

November, 30<sup>th</sup>, 2010

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## **Opening Remarks**

Senate Committee members, thank you for the invitation and opportunity to address you this morning regarding emerging issues in the airline industry of which airports play an integral role. Over the past few weeks we have been following the testimonies by our industry partners with great interest.

The Atlantic Canada Airports Association is made up of 14 airports, which link our region to the rest of the country and the world. Our goal is to have a strong, viable, successful and well-connected Atlantic Canada.

We would like to touch on a number of important things today including; the significance of having a competitive aviation environment in Canada, why air access is such a critical factor to business growth in Atlantic Canada, the fiscal realities that exist in maintaining safe and secure airport infrastructure and last,

but certainly not least, the pride we have in operating airports on behalf of our communities.

Our region is a unique one in Canada, made up of four Provinces - one of which is an island, and one of which has a major island component - that rely heavily on air transportation to keep people, goods and the economy moving. In Atlantic Canada, air transportation is even more vital to our economic agenda than other modes of transportation. This is because our region's rail system is limited and our major cities are more than a 10 hour drive from other major Canadian centres. Our region has experienced unprecedented economic growth and diversity in the past decade. That growth has been facilitated and accelerated by the expansion of air service in Atlantic Canada.

While we have a relatively modest population base of 2.3 million people, we welcome over 5 million visitors to our region annually, which makes tourism an important sector and economic generator in Atlantic Canada.

Our airports move more than 6.5 million passengers per year – that's 3 times the total population of the region - and that number has grown by an average of 5% annually since 2002.

We are not only moving a substantial number of passengers and important cargo in and out of Atlantic Canada - we are enabling the growth of our local

economies. Our airports generate over 2.6 billion dollars in economic activity every year, supporting 16,700 person years of employment and over \$500 million in wages alone.

Our airports are the links to our towns and cities, of course, but they have also become gateways to markets and destinations throughout the world for companies that do business in our provinces. Take for example St. John's, with the expansion of the offshore oil and gas industry and the growth in tourism, our city has been booming. New companies are setting up business throughout our capital region to capitalize on the expanding opportunities. To put this in the context, this growth has also impacted our airport. We completed a terminal expansion in 2002 to provide the capacity to accommodate 900,000 passengers annually which we expected, based on previous growth rates, would see us comfortably through 2010. However, we have grown at unprecedented levels, and will handle more than 1.3 million passengers this year, and traffic is still growing significantly, in step with the Newfoundland and Labrador economy.

The Fredericton region is another case in point. The new economy in Fredericton is driven by businesses that operate in a global marketplace. The IT and Consulting Engineering firms which have grown out of the city's universities

to become major employers are good examples. These businesses exist by offering a very specialized product to clients who are literally all over the world.

The point I'm making from these examples is that today's businesses compete in a fast-paced global economy. Companies no longer have to be located in large national or international centers to compete, but they do require efficient access to regional, national and international destinations. The businesses that have located in our cities require ease of access to Canada, US and also Europe to conduct their business.

Atlantic Canada's economic survival depends on the ability of our businesses to compete in this global marketplace. Airports provide this fundamentally important access as did rail and seaports in the past. In fact, we would argue that airports have truly become the economic centre of the regions they serve, and critical enablers of regional economic expansion.

Our airport organizations remain committed to providing that vital service, and it is because of this that we have grown. We have worked closely with air service providers to add new routes and airline capacity.

When the divestiture of airports began over a decade ago, there were many unknowns. Community operated airport authorities rose to the challenge and have operated the airports in a business-like fashion and the growth that we

have seen in the past decade is a testament to what can be accomplished by making communities more accountable for their success. It is evident that the model of having airports operated by the communities has worked, as passenger traffic at airports in our region has grown by between 20% to as high as 50% over this past decade.

Our authorities operate airports as a business; we've diversified revenue streams by establishing businesses parks, growing retail services, developing cargo businesses and attracting new airlines. And, we have invested heavily in our airports' infrastructure to ensure there is adequate capacity to accommodate both airline and passenger demands, to maintain operational integrity, and to keep our economies moving forward.

While we certainly recognize that the divestiture of airports was the right thing to do both for air service development and community development, over a decade later there are also a number of challenges that have been posed by the model, and we believe it is time to correct.

Many of the challenges our industry faces, you have also heard from our Canadian airport partners and airlines. We echo their thoughts that the most significant challenge facing Canada's aviation industry is that it has become uncompetitive. The price of flying in Canada is too high.

There are a number of costs that compound the final ticket price seen and paid for by the air traveler, and they include; airport rent, fuel taxes, HST, Air Travellers Security Charge, Nav Canada Fees and the Airport Improvement Fee. With the exception of the Airport Improvement Fee, these costs I just mentioned are government fees and taxes, which are ultimately borne by the consumer.

Our airport model is also in sharp contrast to the model implemented by the United States Government, who makes direct, strategic investments in its airports and leverages these investments to facilitate economic growth. The US Government provides support for capital projects at both big and small airports, and at a level that currently amounts to \$2.02 per passenger per year.<sup>1</sup> Similar strategic airport investments are also made by other developed and developing countries that have recognized the economic leverage available at their airports.

