

SENATE



SÉNAT

CANADA

June 2012



# THE FUTURE OF CANADIAN AIR TRAVEL: TOLL BOOTH OR SPARK PLUG?

*Report on the Future Growth and Global Competitiveness of  
Canada's Airports*

Prepared for the Standing Senate Committee  
on Transport and Communications

The Honourable Dennis Dawson, *Chair*

The Honourable Stephen Greene, *Deputy Chair*





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Photos in this report provided by the airport authorities of the following airports:

Québec City Jean Lesage International Airport, Montreal-Trudeau International Airport, Toronto-Lester B. Pearson International Airport, Winnipeg-James Armstrong Richardson International Airport and Vancouver International Airport





## THE COMMITTEE

### 41<sup>ST</sup> PARLIAMENT, 1<sup>ST</sup> SESSION

The following Senators have participated in the study:

The Honourable Dennis Dawson, Chair of the Committee

The Honourable Stephen Greene, Deputy Chair of the Committee

and

#### The Honourable Senators:

Pierre-Hugues Boisvenu, Norman E. Doyle, Art Eggleton, P.C.,  
Michael L. MacDonald, Yonah Martin, Terry M. Mercer,  
Pana Merchant, Betty E. Unger, Josée Verner, P.C.,  
Rod A.A. Zimmer.

#### Ex-officio members of the Committee:

The Honourable Senators Marjory LeBreton, P.C. (or Claude Carignan) and James Cowan (or Claudette Tardif).

#### Other Senators who have participated on this study:

The Honourable Senators David Braley, Ethel M. Cochrane,  
Nicole Eaton, Francis Fox, P.C., Linda Frum, Ghislain Maltais,  
Fabian Manning, Elizabeth (Beth) Marshall, Jim Munson,  
Donald Neil Plett.

## ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Wednesday, June 15, 2011:

*“The Honourable Senator Dawson, pursuant to notice of June 14, 2011, moved:*

*That the Standing Senate Committee on Transport and Communications be authorized to examine and report on current on emerging issues related to the Canadian airline industry, including but not limited to:*

- (a) its performance and long-term viability in the changing global market;*
- (b) its place within Canada;*
- (c) its business relationship with their passengers; and*
- (d) its important economic effect in the Canadian communities where airport are located.*

*That the papers and evidence received and taken and work accomplished by the committee on this subject since the beginning of the Third Session of the Fortieth Parliament be referred to the committee; and*

*That the Committee report to the Senate from time to time, with a final report no later than June 28, 2012 and that the committee retain all powers necessary to publicize its findings until 180 days after the tabling of the final report.*

*The question being put on the motion, it was adopted.”*

Extract from the *Journals of the Senate* of Tuesday, March 27, 2012:

*“The Honourable Senator Dawson moved, seconded by the Honourable Senator Moore:*

*That, notwithstanding the Order of the Senate adopted on June 15, 2011, the date for the presentation of the final report by the Standing Senate Committee on Transport and Communications on emerging issues related to the Canadian airline industry be extended from June 28, 2012 to November 30, 2012.*

*The question being put on the motion, it was adopted.”*

Gary W. O'Brien  
Clerk of the Senate

## LIST OF WITNESSES AND SUBMISSIONS

Available on the web site:  
[www.senate-senat.ca/trcm.asp](http://www.senate-senat.ca/trcm.asp)



## TABLE OF CONTENTS

Executive Summary.....	1
Context.....	1
Canada Needs a Single, Cohesive National Air Travel Strategy.....	3
The National Airports System Needs to be Revised and Updated.....	5
Airport Ground Rents Should be Phased-out and Airport Ownership Transferred to Airport Authorities.....	7
Airport Connections and Transit Need to be Streamlined.....	13
Airport Governance is Working.....	14
Conclusion.....	15
Endnotes.....	16



## EXECUTIVE SUMMARY

Canada's vast land-mass, surrounded by oceans on three sides, and a population spread out across the country makes air travel essential for tourism, trade, business and connecting remote Canadian communities with the rest of the country and the world. Not surprisingly, the economic impact of Canada's airports is substantial. Airports generate over \$45 billion in economic activity, and airport operations provide over 200,000 jobs,<sup>1</sup> resulting in significant tax revenues for all levels of government.

Yet Canada's air travel industry has the potential to contribute more to Canada's overall economic growth. High costs and inefficiencies throughout the industry are deterring demand for air travel and discouraging competition among carriers. Canada's travel and tourism competitiveness ranking fell from fifth in 2009 to ninth in 2011.<sup>2</sup> Millions of Canadians are opting to drive to U.S. airports to take advantage of cheaper flights, rather than fly from their local Canadian airports.<sup>3</sup>

After hearing from dozens of witnesses over the past two years in connection with our study on emerging issues related to the Canadian airline industry,<sup>4</sup> the Standing Senate Committee on Transport and Communications ("the committee") has determined that Canada needs a single, cohesive National Air Travel Strategy, including an updated National Airports System, to chart a new course towards increased air travel in Canada. The Government of Canada should stop treating airports as a source of public revenue and start treating them as economic spark plugs. To this end, it should stop charging airports ground rent and transfer Canada's main airports to the authorities that already operate them. Finally, the federal government should use its influence to bring relevant stakeholders to the table to work out new policies and systems to address inefficiencies and continually improve the air travel experience in Canada.

These changes will position the Canadian air travel industry for growth, and put it on course to compete successfully in a future of increasing global air travel.

The committee is pleased to present this report on the future growth and global competitiveness of airports in Canada's National Airports System. Given the scope of the study's subject area, the committee will be issuing one or more further reports in the coming months covering different aspects of the Canadian airline industry, including the unique circumstances and challenges faced by small and regional airports.

## CONTEXT

In the 1970s and 1980s, Canada's airports system was strained because of rapid growth in air travel during the 1960s and 1970s combined with a deferral of investment in airport infrastructure.

Airports, owned and operated by the federal government, were inefficient and insufficiently responsive to local and regional needs.<sup>5</sup> One witness described the situation to the committee as follows:

I remember the terminal in Ottawa, for example, where you could hardly move. We had severe runway congestion in both Vancouver and Toronto with aircraft sometimes waiting as long as an hour. Runways were needed. We had hopelessly crowded terminals. In Vancouver during the Asian peak, it was almost impossible for people to get to their gate because there was too little space in the old terminal. At Toronto, Terminal 1 was falling apart and Terminal 2 needed major repairs and replacement. I remember arriving in the Edmonton airport, where once they had to turn off the escalator because the arrivals hall was so congested. It was discovered the Moncton airport had seven layers of roof, all rotting, and a runway that often could not be used because of damage. The Comox airport was underserved and had essentially what was almost a trailer for an airport terminal. Montreal and Edmonton had split their traffic into two airports; and their markets suffered as a result.<sup>6</sup>

Accordingly, in 1979, Transport Canada launched a Task Force on Airport Management to examine "the feasibility of implementing a new management structure for Canada's principal airports...".<sup>7</sup> The objective was to make "principal airport management more responsive to regional and local concerns, and at the same time [improve] overall managerial effectiveness and efficiency."<sup>8</sup> Ultimately, the Task Force recommended a significant change in airport management: autonomous airport commissions for each of the principal airports. The Task Force gave this approach "top ranking" on the grounds that it had "the highest potential for maximizing the degree of local autonomy and for reducing system costs."<sup>9</sup>



Little was done in response to the Task Force's actions.<sup>10</sup> However, a new government elected in 1984 following a deregulatory agenda revisited the issue of airport management with a new Airports Task Force, which reported in 1986.<sup>11</sup> This Task Force made five recommendations, including that the Minister of Transport:

- Be receptive to the establishment of local authorities;
- Retain the responsibility for safety and security within Transport Canada; and
- Retain the responsibility for air navigation, air regulation and certification of airports within Transport Canada as a separate entity from airport management.<sup>12</sup>

Building on the work of the 1986 Airports Task Force, the Minister of Transport released a policy<sup>13</sup> in 1987 inviting proposals for transfer of ownership and/or operations of federal airports to provinces, municipalities, local authorities, or the private sector (leasing only). In addition, the policy stated that airports “not transferred [would] remain the responsibility of Transport Canada’s Airports Authority Group,” which would “bring a more business-like approach to managing airports it retains... ”<sup>14</sup>

The next major development was the adoption of the *Airport Transfer (Miscellaneous Matters) Act*<sup>15</sup> in 1992, which allowed the Governor in Council to designate airport authorities to which airports would be transferred. That Act also addressed certain related matters prior to the transfers. For example, it provided for the transfer of pension benefits of airport employees, and it clarified the application of the *Official Languages Act* to airport authorities.

