

# Supplementary Submission to the CTA Review on Aviation Security Screening in Canada

Canadian Airports Council  
Submission to the  
Canada Transportation Act Review

April 2015



# Canadian Airports Council's Supplementary Submission to the CTA Review on Aviation Security Screening in Canada

April 2015

1.0 Introduction	5
2.0 Funding Model Issues	6
3.0 Screening Performance Standards and Efficiency	10
4.0 Governance Structure Issues	13
5.0 Immediate Action Required	17
6.0 Options and Recommendations for a Permanent Structural Solution	19
7.0 Making Reform Happen: Recommendations	27



# 1.0 INTRODUCTION

In January 2015, the Canadian Airports Council (CAC) submitted a paper entitled *Connecting Canada: An Aviation Policy Agenda for Global Competitiveness and Economic Prosperity* as its main submission to the Canada Transportation Act Review. One of the top priority issues identified by the CAC was the need for effective and efficient security screening services at Canada's airports.

While the main problems were identified and a number of preliminary recommendations were provided, the CAC indicated that the organization would continue to work on this critical policy issue and that a more substantive supplementary submission on security screening would be completed later this spring. This document fulfils that commitment.

It should be remembered that up until 2013, security screening in Canada was quite acceptable, with short wait times during peak periods. The situation deteriorated rapidly in the past two years, however, with a significant growth in air travel, a significant growth in Air Transportation Security Charge (ATSC) revenue, but a significant decrease in funding for security screening. The CAC is of the view that Canada is dealing with a manufactured problem – one of the federal government's own making.

The reasons for this, as indicated in the main submission, include the following:

- The Air Travellers Security Charge was put in place to fund Canadian Air Transport Security Authority (CATSA) screening services as well as other elements of aviation security. However, these funds are not automatically directed to aviation security but rather deposited into the Consolidated Revenue Fund and directed by government amid many competing priorities.
- CATSA's budget is funded purely by appropriation, which has given the federal government the latitude to use some of these funds for other purposes –e.g. the Deficit Reduction Action Plan. That revenue from the cost recovery charge is disconnected from the cost of providing the service is fundamentally the reason for the current crisis in security screening services.
- The federal government failed to establish a clear and effective service level standard for security screening when CATSA was created. Consequently, there is no accountability for the deteriorating level of service and unacceptable wait times for air travellers who have paid for this service.
- The federal government has retained a highly prescriptive approach to security screening regulations, which limits the efficiency of screening checkpoints and results in longer wait times. Other countries, with the strong encouragement by the International Civil Aviation Organization (ICAO), are pursuing more outcome focused regulations and risk based security programs. These more progressive approaches are not only as effective, but also more efficient in terms of throughput and should result in higher service standards for passengers.

This document provides additional analysis of the identified security screening issues (funding model, performance standards/efficiency, and governance). It presents more definitive recommendations for restructuring CATSA, recalibrating the funding model, and delivering more effective and efficient security screening services more consistent with global standards.

## 2.0 Funding Model Issues

In CAC's main submission to the CTA Review, the funding model for Pre-Board Screening (PBS) was identified as a major issue that has resulted in budget cutbacks to CATSA, staffing reductions, interminable passenger queues and unacceptable wait times.

The statutory authority for this charge is under the Air Travellers Security Charge Act, with the Minister of National Revenue being responsible for administration of the act, as all ATSC revenue go into the Consolidated Revenue Fund. In Transport Canada's publication Canada's National Civil Aviation Security Program, the financial framework is described as follows:

*“The Air Travellers Security Charge (ATSC) came into effect in April 2002 to fund the air traveller security system, including the Canadian Air Transport Security Authority (CATSA), some elements of TC regulations and oversight functions and the provision of RCMP officers on selected domestic and international flights. The ATSC is payable by air travellers, who principally and directly benefit from the Canadian air travel system. The charge falls under the purview of the Minister of Finance and is intended to provide revenues that are roughly equivalent to expenses for air travel security over time.*

*Industry is responsible for costs associated with meeting its regulatory obligations.*

*Finally, Transport Canada, CATSA, the Canada Border Services Agency (CBSA) and the RCMP mandated activities are funded from the fiscal framework (i.e. general revenues).”*

ATSC rates are adjusted periodically to ensure cost recovery over time, generally a five-year period (See Table I below). Initial rates were quite high in 2002 in order to recover the cost of installing Hold Baggage Screening (HBS) across the system. There were some rate decreases once the costs of the HBS system were recovered, but in April 2010 a major increase in the ATSC was put in place to strengthen the security system and finance new security measures.

Table 1

### ATSC Rates in Canada

	Initial Rate in 2002	January 2008 to March 2010	Current Rate Since April 2010
Travel Sector			
Domestic (One Way)	\$12.00	\$4.90	\$7.48
Domestic (Round Trip)	\$24.00	\$9.80	\$14.96
U.S. Transborder	\$12.00	\$8.34	\$12.71
Other Int'l	\$24.00	\$17.00	\$25.91

This deposit of ATSC funds into the Consolidated Revenue Fund without allocation for specific purposes is probably the greatest weakness of the user pay/cost recovery funding part of the CATSA model today. As government needs and priorities change, ATSC and other user fees can and are being allocated to fund other budgetary priorities.

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.

### Funding Reductions for PBS (Pre-Board Screening)

As discussed in the main CAC submission, reductions in CATSA funding have resulted in Pre-Board Screening becoming the biggest operational challenge facing many of Canada's airports and one of the biggest sources of frustration for travellers. A major concern is that while revenue from the Air Travellers Security Charge has been increasing in line with growth in passenger traffic, CATSA's budget has been reduced (as indicated in Table 2).