However, in Canada, support for capital projects is limited to small community airports and not available for our National airports. While being part of Canada's National Highway System is a cornerstone in obtaining federal funds, being part of the National Airport System excludes federal support.

The net result is that Canada is at a competitive disadvantage for air transportation in comparison to the rest of the world. In fact, a recent world

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<sup>1</sup> The Role of Government Policy in the Cost Competitiveness of Canadian Aviation: Impacts on Airports and Airlines", Intervistas, 2008.

economic forum study ranked Canada 114 out of 130 countries in terms of cost competitiveness in the travel and tourism sector.<sup>2</sup> This is simply unacceptable for Canada!

This is resulting in leakage of traffic to airports located across the border. In Atlantic Canada - especially in New Brunswick - our airports, and airlines, struggle with price competitiveness daily as they compete for business with Bangor, Maine. It is estimated that the Fredericton International Airport alone loses more than 25,000 passengers per year to Bangor. This represents a significant financial loss to the Canadian economy in terms of airport and airline revenue.

There are 26 airports deemed part of our National Airports System as designated upon transfer. If an airport had over 200,000 passengers annually, or was located in a capital city or in a strategic location they were deemed to be nationally significant, and therefore part of the National Airport System. There are seven such airports located in Atlantic Canada, four of which could be classified as small, with fewer than 500,000 passengers annually. These small NAS airports have significant capital expenditures and the revenue collected from traffic volumes is not sufficient to sustain their capital intensive assets. It is fair to

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<sup>2</sup> Travel and Tourism Competitiveness Report 2008, World Economic Forum

say that at the time of transfer of the airport to the Canadian Airport Authorities, the cost of these obligations and the required revenues to operate and maintain airports was not fully realized by anyone. Clearly the challenges that these smaller NAS airports would face, financially, was not understood. It has become clear now that a number of these smaller NAS airports are not able to maintain their capital infrastructure requirements.

Small NAS airports are struggling to raise the necessary capital for infrastructure improvements to keep up with airside safety related projects. Runways, taxiways and aprons are becoming increasingly costly to maintain and upgrade. These airports require sustainable, predictable federal funding for essential, safety-related airside capital projects. There are only five airports in Canada located on federal land with passenger traffic of less than 500,000. These airports are working with Transport Canada to find a solution to their safety related infrastructure deficit.

I would also like to take this opportunity to bring forward a perspective of some of the non-NAS smaller regional and local airports that are located in Atlantic Canada, however this issue is not unique to our region. Local and regionally operated airports have significant challenges in raising the capital required to operate their capital intensive airports. They rely on infrastructure



programming through Transport Canada called the Airports Capital Assistance Program or ACAP. This program has been in place since the transfer of airports from the federal government. Since 2000, it has been funded on average at approximately \$38 million annually. The funding has not increased in over 10 years and as we all know, the cost of doing business has risen considerably. For example, the cost to repave a standard 7,500 foot runway is currently in the range of \$10 million. This represents a 50% cost increase since the year 2000, while program funding has remained constant. There are approximately 200 ACAP eligible airports across the country and it is an ongoing challenge for these airports to access the limited funds that are available to them. For many airports, ACAP is their only source of capital.

Over the course of these hearings there have been a number of references to customer service and the overall airport experience. I would like close with a few thoughts on how customer service is integral to everything we do. As CEO's of airports; safety, security and exceeding our customer's expectations is always top of mind. Our airports take great pride in serving our consumers, we institute programs to gather customer feedback and the vast majority of airports take part in industry benchmarking surveys to measure customer service in airports. For example, Halifax Stanfield and Fredericton International airports participate in the

world class ASQ survey, some small to medium size airports participate in the Intervistas Customer Service and Benchmarking program, while others track their own performance through statistically significant research conducted at the airport. These surveys provide valuable feedback on where one airport compares to another and as CEO's we are able to use this information to identify and work on areas where there may be weaknesses.

Airport Authorities have a complex business model to manage, and it is a job we take very seriously, it involves active management of more than 20 'touch points' that influence the passengers experience. These 'touch points' represent various organizations including airlines, government agencies like CATSA & CBSA, security providers, baggage handlers, car rental agencies, food & beverage suppliers, retailers, parking lot attendants, visitor information kiosks, and taxi drivers, just to name a few. Our job is to create a seamless experience across all service providers. We work with our airport partners to exceed our customer's expectations and take great pride in the work we do. For example, the Greater Moncton and Halifax Stanfield International airports have been leaders in offering the nationally certified 'Superhost' customer service training to all airport suppliers. Both airports have been recognized provincially for their efforts in certifying 100 percent of staff in this training program and exceeding guest

expectations. I won't stand here and say that we always get it right, as it is a complex relationship to manage. But we do strive to meet or exceed our customer's expectations and it involves many organizations working together to the benefit of the air traveler.

In closing, I would like to reiterate the need to 'fine tune' our airport model. Over the past decade we have invested in our infrastructure, expanded the business and diversified our revenue streams, however, in order to have a more competitive aviation system in Canada we must evolve the airport model. This includes finding ways to adjust the pricing model to address passenger traffic leakage to US airports and investing in our airport infrastructure to support our communities to facilitate more economic growth.

Thank you again for the opportunity to present our views on behalf of Atlantic Canada's airports. We will be happy to take any questions.