



THE CANADIAN  
CHAMBER  
OF COMMERCE

LA CHAMBRE  
DE COMMERCE  
DU CANADA



January 15, 2008

The Honourable James Flaherty, P.C., M.P.  
Minister of Finance  
140 O'Connor Street  
Ottawa, Ontario  
K1A 0G5

Dear Minister:

In May of 2007 the House of Commons Standing Committee on International Trade produced a report that prescribed twelve ways to improve Canada's international competitiveness. Included in the report's recommendations was a recognition of the importance that aviation plays in Canada's ability to compete. Your Government has acted on a key recommendation: improving the air service agreements Canada has with other countries and trading blocks around the world. However, a vital part of attracting new air service to Canada is our ability to be cost competitive. We are therefore writing to urge you to move rapidly to reduce the airport rent being charged to Canada's airports in the next federal budget.

This is not simply an airport or airline issue. It is of national importance to the business community and tourism industry at large. Additionally, Canadian companies belong to global supply chains, which requires Canada to be an efficient and effective hub for the movement of goods to and from North America. We contend that reducing airport rent would provide a strong boost to economic growth and employment across Canada.

As a starting point, we support a previous recommendation to eliminate debt financing costs from the definition of revenue used to calculate airport rent. This change would apply to all airports and, in the case of Toronto Pearson, for example, would mean a rent reduction of \$58 million annually. For the longer term, we also recommend the Government remove airport improvement fees from the definition of revenue used to calculate airport rent since these fees are fully applied to help offset construction and development costs at airports.

We would like to stress that a number of Canada's airports have acted to reduce costs and those savings have been passed along to airlines through a modest reduction in fees. However, the Federal Government must also do its part. Airport rent remains a large line item in the operating budgets of Canada's airports.

We offer four reasons in support of an immediate rent reduction at Canada's airports.

... /2

1. *Current airport rent policy reduces Canada's global attractiveness as a destination for business and tourism.*

Business travel decisions, leisure tourism, conventions, meetings and tradeshow, and the movement of cargo are all affected by air transportation costs. A recent World Economic Forum study ranked Canada 110<sup>th</sup> out of 124 countries in terms of price competitiveness in the travel and tourism sector. Furthermore, Toronto Pearson continues to make international headlines as the most expensive airport in the world to land a plane, which hurts Canada's cost reputation as a whole.

Crown rent is a significant contributor to this problem – and it is a cost almost unique to Canada. Peru and Ecuador are the only other countries that charge airport rent. The cost structure of Canada's airports has direct repercussions for businesses across the country that depend on air transportation to move people or goods. Rent drives up costs at Canadian airports and makes it more difficult to attract tourists and conventions. It also adds costs for business that simply do not exist in other countries. That is why national associations continue to regard rent reduction as a top priority.

Additionally, the high costs at Canada's airports add to the challenges already confronting the business community and the tourism, hotel and convention sectors as a result of the high dollar and looming new U.S. passport requirements. While the Government cannot control those factors, it can make travel to and within Canada more affordable by reducing airport rent.

2. *The Government should maximize the potential of its economic enablers.*

Airports and air transportation are economic enablers. They are among a country's most important pieces of economic and transportation infrastructure. If a city, region or country lacks frequent, direct air service to other major centres, or is costly to access by air, it becomes less attractive for business, tourism and conventions. It simply does not make sense to over-tax economic enablers like airports. Other countries recognize this and use their airports as strategic economic assets. In Canada, onerous federal rent dampens economic growth and represents a significant cost to end users such as business travelers, tourists, convention attendees and consumers generally.

3. *An airport rent reduction would help make Canada's airports hubs for international flights.*

A number of Canada's airports have great potential to become international aviation hubs, particularly when you consider our strategic location in the Asia Pacific region and our ability to act as a gateway to North America. Unfortunately, that will not happen with the current cost structure, which creates a cost advantage for U.S. airports that compete with Canadian facilities.

Consider the example of Toronto Pearson. Pearson's main competitor airports in the U.S. are growing at least 50 percent faster (see below). Those airports are all cheaper for airlines than Toronto – with costs in Detroit being almost half. More flights into Pearson would mean more cargo traffic moving into and through Canada and more travelers coming into Canada and spending their tourism and convention dollars here. For evidence of why carriers are not expanding in Toronto, see the comments of Cathay Pacific's Vice-President for Canada made at a recent luncheon speech in Toronto and those from JetBlue's spokesperson (enclosed).

Airport	Global Ranking (based on passenger traffic)	Rate of Growth, 2001-05 (percent)	Cost for a Single Airline Operation
Toronto Pearson	29	6.8	\$24,136
Chicago O'Hare	2	13.5	\$16,176
New York JFK	13	43.0	\$19,804
Minneapolis-St. Paul	19	9.6	
Detroit	20	12.7	\$12,647
Newark	22	11.1	\$21,947

(Source: Airport Council International and IATA)


4. *A rent reduction would make the Government's Blue Sky policy more successful.*

Our organizations fully support the Blue Sky policy. However, granting access to a country's air transportation market may be of modest benefit if an airline cannot make money in that market. Canadian airports – and Pearson in particular – are currently so expensive that few carriers consider expanding here when they have the opportunity to do so. More money can be made flying to lower-cost airports in other countries. The Blue Sky policy is a welcome initiative, but it must be complemented with rent reductions at Canada's international gateways and domestic hubs. More international flights into Canada's largest airports ultimately mean more passengers and cargo fanning out to other destinations across the country.