Between fiscal years 2010/11 and 2013/14, the number of passengers screened increased by 13%, ATSC revenue increased by 10.3% but CATSA funding decreased by 9.9%. Furthermore, CATSA's funding as a percentage of the ATSC has been steadily decreasing from 99% in 2010/11 to only 81% in 2013/14. All of this suggests that ATSC revenue is not being fully used for its intended purpose – *“to provide revenues that are roughly equivalent to expenses for air travel security over time,”*<sup>1</sup> but rather is being partially used for other government priorities.

In the meantime, security screening wait times across the country have increased and at Toronto Pearson and Vancouver International airports have reached levels whereby up to 75-minute wait times have been experienced during peak periods.

Further cuts are planned for CATSA's base budget for PBS in 2015/16 and as a result, passenger security screening wait times are expected to be even worse over the 2015 summer peak than they were in 2014. While additional funds in the amount of \$284 million have been allocated to CATSA for the period 2014/15 to 2016/17, these are specifically to cover the costs of new international standards for Non-Passenger Screening (NPS); these funds are not available for PBS.

<sup>1</sup>As articulated in the Transport Canada publication *Canada's National Civil Aviation Security Program*

Table 2

## Aviation Security Metrics

	2010/2011	2011/2012	2012/2013	2013/2014
Total Passengers Screened in Millions (CATSA Annual Report 2014)	47.7M	49.0M	51.0M	53.9M
ATSC Revenue in Millions (Public Accounts of Canada)	\$600.0M	\$631.0M	\$635.6M	\$662.0M
Average ATSC per Screened Passenger	\$12.57	\$12.87	\$12.46	\$12.28
Total Government Funding for CATSA in Millions (CATSA Annual Reports)	\$598.4M	\$584.4M	\$549.9M	\$538.9M
CATSA Funding as Percentage of ATSC	99%	92%	86%	81%

## Additional Funding Requirements for NPS and NPS-V

In addition to these existing funding pressures, Canada is expanding its program for the screening of non-passengers, including new requirements for the screening of airside vehicles and their occupants entering the secure area of the airport (such as catering trucks, fuel trucks, retail supply trucks, etc...). This is known in Canada as Non-Passenger Screening-Vehicles (NPS-V). Once interim funding for NPS and NPS-V ends in 2016/17, Transport Canada says that an additional \$150 million in operating costs to support these programs will be required.

Transport Canada is evaluating alternative funding mechanisms for NPS operations, including transferring this financial burden onto airports through a cost recovery approach or having airports deliver and fund NPS activities directly. Having airports pay for the complete NPS program would inevitably lead to higher fees and charges for airlines and their customers. In the end, air travellers will be paying for these additional costs indirectly as part of their airline tickets. Since the ATSC is designed to recover the full cost of the aviation security system from *air travellers*, this makes little sense. The proper course would be to fully



use ATSC revenue to fund the aviation security system as intended and find cost savings through further efficiencies, better technology and more outcomes-focused vs. prescriptive security regulations, without compromising either security effectiveness or passenger level of service in terms of wait times. If there is still a shortfall after these measures have been taken, then an appropriate increase in the ATSC should be considered.

While there may be some efficiency gains if airports were to take on security screening services overall (as will be discussed later), there would be little merit in airports taking on the additional cost burden for NPS as a stand-alone component of the whole screening package; there are few efficiencies or cost advantages to be gained from a piece meal approach to reform.

The variation in traffic levels among the 16 airports implicated in new NPS standards also makes transferring these costs onto individual airports equitably challenging to achieve; on a per-passenger basis smaller airports would face disproportionately larger costs.

## 3.0 Screening Performance Standards and Efficiency

As the CAC's main submission to the CTA Review indicated, in other countries screening is performed and success measured according to established service standards. Canada has no equivalent standard of minimum performance.

In its 2014 annual report, CATSA confirmed that there is no government set service level and that while it will operate within its approved budget and continue to meet its security mandate, passengers will wait longer to be screened. Based on the proposed 2015/2016 budget for screening hours, it is expected that about **50% or 28 million passengers will be 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.

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**. Many other large hub airports around the globe achieve 95% in 10 minutes or less. 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. In order to be globally competitive, Canada's airports need to have comparable service level standards.

Another recurring source of complaints is what is perceived to be a poor customer service attitude on the part of CATSA screeners. As CATSA management has pointed out on occasion, customer service is not part of its mandate, which is limited to meeting security effectiveness targets set by Transport Canada. CATSA also claims that continuing funding cutbacks make it impossible to invest in customer service initiatives. The U.S. Transportation Security Administration (TSA), on the other hand, has made remarkable strides in improving customer service.

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 the agency 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, first for flights to the U.S. at Toronto Pearson, Montreal Trudeau, Vancouver and Calgary and then in the international and domestic sectors of those airports that can support the volume required. While this is a positive first step as part of obligations under the Beyond the Border Action Plan with the U.S., the Canadian trusted traveller program and its benefits are 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) would 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 performance improvements with processing efficiencies significantly greater than what is currently being experienced at Canadian airports, while still meeting all regulated security standards. 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. The main regulatory instrument for CATSA is the *Security Screening Measures* under the *Aeronautics Act*. These govern CATSA's performance down to a very detailed set of procedures.

Historically this detailed and prescriptive approach was based on the need for strict adherence to step-by-step processes when airlines had the responsibility for managing security screening services at airports along with overall air carrier security operations. Today, airline security procedures are governed by the *Air Carrier Security Measures* regulations and are generally considered comparable to other countries around the world in level of prescriptiveness. CATSA on the other hand seems to operate with one of the most prescriptive set of regulations in existence for a security screening authority.

