Canada's Airports: Enabling Connectivity, Growth and Productivity for Canada

2018 Federal Budget Submission
House of Commons Standing Committee on Finance

Introduction

The Canadian Airports Council is the national trade association for Canada's airports. Representing airports from coast to coast to coast, our membership includes the countries largest international gateways, including Toronto Pearson International Airport and Vancouver's YVR as well as community airports such as Saint John Airport and Fort McMurray International Airport. Together the country's airports enable Canadians to access communities across this vast country and around the world - allowing businesses to be more productive and connected here at home and abroad.

Travel and Leisure recently named Canada the world's most connected country, which is not surprising given the tremendous growth in international routes and traffic Canada has seen in the past few years.[1] Connectivity is essential in Canada's globally integrated economy. Research suggests that a 10 per cent improvement in global connectivity results in a 0.5 per cent increase in long-run GDP per capita. Managing this growth in the coming years will be key to maintaining this connectivity, and the key role it plays in the productivity and competitiveness of Canadians and Canadian business.

Air traffic at Canada's major airports is up nearly seven percent in the first six months of the year with even stronger growth in overseas international markets.[2] Over the next 10 years, traffic is projected to increase by another 50% or an additional 75 million passengers.[3]

Airports and industry partners are managing this growth today while planning for the future. Canada's airports have, as core to their mandates, the provision of safe, secure, efficient, and quality air transportation services to air travellers, as well as support of economic development in the communities they serve.

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[1] The World's Most Connected Countries, Travel and Leisure (June 15, 2017)
[2] Data from CAC member airports for January-June 2017 traffic
[3] Airports Council International North American Traffic Forecast

In fact, Canada is rated number 1 for air transport infrastructure by the World Economic Forum.[4] The Government of Canada's recently announced National Trade and Transportation Corridors Fund provides National Airports System airports greater flexibility to participate in the kind of potentially transformative transportation projects that fund was designed for. The six smallest NAS airports unable to access funds available to non-NAS airports of similar size – a challenge identified in the CAC's submission last year -- are particularly pleased to some funding options open up to them.

To retain Canada's connectivity advantage and reinforce the important role airports play in productivity, competitiveness and the communities that they serve, Canada's airports seek the following measures for Budget 2018.

Managing Growth in Demand for Security Screening and Border Services

Over the past few years airport discussions with government have become increasingly dominated by challenges in nimbly and effectively responding to the rapid growth in Canadian air traffic described above.

Air travel is an intensely competitive global business. Travellers make little distinction about who does what at the airport. The image of Canada and the communities Canada's airports serve are negatively impacted when travellers meet long lines at security screening or at our air borders.

The Finance Committee recognized last year the importance of improving services at security screening and customs through recommendation 75 of the "Creating the Conditions for Economic Growth: Tools for People, Business and Communities" report tabled in the House of Commons December 7, 2016. The recommendation reads: *That the Government of Canada work with the Canadian Air Transport Security Authority and the Canada Border Services Agency to raise service level standards and reduce wait times without increasing fees charged to travellers.*

Security Screening

As characterized by the Canadian Global Cities Council in a policy document last year, "Canada has fallen behind global competitors and projected growth targets with its current 'one-size-fits all' screening model." Enabling passengers to proceed through security screening in a timely and predictable manner is imperative as Canada's airports and air carriers compete in this global environment.

Canada's airports appreciate the attention given to the screening file over the past year by this committee and by Transport Minister Mark Garneau. Discussions are underway between industry and government on ways to restructure the service around a 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.

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[4] The Travel and Tourism Competitiveness Report 2017, World Economic Forum

In the meantime, there are challenges we believe must be addressed so that airports can continue to facilitate the productivity and competitiveness of the regions they are located in.

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 demand, which is resulting in longer and longer wait times for our passengers. While discussions with government on restructuring over the service for the long term are underway, this work will take some time. With air traffic continuing to grow, the needs of passengers over the next 1-2 years must be taken into account. Status quo funding is insufficient.

