February 6th, 2015

Canada Transportation Act Review Secretariat
350 Albert Street, Suite 330
Ottawa, ON K1A 0N5

Re: Review of the Canada Transportation Act (CTA)

To whom it may concern:

We are pleased to have the opportunity to submit these comments on the Review of the Canada Transportation Act (CTA) on behalf of the International Air Transport Association (IATA). IATA is a Canadian non-profit organization that represents the interests of 250 Member Airlines, 50 of which fly into and out of Canada on a regular scheduled basis. As such, we have a direct stake and an avid interest in the outcome of this review.

A great deal has changed in Canadian aviation since the last CTA review in 2001. At that time, Canada was beginning to reap the benefits of significant changes to its national aviation system it implemented in the 1990s, including the privatization and deregulation of the airlines, the privatization of the air navigation system, and the leasing of key government owned airports to local airport authorities. The 2001 CTA review of commercial aviation focused primarily on the need to ensure that Air Canada's market power did not impede on the positive returns the government expected from this deregulation and privatization process. The review recommendations focused on the need to promulgate various laws, regulations and policies to encourage airline competition in the Canadian market, primarily from foreign carriers through both open skies agreements and the removal of other structural barriers to foreign competition.

Clearly, it is not appropriate to focus on Air Canada's market power in the 2015 CTA, particularly given the competition the airline is facing both domestically and from abroad. In addition, the competitive forces released by the privatization and deregulation initiatives in the 1990s have produced a world class aviation infrastructure capable of supporting a high growth aviation market. In fact, the World Economic Forum's 2013 Travel and Competitiveness Index ranked Canada first out of 140 countries surveyed in terms of air transport infrastructure. [1]

A competitive, deregulated market, world class infrastructure and diminishing barriers to entry would normally be expected to translate into a strong commercial aviation market. Indeed, Canada's commercial aviation industry generates significant levels of wealth, employment and taxes.

- Directly employs 141,000 people and supports almost 405,000 in different sectors
- Total economic footprint of C$34.9B in GDP
- Each direct job results in C$ 248,000 in total GDP
- Contributes over C$12 billion to federal and provincial treasuries, including over C$7B in taxes[2]

The question is whether Canadian commercial aviation is reaching its full potential. There are clear signs in the WEF report that this not the case:

- Canada is ranked136th out of 140 countries in terms of ticket taxes and airport charges.
- Canada is ranked 48th in terms of government prioritization of the travel and tourism industry (behind countries like the United Arab Emirates, which was ranked 6th) and 49th in terms of government expenditures on the sector.
- Canada fell from the 7th most visited country in the world in 2002 to the 17th in 2013, behind Russia (number 9) and even Ukraine (number 14).
- Canada's international travel deficit (the difference between the amount of money spent by Canadians traveling abroad vs the amount spent by international

[1] World Economic Forum Travel and Tourism Competitiveness Report 2013, page 131.
[2] "Growing Canada's Economy – A New National Air Transportation Policy": the Conference Board of Canada, September 2013

visitors in Canada) reached a record of $17.8B in 2012, a 6.5% increase over 2011

A vibrant and growing commercial aviation industry is an essential component of any national tourism strategy. While Canada is well positioned in terms of aviation infrastructure, inefficient government policies have served to reduce commercial aviation's positive impact on Canada's economy and general well-being.

Over the past several years, IATA, Canadian airlines, airports, hotels, and the associations that represent them, as well as the Standing Senate Committee on Transport and Communications have all urged the government to address impediments to the growth of commercial aviation in Canada. IATA has been a strong supporter of efforts by the National Roundtable on Travel and Tourism (NRTT) to encourage the Government to develop a national air travel policy that reflects the importance of this industry to Canada's national economy. To date, our collective advocacy efforts have been unsuccessful.

We are very pleased that the CTA has included in its broad mission the charge to determine how "the vitality of the Canadian aviation sector, air connectivity, and Canada's ability to attract visitors and transiting travelers can be maintained and augmented in light of the range of cost factors and competitive global markets." We are confident that a well-crafted and implemented national air travel policy will produce the results called for in the CTA mission.

It is unlikely we or our partners will be offering arguments in our submissions that have not been raised before by one or all of us concerned about the health of commercial aviation in Canada. This is a reflection of how long we have collectively tried to get this message across and how little success we have achieved from that effort.

