Dear Dr. Emerson and Members of the Panel:

I would like to thank the Panel for providing Vancouver Airport Authority (the “Authority”) with the opportunity to meet with members of the panel in person and to provide a submission in writing. The Authority fully supports the 30 January 2015 submission of the Canadian Airports Council (“CAC”) entitled Connecting Canada: an Aviation Policy Agenda for Global Competitiveness and Economic Prosperity. Our written submission augments the CAC submission, providing additional information specific to Vancouver Airport Authority and Vancouver International Airport (“YVR”).

YVR is Canada’s second largest airport serving 19.35 million passengers in 2014. Since assuming operational control of YVR in 1992, the Authority has invested $2.9 billion in the airport. We are recognized for our prudent financial management as we have consistently maintained an AA credit rating even during the financial downturn of 2008-09. Los Angeles International airport is the only other airport with a AA rating and only Hong Kong has a higher AAA rating. Vancouver also has the lowest debt per passenger of Canada’s major airports. YVR has been honoured for five years in a row as the best airport in North America in the annual Skytrax survey of over 12 million passengers. In 2014, we ranked ninth in the world in this survey. YVR has also rated among the top airports in North America in terms of productivity in the annual Air Transport Research Society’s Global Airport Performance Benchmarking Review, taking fourth place in the most recent study. I include a list of recent awards and recognitions in attachment “B”.

I am listing these accolades because I think the current unique Canadian model of airport governance plays a role in our success. The not-for-profit, non-shareholder model allows
us to take a longer term, strategic view. We are not tied to the shorter time horizon interests of shareholders. Not being bottom line driven in terms of returns for investors allows us to increase economic, social and environmental returns for our customers, stakeholders and community. Over the years for example, we have been sensitive to circumstances facing our airline partners: cancelling a scheduled aeronautical rate increase in 2003 as the industry was impacted by the SARS outbreak; generally freezing aeronautical fees between 2007 and 2010; and putting in place a Gateway Incentive Program between 2011 and 2015 that freezes fees at the 2010 level for participating carriers. Our $300 million contribution to the Canada Line rapid transit system is another example of an investment that does not provide the Authority with a traditional financial return on its investment, but greatly benefits the community through efficient connectivity and supporting regional goals to reduce greenhouse gas emissions.

The model also affords us with the ability to be nimble and innovative. As an example of the latter I would cite our Automated Border Clearance ("ABC") and Automated Passport Control solutions ("APC"). Both solutions rose out of a desire to solve the issue of long wait times in our International Arrivals Hall and US Preclearance facilities respectively. Working in partnership with government agencies, we developed self-service kiosk technology that allows air passengers to complete the routine portion of border formalities themselves dramatically decreasing the time to get through the border process. We have successfully sold our APC solution to 19 airports in North America with sales totaling over $19 million in 2014.

We recognize that the airport plays a key role in British Columbia and Canada’s economy; by connecting people, planes and products to global markets we generate jobs, facilitate business, trade and tourism and enhance competitiveness. We also recognize that airports raise concerns with neighbours in terms of noise and environmental impacts. We have an extensive and ongoing program of consultation with both our stakeholders and the community. An overview of our program can be found on our website, yvr.ca, at http://www.yvr.ca/Libraries/Board_of_Directors_Manual/T12_Accountability.sflb.ashx.

As a specific example of an output that was informed by extensive consultation with stakeholders and the community, I would cite our 2015-2019 Environmental Management Plan. For the first time this plan has specific targets with regard to: greenhouse gas reduction—reducing emissions by 33% over the 2012 level by 2020; reducing waste generation and increasing recycling—diverting 50% of terminal operations waste from landfills by 2020; and reducing potable water consumption—cutting consumption by 30%
over the 2012 level by 2020. These targets are aligned with the expectations of our neighbours and their sustainability objectives. Again I would note that our governance model will help us with creative solutions to achieve these targets—for example we are exploring incentives to encourage airport business partners to invest in low emission and electric vehicles and equipment.

