

Submission to the House of Commons Standing Committee on Finance August 15th, 2008

Executive Summary

The House of Commons Standing Committee on Finance is soliciting recommendations on specific measures to be included in the forthcoming budget to ensure that Canadian businesses are competitive and our nation has the infrastructure required by citizens and businesses.

The Atlantic Canada Airports Association's (ACAA) recommendation relates to the competitiveness of the airport and airline industry across Canada with special emphasis on Atlantic Canada. Since airports are drivers of economic and social development, the competitiveness of our airports has a direct impact on the quality of life in our communities.

The airline industry is facing significant challenges, with rising fuel costs, environmental concerns and continually expanding security and safety regulations. The federal government is advised to do its part in removing some of the constraints that are limiting this industry from reaching its true economic potential. Federal government policies have put a significant burden on airports, airlines and ultimately passengers. **The ACAA is recommending that the federal government remove the burdens that are having a detrimental effect on the competitiveness of Atlantic Canada's airports and the airline industry.** More specifically, ACAA recommends that increased funding be allocated to the Canada Border Services Agency so that the agency can provide the human resources required to meet the needs of the traveling public at all Canadian airports, at no extra cost for after hours service. In addition, one of the biggest impediments to Canadian airports' growth is the imposition of a rent tax, which in 2007 drove just under \$300 million to the federal government. ACAA believes that rent should be eliminated as it would greatly improve the competitiveness of Canada's airports.

1.0 Background

The Atlantic Canada Airports Association appreciates the opportunity to present our views and recommendations to the Standing Committee on Finance regarding specific federal tax and spending measures to be included in Budget 2009.

ACAA is a not-for-profit body representing 13 airports in the Atlantic region including:

- Bathurst Regional Airport
- Charlottetown Airport
- Deer Lake Regional Airport
- Fredericton International Airport
- Halifax Stanfield International Airport
- Miramichi Airport
- Saint John Airport
- Stephenville International Airport

- Gander International Airport
- Goose Bay Airport
- Greater Moncton Airport
- St. John's International Airport
- Sydney Airport

Representatives of each provincial government and the federal government are associate members of the Association. ACAA speaks on behalf of the airport industry in the Atlantic region with a mandate to undertake on a region-wide basis collaborative action on policy issues and advocacy. The majority of ACAA member airports and the ACAA itself are also members of the Canadian Airports Council (CAC).

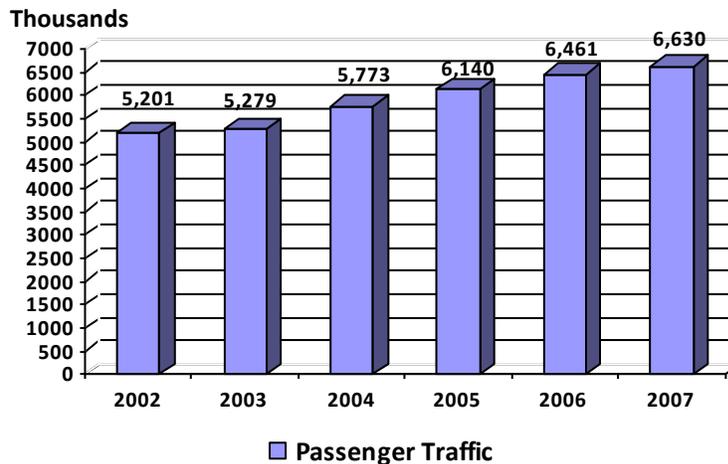
Seven of ACAA's member airports are part of the National Airport System (NAS). The 26 airports that comprise the NAS include airports in all national, provincial and territorial capitals and other strategic airports in Canada that were designated during the divestiture program. The NAS airports link the country from coast to coast to coast and internationally, and are considered essential to Canada's air transportation system, supporting both domestic prosperity and international competitiveness. The federal government maintains ownership of NAS airports; however, under the National Airports Policy, these airports are leased to local airport authorities who are responsible for financial and operational management of the airports.

The six non-NAS member airports of ACAA are regional or local airports which are owned and operated by local interests.

2.0 Airports are Economic Engines

The Atlantic region airports have rebounded since 9/11 and have been experiencing a steady growth in passenger traffic over the past six years. Over 6.6 million passengers passed through Atlantic Canada's airports in 2007. During this six year period there has been an average annual growth rate of 4.6%.

Atlantic Canada Airports Passenger Traffic (2002 – 2007)



The Atlantic region airports are significant economic generators. The economic impact of air passenger traffic through Atlantic Canada's major airports is 15,200 person years of employment, \$518 million in wages and a total of **\$2.4 billion in economic output**.¹

Airports are contributing to the Canadian economy and the federal fiscal treasury through job creation and by attracting tourism and investment to communities across Canada.

Although airports in the region have experienced positive growth over the past six years, airport operating and capital improvement costs have outpaced revenue streams. Since the transfer of airports from the federal government in 2000, **airports in Atlantic Canada have invested over \$368 million in capital improvements without government support**. For most airports, keeping up with infrastructure demands and safety requirements, while balancing the books is an ongoing fiscal challenge.

With the significant challenges that are facing the transportation sector today the global health of the airline industry is in jeopardy.