In 1992, Transport Canada reached agreements for the transfer of four of the five busiest airports in the country: Vancouver, Calgary, Edmonton and Montréal (comprising Dorval and Mirabel airports).<sup>16</sup> These airports were transferred to private, not-for-profit airport authorities pursuant to long-term leases. Because the government retained ownership of the airports, transfer agreements require that the airport authorities pay rent to the government.<sup>17</sup>

Two years after four of the major airports were transferred to airport authorities, in 1994, the government introduced the National Airports Policy (NAP).<sup>18</sup> At that time, Transport Canada either owned, operated or subsidized 150 of the 726 certified airports in Canada. The purpose of the NAP was to address “the absence of a clearly-defined policy for the operation and/

or funding of airports, [which had] led to ad hoc decisions.”<sup>19</sup> Under the NAP, the government resolved to:

- Retain ownership of the 26 busiest airports, which handled 94% of air passengers and cargo, but lease the airports to not-for-profit airport authorities to manage and operate;
- Transfer ownership of regional or local and other smaller airports to regional interests;
- Continue to support remote airports that service isolated communities; and
- Continue to regulate air services at all airports.<sup>20</sup>

Implementation of the NAP has led to Canada’s current airports system. The core network of 26 airports that currently handle 95% of air travellers are part of the National Airports System (NAS).<sup>21</sup> NAS airports include those in the national, provincial or territorial capital cities, as well as those airports that, at the time the NAS was created, handled 200,000 or more passengers each year. For the most part, the federal government owns the NAS airports,<sup>22</sup> which are locally operated by airport authorities under long-term leases with the Crown. Most NAS airports are now completely self-sufficient. In fact, they have generated \$2.5 billion in revenues for the federal government in the form of ground rents pursuant to their leases since they were transferred.<sup>23</sup>

Regional or local airports are those that handle scheduled passenger traffic, but are not in the NAS. They are important airports for the communities in which they operate. They connect passengers and cargo to the NAS network and on to the rest of the world. Under the NAP, regional and local airports were, for the most part, sold to local entities, usually for a nominal amount. Regional or local airports are eligible for



Toronto-Lester B. Pearson International Airport

federal funding under the Airports Capital Assistance Program, which provides assistance for safety-related capital projects, such as runways and taxiways.<sup>24</sup>

Under the NAP, arctic airports were transferred to territorial governments. The remaining airports, which are categorized as “small,” were mostly transferred to municipalities.<sup>25</sup>

In 2001, Canada’s air travel industry experienced dramatic changes in the wake of the September 11 terrorist attacks in the United States. The number of air travellers declined. At the same time, the cost of air travel increased as security-conscious Americans demanded new measures be taken. Canada established the Canadian Transportation Security Authority (CATSA), the Crown corporation responsible for delivering air travel security.<sup>26</sup> While this change fit well with the NAP’s privatization model, it also represented an increased cost to air travellers.

During its study of the Canadian airline industry, the committee heard various points of view as to whether the NAP has been successful; overall, most witnesses agreed that it has. NAS airports are financially responsible and accountable to their business partners and their communities.<sup>27</sup> Since the devolution began in 1992, Canadian airports have invested more than \$14 billion in capital infrastructure commitments.<sup>28</sup> Today, Canada’s air transport infrastructure is ranked first in the world according to the World Economic Forum.<sup>29</sup> In 2011, the Ottawa Macdonald-Cartier International Airport was named by the Airports Council International “the number one airport of all sizes in North America, and the number two airport in the world serving between 2 million and 5 million passengers annually.”<sup>30</sup>



*Montreal-Trudeau International Airport*

However, there is work still to be done. The committee heard from numerous witnesses who testified that Canada needs a National Air Travel Strategy that reflects the realities of the industry today. The committee was told that the high cost of flying in Canada is limiting potential economic growth. Canada’s tourism competitiveness ranking is falling.<sup>31</sup> Increasingly, Canadians are cross-border shopping for cheaper American flights.<sup>32</sup> Canada is missing opportunities to support its airports in competing internationally, thereby expanding air services and increasing trade.

As one witness succinctly put it:

Aviation is critical to growing the [...] economy, supporting jobs, enabling investment and facilitating trade. ... In these times of need for job creation and job protection, expanded air services offers a low cost, low risk, high reward way to grow and diversify our economy, allowing us to reach our full potential... .<sup>33</sup>

The committee agrees with a witness who testified that it is time to “fine-tune our airport model in Canada ... to support our communities and facilitate further economic growth in the region.”<sup>34</sup> The recommendations made in this report aim to help the Government of Canada build on past successes. The government needs to support Canadian airports in providing efficient and affordable services to travellers and business, which will generate increased economic activity benefitting all Canadians.

## CANADA NEEDS A SINGLE, COHESIVE NATIONAL AIR TRAVEL STRATEGY

### RECOMMENDATION 1:

The committee recommends that Transport Canada, together with the Department of Finance, bring all relevant stakeholders to the table to establish a National Air Travel Strategy to increase and facilitate air travel in Canada.

The committee heard expert testimony from witnesses throughout the industry. Those with a view to Canada’s competitive place in air travel around the world all had similar complaints: Canada’s air travel industry is loaded with high costs. There are a multitude





of divergent interests working at cross-purposes leading to inefficiencies throughout the industry. In short, air travel in Canada is not structured by the government to be an economic enabler; rather, it is treated as source for public revenue. The result of this is that the Canadian air travel industry is not well positioned to compete in the future in an increasingly competitive global air travel market. Worse, Canada's air travel industry is already contributing far less than its potential to Canada's overall economic growth, with serious problems manifesting in the Canadian market place— leakage to U.S. border airports being a symptom.

The committee heard that the poor positioning moving forward and current manifested problems are the result of inadequate direction and policy, in short, leadership areas well suited for government. This section, and our committee's first recommendation, is set squarely on government's policy towards air travel in Canada. It seeks to remedy the problem of how uncompetitive Canada has become when compared to other countries. More importantly though, this recommendation hopes to begin the process of positioning Canada's air travel industry for success in what will be a highly competitive future in this industry.

The same witnesses who brought their complaints before the committee also took their testimony one step further— they offered solutions. Witness after witness explained that Canada needs to respond to global competitive forces by directing and focusing our air travel policy in a specific way.

The International Air Transport Association offered the following direction to our committee:

On a broader scale, the main ask should be to sit around a table with the industry and work on a policy. We have been asking for that for too long, and it has been denied for too long. This is the time to look at what we contribute as an industry and how we can better utilize that towards growth in Canada. That is what we should be doing very quickly.<sup>35</sup>

Air Canada's representative stated:

...I would humbly suggest that the most critical outcome of the study in which you are currently engaged be a firm recommendation that the time has come for the Government of Canada to commit to the development of a single, cohesive policy framework that integrates Canada's aviation stakeholders into a united vision for the future.<sup>36</sup>

The committee agrees with these statements. Through the course of the committee's meetings, we have heard about an industry that is vital to the economic viability of our large country simply plodding along without any direction or purpose. This has impacted the industry and is in need of change.

Considering that the problems facing the industry threaten its vitality, its future growth and the future growth of the Canadian economy, a new National Air Travel Strategy is needed. This new strategy should focus on the needs of the industry and Canada going forward, and should be designed to address some of the problems the industry is currently facing. A new National Air Travel Strategy should set out a simple and coherent direction going forward. The actual statement of this direction is beyond the mandate of this committee. However, the committee would like to offer one piece of insight that it has heard through testimony. Those countries that have been successful in adopting air travel strategies have done so with a simple goal in mind. This goal was then used to measure, justify or deny further policy proposals within the industry. The strategies that are successful work to be a type of standard test, where any future decision must ask, "does this proposal aid in achieving the goal of our National Air Travel Strategy?"



