



**BRITISH COLUMBIA CHAMBER OF COMMERCE**

**Presentation to the**

**House of Commons  
Standing Committee on Transport**

**Air Liberalization and the Canadian Airport System**

**April 14, 2005**

The British Columbia Chamber of Commerce is a volunteer, not for profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber represents the views of 131 chambers of commerce and boards of trade and over 28,000 businesses from throughout the province of all sizes, sectors and regions of the province. As such the Chamber truly is “The Voice of BC Business.”

Known to be in operations as early as March 1867, the Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community
- Present members’ opinions to the provincial and federal governments
- Promote trade and commerce
- Improve the economic and human well being of the people of British Columbia

Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to be able to present the views of our members to the Standing Committee on Transport on an issue of critical importance to our members, the province and the country.

## INTRODUCTION

Canada's social and economic development has always been achieved in tandem with its transportation system. As we look to grow as a province and as a country our ability to compete on the global stage will depend upon this intrinsic link but will now focus on the dominant mode of transportation of the 21<sup>st</sup> century, air travel.

While Canada has gone through a degree of liberalization of its internal market which has produced significant benefits for the industry over the past 10 years in its internal market this has not been matched by a corresponding level of activity at the international level.

BC is strategically located as the ideal gateway connecting the Asia-Pacific region, the US, Europe and Latin America. However our ability to utilize this advantage is severely hampered by Canada's current air policies which continue to focus on the interests of air carriers rather than on opening our skies to allow airports to play their rightful role as economic drivers for the communities they serve. As it was recently put by Dr David Pang, CEO of the Hong Kong Airport Authority, *"the market is no longer defined by distance, but by accessibility."*

Historically air agreements have been characterized by bilateral agreements that have focused on securing reciprocal rights for national carriers and which are characterized by significant pricing and service restrictions.

While Canada has a number of agreements in place with other countries these have traditionally been focused on Eastern Canada. Of the agreements currently in place only 40% of these agreements allow foreign carrier's access to Vancouver, compared to 75% for Toronto and 90% for Montreal.

While many of these do allow some degree of access they also place significant restrictions on route rights and frequencies to such a degree that many potential services are effectively unviable. Recent examples of carriers that have expressed an interest in Vancouver but cannot come here are Emirates, and Air Tahiti Nui (an airline of France). In addition while Vancouver is specified on route schedules services dropped by Air Canada cannot be replaced by other carriers.

It is clear the current system with its focus on protecting national carriers is directly responsible for the fact that Canada has fallen significantly behind in terms of open skies and the liberalization of the aviation sector. It is also clear that this is having a detrimental effect on airports ability to expand and to play their rightful role as significant economic generators for their communities, the province and the country.

In the following presentation we will outline the views of our members to the questions posed in the background document, "Air Liberalization: a Review of Canada's Economic Regulatory Regime as it affects Canadian Air Industry" and on the importance of ensuring the continued viability of small and regional airports.

1. Should Canada increase the limit on foreign ownership of voting shares in Canadian carriers from the current 25% to 49%

Yes.

This will bring substantial benefit to the industry in Canada by allowing Canadian carriers to access significant new streams of capital unavailable under the current restrictions while also bringing new efficiencies and improved business practices to the industry.

Perhaps most importantly from our member's perspective the lifting of foreign ownership restrictions will bring significant new opportunities for local and regional airports. As airlines look to expand operations in Canada their ability to buy substantial stakes in Canadian carriers will help them integrate services between their Canadian and international markets. As carriers introduce new international routes they will have the option of investing in local airlines to ensure they can provide seamless, integrated access to their services from communities across the province to the international market.

Over the longer term the chamber believes that the federal government must begin negotiations on the creation of a North American Aviation Market. This market should include the lifting of all restriction on ownership and access within this market as long as this was structured in a way that ensured an acceptable level of service for communities.

2. Should Canada go further and remove constraints on who controls Canadian air carriers, such that foreign carriers could establish, or acquire control of, air carriers in Canada, for the purpose of offering domestic service only (rights of establishment).

As indicated above the airline industry is very capital intensive and to have arbitrary barriers to foreign investment in an age of increasing integration of the global economy is anachronistic to say the least.

While the lifting of the restriction on foreign ownership would be welcome, the chamber believes that rights of establishment are the most effective way to immediately introduce significant new investment and competition into the market. The granting of rights of establishment will bring increased competition and choice as companies look to establish a Canadian presence.

This increased investment will inevitably bring increased employment, as the sector grows and foreign carriers establish operations in Canada they will by definition employ Canadians.

3. Should Canada permit foreign air carriers, as a matter of principle or on a case by case negotiated basis, to provide air services between points in Canada? If so, under what conditions?

The BCCC sees no reason why there should not be full and open competition for Canadian routes that allows the best service at the most competitive price. Cabotage has been introduced in the EU and has led to significant growth in the sector as well as improved levels of choice and service for the consumer.

