

Righting the Canadian Disadvantage

Pre-Budget 2010 Submission



CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

Outline

Executive Summary _____ **1**

Eliminating Airport Rent: A Valuable Investment in Canadian Aviation and Tourism _____ **1**

Foreign/Free Trade Zones for a More Competitive Canada _____ **3**

An Examination of Regulatory Burden _____ **4**

References _____ **5**

Executive Summary

The Canadian Airports Council welcomes the opportunity to participate in the budgetary process with our submission to the House of Commons Standing Committee on Finance. The CAC is seeking solutions in three areas in which Canada's aviation sector currently is at a competitive disadvantage to other airports in the U.S. and the world, as well as against other modes of transportation - airport rent, free trade zones and regulatory burden.

Our primary request for budget 2010 is a long-standing one: **The elimination of airport rent.** As we outline below, we believe the continued imposition of rent on Canada's 25 National Airports System airports is the biggest component in an aviation tax burden that stifles the prosperity and competitiveness of Canada's aviation and tourism sectors.

Furthermore, according to a new study conducted by an internationally respected transportation consulting firm, we anticipate the elimination of airport rent would result in nearly 600,000 new annual passengers, more than \$300 million a year in new traveller spending and have a total economic impact of \$710 million a year.

Meanwhile, Canada's airports are also becoming increasingly interested in securing a proper, competitive **Foreign/Free Trade Zone** program for Canada. While there have been export-oriented trade programs introduced in the past, these programs simply are not competitive and accordingly there has been little uptake.

Finally, we seek the committee's support in directing the Department of Transport to – re-examine its approach to the regulation of airports in Canada. Airports today endure a duplicative **regulatory burden** that adds to costs. A moratorium on new regulations should be put in place until a proper examination can be conducted.

Eliminating Airport Rent: A Valuable Investment in Canadian Aviation and Tourism

For several consecutive years, the CAC has sought the elimination of airport rent as a means to help Canada's aviation and tourism sectors become more competitive. We now have the highlights of a recent study that quantifies the potential return on investment from the elimination of rent through increased travel and tourism spending.

In addition to linking Canadians with each other, aviation connects Canada to the world. Canada exported \$484 billion worth of goods in 2008 and tourism is a \$74.9 billion industry for this country. Aviation is one of the most important facilitators of trade and tourism. It helps Canadian businesses bring their goods and services to market and in 2008 meant some 7 million foreigner visits to Canada.

Canada's aviation sector is heavily taxed, however. In fact, we believe that Canada's aviation tax regime is among the highest of any nation in the developed world. A recent World Economic Forum¹ study ranked Canada 114 out of 130 countries in terms of cost competitiveness in the travel and tourism sectors.

The biggest tax on aviation in Canada is rent. Canada's airports currently pay just under \$300 million in airport rent – a number that is slated to climb at a far greater rate than the government estimates.

Since 1992, when Canada's airports began assuming local control for airports, some \$2.5 billion a year has been paid to the federal government in the form of rent. This amount exceeds the book value of the airport assets at the time of transfer.

Today airports in other parts of the world, many of them government supported, find themselves struggling with congestion and growth constraints. However, over the past fifteen years Canada's airports have committed to more than \$9.5 billion in infrastructure investments. Without tax payer support, Canada's airports have built the facilities required to meet the more than 50% growth in air traffic growth experienced since the early 1990s. Today, Canada is ranked number one in the world in air transport infrastructure, by that same World Economic Forum.

Airport rent has become a key point of contention over the years, not only from the Canadian Airports Council, but also the following organizations:

- Air Transport Association (in the U.S.)
- Air Transport Association of Canada
- Association of Canadian Travel Agencies
- Canadian Chamber of Commerce
- Canadian International Freight Forwarders Association
- International Air Transport Association.
- National Business Travellers Association of Canada
- Tourism Industry Association of Canada
- Tourism Industry Association of Ontario

The results of Canada's aviation tax policy are plain to see. We estimate that more than 2 million Canadians are flying out of U.S. border airports in Buffalo, N.Y., Burlington, Vt.; Plattsburgh, N.Y., Grand Forks, N.D., and Bellingham, Wash. While other U.S. airports have seen passenger decreases, these airports are generally growing – Buffalo reported its fifth consecutive record year in 2008

Return on Investment

Around the world it has been seen that lower costs stimulate traffic demand and increase traffic and economic activity. There is little doubt that lowering costs here in

Canada, through the elimination of airport rent, would do the same.

A worldwide report for the International Air Transport Association² studied the link between air service connectivity and labour productivity and GDP growth. It found that a 10% increase in connectivity to the global transportation network can produce long-term increase in productivity and ultimately GDP of 0.07% a year or greater.

