with the concept of an agent of the Crown.

Mr. Rod Dean: An airport authority is not an agent of the Crown; in other words, there's no shared liability. Under the ground lease they are totally responsible for operating the airport.

Mr. Francis Scarpaleggia: And now we have independent airport authorities, but prior to that—

Mr. Rod Dean: Oh, prior to that they were ours. It wasn't a question of being an agent; they were ours. We ran them. I used to be an airport manager.

Mr. Francis Scarpaleggia: My third question has to do with rules governing the hours of landing and takeoff at airports. Is that within your purview?

Mr. Rod Dean: Not really. It's a matter for our safety folk, our regulatory side.

Mr. Francis Scarpaleggia: At Dorval airport we have an excellent management team, and they've done fabulous things with the airport. But we have a situation where on their own the airport authorities have set a curfew and then they violate the curfew, yet nowhere along the way do they have to report it to the government every time they violate a curfew and say why they've violated it.

Is it possible to create a system whereby, yes, the airport authority could set its own curfew, but perhaps that curfew could be analyzed by Transport Canada, and then whenever a flight landed outside that curfew, the airport authority would have to report why?

I think at the beginning the idea was, yes, we'll have a curfew, but if there's an emergency, we're not going to tell the plane captain he can't land. Now the violations of the curfew seem to be regular and for commercial reasons.

Is it a valid proposition to require, as part of airport governance, airport authorities to do that?

Mr. Rod Dean: Although I'm not an expert in the field, I'll tell you as much as I do know.

When we were operating these airports, we had our own noise management policies, which would say curfew is at such-and-such a time. However, there was a certain tolerance for exceptions or exemptions for a variety of predefined criteria. Obviously, emergency was one of them, but there were other criteria as well. We would tolerate a certain exception rate. You would say, okay, you're allowed 200 a year, 300 a year, or something like that, depending on the size of the operation, the volume of traffic involved.

When we transferred the airports, those noise management regimes were also transferred as an obligation to the airport authority. They had to assume the same rules Transport Canada was following at that airport. If they wanted to change them, they had to change them in consultation with the community through a noise management committee, and then the changes would have to be approved by the minister, whatever they were. That's the system all airports have been following ever since.

Within each of those regimes—and it's simply a follow-on from our standard operating procedure when we operated the airports—there will be a certain allowance for exceptions. There will be a certain tolerance within which they don't have to report. I stand to be corrected, but outside that, I believe, they do have to report.

● (1610)

Mr. Francis Scarpaleggia: Interesting. That's very informative.

Thank you very much.

The Chair: Mr. Gouk.

Oui.

[*Translation*]

Mr. Robert Carrier: Mr. Chairman, I would like an information. They still have two presentations to make. Will there be a question period after each presentation?

I wonder if everything can be done within the 20 minutes we have left.

[*English*]

The Chair: The problem is that today we only have one hour with these witnesses, and it was going to take half the time to hear the presentations. So we're going to proceed with further questions on deck one at this time, and we'll have an opportunity to have these witnesses back and to proceed to those further two decks.

[*Translation*]

Mr. Robert Carrier: The two other documents have not been presented yet; they might answer our questions.

[*English*]

The Chair: That's always a risk we run.

Go ahead, Mr. Gouk.

Mr. Jim Gouk: Thank you, Mr. Chairman.

I can assure the witnesses that I have read the other documents while I was listening to them as well, and I am going to go into some of those other areas, as I have already done. We will have them on record in any case.

I'd like to move more to regional airports. As you can well assume from what I've said already, I think the airport authorities are being ripped off big time. This is just an unbelievable cash windfall for the government. And then we move to regional airports, where the government has done it again.

They talk about 52% of the airports now reporting a surplus, which means 48% still aren't. Those are losses that were picked up by the federal government and that have now been downloaded to the smaller communities across this country. I have to tell you that I have a serious problem with that.

I'll use my airport as an example. It used to lose $500,000 a year. It's a small airport. Over 10 years, that's $5 million. In terms of government assistance for ACAP over the last 10 years, according to your document, $298 million was dispensed to 143 airports. That's $29.8 million a year for 143 airports. The government was losing far more than that in terms of running these airports.