Vancouver International Airport





Toronto-Lester B. Pearson International Airport

In many Caribbean nations, as well as Turkey, increasing and supporting tourism was established as a policy direction. The air industry is seen as an important component to this, and policy decisions are made with those guiding principles in mind. In the case of France, the country set out to make Paris Charles de Gaulle airport a global hub. They have been successful and their industry and national economy have benefited. The list of countries adopting a guiding direction is extensive and the results of this approach can be generally characterized as positive.

While it is beyond the mandate of this committee to recommend an actual strategy direction, the committee would suggest that simple is better when it comes to direction, and that the direction the strategy finally adopts must be well suited to our country. In the case of a country as large as Canada, where distances in the air are still measured in hours and distances on the road are measured in days, air travel seems a natural way for Canadians to travel. Yet, we have heard that we do not, on a per capita basis,

fly very often. Many people find it expensive. So, the committee would like to suggest a policy direction that might be appropriate for Canada: that our air travel strategy should have a simple and overarching goal of increased air traffic in Canada. While this is not a recommendation per se, and we wish to leave the full discretion to industry experts to articulate a goal for the industry, we humbly offer this one to consider.

## THE NATIONAL AIRPORTS SYSTEM NEEDS TO BE REVISED AND UPDATED

### RECOMMENDATION 2:

The committee recommends that Transport Canada revise and update the National Airports System. The updated system should:

- Support the goal of increasing air traffic in Canada;
- Focus on the needs of the industry and consumers, both domestic and international; and
- Treat airports equally, while taking into consideration their unique requirements.

One aspect that the National Air Travel Strategy should cover is the treatment of the airports within the National Airports System (NAS). During the 1990s when the NAS was established, 26 airports qualified to be within the NAS based upon either their traffic volume or the fact that they were located in a federal, provincial or territorial capital. As such, they were “considered essential to Canada’s air transportation system...”<sup>37</sup> The rest of the federal airports in Canada “were classified as part of a new regional or local system of airports, a sort of second tier.”<sup>38</sup>

**Table 1 – Passenger traffic at Canada’s large-volume airports (2010)**

Airport	Domestic	Transborder (United States)	Other International	Total
Toronto-Lester B. Pearson Intl. Airport	12,658,866	8,524,420	9,727,509	30,910,795
Vancouver International Airport	8,568,903	3,995,586	3,689,527	16,254,016
Montréal-Pierre Elliott Trudeau Intl. Airport	4,755,115	3,172,145	4,772,915	12,700,175
Calgary International Airport	8,144,009	2,389,193	1,241,574	11,774,776
Total	34,126,893	18,081,344	19,431,525	71,639,762
% of total Canadian air traffic	52%	82%	91%	66%
Total Canada	65,830,604	22,118,345	21,375,642	109,324,591

Source: Statistics Canada, *Air Carrier Traffic at Canadian Airports*, catalogue no 51-203-XWE, 2011.



There are a few key differences between NAS airports and regional or local airports that make the distinction significant, besides the prestige value of being an “essential” airport. First, most NAS airports are governed by independent airport authorities.<sup>39</sup> Governance is a “mixed bag”<sup>40</sup> of models at regional and local airports, which are operated by various types of entities. Second, with a few exceptions, NAS airports are financially autonomous. Rather than receiving money from the federal government, they are a source of revenue in the form of ground rent. In contrast, regional and local airports may receive federal funding for safety-related capital projects from the federal Airports Capital Assistance Program. Finally, revenues from NAS airports are tax exempt.<sup>41</sup> Regional and local airports do not enjoy this clarity on tax-exempt status.<sup>42</sup>

The NAS now has been in place for almost 20 years and has served Canada well. However, much has changed in the air travel industry during this time, and the NAS has not kept pace. For example, in the Fort McMurray area, a dramatic increase in investment in the oil sands has led to rapid growth in air travel in the area. The Fort McMurray airport has seen an increase in annual traffic from 102,000 passengers in 1999 to 775,000 currently. It did not meet the criteria to be in the NAS when it was transferred to the regional municipality. Today, it is the fifteenth busiest airport in the country.<sup>43</sup> The President and CEO of the Fort McMurray Airport Authority, Mr. Scott Clements, suggested to the committee that it is time to redefine “the parameters for determining what airports should constitute Canada’s National Airport System.”<sup>44</sup> He called for “an easy way to allow airports managed with a municipal governance model to convert to the airport authority model, with immediate clarity on equivalent and fair treatment in relation to the other NAS airports. This includes treatment in regard to federal taxation and access to other critical services.”<sup>45</sup> On the flip side, another witness raised the idea of a mechanism by which airports could opt out of the NAS, if that would benefit them.<sup>46</sup>

A redefined and restructured NAS should also respond to the funding needs of different airports. The committee was told that, when NAS airports were transferred to airport authorities, nobody fully realized that NAS airports with lower traffic volumes would not be able to generate enough revenue to meet their capital infrastructure requirements.<sup>47</sup> A witness called for a “formal [funding] program with a long-term planning horizon and eligibility criteria...”<sup>48</sup> for NAS airports. In addition, in relation to airports outside the NAS, the committee was told that the eligibility criteria to receive funding from the existing Airports Capital Assistance Program “leave many airports without funding for critical projects.”<sup>49</sup>

In summary, the committee heard that there is a great variance in the size, role and needs of Canadian airports. The current NAS does not reflect the reality of Canada’s airports today. Part of that reality is that Canada has four large volume airports: Toronto, Vancouver, Montreal and Calgary. In 2010, these four airports alone handled 52% of domestic traffic, 82% of transborder traffic and 91% of international passenger traffic (see Table 1 earlier).

These four large volume airports are essential for international travel. They face global competition that most other NAS airports do not. For example, the committee was told that, with technological advances in longer range aircraft, in the future flights from Asia will not need to stop on the west coast. Vancouver International Airport will be competing not just with airports such as Los Angeles, San Francisco and Seattle, but also with airports as far away as Chicago.<sup>50</sup> Therefore, Canada’s large volume airports must offer comparative advantages in order to remain globally competitive and attract air carriers. They must be cost efficient, and they must be able to transit passengers and baggage through their facilities smoothly and quickly.

Other Canadian airports, both within and outside the NAS, are also vital to the network. They connect Canadians coast to coast to coast and with the rest of the world. They also make significant economic contributions to the communities in which they are situated. These feeder airports do not face the same type of international competition that the four principal large volume airports face, but face other challenges. For example, a number of the smaller NAS airports are projecting “major capital expenditures which [they] will not be able to make.”<sup>51</sup>

A revised NAS should treat airports “equally but different, based on their unique requirements.”<sup>52</sup> It should recognize the distinct



Vancouver International Airport





challenges they face. The committee agrees with the witness who said that “... should there be any application of government spending or cost-cutting, it should be done with regard to the needs and roles of the airports specifically.”<sup>53</sup> Finally, a revised NAS should support the National Air Travel Strategy’s overarching goal of increasing air traffic in Canada by focusing on the needs of the industry and on domestic and international consumers.

## AIRPORT GROUND RENTS SHOULD BE PHASED-OUT AND AIRPORT OWNERSHIP TRANSFERRED TO AIRPORT AUTHORITIES

### RECOMMENDATION 3:

The committee recommends that Transport Canada establish and implement a plan to phase-out ground rents completely over time for airports that are part of the National Airport System.

### RECOMMENDATION 4:

The committee recommends that, concurrent with the long-term plan of ending airport ground rents, Transport Canada transfer federally owned airports in the National Airports System to the airport authorities that operate them.