In Attachment A, the Authority offers additional feedback to supplement that provided in the following sections of the CAC submission: Section 4.0 Effective and Efficient Security Screening; Section 5.0 Enhanced Economic Competitiveness; Section 6.0 Innovative and Globally Competitive Border Policies; Section 7.0 Improved Airport Policies; and Section 8.0 Progressive Air Policy Liberalizations.

In closing, I would like to highlight the Authority’s support for the final recommendation in the CAC submission namely the establishment of a government-industry entity to develop a National Air Travel and Air Trade Strategy supported by an aligned policy framework and an aggressive implementation schedule. The Authority appreciates the CTA Review Panel’s consideration of this submission. Should you wish to discuss anything in it further, I would be pleased to do so. I can be reached at 604-276-6504 or craig.richmond@yvr.ca.

Yours very truly,

Craig Richmond
President and Chief Executive Officer

Attachment A – Supplemental Information re Connecting Canada: an Aviation Policy Agenda for Global Competitiveness and Economic Prosperity

Attachment B – Vancouver Airport Authority Selected Awards and Recognitions
Supplemental Information

Re:

Canada Airports Council

Connecting Canada: an Aviation Policy Agenda for
Global Competitiveness and Economic Prosperity (the “CAC Submission”)

Section 4.0 Effective and Efficient Security Screening

Vancouver Airport Authority (the “Authority”) fully supports recommendations one through three set out on pages 41 to 42 of the CAC submission. We view CATSA’s inability to keep up with recent and future passenger growth as a serious impediment to the competitiveness of Canada’s airports. Airports that move passengers and cargo quickly and efficiently attract more passengers and more flights. The Authority has made significant investment in technology and processes with the goal of allowing passengers to not only move expeditiously through our facility but to enjoy a friendly experience. An example is our Automated Border Clearance and Automated Passport Control kiosks which have reduced lines and wait times for the Canadian border and US preclearance processes respectively.

In contrast pre-board security line-ups, particularly at peak times, have been steadily growing. Departing passengers, for example, can experience wait times of up to 75 minutes before entering the process. This results in more missed flights and frustrated passengers. At YVR, customer complaints about pre-board screening increased by 290% in 2014 over the previous year. Not only do our customers notice, but our airline business partners have expressed serious concerns about adding additional flights at YVR given issues with screening line-ups. In recent discussions with a number of airlines based in China, Hong Kong, Taiwan, Japan and Korea, their number one concern at YVR was pre-board screening.

We face a strategic threat that carriers will choose to curtail service or not add new service. Connectivity to the global economy is essential to the competitiveness of gateway airports such as Vancouver and to the competitiveness of Canadian companies. A recent study by University of British Columbia professor Dr. David Gillen shows that the productivity of firms is directly related to the level of international connectivity available at their local airport. For example, his study found that a 10% increase in the number of international destinations served results in a 0.47% increase in the productivity of manufacturing firms, all other things being equal. It also found that a 1% increase in the share of global GDP that a community is connected to by daily flights
increases the productivity of firms in professional, scientific and technical services by 0.49%.

As noted in the CAC submission, while passenger volumes have increased significantly at Canada’s airports in the past several years, CATSA’s budget is essentially frozen at 2010 levels. At YVR alone passenger traffic grew by 7.7% in 2014 and by almost 4% in 2015. Despite this growth, Vancouver faces further CATSA labour hour cuts beginning in April 2015. YVR cannot tolerate the multi-hour waits that would result and to that end we are taking interim steps at our cost to improve the efficiency of our screening points. We note that Authority funding is a stop gap measure while long term pre-board screening governance and funding issues are addressed.