One of my concerns is that some time ago the government was coming out with—and it was pushed very hard by the department—a new regulation called CAR 308. One of the ways in which a lot of airports, mine included, got rid of a lot of this debt that had been downloaded onto them, this deficit, was by taking on the airport firefighting services and meeting the requirements of Transport Canada by providing those services from their own fire departments in terms of meeting the rescue times and the response times. They found tremendous savings there. Then CAR 308 came back after they had assumed responsibility for these services, and the government said it changed its mind and wanted them to put these back on in a lot of these airports and wanted them to assume 100% of the costs.

I guess my first question would be why the government, Transport Canada, was so adamant about putting these back on after they had approved firefighting being taken off the airport provided that the response times were met, which they were by those communities. Why did they feel it would be justifiable to download this additional service back onto these small airports without picking up the costs themselves?

Mrs. Valérie Dufour: Again, Mr. Gouk, this is an area for the safety and security crowd. I'm not sure of the extent to which you're aware of how much the department pulled back from the original plan and the one that was gazetted but has never been promulgated. Therefore, for the time being, those concerns have not translated into a regulatory obligation. Before anything in the future happens, I believe you'll have further news from the department on CAR 308.

Mr. Jim Gouk: I like to nip things in the bud. If someone is threatening to cut my head off with a sword and they step back but still have the sword out, I'm still pretty nervous. That sword is still sitting there on the table, and we don't know at what point it's going to be wielded.

Mrs. Valérie Dufour: Okay, but for the record, the original proposal that caused so much concern affected some 200 airports. The last time I looked, it involved some 20 airports.

Mr. Jim Gouk: Just moving into the whole concept of ACAP, your document talks about $190 million over the next five years. This is what is programmed over the next five years for 189 airports, and that amounts to something less than $10 million a year for 189 airports. Am I correct that this is the figure?

● (1615)

Mr. Rod Dean: It's over five years, and it's an average of about $38 million a year. It's $190 million over five years, and that's the renewed program as of April 1.

Mr. Jim Gouk: So it would be $19 million.

Mr. Rod Dean: No, it's $38 million per year on average over five years. That gives you the $190 million.

Mr. Jim Gouk: So this is enhanced? It has been stepped up considerably?

Mr. Rod Dean: It's better than it was originally. It started at $175 million, and it has managed to creep up to $190 million, which doesn't exactly keep up with inflation but is better than going in the other direction.

Mr. Jim Gouk: As long as they don't have a lot of other costs that they have to pick up in the process.

Mr. Rod Dean: We're actually quite pleased with the performance of this program. By the time we get into next year, our reserve list of projects is probably going to be cut in half.

The Chair: Mr. Gouk, we'll have more time.

Madame St-Hilaire.

[*Translation*]

Ms. Caroline St-Hilaire (Longueuil—Pierre-Boucher, BQ): Thank you, Mr. Chairman.

I have three questions that might be dealt with in the presentations that were not made. If so, I shall come back later.

Madame Dufour, earlier, in answer to the question from my colleague about Dorval Airport, you mentioned some anomalies but I am not sure that I have understood correctly. In your document, you say that AAs would pay rent that would result in fair value. What do you consider a fair value taking into account that Mirabel is not what it should be?

Mrs. Valérie Dufour: ADM operates both airports. We do not make any judgment on what Mirabel should have been. However, ADM is responsible for what Mirabel is or will be. As concerns Mr. Carrier's question, as there are several rent formulas, we cannot say that the same regimen applies to everyone. This is why we undertook that review and we are attempting to establish some principles so that rents will be fair relatively to each other and to their larger responsibility.

Ms. Caroline St-Hilaire: When you talk about Montreal, are you talking only about Dorval or does it include Mirabel?

Mme Valérie Dufour: We are talking about ADM. This is an airport with a large mandate. So it is an airport authority which has a lease.

Ms. Caroline St-Hilaire: It is ADM's accountability that is of interest to us. How do you see it? Are you aware that it is difficult for members of Parliament to question ADM people about accountability? Have you made recommendations about it? I know that there are government representatives on the board. Are there one or three?

Mrs. Valérie Dufour: There are two federal and one provincial.

Ms. Caroline St-Hilaire: And also one municipal, I think.

Mme Valérie Dufour: Yes.

Ms. Caroline St-Hilaire: Did you make recommendations in order to have some control, some oversight on accountability?