While the BC Chamber sees cabotage as positive for the industry we acknowledge that there are significant questions regarding the appetite in the US for allowing unrestricted cabotage rights for foreign carriers. Indeed this issue appears to have been directly responsible for the inability of the EU and the US to reach an agreement during their recent negotiations.

While cabotage should form a key element of a North American Aviation market the BC Chamber does not view these rights as important enough on their own to delay, or possibly derail, liberalization between Canada and other jurisdictions, particularly the US. With this in mind the BC Chamber sees the granting of rights of establishment as being the most important issue for the introduction of increased service and competition into the market.

4. Should Canada seek negotiations with the US in an effort to further liberalize the current air agreement between the 2 countries?
5. Should Canada seek negotiations with the US in an effort to achieve a US style open-skies agreement?
6. Should Canada seek negotiations with the US to address issues that go beyond open skies? If so, what issues specifically?

The BC Chamber sees these 3 questions as intrinsically linked and having the same essential answer, yes as the highest priority.

The lack of a truly open skies agreement with the US is particularly restrictive for Vancouver which is not able to fully utilize our position as the gateway to Asia by being unable to offer fifth freedom rights. However the chamber would urge the government to think in the long term and not to simply concentrate on developing an “open skies plus.” While we see the benefit of this type of agreement the risk is that once again Canada will complete an agreement with the US that will bring significant benefit to the province and the country and then rest on its laurels while the rest of the world moves forward.

As such while the chamber believes that while Canada’s highest priority must be the completion of a truly open skies agreement with the US including fifth and sixth freedom rights this must only be viewed as the first stage of negotiations. The chamber believes that the priority for Canada and the US should be the creation of a North American Aviation free trade area similar to that of the EU.

7. How should the Canadian government balance the often conflicting interests of Canadian airports and local governments on the one hand, and air carriers on the other hand, during bilateral negotiations?

There should be no requirement for “balance”.

Not only does the BCCC believe that the focus should shift from bilateral agreements, which are often highly restrictive, to a multilateral approach but we believe that these should focus solely on the needs of the airports and the communities they serve. While the chamber thinks it is vital that the airlines are represented at negotiations they cannot be allowed to continue to demand reciprocity which has served Canada and BC in particular, so poorly.

8. Should Canada further liberalize its charter policies to lessen or remove remaining restrictions on granting authority for charter flights between Canada and third countries?

Yes.

If a carrier, irrespective of origin, wishes to offer a service to a Canadian destination then as long as it is supported by a market this service should be allowed.

The BC Chamber strongly believes that allowing increased access for charters should not be delayed by including demands of reciprocity. The BC Chamber believes this should form an important part of a North American Aviation area and further would expect that as these agreements become more common significant opportunities will become available for Canadian carriers.

9. Should different approaches be taken to the two questions above for all-cargo services?

No, a North American aviation market should be just that, an aviation market for all traffic, passenger and cargo.

While the BC Chamber sees no difference between passenger and cargo flights we do not feel that progress on these issues should be linked to the degree that lack of progress on one of the issues hampers progress on the other. If it appears expedient to pursue agreement on one rather than the other; this should be done.

10. Should Canada consider introducing domestic service, ownership and control, and market integration issues into its international negotiations, and if so, under what conditions and with which bilateral partners?

The chamber believes there is an ideal opportunity for Canada to become an international champion for the opening of aviation markets worldwide. As indicated earlier the initial phase should be the creation of a North American Aviation area with the US and perhaps Mexico if appropriate.

Following the successful completion of this free trade area we would look to the Canadian government to begin negotiations between the EU and the North American Aviation Area on the creation of an Atlantic Aviation Area. As an ultimate goal the chamber sees the Canadian government as a driving force behind the reduction of global barriers and the creation of a truly liberal global aviation market.

The chamber realizes that these are very much long term goals. The immediate priority for Canada must be the completion of an agreement with the US allowing fifth and sixth freedom rights. In parallel with these negotiations Canada must also begin negotiations with the new markets of Asia, in particular China and India. These negotiations must focus on allowing us to immediately exploit our strategic location as the gateway to Asia and our newly acquired Approved Destination Status with China as well as the market provided by our strong links to the fastest growing middle class in the world, India.

In the interest of expediency the chamber believes that these agreements should be bilateral agreements that allow us to take immediate advantage of our strategic location.

11. Would Canada be better served by adopting a multilateral (many countries) or plurilateral (smaller groups of like minded countries) approach for further air liberalization?

The chamber does not think of these as two separate approaches but rather two sides of the same approach as the chamber views plurilateralism as an extension of multilateralism. While pluralist agreements should be pursued as the more expedient the goal must remain the pursuit of truly open skies with as many nations as advisable and practicable, multilateral negotiations offer the best way to achieve this.

