

Pre-Budget Submission 2014

The CAC is the voice for Canada's airports community. Our 45 members represent more than 120 airports, including all of the privately operated National Airports System (NAS) airports and many municipal airports across Canada.

The largest of Canada's airports are independently operated by non-share capital corporations that are fully responsible for self-funding their operating and infrastructure costs, and balancing the needs and interests of the communities they serve. In 2012, Canada's air transportation industry had a \$34.9 billion economic footprint, supported 405,000 jobs, and contributed more than \$7 billion to federal revenues.

While there are a host of areas involving federal fiscal policy of interest to airports, including areas impacted by the ongoing federal cost recovery approach to aviation generally, we have elected to focus primarily on those items of an immediately urgent nature, including the provision of resources to security screening, infrastructure funding (particularly for smaller airports) and continued innovation in the provision of border services. A revenue initiative being concurrently pursued is that of permitting provinces so inclined to add duty free on arrival.

We would welcome the opportunity to appear before the committee when hearings begin.

Pre-Budget Submission 2014 at a Glance

Appropriate Funding for Effective and Efficient Security Screening

- Additional funds to CATSA pending structural review

Continued Support for Innovative Programs Facilitating International Travellers

- Funding to CBSA to expand Automated Border Clearance
- Funding to CBSA to expand trusted traveller program work

Infrastructure Funding Parity for NAS Airports

- Allow small National Airports System Airports to participate in the Airports Capital Assistance and Building Canada infrastructure programs
- Increased funding to support ACAP eligibility expansion

Arrivals Duty Free as Available Internationally

- A pilot program for duty free upon arrival for interested provinces

Appropriate Funding for Effective and Efficient Security Screening

*Consultation Themes: Ensuring prosperous and secure communities, including through support for infrastructure * Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization*

Consistent with the Government of Canada's "user-pay" approach to the air transportation industry, the pre-board security screening of passengers at Canadian airports is conducted by the Canadian Air Transport Security Authority (CATSA) and is paid for by the Air Travellers Security Charge (ATSC) applied to the passenger airfares.

Despite steady growth in passenger volumes year over year and the corresponding rise in ATSC revenue, we understand from CATSA that its budget has been cut significantly and is essentially frozen at 2010 levels. The compounding effect of increasing passenger volumes and decreasing CATSA resources is longer lines at airports across Canada, more missed flights, and more frustrated passengers.

This system should work on a straight forward cost recovery system that relies on the ATSC. We are told that at present the security charge is generating a surplus as an increasing number of air travellers are paying for services from CATSA while funding to the authority is reduced, resulting in reductions in service levels for passengers. According to Transport Canada 2014/2015 estimates, the ATSC will generate \$722 million and the total cost of aviation security (CATSA funding plus other security programs) will be \$648 million, leaving a surplus of \$74 million.

The CAC has been actively engaged with government, CATSA and the air carriers in the pursuit of efficiencies in the provision of screening services at airports. This work will continue. The CAC also will be working with the Canada Transportation Act review panel to look at the Canadian security screening structure, funding model, and regulatory regime. In the meantime, the federal budget should include a short term infusion of funding to provide relief for long security wait times at airports and provide consumers with direct value for their contribution to the ATSC.

Recommendation:

- ***Provide additional funds to CATSA for pre-board security screening pending a longer-term structural review of the screening function under the Canada Transportation Act review and/or other avenues.***

Continued Support for Innovative Programs Facilitating International Travellers

*Consultation Themes: Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization * Ensuring prosperous and secure communities, including through support for infrastructure * Maximizing the number and types of jobs for Canadians.*

The CAC supports ongoing work to improve the facilitation of legitimate travellers and goods at our air borders. Programs like the electronic travel authorization (eTA), Transit Without Visa (TWOV), Automated Border Control (ABC), and NEXUS have tremendous value/potential to ease the movement of travellers through our airports.

The CAC, which works actively with Citizenship and Immigration and Canada, Public Safety Canada, and the Canada Border Services Agency, continues to support investment in innovative technologies and programs that allow Canada to effectively and efficiently flow international travellers to, from, and through Canada. Unfortunately, these initiatives can take longer to reach their potential than they should due to a shortage of sufficient resources on the side of government.

The most prominent example of this is the roll-out of kiosks for “Automated Border Clearance.” Used by arriving Canadian passport holders to speed up the primary inspection process, the kiosks have been installed at the airports in Toronto, Montreal and Vancouver at significant capital investment by airport authorities out of their own budgets.

