

CONNECTING CANADA: An Aviation Policy Agenda for Global Competitiveness and Economic Prosperity

Canadian Airports Council
Submission to the
Canada Transportation Act Review

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Foreword

Last year marked 30 years since the introduction of Canada's National Airports Policy (NAP). It was a milestone era for Canada's aviation sector, a time in which Canada's airports were devolved from a centrally managed set of government facilities to the vibrant, dynamic, and locally-oriented businesses they are today.

Part of a broader policy framework for aviation during a time of significant change for the industry, the NAP is one that has served Canada well. What Canada's airports have been able to accomplish together in partnership with the nation's air carrier community is truly remarkable. Canada enjoys the world's best aviation infrastructure,¹ award-winning airports and a financially solid, internationally recognized community of air carriers serving the varied needs of Canada's diverse regions.

This review of Canada's approach to aviation policy undertaken by the esteemed David Emerson is nevertheless timely. Thirty years after the introduction of the NAP, much has changed in Canada's aviation sector, and indeed in the Canadian economy. The North American Free Trade Agreement also came into force in 1994, and what was a novel foray into free trade 30 years ago is now long-standing federal policy of international free trade.

Canada today is more heavily reliant on aviation than ever before. But at the same time, the industry faces important challenges. Canada cannot ignore what has become a much more dynamic competitive environment – or it risks losing out to foreign competitors. And Canada must become much more innovative in the facilitation of travelers and goods safely and securely through Canada's skies.

Connecting Canada: An Aviation Policy Agenda for Global Competitiveness and Economic Prosperity contains 20 policy recommendations designed to support a strong Canadian aviation sector for the coming years, accompanied by a call to action: for Canada's aviation sector and government to work more closely together on the outcome of all of this work.

What some countries can enact by fiat, Canada must create by solid government-industry partnerships. Canada's airports see this as just the beginning of a joint effort to formulate a new aviation policy agenda to carry us through the next 30-40 years.



John Gibson
Chair



Daniel-Robert Gooch
President

¹ As ranked by the World Economic Forum



About the Canadian Airports Council (CAC)

Canada's Airports: Working Together, Moving Forward

The Canadian Airports Council (CAC), a division of Airports Council International-North America, is the voice for Canada's airports. Formed in 1992, as the devolution of airports to local control was beginning, the CAC has established itself as the reliable and credible federal representative for airports on a wide range of significant issues and concerns.

Canada's airports are engines for economic development in the communities they serve and one of their most important elements of local infrastructure: our communities' vital links to intra-provincial, national and international trade and commerce. Our 45 members represent more than 100 Canadian airports, including all of the National Airports System (NAS) airports and most passenger service airports in every province and territory.

Together, CAC members handle virtually all of the nation's air cargo and international passenger traffic and 90% of domestic passenger traffic. The economic impact of CAC member airports is staggering. In 2012, Canada's air transportation industry had a \$34.9 billion economic footprint, supported 405,000 jobs, and federal taxes of more than \$7 billion.

There is no doubt that air transportation is an economic growth enabler and airports are the essential link that connects communities and air travel. From safety and security to facilitation and infrastructure to economic issues, Canada's airports speak with one voice through the CAC.

Prepared by Gerry Bruno

This report was compiled by Gerry Bruno, executive advisor to the Canadian Airports Council for the Canada Transportation Act Review.

Currently serving as vice president, federal government affairs for the Vancouver Airport Authority, from 1997 to early 2013 Mr. Bruno was CEO of the InterVISTAS Consulting Group. Under his leadership, InterVISTAS expanded into a global consulting firm, with offices in Vancouver, Washington, D.C., London, and The Hague. While at InterVISTAS, Gerry Bruno was actively involved in the 2001 Canada-US Preclearance Agreement, co-authored the Perimeter Clearance Strategy in 2002, and worked on a number of airport facilitation initiatives, including Automated Border Clearance (ABC).

From 1992-1997, Mr. Bruno was vice president, marketing and strategic planning for the newly created Vancouver Airport Authority. He was at the forefront of the vision to develop the airport into a premier Asia-Pacific Gateway and played a major role in advocacy efforts on both sides of the border that led to the Canada-U.S. Open Skies Agreement in 1995. During this period, he also advanced a number of passenger facilitation and security initiatives, including In-Transit Preclearance, Transit Without Visa and CANPASS.

Mr. Bruno began his airport career in 1974 with Transport Canada, where he held a number of management positions, including managing director of the Pacific Rim Marketing Program.

Mr. Bruno has served on the boards of various industry organizations such as the International Association of Airport Executives-Canada, the Canadian-American Border Trade Alliance, the Prince Rupert Port Authority, Tourism Vancouver and Tourism B.C. He is an Accredited Airport Executive (A.A.E.) and holds a Bachelor of Science Degree (Marketing Major) from the University of The State of New York and an MBA in International Management from Asia Pacific International University.

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EXECUTIVE SUMMARY

This submission was prepared by the Canadian Airports Council (CAC) on behalf of its 45 members, representing more than 100 airports, including all of the privately operated National Airports System (NAS) airports and many municipal airports across Canada.

This submission contains clear recommendations for immediate and longer-term action in various policy areas, including security screening, border policies, economic competitiveness, airport policies, and air policy liberalization, before concluding with suggestions for a National Air Travel and Air Trade Strategy supported by an integrated and enabling policy framework.

2.0 MARKET OPPORTUNITIES AND COMPETITIVE CHALLENGES

Arguably the most important challenge facing the Canadian air industry is the lack of policy alignment. Canada's airports believe it is the key to enhancing Canadian connectivity, global competitiveness and economic prosperity. This submission outlines some of the consequences that result from an unintegrated approach to air transportation policy, a model that sees various government agencies operating independently of one another and making decisions that negatively impact Canada's air transportation sector: eliminating passenger air traffic forecasting, cutting tourism promotion budgets, maintaining visa restrictions that deter transit passengers, the failure to collect and distribute data for international air cargo forecasting, or limiting value-added manufacturing in Canada's Foreign Trade Zones. The CAC calls for a more cohesive approach to policy alignment across government to ensure Canada's air industry can compete on an even playing field.

3.0 CANADA'S AIRPORTS: VISION 2040

By 2040, Canada's airports anticipate a more liberal environment in North America, with features similar to the Schengen Area in Europe, long security lines a distant memory, and globally consolidated airlines. As well, Canada's airports foresee more broad-based competition from countries that recognize the importance of air transportation as a driver of economic growth, along with changing aircraft capacity and a continued focus on environmental issues such as noise.

With continuing and rapid advances in information technology and biometrics, the CAC also anticipates that airports will remain among the driving forces behind revolutionary changes in technology convergence and process innovation.

By 2040, Canada's airports see Canadian airports as fully integrated parts of the local transportation system and essential partners with government, airlines, tourism and business interests – using a Team Canada approach to align policy and stimulate air travel and trade to, from, through and within Canada. The CAC vision is one of airports providing superior connectivity to key global markets and enjoying a significant share of the transit market.

Through sound management practices and enabling government policies, Canada's airports envision an airports system poised to be among the most cost-competitive in the world, and a top generator of retail and commercial revenues to reduce dependency on fees. In this vision, Canadian airports continue to be leaders in high-quality, cost-effective and sustainable infrastructure and innovative technology where funds taken out of the system by government cover the cost of providing government service or reinvested into programs that benefit the industry. Not least, Canada's airports see financially viable small airports providing competitive air services to local and regional markets, in part through equitable access to federal capital funding programs.

4.0 EFFECTIVE AND EFFICIENT SECURITY SCREENING

The next few years provide a tremendous opportunity to rethink security screening in Canada and dramatically improve the passenger experience in a meaningful way. In March 2017, screening contracts will expire as a new funding environment is planned for Non-Passenger Screening. This fast-approaching milestone should serve as the deadline for the introduction of a proposed new screening entity or a restructuring of the Canadian Air Transport Security Authority (CATSA).

Recommendations:

- I. Substantially restructure CATSA or create a new screening entity to achieve the following:
 - A. Deliver screening services to an internationally competitive service level standard, against which the performance of the new entity and its management can be measured.
 - B. Provide those charged with delivering screening services a greater and more formal advisory role in the development of security policies, regulations and standards.
 - C. Ensure that airport operators are able to deliver screening services either directly or through a screening contractor as currently provided for under section 7 of the CATSA Act.
 - D. Be responsive to the needs of airports and air carriers by providing security services when and where required based on individual airports' business needs and requirements.
 - E. While strengthening aviation security, introduce innovation, entrepreneurial spirit and competitive market forces to the way in which screening services are structured and delivered in Canada. Cost per passenger would continue to be a concern of industry and passengers. Keeping costs to travellers competitive would be an important consideration, with measures incorporated to ensure that consultation on rates is thorough and transparent.
 - F. Create a recognized world leader and innovator in the provision of aviation screening, with particular expertise delivering screening across an integrated network of broadly dispersed small, medium and large airports.
 - G. Create a new user-funded revenue model with the screening provider's ability to set its own fees and charges and assume debt for capital requirements.

- H. Provide decision making autonomy to meet nationally regulated security standards, with access to information and intelligence needed to perform mandated functions in the manner determined to be most appropriate.
- 2. Establish an industry advisory group to provide input into the development of a new governance structure for security screening services.
- 3. Provide for transitional measures to address immediate issues while the new governance structure is being developed.
 - A. Establish competitive service level standards for delivery of screening services during the interim period.
 - B. Fully allocate future Air Travellers Security Charge (ATSC) revenue to fund the aviation security system, including growth in demand for screening services supported by the traffic-based growth in ATSC revenue.
 - C. Allow CATSA and Transport Canada (TC) greater flexibility to work with airports in structuring interim arrangements to deal with service level deficiencies.

5.0 ENHANCED ECONOMIC COMPETITIVENESS

Cost competitiveness joins security screening and border policies as one of three broad areas of critical importance to the global economic competitiveness of Canada's airport system. Differing approaches to fiscal management, infrastructure investment and other policies affecting air transportation in Canada and the U.S. have created a cost gap that undermines the competitiveness of Canada's aviation sector. Fortunately, this gap could be reduced substantially through revisions in government tax and user pay policies. But rather than an immediate and wholesale elimination of government fees, taxes and other charges, the CAC recommends policy reforms that can be phased in to address infrastructure needs, increase airport revenue opportunities, and reduce some of the cost differential with U.S. airports.

Recommendations:

- 4. Reinvest federal aviation taxes, fees and charges into the air transportation system, such as through a fund for aviation infrastructure. This would in turn positively impact Nav Canada charges and airport aeronautical and Airport Improvement Fee (AIF) fees.
- 5. To improve the provision of Airports Capital Infrastructure Program funding to the eligible airports that need it on a consistent and predictable basis, the program should be simplified in the following ways:
 - A. Expand program eligibility to include small NAS airports.
 - B. Clarify and improve project eligibility criteria and processes that currently leads to inconsistent decision-making and rejection of projects not contained within the first Airports Capital Assistance Program (ACAP) priority category.

- C. Create a web-based portal to facilitate the application process and improve communications between airports and Transport Canada.
 - D. Improve airport/government communications and expectations by providing clear communications charting the ACAP decision-making process and factors along with timelines.
6. Eliminate federal ownership of airport land as exclusion with respect to federal infrastructure program eligibility in favour of more objective criteria, such as infrastructure and financial needs of airports.
 7. Implement supportive commercial policies like Arrivals Duty Free and value-added Foreign Trade Zones to stimulate air cargo growth and international trade.
 8. Reform airport rent to better position the industry competitively over the long term, including in the near term such options as a cap on rent or changes to the airport rent formula from revenue-based to profit-based. Longer term, there is broad aviation sector support for outright elimination of rent for some or all airports currently designated as National Airports System airports.

6.0 INNOVATIVE AND GLOBALLY-COMPETITIVE BORDER POLICIES

Border policies and facilitation have an impact on Canada's ability to attract international tourists to Canada and transit traffic through Canada's airports. Although advances have been made on several fronts, Canada's border policies, particularly with regard to visas, are highly restrictive and make Canada's air gateways and airlines less competitive in the global marketplace. Countries competing with Canada have used visa and border clearance policies to gain a competitive advantage. They also have been successful in expanding air connectivity, growing inbound tourism and international trade, and increasing their market share of international transit passengers.

Recommendations:

9. In light of aggressive global competition and delays caused by industry concerns around Electronic Travel Authorization (eTA), proceed with Transit Without Visa (TWOV) expansion immediately.
 - A. Resolve remaining issues with the current TWOV and China Transit Program (CTP) in the first half of 2015, including expanding CTP to 10 Chinese cities.
 - B. Accelerate implementation of open TWOV to the U.S. with the exception of a short list of high-risk countries, instead of case by case, before the end of 2015.
 - C. Integrate the China Transit Program into TWOV, allowing visa-free transit from all cities in China in 2016.
 - D. Defer international-to-international TWOV pilot (e.g. China-S. America) until eTA and Interactive Advance Passenger Information (iAPI) are in place sometime in 2016.
 - E. Implement progressive expansion of international-to-international TWOV using eTA, iAPI and other appropriate risk mitigation measures in 2017 and beyond.

10. Introduce more competitive visa policy initiatives over the short term.
 - A. Develop a common Canada-U.S. visa to facilitate travel and stimulate tourism markets.
 - B. Accept other “trusted” country visas for visiting or transiting Canada.
 - C. Continue to improve and streamline visa application and approval process.
 - D. Use new eTA system to significantly expand the visa exemption list of countries.
11. Continue airports-government and partnership in driving innovation and technology solutions to border arrival and connecting processes through collaborative government-industry working groups under the Air Consultative Committee.
12. Provide more focus to air mode in Beyond the Border 2.0
 - A. Advance harmonization of aviation security, eTA/ESTA, Automated Border Clearance/Automated Passport Control and future border innovations.
 - B. Establish joint U.S.-Canada preclearance at overseas airports.
 - C. Over the long term, move to a full “Perimeter Clearance” regime with the U.S.

7.0 IMPROVED AIRPORT POLICIES

The governance model of airports in Canada and end-of-lease issues are areas of particular interest to airport authorities. While some airports are open to moving to a fully privatized model, most airport authorities hold the view that the current non-share capital corporation model continues to be the best governance structure for the long term. Meanwhile, there are at present no clear arrangements for the transfer of airport assets and contracts back to the federal government when airport authority leases expire. Unless these issues are addressed, airport authorities will no longer be able to obtain financing for major airport expansion projects and to maintain existing assets.

Recommendations:

13. Continue with the current non-share capital airport authority model (with progressive improvements over time) as this is considered the most effective governance structure for the National Airports System.
14. Establish a process to review and update the Public Accountability Principles – in consultation with airports.
15. Negotiate a long-term solution to end-of-lease issues, such as by providing a recurring lease renewal arrangement or by allowing airports to buy out their leases.

8.0 PROGRESSIVE AIR POLICY LIBERALIZATION

Canada's air policy has evolved significantly over the past 30 years from a highly regulated environment to a more market-based approach. While there has been considerable progress on market access since 2006 under the Blue Sky Policy, there is still more that can be done in liberalizing air policy and introducing new aviation policy initiatives that will allow Canada to keep pace with major economic partners, expand aviation and tourism market opportunities, and increase consumer choices.