National Air Travel Policy

Any national air travel policy should address the following issues:

1. Taxes and charges:

The fundamental challenge facing Canadian commercial aviation is the high costs associated with operating in this country. The Standing Senate Committee on Transport and Communications captured this issue well:

> In short, air travel in Canada is not structured by the government to be an economic enabler; rather, it is treated as a source for public revenue. The result of this is that the Canadian air travel industry is not well positioned to compete in the future in an increasingly competitive global air travel market. Worse, Canada's air travel industry is already contributing far less than its potential to Canada's overall economic growth, with serious problems manifesting in the Canadian market place – leakage to U.S. border airports being a symptom. [3]

Representatives from Air Canada testified before the Senate Standing Committee that the infrastructure costs, landing fees, airport improvement fees, air navigation charges and security charges at four American border airports (Buffalo, Niagara Falls, Plattsburgh and Bellingham) are 229% lower than equivalent costs at competing Canadian airports. As a result, more than five million Canadians drive to U.S. airports rather than paying the exorbitant fees/charges imposed in Canada. Canadian aviation cannot compete with other markets around the world for air traffic if the Government continues to treat the industry as a revenue generator rather than an economic engine.

These taxes reduce the opportunity for Canada to be a hub for global aviation connectivity. Airports like Toronto and Vancouver are geographically positioned as natural hubs, particularly between the growing Asian and Latin American markets. Several studies have shown that increased air connectivity will raise the level of long-run productivity in the economy - a 10% increase in connectivity (relative to GDP) will raise the level of long-run productivity in the economy by 0.07-0.5%.[4] Improved connectivity can also enhance an economy's performance by making it easier for firms

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[3] Report on the Future Growth and Competitiveness of Canada's Airports: Prepared for the Standing Senate Committee on Transport and Communications. June 2012, page 4.

[4] Oxford Economic on behalf of EUROCONTROL 2005, Oxford Economics 2006, InterVISTAS Consulting Inc. 2006.

to invest outside their home country. Without a transparent and fair taxes and charges system Canadian airports could lose the potential of the economic benefits generated by the industry.

The following are the taxes and charges that warrant a detailed review by Transport Canada and the Ministry of Finance:

Airport rent

Airport rent continues to be one of the most significant barriers to Canadian commercial aviation competitiveness.   Today, airport rent can be as high as 12% of an airports gross revenues – despite the fact that the cost of the original facilities have long been paid back and that a significant portion of those gross revenues are being generated by facilities /businesses that did not exist at the time of the government handover of the airport to the private entity.   As explained in detail in the comments of the NRTT submission to this review, airport rent makes it difficult for airports to generate the supplemental revenue from concessions that normally serve to offset landing fees and other airline charges. Airports have no choice but to pass rent on to airlines that in turn must pass those costs on to airline passengers in the form of higher ticket prices, thereby reducing economic activity.   Airport rent is estimated to represent approximately one third of landing fees at major airports.

Over the past ten years, IATA has worked closely with airport authorities to challenge Transport Canada and the Ministry of Finance on the airport rent issue. According to the NRTT, eliminating airport rent would generate 600,000 new air passengers, 5,500 jobs and $720m in economic activity. The 2013 Conference Board of Canada report concluded that it is safe to assume that these decreased airport/airline costs will ultimately result in lower ticket prices. [5]

Transport Canada and the Ministry of Finance have to date been unwilling to entertain a decrease or elimination of airport rent despite the positive impact it will have on

[5] Conference Board of Canada, "Growing Canada's Economy: A New National Air Transportation Policy. September 2013, page 9

Canadian aviation competitiveness. While Transport Canada has at least entertained the possibility of some relief from these onerous charges, Finance has consistently expressed their preference for the certainty of collecting this rent (which in 2013 alone totaled $291,718,265) over speculative gains resulting from increased economic activity. We are hopeful that both the significant negative impact this has on Canadian competitiveness along with the projected 2015 Federal budget surplus may convince both Transport Canada and Finance that now is the time to address this continued challenge to the Canadian aviation market. This can be accomplished in a number of ways: elimination or decrease in airport rent, a calculation of airport rent based on a measure other than gross revenue, transferring full ownership of the airports to the operating authority or the offsetting of other taxes and charges (such as security fees) with the proceeds of airport rent. We strongly endorse the recommendation of the National Airlines Council of Canada (NACC) that the Government considers reinvesting any airport rent back into air transport.