The Authority will pilot a pre-board screening solution developed by Canadian company Optosecurity at our international pre-board screening point. Optosecurity’s solution, which involves remote screening of pre-board screening bags as well as other process improvements, is already used at major international airports including Amsterdam Schiphol and Brussels. Many other airports are actively trialing the solution to improve service levels. Throughput rates for passengers at Schiphol are nearly 2.5 times that of YVR, 250 per hour versus 110. The critical factor is improvement in service levels that benefit the passenger, airlines and the competitive capability of the airport.

We estimate the cost of the Optosecurity solution, along with ancillary building modifications, for the international screening point to be in the order of $4 million. Assuming that we see the process improvements anticipated we would introduce this solution to our domestic and transborder screening points later in 2015 and 2016.

We think this is a necessary step to ensure YVR’s reputation as a world class gateway airport is not damaged and to prevent a slide in competitiveness. Our goal is to address the immediate operational issues while government and industry work out a long term solution including a new governance structure and funding mechanisms for security screening services. Downloading security screening costs to airport authorities is not viable in the long term as it would increase costs per passenger thereby driving traffic to non-Canadian airports and diminishing the competitiveness of Canada’s airports.
Section 5.0 Enhanced Economic Competitiveness

Rent

Vancouver Airport Authority concurs with recommendations four through eight of the CAC submission. Recommendation 8 reads:

"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."

Vancouver Airport Authority is not opposed to paying rent but would prefer a profit-based formula.

We also support Recommendation 4 on reinvesting federal aviation taxes, fees and charges into the air transportation system; as noted in the report this would positively impact Nav Canada charges and airport aeronautical and AIF fees. In this regard, we favour putting airport rent into a fund to provide capital assistance to smaller airports in addition to ACAP funding. Smaller airports are essential components of the airport system and their health and financial viability is important to the competitiveness of this system. As discussed at length in the CAC submission, the current ACAP program is underfunded, limited in terms of qualifying airports and projects and not transparent. Competing US airports benefit from a number of government support programs such as the Airport Improvement Program. As an example, U.S. federal government funding covered 95% of the cost of the recent runway expansion and taxiway improvement project at Bellingham Airport in Washington State.

Arrivals Duty Free

We also strongly support allowing Arrivals Duty Free. We were pleased that, stemming from the pre-budget consultations, there is a recommendation from the House of Commons Standing Committee on Finance that the federal government work with the provinces and territories to explore ways to allow interested airports and provinces to participate in an arrivals duty-free pilot project. The Province of British Columbia supports the Authority’s efforts to have a duty-free pilot at YVR. Arrivals Duty Free can be put in place at essentially no cost to government—indeed we estimate it would contribute $9 million in new revenue to the federal government. In addition it would repatriate $95 to $105 million in foreign sales back to Canada, generate over 560 direct
and indirect jobs, improve convenience for passengers and provide a service already available in over 50 jurisdictions, and reduce airplane weight and fuel burn.

**Comment on Cost Competitiveness**

The Authority makes every effort to be cost competitive in the higher cost environment described in the CAC submission (pp. 43 to 47). We strive to keep costs to airlines and passengers as low as possible and as Chart 1 shows we have increased the share of our revenues coming from non-aeronautical sources to allow us to do this. This is one of the reasons why we are striving to obtain Arrivals Duty Free.

![Chart 1 Aeronautical versus Non-aeronautical Revenue](image)

Vancouver has the lowest airport improvement fee of Canada’s major airports at $20 with a $5 fee for travel within BC or Yukon. The increase in non-aeronautical revenues will also allow us to explore new models for setting airline fees and charges that are competitive, equitable and incent growth and efficiency.
In 2013, Vancouver Airport Authority also had the lowest debt per enplaned passenger among its major peers. As seen in the chart below we expect debt per enplaned passenger to remain at prudent levels not exceeding $85 per passenger during the forecast period.

Chart 2 - Debt per Enplaned Passenger
Section 6.0 Innovative and Globally Competitive Border Policies

We would like to add a few additional words about Transit without Visa [TWOV]. As noted in the CAC submission, TWOV is critical for Canada to recapture lost market share and take advantage of our strategic location to connect some of the world’s largest markets. The joint government-industry Working Group on Transit without Visa under the Air Consultative Committee has made significant progress and we hope to see a new TWOV program—implemented in agreed phases—announced soon.