Recommendations:

16. Apply the Blue Sky Policy more progressively and in a manner that is strategically aligned with Canada's international trade agenda and tourism objectives.
 - A. Pursue U.S.-style Open Skies agreements with Canada's free trade partners.
 - B. Proactively pursue progressive liberalization and more open agreements with Canada's larger tourism markets, taking into account both origin and destination (O&D) and transit traffic opportunities through Canadian airports.
 - C. Consider automatic frequency/capacity triggers in the bilateral agreements, to ensure they are progressive or proactive, rather than reactive and subject to extended, time-consuming negotiations.
 - D. Negotiate balanced agreements with smaller O&D markets, including regular review of traffic rights for transit markets.
17. Allow Canada's airports with a vested interest in the outcome of bilateral air agreements the option to participate as observers in the same way as airlines.
18. Move to 49% foreign ownership of Canadian airlines for EU investors as soon as possible, and eventually Right of Establishment. Pursue ownership liberalization and with other countries on a bilateral basis.
19. Ensure the availability of reliable market data – either in-house or on a contract basis – to ensure reliable passenger and cargo statistics are collected from carriers and other system participants and distributed in a timely manner to enable development of national traffic forecasts available for industry and government.
20. Pursue a single aviation market with the U.S. and eventually a Trans-Atlantic Open Aviation Area with the U.S. and the EU.

9.0 THE WAY FORWARD

Canada's airports are not only central to Canada's domestic and international connectivity, global competitiveness and economic prosperity, they can play a key role in a collaborative effort with airlines, the tourism sector and governments to drive policy alignment that enhances Canada's global competitiveness. That is why an underlying theme throughout this submission is the need for a National Air Travel and Air Trade Strategy supported by an integrated and enabling policy framework.

The CAC believes there is a need to establish a government-industry Team Canada-style entity to develop this national strategy, supported by an aligned policy framework and an aggressive implementation program. Canada's airports would like to explore this concept further and work with airline, tourism and commercial partners to develop a framework for a national group tasked with enhancing Canada's global competitiveness in partnership with government. Canada's airports expect to submit the results and recommendations from this work to the CTA Review by the end of March 2015. In addition, the CAC plans to provide more in-depth supplementary submissions within the same timeframe.

Recommendations:

21. Establish a government-industry Team Canada-style entity to develop a National Air Travel and Air Trade Strategy, supported by an aligned policy framework and an aggressive implementation program.

1. INTRODUCTION

1.1 Overview

As part of the air transportation system, Canada’s airports play a pivotal role in enabling Canada’s domestic and international connectivity, global competitiveness and economic prosperity. The Canadian Airports Council has prepared this submission for the CTA Review to provide pragmatic policy recommendations that will enhance the long term economic competitiveness and financial viability of Canada’s airports system.

The Conference Board of Canada estimates that Canadian airports in 2012 accounted for \$4.3 billion in Real GDP, but had a total economic footprint of \$12 billion, generated almost 63,000 direct jobs and contributed over \$3 billion in federal and regional taxes. Canada’s airports are vital to the success of the Canadian economy in general, inbound and outbound tourism, business and personal travel, domestic commerce, and international trade. Airports, air carriers and related supporting activities are important parts of a supply chain to meet the needs of Canadian shippers and travellers with an efficient, economically competitive, and financially viable aviation system serving as a catalyst for economic growth and job creation across many sectors of the economy.

	GDP (2012\$)	Employment (000)	
	Total	Direct	Total
Base Economic Footprint	\$8.6 B	27.9	91.0
Additional Impacts	\$3.3 B	34.7	50.7
Total	\$11.9 B	62.6	141.7

Perhaps the most important challenge to the industry is the lack of real policy alignment. Too often a silo effect develops around government policies and there can be a lack of appreciation of how policy decisions made in one department to fulfil a specific mandate may have unintended consequences to the aviation industry and other sectors of the economy. A number of federal transportation, fiscal, border and security policies and processes currently limit or preclude the potential for increased domestic and global connectivity and the resulting growth in travel, trade and tourism.

Canada’s airports compete not only with neighbouring U.S. airports—which can easily access a large portion of Canada’s U.S. transborder and international travel market—but also with other global hubs intent on capturing a larger share of international transit traffic. Finally, Canadian airports also compete with each other for the allocation of limited carrier capacity.

While Canada is blessed with a strategic geographic location, positioned at the crossroads of Great Circle Routes between Asia, Europe and the Americas, other markets have successfully negated this competitive advantage with integrated policies and programs aimed at stimulating inbound tourism and facilitating connecting traffic through their global hubs.

This submission includes an overview of market opportunities and global competition, outlines the CAC vision for Canadian airports in 2040, and then presents recommendations for immediate and longer term policy issues, as follows:

- Effective and Efficient Security Screening
- Enhanced Economic Competitiveness
- Innovative and Globally Competitive Border Policies
- Improved Airport Policies
- Progressive Air Policy Liberalization

Canadian airports face many fiscal and competitive challenges both domestically and internationally and policy alignment is key to enhancing Canada's connectivity, Canada's global competitiveness and economic prosperity.

This submission concludes with some final thoughts and suggestions for a National Air Travel and Air Trade Strategy supported by an integrated and enabling policy framework.

1.2 Mandate and Planning Horizon

"The objective of the Review is to provide an independent assessment of how federal policies and programs can ensure that the transportation system strengthens integration among regions while providing competitive international linkages...While global trends and patterns over the next 20-30 years are neither predictable nor within our control, we can assess plausible alternative futures and consider how to strengthen our adaptive capabilities. Our ability to compete and prosper long-term will require anticipatory vigilance in surveying the distant horizon and taking concrete steps now. In the world of transportation, lead times are long and even well planned execution can take years."

- CTA Review Discussion Paper, October 2014

As an exercise to reframe the transportation policy environment for the next 20-30 years, this review inspired Canada's airport leaders to look out to this timeframe and envision how Canada's aviation sector can and should support the broader Canadian economy and what is likely to be a very changed world aviation sector by 2040. Nevertheless, the realistic political window for policy, regulatory and legislative changes to implement recommendations from this review is a much shorter window of about 5-7 years. Accordingly, much of the commentary and associated recommendations in this submission build on the current situation and the steps that should be taken in the short- and medium-term to properly position Canada and its aviation sector for this future world we present.

1.3 The Canadian Airports Council

This submission was prepared by the Canadian Airports Council (CAC) on behalf of its 45 members, representing more than 100 airports, including all of the privately operated National Airports System (NAS) airports and many municipal airports across Canada.

Canadian Airports Council Members

Large Airports Caucus

Aéroports de Montréal
Calgary Airport Authority
Edmonton Airports
Halifax International Airport Authority
Greater Toronto Airports Authority
Ottawa International Airport Authority
Vancouver Airport Authority
Winnipeg Airports Authority

Small Airports Caucus

Abbotsford Airport Authority
Aéroport de Québec
Aerospace North Bay (Jack Garland Airport, North Bay)
Atlantic Canada Airports Association
Charlottetown Airport Authority
City of Greater Sudbury
City of Kingston (Kingston/Norman Rogers Airport)
Comox Valley Airport Commission
Canadian Rockies International Airport (Cranbrook)
Deer Lake Regional Airport
Fort McMurray Airport Authority
Fredericton International Airport Authority
Gander International Airport Authority
Goose Bay Airport Corporation
Government of Yukon
Greater London International Airport Authority
Greater Moncton International Airport Authority
Hamilton International Airport
Kamloops Airport Ltd.
Kelowna International Airport
Medicine Hat Municipal Airport
Nanaimo Airport
Northwest Regional Airport, Terrace-Kitimat
Prince George Airport Authority
Red Deer Airport
Regina Airport Authority
Region of Waterloo International Airport
Saint John Airport
Saskatoon Airport Authority
Sault Ste. Marie Airport Development Corporation
St. John's International Airport Authority
Stephenville Airport Commission
Sydney Airport Authority
Thunder Bay International Airport Authority
Toronto Port Authority
Victoria Airport Authority

The policy recommendations in the following sections of this submission are based on a general consensus of CAC members. This was achieved through discussions and workshops with the CAC executive committee and board of directors and also through a membership survey on policy priorities. While this submission represents the general consensus of Canada's airports industry, some members may have additional thoughts and will prepare separate submissions to elaborate on policy positions and recommendations that may be of strategic importance to their particular situation.

In addition to this submission, the CAC plans to provide more in-depth supplementary submissions on two to three of the above policy issues to the CTA Review by the end of March 2015.

2. MARKET OPPORTUNITIES & COMPETITIVE CHALLENGES

2.1 Introduction

This section provides a summary of current market statistics and projections of future passenger and traffic market opportunities and competitive challenges both domestically and globally.

2.2 Passenger Markets and Competitive Issues

Canadian Passenger Market

The Canadian passenger travel market is relatively mature, characterized by small growth rates in comparison to emerging and developing markets around the world. In some measure this is due to Canadian policies developed for the industrial and economic environment of the 1990s that have artificially restricted competition within the Canadian marketplace.

Most of Canada's domestic air services are provided by Air Canada and WestJet nationally and a number of regional and local air carriers across the country. Both Air Canada and WestJet have introduced lower cost/lower fare subsidiaries, Rouge and Encore, respectively and this has stimulated growth in a number of markets.

Smaller communities throughout Canada and Canada's north are served by regional and local carriers. The main charter carriers (also providing some scheduled services) are Air Transat and Sunwing, focused primarily on seasonal vacation destinations. There currently are also a number of start-up low cost carriers (LCCs) at various stages of financing that are expected to enter the market in the short term. This likely will lead to price competition with existing air carriers; past experience suggests that only new entrants with deep pockets will survive.

Scheduled Canada-U.S. transborder services are provided at many airports across Canada by Air Canada (and its affiliated carriers), WestJet, other Canadian carriers, and U.S. major and regional carriers.

Scheduled international services are concentrated at Canada's largest hubs, served by Air Canada, other Canadian carriers and a broad range of foreign carriers from Europe, Asia and other parts of the world. Scheduled and seasonal international services to major destinations are also available at a growing number of small and medium-sized international airports across Canada.

The total Canadian passenger market is estimated at between 122 to 125 million enplaned/deplaned (E/D) passengers in 2013. Table I provides a breakdown of the 2013 passenger market by sector (domestic, transborder and other international) and also by enplaned/deplaned and origin/destination (O&D). Enplaned/deplaned is currently the typical measure of passenger traffic at airports and includes connecting passengers, who are counted twice since they both deplane and enplane at an airport on the same trip. The

Statistics Canada numbers are based on revenue passengers as reported by airlines. Airport site statistics are higher as they include both revenue and non-revenue passengers —e.g. airline employees travelling on leisure flights. Origin and destination is a measure of the market size between city-pairs and does not count connections.

Table 1

Canadian Passenger Traffic, 2013

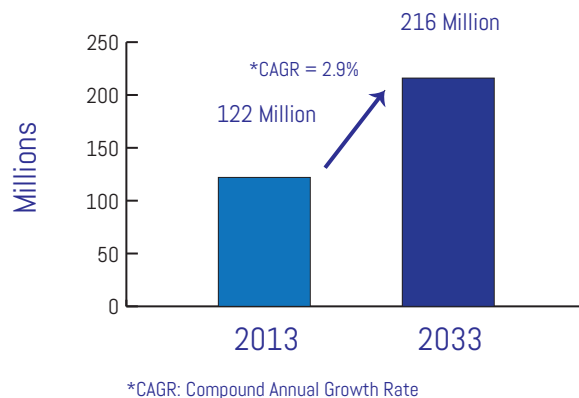
Millions	Statistics Canada 2013 (E/D)	Airport Site Statistics (E/D)	IATA Canada Forecast (O/D)	Diio FMG Data (O/D)
Domestic	73.9	75.3	30.6	30.9
Transborder	24.6	25.6	22.7	22.2
Other Int'l	23.9	24.8	24.3	23.0
Total	122.4	125.8	77.7	76.2

Source: Statistics Canada - Air Carrier Traffic at Canadian Airports, 2013
Airport Site Statistics, 2013

Figure I provides a rough indication of the expected size of the total Canadian passenger market over a 20-year period. Using the medium compound annual growth rate of 2.9% from Transport Canada’s last forecast (covering 2008-2022), the Canadian market would be about 216 million passengers by 2033.

Unfortunately, due to government budget cutbacks, Transport Canada recently discontinued producing air traffic forecasts and had to shelve its sophisticated econometric models. Consequently, without reliable forecasts for the Canadian market, air policy decisions are being made without a proper understanding of what is happening in the market.

Figure 1
Canadian Passenger Traffic Forecast



Inbound tourism to Canada is also a very important factor in the future growth of transborder and other international passengers. Tourism is a large and high-growth industry and has a significant impact on the global economy. In 2013, the industry saw more than one billion international tourists worldwide, generating more than \$1.3 trillion in receipts. In Canada, tourism contributed \$84 billion to the economy and employed more than 600,000 people.

Unfortunately, Canada's global ranking as a tourism destination has dropped from 8th in the world in 2000 to 17th in 2013. Competition for tourism is heating up as more and more countries are investing in tourism marketing and aligning their aviation and visa policies to attract a greater share of this market. The key issues affecting Canada's tourism competitiveness are summarized below:

- Under investment in marketing: the Canadian Tourism Commission's budget dropped from almost \$100 million in 2001 to \$58 million in 2014. At the same time, tourism funding in other countries is increasing. In the U.S. for example, \$10 of the \$14 per arriving passenger collected from ESTA (Electronic System for Travel Authorization) is earmarked for tourism marketing. In this way, the money the U.S. levies on travellers is being put to practical use in a way that promotes the industry.¹
- Visa barriers: Canada's onerous process and long processing times for visa approvals have been identified as deterrents to potential visitors travelling to Canada.
- Air access and high airfares: Insufficient air access due to limitations in some air bilateral agreements have been cited as another competitive issue for Canada's tourism industry. Another related issue is higher cost of air travel in Canada and not enough domestic competition.

A number of these competitive issues are also concerns for Canada's airports and are discussed in more detail throughout this submission.

¹ The CTC proposed a tourism levy in 2012, an initiative that was opposed by the CAC in light of the extensive federal revenue from aviation sector already being generated, most notably through airport rent, the Air Travellers Security Charge and the Goods and Services/Harmonized Services Tax. The CAC contends sufficient money already is levied to support greater investment in marketing.

Global Passenger Market Forecasts

Figures 2 and 3 present data for the size of intercontinental markets in 2013 and Boeing's forecast for these markets in 2033, respectively. As these figures indicate, the Europe-North America trans-Atlantic market is the largest at almost 60 million passengers, the Asia-North America trans-Pacific market is second at about 37 million passengers, and North America-South America is the third largest at 19 million. By 2033, the trans-Atlantic market is expected to grow to about 108 million and the Asia-North America market to about 86 million, which is 45% larger than the trans-Atlantic market today. While Asia-South America is the fastest growing market over this period, it will still be a relatively small but significant market at almost 7 million by 2033.