In summary, improvements to the federal rent formula will provide a significant economic stimulus to the Canadian economy. We ask that excessive Crown rents at Canadian airports be corrected in the next budget to the benefit of the air passenger, tourism, business travel, meeting and convention, and cargo sectors, in recognition of the billions of dollars in earnings that these sectors bring to Canada annually.

Thank you for considering our concerns on this important issue. Should you require any further information, we would be very pleased to meet with you or your officials at any time.

Sincerely,



Honourable Perrin Beatty  
 President and CEO  
 Canadian Chamber of Commerce



Randy Williams  
 President and CEO  
 Tourism Industry Association of Canada



Tanya Racz, CTE, CCTE  
President  
National Business Travel  
Association (NBTA) Canada



Christiane Th  berge  
President and Chief Executive Officer  
Association of Canadian Travel Agencies



W.R. (Bill) Allen  
President  
Tourism Industry Association of Ontario



Robert Walker  
President  
Canadian International Freight  
Forwarders Association

encl.

cc: The Honourable Lawrence Cannon, P.C., M.P., Minister of Transport  
The Honourable Diane Ablonczy, P.C., M.P., Secretary of State (Small Business and Tourism)  
Cabinet Committee on Economic Growth and Long-term Prosperity

## **Pearson still too pricey: Cathay**

**GREG COATES**

**Canadian Travel Press, December 10, 2007**

Toronto's Pearson International has again been taken to task for its exorbitant prices – this time by an executive from Cathay Pacific Airways.

Speaking at a recent Empire Club luncheon in Toronto, Cathay Pacific's Philippe Lacamp, vice-president, Canada, credited the Greater Toronto Airport Authority (GTAA) for recently lowering prices, but slammed the federal government for continuing to charge Crown rent.

“It would seem to a mere airline executive that charging more for your transportation infrastructure than anyone else is not a sound strategy for encouraging investment by users or maximizing the potential of that infrastructure,” said Lacamp. “That is currently the case in Toronto, an airport that holds the dubious title of ‘world’s most expensive’ for landing a Boeing 747. Thirty-four per cent of that expense is charged by the government in the form of Crown rent.”

Lacamp added that, while encouraging trends have emerged from the airport authorities at Toronto and Vancouver in regards to landing charges and fees, “one cannot then stand quietly by and watch certain elements of the federal government make something of a mockery of their efforts to compete with the major North American hubs for the benefit of Canada.”

He noted that the GTAA has commissioned studies that show the benefits of arriving aircraft, as has IATA, with aviation in Canada generating \$4.4-billion annually. “The federal government must take a long hard, pragmatic look at the real economic impact of using airports as a rental revenue stream,” said Lacamp.

“It’s anachronistic, and we believe economically misguided. It is notable that the only other countries with comparable rental structures are Ecuador and Peru.”

He added that it’s no surprise that Cathay Pacific has been operating three daily B747s out of LAX for years, while having only a daily flight in YYZ, operated by a smaller aircraft. “With the depth of demographic and trade links between China, Hong Kong and Canada, we should have far greater services from Canada than from the US,” said Lacamp. “We don’t. We will continue to grow here, but it will be slower and more hesitant than this country merits.”

Lacamp noted that with the transfer to locally controlled not-for-profit corporations, the rationale for airport rent as part of these transfers was to ensure that Ottawa was “no worse off.” The total value of Canada’s airports was assessed at \$2-billion by Transport

Canada at the time of the transfers. The airline executive stressed that since the transfers, Ottawa has already collected over \$2-billion in rent from airports and many of the airports have invested in new facilities without taxpayer funding.

“In short, the federal government is much better off since the transfer of the airports, but is Canada,” asked Lacamp. “We all inherently understand the economic benefit for the region, province and country through growing cargo and passenger travel. It is Canada’s choice as to whether you are an integral hub at the heart of the trade routes of today and tomorrow, or not.”

## U.S. carrier JetBlue to begin service to Canada

The Globe and Mail

Thu 20 Dec 2007

Page: B8

Section: Report On Business: International

Byline: Brent Jang

JetBlue Airways Corp. of New York will launch charter service in 2008 into Canada. The low-cost carrier said yesterday that the move follows the Canadian Transportation Agency's decision to grant approval for JetBlue to begin charter and scheduled flights between Canada and the United States. The private charters will include flights for sports teams and corporate groups, JetBlue spokesman Sebastian White said yesterday. **Sources say JetBlue managers have met with officials from Toronto's Pearson International Airport to discuss scheduled service, but Pearson's high landing fees are currently a barrier to the U.S. airline's entry. One-third of JetBlue's customers departing from Buffalo are Canadians, according to the carrier.**

JetBlue disclosed in late October that it would apply for licences in Canada, spurring Canadian rivals to chop fares on their routes from Central Canada to Florida. JBLU (Nasdaq) fell 22 cents (U.S.) to \$6.67.