Atlantic Canada Airports Association

Association des Aéroports du Canada Atlantique

Submission to the House of Commons Standing Committee on Finance – Pre-budget Consultations

Atlantic Canada Airports Association
Pre-budget Submission 2017
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Stimulating Airports is Stimulating the Economy

Atlantic Canada Airports Association's (ACAA) is pleased to offer feedback to the Standing Committee on Finance regarding recommendations on federal tax and program spending measures that are needed to ensure economic prosperity and sustainability for Canadians. ACAA's recommendations relate to the competitiveness of airports and the airline industry across Canada with specific 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 Atlantic Canada Airports Association (ACAA) is a not-for-profit organization that 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. The ACAA represents 12 airports in the Atlantic region including:

- Bathurst Regional Airport
- Charlottetown Airport
- Deer Lake Regional Airport
- Fredericton International Airport
- Gander International Airport
- Goose Bay Airport
- Halifax Stanfield International Airport
- Greater Moncton International Airport
- Saint John Airport
- Stephenville Airport
- St. John's International Airport
- JA Douglas McCurdy Sydney Airport

While Atlantic Canada has a relatively modest population base of 2.3 million people, the region welcomes over 5 million visitors annually, making tourism an important sector and economic generator in Atlantic Canada. The region's airports move nearly 8 million passengers per year – more than 3 times the total population of the region - and that number has grown by 22% over the last decade. The regions airports are not only moving a substantial number of passengers and important cargo in and out of Atlantic Canada – they are moving the fly in/fly out workforce and enabling the growth of the regional economy. The regions airports generate over 3 billion dollars in economic activity every year, supporting 28,000 person years of employment.

ACAA has two recommendations for budget 2017 that would increase the competitive position of air transportation in Canada and in turn stimulate aviation and the economy.

Recommendation #1: Establish Infrastructure Funding for Small Airports – It is recommended that federal government increase the funding allotment and revise eligibility criteria to allow airports access to important safety funding programs and economic development stimulus funding programs. Small airports require stable and predictable funding to meet essential, safety related airside capital projects as the current Airports Capital Assistance Program (ACAP) is drastically underfunded and not meeting the needs of non-National Airport System (NAS) airports and NAS airports require eligibility for this program. In addition NAS airports require access to Build Canada funding for important projects that would enhance the economic development landscape of our communities.

Recommendation #2: Enhance Air Transportation Competitiveness by Phasing Out Airport Rent – It is recommended that the federal government phase out one of the biggest impediments to Canadian airports' growth, airport rent. While airports in the US receive funds from government, Canadian NAS airports paid $323 million in airport rent to the federal government in 2015. Our Canadian travellers are paying some of the highest taxes, fees and surcharges in the world and it is impeding growth. As a result of this, and higher than average overall airfares, we are preventing the introduction of low cost air carriers to our Canadian market.

Recommendations

The recommendations we are 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 Canadians.

Recommendation #1 – Increase Infrastructure Funding for Small Airports

Transport Canada developed the National Airports Policy (NAP) at the time of federal government transfer of airports to Canadian Airport Authorities (CAA's). This NAP framework defines the federal government's role with airports in Canada and that role is broken down into two main levels of federal involvement: nationally significant airports with regularly scheduled traffic that form the National Airport System (NAS) and regional/local airports that have scheduled traffic and are of regional and local significance, but are outside of the NAS criteria.

Under the existing Airports Capital Assistance Program there is insufficient funding to meet the demand of small regional/local airports. ACAP is pivotal in providing regional/local airports with access to funding to complete essential safety projects. Approximately 200 airports are eligible for ACAP funding and the $38 million available annually through the program is not meeting the safety requirements of these airports. Since 2000, the funding in this program has not changed, while the cost of doing business has risen considerably. A lot has changed since 2000; the cost of doing business has increased, flying is no longer a luxury mode of transport and has increasingly become a necessity to conduct business across the country and connect people and goods to global markets. As well a new market of fly in/fly out workers has contributed to the growth of aircraft movements at regional/local airports in Atlantic Canada.