Figure 2

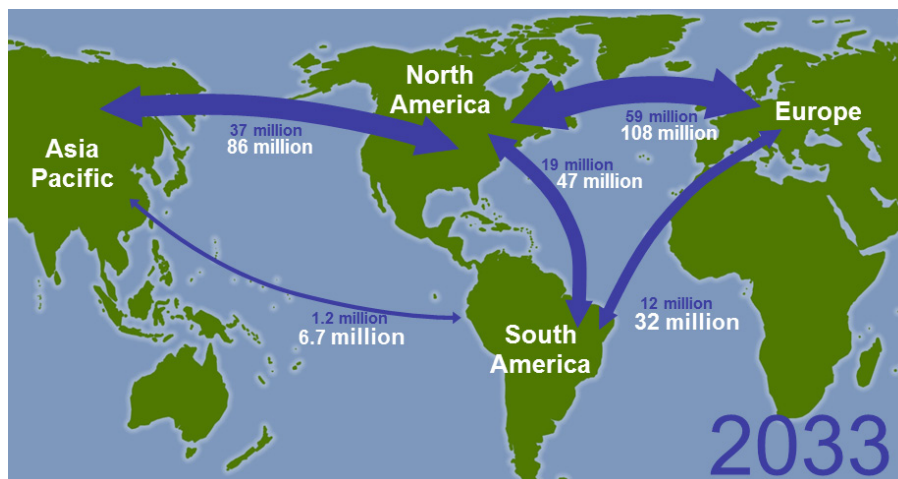
Global Travel Market Opportunities – 2013



Source: Based on Boeing, Current Market Outlook, 2014

Figure 3

Global Travel Market Opportunities – 2033

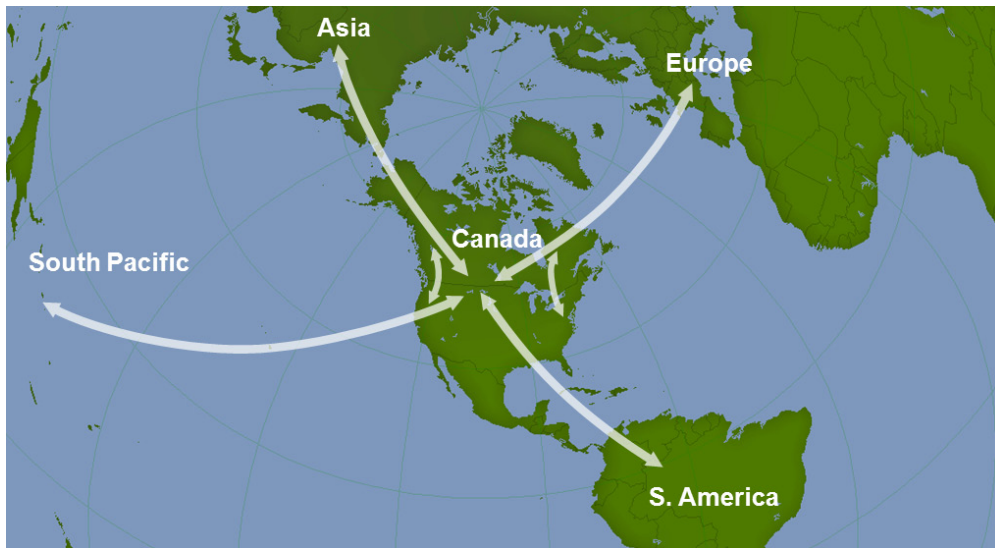


Source: Based on Boeing, Current Market Outlook, 2014 (RPK growth rates applied to 2013 base)

Although Canada's share of these global origin and destination markets is relatively small, Canada's geographic location at the cross-roads of the Great Circle Routes connecting these intercontinental flows, gives Canadian airports a strategic advantage for capturing a significant share of international transit traffic. Figure 4 illustrates this geographic advantage. Canadian airports have the opportunity to connect traffic between the biggest markets in the world: the U.S., Europe and Asia, as well as Asia to South America.

Figure 4

Connectivity Through Canada



The importance of transit traffic to airports, airlines and even Canada's tourism industry cannot be understated. Connecting passengers can fill from 25% to 50% (or more) of flights and consequently increase the number of flight frequencies to major international markets and stimulate services to new destinations that Canada would not be able to otherwise support due to its smaller market base. The success of certain nonstop international routes is entirely dependent on connecting traffic – for example, 90% of the traffic between Toronto Pearson and Copenhagen is connecting.

Global Hub Competition for Connecting Passenger Traffic

Canadian gateway airports, Canadian carriers and foreign carriers have been relatively successful in capturing some of the connecting traffic between the U.S. and Europe and Asia. However, despite the strategic geographic location of Canada's international gateways, Canada's airports have lost market share and likely will lose more due to restrictive visa and border policies, which negate the advantages of a shorter flying time between some key intercontinental markets.

A case in point is passenger traffic between China and South America. As Figure 5 illustrates, in 2005, 16% of this traffic was routed through North America, 80% over Europe and virtually nothing over the Middle East. By 2013 (see Figure 6), Canada and the U.S. had lost more than half their market share, Europe's share dropped to 64% and the Middle East hubs went from 0 to 24%.

While there are other factors involved, the primary reason for these market shifts is the fairly broad Transit Without Visa (TWOV) programs at EU and Middle East hubs as well as seamless transit processes. Unless Canada's TWOV and international transit processes are significantly improved, the Middle East hubs will capture most of the China-South America transit market, as well as the rest of the total Asia-South America market in the next 5-10 years.

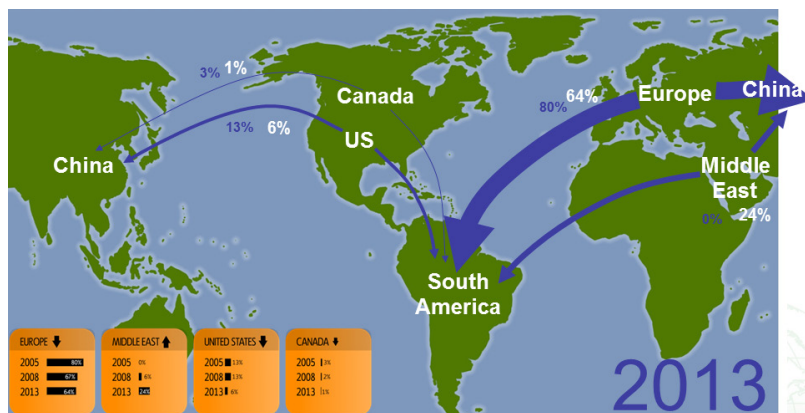
Figure 5
The Competition

2005: China – South America Passenger Routings



Figure 6
The Competition

2013: China – South America Passenger Routings



Another emerging competitive issue is the expansion of U.S. Customs & Border Protection (CBP) Preclearance facilities internationally. Abu Dhabi was able to obtain U.S. Preclearance by funding 85% of the cost of facilities and operations. This was extremely attractive for CBP as it not only improved border security by dealing with higher risk travellers before arriving in the U.S., but also provided additional staffing resources outside normal budgetary appropriations.

This new funding model has now become the standard for establishing new Preclearance operations, and a number of countries are currently in discussions with the U.S. to establish facilities at their international hubs (see Figure 7). There are two reasons that Preclearance is becoming a strategic priority for global hubs: the first is that it eliminates the need for border clearance on arrival, avoiding the long wait times traditionally experienced at U.S. gateways, and the second is that it gives global hubs the opportunity to attract more international connecting traffic to the U.S. For example, Etihad Airways, based in Abu Dhabi, is now able to carry more traffic from Asia to the U.S. and more easily transfer traffic to its code share partner, JetBlue at JFK in New York.

Figure 7
U.S. Preclearance



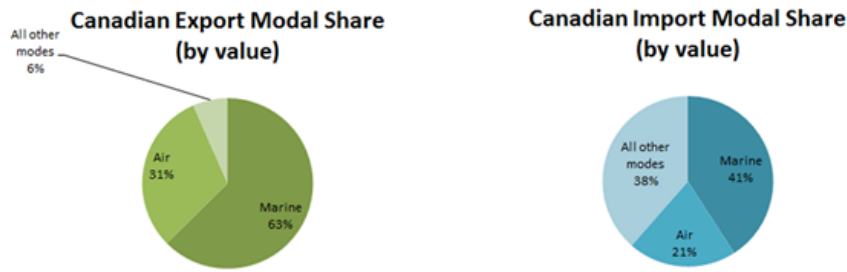
Continued expansion of U.S. Preclearance will give other international hubs the ability to capture more transit traffic from Asia and Europe to the U.S., neutralizing a competitive advantage Canada’s major gateway airports have enjoyed for a number of years. The competition for gateway traffic to the U.S. will consequently become more intense – increasing the need and urgency for Canada to expand TWOV and improve transit processes through Canada’s airports.

2.3 Cargo Market and Competitive Issues

Unlike the U.S., Canada has few major all-cargo carriers and much of the cargo is carried in the belly of passenger aircraft. (In the past, Air Canada had a dedicated freighter fleet but this was discontinued as newer widebody passenger aircraft actually provide significant cargo capacity). There are only two relatively significant aircraft operators in the domestic cargo market and a number of smaller operators serving local markets and Canada’s North. Consequently, Canada is highly dependent on foreign carriers for international freighter services.

Nevertheless, air cargo plays a significant role in Canada’s international trade. While air cargo accounts for only 3% of the volume of shipped goods, it accounts for over 30% of the value of exports, not including the U.S. (Most goods between the U.S. and Canada are transported by truck and rail). Figure 8 illustrates the value of both imports and exports by air in 2013.

Figure 8
Canadian Cargo Market Issues

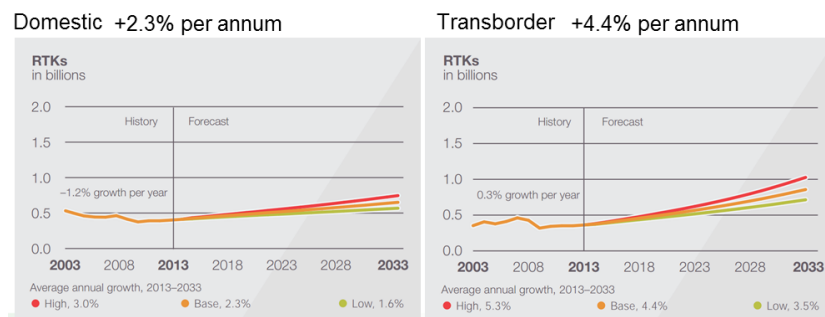


Source: Analysis of WISERTrade Data
Note: Excludes trade with the U.S., where road, rail and pipeline dominate

One of the major challenges for Canada’s airports is the lack of reliable data for cargo. Statistics Canada reported about 1.07 million metric tonnes were loaded/unloaded at Canadian airports in 2013. Unfortunately, this data does not include domestic charters as there are no reporting requirements for this type of traffic. (Purolator and the major U.S. express carriers such as FedEx and UPS use domestic charters to distribute cargo from major centres in Canada and these volumes are not reported to StatsCan). Based on industry supplied information, the estimated total enplaned/deplaned cargo is around 1.5 to 1.6 million metric tonnes, which if correct suggests a significant undercounting with StatsCan data.

Also, the only available cargo forecasts for domestic and transborder air cargo are developed by Boeing (see Figure 9), and these are based on RTKs (Revenue Tonne Kilometres) and not enplaned/deplaned cargo. There are no forecasts available for Canada’s international air cargo market, which is challenging for planning, marketing and policy development.

Figure 9
Canadian Cargo Market Forecasts

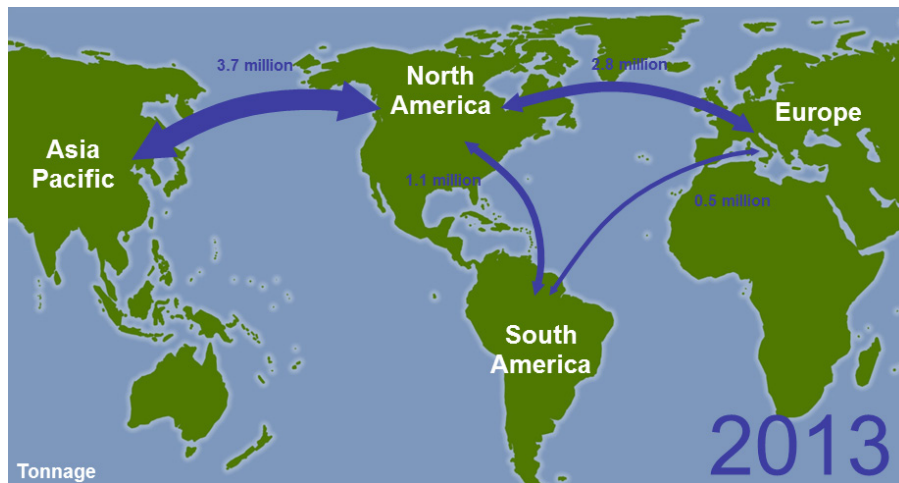


Source: Boeing, World Air Cargo Forecast 2014-2015.

Figures 10 and 11 below indicate intercontinental flows of air cargo in 2013 and Boeing’s forecast for 2033. As these figures indicate, air cargo traffic between Asia and North America is currently the largest market at 3.7 million tonnes and Europe second at 2.8 million. By 2033, the trans-Pacific is expected to triple in size and will account for half of the global trans-continental cargo market. Given the right policy environment, Canadian airports should be able to capture some of the U.S.-Asia cargo market since a good portion of this cargo will be carried in the belly of passenger aircraft and freighters will generally require stopover points on long routes due to their heavier loads.

Figure 10

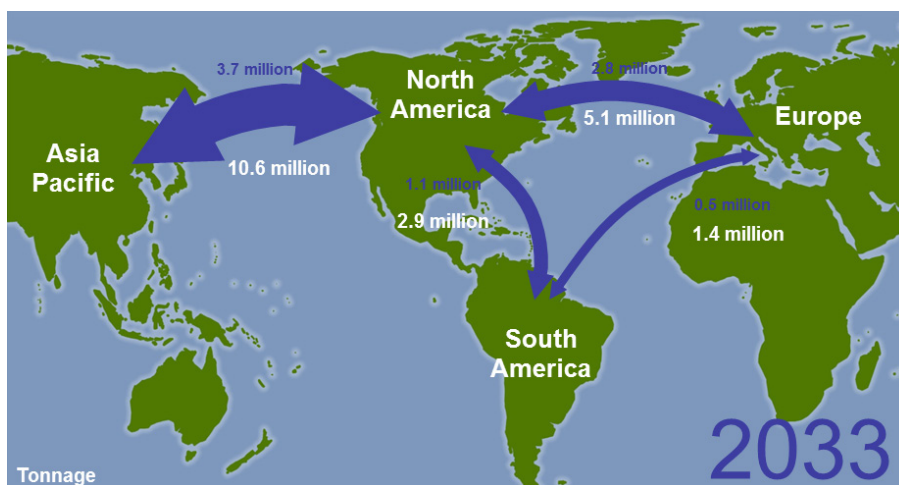
Current Global Cargo Market



Source: Boeing, World Air Cargo Forecast 2014-2015.

Figure 11

Global Cargo Traffic Forecasts



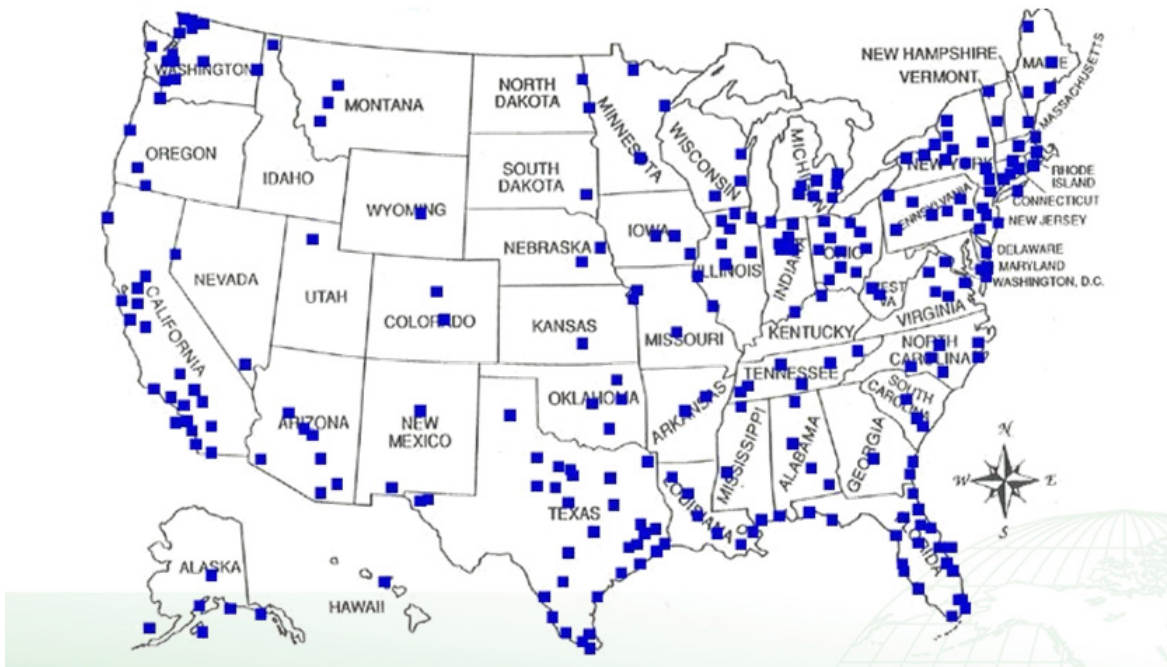
Source: Boeing, World Air Cargo Forecast 2014-2015. (RTK growth rates applied to 2013 base)

Another competitive challenge to the growth of the international air cargo market through Canadian airports is the lack of value added Foreign Trade Zones (FTZs). While Canada has an FTZ-like policy and permits their operation anywhere in Canada, the biggest drawback is that this policy limits value added manufacturing to less than 10%. If value added manufacturing were permitted, businesses could import material to manufacture finished goods and re-export to the U.S. or other international markets by air.