The emerging global trend in security screening is outcome-focused security where regulations are based on outcomes such as the prevention of specific quantities of concealed explosives rather than prescriptive step by step procedures. The 2012 ICAO High-Level Conference on Aviation Security (which included representatives from 132 member states, 23 international and regional organizations and numerous industry associations) encouraged ICAO and its member states to consider developing a more outcomes-based approach. Some of the consensus points highlighted in ICAO's Communique from the 2012 Conference included:

- *That a balance should be maintained between the needs of security, facilitation, efficiency and effectiveness.*
- *That ICAO member states and industry stakeholders be encouraged to adopt a risk-based approach to aviation security;*
- *That ICAO and its member states be encouraged to consider developing a more outcomes-based approach when regulating aviation security, as this would help them better define the security objectives of their measures*

On outcomes-focused security, ICAO itself noted that

*“With regard to State practices in aviation security, there has been a general tendency for regulators to prescribe both the security outcomes to be achieved and the methods to be employed to achieve these outcomes. Prescribing both the security outcomes and methods offers a level of regulatory control that can be attractive to regulatory authorities, especially when dealing with uncertainty in the level and nature of threats and vulnerabilities, and the potential grave consequences of acts and attempted acts of unlawful interference with civil aviation. Prescribing methods to achieve outcomes, however, can deny entities responsible*

*for carrying out security measures with flexibility to use other methods that, while different, are as or more effective and efficient in achieving the objective. More recently, the concept of ‘outcomes-focused security’ has emerged as a viable policy approach to achieve security objectives while enabling those responsible for implementation to have options for the means to achieve the necessary risk management outcomes. These options could be defined by regulators or the responsible implementing entities could apply their ingenuity to the task. Naturally, if the latter course were followed, regulators would benefit from being in a position to exercise appropriate oversight, to be assured that the necessary outcomes have, in fact, been achieved.”*

This trend has been reflected by a change in approach by some countries, including, for example, the United Kingdom. In 2011, the UK launched a consultation on aviation security, noting that the current regulatory regime for aviation security was in need of modernization. The consultation documents indicated that modernization would be designed to promote innovation and efficiency, ensure the best possible passenger experience and bring it into line with better regulation principles. The proposed approach was intended to give operators greater flexibility and responsibility to design security processes that deliver specified security outcomes, with greater emphasis placed on the needs of their passengers, rather than simply complying with prescriptive security requirements. Guidance material for implementing a Security Management System in line with this approach was subsequently published in 2014.

Transport Canada undertook a regulatory review and reworked the *Canadian Aviation Security Regulations* in 2012 to attempt to promote outcome-focussed regulations. However the final regulatory language and resulting framework removed no prescriptive regulations and provided no alternative compliance framework for industry, thereby missing the objective of the exercise. Australia and New Zealand have also pursued outcome focused security initiatives with regards to security screening.

By implementing regulation focused on outcomes, rather than prescribing detailed measures, regulators can provide flexibility to stakeholders such as screening authorities, airlines and airports to implement and adjust measures to best suit the environment. As threats change and technologies evolve, the ability to be adaptable, quickly respond to threats and implement new best practices is critical to maintaining an efficient, secure and cost effective security system.

Canada’s current air traveller security system is, unfortunately, 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.

## 4.0 Governance Structure Issues

Since the formation of CATSA in 2002, 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.

A related issue is that there are relatively few staff left at Transport Canada with operational aviation security expertise and security regulations and standards are often implemented with little regard to the impact on security screening resource requirements, efficiency of operations and impact on passenger wait times.

When CATSA was first established, members of the management team were recruited from Transport Canada. As a result, much of the subject matter expertise migrated from Transport Canada to CATSA or rests with screening contractors and security staff at airports. This imbalance in subject matter expertise and Transport Canada's highly prescriptive and risk-averse approach to security measures has resulted in ongoing conflicts and a lack of cooperation between the two organizations.

Table 3 provides an overview of the governance models for security functions for a select group of countries around the world and the responsibilities of the different entities involved in aviation security:

1. **Regulator:** sets the rules to implement ICAO Annex 17 and provides the overall framework for all aspects of aviation security.
2. **Screening authority:** the group responsible for oversight of screening services and ensuring effectiveness targets and performance standards are met.
3. **Screening delivery:** the entity responsible for employing labour to deliver screening services.

Ownership/operation of equipment is sometimes the responsibility of either the screening authority or the screening delivery organization.

Table 3

## Security Governance and Responsibilities for Select Jurisdictions

Jurisdiction	Regulator	Screening Authority	Screening Delivery
United States	Transportation Security Administration (TSA)	TSA	TSA Employees Private guard companies for "Opt Out" Airports (Selected by TSA)
Canada	Transport Canada	CATSA	Private guard companies
New Zealand	Civil aviation authority	Aviation Security Service (Avsec)	Aviation Security Service (Avsec)
Hong Kong	Civil aviation authority	Hong Kong International Airport	Private guard company (AVSECO, subsidiary of the airport authority)
United Kingdom	Civil aviation authority	Airport	Private guard companies (selected by airport)
Netherlands	Civil aviation authority	Airport	Private guard companies (selected by airport)
Australia	Civil aviation authority	Airport	Private guard companies (selected by airport)
Germany	Civil aviation authority	German Federal Police (an agency of the Ministry of the Interior)	Private guard companies (Selected by German Federal Police)
Singapore	Civil aviation authority	Civil aviation authority	Private guard company (State-owned private company Certis CISCO)

Source: Annual reports and government websites.

