



**NACC**  
National Airlines  
Council of Canada



**CNLA**  
Conseil national des lignes  
aériennes du Canada

## Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

The National Airlines Council of Canada

August 2018

## Recommendations:

1. Reduce the federal aviation fuel tax to be competitive with the United States and re-invest revenue collected from the tax into the air transportation system, as in other countries.
2. Revisit aviation security funding to create a direct and transparent correlation between ATSC revenue and funding for screening services and acknowledging the role of that aviation security plays in Canada's overall national security.
3. In the event of the privatization of passenger screening services:
  - CATSA's assets should be transferred to any new entity for a nominal fee, rather than book value, recognizing that the assets have been paid for by users;
  - To avoid that such unplanned external contingencies disrupt the system or cause inappropriate new financial burdens for travelers or airlines, a financial "shock absorber" such as an emergency contingency fund, should be put in place to plan for exceptional, unforeseen cost increases, and to allow for their impact to be amortized over time;
  - All decisions regarding service standards and the operating strategies required to achieve them, must be left to the discretion of the new entity's Board;
  - If the Government of Canada were to contemplate enhanced service standards for the new entity, it must then provide predictable multi-year funding as part of the transition process.
4. As recommended by the House of Commons Finance Committee's December 2017 report (recommendation 66), revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations. Over the medium-term, the Government of Canada should re-invest funds garnered from rent back into the air transportation sector.
5. Adequately staff and resource Transport Canada to address long-standing regulatory issues, particularly those which affect the passenger experience
6. Apply an aviation ecosystem lens when developing new regulations
7. Enhance investments to improve and streamline security screening and border processing at airports.

*Canada's approach to user-pay adds to the relatively high cost of air travel, as users support the full cost of infrastructure and operations: the government collects revenues from air transport fees and taxes in excess of its investments in the sector. This is one part of why air travel prices in Canada are far higher than comparable countries, including competitors located just a short drive across the United States border.*

*Emerson Report, Vol. 2, p 141*

## **Trading drag for lift: Fixing Canada's Uncompetitive Cost Structure**

If Canada's commercial aviation sector is encountering turbulence today, it's largely the result of a uniquely Canadian policy: user-pay PLUS<sup>1</sup>.

Commercial aviation is not just the only mode of passenger transportation in Canada that does not receive direct subsidies, its users support the full cost of capital and operating requirements, and the fees and taxes they pay to operate the system generate a windfall of several hundreds of millions per year for the Government of Canada.<sup>2</sup>

In general, as an economic and public policy principle, a user pay system is used as a way to a) allocate scarce resources more efficiently, b) favour horizontal equity; or 3) put a price on negative externalities. The Government of Canada would be hard-pressed to make a public case for user pay in commercial aviation based on economic and/or equity arguments.

Successive governments have literally banked on two myths – air travel as the preserve of jet-setting elites and an abundance of transportation options for all Canadians – to normalize this policy.

Canadian air carriers are recognized as among the best in the world. Their success should be recognized as Canada's success. Given the impact Canada's user-pay PLUS policy has on individual Canadians, on families, communities and on the industry that serves them, it is time for to trade It is time to trade drag for lift.

In this submission we identify specify aspects of this policy framework that require urgent attention.

*Other countries see the increasing importance of air transport for global competitiveness. Some, such as the U.S., Singapore, and the Persian Gulf states, actively subsidize their air sectors; others with user-pay models that promote self-sufficiency, such as countries in the European Union, still support their air sectors in other ways and minimize further tax burdens on the sector. Canada is unique among its competitors in charging onerous rents and taxes that undermine competitiveness.*

*Emerson Report, Vol. 1, p 190*

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<sup>1</sup> NACC coined this term to describe the Government of Canada policy of collecting more in aviation-related taxes and fees than it re-invests into services it provides to support its operations. This made in Canada system is unique among modes of transport in Canada, and unique internationally. (See Appendix B)

<sup>2</sup> Data from Transport Canada's Annual Transportation in Canada reports shows that over the last 10 years, Canadian taxpayers subsidized marine transport by \$12.9 billion, and rail transport by \$4.2 billion (calculated as the difference between federal tax and other revenue collected from that sector and total federal spending in support of its activities). Over the same period the federal government generated a \$2.9 billion windfall from commercial aviation.

## Canada's Uncompetitive Fuel Tax

Canada's federal excise taxes on aviation fuel are more than double the rate in the United States<sup>3</sup>, but it should be noted that in the United States, those funds are re-invested in the air transportation sector. In Canada, they are collected as part of general revenue.

### Recommendation

1. Reduce the federal aviation fuel tax to be competitive with the United States and re-invest revenue collected from the tax into the air transportation system, as in other countries.