Mrs. Valérie Dufour: Initially, there were some accountability guidelines included in an appendix to the lease. This document was entitled Public Accountability Principles. We recommend that part of that governance and accountability framework be included in legislation in which there would be a definition of accountability. To whom are we accountable? We are accountable to the community which is represented by designated entities: federal and provincial governments, local government organizations that are designated in the document, and some non-government organizations. A group of people should bring their various perspectives and abilities to the board of directors. There should be the usual accountability documents: an annual report, financial statements, an annual meeting, a stakeholders committee, consultations with users. All this should be part of that accountability framework.

● (1620)

[*English*]

The Chair: Mr. Gouk.

Mr. Jim Gouk: Thank you, Mr. Chair.

I think I'll move back to the national airports. We talked about the rents they pay and of course the costs they pass on in their potential revenue flows. I want to ask your position with regard to one of the things we're going to be looking at, and that's the other end of the story, the governance of the airport.

I think most of us would like to see airport rents decrease to a more reasonable level, but we expect that to be passed on to the airline industry, because that's where our concern is. It's not that we have a great concern for the airport authorities themselves; rather, it's what this does to the industry, because they do pass those costs on.

So if we reduce the rent on one end, we want to make sure that money does flow back into the airline industry to bring the costs to the industry down. There have to be some rules put in place for these airport authorities to provide some controls to ensure they don't, for example, build a Taj Mahal when something much more utilitarian might be quite appropriate.

Is there anything with regard to the contract, lease, or whatever you might want to call it, between Transport Canada and the airport authorities that would prevent that type of thing being put in place?

Has the department any thoughts on what types of things could be put in?

Mrs. Brigita Gravitis-Beck: The intent is certainly to make sure any benefits that might be generated by a rent reduction are passed on to consumers. The airports have made that commitment to us in writing, so that's one area of comfort.

We are considering whether that goes far enough and whether there are other things we can do in terms of ensuring flow-through of the benefit. Clearly, some of it's going to depend on how big it is. If it's minor, it may not be worth the administrative effort to look at what the flow-through impact is. If it's substantial, clearly there is an interest in making sure the flow-through is visible and achieves the benefit.

Mr. Jim Gouk: We're certainly hoping it's substantial.

Mrs. Brigita Gravitis-Beck: In terms of mechanisms, we are looking at whether we can use the lease. If there is any change in existing rent formulas, the lease would need to be opened to make that adjustment. At that time, we could consider any other minor adjustments or important administrative adjustments.

Mr. Jim Gouk: Okay.

Mrs. Valérie Dufour: I would go on, Mr. Gouk, to say that in the proposed legislation we would be looking at some very specific transparency obligations. You would be able to identify the amount of rent and how it played against the establishment of fees. We are not at the moment considering that we would actually legislate a way to do that. One of the reasons is because that would be a form of imposing a particular approach on the airports, and so far, to go back to the original idea of pushing them out the door, they have enjoyed freedom to decide how much rent they take from the airlines. They don't take 100% in most cases.

Mr. Jim Gouk: Overall, they have no decision-making in terms of how much total rent they take in terms of overall revenues, because they have to pay the bills, whatever those bills might be. They seem to have little control over that.

This committee made a recommendation to the minister that there be a moratorium on rent increases for this year. The minister said he agreed with that and would pass it on to the minister. What has actually happened? Did the rents go up when they were scheduled to increase in January? Did the rent increase that was scheduled take place?

Mrs. Brigita Gravitis-Beck: The rent increase that was scheduled to take place January 1 took place, minus the deferrals.

Mr. Jim Gouk: So our recommendation was ignored—by whoever, not by you. But it was ignored.

How much time do I have, Mr. Chairman?

● (1625)

The Chair: You have one minute left.

Mr. Jim Gouk: In one of your brochures on airport security... although we have CATSA, a crown corporation, now established, airport security still falls back to the prime responsibility of Transport Canada. What measures has Transport taken to ensure that CATSA is cost-effective in terms of the type of operation they have, the methodologies used?

I speak most specifically about having a frequent traveller pre-screening security card. It's being done, I believe, at eight airports in the United States right now. In terms of random checks, which is what that would amount to, we're already doing that for employees, everyone from window washers to concessionaires and whoever else is in there.