The ACAP program exists to support airports with less than 600,000 passengers annually, but it excludes airports that are located on crown land. Although 6 small NAS airports across the country serve less than 600,000 passengers they are not eligible under existing ACAP parameters because the airport land is owned by the federal government and leased to Airport Authorities to operate. The fact that small NAS airports do not qualify for ACAP funding also presents a challenge, particularly in Atlantic Canada. These small NAS airports have significant capital expenditures and the revenue collected from traffic volumes is not sufficient to sustain their capital intensive assets. It is fair to say that at the time of transfer of the airport to the CAAs', the cost of these obligations and the required revenues to operate and maintain airports was not fully realized by anyone. While significant advancements have been made in growing passenger traffic and diversifying non-aeronautical revenues, smaller NAS airports are struggling to raise the necessary capital for infrastructure improvements to keep up with airside safety related projects. Runways, taxiways and aprons are becoming increasingly costly to maintain and upgrade. These airports require sustainable, predictable federal funding for essential, safety-related airside capital projects.

In addition to support required for safety related projects, airports require access to economic development infrastructure stimulus funds. Stimulus projects in Canada have mainly focused on the rehabilitation of existing assets such as water, wastewater, public transit, highways, roads, ports, ferries, harbours, parks, and trails. All worthy of investment, but we must ask ourselves; what about Canadian airport infrastructure? Are these assets, which stimulate billions of dollars in economic activity a year, important to our economic prosperity and also worthy of investment?

The challenge remains that NAS airports are not eligible for Build Canada Funding through either the Communities Component or the National Component.

The Canadian Transportation Act Review Report recommends an increase in the funding envelop for ACAP, as well as expanding eligibility to include lengthening and resurfacing runways. But this should not be limited to only “remote and northern” airports. Expected new requirements for Runway End Safety Areas (RESAs), at the end of each runway, will require millions in construction costs for some airports affected. Since the transfer of small airports began two decades 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.

Atlantic Canada Airports request:

- ✓ **Develop an infrastructure funding vehicle for small NAS airports immediate projects.**
- ✓ **Eliminate the eligibility ban on NAS airports participating in federal infrastructure funding programs for both ACAP and Build Canada.**
- ✓ **Implement changes to Airports Capital Assistance Program and increase funding to $75 million per year to improve program accessibility and effectiveness in safety at small airports across the country as per the ACAP Coalition recommendations.**
- ✓ **Introduce a funding alternative (a new or existing program) for airports mandated to introduce expanded Runway End Safety Areas.**

Recommendation #2 – Enhance Air Transportation Competitiveness by Phasing Out Airport Rent

It has become evident that the most significant challenge facing Canada’s aviation industry today is that it has become uncompetitive. **The price of flying in Canada is too high.** 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.

Canada’s aviation related federal fees and charges (many of which are on the user pay principle of cost recovery) include; Airport Improvement Fees/Passenger Facility Fees, Federal Fuel Tax, Air Traveller Security Charge, Payments in Lieu of Taxes to Municipal Governments, Air Navigation Charges, and Cascading GST/HST taxes.

Air access is a key factor in building business in particular the tourism industry. However, airlines are facing a very difficult operating environment and the result is that major airlines, particularly US carriers, have been decreasing capacity to a number of destinations.

Canada's airports pay $323 million a year to the federal government in airport rent - a heavy financial burden for which these airports receive nothing in return. In 2015 in Atlantic Canada, the Halifax Stanfield International Airport paid over $6.2 million and St. John's International Airport paid over $2.4 million. This year in 2016, five additional airports in Atlantic Canada are scheduled to begin paying rent, creating an additional financial burden, which will continue to grow over time.

Air transportation plays a unique role in Canada of subsidizing the government purse. In most countries, the reverse would almost always be the case. The result is that air travel is too expensive and we are therefore constraining air traffic and business growth and overall Canada is less competitive.

Rent is one of the largest expenses that is passed on to airlines and air travellers. 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.

The CTA Review report makes a 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.

Atlantic 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, with the goal of phasing out airport rent over time and lowering the impact on cost of air travel in Canada.**

ACAA 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.