## Security Screening

*In the case of the ATSC, another tax added to an airline ticket is more reason for Canadian travelers to drive across the border where they can fly less expensively from U.S. airports. The "export of air passengers" reduces spending that could be taxed at Canadian airports and the aviation supply chain. It is by no means obvious that the federal treasury is coming out ahead. Tax revenues lost directly from cross-border traffic leakage, and indirectly by the drag placed on the economy, could easily exceed the federal taxes collected by the ATSC.*

*Dr. Barry Prentice, Canadian Airport Security: The Privatization of a Public Good*

While it was notionally intended to fund the operation of the new security screening body, between 2010 and 2016, the Air Travellers' Security Charge (ATSC) has generated a windfall for the Government of Canada of \$547.5 million<sup>4</sup>.

Since 2015, the Government of Canada has had to provide an annual top-up to CATSA's operating budget to mitigate deteriorating passenger wait times and to support expanded non-passenger screening responsibilities. This has been ad-hoc funding and has not resulted in year-over-year increases of CATSA's A-base funding. Moreover, CATSA's funding profile through 2020/21 shows that the Government of Canada has booked annual A-base operating allocations of \$471 million<sup>5</sup>, a 23 percent reduction from **actual** 2016/2017 levels<sup>6</sup>.

Even though budget allocations to CATSA have consistently fallen short of the revenue generated by the ATSC, it is important to note the evolution of trend lines in ATSC revenues and CATSA spending beginning 2015 as this may help explain the government's interest in the privatization of CATSA.

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<sup>3</sup> At present exchange rates, the US rate of 4.4 cents (US) per gallon equates to 1.5 cents per litre in the US, while the Canadian aviation fuel excise tax is 4 cents per litre.

<sup>4</sup> This is based on the difference between total ATSC revenues and total federal CATSA appropriations. It does not include any incremental spending on ancillary services such as the Sky Marshall service, which the Government of Canada ostensibly funds through ATSC revenues, but which have not been broken out in public accounts.

<sup>5</sup> Canadian Air Transport Authority, Summary of the 2016/17 – 2020/21 Corporate Plan and Operating and Capital Budgets, p. 39.

<sup>6</sup> 2016/17 is the last year for which total actual CATSA spending figures are available in the Main Estimates. The 2016/17 actuals include \$471.4 million in A-base expenditures and an additional \$142.3 million in supplementary funding. Figures from Main Estimates, 2016-17 and 2017-18.

	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
<b>Air Travellers Security Charge (ATSC) Revenues</b>	<b>600.0</b>	<b>631.0</b>	<b>636.0</b>	<b>662.0</b>	<b>696.0</b>	<b>721.0</b>	<b>768.0</b>
CATSA's budgeted allotment	243.6	582.7	576.4	598.3	591.6	678.4	624.0
Additional funding	351.5				84.6	33.3	142.3
Total Funding	595.1	582.7	576.4	598.3	676.2	711.7	766.3
<b>Appropriations Used</b>	<b>573.1</b>	<b>515.0</b>	<b>513.4</b>	<b>559.1</b>	<b>623.9</b>	<b>656.7</b>	<b>725.3</b>
<b>Windfall to government from ATSC:</b>	<b>26.9</b>	<b>116</b>	<b>122.6</b>	<b>102.9</b>	<b>72.1</b>	<b>64.3</b>	<b>42.7</b>

\*Sources: Public Accounts, Main and Supplementary Estimates

### Recommendations:

2. Revisit aviation security funding to create a direct and transparent correlation between ATSC revenue and funding for screening services and acknowledging the role of that aviation security plays in Canada's overall national security.
3. In the event of the privatization of passenger screening services:
  - CATSA's assets should be transferred to any new entity for a nominal fee, rather than book value, recognizing that the assets have been paid for by users;
  - To avoid that such unplanned external contingencies disrupt the system or cause inappropriate new financial burdens for travelers or airlines, a financial "shock absorber" such as an emergency contingency fund, should be put in place to plan for exceptional, unforeseen cost increases, and to allow for their impact to be amortized over time;
  - All decisions regarding service standards and the operating strategies required to achieve them, must be left to the discretion of the new entity's Board;
  - If the Government of Canada were to contemplate enhanced service standards for the new entity, it must then provide predictable multi-year funding as part of the transition process.

### Airport Rents

Canada's system of charging onerous airport rents and high taxes is unique around the world, and with rent being calculated as a percentage of gross revenue, the price of every aeronautical service an airport provides must be marked up by at least the amount of rent charged. This increases the airport's break-even point and raises the amount of revenue that must be generated, leading to higher operating fees for air carriers which, unfortunately, are passed on to the passenger.