Flying in Canada is relatively expensive. A Canadian flight between major cities may be twice as expensive or more than a comparable U.S. flight.<sup>54</sup> “Passengers departing Canadian airports often pay 60 and 75% above the airline’s base fare to cover taxes and charges, compared to between 10 and 18% in the U.S.”<sup>55</sup> To some degree, flying in Canada is expensive because landing a plane in Canada is expensive. For example, the committee was told that Toronto’s Pearson International Airport is the most expensive airport in the world at which to land a plane.<sup>56</sup>

Witnesses appearing before the committee provided several explanations for Canada’s high air fares. One witness testified that the high cost of flying in Canada is attributable primarily to higher base airline fares resulting from a lack of competition among airlines in Canada.<sup>57</sup> Other witnesses linked the lack of competition among airlines to the high cost of landing a plane in Canada.<sup>58</sup> However, there was a consensus among the majority

of witnesses who appeared before the committee that the high cost of flying in Canada is directly attributable to government taxes, fees and other charges that are either paid by passengers directly, or are charged to airports or airlines and passed on to passengers.<sup>59</sup> This conclusion is supported by the findings of the World Economic Forum, which ranked Canada 125th out of 139 countries for ticket taxes and airport charges in 2011.<sup>60</sup>

While a number of different taxes and fees are added to base air fares in Canada, the charge that was the subject of most testimony during committee hearings was airport ground rent. Ground rent is an obligation that most NAS airport authorities pay annually under their long-term leases with the federal government, which continues to own the airports. As Chuck Strahl, former Minister of Transport,<sup>61</sup> noted, “the rent represents the taxpayers’ fair return on their investment, as well as the ongoing business opportunity transferred to the airport authority.”<sup>62</sup>

Ground rents were originally calculated based on passenger throughput. In 2005, the government changed the formula, which resulted in a reduction in ground rents payable. They are currently calculated progressively based on airports’ gross revenues, which makes them more akin to a tax than to a true rent. “Most large airports now pay an incremental rate of 8, 10 or 12 percent of total revenue to the government, with Toronto Pearson, Vancouver and Montreal in the 12 percent bracket.”<sup>63</sup> Professor Fred Lazar of York University notes that in Fiscal Year 2009, the eight largest NAS airports paid \$268 million in ground rents, representing 11% of their total revenues.<sup>64</sup> The committee heard that, overall, the NAS airports have paid \$2.5 billion in ground rents to the federal government since the airports were transferred.<sup>65</sup>

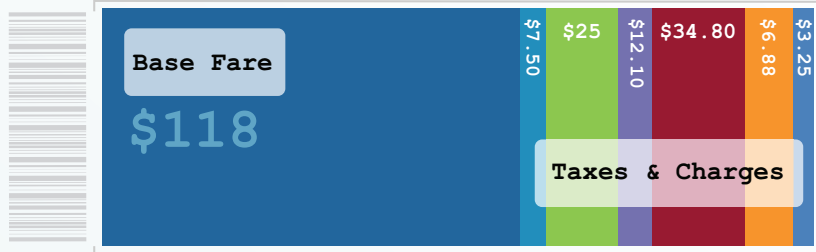
Witnesses who appeared before the committee raised a number of concerns about ground rent. They pointed out that the formula for calculating ground rent has been unfair from the start because it has never taken into account the differing states and values of the various facilities transferred to airport authorities.<sup>66</sup>

A number of witnesses objected to the fact that ground rent is assessed on gross revenues, which includes “revenues that are derived 100 % from airport users to pay for new infrastructure that the government played no role in creating.”<sup>67</sup> Ground rents are also payable on revenues generated by such new infrastructure. As expressed by the President and CEO of the Greater Toronto Airports Authority, Mr. Lloyd McCoomb, “... I do not think it is reasonable that the Canadian public should expect a return on an investment that they refuse to make.”<sup>68</sup>



### A TYPICAL TORONTO DEPARTURE AIR TICKET IN DETAIL

TORONTO — ORLANDO, APRIL 30<sup>TH</sup>



Total Cost: **\$207.53**

\*Fares provided by a Canadian-based airline.

NAME OF PASSENGER

FROM: TORONTO  
TO: ORLANDO

FLIGHT NO CLASS/DATE TIME  
J 1400

GATE GATE CLOSES SEAT  
B47 1330 64K

PCS CKWT UNCK SEQ NO  
0 0 0 067

\*\* ETKT

### LEGEND

**Base Fare:**  
\$118

This is the fare charged by the airline.

**NAV CANADA Surcharges:**  
\$7.50

This fee is levied on behalf of NAV CANADA and relates to the navigation of airspace.

**Canadian Airport Improvement Fees:**  
\$25

The fee set by the airports. The fee varies from airport to airport. In the case of Pearson Airport in Toronto, it is \$25.

**Security Charge:**  
\$12.10

The fee levied by CATSA for security.

**US Taxes and Fees:**  
\$34.80

Charged by the US government for flights into their country.

**GST:**  
\$6.88

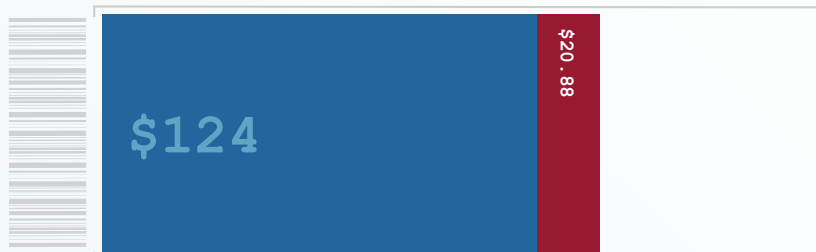
This is charged on top of the base fare+surcharges+ security charge.

**HST:**  
\$3.25

This tax is applied on top of the airport improvement fee.

### A TYPICAL BUFFALO DEPARTURE AIR TICKET IN DETAIL

BUFFALO — ORLANDO, APRIL 30<sup>TH</sup>



Total Cost: **\$144.80**

\*Taken from a web sale of a US airline

NAME OF PASSENGER

FROM: BUFFALO  
TO: ORLANDO

FLIGHT NO CLASS/DATE TIME  
J 1400

GATE GATE CLOSES SEAT  
B47 1330 64K

PCS CKWT UNCK SEQ NO  
0 0 0 067

\*\* ETKT

### LEGEND

**Base Fare:**  
\$124

This is the fare charged by the airline.

**Taxes:**  
\$20.88

This is charged on top of the base fare



Because ground rents are calculated based on gross revenues of the improved airports today, the total amount that NAS airports have paid to the federal government to date “is far in excess of the book value of the airports at the time of their transfer to the private sector...”

Like many of the NAS airports, Jean-Lesage Airport in Quebec City has improved its terminal and other facilities since they were transferred. It pays rent on revenues generated by the improved infrastructure. Jean-Lesage Airport is now due for a second \$30-million phase of improvement over the next five years, which will serve to further increase the amount of rent it must pay to the government.<sup>69</sup>



*Québec City Jean Lesage International Airport*

At the time of transfer, the Winnipeg Airports Authority received assets with a book value of under \$1 million. Currently, that authority pays more than \$1 million every year in ground rent on revenues it generates from the new \$600-million terminal it built through debt funding.<sup>71</sup>



*Winnipeg-James Armstrong Richardson International Airport*

Unfairness of the matter aside, the effect of the federal government charging ground rents on NAS airports is an increased cost of flying within and from Canada.<sup>72</sup> Airport authorities must generate revenue from passengers and airlines to pay ground rent and fund their operations.<sup>73</sup> They charge terminal and landing fees to airlines, which in turn pass along the costs to their passengers. Professor Lazar has estimated that for 2009, “ground rents averaged \$3.04 per passenger – ranging between \$0.77 per passenger at the Edmonton International Airport to \$4.63 per passenger at Toronto Pearson International Airport.”<sup>74</sup>



These amounts may not seem like a lot, but ground rents are just one of many taxes and fees borne by Canadian air travellers. The following additional taxes and fees also contribute to the high cost of air travel in Canada.

- The Air Travellers Security Charge (ATSC) is an amount charged to travellers to cover pre-board screening of passengers and their belongings, as well as checked baggage screening and other related security services provided by CATSA.<sup>75</sup> One witness appearing before the committee estimates that the ATSC is “the highest in the world by a significant amount.”<sup>76</sup>
- The NAV CANADA service charge covers air traffic control and related services. Under the *Civil Air Navigation Services Commercialization Act*,<sup>77</sup> the service charges may only be set at the level required to cover costs, including reasonable financial reserves.<sup>78</sup>
- The Airport Improvement Fee (AIF) is a charge that airport authorities often levy to pay for airport infrastructure investments. The charge varies by airport depending on its capital program.<sup>79</sup>
- Excise tax (federal and provincial) is charged on aviation fuel.<sup>80</sup> One witness testified that, despite the former federal finance minister’s promise that this tax would be done away with after the introduction of the goods and services tax, the aviation industry is still paying \$100 million in excise tax a year.<sup>81</sup>
- Municipal taxes or payments in lieu of taxes (PILTs) are payable by airports to the municipalities in which they are located.
- Finally, Goods and Services Tax or Harmonized Sales Tax (GST/HST) is applied last to the full cost of the airline ticket.