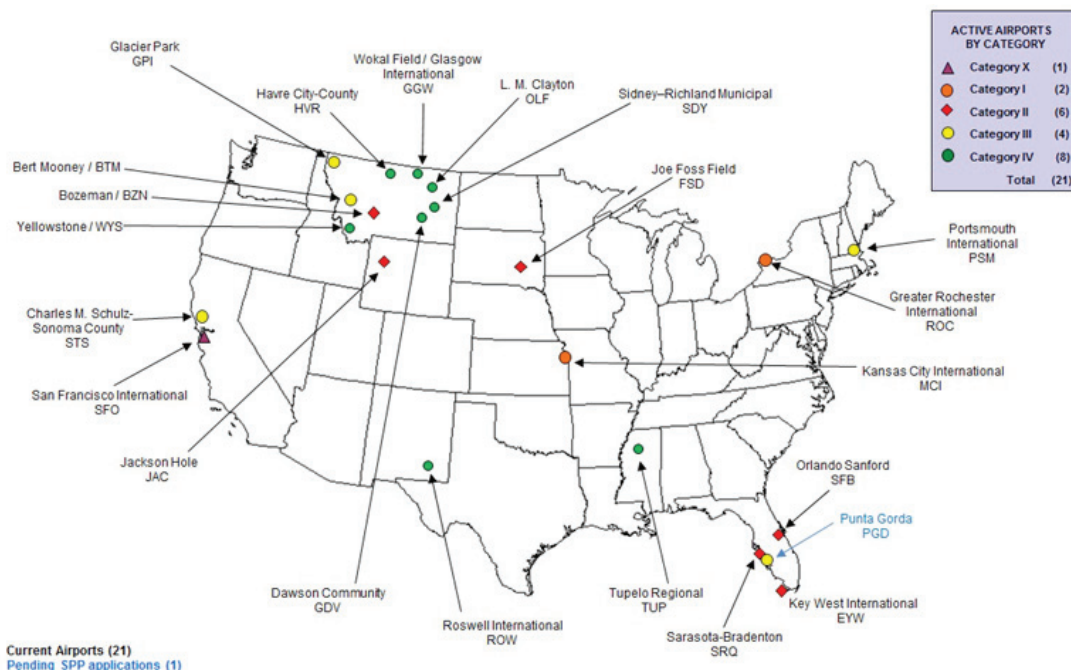
In the U.S., the TSA is responsible for all modes of transportation security, although its primary focus is aviation security. The TSA combines the regulator, screening authority and screening service provider role within one organization.

The TSA also has a Screening Partnership Program (SPP) where airports can apply to opt out of TSA screening services and have screening performed by qualified private contractors under federal oversight. The contract is with the TSA and the private screening company and, if a contract is awarded, funding is provided from TSA's appropriated budget. Also, these private screening contracts are managed by TSA, not the airport operators.

There are currently 18 airports in the U.S. that have opted out of TSA screening and are participating in the Screening Partnership Program. The participating airports range from smaller Category IV airports like Roswell International to large Category X airports like San Francisco International. About 29 million annual passengers are handled under the opt-out program, representing 4.5% of TSA's annual passenger volume. The contract value of security screening for these airports is about \$700 million over a five-year period.

The main driver for opting out in the past was higher throughput and improved customer service. There are mixed views on the merits of SPP. The TSA has generally resisted turning over airport screening to private contractors claiming that this approach is more costly and less effective. (More recently TSA's Director of the Screening Partnership Program indicated that SPP has been able to meet the dual goals of cost and security). Proponents of the Screening Partnership Program generally claim that private screeners are more efficient, provide better customer service and are less expensive.

Figure 1  
U.S. Opt Out Airports



Source: TSA website



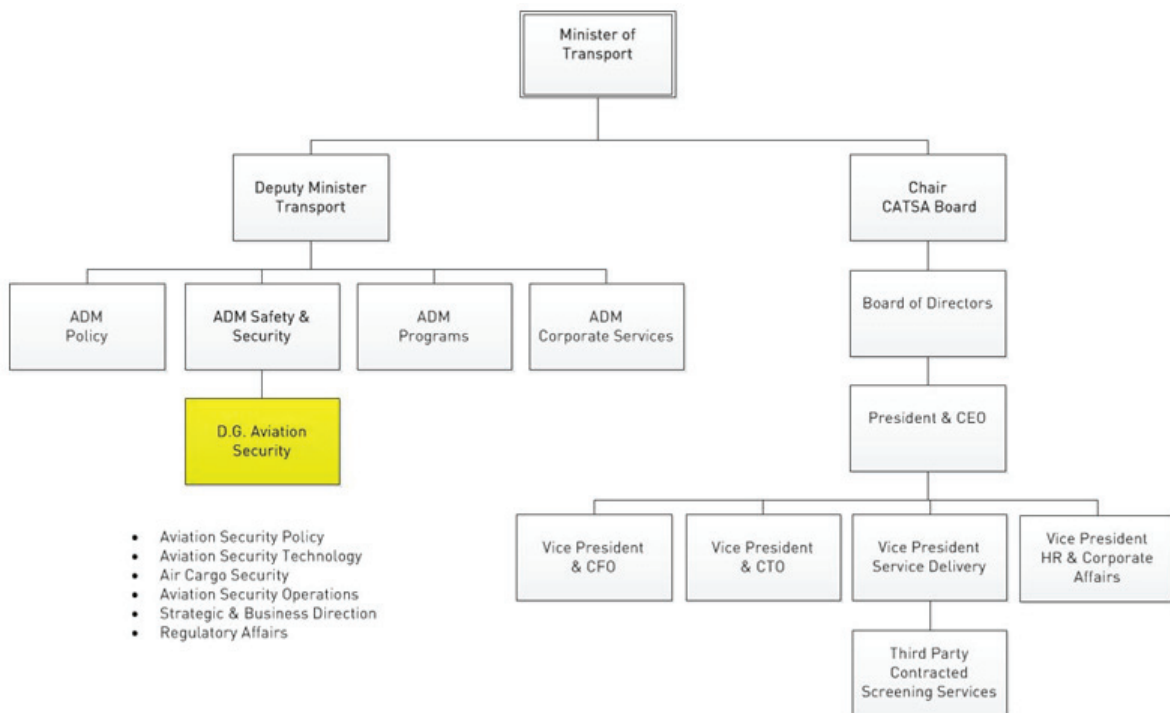
In most other comparable jurisdictions, government serves as the regulator with airports serving as the screening authority, selecting and managing qualified private contractors to provide screening services. This model generally works well, particularly where the regulatory authority is less prescriptive in their security measures or uses outcome-focused security.