Other fees/charges

According to evidence presented to the Standing Senate Committee, “passengers departing Canadian airports often pay between 60 and 75% above the airline’s base fare to cover taxes and charges, compared to between 10 and 18% in the U.S.” [6] While airport rent is the biggest contributor to this disparity, Canada continues to find multiple ways to inhibit aviation growth through taxes and fees upon the industry. As many stakeholders have noted in the past, the “user-pay” model pushed by the last CTA review has slowly become the “user pay plus” system, whereby passengers are ultimately responsible for satisfying continued government financial demands, often with little or no connection to aviation. For example, Federal government budget documents show that in 2013-2014 the Air Traveler’s Security Charge (ATSC) used to fund CATSA security services received more from passengers ($662M) than from the CATSA budget ($559M). The $123M surplus was contributed to the Government’s general revenue

[6] “The Future of Canadian Air Travel: Toll Booth or Spark Plug?” Report on the Future Growth and Global Competitiveness of Canada’s Airports. P.7

fund rather than being reinvested in aviation.[7] IATA endorses calls for a review of the user pay system to ensure that it reflects an equitable contribution between the user and the Canadian Government that benefits from the positive economic impact of a competitive aviation industry.

Fuel taxes

The NACC sets forth a compelling case for a reduction in the Federal excise tax on fuel and to invest funds collected in the aviation sector rather than treating them as general revenues. IATA is also concerned about the propensity of provincial governments to tax aviation fuel, including those that impose those taxes on international fuel uplift. The most recent example of this is the Provincial Government of Ontario's decision to more than double the province's aviation fuel tax from C2.7 cents per liter to C6.7 cents per liter by 2017. The existing fuel tax already costs Ontario travelers and shippers over C$60 million annually. The increase will add more than C$100 million per year to the cost of air transport in the province when fully rolled out in 2017.

The unintended consequence of this action will be exactly the opposite of what the government hopes to achieve, which is to boost the province's lackluster economic performance. An analysis by Dr. Fred Lazar of York University estimates that if implemented, this tax hike actually will *decrease* provincial GDP by up to $97 million in 2017, with the loss of up to 2,900 jobs in Ontario.[8] By contrast, the BC Government dropped its aviation fuel tax on international flights, which resulted in $20m in new payroll and consumption taxes (vs. the $12M tax loss). Ironically, at the same time that it is raising the cost of doing business, the Ontario government proposes to spend some C$2.5 billion to attract more businesses to the province.

Despite the latest developments in the global fuel market, jet fuel remains a major cost line item for airlines, reaching in average 31% in 2014 and expected to be around 26% in 2015. Taxing fuel for international flights (including trans-border flights) increases consistently the cost to travel and also violates longstanding international treaty

[7] Government of Canada, "Public Accounts of Canada" (2014) at 61; CATSA Annual Report 2014 @ 56.
[8] "The Economic Impact of the Proposed Increases to the Ontario Fuel Tax" June 2014, page 5.

agreements, including the Chicago Convention that created ICAO. Furthermore, it contravenes all aviation agreements signed and approved by the national government in Ottawa. And contrary to recent assertions by the provincial government, very few jurisdictions tax fuel for international uplift - and fewer still when we look at jurisdictions with cities comparable in national importance to Toronto, such as London, Paris, Chicago and New York.

2. Airport consultation process

IATA believes that transparency and consultation between airlines and the airports they serve are a benefit to both stakeholders and the industry they serve. As airlines are captive clients of airports, consultation is of tremendous importance to ensure that airport authorities provide adequate information to users relating to charging systems and level of charges. Such consultations on charges should be held in a dedicated forum (distinct from the airport consultative committees) and subject to transparency requirements in order to justify the cost-efficiency and cost-relatedness of airport charges. It must also be ensured that proper consideration to the views of users is given, and in case no agreement is reached between an airport authority and its users, there should be an arbitration process available for stakeholders.

