More Infrastructure Investment – Less Rent for Canadian Airports

Issue

Canada's airports are becoming less competitive when compared to their U.S. counterparts and as a result, continue to lose an increasing share of the market to bordering U.S. airports.

Background

Aviation in Canada is plagued by high Operating Costs and excessive taxation when compared to the United States. The higher costs manifest themselves in higher air fares from Canadian cities when compared to the U.S. These air fare differences can be significant and it results in an ever increasing amount of passenger and cargo leakage from Canadian Airports to U.S. border city airports. The relative strength of the Canadian Dollar versus the U.S. currency has further exacerbated the problem.

- about half the passengers flying out of Bellingham, WA are from Canada, about half of Alaska Airlines' passengers on the Bellingham-to-Honolulu flights are Canadian
- 21% of Canadians say they travel to U.S. airports, where the cost of a ticket can be between half and three-quarters of the price at home and that number is growing rapidly

BC residents are driving from the lower mainland to Bellingham and Seattle. In the interior they may also travel to Spokane. In Alberta, Saskatchewan and Manitoba, the airports of Montana, North Dakota and Minnesota are readily available. And of course in Ontario, tens of thousands take advantage of lower fares in Detroit and Buffalo.

Canada's airports have been severely impeded in their efforts to compete with their well-funded U.S. counterparts largely because of these factors but as well by the onerous rents imposed on them by the federal government. The Canadian air transportation sector is an important contributor to the well-being and growth of the Canadian economy. With supply chains becoming more and more global, it is imperative that Canada has an efficient transportation system. This means ensuring that all modes of transportation compete fairly amongst themselves and with international competitors.

The Canadian airports and air carrier industry are a vital part of our national economy.

Airports in Canada directly employ approximately 200,000 people and account for $45 billion in economic output. Furthermore, Canada's airports have invested over $9.5 billion in infrastructure improvements within the last decade. Since 1992 Canada's airports have paid over $2.5 billion in airport rents that were only worth $2.0 billion at the time of transfer.

On the infrastructure side of the argument, a study conducted by ACTA (the Association of Canadian Travel Agencies) concludes that the U.S. Government invested about $4.5 billion in airport infrastructure last year alone while the Canadian Government put in just $430 million over the past nine years combined. What we (Canada) should have been spending, according to the ACTA report (taking into account the size differential in the two markets) was $450 million just this past year alone, much less over nine years.

If we are have any hope of growing the country's important travel and tourism industry and the much needed job growth that accompanies it, the federal government has to take the breaks off Canada's aviation system and put some air under the wings of our airports.

Exacerbating the problem further are the increasing security requirements, regulations and harmonization of rules between the U.S. & Canada – none of which are bad things in and of themselves – but they will doubtless lead to higher costs for carriers and airports. And while our U.S. counterparts get substantially more funding to offset these costs, Canadian operators are forced to make up those costs by raising the price of air tickets.

The leakage of passenger and cargo has many direct economic and sociological implications for Canada and they include:

1. There is a significant loss to the economy of Canada
2. Substantial tax revenue lost to the federal government.
3. Canadian Carriers are losing passengers and market share to U.S Airlines.
4. There is a tremendous loss of revenue to providers of aviation services in Canada.
5. Canada is losing substantial employment to U.S. border cities.

Inconvenienced passengers can't leave from their home airport.

The federal government has a role to play in reducing the number of Canadian travelers who choose to start and end their journeys across the border at U.S. airports, on U.S. carriers because of the higher ticket prices at home.

Giovanni Bisignani, Director General and CEO of the International Air Transport Association (IATA) recently called on the Canadian government to improve the global competitiveness of air transport, travel and tourism. He indicated that Canada has fallen from eighth place in 2002 to fifteenth place in 2009 among most visited countries and 106th in cost competitiveness behind Japan, the UAE, India, China and the United States. An airline ticket to Canada is on average $160 more expensive than a ticket to the United States, he added.

And Canada is alone in the world at charging Crown rents to airports. Here it is estimated that the federal government takes in $257 million a year from Canadian airports and our air navigation system while the majority of other countries in the world put significant amounts back into the system to grow their whole travel industries and move them forward.

In Canada, the federal government owns the land under most major airports and charges ground rents to these airports. These rents along with federal and provincial taxes and other charges imposed on the airports are so high, Canadian airports must charge airlines and other airport users fees that are much higher than similar charges at U.S. airports. This, of course, adds to airline ticket prices and other airport-related charges to consumers, not to mention costs associated with the movement of cargo. This inhibits Canada from becoming a true Gateway into North America. Furthermore, it places airports and air carriers at a competitive disadvantage to other modes of transportation and international competitors. Reducing airport rent will be a positive step towards facilitating the development of a competitive multimodal transportation system in Canada.

Several major airports including Pearson, the country's largest, and Calgary's airport have seen recent increases in their ground rents. If we are to break through this impasse and become truly competitive in a global sense the federal government must re-think its position on airports and view them as an engine that can drive huge amounts of local investment, jobs and revenues for Canadians and stop considering them just as a source of tax and rental revenue.

What is the Solution?:

The aviation industry in Canada, together with the Federal and Provincial Governments, need a collective approach to addressing the economic imbalance between Canada and the United States. A full analysis of the impact on Canada of this imbalance should be undertaken. The belief is that with a comprehensive understanding of this issue a solution can be found that results in a complete "win" for Canada. Fees and charges can then become competitive with the U.S., passenger leakage to the U.S. reduced, increased passengers travelling through Canadian airports, higher load factors and yield for Canadian Airlines, more employment and economic impact for Canada, and additional tax revenue for the Government of

Canada. The Federal government must begin to view airports as an economic generator not merely as a source of revenue.

Recommendations:

That the federal government, in order to reduce passenger/freight leakage to U.S. border airports:

1. Move immediately to eliminate airport rent by the end of fiscal 2015/16
2. Immediately examine the cost structure for airlines and airports in Canada with the goal of reducing costs and stimulating the aviation sector.
3. Allocate within its budgetary process, sufficient infrastructure money for airports on a proportional basis to that of the U.S. effective by the end of fiscal 2015/16.

Submitted by the London Ontario Chamber of Commerce and the Surrey Board of Trade

The Transportation Committee supports this resolution