In the U.S. FTZs are location specific but value added manufacturing is permitted and no payment of duties and taxes for goods that are re-exported from an FTZ is required. Figure 12 illustrates the extent of FTZ locations in the U.S., which have been successful in stimulating cargo traffic and creating manufacturing jobs. A change in Canada's FTZ policies could potentially stimulate growth in Canada's international air cargo market.

Figure 12

U.S. Foreign Trade Zones



3. CANADA'S AIRPORTS: VISION 2040

3.1 Introduction

While it is difficult to predict what the global air transportation environment will look like in 25 years, current trends are likely to further evolve, particularly in the area of technology and innovation. These and other developments could drive revolutionary change in the way we live, do business, communicate and travel. This section will explore some of these trends in the air transportation environment and present a vision for Canadian airports in 2040.

3.2 The World in 2040

Evolution of Air Transport and Border Policies

Open Skies and Open Borders will likely develop among trusted economic and security partners. Canada and the U.S. (and eventually Mexico), should become a single North American aviation market with full perimeter border clearance by 2040 (Figure 13). This would mean a fully integrated airline market with 100% cross-border ownership rights and unrestricted travel, similar to the EU under the Schengen agreement. The EU objective of a Trans-Atlantic Open Aviation Area should also be achieved by 2040 and U.S. Preclearance could evolve into an intercontinental Preclearance regime between North America and Europe (Figure 14). Intercontinental Preclearance would consist of joint Canada-U.S. Preclearance at European gateways so inbound travellers would arrive as domestic passengers and vice versa with EU Preclearance at Canadian airports. Air and border policy evolution over time will pose new challenges to international airports as facilities will have to be reconfigured to handle new processes –e.g. more international passengers arriving in the domestic part of airport terminals, more processing at international departures if EU Preclearance is established at North American airports, etc.

Evolution of Aviation Security

Long lines and a one-size-fits-all approach to passengers could be a distant memory by 2040, long having been replaced by much more efficient screening processes and a segmented, risk-based approach to passengers. Indeed by 2040, many passengers may be only nominally aware of their interaction with aviation security. Biometric identification allows all stakeholders in the aviation value chain to confidently know the identity of travellers and their risk profile. Many security functions take place out of view of the travelling public, where data on passengers is analysed and tracked against known threats to aviation through much better coordination by international partner states. Technology is making the screening process a much more pleasant experience. Gone are restrictions on liquids, gels and aerosols. Travellers and their goods pass easily through screening checkpoints that are effective at finding security risks but without the hassle of having to take off coats, empty pockets or remove electronics from bags.

Figure 13
Perimeter Clearance



Figure 14
Trans-Atlantic Open Aviation Area



Changes in the Aviation Industry

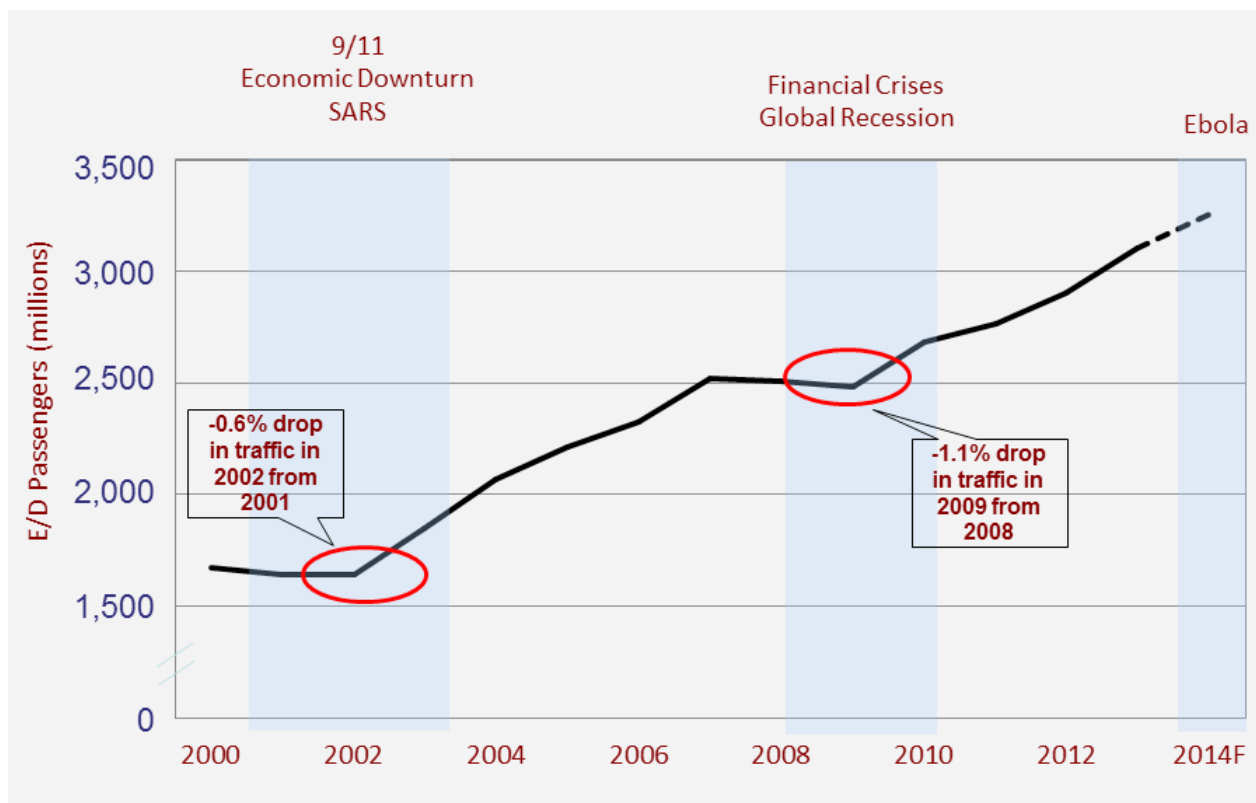
Canadian and international airlines have enjoyed a traditionally rare period of profitability in recent years but should continue to operate as viable businesses in the future. With continuation of air policy liberalization, more airline consolidation can be expected with a few global mega carriers dominating international air travel and cargo markets. With continued restrictions on majority foreign ownership, Canada could have two, or possibly three, full service flag carriers and several national/regional low cost carriers (LCCs) and ultra low cost carriers (ULCCs). On the other hand, with more open foreign ownership policies, Canada's major carriers today likely will be part of global mega carriers, with the domestic market being served by a mix of Canadian and foreign LCCs and ULCCs. Depending on the approach taken, under a more liberal policy environment, competition among global hub airports could intensify in response to industry consolidation and concentration of traffic into fewer hubs.

As we have seen in other sectors, the continuing evolution of the Internet as a market distribution platform and the power of data-driven analytics could see the emergence of new players. We have seen fragmentation of the aviation sector before, where once the state owned airports and airlines, which handled virtually every part of their business in-house, from flying the planes to catering and maintenance. In the future this fragmentation could continue, with separate data-driven service organizations “owning” the passenger, and transportation companies operating the aircraft on which they fly – in a similar fashion to how mainline carriers buy capacity from regional carriers today.

Continuing Disruptive Events

The air transportation industry has always dealt with shocks to the system: terrorism, global financial crises, economic cycles, and pandemics. Barring the introduction of disruptive new power generation technologies or fuels, oil price volatility also will continue to be a key factor affecting the financial stability of the airline industry. In the past, the resilience of air travel demand has allowed the air transportation industry to not only recover in a short period of time, but also return to forecasted growth trends, as illustrated in Figure 15.

Figure 15
Total World Traffic



*Traffic forecast based on revenue passenger kilometres (RPKs).

Source: International Civil Aviation Organization (ICAO), International Air Transport Association (IATA) and Boeing Current Market Outlook 2014-2033.

More Broad-based Competition

Historically, small open economies have always recognized the importance of air transportation as a driver of economic growth and development. Examples include the Netherlands, Singapore and Hong Kong. These smaller markets have been able to align government fiscal, aviation and border policies with trade, tourism, and transportation strategies to expand their global connectivity and their market share of international tourism, international trade and gateway traffic. More countries have realized the power of this approach and are aggressively pursuing similar national strategies –e.g. the UAE, Turkey, China, Australia and even the U.S. with its evolving Brand USA initiative. Competition at the international level is between economies. Countries able to implement integrated national strategies and take a holistic approach to economic competitiveness will become the dominant players. Airports can play a key role in a collaborative effort with airlines, tourism groups and governments to drive policy alignment to enhance Canada’s global competitiveness.

Growing Aircraft Capacity

Due to long lead times for new aircraft development, most current aircraft types likely will still be dominant in 2030-2040. Table 2 shows the current orders to 2023 and demonstrates the dominance of Airbus and Boeing. Airbus has indicated that it currently has nine years of production backlog. These orders are a combination of fleet replacements and new aircraft to provide additional capacity primarily to meet the growth needs of Asian and Middle East carriers. It is expected that new aircraft models will be developed in the medium to long term to replace early models of the Bombardier Dash 8 and smaller capacity turboprops like the Beech I900 and Metro. The lack of replacement models for the 37- and 50-seat Dash 8s and other smaller capacity planes poses a challenge for smaller Canadian airports whose markets cannot support larger aircraft.

Ongoing Focus on Environment and Noise Issues

Community concerns over aircraft noise and overall environmental impacts of aviation-related operations have been ongoing issues for airport operators for decades, despite continued substantial improvement in the noise profile of commercial aircraft being developed. The airport-community relationship in Canada has shifted from adversarial to a more collaborative approach in addressing environmental concerns. With a greater focus on climate change impacts, airports will be facing more pressure against traffic growth and airport expansion, which could risk the realization of an airport’s economic potential in some communities.

Table 2 Aircrafts on Order (2014-23)

Note: Individual airline configurations may differ for the aircraft.

Source: *Dio Mi Fleet Current Summary Estimates of orders as of January 6, 2015; Innovata Schedules*

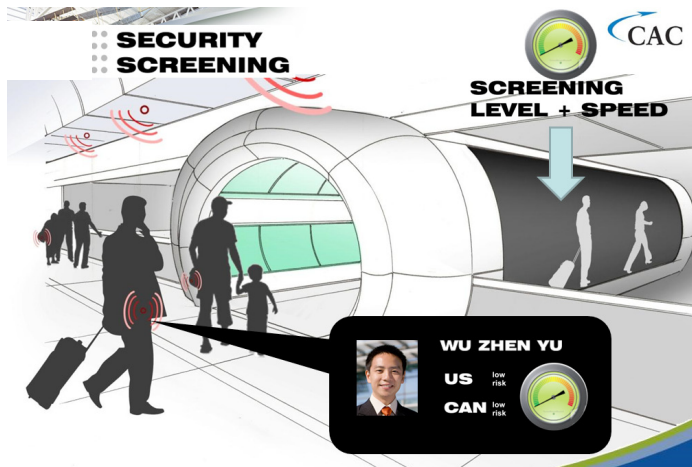
Manufacturer	Seats	Cargo Tons	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Airbus			40	658	674	788	759	671	668	536	318	215	5,327
A319	120	3.5	2	27	5	13	10	10	11				78
A320	150	3.7	17	311	384	420	427	366	406	323	183	131	2,968
A321	200	4.5	10	183	158	190	163	138	107	102	69	48	1,168
A330	265	11.7	7	96	38	20	23	15	10	6	6	5	226
A350	315	N/A	1	19	66	116	118	126	116	95	51	28	736
A380	501	28	3	22	23	29	18	16	18	10	9	3	151
ATR			5	87	76	48	51	24	5	4	3		303
ATR 42	46	0.8		11	7	10	6						34
ATR 72	70	1.1	5	76	69	38	45	24	5	4	3		269
Boeing			71	700	690	594	682	536	579	406	322	196	4,776
737 (NG)	124	3.5	44	449	458	360	280	41	422	327	269	153	1,632
737 Max	126	N/A				64	271	359					1,865
747	362	22.1	1	19	13								33
767	214	7.8		7	11	12	11	2					43
777	342	15	6	98	75	26	29	13	50	34	38	35	404
787	247	11.4	20	127	133	132	91	121	107	45	15	8	799
Bombardier			3	63	90	86	59	26	9	7			343
CRJ1000	104	N/A		5	6	12	8						31
CRJ900	90	1.9	3	22	11								36
C-Series	130	N/A		7	64	74	51	26	9	7			238
COMAC				7	8	29	61	79	74	57	46	17	378
ARJ21	78	N/A		7	8	15	24	25	25	13	7		124
C919	156	N/A				14	37	54	49	44	39	17	254
Embraer			1	103	68	41	19	24	36	33	35	25	385
170	70	1.9		2	3								5
175	78	1.9		78	53	35	4		11	13	13	14	221
190	100	2.6	1	14	12	6	15	12	19	15	13	7	114
195	116	2.6		9				12	6	5	9	4	45
Total Above			120	1,618	1,606	1,586	1,631	1,360	1,371	1,043	724	453	11,512
Other Manufacturers			67	233	107	53	52	83	69	65	57	12	798

Innovation and Technology Driving Airport Change

New technology and process innovation in recent years has led to significant improvements to airport operations and the passenger experience. The introduction of common use check-in systems, biometric-based CANPASS and NEXUS, self-serve Automated Border Clearance (ABC) and related U.S. Automated Passport Control (APC) have resulted in faster and more efficient processing of passengers with fewer resources. With continuing and rapid advances in information technology and biometrics, the airport of the future will likely lead revolutionary changes in technology convergence and process innovation. Tasks traditionally handled at the airport with dedicated airport and government staff will continue to be downloaded to air travellers to handle themselves using mobile technology before arriving at the airport or upon arrival at their destination. A more personalized “concierge” experience will be available for the premium passenger at all stages of the airport process. Check-in, border Pre-clearance and security screening will be combined into one seamless process using biometrics for identification and big data analytics for risk assessment and fly/no fly decisions. Carry on and checked bags will be equipped with trackable RFID or other near field technology (NFC) for automated processing. International connecting passengers will generally have been pre-cleared at departure, allowing for fast and easy transit with no further screening or clearance required at connecting hubs.