Witnesses objected to the “layer upon layer of taxes and fees that get us to the cost of the ticket.”<sup>82</sup> They felt that this “club sandwich of fees” makes it prohibitively expensive to land a plane in Canada.<sup>83</sup>

A number of witnesses compared Canada’s “user pay” system to that of our biggest competitor, the United States.<sup>84</sup> The committee heard that, while the air traffic control component of the cost in Canada is less than in the United States,<sup>85</sup> other Canadian aviation charges or fees have no U.S. equivalent because U.S. airports are subsidized.

Typically, airports in the United States are run by the city or by the county, so they do not pay municipal taxes because they would be paying taxes to themselves. They do not pay rent. They all get Airport Improvement Program — AIP — money. Every airport gets AIP money.<sup>86</sup>

As one witness put it: “In the U.S. they see their airports as economic spark plugs, and we see them as toll booths.”<sup>87</sup>

The effects of this different model for airport funding are stark. With just over 75% of the Canadian population living within 90 minutes of the U.S. border,<sup>88</sup> many Canadians are driving south to take advantage of lower American fares rather than fly from their local Canadian airports. The Canadian Airports Council estimates that in 2011, 4.8 million Canadians chose this option, an increase of 15% from 2010.<sup>89</sup> The Council calculated that the fare difference between a Canadian flight and an American flight averaged \$428 roundtrip per person, with Canadian taxes, fees and charges accounting for between 15 and 33% of this difference.<sup>90</sup> Table 2 shows an estimate of the economic loss in Canada from passenger leakage to the United States in 2010.

**Table 2 - Economic Loss in Canada from U.S. Passenger Leakage (2010)**

Category of Impacts	Output (\$ Millions)	GDP (\$ Millions)	Jobs	Employment Income (\$ Millions)	Tax Revenue (\$ Millions)
Direct	\$1,402	\$512	3,465	\$185	\$74
Indirect	\$688	\$422	3,565	\$223	\$76
Induced	\$299	\$180	1,861	\$104	\$40
<b>Total</b>	<b>\$2,389</b>	<b>\$1,113</b>	<b>8,890</b>	<b>\$511</b>	<b>\$190</b>

Table courtesy of the Canadian Airports Council.





The committee heard how U.S. border airports have aggressive marketing campaigns to attract Canadian passengers. For example, Plattsburgh International Airport, which is located one hour south of Montreal, markets itself as “Montreal’s U.S. Airport.”<sup>95</sup> Currently, 85% of its passengers come from Canada.<sup>96</sup> Grand Forks International Airport’s website states that it is “proud to be the closest U.S. international airport to Winnipeg, Manitoba, Canada.”<sup>97</sup> As part of the marketing program that brought Emirates Airline to Seattle, that city positioned itself as the “gateway to Whistler.”<sup>98</sup> Bellingham International Airport is active in the B.C. marketplace, “offering cheaper fares, different choices and cheaper parking.”<sup>99</sup>



Air Canada provided numbers in a different format. Their representative testified that, “on a per passenger basis, the infrastructure costs, landing fees, airport improvement fees, air navigation charges and security charges at [four U.S. airports]<sup>91</sup> are 229 % lower than at the Canadian facilities with whom they compete.”<sup>92</sup> Air Canada estimates that “by 2015, up to 3.4 million Canadians could be travelling out of these four facilities alone, with an associated direct negative impact to the Canadian economy of \$2.3 billion.”<sup>93</sup>

On March 20, 2012, the Canadian Airports Council held a conference in Toronto called “One of our Airports is Missing!” The conference name alludes to the fact that the number of passengers Canada is losing to American airports is equivalent to the number handled by a mid-sized Canadian NAS airport. The number amounts to 64 Boeing 737-sized flights every day.<sup>94</sup>

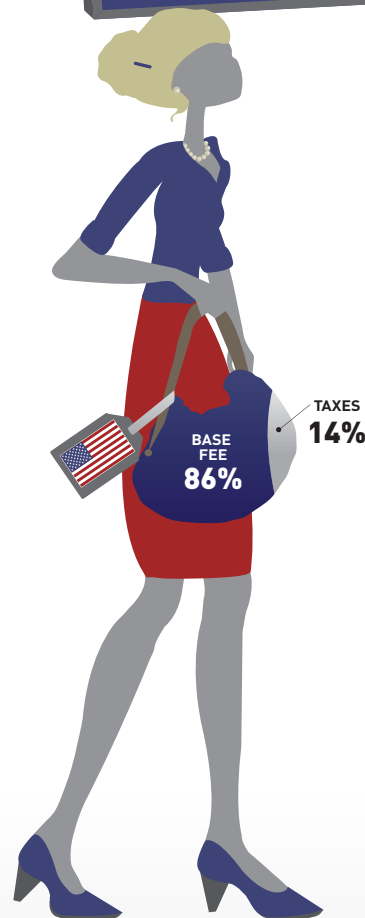




Figure 1



Graphic recreated with permission from the Canadian Airports Council.<sup>100</sup>

Figure 1 shows the proximity of American border airports to a number of major Canadian airports.

The committee was told that the burden of Canada’s airport rents, fees and other service costs is undermining the competitiveness of Canadian airports compared with U.S. airports<sup>101</sup> and discouraging economic growth.<sup>102</sup> The committee asked numerous witnesses whether a reduction in such costs would necessarily be passed along to passengers; most witnesses believed that costs would trickle down.<sup>103</sup> The committee heard testimony that even a modest decrease in ticket price would create an incentive for carriers to expand services or indeed to establish services in Canada. It would “bring meaningful competition to the market, and therefore drive the real cost of tickets down.”<sup>104</sup>

Lower fares would incite increased air travel with its corresponding economic benefits. A witness from WestJet expressed it best:

Bringing that total price down to Canadian consumers would encourage flying from Canada. It would mean that the ability of more Canadians to travel would be improved. You would get a greater volume of people flying on our airlines. It would also help the government in terms of greater tax revenues because, although the amounts went down on a per passenger basis, by stimulating more consumers to fly the overall tax base would improve.<sup>105</sup>

The committee agrees with the witnesses who testified that it is time to stop treating Canadian airports as a source of revenue and start treating them as economic spark plugs. As one witness suggested, it is time to bring air transportation in line with other modes of transportation in Canada; road, passenger rail, and marine transportation are all subsidized rather than treated as sources of revenue.<sup>106</sup> The committee concurs that Canada should stop taxing the infrastructure and instead tax the economic





benefits that come from the infrastructure.<sup>107</sup> The potential upside of expanded air travel for the economy and therefore for governments, in the form of increased tax revenues, is substantial. The committee heard that “a single daily trans-Pacific flight from Asia or points east to [British Columbia] will generate 150 to 200 jobs at the airport, another 150 to 200 or more indirect jobs outside of the airport, and between \$5 million and \$15 million in economic activity, depending on who is on the plane.”<sup>108</sup>

We agree with a witness who testified that taking steps to allow for the expansion of air travel, passenger and cargo, is a “low-cost, low-risk, high-reward way to grow and diversify our economy.”<sup>109</sup> The committee is of the opinion that this change should start with the elimination of ground rents for NAS airports.