*While rent may only cost approximately \$2 to \$5 per passenger, depending on the airport, it is equivalent to up to one third of the landing/terminal fees paid by carriers at the larger airports.<sup>1</sup> These levels of rents are considered to be uncompetitive with competing jurisdictions, and out of proportion with equivalent charges levied on Canadian marine ports.*

*Emerson Report, Vol. 2, p 141*

## **Recommendation**

4. As recommended by the House of Commons Finance Committee's December 2017 report (recommendation 66), revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations. Over the medium-term, the Government of Canada should re-invest funds garnered from rent back into the air transportation sector.

## **Making air travel attractive – for Canadians and for tourism**

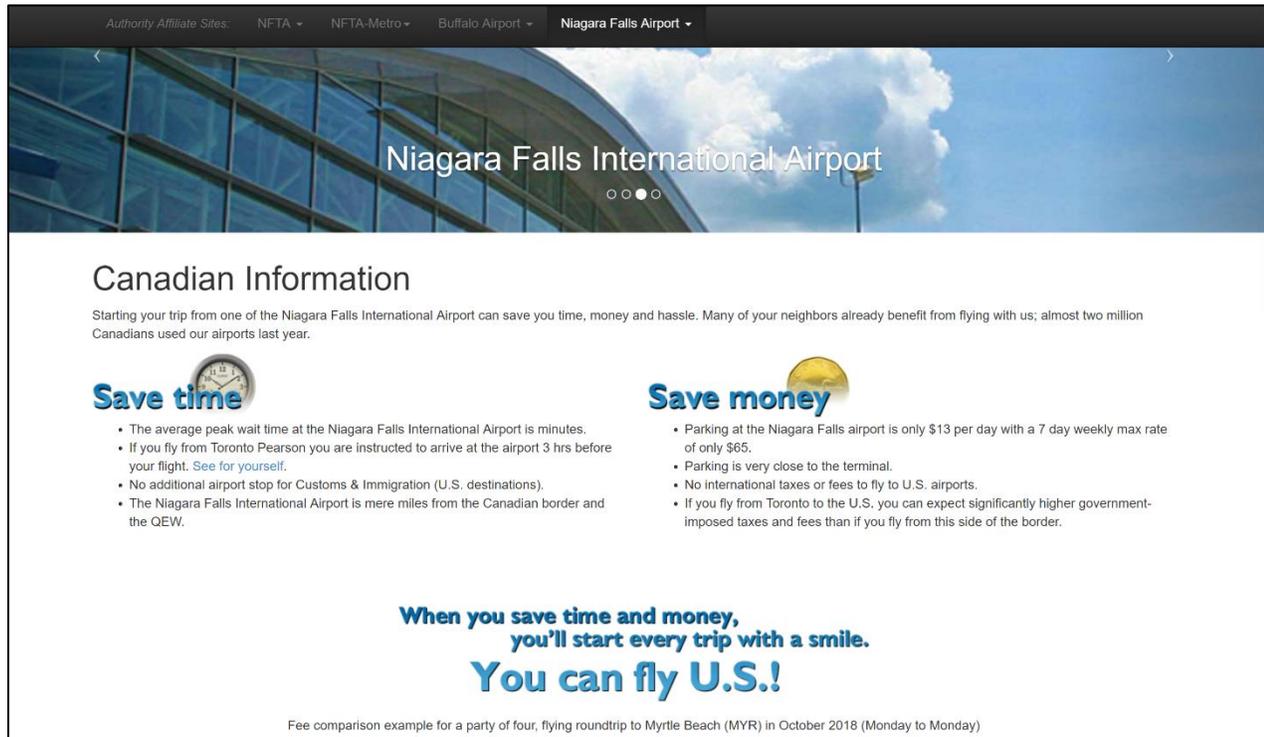
With a new passenger rights regime coming into force by next year, it's important that the government lives up to its obligations to passengers. The air travel experience doesn't start with check-in and end with baggage pick-up. Inadequate funding and staffing of services, which affect the travel experience need to be addressed. This includes addressing Transport Canada's chronic difficulties in addressing shifting regulatory requirements in a timely manner.

### **Recommendations:**

5. Adequately staff and resource Transport Canada to address long-standing regulatory issues, particularly those that affect safety and the passenger experience
6. Apply an aviation ecosystem lens when developing new regulations
7. Enhance investments to improve and streamline security screening and border processing at airports.

## Appendix A:

Airports in the United States are aggressively marketing to Canadian customers to take advantage of Canada's uncompetitive cost structure. Below are some examples from their websites.