Entry Process



3.3 CANADIAN AIRPORTS: VISION 2040

Over the next 25 years, a wide array of changes are expected in the airport environment and Canada's airport system is prepared not only to respond to new opportunities and challenges, but to lead positive change on a number of fronts. Canada's airports have a track record of positive policy advocacy, process innovation and developing new IT solutions, including: the Canada-U.S. Open Skies agreement, international air policy liberalization, In-transit Preclearance, Transit Without Visa, CANPASS/NEXUS pilots, self-service bag drop kiosks, ABC and APC. Under the current airport authority model, Canadian airports will continue to be leaders and innovators. The CAC vision for Canadian airports in 2040 is as follows:

- Canada's airports are fully integrated into their local transportation systems, allowing travellers to connect seamlessly to other modes of transportation, either locally or within the broader region.
- Canada's airports are key partners with government, airlines, tourism, and business interests in policy alignment and a Team Canada approach to stimulating air travel and trade to, from, through and within Canada.
- Canada's airports provide superior connectivity to global markets and have a significant share of the transit market between Asia, Europe and the Americas
- Canadian airports are in the top 10% most cost competitive airport systems in the world through sound management practices and enabling government policies.
- Canadian airports are among the top generators of retail and commercial revenues, reducing dependency on aeronautical fees and AIFs.
- Canadian airports continue to provide the best, most cost-effective and sustainable airport infrastructure in the world.
- The Canadian airport system pays for itself on a network basis with proper re-allocation of federal funds collected from the airport system.
- Small airports are financially viable and provide competitive air services to key local and regional markets with equitable access to federal capital funding programs.
- Canadian airports are world leaders in use of innovation and technology in processing systems: moving more travellers, bags and cargo in less time with fewer resources.
- Canadian airports continue to achieve some of the highest customer satisfaction ratings, both globally and among North American airports

4. EFFECTIVE & EFFICIENT SECURITY SCREENING

4.1 Background

In the aftermath of 9/11, countries around the world restructured their aviation security systems and processes. Today, screening service delivery varies from the government-run Transportation Security Administration (TSA) in the United States to completely privatized models in Europe and Australia.

The approach taken in Canada was the establishment of the Canadian Air Transport Security Authority (CATSA) on April 1, 2002, as a Crown corporation to deliver screening services. CATSA is responsible for security screening at 89 designated airports across Canada through a third-party screening contractor model. CATSA has four main areas of responsibilities:

- Passenger Pre-Board Screening (PBS)
- Non-Passenger Screening (e.g., airport, airline, retail, and other employees working in the secure areas of airports)
- Hold Baggage Screening
- Restricted Area Identification Card (RAIC) for airport worker identification

However, from the moment of its creation, weaknesses in the structure and funding of CATSA have been a recurrent challenge. While there has never been a question of CATSA's willingness to carry out its security responsibilities, it has been an increasingly difficult struggle for CATSA to carry out its mandate in a way that meets the expectations of passengers and industry's needs for timely and efficient screening, without long and unpredictable wait times.

4.2 Security Screening Issues

Many lessons learned have been learned over the more than 14 years since 9/11 in how to efficiently and effectively screen large volumes of travellers through the world's airports. In recent years we have seen the launch of what could be a new era in screening – one in which long lines and a one-size-fits-all approach to passengers have been replaced by much more efficient screening processes and a segmented, risk-based approach to passengers. But this era is in nascent days in Canada and our commitment to this approach tentative.

As passenger numbers continue to grow, and expectations of the travelling public rise, the ability of CATSA to handle the demand for services is diminishing. The inability of CATSA to provide timely and efficient service results in more than an inconvenience to passengers; it has widespread and damaging impacts on the economy, jobs and Canada's ability to compete globally.

While these are critical operational issues today, the structural challenges underlying them must be corrected to support the continued growth and many other changes in the industry that Canada can anticipate will occur over the next few decades. The critical issues around security screening at Canadian airports are discussed below.

Budget Cutbacks and Staffing Reductions

Pre-Board Screening (PBS) today is the biggest operational challenge facing many of Canada's airports and one of the biggest sources of frustration for travellers. Table 3 presents CATSA's actual costs for the period 2010/11 to 2014/15. CATSA has been subject to budget cutbacks as part of the federal government's Federal Deficit Reduction Program and there was an expectation that efficiency gains could be made without significantly impacting service levels. The federal government, however, continued to collect Air Traveller Security Charge (ATSC) fees well in excess of the cost of the aviation security system. In the end, screening contractors are being forced to cut staff across the country and security screening at major airports has reached crisis levels with up to 75 minute wait times during peak periods. It should be noted that although 2014/15 shows a significant budget increase about \$94 million is to cover the International Civil Aviation Organization (ICAO) requirement for Non-Passenger Screening, resulting in a significant decrease in operating funds for pre-board screening. As a result, security screening wait times will be even worse over the 2015 summer months.

Deteriorating screening wait times have a cascading negative impact on on-time performance for airlines, post-security airport food/retail spending, and minimum connecting times when international arriving passengers are rescreened. Long wait times are also damaging Canada's reputation with both domestic and international passengers.

When security wait times cause delays or impact minimum connecting times for connecting passengers, airline operations are significantly impacted. Many of Canada's international routes rely heavily upon connecting passengers to be viable. New security procedures that would require re-screening of international connecting passengers will further exacerbate the situation. Longer minimum connect times associated with waits at security mean that Canadian flight options show up less prominently in online booking systems. Seasoned passengers find alternative hubs through which to connect if they have a negative experience or hear about negative experiences from other travellers.

At the same time that funding challenges are impacting PBS standards, CATSA has been tasked with additional responsibilities for Non-Passenger Screening (NPS). This additional responsibility has shifted CATSA's focus from finding efficiencies in PBS to delivering an entirely new, and extensive employee screening program at Canada's airports.

While CATSA has been given short term funding for introduction of NPS, the cost associated with additional non passenger and vehicle screening requirements has been estimated at as much as \$150 million. The challenge for the Government of Canada to fund this new requirement within the current paradigm is highlighted by the fact that Transport Canada has come to industry for help with how to proceed in the long term.

Table 3

ATSC Revenue and CATSA Funding 2007/08-2013/14

Year	ATSC ²	Total Gov't Funding for CATSA ³	Difference
2007-2008	\$385,713,000	\$482,634,000	(\$96,921,000)
2008-2009	\$386,461,000	\$476,472,000	(\$90,011,000)
2009-2010	\$374,468,000	\$580,000,000	(\$205,532)
2010-2011	\$600,078,000	\$598,400,000	\$1,678,000
2011-2012	\$631,003,000	\$584,400,000	\$46,603,000
2012-2013	\$635,600,000	\$549,940,000	\$85,660,000
2013-2014	\$661,948,000	\$538,892,000	\$123,056,000

² Public Accounts of Canada

³ CATSA Annual Reports

* Note on Enhanced NPS

The ICAO recently adopted an enhanced NPS standard. In support of the strengthened ICAO standard for NPS and security controls, Transport Canada, with the support of CATSA, developed a risk-based strategy to enhance the NPS program and began implementation of this in 2013. The Government of Canada approved the proposed longer-term program and provided funding in the amount of \$284M to CATSA over the three-year period 2014/15 to 2016/17. This strategy has allowed Canada to meet the enhanced NPS standard.

The impact of security wait times, not only to the passenger's experience, but to the bottom line of airports and airlines has led to this shared sense of urgency among Canada's airports and the nation's air carriers of the need to find a viable solution to the current model for aviation screening in Canada.

Funding Model Issues

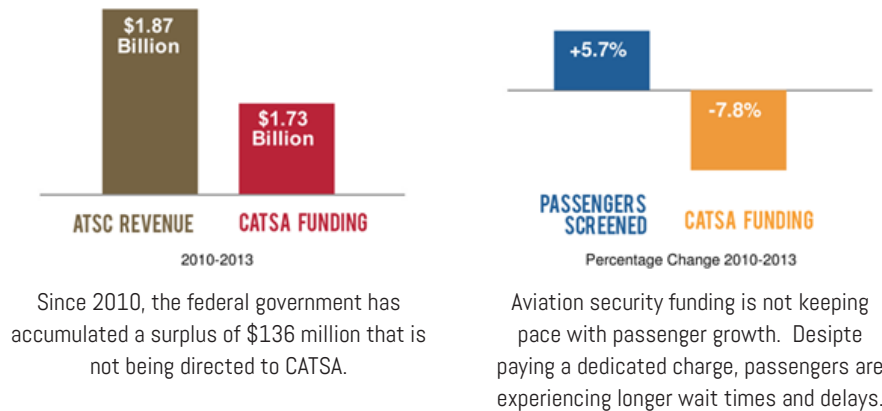
The Air Traveller Security Charge came into effect in April 2002 to fund the air travel security system, including CATSA, Transport Canada regulations and oversight, and police officers on selected domestic and international flights. Transport Canada's website indicates that all proceeds from the ATSC, including any applicable GST or the federal portion of the HST, are intended to fund the air travel security system.

Questions also have been raised as to whether 100% funding of aviation security should be borne by air travellers. In the U.S., for example, its air passenger security fee only covers one third of the cost of the air traveller security system, in recognition that aviation security is a national security issue. What is more concerning, however, is that ATSC fees are not being fully allocated to the provision of aviation security services. This point (already made in reference to Table 3) is well illustrated by the graphs in Figure 15 below.

The ATSC is obviously not being allocated in accordance with the original intent, that is: to fund CATSA and the rest of the air travel security system. One of the greatest challenges of the user pay/cost recovery

model in Canada is that all funds collected by the federal government and its agencies must be deposited into the Consolidated Revenue Fund and cannot be earmarked for specific purposes. So as government needs and priorities change, ATSC and other user fees can be allocated to fund other budgetary requirements.

Figure 15



Source: National Airlines Council of Canada

Clearly the funding model is no longer functioning as originally intended and is no longer a sustainable means of providing predictable funding for airport screening services.

Even if one accepts the premise that the ATSC should be used to fund not only CATSA but other elements of the Government of Canada’s aviation security regime, including Transport Canada’s aviation security division, those additional areas funded by the ATSC are primarily fixed costs. Accordingly, the majority of traffic growth-based increases in ATSC revenue should be going to CATSA.

Screening Performance Standards and Efficiency Issues

In other countries, screening is performed or success is measured according to established service standards. Canada has no equivalent standard of minimum performance.

This year Canada’s airports sector projects that approximately 85% of passengers will wait 15 minutes or less in line. In practical terms this means that of the approximately 55 million passengers CATSA will screen in 2014/2015, 8 million passengers will have to wait longer than 15 minutes in queue. In 2015/2016, it is forecasted that this will increase to about 50% or 28 million passengers waiting more than 15 minutes. These numbers, while concerning on their own, are even more alarming considering that they are averages. At peak travel times waits in excess of an hour have occurred at some of Canada’s biggest gateway airports in the past year and will become even greater in the 2015 travel season.

This is simply not competitive in the world aviation environment today. At London Heathrow and Hong Kong International Airport, the service level standard is for 95% of passengers to be screened in fewer than five minutes. This is the yard stick against which Canadian airports are being measured in what is a truly integrated and globally competitive industry. This is particularly true for airports aiming to build and maintain roles as international hubs.

Increased budgets and staff are not the only means to improve screening performance, reduce wait times and provide a better customer experience. The TSA, for example, introduced and rapidly expanded Pre-Check, a risk-based, trusted traveller program that has allowed it to achieve faster throughput rates and improve customer service. TSA's processing rate per security screening lane is more than double that experienced in Canada. Transport Canada recently announced its own trusted traveller expedited processing lanes, for flights to the U.S. at Toronto Pearson, Montreal Trudeau, Vancouver and Calgary. While this is a positive first step and partly in response to obligations under the Beyond the Border Action Plan with the U.S., the Canadian trusted traveller program is much more limited than the U.S. version. Consequently, it is unlikely to result in tangible improvements in overall processing rates and wait times. Greater harmonization of security standards with the U.S. over time (as has been the case with programs such as NEXUS) will likely yield greater efficiencies and better customer satisfaction.

Other examples of innovation include the introduction of new security systems and processes at London Gatwick, Amsterdam and Brussels airports. These airports have experienced remarkable performance improvements with processing efficiencies reaching 2-5 times what is currently being experienced at Canadian airports, while still meeting all regulated security standards. Surprisingly, one of the more effective systems being deployed in Europe is a security checkpoint screening solution developed by a Canadian company.

Another factor limiting the efficiency of screening services is the extent of regulatory oversight and control of CATSA screening services by Transport Canada. There are relatively few staff left at Transport Canada with aviation security expertise. New security regulations and standards are often implemented with little regard to the impact on security screening resource requirements and efficiency of operations. Much of the subject matter expertise migrated from Transport Canada to CATSA when it was first established or rests with screening contractors and security staff at airports. This has resulted in a lack of cooperation between the two organizations and limitations on CATSA's ability to be innovative in screening service delivery.

Canada's current air traveller security system is not set up to be innovative or responsive to changing needs of the industry and has not embraced a customer service focus in the delivery of screening services. While there have been some improvements over the years, these have not been ground-breaking, response time has been very slow, and many of the changes have been driven by industry pressure.

Governance Model

Since the formation of CATSA 13 years ago, the authority has worked steadily to develop a professional, committed workforce. The dedication of the people at CATSA to deliver a secure environment for Canadian air travellers is not in question. The efficient and timely delivery of screening services that achieves facilitation needs of passengers and industry is the challenge.

CATSA has been hamstrung by a number of structural deficiencies and organizational inflexibilities that no longer allow the current model to meet the growing demands of industry, the traveling public, and quite possibly the needs of CATSA and the Government of Canada itself:

- CATSA's creation as a narrowly mandated Crown corporation is its greatest organizational

challenge. Dependence for funding on annual federal appropriations under the same federal budgetary process as all other corporations, departments, and agencies of the Crown does not allow it to meet the dynamic needs of industry efficiently.

- While having travellers shoulder 100% of aviation security costs has a negative impact on cost competitiveness and is not typical in the world, a user fee approach to fund aviation security can work. It allows for revenues to rise and fall with changing traffic volumes in order for resources to match demand. The current model does not link the rising (or falling) revenues to funding appropriations – today passenger traffic is increasing significantly but CATSA’s funding has failed to keep pace with inflation or traffic growth.
- The appropriations model for funding hampers CATSA’s ability to predict future revenue flows and plan its business accordingly. It also doesn’t allow CATSA to nimbly respond to changing security innovations as can other screening providers around the world.
- As a Crown corporation, CATSA is highly sensitive to political requirements and changing political objectives – many of which have little to do with aviation security or passenger facilitation needs. CATSA is responsive only to the needs of government and not to the industry and customers that it serves.
- While Section 7 of the CATSA Act allows for airports to deliver screening services on its behalf, the decision to do so rests with the Government of Canada, which has never allowed this to take place.

With one of the worst passenger screening processing rates in the world, poor customer services, limited ability to innovate, and unstable funding levels, the need for a different governance structure for the provision of airport security screening services in Canada is glaringly apparent.

4.3 Recommendations

CAC recommendations for delivering more effective and efficient security screening at Canadian airports are:

- I. Substantially restructure CATSA or create a new screening entity to achieve the following:
 - A. Deliver screening services to an internationally competitive service level standard, against which the performance of the new entity and its management can be measured.
 - B. Provide those charged with delivering screening services a greater and more formal advisory role in the development of security policies, regulations and standards.
 - C. Ensure that airport operators are able to deliver screening services either directly or through a screening contractor as currently provided for under section 7 of the CATSA Act.
 - D. Be responsive to the needs of airports and air carriers by providing security services when and where required based on individual airport’s business needs and requirements.

- E. While strengthening aviation security, introduce innovation, entrepreneurial spirit and competitive market forces to the way in which screening services are structured and delivered in Canada. Cost per passenger would continue to be a concern of industry and passengers. Keeping cost to travellers competitive would be an important consideration of the new entity, with measures incorporated to ensure that consultation on rates is thorough and transparent.
 - F. Create a recognized world leader and innovator in the provision of aviation screening, with particular expertise delivering screening across an integrated network of broadly dispersed small, medium and large airports.
 - G. Create a new user funded revenue model with the screening provider's ability to set its own fees and charges and assume debt for capital requirements.
 - H. Provide decision making autonomy to meet nationally regulated security standards, with access to information and intelligence needed to perform mandated functions in the manner determined to be most appropriate.
2. Establish an industry advisory group to provide input into the development of a new governance structure for security screening services.
 3. Provide for transitional measures to address immediate issues while the new governance structure is being developed:
 - A. Establish competitive service level standards for delivery of screening services during the interim period.
 - B. Allocate fully future ATSC revenue to fund the aviation security system, including growth in demand for screening services supported by the traffic-based growth in ATSC revenue.
 - C. Allow CATSA and TC greater flexibility to work with airports in structuring interim arrangements to deal with service level deficiencies.

