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

Atlantic Canada Airports Association
Pre-budget Submission 2018
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Increasing Competitiveness of Air Travel in Atlantic Canada

Atlantic Canada Airports Association's (ACAA) is pleased to offer feedback to the Standing Committee on Finance regarding what federal measures would help create a more competitive and productive Atlantic Canada economy in order for business to thrive. 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 productivity of trade, business and tourism in our region and throughout the country.

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 region's 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. Atlantic airports generate over 4 billion dollars in economic activity every year, supporting 28,000 person years of employment.

ACAA has three recommendations for budget 2018 that would increase the competitive position of air transportation in Canada and in turn stimulate productivity in air travel, movement of people and goods and the overall economy.

Recommendation #1: Improve the System for Security Screening at Canadian Airports - Our hub and spoke air travel system connects travellers from one tip of our country through major hubs to their final destination. All travellers are impacted by delays and bottlenecks created in the system due to lack of funding resources and productivity. This not only impacts Canadian travellers, it impacts international travel and Canada's reputation on a world stage. Air travel is a competitive global business, so it is vital to improve the productivity of air travel security screening in our country, so our airports can compete on a global stage. Long-lines at security screening at Canada's airports is an issue that can be solved with proper resources, technology innovation and governance.

Recommendation #2: Increase Infrastructure Funding for Small Airports – It is recommended that federal government increase the funding allotment for airports to access important safety 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 the 200 airports across the country that require support.

Recommendation #3: Enhance Air Transportation Competitiveness by Phasing Out Airport Rent – It is recommended that the federal government cap and then 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 $344 million in airport rent to government in 2016. Our Canadian travellers are paying some of the highest taxes, fees and surcharges in the world and it is impeding growth and limiting the introduction of lower cost air carriers in 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 businesses and communities they serve.

Recommendation #1: Improve the System for Security Screening at Canadian Airports

The productivity of our aviation system is critically important to the movement of people domestically and internationally. Canada's image and the communities Canada's airports serve are negatively impacted when travellers meet long lines at security screening or at our air borders.

It is imperative that we raise service level standards for screening and reduce wait times without increasing fees charged to air travellers. This can be accomplished through a more productive system, improved service standards and adopting new innovations.

According to the Canadian Global Cities Council, "Canada has fallen behind global competitors and projected growth targets with its current 'one-size-fits all' screening model." Discussions are underway between industry and government on ways to restructure the service around a shared set of principles that include service level standards and a more nimble approach to funding the system. The goal is not only to improve screening wait times, but also to deliver a professional, facilitative customer experience, while continuing to provide a high degree of security.

Following are challenges that must be addressed:

- **Service Levels and Funding -** Airports and air carriers have invested billions of dollars into modern and energy efficient infrastructure and fleets. Unfortunately, funding for security screening and border services has not kept pace with passenger growth and demand, which is resulting in longer wait times for our passengers.

- **CASTA+** - The CATSA+ program adopts technology and procedural innovations proven in other parts of the world. To date, the program has only been partially deployed at some checkpoints at the four largest airports. CATSA+ is already helping airports manage summer travel volumes, but deployment to additional checkpoints at these and other airports is stalled pending additional funds.

Atlantic Canada's airports request government:

- ✓ Set a globally competitive service level standard for security screening in Canada.
- ✓ Expedite deployment of the CATSA+ screening technology at additional checkpoints and airports throughout Canada.
- ✓ Institute comprehensive, structural reforms to the delivery and funding of security screening of passengers, baggage, and industry workers ("non-passengers"), including the establishment of service level standards at Pre Board Screening and a funding mechanism that better matches screening resources.

Recommendation #2 – 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 (ACAP) administered by Transport Canada, 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 the year 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.

Despite the fact that Canada's Airports contribute over $344 million to the federal government in the form of airport rent, only a small fraction of that, less than 10% is being re-invested back into our hub and spoke airport infrastructure system through the ACAP program.

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.

The Canadian Transportation Act review report tabled in 2016 recommended an increase in the funding envelop for ACAP, as well as expanding eligibility to include lengthening and resurfacing runways. In addition, expected new requirements for Runway End Safety Areas (RESAs), at the end of each runway, will require millions in construction costs for airports affected. 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 safety infrastructure for small airports is timely and warranted.

Atlantic Canada Airports request government:

- ✓ 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.
- ✓ Introduce a funding alternative (a new or existing program) for airports mandated to introduce a Runway End Safety Area.

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

One of the more significant challenges 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; 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 and exporting our goods to international markets. 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 in Canada.

Canada's airports paid $344 million in rent in 2016 to the federal government - a heavy financial burden on this important mode of travel. In 2016 in Atlantic Canada, the Halifax Stanfield International Airport paid over $6.7 million and St. John's International Airport paid over $2.5 million. As well this past year, five additional airports in Atlantic Canada began paying rent, creating an additional financial burden, which will continue to grow over time for these smaller airports.

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.

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.

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 capped in the immediate term until a phase out system is incorporated.

Atlantic Canada's Airports request government:

- ✓ The elimination of rent for all airports with fewer than 3 million passengers – about $11 million of the $344 million paid last year.
- ✓ For larger airports, cap rent so that it no longer continues its upward trajectory, 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 productivity and competitiveness.