The future of international aviation agreements will be multilateral. This makes these agreements not only practical but essential. As we have seen with recent agreements reached by the US, and with the EU now speaking as one voice, this is the way forward. It is this framework which has made the completion of a truly integrated North American aviation market so important. A North American Aviation Area would allow us to be part of all negotiations between the US and other parties ensuring that are well placed to benefit from all agreements reached.

Having said this Canada has significant ground to make up so while multilateral agreements are the future for aviation they cannot be allowed to delay the government as it pursues greater liberalization. When appropriate the government must make immediate efforts to pursue agreements with any and all governments that are open to such negotiations. These agreements should only be pursued on a bilateral basis if this is in Canada's best interests.

## **THE IMPORTANCE OF SMALL AND REGIONAL AIRPORTS**

Small airports are vital to the economic vitality of communities across British Columbia and Canada. A healthy system of small airports increases the mobility of people and goods outside major centres, gives business opportunities to smaller air carriers and plays a key role in providing strong transportation infrastructure. With this in mind the federal government has a critical role to play providing support of the infrastructure essential to small airports along with support for the delivery of public safety.

BC and Canada's geography presented us with a huge challenge as we strive to allow communities to access the opportunities and economic benefits that derive from access to air services. This challenge has been made all the more difficult with recent events such as 9/11, SARS and the restructuring of the airline industry, all of which have placed significant financial strain on many small airports.

Despite these challenges small airports across BC have shown their ability to be managed effectively, in a fiscally responsible manner and to respond to the needs of their community. The importance of these facilities to communities is highlighted by the fact that in 2001 the estimated direct economic impact of all airports in BC (excluding YVR) was 3,400 jobs, \$85 million in wages and \$100 million in GDP.

If these airports are able to continue to play their critical role in the economic future of their communities there are a number of issues that the chamber feel must be addressed by this committee and by the federal government.

### **Airport Rent**

The current rent formula is inequitable and poses unreasonable financial demands on the small airports, some of which are smaller than regional airports that are not required to pay rent. Victoria is the only small Canadian airport currently paying rent. In 2004 the Victoria Airport Authority paid \$1.1 million to Transport Canada, an amount which will increase to \$6 million within 15 years if this problem is not addressed. Prince George Airport Authority will be required to pay rent in 2011.

We cannot address the issue of rent without addressing the situation currently being faced by YVR. As YVR strives to fulfil its potential as a Gateway airport it must be able to offer airlines a cost effective option or it will lose to other more competitive jurisdictions, airport rent significantly restricts YVR's ability to compete.

While the chamber does not dispute the need for larger airports to pay rent the level of rent must be fair, the current situation for YVR is far from fair.

Not only is YVR the only airport not to have a cap on its rates but the rent charged to YVR by the federal government takes away 25% of airport revenues. This structure means that YVR ability to invest in air services which would have a significant benefit for communities across the province is significantly undermined.

**THE CHAMBER RECOMMENDS:**

That the federal government immediately introduce a fair and equitable rent system to be charged to the larger airports, including YVR, and that all revenue collected be directed to airport infrastructure and investment to allow airports to play their rightful role as economic generators for communities and the province.

**Airport Capital Assistance Program (ACAP)**

Since transfer to local control small airports have invested heavily to maintain and improve the facilities they inherited from Transport Canada. Prior to transfer not one of these airports were self sufficient. Small airports have demonstrated their ability to replace and upgrade badly neglected facilities in a responsible and often innovative way. Small airports are especially sensitive to issues of affordability and as such require adequate and predictable funding for essential, safety related capital investment. In many ways small airports are unable to raise the necessary funding through capital markets due to less stable traffic, fewer, less valuable assets and less favorable balance sheets. As a result many airports are reliant on the Airports Capital Assistance Program (ACAP) as their primary, and in many cases only, source of capital funding.

The ACAP was originally intended to be funded from the revenue generated from airports in the National Airport System. Despite the fact that Transport Canada has seen a significant increase in revenue from airports there has been no corresponding increase in capital assistance to small airports. Since 1992 the total amount dispersed through the ACAP fund accounts for only 13% of Transport Canada's accumulated revenues from airports. Even under the reduction in rent advocated by the chamber above there is still significant room for an expansion of this vital program.

To put this into perspective the announcement of awards for 2005 under the ACAP show 11 airports in BC have been awarded funds to a total of \$5.7 million. In 2004 the projected increase in rent for YVR alone will be \$7 million. In other words the increase in rent alone for YVR is greater than the total funds allocated to all BC airports under the ACAP!

**THE CHAMBER RECOMMENDS:**

That the federal government establish an expanded and predictable ACAP to ensure that small airports are able to invest in the essential safety related capital projects vital for continued operation.