As the map at left shows, Vancouver is ideally situated to serve as the gateway between Asia and the Americas. Connecting traffic on an international flight can range anywhere from 25% to 50% of passengers and this can result in more flights and new destinations that we would not be able to support due to our small market base. Several Chinese carriers have informed us that they are now looking at expanding service to Latin America and are exploring routing options. Other Chinese carriers have expressed interest in the Vancouver market if they can add a U.S. leg to the service. TWOV is essential to make Vancouver a viable option. Canada benefits because when the plane lands at the Vancouver gateway it brings tourists and international students and provides belly space for perishable cargo to leave. If Canada delays TWOV implementation, these carriers will select other routing options and Canada loses.

Using our economic model, we looked at the impact of a hypothetical flight between Beijing – Vancouver- Latin America. We estimate that the direct economic impact of such a flight would create 365 person-years of employment at YVR, paying $17.1 million in wages, $9.7 million in taxes and adding $32.5 million in value to British Columbia’s GDP.

The additional visitors resulting from such a flight would create another 629 direct person years of employment in hotels, restaurants, shops and tourist attractions, paying an estimated $19.6 million in wages, $10.8 million in taxes and $26.7 million in value added to the BC economy.
Section 7.0 Improved Airport Polices

We agree with the CAC submission that the current non-share capital airport authority model is the most effective governance structure for the national airports system. The federal government set three objectives for airport devolution: a) improve accountability relative to the federal operation of airports, b) attain commercial viability, and c) enhance local economic development. To meet these objectives it chose a unique Canadian model of locally-controlled, not-for-profit, private sector airport authorities. This model has proved incredibly successful, resulting in Canada having the best airport system in the world according to the World Economic Forum.

Transport Canada recently raised proposed changes to airport authorities’ governance model. One suggestion was related to having airline experience on the board of directors. The Authority has always had airline or air transportation industry experience on its Board. Currently two board members, our Chair Mary Jordan and Ken Goosen, have senior airline executive experience on their resumes. As is considered best governance practice, our Board maintains a skills and experience matrix that is reviewed and updated annually to ensure that the Board has the appropriate mix of skill sets to allow it to best govern the corporation. Senior executive level experience in the aviation, airline or airport business has always been on that matrix.

Transport Canada also raised public consultation on capital projects and fee increases. Vancouver Airport Authority has an extensive and ongoing program of consultations that goes beyond capital projects and aeronautical fees. YVR has both an Airline Consultative Committee (ACC) and an Airline Operating Committee, the latter dealing with more technical issues, which meet a minimum of twice a year. The ACC is consulted on all major capital projects and, through the mechanism set out in the Memorandum of Understanding on collection of the AIF, votes on such projects. As our current fees and charges regime expires at the end of 2015, we will be holding extensive consultations with the airlines regarding the successor regime which will begin on 1 January 2016.

Some of the other methods we have for regularly informing, consulting and gathering public feedback include:
• publication on line of Annual and Sustainability reporting, which include information on governance and the Authority’s environmental, social and economic performance as well as the Authority’s non-consolidated and consolidated financial statements;
• holding an Annual Public Meeting;
• holding of an annual meeting with the Nominating Entities and additional meetings as may be required;
• holding an annual Legislative Day with the Province and regularly meeting officials;
• maintaining a corporate communications policy—the substance of which is reviewed
  annually by the Governance Committee and approved by the Board;
• establishment of the following standing consultation committees:
  – Aeronautical Noise Management Committee;
  – Airline Consultative Committee;
  – Airline Operators Committee; and
  – Environmental Advisory Committee;
  and meeting with these committees a minimum of twice annually;
• annual presentation to local city councils;
• publication of an annual noise report on the website;
• extensive public consultations on the periodic renewal of the airport Master Plan
  and Land Use Plan;
• consultations with the relevant stakeholders on other airport plans and policies,
  including but not limited to the schedule of airline fees and charges, the noise
  management plan, the environmental management plan, the schedule of airport
  maintenance charges, and airport operation procedures;
• maintaining the corporate website and other appropriate communications media—
  including Social Media Facebook, Twitter and Instagram; and
• providing multiple channels for the public to submit questions or provide feedback
  including via the website, e-mail, Facebook or Twitter, by calling the general
  inquiries, noise information or employment information lines or in person at our
  customer care desks.