Hong Kong is an interesting variation to the airport screening authority model as the airport is both the screening authority and the screening service provider, through an airport-owned subsidiary. Interestingly, while Section 7 of the *CATSA Act* provides for airports to take on the screening authority function, this has yet to be exercised in the Canadian environment. Germany has a slightly different approach with the German Federal Police being the screening authority and overseeing service delivery by private screening contractors.

Canada’s current aviation security governance structure is illustrated in Figure 2 below.

The separation of regulator, screening authority and screening service delivery makes sense where these functions are provided by entities that are separate from government or from the government department responsible for aviation security. However, where government has responsibility for all or most of these functions there is less need for separation of responsibilities in different organizations, and an organizational structure based on integration of these roles (like TSA), or based on coordinated/shared responsibilities, may be more appropriate.

Figure 2  
Current Governance Structure





## 5.0 Immediate Action Required

The growing crisis at airports in terms of passenger wait times has caused some airport authorities to take unprecedented action to fund additional resources or invest in new screening technology to improve passenger throughput. The Greater Toronto Airports Authority (GTAA) has agreed to pay for additional screening services to try and reduce passenger wait times during peak hours so as not to further disrupt the airport's operations. Long queues and wait times are not just an inconvenience to passengers but result in flight delays and missed connections.

The Vancouver Airport Authority has invested in a system from Quebec City-based Optosecurity. An advanced security checkpoint technology solution, it features remote x-ray analysis, parallel versus sequential passenger divesting points, continuous baggage X-ray processing, RFID-equipped bins to facilitate image matching, and automatic bin retrieval. This will be the first Canadian implementation for Opto, which has installed its products at more than 20 airports around the world.

This technology is currently being tested at the Vancouver International Airport and has the potential to double if not triple passenger throughput and significantly reduce wait times, particularly during busy periods. Vancouver Airport has reached agreement with Transport Canada to install a total of three Optosecurity checkpoints in the next few months in an effort to prevent a potential gridlock at security in the upcoming summer season.

This approach of buying screening services and purchasing advanced security screening equipment has been pursued by airports in order to ensure the resiliency of their operations due to inaction on the part of government to either appropriately fund the security system or move to a risk-based and outcome-focused approach to security screening. However, it needs to be remembered that there is no legal framework for funding of security screening by airports and this action is only being taken temporarily to prevent this crisis from getting worse.

At a time when Canada's aviation sector already struggles with cost competitiveness challenges, the cost for these short term fixes also will be borne by passengers. This cannot continue; the funding issues and operational model for security screening need to be resolved – not just for the passenger volume needs of today but for the long term.

Canada's airports recognize that the identified issues and challenges with passenger security screening in Canada are both wide ranging and complex. To resolve the funding model, establish performance standards, significantly improve efficiency, and restructure the governance system will require a major overhaul of the aviation security system, including regulatory and possibly legislative change. This will require both the political will to realize the needed changes and the necessary time to implement them.

Consequently, while airports have pursued a number of short term and transitional initiatives listed below, industry and government need to work collaboratively on developing and implementing a more permanent solution for the longer term:

- Recognize that the ATSC was envisioned to fund the air traveller security system and was *“intended to provide revenues that are roughly equivalent to expenses for air travel security over time.”*
- Immediately allocate enough ATSC funding to CATSA to cover the full costs for a quality level of screening across all of its mandated screening functions and adjust the ATSC if required to meet this requirement.
- Establish a base Service Level Standard for screening checkpoints at the highest volume airports, ensuring short wait times during peak periods.
- Immediately review screening processes to rapidly improve service levels, including implementing a differentiated screening model for NPS –e.g. less frequent screening of longer term employees with a known history, more frequent screening of newer employees with a limited history.
- Continue with pilot programs to allow airports to invest in additional screening resources and/or technological innovations as interim measures providing immediate or near-term relief for wait time issues until such time as the funding and operational model is restructured.
- Harmonize Canada’s Prohibited Items List (PIL) with those of the EU and the U.S. to the greatest extent possible.
- Move from less prescriptive measures to more outcome-focused security as quickly as possible.
- Establish a true trusted traveller program for domestic and international passengers, allowing an expedited screening process for known low risk travellers, mirroring TSA’s Pre-Check program.

## 6.0 Options and Recommendations for a Permanent Structural Solution

Concurrently with implementing short term solutions, it is imperative that a long term governance and funding model be developed for the provision of effective and efficient security screening at Canadian airports. This is critical to the global competitiveness for airports and airlines and essential for meeting passenger service expectations.

With CATSA's screening contracts expiring within two years, it is essential that a new security governance structure and funding model be in place prior to that time so that the next round of screening contracts are under the new security regime. The expiration date of screening contracts must be the deadline for delivery of a new governance structure.

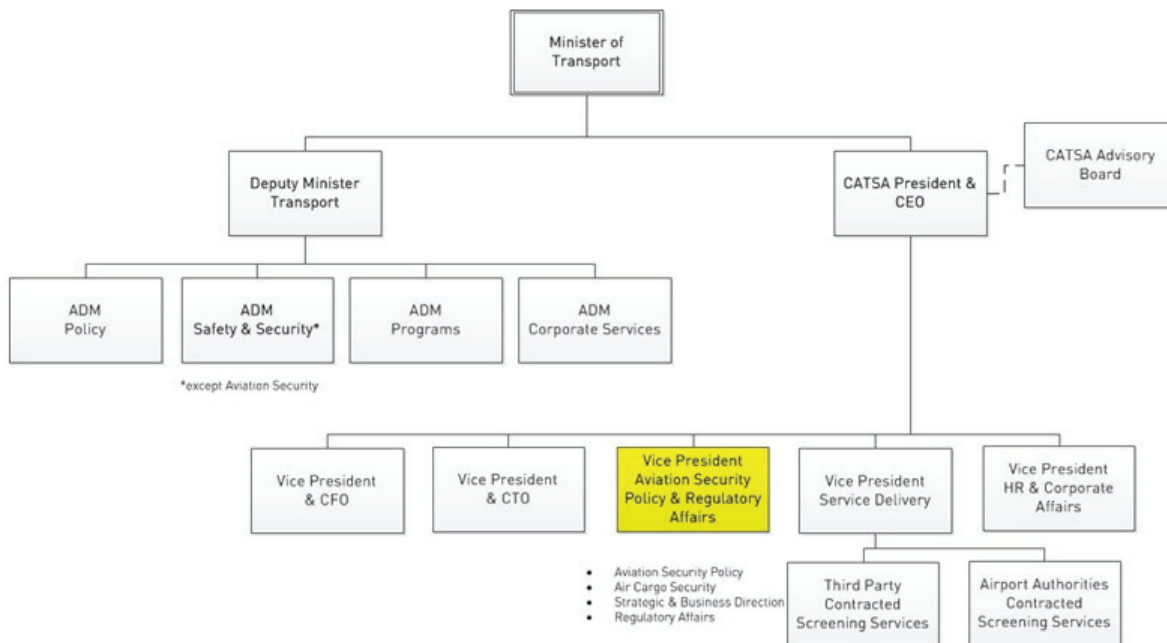
While a number of models were considered, as outlined later in this paper, the CAC's primary recommended model proposed for consideration is an **Integrated Aviation Security Model**, as outlined in the following section.