The next couple of years provide a tremendous opportunity to remake aviation screening in Canada. Screening contracts come due in March 2017, at the same time as a new funding environment is planned for Non-Passenger Screening. This fast-approaching milestone should serve as a deadline for the introduction of a proposed new screening entity or a restructuring of CATSA— a chance to dramatically improve the passenger experience for all Canadian and world air travellers in a meaningful way.

In addition to these general recommendations, the CAC will continue to work on this critical policy issue and provide a more substantive supplementary submission on security screening to the CTA Review by end of March 2015.

5. ENHANCED ECONOMIC COMPETITIVENESS

5.1 Introduction

Cost competitiveness joins security screening and border policies as one of three broad areas of critical importance to the global economic competitiveness of Canada's airport system. As these other issues are dealt with separately in this submission, the focus of this section will be on the two broad areas of government-related cost competitiveness – fees/taxation and infrastructure funding for small airports.

This section reviews the government's cost recovery and user pay policies and the impact these have on airfares and passenger demand, including cross-border diversion. In addition to the rent airports pay to the federal government, airlines also have expressed concerns about the cost of airport operations, and the Airport Improvement Fee (AIF), which adds to the cost base of the airports system.

Limited infrastructure funding for small airports in Canada is another important issue affecting the economics of the airports system. Canada also suffers from government policies that restrict commercial revenue opportunities available in other competing jurisdictions; new revenue that could be used to keep aeronautical fees lower.

5.2 Economic Competitiveness Issues

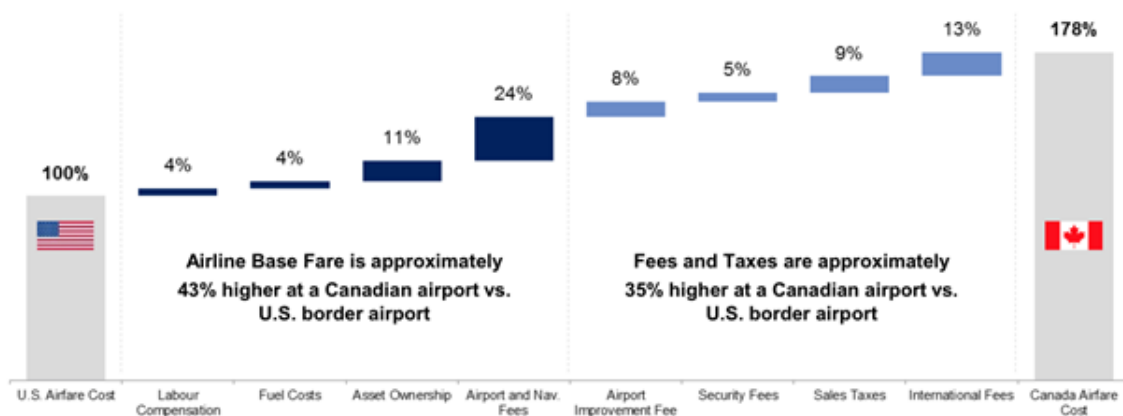
Airfare Competitiveness

In the past few years there have been numerous media reports on the cost competitiveness of the Canadian air transportation system, particularly when compared to the U.S. This focus on “cross border shopping” for air services or transborder leakage, has highlighted the airfare differential between the two countries. A number of low cost carriers operating from U.S. border airports have been able to entice Canadian travellers to drive across the border and fly from a U.S. airport to take advantage of lower airfares. It is estimated that in excess of 5 million Canadian passengers per year are now flying out of these nearby U.S. airports.

The 2012 Conference Board of Canada study on this issue (*Driven Away: Why More Canadians are Choosing Cross-Border Airports*), found that U.S. carriers had a 30% overall cost advantage over Canadian carriers. As shown in Figure I6 below, costs contributing to airline base fares are over 40% higher in Canada, and fees and charges are 35% higher. In addition to Canadian fees and taxes, passengers flying from Canada to the U.S. are subject to inbound U.S. government fees that are not imposed on flights operating from the U.S. –e.g. U.S. Agriculture Fee, U.S. Immigration User Fee, Customs fee, etc. By driving across the border and taking a domestic flight from a U.S. airport, Canadian travellers can avoid both Canadian and U.S. government fees and take advantage of overall lower airfares.

Figure 16

Estimate of Difference in Airfare Costs Between U.S. and Canada



Source: Deloitte study *Tourism in Canada Seizing Economic Growth*, derived from Conference Board of Canada report.

There are many reasons for lower costs in the U.S. and the resulting air fare differential: lower operating costs (labour, fuel, etc.), more supportive U.S. aviation fiscal policies, much lower government user fees on air travel within and out of the U.S., and the Canada-U.S. exchange rate. With the proximity of U.S. border airports to major Canadian cities and continuing air fare differentials, we expect to see continuing growth in traffic diversion to cross-border airports. However, the 2012 Conference Board report did conclude, that while many of the underlying factors for fare differential were beyond Canada’s control, positive changes to government fiscal policies could result in bringing 2 million or more passengers per year back to Canadian airports. It will be interesting to see how much the recent decline in the Canadian dollar impacts cross-border diversion, but the recent extended period of a strong Canadian dollar suggest that it is risky to rely on this as a permanent structural “fix” for a less competitive cost differential.

Government User Pay Policies

As discussed above, one reason for the fare differential is the Canadian government’s user pay policies, which have placed Canadian aviation at a competitive disadvantage relative to the U.S. aviation industry. In the U.S. there is a greater recognition that aviation is a catalyst for economic growth and a more supportive approach to fiscal policies with respect to aviation. To begin with, fees collected from air travellers, airports and airlines are generally reinvested in the aviation sector. Additionally, proceeds from federal aviation fuel excise taxes are deposited into a trust fund and are reinvested back into the industry, providing grants to airports for infrastructure development, and funding for the air navigation system.

Moreover, U.S. airports and airlines receive fiscal support from various levels of government, including:

- The U.S. Airport Improvement Program, a government program that pays for airport capital investment. This lowers airports’ capital costs, allowing them to have lower landing fees and

other aeronautical charges, further enhancing the cost competitiveness of the U.S. airport system. (Canada does provide some financial support to smaller airports that are not part of the National Airport System, through the Airports Capital Assistance Program (ACAP). However, this program is under-funded, is very restrictive in terms of eligible projects and is not available to any NAS airports, regardless of size).

- The Essential Air Service and Small Community Air Service Development programs, which support services at smaller airports;
- Tax-free bond financing, reducing the cost of financing for airports
- Taxpayer funding of two thirds of air transport security costs and only one third from the aviation security fee, recognizing that aviation security is also a national security issue.

Canada's aviation-related federal fees and charges (some of which are intended to recover the cost of services) are summarized below:

- **Airport Rent:** Discussed in more detail below, the rents paid by NAS airports to the federal government are the biggest federal cost element.
- **Federal Fuel Tax:** The federal government collects revenue from a fixed excise tax on gasoline and diesel fuel (\$0.10 and \$0.04 per litre respectively, plus GST/HST), including aviation fuels used in domestic air transport. Historically, aviation fuel taxes were first introduced as a source of indirect support for federal expenditure on the airport and air navigation system, but now are used for general public expenditures.
- **The Air Traveller Security Charge (ATSC):** The current ATSC per enplaned passenger is \$7.12 for domestic, \$12.10 for transborder, and \$25.91 for international. Federal policy is that the ATSC rate is set so that air travellers pay 100% of aviation security costs, with no additional support from general tax revenue.
- **Payments in Lieu of Taxes (PILT) and other municipal payments:** In addition to ground rents to the federal government, airports make payments to municipal governments. These payments cost Canadian airports well over \$100 million per year while many airports are responsible for self-financing many of the services that would ordinarily be provided by municipal governments, such as access roads and policing. Almost without exception, U.S. airports make no municipal tax payments and in some cases have the authority to levy property taxes.
- **Air Navigation Charges:** Nav Canada, the not-for-profit provider of air navigation services in Canada, was required to pay \$1.5 billion for systems assets previously paid for by passengers through the former Air Ticket Tax. This has resulted in additional costs to passengers and adds to higher air fares in Canada.
- **Cascading GST/HST taxes:** The Goods and Services Tax (GST) and Harmonized Sales Tax (HST) are cascading taxes, where a tax is applied on other taxes. While international flights are not subject to GST, the tax cascades on other taxes for domestic flights and on certain charges for

flights between Canada and the United States. The cascading tax effect occurs when GST/HST is applied on the provincial and federal fuel excise taxes, and on the Air Traveller Security Charge.

Airport Cost Competitiveness

In 1992, Transport Canada began to transfer the national airports system to local airport authorities, municipalities and private operators. Prior to that time, the airport system operated at a loss. Both operations and capital investments were subsidized by the Canadian taxpayer. Since 1992, locally operated airports have invested more than \$19 billion in airport improvements without taxpayer funding and have paid more than \$5 billion in rent to the federal government. These investments in Canada's airport infrastructure (which the World Economic Forum has ranked first in the world) have allowed Canada's airport system to provide a much better travel experience for passengers and provided the capacity to handle a doubling of traffic since 1993.

These investments also have allowed airports to diversify and expand profitable revenue streams through food/beverage, retail, hotels and commercial real estate, helping to keep aeronautical fees in check.

After transfer, most airports in Canada continued with the cost recovery approach established by Transport Canada for aeronautical fees (primarily landing fees). The major difference, however, was that airports were now paying rent to the federal government and this created a new cost burden with two major consequences:

1. The cost base for airports was increased, resulting in higher cost recovery fees to airlines, and
2. Airports introduced Airport Improvement Fees (AIFs) to cover the cost of capital infrastructure needed to deal with traffic growth and upgrade neglected facilities. (In the years prior to transfers, the federal government had drastically cut capital investment at airports).

The federal government was well aware that airports would not be financially sustainable without the ability to levy Passenger Facility Charges (or AIFs), so the ability to levy these was incorporated into the lease agreements.⁴

A new airport rent formula was announced by Transport Minister Jean C. Lapierre in May 2005. The former complex rent formula was changed to a simpler one based on a progressive percentage of gross revenue. Transport Canada calculated that this change would provide \$8 billion in rent relief, reducing rent collected from an expected \$13 billion to \$5 billion over the remaining term of existing airport leases. However, airports are now paying approximately \$300 million a year in rent and, even if rents were capped at current levels, this would still result in rental payments of over \$12 billion over the next 40 years.

⁴ The Vancouver Airport Authority was the first airport in Canada to introduce AIFs and annual revenue collected in the first years was roughly equivalent to its airport rent obligations, suggesting that AIFs would not have been needed at that time if not for airport rents.

Another issue raised with respect to the rent formula is that because it is based on a percentage of revenue, some low margin business opportunities may in fact not be pursued by an airport. For example, if the expected profit margin on a new source of revenue is 10% or less and the Government of Canada receives 10% of the revenue as rent, then there is no incentive to pursue the revenue opportunity. A rent formula based on net income, however, might result in airports pursuing new airport revenue opportunities which would improve cost competitiveness while increasing rent paid to the federal government.

Government Commercial Policies

There are other federal government fiscal policies that limit Canadian airports' opportunities to generate additional revenue and grow international trade versus competing airports around the world. Two of these are: Foreign Trade Zones (discussed in Section 2.3) and Arrivals Duty Free (ADF).

Arrivals Duty Free would permit the sale of duty free items to passengers arriving in Canada from an international flight. ADF is now available in over 50 countries around the world and international visitors have now come to expect this as a customer convenience. In addition to improved customer service, Arrivals Duty Free would allow Canada's airports to repatriate about \$100 million in overseas sales, generate close to 600 new direct and indirect jobs across Canada and deliver some \$9 million in new tax revenue to the federal government.

Small Airport Infrastructure Funding

Transport Canada's Airports Capital Assistance Program (ACAP) was created in 1994 as part of the National Airports Policy, which called for the transfer of airports to local authorities. Eligible projects under the current policy are restricted to safety-related airside and terminal projects and safety-related equipment purchases. Between fiscal years 2009/10 to 2013/14, almost 200 projects valued at \$140 million were funded under the ACAP program. The federal government has allocated \$38 million per year for ACAP and this budget has remained the same for nearly 20 years.

The challenges with the Airports Capital Assistance Program are as follows:

1. **ACAP is underfunded:** A total of \$38 million annually to ensure the support for safety and security of 200 airports in Canada is not sufficient. The cost of construction and paving runways has increased substantially in this time period. For example, the cost to resurface or rehabilitate an average-sized 7,000 foot runway is now \$7-10 million, a cost increase of 100% since 2000. Airports are currently struggling to maintain capital infrastructure and in many cases, it is an airport's only source of capital.
2. **Program Predictability and Transparency:** Airports go through an extensive consultation process with Transport Canada staff regarding needs, eligibility parameters, thresholds and airport conditions and also discuss the likelihood of project funding if an application were submitted. As a result, many airports do not submit applications for projects with low funding probability, which has led to underestimating the funding need for this group of airports. To make matters worse,

many airports transferred 12 to 15 years ago are now facing another wave of rehabilitation projects for runways and aprons. Another concern is that the internal government procedures for ACAP funding requests provide little transparency on the review and decision-making process for project funding approval.

3. **Regulatory Burden:** Over the years, the regulatory burden on airports has become more demanding and smaller airports across Canada bear a greater proportional share of this burden than larger airports. Through the implementation of Safety Management Systems (SMS), updates to TP 312, and incoming Runway End Safety Areas (RESA) requirements, small airports are required to invest heavily and maintain a level of safety standards that did not exist when ACAP was first formulated. In many cases Transport Canada established guidelines and approvals based on older criteria and not on the optimum business case or long term plans of the airport. For example, in some cases airports are only funded through ACAP for one plow truck or one sweeper. Regulatory requirements, turnaround times and changing climatic conditions see many airports requiring two units in order to meet SMS and regulatory requirements. However, it appears that these considerations are not being given weight in the ACAP approval process.
4. **Program Eligibility:** Airports eligible for ACAP funding include those that are not owned or operated by the federal government, that meet certification requirements, and offer year-round regularly scheduled commercial passenger service under 525,000 passengers. This means that smaller and resort airports with significant charter and seasonal services are not eligible for capital assistance under ACAP. Additionally, airports that are located on federal land and operated by airport authorities are not eligible, regardless of size. This approach has created an inequity in the system that excludes NAS airports located on federal land, that would otherwise meet the passenger traffic thresholds to be eligible for ACAP. There are six smaller NAS airports with fewer than 525,000 passengers (Prince George, Charlottetown, Fredericton, Gander, London and Saint John) which would qualify for ACAP if they were not classified as NAS airports.

"As a general rule, airports within the NAS will be required to become financially self-sufficient (operating and capital costs) within five years beginning April 1, 1995. For certain NAS airports, it is recognized that undercapitalization in the past or future capital requirements may result in some adjustments to this principle."

–National Airports Policy, 1994

This principle has never been adjusted despite recommendations to do so in numerous studies and airport viability reports dating as far back as 2002.

The National Airport System as a whole is financially sustainable; however some parts of the system require financial capital assistance for safety-related projects to maintain the integrity of the entire transportation network.