The committee heard different ideas about how ground rents could be dealt with. For example, it was suggested that “rent could be capped, gradually scaled back and eliminated over a 20-year period.”<sup>110</sup> A witness suggested that “airport rents could be redefined under a new lease-to-own policy scenario.”<sup>111</sup> A WestJet representative suggested applying rent revenue against the Air Travellers Service Charge for pre-board screening or the NAV CANADA service charge, or using it to fund security or operational infrastructure improvements at the airport from which it is taxed.<sup>112</sup> Another witness suggested that it would be worth exploring “a [rent] prepayment option with a discount rate ... that would create more long-term certainty...”<sup>113</sup>

The committee is not prepared to choose one option over another. We leave it to the Government of Canada to determine the best mechanism for reducing and eventually eliminating ground rent. However, the committee notes that eventually eliminating ground rents by transferring full ownership of the NAS airports to the airport authorities that operate them would incidentally address an additional impediment to airports’ profitability. That is, it would end the government’s perpetual leasehold interest in airports. The long-term (renewable) leases under which NAS airports were transferred to airport authorities anticipate that the airports will be turned back over to the federal government at the end of the leases. Airport authorities testified that this is problematic because “land developers look for longer-term certainty to come into a partnership”<sup>114</sup> for a land development project. The finite nature of their leases adds “some constraints to opportunities the airports have for other sources of revenue from the assets [they] have...”<sup>115</sup> As the President and CEO of the Calgary Airport Authority, Mr. Garth Atkinson, put it:

There is no policy reason for the government to continue with a perpetual leasehold interest in airports, and airport authorities are quite capable of taking on full property ownership under the current corporate model. Among other aspects, the current structure imposes significant additional and unnecessary costs on both the authority and the government. Very importantly, when the outstanding terms reach 40 years and less, the authority’s business will become at first dysfunctional and then impossible.<sup>116</sup>

The committee agrees with these witnesses that it would be preferable formally to end the pretence that airports will be turned back over the government at the end of their leases, and to transfer NAS airports to the airport authorities that operate them.

## AIRPORT CONNECTIONS AND TRANSIT NEED TO BE STREAMLINED

The airport is usually the first and last place a traveller sees when visiting the city. More often than not, it is the place where the first impression is made.<sup>117</sup>

### RECOMMENDATION 5:

The committee recommends that the airport authorities of each of the large volume airports lead an initiative to facilitate flight connections at the large volume airports. Such systems should ensure that the luggage of a transiting traveller is forwarded directly to the traveller’s ultimate destination without the traveller’s intervention. Such systems should also require the traveller to pass through security screening and customs and immigration only once during their journey.

### RECOMMENDATION 6:

The committee recommends that Citizenship and Immigration Canada meet with the directors of major Canadian airports and work to establish a full transit visa program for international travellers to connect through Canadian airports.



An aspect of the air travel experience that warrants further improvement at most large volume airports is connection times for international passengers.<sup>118</sup> Currently at most large volume airports, “the international connecting passengers [have] to go through full customs out into the non-secured area, pick up their bags, re-clear security, check in again, and so forth.”<sup>119</sup> This type of inefficiency may be frustrating for passengers, but it is also an issue for airlines because they “only make money when planes are flying. They will look for hubs where they can connect passengers and bags quickly and efficiently.”<sup>120</sup>

There are ways to manage this issue effectively. During the committee’s site visit to Montréal-Trudeau International Airport on February 6, 2012, committee members saw first-hand the airport’s system for handling baggage for connecting flights. Thanks to that system and cooperation among the airport, American Airlines, Air Canada, and U.S. customs, the airport has implemented a system whereby the baggage of passengers departing from the airport can be routed directly to the passengers’ final destination in the United States without intervention from the passenger.<sup>121</sup>

A representative from Vancouver International Airport testified that that airport is still working on this issue. In Vancouver, it still takes international travellers at least 90 minutes to make a connection. The airport authority is working to reduce it to 60 minutes.<sup>122</sup> The committee heard that this type of connection time is necessary for Canadian airports to be globally competitive as connecting hubs.<sup>123</sup> The committee is of the opinion that intervention of the federal government could assist large volume airports to reduce their connection times, perhaps by interfacing with U.S. customs.

The most important change that must occur to improve connections for international travellers involves Citizenship and Immigration Canada working together with the major airports in Canada. Currently, when a citizen from a country that requires a visa to enter Canada, they must get that visa even if they are simply in transit through Canada.

For example, an Indian national, hoping to fly to the USA, must obtain a separate tourist visa for Canada even if he is simply landing in Canada for the briefest of moments. Obtaining a visa for this Indian national is an onerous process; he must apply, provide supporting documents, and pay a fee. The entire application can take several weeks.

This traveller, who would only be in Canada for a matter of hours and would never leave the airport, would be unlikely to choose a flight that connected through Canada for this reason. This traveller represents an important market for Canadian airlines, as well as the airports themselves. Not having these travellers as customers means lost revenues for the airlines, who are at a disadvantage when offering flights to foreign nationals requiring a full tourist visa for a connection in Canada. For the airports, these travellers represent a set of customers who could not leave the airport and would likely spend a significant amount of money in the shops and restaurants inside the Canadian airport while they wait for their connecting flight.

The committee agrees that this traveller should be able to connect and have a stopover in Canada without the need for a tourist visa. The committee believes a transit visa should be established for these travellers. A transit visa would allow for a traveller to remain in the international departure section of an airport.

Many other countries currently function according to this practice. Europe already practices this through its Schengen Transit Visa.

Our committee recognizes that Citizenship and Immigration Canada has begun a pilot project testing this new transit visa. Our committee wishes to go one step further and recommends that Citizenship and Immigration Canada meet with the directors of the major Canadian airports and work to establish a full transit visa program for international travellers so that these travellers can connect through Canadian airports.

## AIRPORT GOVERNANCE IS WORKING

The final issue the committee wishes to address in this report is airport governance. As discussed earlier, under the National Airports Policy of 1994 the federal government transferred most NAS airports under long-term leases to not-for-profit airport authorities. Pursuant to those leases, airport authorities are governed by boards of directors who represent various government and community interests. Because each lease was negotiated separately, the governance is different for each airport.

The committee heard a range of opinions as to whether airport authority governance is effective. Some airlines felt there was room for improvement. Air Canada testified that it would like greater input on the boards of airports, either through “board





representation or a formal mechanism through changes to airport governance...<sup>124</sup> WestJet suggested that “it is time to examine other modes of governance for Canada’s airports, in particular the potential for full privatization of airport facilities,”<sup>125</sup> which would allow for equity financing. Jazz Aviation agreed with the idea of standardizing airport governance to make it more accountable to airlines and the public. They pointed out that airport authorities have a monopoly in the cities where they operate, and airlines have no choice but to pay what an airport decides if the airline wants to serve that city.<sup>126</sup>

However, airport authorities that testified were very positive about their governance structures.<sup>127</sup> The Chair of the Vancouver Airport Authority board of directors, Mary Jordan, testified that the Canadian governance model for airports, which is locally controlled, not-for-profit, private sector with no shareholders, has allowed the airport to take a long-term view rather than be driven by quarterly financial results. She gave the example of a \$300 million investment that the airport made in a mass transit line between the airport and downtown Vancouver. “While this project did not produce a financial return on investment, it greatly benefited the community, the environment and the long-term success of the region.”<sup>128</sup>

Other witnesses praised the broad range of experiences and private sector expertise that board members apply in making sound and balanced decisions. In addition to aviation and travel experience, airport authorities’ boards of directors have expertise in construction and engineering, debt financing, securities law, financial accounting, the environment, customer service and retail.<sup>129</sup>

Airport authorities dismissed the suggestion that airlines should have greater input in board decisions. The President and CEO of the Greater Toronto Airports Authority, Mr. Lloyd McCoomb, suggested that his board’s governance committee does “a superb job of representing in a balanced objective fashion all [the various] interest groups.”<sup>130</sup> He suggested that someone active in the airline industry would not be able to objectively represent the entire industry because of its competitive nature.<sup>131</sup> On behalf of Aéroports de Montréal, Mr. Jean-Jacques Bourgeault, a board member, questioned why air carriers, which are treated as customers, “should have any direct involvement in the governance and management of [Aéroports de Montréal].”<sup>132</sup>

Representatives from several airports stressed the extent of consultations that they undertake with airlines before making significant decisions.<sup>133</sup> At Vancouver International Airport, airlines vote to approve significant capital investments before the decision is put to the board.<sup>134</sup> Further, airport authorities must make decisions that balance the needs, interests and concerns of a number of stakeholders, not just airlines. They are also responsible to passengers, their communities, businesses in Canada that are dependent on air transportation, and the various levels of government.<sup>135</sup>

Overall, airport authorities reported that “in the case of airports, the creation of local, non-share capital, non-taxable corporations has been an outstanding success story.”<sup>136</sup> The committee agrees that the airport authority governance structure is working well. This structure should be maintained and supported.

## CONCLUSION

Canada’s airports have realized significant successes over the past 20 years since the devolution to airport authorities began. They are financially responsible and accountable to their business partners and their communities. They have invested more than \$14 billion in capital commitments, making Canada’s air transport infrastructure among the best in the world.