The argument can't be that we can't do it; we're already doing it. When are we going to do it for high-frequency travellers to cut down the backlog at security and cut down the costs of CATSA's operation, which again are passed on to the traveller?

The Chair: Mr. Brandt, we haven't heard from you yet.

Mr. Brion Brandt (Director, Policy, Security and Emergency Preparedness, Department of Transport): No, you haven't, Mr. Chairman.

On the two points, you're right, there is a non-passenger screening program in effect at airports. And with regard to what's referred to as registered types of traveller initiatives, CATSA is in the process of looking into that to see what kind of a proposal could be put forward, and we expect it should be considered in the near future.

Mr. Jim Gouk: Could you define “near future”?

Mr. Brion Brandt: We expect that within the next month or so we should have some additional information from them about the program.

Mr. Jim Gouk: Okay. Thank you.

The Chair: Mrs. Desjarlais, we really don't have five minutes, so if you could keep it brief, I'd appreciate it.

Mrs. Bev Desjarlais: Good luck.

The Auditor General in 2000 had noted concerns about the apparent risk in the governance regime for the airport authorities. As well, there have been questions about the oversight of how airport authorities were spending their dollars.

So I'm wondering whether or not there have been some stricter guidelines put in place, or if there are going to be lease changes or legislative changes, whether there would be more of a reflection of oversight.

I'm curious about whether or not there are any conflict of interest guidelines for airport authorities, such as representatives of airport authorities possibly getting contracts of work being done at the airport. Is there anything to deal with those kinds of issues that might come up?

Mrs. Valérie Dufour: Most of that would have been and is still intended to be in the legislative regime, which does include the conflict of interest issues you're dealing with. It does address the risks of governance by being clearer. It does go to the kind of disclosure that both you and Madame St-Hilaire were interested in—and that's the vehicle.

Rod may want to say something about this.

Mr. Rod Dean: I would just add that all of the airport authorities have bylaws. They have letters patent and bylaws today. They all include conflict of interest guidelines and code of conduct guidelines for directors and officers. What the legislation will do is make it a little more uniform across the population. All of them have conflict of interest and code of conduct guidelines.

Mrs. Bev Desjarlais: In regard to the safety and security—I forget how it's worded in here—it's still the responsibility of Transport Canada. I'm curious whether that applies to the safety of buildings. Say, for instance, there is an airport with a door that doesn't open and close properly and someone gets injured within the door. Is that the responsibility of Transport Canada or the airport authority?

I want to sneak one more question in that you can try to answer. In regard to the cost of RCMP who act as air marshals, is the cost of those RCMP officers out of CATSA funding or is it under a different funding?

Mr. Rod Dean: I'll go first, if I can remember the questions now.

When we say Transport Canada is responsible for safety and security, we're talking about aviation safety and security. That's aviation regulation and aerodrome security regulations. Now, that's not to say there isn't a presence in terms of what we would call occupational safety and health, which is what you're describing. Under the terms of the ground lease, the airport authority is responsible to the landlord to ensure the safety and security of individuals. Building codes, fire codes, all of those are property issues, so they're responsible under the ground lease for maintaining those standards. So that's the distinction there.

On the air marshal question, Brion will respond.

Mr. Brion Brandt: As far as the funding for aircraft protective officers go, there's an allocation for that, and CATSA is responsible for providing that funding to the RCMP. I'm not sure it's actually—

Mrs. Bev Desjarlais: If adopted, will the passengers be paying their security fee out of CATSA dollars or is it coming from elsewhere?

● (1630)

Mr. Brion Brandt: When it comes to how the air travellers' security charge is collected and administered and those sorts of things, that really is something that goes beyond Transport's responsibility in terms of how the funding is allocated.

Mrs. Bev Desjarlais: I just thought you would know, since we have a deck here on security and it listed all these things.

The Chair: That question you posed was answered by CATSA when they were here. That's my recollection.

Mrs. Bev Desjarlais: Okay. That's fine.

The Chair: Thank you for coming today. I'm sure we're going to see more of you before we've completed this. We've had a one-hour beginning, and I know there are many more questions around airports that all members of the committee will want to have an opportunity to ask as we progress along.

We'll suspend for three minutes. As we're going to go in camera, I'll ask those who are not entitled to be in the room to leave the room at this point.

[*Proceedings continue in camera*]

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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