5.3 Recommendations

Differing approaches to fiscal, infrastructure investment and other policies that affect the air transport industry in Canada and the United States have created a cost gap which undermines the competitiveness of Canada's aviation sector. This cost gap can be reduced substantially through major revisions in government tax and user pay policies. Rather than a wholesale elimination of government fees, taxes and other charges, the CAC is recommending policy reform that can be phased in and addresses the infrastructure needs, increases airport revenue opportunities and reduces some of the cost differential with the U.S., as follows:

4. Reinvest federal aviation taxes, fees and charges into the air transportation system, such as through a fund for aviation infrastructure. This would in turn positively impact Nav Canada charges and airport aeronautical and AIF fees.
5. To improve the provision of Airports Capital Infrastructure Program funding to the eligible airports that need it on a consistent and predictable basis, the program should be simplified in the following ways:
 - A. Expand program eligibility to include small NAS airports.
 - B. Clarify and improve project eligibility criteria and processes that currently leads to inconsistent decision-making and rejection of projects not contained within the first ACAP priority category.
 - C. Create a web-based portal to facilitate the application process and improve communications between airports and Transport Canada.
 - D. Improve airport/government communications and expectations by providing clear communications charting the ACAP decision-making process and factors along with timelines.
6. Eliminate federal ownership of airport land as exclusion with respect to federal infrastructure program eligibility in favour of more objective criteria, such as infrastructure and financial needs of airports.
7. Implement supportive commercial policies like Arrivals Duty Free (to increase airport revenues) and value-added Foreign Trade Zones to stimulate air cargo growth and international trade.
8. Reform airport rent to better position the industry competitively over the long term, including in the near term such options as a cap on rent or changes to the airport rent formula from revenue-based to profit-based. Longer term, there is broad aviation sector support for outright elimination of rent for some or all airports currently designated as NAS.

6. INNOVATIVE & GLOBALLY COMPETITIVE BORDER POLICIES

6.1 Introduction

Border policies and facilitation have an impact on Canada's ability to attract international tourists to Canada and transit traffic through its airports. Countries competing with Canada for tourists have developed innovative policies and programs aimed at making the entry process easier as well as the connecting process for transit passengers. These countries have used visa and border clearance policies to gain competitive advantage and have been successful in expanding their air connectivity, growing inbound tourism and international trade, and increasing their market share of international transit passengers. Although advances have been made on several fronts, Canada's border policies (particularly visas) are highly restrictive and make Canada's gateways and airlines uncompetitive in the global marketplace.

6.2 Border Policy Issues

Canada has one of the world's more liberal policy environments for permanent immigration, an approach that has served Canada and the Canadian economy well. Nevertheless, policies around temporary foreign visitors, which have a more direct and immediate impact on aviation, trade and tourism, can be more challenging. The main border policy issues which will greatly improve the global competitiveness of Canada's airports, airlines and tourism are discussed below.

Visitor Visas

Compared to competing countries, Canada's visa application process is considered more onerous in terms of requirements, takes more time and is known to deter visitors from travelling to Canada. The Tourism Industry Association of Canada's (TIAC) 2014 Gateway to Growth report indicated that Canada's processing times for tourist visas more than quadrupled in the past 11 years. In 2012, average processing times for Canadian visas was 18 days compared to 10 days for Australia and eight days for the U.S.

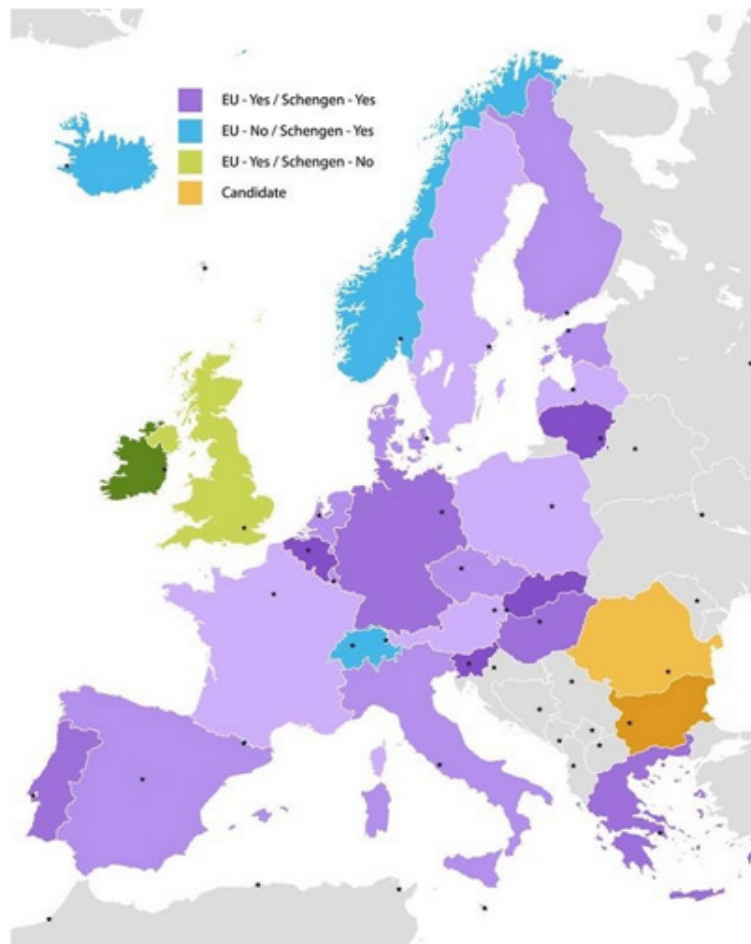
The impact of Canada's visa process on deterring travel to Canada is significant. In the year following Canada's announcement imposing a visa requirement for Mexican citizens, overnight visits from Mexico dropped by 48%. A Canadian Tourism Commission (CTC) market study in 2011 indicated that about 60% of Brazilians not interested in visiting Canada cited visa/passport issues as a reason. There is no doubt that Canada's visa application process is a challenge to growing the tourism market.

To be fair, there has been some progress made by Citizenship and Immigration Canada (CIC) in visa processing. It has expanded its use of contracted Visa Application Centres overseas and has introduced the Can+ program –e.g. Mexico, India-- to provide expedited visa processing for travellers who have visited either Canada or the U.S. in the past 10 years. CIC also introduced a 10 year multiple entry visa.

Other countries, however, are introducing more innovative programs aimed at attracting targeted high growth tourism markets like China. For example, in the fall of 2014, the British Irish Visa Scheme between Ireland and the UK was introduced, starting with visitors from China and India. This allows for visitors from these countries to travel freely to both the UK and Ireland using either an Irish or UK visa. The official announcement indicated that this program was introduced “...to make it easier and more attractive for visitors to visit Ireland and the UK and is expected to provide a major boost to tourism and business visitors.”

In November 2014, the U.S. and China signed a deal to grant visas valid up to 10 years for Chinese visitors to the U.S. and vice versa in an effort to boost both countries’ travel and tourism industries. In Europe, travel between Schengen member countries (see Figure 17) requires no formal border formalities since the 1990s. Visitors from countries that are not visa-exempt require a Schengen visa issued by a member state to travel freely throughout the Schengen area.

Figure 17
Schengen Member States



Transit Without Visa Program (TWOV)

As discussed earlier, expansion of Transit Without Visa is critical for Canada to recapture lost market share and take advantage of its strategic location to connect some of the world's largest markets. The current TWOV program has its roots in a pilot TWOV project first put in place at Vancouver International Airport for four Asian countries (Taiwan, Thailand, Indonesia and The Philippines) to permit transit without a visa to the U.S., provided they had a valid U.S. visa. This pilot project lasted 12 years, without any problems, and was finally converted into a national program in 2009. Under the program, the application approval process and the conditions and obligations for air carriers became more burdensome. As a consequence, U.S. carriers that had participated in the original pilot refused to participate in the program.

Although the TWOV program allows for expansion to other countries on a case by case basis, no additional countries have been added since the program was put in place. Also, the TWOV program is specific to transit passengers from one of the four eligible countries destined only for the United States and travelling with a valid U.S. visa. TWOV through Canada to other countries other than the U.S. is not permitted under the current program.

In response to industry pressure to add China to the TWOV program, the federal government announced a China Transit Trial (CTT) in 2009, allowing Chinese nationals to transit Vancouver to the U.S. Following a successful three-year trial, the CTT was converted into the permanent China Transit Program (CTP) and was subsequently expanded to Toronto and Montreal airports. Unlike the TWOV program which covers countries, the China Transit Program is specific to a limited number of cities. From mainland China, only passengers enplaning at Beijing, Shanghai and Guangzhou are allowed to transit to the U.S. without a visa. This poses challenges for other Chinese carriers who want to start or expand services to Canada from secondary cities. A number of new routes from China are not viable on the basis of O&D traffic alone and will consequently not be launched without the ability to carry China Transit passengers to the U.S.

Canada's current TWOV and China Transit Program provide some benefit to air carriers serving these markets but limit the carriers' ability to take full advantage of a tremendous market opportunity. Canada's main competitors for transit traffic to the U.S. (airports in the UK, EU, the Middle East and parts of Asia) have open Transit Without Visa to any destination with the exception of travellers from a short list of high-risk countries. Canada's TWOV program is the opposite: Canada only allows TWOV to the U.S. from a short list of supposedly low-risk countries.

Canada's gateway airports need to be competitive and a more open CTP and TWOV program could drive significant growth in air services and passenger traffic to and from Canada. The Conference Board has estimated that expanding Transit Without Visa could result in economic benefits of \$270 million in GDP and 3,200 jobs. Although it may seem counterintuitive, transit traffic benefits not just airports and airlines, but Canada's tourism industry. Transit traffic can account for 25% to 50% of airline seats on major international routes, support air services to new destinations that could not be sustained on the basis of O&D traffic alone as well as increase frequency and capacity to established markets.

Significant progress was made in 2014 by a government-industry TWOV working group which developed a three phase plan for program expansion. The proposed plan was designed to resolve most of the issues with the current program, including expansion of CTP to 10 Chinese cities; launch an international-to-international TWOV pilot; and, then implement an open Transit Without Visa program to the U.S. (with some restrictions) and allow a progressive expansion of international TWOV. Unfortunately, a parallel effort by CIC to introduce an electronic Travel Authorization system (discussed below), has put the TWOV expansion recommendations on hold.

Electronic Travel Authorization (eTA)

Electronic Travel Authorization is a new initiative by CIC and will require visa-exempt travelers to Canada to complete an online eTA and pay a \$7 fee in order to visit Canada. This was a commitment under the Canada-U.S. Beyond the Border Action Plan to complement the U.S. Electronic System for Travel Authorization (ESTA). The current draft regulations would require TWOV, CTP and visa-exempt passengers transiting Canada to the U.S. to complete an eTA. This would mean that a visa-exempt passenger transiting Canada to the U.S. would have to complete both an eTA and pay a \$7 fee and a U.S. ESTA and pay an additional \$14 (USD). This additional requirement is expected to cause significant damage to Canada's transit traffic to the U.S. from both visa exempt and TWOV/CTP passengers.

One positive outcome of eTA would be that more countries could move from the visa-required to the visa-exempt list –e.g. Mexico, Brazil, which should increase tourism travel from these markets. Also, eTA may facilitate a proposed expansion of TWOV to other international destinations as it could be used as a risk mitigation tool.

eTA is being designed to work in conjunction with a new Canada Border Services Agency (CBSA) passenger information system which will be used for board/no-board decisions. While eTA regulations were expected to be in place in December 2014, a new development in the EU on the renewal of their agreement with Canada on provision of passenger data by EU airlines, has now delayed the promulgation of eTA regulations.

Border Modernization

In recent years there have been major advancements in border clearance processes. CBSA, through the Air Consultative Committee, has been working closely and effectively with airports and airlines on border process improvements. The introduction of ABC for arrivals to Canada (and APC for U.S. Preclearance) has been a game changer in terms of reducing queues and long wait times at Canadian airports. New initiatives aimed at reducing minimum connecting times such as International-to-Domestic (using technology to allow passengers connecting from an international flight to pick up their bags at their final domestic destination) are being introduced. A new vision for automating and streamlining the CBSA border clearance process is being developed which would enhance and expedite the arrivals experience.

There are some areas for improvement such as expanding the number of nationalities eligible for ABC processing, which is currently restricted to Canadians. (In the U.S, APC has added Canadians and other nationalities into the program). Another challenge is the re-establishment of International Transfer Departure

Facilities (TDF) which would allow commingling of departing international and connecting passengers. (A pilot project for TDFs at Toronto, Vancouver and Montreal was approved by cabinet in 2008 but ambiguity around the need for additional regulatory authority has delayed implementation).

It is expected that these outstanding process issues will be resolved through the Air Consultative Committee.

Beyond the Border

In 2011, Prime Minister Harper and President Obama issued *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*. A guiding principle of the Beyond the Border Action Plan was “checked once, cleared twice.” Many of the initiatives in the action plan are nearing completion and work has begun on the framework for the next phase, being referred to as Beyond the Border (BTB) 2.0.

As the primary focus of the 2011 action plan was focused on the land border, this new phase presents an opportunity to give a higher profile to the air mode. The CAC and four of its gateway airports are preparing a submission to Canada’s Beyond the Border Action Plan implementation team at the Privy Council Office (PCO) on harmonization of security standards and border processes and advancing longer term initiatives like joint U.S –Canada Preclearance overseas and Perimeter Clearance.

6.3 Recommendations

To achieve more innovative and globally competitive border policies, the CAC recommends the following:

9. In light of aggressive global competition and delays caused by industry concerns around Electronic Travel Authorization (eTA), proceed with Transit Without Visa (TWOV) expansion immediately:
 - A. Resolve remaining issues with the current TWOV and China Transit Program in the first half of 2015, including expanding CTP to 10 Chinese cities.
 - B. Accelerate implementation of open Transit Without Visa to the U.S. with the exception of a short list of high risk countries, instead of case by case, before the end of 2015.
 - C. Integrate the China Transit Program into TWOV, allowing visa-free transit from all cities in China in 2016.
 - D. Defer international-international TWOV pilot (e.g. China-S. America) until eTA and Interactive Advance Passenger Information (iAPI) are in place sometime in 2016.
 - E. Implement progressive expansion of international-international TWOV using eTA, iAPI and other appropriate risk mitigation measures in 2017 and beyond.

10. Introduce more competitive visa policy initiatives over the short term:
- A. Develop a common Canada-U.S. visa to facilitate travel and stimulate tourism markets.
 - B. Accept other “trusted” country visas for visiting or transiting Canada.
 - C. Continue to improve and streamline visa application and approval process.
 - D. Use new eTA system to significantly expand visa exemption list of countries.
11. Continue airports-government partnership in driving innovation and technology solutions to border arrival and connecting processes through collaborative government-industry working groups under the Air Consultative Committee
12. Provide more focus to air mode in Beyond the Border 2.0:
- A. Advance harmonization of aviation security, eTA/ ESTA, ABC/APC and future border innovations.
 - B. Establish joint U.S.-Canada preclearance at overseas airports.
 - C. Over the long term, move to a full Perimeter Clearance regime with the U.S.

7. IMPROVED AIRPORT POLICIES

7.1 Introduction

A number of airport related policy issues have been dealt with earlier in this submission. Consequently, the only policy issues specific to airports to be addressed in this section are airport governance and end of ground lease issues.

7.2 Airport Policy Issues

Airport Governance

Over the years there have been a series of discussions, as well as a number of studies and reports on the airport governance model in Canada. This includes the June 2012 Canadian Senate report entitled *The Future of Canadian Air Travel: Toll Booth or Spark Plug*, which concluded that the current governance model was working effectively. Some industry stakeholders and airport authorities have suggested that privatization would be a more effective model than the current non-share capital corporation structure. In addition, Transport Canada has at various times taken the view that more accountability was needed and some airlines have pressed for direct representation on airport boards.