It is time to take the next steps. Canada needs a National Air Travel Strategy and an updated National Airports System within that strategy to boost the expansion of our air travel industry. Government taxes and fees associated with air travel, starting with ground rents, need to be reduced to help make air travel in Canada more affordable and more competitive. The air travel experience in Canada needs to be improved continuously through the coordination of stakeholders, brought together by the government, to cooperate on the development of new and improved processes and systems. Taking these steps now will support not just our airports, but Canada’s air travel industry to enable future growth in Canadian air travel and to enhance Canada’s global competitiveness.



## ENDNOTES

- <sup>1</sup>Senate, Standing Committee on Transport and Communications [TRCM], *Evidence*, 3rd Session, 40th Parliament, November 17, 2010 (William Restall, Chair, Canadian Airports Council).
- <sup>2</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, March 13, 2012 (David Goldstein, President and Chief Executive Officer, Tourism Industry Association of Canada).
- <sup>3</sup>TRCM (November 17, 2010) (Restall).
- <sup>4</sup>Senate, *Debates*, 3rd Session, 40th Parliament, May 12, 2010.
- <sup>5</sup>See Transport Canada, Airports Task Force, *The Future of Canadian Airport Management*, 1986, p. 1.
- <sup>6</sup>TRCM, *Evidence*, 3rd Session, 40th Parliament, March 2, 2011 (Michael Tretheway, President, InterVISTAS Consulting Inc. (Canada)).
- <sup>7</sup>Transport Canada, Canadian Air Transportation Administration, Task Force on Airport Management, *Progress Report, Volume I and Volume II (Appendices)*, Ottawa, July 1979, p. 1.
- <sup>8</sup>*Ibid.*
- <sup>9</sup>*Ibid.*, p. 4.
- <sup>10</sup>See Joseph P. Dion, *Airports in Transition*, Publication no. 02-41E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, October 4, 2002.
- <sup>11</sup>Transport Canada (1986).
- <sup>12</sup>*Ibid.*, p. 5.
- <sup>13</sup>Transport Canada, *A New Policy Concerning a Future Management Framework for Airports in Canada*, April 1987.
- <sup>14</sup>*Ibid.*
- <sup>15</sup>*Airport Transfer (Miscellaneous Matters) Act*, S.C. 1992, c. 5.
- <sup>16</sup>Toronto's Pearson International Airport was transferred to an airport authority a few years later, in 1996, after a new government, elected in 1993, revisited the terms of the negotiated transfer agreement.
- <sup>17</sup>Dion (2002), p. 4.
- <sup>18</sup>Transport Canada, *National Airports Policy*, 1994.
- <sup>19</sup>*Ibid.*
- <sup>20</sup>*Ibid.*
- <sup>21</sup>Transport Canada, *Airports*.
- <sup>22</sup>NAS airports that the federal government does not own include St. John's, Iqaluit, Yellowknife and Whitehorse. See Transport Canada, *Airport Divestiture Status Report*.
- <sup>23</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, December 6, 2011 (Douglas E. Lavin, Regional Vice President, North America, International Air Transport Association).
- <sup>24</sup>Transport Canada, *National Airports Policy*, "Regional/Local Airports".
- <sup>25</sup>See Transport Canada, *Airport Divestiture Status Report*. See also Allison Padova, *Airport Governance Reform in Canada and Abroad*, Publication no. 07-12E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, September 5, 2007.
- <sup>26</sup>See TRCM, *Evidence*, 3rd Session, 40th Parliament, October 20, 2010 (Hon. Chuck Strahl, P.C., M.P., Minister of Transport, Infrastructure and Communities).
- <sup>27</sup>For example, see TRCM, *Evidence*, 1st Session, 41st Parliament, February 28, 2012 (Garth Atkinson, President and Chief Executive Officer, Calgary Airport Authority and Larry Berg, President and Chief Executive Officer, Vancouver Airport Authority).
- <sup>28</sup>TRCM (November 17, 2010) (Restall).
- <sup>29</sup>World Economic Forum, *Travel and Tourism Competitiveness Report 2011* and TRCM (December 6, 2011) (Lavin).
- <sup>30</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, March 14, 2012 (Steve Desroches, Deputy Mayor, City of Ottawa).
- <sup>31</sup>TRCM (March 13, 2012) (Goldstein).
- <sup>32</sup>TRCM (November 17, 2010) (Restall).
- <sup>33</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, March 28, 2012 (Rob Howard, Member, Provincial Lead of the Air Access file, Legislative Assembly of British Columbia).
- <sup>34</sup>TRCM, *Evidence*, 3rd Session, 40th Parliament, November 30, 2010 (Keith Collins, President, Atlantic Canada Airports Association).
- <sup>35</sup>TRCM (December 6, 2011) (Cyriel Kronenburg, Director, Airport and Air Traffic Charges for North America, International Air Transport Association).
- <sup>36</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, October 4, 2011 (Duncan Dee, Executive Vice-President and Chief Operating Officer, Air Canada).
- <sup>37</sup>Transport Canada, *National Airports Policy*, 1994.
- <sup>38</sup>TRCM (March 14, 2012) (Scott Clements, President and Chief Executive Officer of the Fort McMurray Airport Authority).
- <sup>39</sup>Transport Canada, *Airport Divestiture Status Report*.
- <sup>40</sup>TRCM (March 14, 2012) (Clements).
- <sup>41</sup>*Airport Transfer (Miscellaneous Matters) Act*, S.C. 1992, c. 5, s. 8.
- <sup>42</sup>TRCM (March 14, 2012) (Clements).
- <sup>43</sup>*Ibid.*
- <sup>44</sup>*Ibid.*
- <sup>45</sup>*Ibid.*
- <sup>46</sup>TRCM, *Evidence*, 3rd Session, 40th Parliament, February 8, 2011 (Doug Newson, Chief Executive Officer, Charlottetown Airport Authority Inc.).
- <sup>47</sup>TRCM (November 30, 2010) (Collins).
- <sup>48</sup>TRCM (March 14, 2012) (Clements).
- <sup>49</sup>*Ibid.*
- <sup>50</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, March 27, 2012 (Mary Jordan, Chair of the Board, Vancouver Airport Authority, Canadian Airports Council).
- <sup>51</sup>TRCM (February 8, 2011) (David Innes, President and Chief Executive Officer, Fredericton International Airport Authority Inc.).
- <sup>52</sup>TRCM (November 30, 2010) (Collins).
- <sup>53</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, November 15, 2011 (Lloyd McCoomb, President and Chief Executive Officer, Greater Toronto Airports Authority).
- <sup>54</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, October 5, 2011 (Hugh Dunleavy, Executive Vice-President, Strategy and Planning, WestJet). This evidence was also supported by information provided by the Canadian Airports Council during their conference entitled "One of our Airports is Missing!" held March 20, 2012 in Toronto. Professor Chandra of the University of Toronto presented the committee with data from Toronto, Vancouver and Montreal airports. He concluded that the premium to fly out of Toronto rather than Buffalo was more than 100% in 2007, but has since dropped to about 75%. He calculates that the "premium is not as high for Vancouver and for Montreal but it is still considerable. It is still over 25 % and more like 30 % for both of those airports": TRCM, *Evidence*, 1st Session, 41st Parliament, March 6, 2012 (Ambarish Chandra, Rotman School of Management, University of Toronto, as an individual).
- <sup>55</sup>TRCM (December 6, 2011) (Lavin).
- <sup>56</sup>*Ibid.*
- <sup>57</sup>TRCM (March 6, 2012) (Chandra).
- <sup>58</sup>For example, see TRCM (March 13, 2012) (Goldstein).
- <sup>59</sup>For example, see TRCM (December 6, 2011) (Lavin).
- <sup>60</sup>World Economic Forum (2011).
- <sup>61</sup>The Honourable Chuck Strahl was the Minister of Transport, Infrastructure and Communities when he appeared before the committee on October 20, 2010.
- <sup>62</sup>TRCM (October 20, 2010) (Strahl).
- <sup>63</sup>Ben Cherniavsky and Benjamin Dachis, "Excess Baggage: Measuring Air Transportation's Fiscal Burden," *C.D. Howe Institute Commentary*, No. 242, February 2007, p. 4.
- <sup>64</sup>Dr. Fred Lazar, *The Economic Impacts of the Member Carriers of the National Airlines Council of Canada*, prepared for the National Airlines Council of Canada, September 2010, p. 27. Dr. Lazar appeared before the committee on March 1, 2011. See TRCM, *Evidence*, 3rd Session, 40th Parliament, March 1, 2011 (Fred Lazar, Professor, Department of Economics, York University, as an individual).
- <sup>65</sup>TRCM (December 6, 2011) (Lavin).
- <sup>66</sup>For example, see TRCM *Evidence*, 1st Session, 41st Parliament, February 15, 2012 (Barry Rempel, President and CEO, Winnipeg Airports Authority).