If airport rent is eliminated, what will happen? The continued imposition of airport rent only serves as a yoke on the aviation sector. Our recent study³ estimates that the elimination of rent would result in 590,000 new air travellers a year who would pump an additional \$304 million in spending into the economy. Total new employment generated would be about 5,330 person years and total economic output would be \$710 million a year.

Estimated Traveler Expenditure Impact-Eliminating Airport Rent	
Sector	Impact
Domestic	\$120 million
Transborder	\$64 million
International	\$119 million
TOTAL	\$304 million
Source: InterVISTAS report	

Eliminating airport rent would cut \$280 million in tax revenue, however, our study shows that this would be partially offset by \$50 million in new taxes from the increased business activity.

When combined with the tremendous economic spin-offs from the elimination of rent outlined above, we contend this move would be a valuable direct investment in Canada’s aviation and tourism sectors.

Summary of Economic Impacts Due to Eliminating Airport Rents in Canada				
Type of Impact	Employment Person Years	Wages	Gross Domestic Product	Economic Output
Direct	2,700	\$90 million	\$140 million	\$300 million
Indirect	1,350	\$60 million	\$110 million	\$220 million
Induced	1,400	\$60 million	\$100 million	\$200 million
Total	5,550	\$210 million	\$350 million	\$720 million
Source: InterVISTAS report				

Foreign/Free Trade Zones for a More Competitive Canada

The Canadian Airports Council, joined by a coalition of like-minded members of industry, recently wrote to the Minister of Finance seeking the development of proper Foreign/Free Trade Zones (FTZ) for Canada. As the federal government continues its efforts to improve Canadian industrial competitiveness through trade liberalization, we also seek your support for a program that has enjoyed success abroad but has yet to be developed in Canada – Foreign Trade Zones.

The Canadian Airports Council, Canadian Chamber of Commerce and the Canadian Manufacturers and Exports are united in our support for this initiative.

A key component to the prosperity of global trading hubs is their proximity to an FTZ – most if not all have FTZs nearby. By lowering barriers to trade, these zones are designed to help countries improve their relative competitiveness as hubs of trade and transportation. Accordingly, the concept has grown quickly and enjoyed economic success throughout the world.

FTZs are facilities where goods from outside a country can be stored or processed duty and tax free, prior to a) shipment to another country, or b) import (via the normal custom process) into the domestic economy. FTZs have proven to be powerful economic generators, providing a number of advantages to their users, firms involved in international trade, including:

- Improved cash flow
- Reduction or elimination of duties
- Fewer quota restrictions
- Avoidance of inverted tariffs
- Access to economic incentives.

There are more than 500 distinct FTZs worldwide, a number that has more than tripled in the past three decades. In the United States alone, there are more than 250 general purpose FTZs in all 50 states and Puerto Rico. In fact, Canada is the only G8 country that does not offer a true FTZ program.

While the Canadian government attempted to introduce similar incentives earlier this decade through the Export Distribution Centre (EDC) and other programs, several limitations in the application of these programs have meant lower than expected uptake by industry. Indeed, available information suggests only 30 applications for EDC programs were received by 2004 and only a few in the years since. Substantial alteration of property and/or manufacturing simply cannot be done within the provisions of the EDC program.⁴

We contend that existing programs do not meet the needs of globalized businesses and new policy and programs are necessary to improve Canada's competitiveness in stimulating the use and investment in Canadian transportation and manufacturing sectors. As Canada continues to seek trade liberalization with other countries of the world, accordingly, Canada's airports seek the creation and establishment of true, competitive Foreign/Free Trade Zones within Canada.

An Examination of Regulatory Burden

Finally, we seek the committee's support in directing the Department of Transportation, Infrastructure and Communities to –re-examine its approach to the regulation of airports in Canada.

Airports today face a high-degree of regulatory burdens, such as new environmental

and security regulations. But each new regulation adds to an airport's costs. This cost burden places Canadian airports at a competitive disadvantage compared to other forms of transportation, as well as with other airports, as gateways to regional and international trade.

The CAC seeks steps that would alleviate the regulatory burden on airports without compromising safety, and create a more level playing field for airports competing with other transportation modes. A new approach is needed to ensure that regulations are needed and do not simply add to an airport's cost burden. A moratorium on new regulations should be put in place until a proper examination can be conducted.

References

All referred documents are available upon request.

¹ *Travel & Tourism Competitiveness Report 2008*, World Economic Forum

² *Aviation Economic Benefits*, IATA and InterVISTAS, 2007

³ *Estimation of Return to Government of Airport Rent Elimination*, InterVISTAS Consulting Inc., July 2009.

⁴ *The Impact of FTZ Structure on Location Decision-Making*, InterVISTAS Consulting Inc., October 2008