While this is the CAC recommendation based on a review of the alternatives and industry's understanding of the current political and operating environment, it is expected that the urgently needed reform to the structure of how screening is funded and delivered in Canada will be pursued through continued dialogue between government and industry. As we outline below, many of the models could also work as long as they meet key principles, such as the establishment of service level standards, a more nimble funding model and moving to outcomes-focussed security rather than a prescriptive approach. This dialogue could begin through the recently established Air Industry Standing Ministerial Advisory Committee.

### 6.1 Recommended Structure: Integrated Aviation Security Model

The CAC's recommended solution is an Integrated Aviation Security Model (Figure 3 below), which would consist of restructuring CATSA so that the regulatory and service delivery functions are integrated (similar to TSA). The president of the restructured entity would report directly to the Minister of Transport and would be supported by an "Industry Advisory Board."

Figure 3  
 Integrated Aviation Security Model



Other features of this option would include:

- **A Dual Mandate:** Meet security effectiveness targets and service level standards.
- **Risk-Based and Outcome-focused security:** The policy and regulatory group within the new CATSA organization would be charged with developing outcome-focused security measures and developing innovative risk-based programs including a comprehensive Pre-Check program, differentiated security screening approach for NPS, and use of advanced checkpoint technologies that enhance security effectiveness and throughput.
- **Service Level and Performance Standards:** In addition to its effectiveness target, the new organizations should have the following service level standard and performance targets:
  - *95% of passengers cleared in less than 10 minutes during peak hours.*
  - *Significant improvements in through put to support this Service Level Standard, at least in part, through gains in efficiency*
- **Funding Model:** Setting aside the argument of whether air travellers should bear 100% of the cost of aviation security – which many in the aviation sector would contend should not be the case – the current funding model for the air traveller security system was designed to cover the costs of CATSA, some elements of TC regulations and oversight functions and RCMP officers

on selected flights. The ATSC rates are set so as to cover the total estimated costs (including operations and capital) of the air traveller security system over a five year period based on passenger forecasts. The last ATSC rate adjustment was made in April 2010 to cover the costs of the system over a five-year period ending 2015.

As the five-year mark approaches, the time has come to review the expected costs of the system over the next five years, including new requirements like NPS and NPS-V, and calculate what the new ATSC rates should be to recover these costs. With a shift to more outcome-focused security, innovative technology and risk-based programs, the new CATSA should be able to improve throughput and meet the service level standard of 95% of passengers cleared in less than 10 minutes during peak periods.

At these increased throughput levels, the resource requirements for screeners would be greatly reduced and it is not unreasonable to assume that the costs of new requirements like NPS and NPS-V, trusted traveller programs more like TSA Pre-Check and new technology like Optosecurity, could be funded without increasing the ATSC rates and still eliminate wait times. It would not be difficult to build a financial model that takes these factors into account and computes the optimum ATSC rate for the next five year period.

There are many possible funding arrangements to deal with the CATSA resourcing issue. *Treasury Board Guidelines on Financial Arrangements and Funding Options* provides a range of financial arrangements besides traditional appropriations –e.g. revolving funds, net voting, cost recovery fees or specified purpose accounts established for specific conditions. Once the policy decision is made to establish or change an organization or program, the normal process is to negotiate with Treasury Board Secretariat to get agreement on the funds required and specific conditions around the funding.

The Treasury Board guidelines outline various scenarios that can be negotiated when volumes are expected to change including annual funding request, multi-year submissions or having authority written right into the act for the organization. Since an amendment to the *CATSA Act* would likely be required to change its mandate, it is theoretically possible to amend the act to have a fixed percentage of ATSC annual revenues transferred to CATSA on the basis of an approved five-year plan. Initially, a renewed CATSA may require up to 95% of the current level of ATSC revenue (since this would cover traditional CATSA costs, new capital and programs as well as the regulatory group transferred into CATSA), but funding requirements should decline over time as efficiency gains are realized. Consequently, ATSC rates should also go down or remain at current levels at least for the next five-year cycle.

- **Airports Opt-In Program:** The new CATSA should also actively partner with airports willing to take on screening authority responsibility. Airports that want to participate in an opt-in program would be able to negotiate agreements with CATSA to manage screening contracts at their airports or provide screening services directly or through airport-owned subsidiaries. It is recognized that screening costs per passenger at smaller airports are higher than screening costs

per passenger at larger airports and the allocation formula for each airport would have to take that into account. In any event, CATSA would have to fund airports based on the basis of a service level standard and airports would be required to meet CATSA's effectiveness targets if they are delivering screening services. Participating airports wanting to provide a higher level of service to passengers or any special or premium security services would be responsible for these incremental costs. However, it is expected that airports could also realize some additional efficiency gains through cross-utilization of resources which would allow more effective shift management during peaks and slower periods.