Comparable “Automated Passport Control” kiosks have been installed at U.S. pre-clearance facilities at some Canadian airports as well as at ports of entry within the United States, but both initial roll-out and subsequent expansion have occurred at a much quicker pace than in Canada– in part because the U.S. Customs and Border Protection service has more flexibility in technology and resources. As a result, at the U.S. border improvements to the traveller experience and resource savings for government are being realized much more quickly and dramatically.

Similar challenges have impacted technology and equipment upgrades to existing systems like the Nexus program for pre-screened frequent travellers, which has been another proven success story for the use of technology to better allocate CBSA resources on travellers who represent greater risk. Resources are also impacting the agency’s ability to better cooperate with international partners with similar trusted traveller programs.

Meanwhile, CBSA’s future vision for the primary inspection line proposes an even greater offloading onto airports of costs for back-end technology systems and maintenance – areas typically the financial responsibility for

government, both traditionally in Canada as well as in other countries around the world.

The offloading of costs cannot be viewed in isolation. It only serves to increase the cost of flying and widen the gap between taxes and fees imposed on U.S. vs Canadian air travelers, which have an economic impact on border communities and the tourism sector that Canada should start tackling more seriously.

Recommendations:

- ***Provide adequate funding to CBSA to strengthen and expand the footprint and eligible user populations for Automated Border Clearance at airports throughout Canada.***
- ***Provide adequate funding to CBSA to upgrade and strengthen technology and equipment supporting the Nexus program, and explore greater trusted traveller program cooperation with international partners.***

Infrastructure Funding Parity for NAS Airports

Consultation Theme: Ensuring prosperous and secure communities, including through support for infrastructure

Fair access to infrastructure funding is essential to the sustainability of some smaller airports and air service to smaller communities.

The government's recently announced New Building Canada Fund for infrastructure funding explicitly disqualifies National Airport System (NAS) airports from participation while allowing for participation by local and provincial governments, as well as private for-profit organizations and even U.S. local/state governments, in the case of certain border projects.

The exclusion of NAS airports appears arbitrary and unfair, given the eligibility of other airports (particularly private ones) and the job creating and revenue diversification nature of many airport projects. It also distorts the competitive playing field within the overall airports system. Canada's (self-financing) airports already compete with subsidized airports south of the border.

Meanwhile, under the Airports Capital Assistance Program (ACAP), a \$38 million funding program aimed at safety-related infrastructure programs at small airports, NAS airports are also excluded. Small regional airports with fewer than 500,000 annual passengers that are not part of NAS have access to ACAP.

The exclusion is especially challenging and frustrating for the five smaller NAS airports (Charlottetown, Fredericton, Gander, Saint John and Prince George) that have low (under 500,000) traffic volumes. Because of their size, location and overall traffic numbers it is challenging for these airports to generate the revenue needed just to keep pace with maintenance needs of existing infrastructure.

With a change to one line item in policy, these five small NAS airports would have access to the existing \$38 million in funding per year that currently ensures that 200 other small Canadian airports remain sustainable. This would allow the small NAS airports a level playing field to submit applications for funding along with others airports in Canada that have the same lower passenger levels.

Meanwhile, as the level of ACAP funding has not been increased in several years, its level should be reviewed and any expansion of eligibility criteria as recommended above should be accompanied by additional funds.

Recommendations:

- ***Change the Airports Capital Assistance Program (ACAP) to allow small National Airports System airports access to the existing funding program with other airports that have the same passenger traffic levels.***
- ***Provide additional funding of \$7-10 million to support any expanded eligibility ACAP program (or similar program).***
- ***Allow all airports access to federal government infrastructure funding programs, such as Building Canada, to allow airports to compete on merit for investment of public dollars.***

Arrivals Duty Free as Available Internationally

*Consultation Themes: Ensuring prosperous and secure communities, including through support for infrastructure * Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization * Improving Canada's taxation and regulatory regime * Maximizing the number and types of jobs for Canadians.*

An additional area being pursued at both the federal and provincial levels is the ability to offer duty free shopping to air travellers upon arrival – already in place at many major developed markets outside North America.

Currently federal restrictions limit the sale of goods duty free to immediately prior to departure from Canada. This stands in contrast to a host of

countries that provide travellers with duty free upon arrival. Their experience has been a success, demonstrating that offering duty free upon arrival primarily repatriates sales that otherwise would have been lost to foreign airports' departure duty free shops – allowing Canadian airports to benefit from this business instead.

Currently, the provinces of Alberta, British Columbia and Manitoba are supporting the introduction of ADF in their provinces. A coalition of like-minded organizations also is continuing discussions with other provinces.

Recommendations:

- ***Initiate a pilot program to allow for duty free upon arrival for provinces expressing interest in participating in such a program.***

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