- <sup>67</sup>TRCM (February 28, 2012) (Atkinson).
- <sup>68</sup>TRCM (November 15, 2011) (McCoomb).
- <sup>69</sup>See TRCM, *Evidence*, 3rd Session, 40th Parliament, February 9, 2011 (Denis Robillard, Director General, Québec Airport Council).
- <sup>70</sup>TRCM (December 6, 2011) (Lavin).
- <sup>71</sup>TRCM (February 15, 2012) (Rempel).
- <sup>72</sup>The committee was told that only two other countries in the world charge their airports rent: Ecuador and Peru (TRCM (March 13, 2012) (Goldstein)).
- <sup>73</sup>In addition to revenues from aeronautical services (landing and terminal fees for airlines) and passengers (airport improvement fees for capital investments), airports also may derive commercial revenue from leasing land and businesses within the airport. See TRCM (February 28, 2012) (Atkinson).
- <sup>74</sup>Lazar (2011), p. 27. Dr. Lazar's estimate is based on the assumption that the ground rents were passed on entirely to the airlines, and the airlines in turn passed on the additional costs to their passengers.
- <sup>75</sup>TRCM, *Evidence*, 3rd Session, 40th Parliament, February 16, 2011 (Kevin McGarr, President and Chief Executive Officer, Canadian Air Transport Security Authority).
- <sup>76</sup>TRCM, *Evidence*, 3rd Session, 40th Parliament, October 27, 2010 (John McKenna, President and Chief Executive Officer, Air Transport Association of Canada).
- <sup>77</sup>*Civil Air Navigation Services Commercialization Act*, S.C. 1996, c. 20.
- <sup>78</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, December 13, 2011 (John Crichton, President and CEO, NAV CANADA).
- <sup>79</sup>TRCM (November 17, 2010) (Restall). With a few exceptions, NAS airports do not receive federal funding for capital investments.
- <sup>80</sup>British Columbia recently eliminated a two-cent per litre fuel tax on international flights. A representative from the B.C. government testified that the "cost to our provincial treasury is between \$15 million and \$20 million at a time when money is extremely tight, but we recognize that the airport and the whole gateway strategy is an economic generator. We believed that the payback would be rather swift": TRCM (March 28, 2012) (Howard).
- <sup>81</sup>TRCM (October 27, 2010) (McKenna).
- <sup>82</sup>TRCM (March 13, 2012) (Goldstein).
- <sup>83</sup>TRCM, *Evidence*, 3rd Session, 40th Parliament, November 24, 2010 (David Goldstein, President and CEO, Tourism Industry Association of Canada).
- <sup>84</sup>For example, see TRCM (March 28, 2012) (Howard) and TRCM (October 27, 2010) (Michael Skrobica, Vice-President, Industry Monetary Affairs, Air Transport Association of Canada).
- <sup>85</sup>TRCM (December 13, 2011) (Crichton).
- <sup>86</sup>TRCM (November 17, 2010) (Restall).
- <sup>87</sup>TRCM (March 13, 2012) (Goldstein).
- <sup>88</sup>John Korenic, Director Aviation Marketing, Vancouver Airport Authority and Mike Seabrook, Vice-President, London International Airport, "Why are Canadians Driving to U.S. Airports? The Issue for Canada," presentation given at a Canadian Airports Council conference entitled *One of our Airports is Missing!*, March 20, 2012. See also Natural Resources Canada, "Population Density – 2006," *The Atlas of Canada*, 2009.
- <sup>89</sup>Korenic and Seabrook (2012).
- <sup>90</sup>*Ibid.*
- <sup>91</sup>Buffalo Niagara International Airport, Niagara Falls International Airport, Plattsburgh International Airport and Bellingham International Airport.
- <sup>92</sup>TRCM (October 4, 2011) (Dee).
- <sup>93</sup>*Ibid.*
- <sup>94</sup>*Ibid.*
- <sup>95</sup>*Ibid.* and Plattsburgh International Airport website.
- <sup>96</sup>*Ibid.*
- <sup>97</sup>*Ibid.* and Grand Forks International Airport website.
- <sup>98</sup>TRCM (March 28, 2012) (Howard).
- <sup>99</sup>*Ibid.*
- <sup>100</sup>Korenic and Seabrook (2012).
- <sup>101</sup>TRCM (March 27, 2012) (Jean-Jacques Bourgeault, Director, Board of Directors, Aéroports de Montréal, Canadian Airports Council).
- <sup>102</sup>TRCM (October 4, 2011) (Dee).
- <sup>103</sup>For example, TRCM (October 5, 2011) (Dunleavy) and TRCM (February 28, 2012) (Atkinson). By contrast, Professor Ambarish Chandra of the University of Toronto testified that eliminating ground rents would probably result in fares falling "somewhat but not by as much as a truly competitive industry would have them fall": TRCM (March 6, 2012) (Chandra).
- <sup>104</sup>TRCM (March 13, 2012) (Goldstein).
- <sup>105</sup>TRCM (October 5, 2011) (Dunleavy).
- <sup>106</sup>TRCM (November 30, 2010) (David Innes, Treasurer, Atlantic Canada Airports Association).
- <sup>107</sup>TRCM (March 27, 2012) (Jordan).
- <sup>108</sup>TRCM (March 28, 2012) (Howard).
- <sup>109</sup>*Ibid.* Note, however, that the focus of Mr. Howard's testimony was on improved air service agreements to expand air travel in Canada. The committee will comment on this issue in a forthcoming additional report stemming from the study.
- <sup>110</sup>TRCM (February 28, 2012) (Atkinson).
- <sup>111</sup>*Ibid.*
- <sup>112</sup>TRCM (October 5, 2011) (Dunleavy).
- <sup>113</sup>TRCM (March 27, 2012) (Jordan).
- <sup>114</sup>*Ibid.*
- <sup>115</sup>*Ibid.*
- <sup>116</sup>TRCM (February 28, 2012) (Atkinson).
- <sup>117</sup>TRCM, (March 14, 2012) (Desroches).
- <sup>118</sup>See TRCM (March 27, 2012) (Jordan, Bourgeault, and Marilynne Day-Linton, Chair of the Board, Greater Toronto Airports Authority, Canadian Airports Council).
- <sup>119</sup>*Ibid.* (Jordan).
- <sup>120</sup>*Ibid.*
- <sup>121</sup>*Ibid.* (Bourgeault).
- <sup>122</sup>*Ibid.* (Jordan).
- <sup>123</sup>*Ibid.*
- <sup>124</sup>TRCM (October 4, 2011) (Dee).
- <sup>125</sup>TRCM (October 5, 2011) (Dunleavy).
- <sup>126</sup>TRCM, *Evidence*, 1st Session, 41st Parliament, October 25, 2011 (Joseph D. Randell, President and Chief Executive Officer, Jazz Aviation LP).
- <sup>127</sup>TRCM (March 27, 2012) (Jordan).
- <sup>128</sup>*Ibid.*
- <sup>129</sup>See TRCM (March 27, 2012) (Day-Linton).
- <sup>130</sup>TRCM (November 15, 2011) (McCoomb).
- <sup>131</sup>*Ibid.*
- <sup>132</sup>TRCM (March 27, 2012) (Bourgeault).
- <sup>133</sup>For example, see TRCM (March 27, 2012) (Jordan).
- <sup>134</sup>TRCM (February 28, 2012) (Berg).
- <sup>135</sup>TRCM (November 15, 2011) (McCoomb).
- <sup>136</sup>TRCM (February 28, 2012) (Atkinson). See also *Ibid.* (Berg).