In addition to all of the above we hold specific public consultations when required. In
2014, for example, we held eight meetings with interested organizations and the
general public with regard to the planned addition of Runway End Safety Areas on our
South Airfield. In 2013, we held consultations on the Designer Outlet Centre and a
planned upgrade to Flight Path Park at the end of our South Runway.

We also have an annual School Program where we host 1,500 fifth and sixth grade
students over a 10 week period in the fall. This program always sells out with schools
on a waiting list; it receives excellent marks from participants. We also recently
introduced our YVR Explorer Tour program for community groups.
Section 8.0 Progressive Air Policy Liberalizations

The Authority strongly supports the recommendations in the CAC submission related to air policy liberalization. We would like to emphasize two points: the concept of what we call the policy trinity and the need to take a pro-active approach to air transport agreement negotiations.

The federal government has actively advanced an agenda to expand foreign trade, supporting the commercial success of Canadian companies and investors aboard through the Department of International Trade’s Global Markets Action Plan as one example. A healthy export sector generates jobs and new opportunities for Canadians. To support expanded trade and competitiveness, however, a number of policies need to work together. We refer to this concept as the policy trinity—free and open trade agreements, liberal air transport agreements and simple and efficient visa and border policies. Where these policies are aligned it is a recipe for growth in trade, travel and tourism from that market.

As an example, Canada has had a free trade agreement with Chile since 1997 and recently Canada removed the requirement for Chileans to have visa to enter Canada. But the Air Transport Agreement between Chile and Canada, the last piece of the policy trinity, remains restrictive. Canadian or Chilean airlines cannot route services as the market might dictate. The lack of air connectivity with Chile acts as a barrier to building business relationships, efficiently moving high value and time sensitive goods and services and stimulating the tourism and international education markets. As an example of the latter, we note that when British Columbia received non-stop service between Auckland and Vancouver—Canada has an open skies agreement with New Zealand—tourists from New Zealand immediately jumped from 20,000 to 30,000. The BC Council on International Education cites the lack of air service as a barrier to attracting students from a number of markets.

We applaud the federal government’s efforts to liberalize air service in recent years, noting the open skies agreement with Korea and the agreement with the EU as examples. As a result of the latter, we will see service from Air France at YVR beginning in spring 2015. On the other hand, the Global Markets Action Plan cites Thailand, Singapore, Malaysia, Indonesia and Vietnam as priority markets but all have restrictive air transport agreements. In the past, officials have often taken the approach that there is no need to negotiate a more liberal air transport agreement until there is demonstrated market demand or specific carrier interest.
We think this approach is wrong for a number of reasons. It ignores the stimulative effect of non-stop air service, it ignores the growing middle classes in these markets—who are empowered to make travel decisions through computer programs that easily show how easy or hard it is to get somewhere—and it precludes business from being able to immediately take advantage of a market when it sees a business case to do so.

Air transport agreements are a key tool to help facilitate trade and tourism and to remove barriers to growth. We think the federal government should adopt a proactive approach in pursuing air service liberalization and create opportunities in advance of specific air carrier interest. Canada should be ready when growth in local economies means that trade in goods and services—particularly tourism and education—is poised to take off. Air carriers can choose the right moment to enter with no barriers in the way. When the market is ready—people, planes and products can move immediately rather than waiting for an extended period while the necessary agreements are put in place. We think that this is better than a “wait and see” approach that allows competitor airports to gain an advantage.
Overall Performance:

- YVR was ranked Best Airport in North America in the annual Skytrax world airport survey for five consecutive years 2010 through 2014. YVR was also ranked first in its size category of 10-20 million passengers in 2013 and 2014 and was ranked respectively 9th in the world in 2014, 8th in the world in 2013, and 9th in the world in 2012.

