Connectivity and Competitive Choice

Canada’s Airports: Working for Travellers

Travellers want access to the world and competitive choices when they fly. This means preserving the ability for airports to grow and to provide an internationally competitive offering for air carriers to deliver new or additional air service.

In contrast to the early 1990s when the federal government ran capacity-constrained airports with a $135 million annual deficit, Canada’s airports have invested $27 billion in infrastructure funded through user fees, to support growth and improved traveller choice since 1992. As a system, airports provide an annual return to taxpayers through rent -- $396 million in 2018, for a total of $6 billion since 1992.

This is a model that has worked well for Canada. As Transport Canada considers additional reforms to policies around airports, they must preserve the ability for airports to continue to work for travellers by growing to meet demand for air service and competitive choice.

Canada's airports have self-funded $27 billion in infrastructure since 1992

Here is a spotlight on a few ways that airports are working for travellers to provide connectivity and competitive choice – and how the federal government can help.

A new, more balanced approach to airport rent collection and redeployment

Actions and policies that encourage additional air services and competitive choice for travellers
Airport Rent

NAS airports are owned by the government of Canada and operated by local authorities, 21 of which pay federal “rent,” which is a tax calculated as a percentage of an airport’s revenue. That means these funds ARE NO LONGER AVAILABLE to be used by airports to improve the passenger experience, improve choice or connectivity, make improvements or benefit the airport’s local economy.

The federal government receives rent from 21 privately operated NAS airport authorities – $396 million last year and $6 billion paid since 1992. As a tax on gross revenue, rent is levied on income airports raise to pay for operations but also for infrastructure investments – essentially penalizing airports for self-funding their own growth.

Moreover, the government’s current approach to rent disproportionately burdens 13 NAS airports which have fewer than three million passengers and whose rent represents less than three percent of the total of $396 million that airports paid in 2018. At around $11 million, the money is a relatively insignificant amount to the government, yet is a great loss to these airports’ budgets. If not remitted as rent, these revenues would have been re-invested into services and facilities for travellers and other airport users.

Rent impacts the way airports evaluate business opportunities and can serve as a deterrent to keep airports out of business lines with low margin financial returns, as airports would have to pay as much as 12% from any revenue generated in rent that other businesses don’t have to pay.

If rent must be collected from airports (which already pay directly for services funded by taxes in other modes, such as security, policing, and infrastructure maintenance and improvements), it could better be deployed to directly benefit travellers in demonstrable ways, such for screening and border services, small airport infrastructure funding and investments in developing innovative technologies like facial recognition.

RECOMMENDATIONS

The Government of Canada can improve the choice and connectivity options for all travellers by:

- Eliminating rent for all airports with fewer than three million passengers.
- For other airports, at a minimum, reviewing the formula to stop penalizing growth and revenue diversification or cap it at current levels.

Vancouver International Airport (YVR) has begun its multi-year expansion plans that will see the airport complete 75 major projects, totaling $9.1 billion over the next 20 years.

Winnipeg Airports Authority (WAA) has broken ground on a 96,000 square foot, $27 million Ground Services Equipment (GSE) Building.
Federal Airport Policy

NAS airports operate in accordance with principles of governance and public accountability enshrined in each airport’s lease. These principles enshrine the airports’ mandates, detail their board composition, require forums for community consultation, and direct transparency mechanisms for the reporting of financial and operating information to the public.

Canada’s airport governance model is a unique combination of public ownership and private, not-for-profit management under locally-led airport authorities. The model has evolved since first implemented in 1992 and by any public-facing measure (choice, quality of facilities and services, enhancing quality of life and economic opportunities) the Canadian model is a success.

Recently Transport Canada has consulted with industry on possible changes to airport governance and the economic regulatory environment in which Canada’s airports operate. As there are few details on the government’s thinking, Canada’s airports are concerned: Any changes made must preserve the ability for airports to invest their infrastructure to support ongoing growth in demand for air service and competitive choice.

RECOMMENDATION

In any changes to airport governance or the regulatory environment in which Canada’s airports operate, ensure airports continue to have the ability to grow to support demand for new and additional air services and competitive choice for consumers.

Other Ways the Government Can Help

More liberal air service bilaterals to boost international routes and provide fifth freedom opportunities for connections over Canada.

Allowing travellers to purchase duty free goods upon arrival from an international flight would provide a service valued by travellers while allowing airports to grow and diversify their revenue generation.

Infrastructure investments to support growth must be accompanied by resources for government services like screening and border services.

CHINA: An Opportunity in the Making

China’s middle class will grow to 500 million people by 2022, and this is driving strong growth in outbound tourism. The China Outbound Tourism Research Institute (COTRI) predicts that overseas trips by the country’s residents will increase from about 145 million in 2016 to more than 400 million by 2030. Canada wants to capture its fair share of this market. Indeed, in 2017 Prime Minister Trudeau declared 2018 the Canada-China Year of Tourism.

For Canada to attract its fair share of the market, there must be room to grow in two ways:

- **Bilateral Air Access opportunities:** In the bilateral air agreement between Canada and the People’s Republic of China, there is no room in the current agreement for additional service by Chinese carriers.
- **Physical Space:** Canada’s gateway airports are getting full. Fortunately under Canada’s airport model, airports can grow to support demand for additional service.

DID YOU KNOW?

In setting rates and charges, Canada’s airports today operate in a manner consistent with the international standards set out by the International Civil Aviation Organisation (ICAO), of which Canada is an active member, and Airports Council International (ACI).
Who are Canada’s Airports?

26 National Airports System airports include the busiest airports in the country and the airports in the national, provincial and territorial capitals. Each of these operate independently, with the exception of the two NAS airports in Montréal (Montréal Trudeau and Montréal Mirabel), which are both operated by Aéroports de Montréal.

22 of the NAS airports are operated by private nonshare capital corporations that reinvest all financial surpluses back into the airport.

8 NAS airport authorities have more than 3 million passengers. Known as the “Class 1” airports, these are Toronto Pearson, Vancouver, Aéroports de Montréal (Montréal Trudeau and Montréal Mirabel), Calgary, Edmonton, Ottawa, Winnipeg Richardson and Halifax Stanfield.

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DID YOU KNOW?
There are hundreds of additional regional airports throughout the country. Some of these, such as the 33 local, territorial and not-for-profit airport operator members of the CAC, provide commercial air services, while many others are used primarily by general aviation.

Direct Impact of Every One Million Passengers

1,400 jobs
$93M wages
$137M GDP
$342M economic output
$50M taxes

Canada’s Airports by the Numbers

140 MILLION PASSENGERS
2.2 MILLION FLIGHT FREQUENCIES
6.2 MILLION AIRCRAFT MOVEMENTS

For more information on how Canada’s airports enhance economic opportunities and social well-being for Canadian travellers, businesses and communities, please visit www.cacairports.ca or contact Holly Christian, holly.christian@cacairports.ca, 613 560 0902 ex. 15.