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.

Canada's airports request government:

- *Set a globally competitive service level standard for security screening in Canada and funding to support any transition to a new structure.*

- *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 to growing demand.*

Border Services:

Passengers arriving from international destinations are the fastest growing segment at many of Canada's major airports, with international overseas traffic up 8.9% last year. This growth is already being surpassed so far this year (up 10.9% in the first five months of 2017).[5]

Innovative programs and the use of technology have helped the Canada Border Services Agency (CBSA) over the past few years better facilitate the flow of air travellers.

Airports have been strong partners in this effort, investing $40 million in the past

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[5] Data from CAC member airports

six years in border automation and infrastructure changes to facilitate the smoother and more efficient processing of passengers. This includes initiatives such as the $6 million invested by Aéroports de Montréal this summer to improve border processes for arriving and connecting passengers at Montréal Trudeau and the millions of dollars Class 1 airports have invested in Primary Inspection Kiosks.

Like security screening, long lines at Canada's air borders can leave travellers frustrated. For those who have a choice about where to travel or connect, they will choose elsewhere if Canada cannot offer a predictable, consistent, quality experience.

"Tourists want to move quickly and seamlessly, and will choose alternative destinations when access is difficult. For passengers, airports are a means to an end and not a destination. Therefore, airports and borders need to become smarter and travel infrastructure leaner."

- The Travel and Tourism Competitiveness Report 2017

Canada's airports request government:

- ***Provide additional funding for Canada Border Services Agency to support growing air service demands as well as continued innovation through technology.***

Modern Airport Policies

For nearly 25 years, local airport authorities in the National Airports System (NAS) have been operating and funding their airports under long-term leases, investing more than $22-billion in airport improvements since 1992 with virtually no funding from taxpayers. This is a model that has worked well for Canada; as Transport Canada considers additional reforms to policies around airports they should seek to build upon the strengths of this system.

Airport Rent

A federal budget component to this work of interest to many NAS airports are policies around the levying of airport rent. Canada's airports are a diverse group, and rent is a topic of particular interest and concern to airports with lower traffic volumes and those larger airports that find themselves particularly vulnerable to competitive pressures from other airports or modes of transportation.

Rent is a federal charge levied on 21 privately operated NAS airports in the country, including 13 airports with fewer than 3 million passengers. In 2016, NAS airports paid $344 million in airport rent. In all, $5.6 billion has been paid in rent since the transfer of airports began in 1992.

As a tax on gross revenue, airport rent impacts the way some 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.

Any rent collected by government should be fully redistributed within the system, such as to buttress resources in some of the other areas outlined in this submission.

Canada's airports request:

- ***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, or eliminate.***

Arrivals Duty Free

Today, Canadian airports are permitted to sell certain goods duty free to passengers at the time of their departure from Canada. However, more than 50 countries allow arriving international passengers to purchase duty free items.

A relatively minor change to the *Canada Customs Act* will produce net benefits for federal taxation, employment and traveller experience. With Arrivals Duty Free (ADF) the Canadian economy could see the repatriation of about $100 million in overseas sales, generate close to 600 new jobs (direct and indirect) and produce $9 million in new tax revenue to the federal government in Canada.

Canada's airports request government:

- ***Allow interested provinces to introduce Arrivals Duty Free by amending the Canada Customs Act, Section 24 (1)(c) to include duty free sales to arriving passengers to Canada instead of limiting only to persons who are about to leave Canada.***

About the CAC

The Canadian Airports Council (CAC) has 51 members operating more than 100 airports across Canada, including all of the non-governmentally operated National Airports System (NAS) airports. The CAC was founded in 1991 after the control of airports was transferred from the Government of Canada to local entities, which manage, operate and fund airports under long-term leases.

CAC member airports handle more than 90% of the commercial air traffic in Canada, and an even greater share of international traffic. Canada's air transport sector employs more than 140,000 direct workers and generates about $35 billion in economic activity and contributes $7 billion in federal taxes.