- **Customer Service Focus:** A renewed CATSA should also have a customer service focus, ensure that the needs of passenger is central to decision-making, and make customer service training part of the training curriculum for screening staff. In addition to service level standards, customer satisfaction targets should also be included in security screening contracts with penalties for failure to meet these targets and incentives for exceeding specified customer satisfaction and service levels.

## 6.2 Other Options Considered

- **CATSA integrated into Transport Canada**

Under this model, CATSA would be dissolved and Transport Canada would assume responsibility for both security regulations and for delivery of security screening services. This could be done either with federal staff or contracting out service delivery as is currently done by CATSA.

While this would resolve issues around regulatory and service delivery conflicts, it would not likely address the funding model concerns, as it would be more problematic for central agencies to agree to a dedicated funding model for a government department. Also, if security services were to be performed by federal staff, the costs of the aviation security system would be higher and could lead to significant increases to the ATSC rates paid by air travellers.

As Transport Canada has devolved operation of airports, ports, air navigation services and screening service delivery to or independent authorities or crown agencies over the past 20 years, this would be a retrograde step and is not recommended as the right long term solution.

- **Independent Authority Model**

This option would involve dissolving CATSA and creating a new arm's length not-for-profit corporation similar to airport authorities or Nav Canada.

Under this model, Crown assets in terms of security equipment at Canada's airports, office leases, etc. would have to be transferred to the new security authority. When Nav Canada was established, the Crown sold its assets to the new authority for \$1.5 billion based on the net book

value of the assets. The transaction was later criticized by the Auditor General as the transaction was not based on fair market value. It is likely that a transfer of assets to a new security screening authority would likely receive additional scrutiny and may not be based on book value of assets.

The primary advantage of an arm's length authority is that it would be able to set its own fees to recover the full cost of its screening services, capital investment for equipment and also the purchase costs of CATSA's assets. Depending on the final valuation, this could lead to higher fees to passengers. There might also be some confusion, as it is likely that the federal government would retain its ATSC (albeit at a lower rate) to recover the cost of Transport Canada's aviation security regulatory and oversight functions and also for RCMP officers on selected flights.

A less intrusive way to deal with this would be for the new security authority to collect security fees through an arrangement with the airlines, similar to what airports have for AIF collection. Then the federal government would take a share of the security authority's revenue to cover their portion of the costs for the aviation security system.

One potential negative consequence of this model, however, might be an increase in Transport Canada oversight and even more prescriptive security measures as it would be dealing with an independent authority rather than a federal Crown agency. The regulatory/service delivery conflicts could be exacerbated under this option, potentially leading to an even less efficient system.

This option also would require major restructuring and may not align well with the federal government's current security agenda but may be more feasible in the longer term, particularly if Transport Canada moves to more risk-based and outcome-focused security.

- **Airports as Screening Authorities**

Under this option, Transport Canada would remain the regulator and airports would assume the role of screening authority and deliver screening services directly, contract out to private guard companies or deliver screening via an airport-owned subsidiary.

The ATSC would need to be distributed to airports on the basis of service level standards and not on a per passenger basis; otherwise, the bulk of the money would go to the larger airports and small airports would not be able to cover their security costs. Smaller airports are an integral part of the national airport system and provide passenger traffic to the larger airports and major hubs.

This is a viable option under an outcomes-based approach to aviation security consistent with practices in other parts of the world. As Table 3 indicates it is the most common model, particularly in Europe, Australia and parts of Asia. It also should be noted that Section 7 of the *CATSA Act* already includes a provision for airports to deliver screening services:



*“The Authority [CATSA] may authorize the operator of an aerodrome designated by the regulations to deliver screening on its behalf at that aerodrome, either directly or through a screening contractor, subject to any terms and conditions that the Authority may establish.”*

Not all Canadian airports are willing to assume screening authority responsibility, however, so a reasonable compromise would see the maintenance of a centralized national screening authority while allowing those airports for which it makes sense to assume the screening authority role to do so on an opt-out basis.

- **TSA Type Model**

The U.S. established the Transportation Security Agency after 9/11 as part of the Department of Homeland Security. Unlike CATSA, the TSA has responsibility for both the regulatory and service delivery functions and the TSA has proven to be innovative and efficient.

Under the leadership of John Pistole, the TSA was able to make remarkable progress in the provision of security services. Not only was throughput significantly increased by taking a risk-based approach to screening (Pre-Check), but a transformation in corporate culture took place, making customer service a new focus for TSA staff.

The other major difference between the TSA and CATSA is that the TSA has responsibility for all transportation security. In addition, the TSA is under Homeland Security which includes other agencies like Customs and Border Protection, U.S. Immigration and Customs Enforcement, U.S. Citizenship and Immigration Services, the U.S. Coast Guard, the Federal Emergency management Agency (FEMA) and the U.S. Secret Service. Canada’s Department of Public Safety and Emergency Preparedness (PSEP) has many similarities to its Homeland Security counterpart, but PSEP also has responsibility for the Royal Canadian Mounted Police (RCMP) and the Canadian Security Intelligence Service (CSIS) while in the U.S., the Federal Bureau of Investigation (FBI) and Central Intelligence Agency (CIA) are not part of Homeland Security.

One of the attractive features of the TSA model are that the regulatory and service delivery functions are integrated in one organization, allowing for greater adaptability and flexibility to implement best practices such as outcome focused and risk based security as well as a customer service culture.

Unfortunately, TSA funding is appropriations based, which is the fundamental problem with the current funding model for screening services delivery in Canada.