3.0 Airline Industry Challenges – Burden Imposed by Federal Government

Air access is a key factor in building business in particular the tourism industry. However, airlines continue to face a very difficult operating environment. The result is that major airlines, including both Canadian and US carriers have been either slow to increase capacity and in many cases are beginning to decrease capacity to a number of destinations.

With consistently rising fuel costs, challenging times lie ahead for the airline industry. Airlines are faced with the challenge of cutting costs, streamlining operations, while at the same time responding to tougher environmental regulations and reporting requirements.

Air Canada announced this spring they will be cutting 2,000 jobs and reducing their total system capacity by 7% in order to combat rising fuel costs.

In addition to record high fuel prices, Canadian carriers are forced to contend with federal and provincial fuel excise taxes, security fees and airport charges that are amongst the most expensive in the world today.

United States carriers have been hit even harder. High fuel prices, increased security and expanded regulations have been further compounded by a slowing US economy. Delta Air Lines and Northwest Airlines have both recorded multi-billion dollar losses for the first three months of 2008 and the near future is not looking any brighter.



¹ Intervistas; MariNova; TranSystems. "Atlantic Gateway Business Case, Executive Summary". September 2007

Canada needs a more competitive business environment in order to allow more carriers to respond to market demand for international and domestic air service. More air service is needed - not less. There are two main burdens being imposed on the airline industry by the federal government that are impacting airline and airport competitiveness today:

Customs Cost Recovery Fees: The Canada Border Services Agency (CBSA) has a significant impact on the ability of Atlantic Canada's airports to grow through the addition of international and transborder air service. The regions airports and the communities they serve need CBSA services to be provided in such a way that they keep up with demand. That is currently not the case. In many airports across the country with international service, CBSA provides customs service only at certain times of the day, or in some cases, not at all. If an international or transborder flight arrives at one of these airports outside the regularly scheduled hours during which CBSA provides service, the Agency implements a cost-recovery policy, whereby either the airline or the airport must absorb the costs for the CBSA customs service in order to allow passengers to enter the country.

The inconsistencies in the level of CBSA service and the cost-recovery policy greatly inhibit airport growth, economic development, tourism, and trade. CBSA service at ACAA member airports ranges from 24/7 service at Gander International Airport to no service at Deer Lake Regional Airport. In July of this year, CBSA announced expanded service at three airports in the Atlantic region including; Moncton, Charlottetown and Fredericton. Customs services at these three airports has improved from eight hours a day to sixteen hours a day. This is a great first step and ACAA applauds the Minister of Public Safety for recognizing the demand at these airports. However, there are still many inconsistencies with CBSA service across the region and more work needs to be done. The CBSA cost-recovery program is unfair to air travelers and the air transport industry as the federal government covers these costs for businesses and travelers using land border crossings.

Airport Rent: Canada's airports pay nearly \$300 million a year to the federal government in airport rent - a heavy financial burden for which these airports receive nothing in return. In 2007 in Atlantic Canada, the Halifax Stanfield International Airport paid \$ 4,093,000 and St. John's International Airport paid almost \$700,000. Rent is the largest expense that is passed on to airlines through airport landing fees. Canada is competing in a global economy and our aviation sector must be globally competitive. This is currently not the case, as Canada is one in only a handful of countries in the world today that collect rent from airports.

As gateways to the communities they serve, Atlantic Canada's airports have an integral role in furthering the economic prosperity of this country. In order to remain competitive, federal policies and programs should aim to facilitate and foster growth in this important sector.

4.0 Recommendation

The Standing Committee is seeking input from Canadians on specific measures to be implemented in the next budget that will ensure our businesses are competitive and our citizens and businesses have the infrastructure they require. The recommendation the ACAA is proposing will serve to increase the competitiveness of our airports and the airline industry and hence increase the economic development potential of the communities they serve and the quality of life for residents of those communities.

The ACAA recommends that the federal government remove the burdens that are having a detrimental effect on the competitiveness of Atlantic Canada's airports and the airline industry.

Given that customs is a federal responsibility, ACAA recommends that increased funding be allocated to the CBSA so that they can provide the human resources required to meet the needs of the traveling public at all Canadian airports, at no extra cost for after hours service.

The cost-recovery policy is a competitiveness issue, impacting the competitiveness of airports and the businesses within the communities they serve. It is essential that Canada Border Services Agency have the resources they require to adequately staff the needs of **all airports – large and small**. Airports are actively marketing their communities to airlines of the world and need to be able to provide border services to serve new flights at no additional cost to airports, airlines and passengers.

One of the biggest impediments to Canadian airports growth is the imposition of a rent tax. The airport rent tax places Canadian airports at a competitive disadvantage to U.S. airports and other modes of transportation. It also serves as a burden on the ability of an airport, and the community it serves, to further invest and expand on trade opportunities. ACAA recommends that the federal government implement a policy that would eliminate airport rent altogether. Airlines long-term viability hinges on being able to keep their costs competitive. Airports have committed to pass on to air carriers a significant portion of the savings from a reduction in rent to assist them in reducing their airport-related costs.

The Atlantic Canada Airports Association appreciates the opportunity to bring the issues and concerns of its members to the Standing Committee. We look forward to continuing an effective dialogue with parliamentarians with a view to creating sound public policy in support of our industry's international and transborder air accessibility and our region's quality of life.