More recently, Transport Canada and airport authorities have been discussing proposed changes to the authorities' governance model. The Minister of Transport, however, has made it clear that this issue will be part of the CTA Review.

While some airports are open to moving to a fully privatized model, most airport authorities hold the view that the current non-share capital corporation model continues to be the best governance structure for Canada's airport system for the long term. The current model:

- Incorporates the best of private and public sector models.
- Allows for a long term view for decision-making rather than just a short term focus on quarterly financial results or narrow political considerations.
- Ensures profits are re-invested in airport development, rather than to generate dividends for shareholders.
- Has had no need for equity capital, having access to low bond financing costs due to strong credit ratings.
- Supports the best airport system in the world (as rated by the World Economic Forum)
- Facilitates airports outperforming global competition in customer satisfaction; Canadian airports consistently are top-ranked in Skytrax and Airports Council International (ACI) Airport Service Quality (ASQ) passenger surveys.

Airports Council International's Airport Service Quality Awards

Year	Airport	Award	Category
2013	Quebec	1st	North America <2 M pax>
	Ottawa	2nd	North America
	Ottawa	3rd	2-5 M Pax
	Halifax	4th	2-5 M Pax
2012	Victoria	1st	North America <2 M Pax
	Quebec	2nd	North America <2 M PaxNorth
	Ottawa	2nd	America
	Ottawa	3rd	2-5 M Pax
	Winnipeg	5th	2-5 M Pax
	Winnipeg	Best Improved	North America
2011	Ottawa	1st	2-5 M Pax
	Quebec	1st	North America <2 M

Top 10 Rankings of the World's Top 100 Airports (Canadian Rankings) - Skytrax Awards

Year	Airport	Award	Category
2014	Vancouver	1st	North America
	Vancouver	1st	World 10-20 M pax/yr
	Halifax	3rd	World <5 M pax/yr
	Toronto Pearson	5th	North America
	Halifax	7th	World <5 M pax/yr
	Vancouver	9th	World Overall Ranking
	Toronto Pearson	9th	World 30-40 M pax/yr
2013	Vancouver	1st	North America
	Vancouver	1st	World 10-20 M pax/yr
	Toronto Pearson	5th	North America
	Vancouver	8th	World Overall Ranking
	Toronto Pearson	9th	World 30-40 M pax/yr
	Halifax	5th	World <5 M pax/yr
	Halifax	8th	North America
	Toronto Billy Bishop	10th	World <5 M pax/yr
2012	Vancouver	1st	North America
	Vancouver	9th	World Overall Ranking
2011	Vancouver	1st	North America

Public Accountability Principles

Many of the airport authorities have been established under Transport Canada's Public Accountability Principles for Canadian Airport Authorities (the Public Accountability Principles). The Public Accountability Principles, which were issued by Transport Canada in 1994 after an initial group of airports was transferred in 1992, are detailed and prescriptive but have not been updated since being issued.

Consideration should be given to updating the Public Accountability Principles to address modern governance practices; for example, incorporating a skills-based governance model for boards of directors. A skills-based board represents governance best practices and ensures that the board of directors is free from partisan bias, improving its cohesion and effectiveness for the benefit of all regardless of divergent and possibly conflicting stakeholder interests.

End-of-Lease Issues

The ground leases between Transport Canada and airport authorities have fixed terms and this raises end-of-lease issues. Transport Canada transferred operational control of national system airports to local airport authorities under 60-year ground leases with a single 20-year renewal option. At the end of the lease, the airport assets must be returned to Transport Canada debt-free and in a state of good order, condition and repair. A number of airport authorities have exercised their 20-year renewal options early to allow for longer subleases required to properly amortize development by aviation tenants.

At present, there are no clear arrangements for the transfer of airport assets and contracts back to the federal government when an airport authority's lease expires. Unless these issues are addressed, with the passage of time the remaining term will be insufficient to allow airport authorities to enter into longer term subleases. Also, airports could be faced with amortizing assets over a shorter period than their actual economic life, resulting in higher fees and charges. Furthermore, as the end of the ground leases approaches, airport authorities will no longer be able to obtain financing for major airport expansion projects and any assets could fall into disrepair, contrary to the ground lease obligation, unless sufficient reserves have been accumulated to cover the cost of refurbishing facilities.

Although end of ground lease issues have been cited as another reason to privatize airports, another approach which preserves the existing model would be to negotiate automatically recurring ground lease renewals of 80 years each unless either Transport Canada or the airport authority provides long-term notice that it no longer wishes to continue renewing the ground lease.

7.3 Recommendations

CAC recommendations to address these remaining policy issues are as follows:

- I3. Continue with the current non-share capital airport authority model (with progressive improvements over time) as this is considered the most effective governance structure for the national airports system.
- I4. Establish a process to review and update the Public Accountability Principles – in consultation with airports.
- I5. Negotiate a long term solution to end-of-lease issues, such as by providing a recurring lease renewal arrangement or by allowing airports to buy out their leases.

8. PROGRESSIVE AIR POLICY LIBERALIZATION

8.1 Background

Canada's air policy has evolved significantly over the past 30 years from a highly regulated environment to a more market-based approach. Following deregulation in the U.S. in the 1970s, Minister of Transport Don Mazankowski issued a policy paper in 1985 called *Freedom to Move*, which outlined extensive reforms, created the National Transportation Act of 1987, and effectively deregulated Canada's domestic air industry. The next major advance occurred in the 1990s under Transport Minister Doug Young, who concluded the first stage of the Open Skies Agreement with the U.S. in 1995, announced a new international air policy (which effectively ended the "division of the world" between Air Canada and Canadian Airlines) also in 1995, and introduced the new Canada Transportation Act in 1996.

There was virtually no progress in liberalization of formal air policy for the next 10 years until the Blue Sky Policy was adopted in 2006. As a general principle, the Blue Sky Policy seeks to negotiate reciprocal "Open Skies-type agreements" when it is in Canada's overall interest to do so. Overall, the intervening years since 2006 have yielded significant improvements in market access, including what the federal government characterizes as "Open Skies-type agreements" with 16 countries (including South Korea and Brazil), expanded agreements with 20 countries (including, China, India, Mexico and Japan), and a phased-in Comprehensive Air Transport Agreement with the European Union's 28 member countries.

While there has been considerable progress on market access under the Blue Sky Policy, there is still more that can be done in liberalizing air policy and introducing new aviation policy initiatives that will allow Canada to keep pace with major economic partners, expand aviation and tourism market opportunities, and increase consumer choices.

8.2 Current and Longer Term Air Policy Issues

Despite progress in air policy liberalization over the past 30 years, there are a number of immediate and longer term domestic and international air policy issues that need to be addressed to provide a more competitive air transportation system going forward, including:

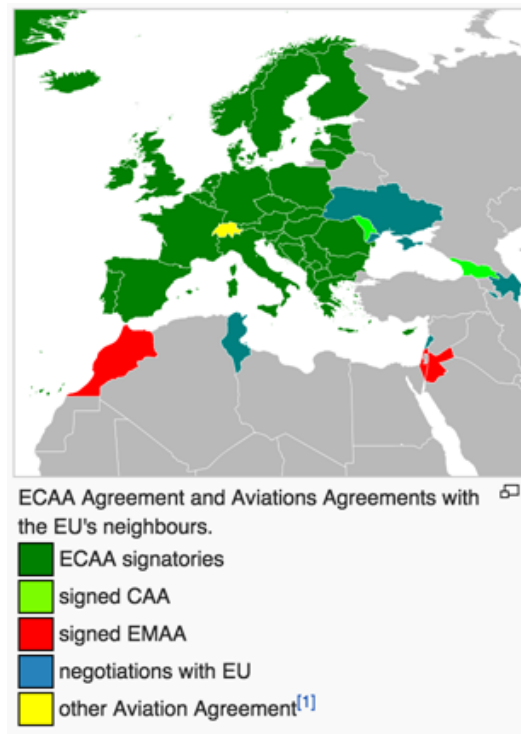
- **Blue Sky Policy:** Although Canada's Blue Sky Policy calls for open market principles, the application of the policy in recent years has been somewhat protectionist in favour of Canadian carriers. This may have been due to a view that the global financial crisis had adversely affected the airline industry and concerns for the financial viability of some Canadian carriers. There have been many positive developments for the sector since then and Canadian carriers should not need special consideration; a more liberalized approach to negotiating bilateral agreements should be pursued.
- **Foreign Ownership Limits:** There are concerns that with only two national domestic carriers, there is limited domestic competition, limited price competition, limited access to capital for smaller and new start-up carriers, and insufficient connecting capacity for non-Star Alliance foreign carriers.

Increasing foreign ownership of Canadian air carriers from the current 25% to 49% would allow greater access to capital for smaller carriers in need of financing and also for start-up carriers which in turn could help stimulate more domestic competition. It is interesting to note that with the exception of Canada, the U.S. and Mexico, the rest of the world has moved beyond 25% foreign ownership. Another benefit of moving to 49% foreign ownership would be that the Canada-EU air services agreement would progress to phase 2, as detailed below.

- **Right of Establishment:** Another policy option is Right of Establishment (ROE), which would allow foreign investors to set up a Canadian carrier as a wholly owned subsidiary, using Canadian registered aircraft and Canadian crew. Right of Establishment is currently allowed in Australia, New Zealand, Chile, the EU, and EU neighbouring states that are members of the European Common Aviation Area. Allowing ROE unilaterally in Canada could result in a significant increase in domestic competition with legacy and new start up carriers. ROE could provide non-Star Alliance carriers such as SkyTeam and Oneworld with beyond the gateway access to the broader Canadian market. A more conservative approach would be to allow ROE on a bilateral basis. The Canada-EU Comprehensive Air Transport Agreement already provides for right of establishment on a bilateral basis and such a policy change on the part of Canada would trigger phase 3 of the Agreement.
- **Canada-EU Comprehensive Air Transport Agreement:** This agreement was groundbreaking in the aviation world as, if fully enacted, it provides for unprecedented levels of liberalization through a gradual phasing-in of traffic rights and foreign investment in Canadian airlines. Phase I of the Canada-EU agreement provides for open market access between cities in Canada and cities in the EU without any restrictions on frequency, and this already has resulted in expansion of services. Phase 2 of the agreement is dependent on Canada moving to 49% foreign ownership for EU investors with reciprocal rights for Canadian investors. In addition, phase 2 provides Canadian carriers fifth freedom rights between EU member states as well as members of the European Common Aviation Area (Figure I8) and seventh freedom rights for all cargo operations. (Canada has legislation in place that would allow increase of foreign ownership to 49%). Phase 3 is dependent on Canada allowing Right of Establishment on a reciprocal basis and would allow Canadian carriers to have unrestricted fifth freedom rights beyond the EU and reciprocal fifth freedom rights beyond Canada for EU carriers. The final phase would allow 100% foreign ownership and control and reciprocal cabotage rights. This agreement has been in place for more than five years and there has been no movement beyond phase I. The signing of the Canada-EU Free Trade Agreement should provide ample impetus to move forward implementation of the air services agreement's later phases.

Figure 18

European Common Aviation Area



- **Common Trans-Atlantic Open Aviation Area:** The EU's ultimate objective in its air bilateral negotiations with the U.S. has been to create a Trans-Atlantic Open Aviation Area: a single air transport market between the EU and the U.S. with free flows of investment and no restrictions on air services, including access to each other's domestic market. This is essentially what is contemplated under phase 4 of the Canada-EU agreement, which would create a fully integrated open market with no foreign ownership restrictions. The U.S. has resisted moving to an open aviation market, but more liberalization on the trans-Atlantic is inevitable over the long term. Canada needs to be part of the creation of a future Trans-Atlantic Open Aviation Market or risk being marginalized on U.S.-EU market opportunities.
- **North American Single Aviation Market:** There have been discussions in the past about creating a single aviation market between Canada and the U.S. (and eventually across NAFTA members) similar to the EU. Cabotage has been the major obstacle due to strong opposition from labour unions, most notably in the U.S. However, a single aviation market with the U.S. could be pursued even without cabotage —e.g. just allowing 49% investment in each other's domestic airlines and Right of Establishment. This would benefit business travel and tourism, particularly if combined with a perimeter border clearance regime. Achieving a single aviation market with the U.S. also would position Canada well in any future creation of a trans-Atlantic open aviation market.

- **Observer Status for Airports at International Air Talks:** While any airline is allowed to send observers to air bilateral negotiations, the participation by airports has been on a selective basis and has normally been restricted to one representative for the airports industry. U.S. airports on the other hand, are free to participate as observers at all bilateral negotiations. Quite recently, the federal government has indicated that it will permit one airport representative at air bilateral talks. While this is a positive step, individual airports with a vested interest in the outcome of bilateral air agreements should have the option to participate as observers in the same way as airlines.
- **Market Data and Forecasts:** As mentioned earlier, there is a paucity of reliable air passenger and cargo data. The discontinuation of national level traffic forecasts by Transport Canada makes it difficult to determine where the Canadian market is going. Cargo statistics are even more challenging since the majority of domestic cargo operations are chartered to Canadian operators by U.S. integrated carriers, and there is no requirement for the reporting of charter cargo data. While airport authorities collect information locally, the data is often unreliable, making it difficult for airports to benchmark performance and determine market share. More critically, domestic and international policies are being made without reference to reliable market forecasts.

8.3 Recommendations

CAC recommendations for evolving air policy in Canada are as follows:

16. Apply the Blue Sky Policy more progressively and in a manner that is strategically aligned with Canada's international trade agenda and tourism objectives:
 - A. Pursue U.S.-style Open Skies agreements with Canada's free trade partners.
 - B. Pro-actively pursue progressive liberalization and more open agreements with Canada's larger tourism markets, taking into account both origin and destination (O&D) and transit traffic opportunities through Canadian airports.
 - C. Consider automatic frequency/capacity triggers in the bilateral agreements, to ensure they are progressive or proactive, rather than reactive and subject to extended, time-consuming negotiations.
 - D. Negotiate balanced agreements with smaller O&D markets, including regular review of traffic rights for transit markets.
17. Allow Canada's airports with a vested interest in the outcome of bilateral air agreements the option to participate as observers in the same way as airlines.
18. Move to 49% foreign ownership of Canadian airlines for EU investors as soon as possible, and eventually Right of Establishment. Pursue ownership liberalization and with other countries on a bilateral basis.

19. Ensure the availability of reliable market data – either in-house or on a contract basis – to ensure reliable passenger and cargo statistics are collected from carriers and other system participants and distributed in a timely manner to enable development of national traffic forecasts available for industry and government.
20. Pursue a single aviation market with the U.S. and eventually a Trans-Atlantic Open aviation area with the U.S. and the EU.

9.0 THE WAY FORWARD

An underlying theme in the CAC submission is the need for a National Air Travel and Air Trade Strategy supported by an integrated and enabling policy framework. This approach has been extremely effective and successful in many competing jurisdictions.

What some countries can enact by fiat, Canada must create by solid government-industry partnerships. The CAC believes there is a need to establish a government-industry Team Canada entity to develop the national strategy, an aligned policy framework and aggressive implementation program. At the federal government level, this entity could be co-chaired by a minister to champion and coordinate an integrated, horizontal policy framework through a cabinet-level committee. Likewise an industry leader could co-chair this new entity, supported by airport, airline, tourism and key business associations to champion Canada's global competitiveness in these interdependent economic sectors.

The CAC would like to explore this concept further and work with its airline, tourism and commercial partners to develop a framework for a national group charged with enhancing Canada's global competitiveness in partnership with government. The CAC expects to present the results and recommendations of this work to the CTA Review by the end of March 2015.

9.1 Recommendations

21. Establish a government-industry Team Canada-style entity to develop a National Air Travel and Air Trade Strategy, supported by an aligned policy framework and an aggressive implementation program.

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