Canada in its role as chairman of the ICAO Panel on Airport and Air Navigation Service Economics has been instrumental in maintaining and updating ICAO policies on charges as set forth in ICAO Doc 9082   Many countries have adopted these policies as national regulations. We believe that Canada's adoption of the principles of 9082 should be part of any new aviation policy.

3. Security and facilitation

IATA has appreciated the opportunity over the last several years to share our perspectives on aviation security both formally and informally with both Transport Canada and the Canadian Air Transport Security Authority (CATSA). We have also shared comments through the Canadian Air Transport Security Authority Act review process. We also work closely on passenger data issues with Public Safety Canada and the Canada Border Services Agency. While we were pleased that the Government of Canada has an open door policy on taking in stakeholder input, we continue to find that meeting the security needs of aviation travelers in Canada is not being done in a cost effective manner and opportunities are being missed. This in turn impacts the competitiveness of Canada's aviation industry. Many of the points we have raised in previous consultations remain relevant today including:

- The Air Travelers Security Charge is one of the highest in the world. The international ATSC charge of CAD $25.91 per passenger on exit discourages travel to Canada while high domestic security charges have a negative impact on intra-Canada travel.
- We believe that Transport Canada needs to embrace additional risk based security measures such as a fully integrated known traveler system, whereby passengers are screened according to risk category and not simply moved to the front of the line. This helps reduce security lines and passenger waiting times at the checkpoints for all, while making better use of the available resources, especially security screening staff.
- We also strongly encourage Transport Canada to move away from a "one size fits all" approach to security regulations to a more risk based approach. This means replacing prescriptive security programs with performance based systems, much like the UK is implementing through Outcome Focused Risked Based security (OFRB) as well as Security Management Systems (SeMS).
- Given the importance of the U.S. market and trans border air travel, we strongly encourage Transport Canada to complete implementation of the Beyond the Boarder Action Plan as well as to continue to strive for equivalent screening capabilities, regulations and manage emergency orders with those of TSA and DHS generally. A good example of the need for this equivalence is with airport hold baggage security system.
- We encourage the Government to accelerate the changes required to implement the One Stop Security (OSS) agreement with the European Union. OSS has the

potential to eliminate duplicate screening activities between these two regulatory regimes and free up resources to focus on high risk areas.

- The efficiency of Canada's security checkpoints remains below other similarly developed countries. We encourage Transport Canada to conduct a thorough screening re-engineering study to determine how best to use risk based security techniques to speed up its security screening process. The Government needs to shorten the chronically long lines at checkpoints. Anecdotal reports and evidence suggests that Canadian checkpoints are processing only 60 passengers per hour, well below the global average of 150 passengers per hour.
- While we understand the role of passenger data in identifying higher risk passengers, airlines should not have to pay a government for processing the data which it provides. Currently, airlines servicing Canada are required to pay in excess of $25K for each connection to CBSA, as well as a yearly maintenance fee for processing.
- A national airline policy should consider using the new Electronic Travel Authorization (eTA) in replace of traditional visas whenever possible to encourage more travel to and from Canada, particularly from emerging markets. Similarly, expansion of the Transit Without Visa Program for passengers transiting Canada on the way to the United States offers the possibility of generating significant revenue to Canadian gateway airports and supporting Canadian tourism generally. Consideration should be given to waiving eTA requirements for those simply transiting Canada to another country.
- We encourage Transport Canada to create a formal government consultative body that gives airlines a vehicle to provide the Authority with meaningful input on aviation security matters. Such a body would contribute a current operational perspective on pending changes to the security regime.

Conclusion

Canada offers both visitors and citizens opportunities found in very few countries in the world. Natural beauty, sophisticated business environment, highly educated workforce, safe cities, a world class aviation infrastructure and world class airlines. While Canada's aviation industry is prepared to meet the needs of business and consumer travelers, the Government's approach to fees and taxation has inhibited the growth that should be expected in this market. We strongly believe that now is the time for the Government of Canada to step up and begin to treat Canadian aviation as an economic engine rather than just a means to fund federal and provincial coffers. The potential rewards to the Government and people of Canada are well known. It has been almost 20 years since the Government of Canada had the foresight to allow market forces to produce a robust aviation system with a firm foundation. We hope that the CTA review will serve to eliminate government barriers to the type of growth this industry is posed to deliver.

Thank you for your consideration.

Sincerely,

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