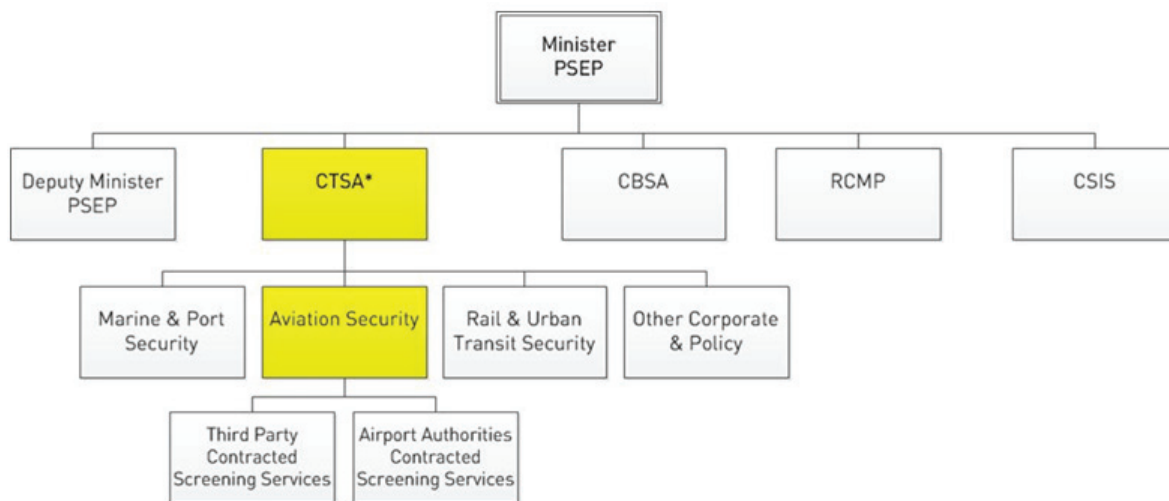
- **Integrated National Security Model**

The Integrated National Security Model would involve the creation of a new entity –a “Canada Transportation Security Agency (CTSA)” reporting to Minister of Public Safety, with CTSA being part of the national security group. (This is similar to the TSA model as the TSA is an agency under. Homeland Security).

The governance structure for this option is presented in Figure 4 below.

Figure 4

### Integrated National Security Model



\*CTSA: Canada Transportation Security Agency

In general, this option shares many of the same features as the Integrated Aviation Security model including mandate as it would entail integration of regulatory and service delivery functions, outcome-focused/risk-based approach to aviation security, a dedicated funding model, service level and performance standards, service delivery opt in program for airports and a customer service requirement for contracted screening services. The primary difference is that it would report to Public Safety rather than Transport.

The main advantages and potential challenges include:

- **Dedicated ATSC Funding:** Since all the elements of aviation security (security screening, regulatory oversight and RCMP officers on selected flights) would be under one department, then all ATSC revenues could be allocated to PSEP as special purpose funds to cover the cost of the aviation security system.
- **Public Policy Alignment:** Integrating transportation security under PSEP aligns well with the current government’s national security agenda.

- **U.S. Harmonization:** Would create a complementary organization to U.S. Homeland Security and could potentially facilitate and even accelerate Perimeter Security initiatives and harmonization of security measures under the Beyond the Border Action Plan.
- **Legislative Change:** Would require legislation to create the new entity and changing ministerial responsibility so could take significantly more time to implement than a restructuring of the existing CATSA organization.
- **CTSA Policy and Regulatory Coordination:** Would work closely with CBSA and other PSEP agencies with respect to information sharing, technological innovation and modernization initiatives, and coordinating trusted traveller and other risk-based programs. An integrated security mandate may also provide a rationale for an RCMP presence at major airports where the RCMP is not providing policing services.

While the Integrated National Security Model would be a radical change, it may be worthy of consideration as part of a long term evolution of Canada's national security strategy.

In summary, while each of these models could be viable, they either require more radical reform or are deemed less likely to address or resolve the issues identified with the current Canadian model. Accordingly, the recommended Integrated Aviation Security Model was developed as the most pragmatic and expeditious solution by taking the best elements of each of the options considered.

## 7.0 Making Reform Happen: Recommendations

It cannot be overemphasized that a substantive change in the governance structure for security screening is a critical issue and needs to be undertaken with real urgency. The wait times at airports cannot be allowed to continue to worsen as this is already tarnishing the reputation of Canada's hub airports and causing economic damage to the aviation industry. A solution is needed now.

Canada's airports recognize that the CTA Review panel will be making policy recommendations for the long term, but are urging that some early recommendations be made to the Minister of Transport to take immediate action to reform the security screening system in Canada.

As all but the critical structural elements of CATSA governance and funding would be preserved, transitioning to a structure like the Integrated Aviation Security Model described in Section 6.I could be done more quickly than some of the other models examined. This would go a long way to effectively eliminating wait times without the need for significant funding increases or downloading costs to airports.

In addition to the business imperative, Canada has an obligation to its air travellers, who are paying up to \$25.91 per flight, to provide them with an acceptable level of service.

The information in this paper is intended to build on the background and recommendations contained in the main CAC submission to the CTA Review Panel, *Connecting Canada: On Aviation Policy Agenda for Global Competitiveness and Economic Prosperity*, which contained a series of recommendations for screening reform as outlined below.

## ***Connecting Canada: An Aviation Policy Agenda for Global Competitiveness and Economic Prosperity: Recommendations on Effective and Efficient Security Screening***

### **1. 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.

As described in this submission, there are many models capable of delivering the desired outcome. However balancing the particular needs of the Canadian airport operating environment with political realities, the CAC recommends adoption of the **Integrated Aviation Security Model** as the best approach for reformation of CATSA and screening delivery in Canada.

As an immediate first step to effect this change, the CAC recommends that the Minister of Transport work through the recently established **Air Industry Standing Ministerial Advisory Committee** to develop a realistic and secure funding framework for security screening, redesign the governance and operational model, and guide the implementation of a more effective and efficient risk-based and outcomes focused security screening system.

As advised in the main CAC submission, 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 reformation of screening delivery in Canada to dramatically improve the passenger experience for all Canadian and world air travellers in a meaningful way.