- Vancouver Airport Authority came in fifth place overall in BC Business magazine’s study to determine the best loved brands in BC. In the individual categories, Vancouver Airport Authority came in: first in the “Brands that make a positive difference in British Columbia” category; third in the “Brand is Innovative”, “Brand I would be proud to have people know I use”, and “I’ve had a positive experience with this brand” categories; and fourth in the “Brand has consistently high quality” and “Brand I identify with” categories.

- Air Transport Research Society’s Global Airport Benchmarking Report found YVR was the most efficient airport in Canada and the fourth best performer in North America in 2014 up from the sixth best performer in North America 2013.

- YVR was named the Least Frustrating Airport in North America by Bloomberg News in 2014 recognizing our efficient staff and hardworking, dedicated partners.

- Vancouver Airport Authority was recognized for 9 years in a row (2006-2014) as one of BC’s top ranking employers in the annual Mediacorp Canada survey. YVR was also named a Dream Employer of BC for 2014, in a poll of over 3000 British Columbians conducted by Insights West and Miles Employment Group, in partnership with The Vancouver Board of Trade.

- Canadian Occupational Safety Magazines’ Canada’s Safest Employer’s Gold Award for Transportation in 2013.

- Canadian Society of Safety Engineering 2013 Recognition Achievement Award for excellence in relation to occupational health and safety in the workplace.

- The BC Section of the Canadian Society of Safety Engineers Health and Safety Achievement Recognition Award for companies with 51 to 500 employees in 2013.

• Airport Revenue News determined that YVR won the distinction of having the highest average sales per enplaned passenger in North America, beating out former leader New York JFK airport, in 2014.

Community Recognition:
• Tourism Richmond’s Tourism Partner of the Year award in 2013.
• Vancouver Airport Authority won the Leadership Excellence award in the 2014, 2012 and 2010 Power Smart Excellence Awards for our commitment to energy reduction.
• The Richmond Chamber of Commerce named YVR Newsmaker of the Year for 2014.
• Quest Food Exchange awarded the Authority its Most Valuable Partner Award in 2014
• HUB, Metro Vancouver’s largest cycling coalition, Bike to Work Appreciation Award for outstanding commitment to commuter cycling at HUB’s first annual Bike Friendly Business Awards in 2013.
• BC Aviation Council’s Environmental Achievement Award for the Ground Run-Up Enclosure in 2012.

Industry Recognition:
• Several awards in the Airports Council International-North America (“ACI-NA”) Excellence in Airport Marketing and Communications Awards in 2014, 2013 and 2012. In 2014 we won a second place award for the China Southern Picture Your Selfie campaign and a third place award for the CEO launch. In 2013, the Authority was awarded first place in five categories—Annual reports, Special Events, Television Advertising, Video and Film Productions and Community Outreach; second place in two categories—Creative Innovations—Technology and Radio Advertising; and third place in three categories—Aviation Education and Tour Programs, Partnering with Carriers and Unscheduled Communications/Breaking News. In 2012 we placed first in two categories: Crisis Management and Video and Film production; second in three categories: Public Relations Campaign, Special Events and Website and third in the social media Campaigns category.
• ACI-NA’s Environmental Achievement Award in the category of Education and Community Involvement for our green commuter program in 2013.
• Two first place awards in the ACI-NA 2013 Concession Awards for Best New Consumer Concept and Best Specialty Retail Program in 2013.
• First place in the Airport Council International-North America Environmental Achievement Awards in 2011 for our partnership with Quest Food Exchange to reduce airport waste and contribute to the local community.