



February 13, 2015

The Honourable David L. Emerson, PC, OBC
Chair, Canada Transportation Act Review Secretariat
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Dear Mr. Emerson,

Halifax International Airport Authority (HIAA) greatly appreciates the opportunity to provide our input in to the CTA Review process.

As a member of the Canadian Airports Council (CAC), we support their comprehensive submission made on January 30, 2015.

In our submission, we have chosen to focus on three areas of particular relevance to HIAA:

- Air Policy;
- Airport Competitiveness – Ground Lease Rent; and
- Airport Governance.

Air Policy

An overall theme throughout the CAC submission that HIAA is especially focused on is the ability for policy and process changes to occur in an aligned, timely and proactive manner. Airports are important economic generators for their regions - based on a 2013 Economic Impact study, Halifax Stanfield International Airport contributed \$1.29 billion to the Nova Scotia economy and provided 13,130 full-time equivalent jobs with wages and salaries of \$544.9 million. Policy and process decisions that limit or adversely affect growth in travel, trade and tourism will impact not only the individual airports but also the regional economies and ultimately the national economy.

The CAC submission presents a clear vision for Canadian Airports in 2040. HIAA believes that there are elements of this vision that can be realized sooner rather than later. Global connectivity can be enhanced by expanding the current Can+, Transfer Without Visa (TWOV), China Transit, and Transfer Departure Facility (TDF) programs. Oftentimes these programs are mired in lengthy pilot projects at larger Canadian airports which results in other airports lagging behind. More proactive countries have enhanced their overall air access thus capturing the lucrative tourist and business air traveller, and providing more opportunities for trade and economic development to benefit their regions and citizens.

In addition, further liberalization of air service policy will enhance Canada's global position as an economic leader with expanded business and tourism market opportunities, and increased consumer choice. The Canadian Government needs to keep

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moving ahead with the Blue Sky Policy and the Canada-EU Comprehensive Air Transport Agreement. Doing so will help ensure that foreign carriers have the ability to add direct service or transit through Canadian airports which will provide more seats to/from all regions of Canada and additional cargo capacity, thus providing consumers choice while also benefiting multiple sectors of the Canadian economy including tourism, business to business development, trade and export opportunities. This in turn helps sustain the viability of medium and small Canadian airports as it opens new service and/or transit opportunities, while also solidifying their position as strong links from regional communities to the larger Canadian hub airports.

Airport Competitiveness – Ground Lease Rent

It is HIAA's view that the current ground lease rent structure is an impediment to competitiveness and a limiting factor in our ability to serve as an economic enabler for our regional community. The current rent model which ties rent escalation directly to gross revenue growth is inconsistent with reasonable economic return expectations for airport properties and an unreasonable burden on air carriers and ultimately air passengers who must bear the cost. Rent collected by the federal government from airport authorities is disproportionate to federal government investment in air transportation and has become a source of general revenues unfairly borne by air travellers.

HIAA believes the current ground lease rent structure is also a disincentive to investment for airports who are striving to grow non-aeronautical revenue in an attempt to limit upward pressure on aeronautical fees. In an environment where Canadian airports are struggling to maintain a competitive position compared to cross border alternatives, the current ground lease rent model raises the required return threshold for new revenue initiatives.

It is our view that Canadian airports would benefit from a ground lease rent model with more cost certainty. HIAA strongly urges the Government to consider an alternative rent model that more closely resembles the pricing methodologies of the commercial real estate market in Canada. A capped base rent with increases tied to inflation would represent a more commercially reasonable model, assuring a reasonable return for the use of federal land and allowing airport authorities to better leverage revenue growth to maintain competitive fee structures.

Airport Governance

The CAC submission regarding the lack of policy alignment in aviation matters also applies in the governance context. As the CAC indicates in their submission, there have been numerous discussions and studies about Canadian airport governance over the years. Most recently, Transport Canada initiated discussions with Canadian airports with a view to modifying the existing governance model. Transport Canada expressed its desire for increased transparency and accountability, although it is not clear what specific deficiencies in these areas currently exist at Canadian airports or where the demand for change originates. The CAC was asked to coordinate a proposal for addressing these perceived concerns.

While there may well be improvements that can be made to airport governance structures, much of the current discussion gives little consideration to the fact that each Canadian airport is unique and has its own specific set of local cultural, financial and stakeholder concerns to address. This makes a "one size fits all" approach to airport governance cumbersome and inappropriate. Canadian

airports have a critical role to play in their local communities, and they make a significant contribution to economic growth and development in their regions. A nuanced, flexible approach to governance issues allows each airport to reflect and respond to individual local interests and community concerns. Where there is clearly a need for some level of consistent governance standards across all Canadian airports, detailed, prescriptive universally-applied requirements fail to recognize the particular regional practicalities, interests and pressures individual airports face. In addition, some governance proposals seem agenda-driven, responsive to the loudest voice, as opposed to the greatest need.

Transport Canada has recognized that a prescriptive, top-down approach is not necessarily the best approach when dealing with other airport matters. A prime example of this is the Safety Management System that has been implemented at all major Canadian airports – a system based on principles rather than rules. HIAA submits that, given the significant differences between Canadian airports in areas such as size, passenger numbers, access to financing and unique local characteristics, a top down “one size” governance approach does not fit the Canadian airport environment. A principles based approach, rather than prescriptive rules, accommodates these differences and allows tailor-made solutions to local concerns.

HIAA recognizes that governance is an ever-changing field, and policies and practices are revised as issues and attitudes evolve. However, significant changes to the Canadian airport governance model should only be made after comprehensive consultation that includes transparency on the matters of concern and the specific problems the changes are intended to address. HIAA supports enhancements to airport governance that increase transparency and accountability and believes this can best be achieved through open and informed dialogue, adequate consultation and a flexible governance model that takes into account the unique characteristics of Canada’s varied regions.

In closing, HIAA is a dedicated partner working closely with government, tourism associations, business and the community at the regional and national levels to foster air gateway activity in Canada. We understand the importance of working together to fulfill the CAC’s airport vision and are committed to providing our support to ensure meaningful ongoing discussion and action.

Sincerely,



Joyce F. Carter, FCA
President & CEO

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