CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

January 14, 2016

The Honourable William Francis Morneau, PC, MP
Minister of Finance
House of Commons
Ottawa, ON K1A 0A6

Dear Minister,

On behalf of the Canadian Airports Council (CAC) and our members, please find below our recommendations as you prepare for the next federal budget.

The CAC has 48 members operating more than 100 airports around Canada, including all of the non-governmentally operated National Airports System (NAS) airports. 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, many of them unionized, generates about $35 billion in economic activity and contributes $7 billion in federal income.

As you're most likely aware, the Government of Canada has recently received the final report from the Canada Transportation Act Review Panel – a comprehensive review that included an examination of key policy approaches around aviation. With the National Airports Policy (NAP) now more than twenty years old, Canada's airports agreed that this review was a worthy endeavour and participated in it fully.

But while we look forward to working with Minister Garneau on longer term policy reforms as a result of this work over much of 2016 (and beyond), there are two areas of urgent concern that we respectfully request you consider as part of this budget cycle: Aviation security screening and infrastructure funding for small airports

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Aviation Security Screening Service Levels and Funding

Air transport is truly a global industry and Canada's air sector must be able to provide globally competitive standards of service. Today, security screening is the biggest operational challenge faced by Canada's large, high-volume airports in serving air travellers – with more than just unhappy passengers at stake.

While many large hub airports around the globe screen 95% of passengers in 10 minutes or less as an established level of service, Canada does not yet have an established standard of service and the impact is being seen at Canada's highest volume airports. Over the past few years, even while passenger contributions for screening through the Air Travellers Security Charge (ATSC) have risen dramatically on strong passenger growth, the money provided to the Canadian Air Transport Security Authority (CATSA) for passenger screening has failed to keep pace with traffic demand. As a result we have seen growing wait times, particularly at Canada's biggest international gateway airports.

The impact of passenger perception in a globally competitive marketplace is huge. Canada's air transportation sector aims to capture a bigger share of ever increasing international traffic; air carriers and airports have invested billions of dollars in aircraft and infrastructure to support this growth.

A big part of this international opportunity are travellers who can connect through Canadian airports between points in the Americas and Europe or Asia. These travellers have alternatives and will avoid Canadian airports on future trips if they find their connection process is unpredictable, long and stressful. These transit passengers support international routes that would not otherwise be viable, meaning millions of dollars in economic activity and thousands of jobs in Canadian air transport are at stake.

Meanwhile federally-commissioned research supports what we intuitively know – that happy passengers, able to smoothly and efficiently flow through screening, are inclined to spend millions of

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dollars more in retail, food and beverage concessions at the airport. This money offsets aeronautical charges to air carriers.[1]

With the stakes so high, eliminating the unpredictability and deteriorating nature of screening service levels through the introduction of a funded standard has been an approach on which most stakeholders can agree. Early last month, the CAC submitted to Transport Canada a joint proposal with Air Canada and WestJet on the establishment of service level standards for screening at the highest volume airports. This is needed to focus efforts and serve as a baseline for expectations.

While this approach deals primarily with the needs of passengers at higher volume airports, setting a standard for larger airports at the expense of all other airports would simply move the problem to a different community. Smaller airports are not without their own concerns about the level of service provided to their passengers at screening and require their own commitments to service standards.

To meet the needs of Canadian air travellers, CATSA, airports, and air carriers need assurance of stable and predictable funding while the work on establishing a service level standard occurs, especially with the busy summer travel season for 2016 fast approaching. As government deliberates on its priorities for budget 2016, Canada's airports **require sufficient funding for CATSA to support an internationally competitive level of service for the remainder of 2016.**

The current proposal to the Minister of Transport for an internationally competitive service standard is for 85% of originating passengers at large (Class 1) airports to be screened in under eight minutes, 95% of passengers being screened in under 10 minutes, and no passengers waiting more than 20 minutes. A more aggressive service standard is sought for connecting passengers requiring rescreening, as there are greater practical and competitive pressures for these passengers.

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[1] InterVISTAS, Aviation Security Screening Level Service Considerations, March 30, 2015

Infrastructure Funding for Small Airports

Generally the transfer of airports in Canada to local airport authorities and communities has been a good story. Since transfer, Canada's airports are fulfilling their mandate of building and maintaining their infrastructure in a manner that is financially self-sustaining overall.

A fundamental principle of the National Airports Policy, and indeed of Canada's approach to aviation generally, has been that users rather than taxpayers pay for the cost of aviation infrastructure and services. Under this user-pay approach, Canada's airports have invested more than $19 billion in airport infrastructure without government support or grants.

However, even at the time of the NAP, government recognised that NAS airports with particularly low traffic volumes would not enjoy the same revenue generating potential as larger airports. Airports with fewer than 600,000 passengers a year have fewer revenue options available to them to cover both ongoing operating costs and the heavy cost for infrastructure improvements and other big ticket investments required in a capital-intensive industry like aviation.

> *"As a general rule, airports within the NAS system will be required to become self-sufficient (operating and capital costs), beginning 5 years from April, 1995. However, for certain NAS airports it is recognized that under-capitalization in the past and future capital requirements may result in adjustments in this principle."*
> - National Airports Policy (1994)
> -

Unfortunately, this last point has been disregarded in developing the federal infrastructure programs for airports, as those airports located on federal land (most notably, NAS airports) have been excluded from both the mainstream federal infrastructure program Building Canada, and the Airports Capital Assistance Program (ACAP) for small airports.

Six small NAS airports in Charlottetown, Fredericton, Gander, London, Prince George and Saint John have pursued changes to these programs for the past several years. While there seems to be widespread appreciation within government of the inequity of the current approach, industry was pleased to finally see a commitment to address the situation during the recent federal election when the Liberal Party of Canada committed as follows:

> *"As part of the implementation our new infrastructure policy, a Liberal government will review the eligibility criteria to ensure that small NAS airports are not unfairly excluded from accessing federal infrastructure funds."*[2]

The federal approach today is inconsistent, with communities served by NAS airports barred from benefitting from programs freely available to airports with much larger traffic volumes but not burdened by NAS status.

Discussions with the new government have been initiated through the Atlantic Caucus in recent weeks, and the six airports have outlined a series of projects totalling about $50 million for which critical decisions need to be made soon in order for construction to begin during the upcoming summer construction season.

This matter may be further exacerbated by regulatory requirements anticipated in the coming months that would soon see some airports mandated to spend millions of dollars in improvements to add safety areas at the end of their runways. All Canadian airports seek to offer a competitive marketplace to the travellers in their community, but ever growing costs outside of the control of industry raise the price point at which air carriers can make a profit, stifle demand, and accordingly serve as a barrier to entry for new air service.

In conclusion, we appreciate the opportunity to provide input to the budgetary process on behalf of Canada's airports. While we anticipate engaging with Finance on longer term matters impacting aviation as part of ongoing work on the CTA Review of air transport policy, the

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[2] October 15, 2015 letter from Liberal Party of Canada President Anna Gainey to the Atlantic Canada Airports Association

two areas we have highlighted are more urgent in nature. We respectfully request that these items receive consideration for your 2016 federal budget.

We thank you for your support.

Sincerely,

John Gibson
Chair

Hon. Marc Garneau, Minister of Transport
Hon. Scott Brison, President, Treasury Board
Hon. Bardish Chagger, Minister of Small Business and Tourism

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