The screenshot shows the website for Niagara Falls International Airport, specifically the 'Canadian Information' section. The header includes navigation links for 'Authority Affiliate Sites', 'NFTA', 'NFTA-Metro', 'Buffalo Airport', and 'Niagara Falls Airport'. The main heading is 'Niagara Falls International Airport'. Below this, the text states: 'Starting your trip from one of the Niagara Falls International Airport can save you time, money and hassle. Many of your neighbors already benefit from flying with us; almost two million Canadians used our airports last year.'

**Save time**

- The average peak wait time at the Niagara Falls International Airport is minutes.
- If you fly from Toronto Pearson you are instructed to arrive at the airport 3 hrs before your flight. *See for yourself.*
- No additional airport stop for Customs & Immigration (U.S. destinations).
- The Niagara Falls International Airport is mere miles from the Canadian border and the QEW.

**Save money**

- Parking at the Niagara Falls airport is only \$13 per day with a 7 day weekly max rate of only \$65.
- Parking is very close to the terminal.
- No international taxes or fees to fly to U.S. airports.
- If you fly from Toronto to the U.S., you can expect significantly higher government-imposed taxes and fees than if you fly from this side of the border.

**When you save time and money,  
you'll start every trip with a smile.  
You can fly U.S.!**

Fee comparison example for a party of four, flying roundtrip to Myrtle Beach (MYR) in October 2018 (Monday to Monday)

Niagara Falls International Airport.



The screenshot shows a web browser window displaying the OGSair.com website. The address bar shows 'https://ogsair.com/canadiens/'. The page content includes:

**Transfer rapide**

- Environ 60 min à partir d'Ottawa, de Gatineau ou de Cornwall
- Environ 50 min à partir de Manotick ou de Winchester
- Environ 35 min à partir de Kemptville ou de Brockville
- Également près des communautés le long du corridor Kingston-Cornwall, le long de l'autoroute 416 and à travers de la vallée de l'Outaouais et le nord-ouest du Québec



**Vols directs**

- Voulez-vous éviter l'ennui d'un vol de correspondance ?
- Pourquoi dépenser votre temps en ligne aux portes d'embarquement, attendre sur la piste de l'aéroport, et espérer que vos bagages arrivent en Floride ?



**Avez-vous des questions pour le service à la clientèle ?**

Bien que nous sommes affiliés à l'aéroport OGS et non avec les transporteurs aériennes, nous sommes heureux de pouvoir vous aider autant que possible. Veuillez communiquer avec [OGSEasyTravel@gmail.com](mailto:OGSEasyTravel@gmail.com).

Ogdensburg International Airport has both English and French pages aimed at Canadian passengers.

# BUFFALO NIAGARA

## INTERNATIONAL AIRPORT

  
FLIGHT INFO

  
AIRPORT GUIDE

  
ONSITE PARKING

  
GROUND TRANSPORT

  
CANADIAN INFO

  
ABOUT THE AIRPORT

### CANADIAN INFO

- ▶ **Save Time / Save Money** - From the Buffalo Airport can save you time, money and hassle.
- ▶ **Canadian Ground Transportation** – Getting to and from Canada.
- ▶ **Border/Bridge Crossing** – Information to make crossing the border easier.
- ▶ **Getting To Niagara Falls** - USA and Canada
- ▶ **Getting To Toronto** - Canada
- ▶ **Directions from Canada** – The best routes in and out of Canada.
- ▶ **NEXUS Info** – Making frequent border crossings quick and easy.
- ▶ **Currency Exchange** – How and where to change money.

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Buffalo Niagara International Airport has a page with extensive resources for Canadian travellers.



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### Travel Tips & Helpful Links for Canadian Visitors

For the many Canadians enjoying the convenience of "Montreal's U.S. Airport," we've compiled some helpful tips and links to help you the next time you fly from Plattsburgh International Airport.

<ul style="list-style-type: none"> <li><a href="#">Border Wait Times to U.S.</a> (Champlain)</li> <li><a href="#">Border Wait Times to QC</a> (Lacolle)</li> <li><a href="#">Quebec Traffic Webcam</a></li> <li><a href="#">Weather</a></li> <li><a href="#">Driving Directions</a></li> <li><a href="#">Driving Tips for New York State</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Today's Exchange Rate</a></li> <li><a href="#">Duty Free Allowances</a></li> <li><a href="#">Tips for Dining Out &amp; Shopping</a></li> <li><a href="#">Distance Conversions</a></li> <li><a href="#">Temperature Conversions</a></li> <li><a href="#">Sizing Conversions</a></li> </ul>
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#### Driving

- The speed limit on most major highways is 55 MPH
- The speed limit in school zones is 20 MPH
- Cell phone use while driving is not permitted
- Turning right on a red light is permitted unless otherwise noted
- Headlights must be on while operating windshield wipers

Plattsburgh International Airport: "Montreal's U.S. Airport"

## Appendix B:

