Atlantic Canada Airports Association

Association des Aéroports du Canada Atlantique

Stimulating Airports is Stimulating the Economy

House of Commons Standing Committee on Finance
Pre-budget 2010 Submission
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Executive Summary

Atlantic Canada Airports Association's (ACAA)is pleased to offer feedback to the Standing Committee on Finance regarding recommendations on federal tax and program spending measures that are needed to ensure economic prosperity and sustainability for Canadians, as well as, input on effective and ineffective stimulus measures that could be changed to meet intended affects. ACAA's recommendations relate to the competitiveness of airports and the airline industry across Canada with specific emphasis on Atlantic Canada. Since airports are drivers of economic and social development, the competitiveness of our airports has a direct impact on the quality of life in communities.

The airline industry is facing significant challenges, with an economic recession, environmental concerns and continually expanding security and safety regulations. There are a number of constraints that are limiting this industry from reaching its true economic potential. At a time when the federal government is stimulating the economy, the reverse effect is true for airports and aviation. In fact, costs are rising; with increases slated for airport rent in 2010 and policing and security fees being delegated to airports. These higher costs, combined with a lack of infrastructure/economic stimulus funds available to airports, are putting a significant burden on airports, airlines and ultimately passengers. 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 economic forum study ranked Canada 114 out of 130 countries in terms of cost competitiveness in the travel and tourism sector. [1]

Our neighbours in the US, recently received $1.1 billion in economic stimulus funds to support airport projects. This will give US airports, especially those located at the border, a competitive advantage over Canadian airports; further compounding the gap in airfare cost between Canada and the US.

ACAA has two recommendations that would increase the competitive position of air transportation in Canada and in turn stimulate aviation and the economy.

Recommendation #1: Establish Infrastructure Funding for Small Airports – We are recommending the federal government institute a permanent infrastructure funding program for small NAS and non-NAS airports. These airports play a vital role in the economic prosperity for the communities they serve. Small airports require stable and predictable funding to meet essential, safety related airside capital projects as the current Airports Capital Assistance Program (ACAP) is drastically underfunded and not meeting the needs of non-NAS airports and NAS airports are not eligible for this program.

Recommendation #2: Enhance Air Transportation Competitiveness by Eliminating Airport Rent – We are recommending that the federal government remove one of the biggest impediments to Canadian airports' growth, airport rent. In 2008, airports contributed approximately $280 million to the federal government through airport rent. Eliminating rent would greatly improve the competiveness of Canada's airports and the airline industry. A recent study suggests eliminating rent would result in approximately 600,000 additional travelers generating $300 million in traveler expenditures and 5,550 person years of employment.

[1] Travel and Tourism Competitiveness Report 2008, World Economic Forum

1.0 Background

The Atlantic Canada Airports Association appreciates the opportunity to present our views and recommendations to the Standing Committee on Finance regarding specific federal tax and spending measures that are needed to ensure prosperity and economic growth.

ACAA is a not-for-profit body representing 13 airports in the Atlantic region including:

- Bathurst Regional Airport
- Charlottetown Airport
- Deer Lake Regional Airport
- Fredericton International Airport
- Gander International Airport
- Goose Bay Airport
- Greater Moncton International Airport
- Halifax Stanfield International Airport
- Miramichi Airport
- Saint John Airport
- Stephenville International Airport
- St. John's International Airport
- Sydney Airport

Transport Canada developed the National Airports Policy (NAP) at the time of federal government transfer of airports to Canadian Airport Authorities (CAA's). This NAP framework defines the federal government's role with airports in Canada and that role is broken down into two main levels of federal involvement: nationally significant airports with regularly scheduled traffic that form the National Airport System (NAS) and regional / local airports that have scheduled traffic and are of regional and local significance, but are outside of the NAS criteria. Seven of ACAA's member airports are part of the NAS. The federal government maintains ownership of NAS airports; however, under the National Airports Policy, these airports are leased to local airport authorities who are responsible for financial and operational management of the airports. The six non-NAS member airports of ACAA are regional or local airports which are owned and operated by local interests.

2.0 Airports are Economic Engines

The Atlantic region airports are significant economic generators. As of 2007, the economic impact of air passenger and cargo traffic through Atlantic Canada's major airports was 16,700 person years of employment, $560 million in wages and a total of **$2.6 billion in economic output**.[2]

Airports are contributing to the Canadian economy and the federal fiscal treasury through job creation and by attracting tourism and investment to communities across Canada.

The Atlantic region airports have rebounded since 9/11 and have experienced a steady growth in passenger traffic up until 2009. Over 6.9 million passengers passed through Atlantic Canada's airports in 2008 and over the past seven years there has been an average annual growth rate of 5.5%. However, airlines and airports are being hit hard by the current economic recession and passenger traffic in the first half of 2009 has dropped by 6.9% over the same period in 2008. This is a substantial decrease and the first decline in air passenger traffic in this region for seven

[2] InterVISTAS; MariNova; TranSystems. "Atlantic Gateway Business Case, Executive Summary". September 2007

years. During these challenging times there are a number of ways the federal government can change taxation policies and offer stimulus packages to assist the airline industry and airports in reaching their true economic potential to become even more significant drivers of economic prosperity in their regions.

3.0 Recommendations

The Standing Committee is seeking input from Canadians on what federal tax and program spending measures are needed to ensure prosperity and a sustainable future for Canadians from an economic, social and/or environmental perspective? As well as, input on what federal stimulus measures have been effective and how might relatively ineffective measures be changed to ensure that they have the intended effects?

The recommendations we are proposing will serve to increase the competitiveness of our airports and the airline industry and hence increase the economic development potential of the communities they serve and the quality of life for Canadians.

Recommendation #1 – Establish Infrastructure Funding for Small Airports

Under the existing ACAP there is insufficient funding to meet the demand of small local and regional airports. Approximately 200 airports are eligible for ACAP funding and the $38 million available annually through the program is not meeting the safety requirements of these airports. Since 2000, the funding in this program has not changed, while the cost of doing business has risen considerably. For example, the cost to resurface an average sized 7000 foot runway is now $10.5 million; a cost increase of 50% since 2000. Airports are currently struggling to maintain capital infrastructure as ACAP is drastically under-funded and in many cases it is the airports only source of capital.

The fact that small NAS airports do not qualify for ACAP funding also presents a challenge, particularly in Atlantic Canada. These small regional 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 say that at the time of transfer of the airport to the CAAs', 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 is becoming clear now that a number of these smaller NAS airports are not able to maintain their capital infrastructure requirements. While significant advancements have been made in growing passenger traffic and diversifying non-aeronautical revenues, smaller 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.

US airports, whom compete for passenger traffic, have been recipients of $1.1 billion in federal stimulus funding, while our Canadian airports struggle to raise capital for necessary upgrades and improvements.

Stimulus projects in Canada have mainly focused on the rehabilitation of existing assets such as water, wastewater, public transit, highways, roads, culture, parks, and trails. All worthy of investment, but we must ask ourselves; what about Canadian airport infrastructure? Are these assets, which stimulate billions of dollars in economic activity a year, important to our economic prosperity and also worthy of investment?

At a time when the federal government is stimulating the economy, the reverse effect is true for airports and aviation. In fact, costs are rising; with increases slated for airport rent in 2010 and policing and security fees being delegated to airports. These higher costs, combined with a lack of infrastructure/economic stimulus funds available to airports, are putting a significant burden on airports, airlines and ultimately passengers

Airports in Atlantic Canada submitted 22 shovel ready infrastructure projects to the Federal Government for consideration in the 2009 federal budget. These projects, valued at $182 million, included such projects as; extension and resurfacing of runways, apron rehabilitation, installation of centerline lighting and terminal expansions. While these projects did not receive funding through the budget process, one airport in the region did receive Infrastructure Stimulus Funds (ISF) for airport improvements in 2009. ACAA was pleased that Deer Lake Regional Airport Authority received federal and provincial funding assistance through ISF for a runway expansion. This project will be instrumental in improving safety at the airport and facilitating economic growth. However, it is only one of the 22 projects that require support in Atlantic Canada. The challenge remains that NAS airports are not eligible for Build Canada Funding through either the Communities Component or ISF. This presents a major challenge for these airports. ACAA recommends that a new infrastructure funding program be established for small NAS and non-NAS airports to meet demonstrated needs for essential safety and airside projects.

Recommendation #2 – Enhance Air Transportation Competitiveness by Eliminating Airport Rent

Air access is a key factor in building business in particular the tourism industry. However, airlines are facing a very difficult operating environment and the result is that major airlines, including both Canadian and US carriers have been decreasing capacity to a number of destinations.

This is a very challenging time for airlines faced with cutting costs, streamlining operations, while at the same time responding to tougher environmental regulations and reporting requirements.

In addition to the economic recession and fluctuating fuel prices, Canadian carriers are also forced to contend with federal and provincial fuel excise taxes, security fees and airport charges that are amongst the most expensive in the world today.

One of the biggest impediments to Canadian airports growth is the imposition of a rent tax. The airport rent tax places Canadian airports at a competitive disadvantage to US airports and other modes of transportation. It also serves as a burden on the ability of an airport, and the community it serves, to further invest and expand on trade opportunities. ACAA recommends that the federal government eliminate airport rent altogether. Airlines long-term viability hinges on being able to keep their costs competitive. Airports have committed to pass on to air carriers a significant portion of the savings from a reduction in rent to assist them in reducing their airport-related costs.

Canada's airports pay approximately $280 million a year to the federal government in airport rent - a heavy financial burden for which these airports receive nothing in return. In 2008 in Atlantic Canada, the Halifax Stanfield International Airport paid approximately $4,000,000 and St. John's International Airport paid almost $700,000. By 2016, five additional airports in Atlantic Canada are scheduled to begin paying rent, a financial burden of which these airports cannot afford.

Air transportation plays a unique role in Canada of subsidizing the government purse. In most countries, the reverse would almost always be the case. The result is that air travel is too expensive and we are therefore constraining air traffic and business growth and overall Canada is less competitive.

Rent is the largest expense that is passed on to airlines through airport landing fees. Canada is competing in a global economy and our aviation sector must be globally competitive. This is currently not the case, as Canada is one in only a handful of countries in the world today that collect rent from airports. The current formula, announced in 2005, charges rent based on the gross revenue of an airport. This has a significant multiplier effect. The more an airport increases revenue, the higher its costs are. The higher their costs are the more an airport has to charge the users in order to cover expenses.

As gateways to the communities they serve, Atlantic Canada's airports have an integral role in furthering the economic prosperity of this country. In order to remain competitive, federal policies and programs should aim to facilitate and foster growth in this important sector.

Recent research completed by InterVistas Consulting Inc. shows that eliminating airport rent in Canada will stimulate passenger traffic growth, resulting in nearly 600,000 new air travelers generating $300 million in traveler expenditures, 5,550 person years of employment and $210 million in wages. This is a total economic output of $720 million. The tax implications to the federal government, if they forgo the $280 million in rent collection, is expected to be $50.3 million in tax impacts and employment generation due to passenger traffic growth from a healthier airline industry. [3]

ACAA appreciates the opportunity to bring the issues and concerns of its members to the Standing Committee. We look forward to continuing an effective dialogue with parliamentarians with a view to creating sound public policy in support of our industry's international and transborder air accessibility and our region's quality of life.

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[3] InterVISTAS, "The E limination of Airport Rent: Return on Investment", July 21st, 2009.