### **Canada Border Services**

There are inequities in the provision and cost of Canadian Border Services at airports across the country. The Canadian Border Services Agency (CBSA) considers airport operators to be the beneficiaries of Customs Services rather than the public at large and, therefore, subject to cost recovery.

As a result of the strict implementation of the Treasury Board Cost Recovery and Charging Policy of 1997 which was subsequently replaced by the External Charging Policy in August, 2003 border services were "grandfathered" at existing levels. Any subsequent requests are treated on a direct cost recovery basis or not provided at all. This was further exacerbated by requirements following 9/11 which put an additional financial strain on the CBSA budget and reduced some existing services.

CBSA is inflexible in their approach to requests for increased levels of service and treats every application as a cost recovery issue. No attempt has been made to rationalize existing services levels, some of which may be completely out-dated, and to reassign resources for maximum efficiency and benefit.

The economic benefits resulting from increased trans-border and international air traffic can far outweigh the cost of providing Customs services. Direct tax benefits to the federal government alone should justify the additional cost. Where it can be demonstrated, through pre-determined criteria, that the benefits of this service extend beyond a single user or supplier the system should adjust to accommodate the need without additional cost to the airport operator. Existing services should be reviewed and more appropriately allocated to meet demand.

### **THE CHAMBER RECOMMENDS:**

That the Federal Government should give airports the opportunity to make a reasonable business case to support increases CBSA service and, where that case is successfully made, sufficient resources should be allocated to meet demonstrated border clearance requirements at no additional costs to the airport.

### **Air Travelers Security Charge**

Besides the concern for the comparatively high cost of this program compared to the American program, and the impact on regional tourism, our issues with the implementation of this security charge as follows:

1. We question whether it is appropriate that a "user-pay" funding model be used for issues of national security.
2. We question the focus on air travel. The terrorist threat to airports is unquestioned yet we still must address railways, ferries and harbors, in addition to protected and unprotected border crossings.
3. We believe the charge is disproportionately high, in effect penalizing short haul and regional flights.

4. We believe that any government funding models must have clearly delineated accountability measures.

We fully recognize that our border must be made to run efficiently so as not to inhibit cross-border trade with resulting negative economic impacts. We acknowledge federal government's efforts in this area and believe the government needs to further recognize that undue emphasis on one mode of travel unfairly impacts that industry.

Fundamentally, we accept that the federal government must deal expediently with threats to national security. We also accept that terrorism is a new threat involving new costs requiring long term vision. However, we know upfront costs need not become on-going costs. The federal government needs to recognize that if national security is a priority then other federal spending must be reconfigured to direct funds where they are needed rather than going back to the taxpayer.

#### THE CHAMBER RECOMMENDS:

That the Air Travelers Security Charge be immediately revoked and that any security charges resulting from national security be funded from existing budgets or general revenue, not from taxes targeting a single transportation mode.

## CONCLUSION

As we look to the future of air agreements it is evident that the future no longer lies with restrictive bilateral agreements between governments but actually lies in far more liberal multilateral or plurilateral agreements between groups of countries.

This should not be something for Canadians to fear; in fact this is a concept that should be natural to Canadians. As a country Canada is an open economy which has a strong tradition of supporting multilateral trade yet aviation has not followed this trend and we currently find ourselves falling further and further behind. This is particularly damaging to BC which sees considerable untapped potential in this sector due to the considerable competitive advantage given that we are strategically located geographically.

While the BC Chamber strongly advocates the creation of a North American Aviation Area the distinct lack of progress made by Canada in terms of open skies agreements has resulted in a number of strategic priorities that require immediate action. With this in mind the Canadian government must begin immediate negotiations with the US to create a truly open skies agreement always bearing in mind that we should no longer call agreements open skies unless the result in just that, open skies.

In addition the government must also begin negotiations with both China and India to ensure that we have the service and capacity to deal with the huge potential market presented by these two countries.

As we focus on the expansion of international opportunities we cannot ignore the importance of the indigenous Canadian market and the role airports play in the economic prosperity of communities across Canada.

The chamber believes that despite its significant success YVR still remains a source of significant untapped potential. Operating in a competitive market YVR has been successful in providing significant benefit to the economy but is restricted in its ability to grow by the restrictive air policies of the federal government and the tendency of the federal government to view the industry, and airports in particular as nothing more than an unlimited source of income.

For far too long airports have wrongly been seen as a direct source of revenue for the federal government and have consequently been taxed far too heavily. It is time this outdated view of the role of airports and the air industry is changed.

We are currently facing an unprecedented alignment of views about the way forward for the aviation industry and the potential for growth and economic prosperity that could flow from a liberalized aviation market. From the eagerness of the US to negotiate open skies agreements to the example set by an integrated European market the international community is fast moving towards truly open skies. When we add the anticipated explosion of visitors from China and India we ask the committee not should we develop more liberal air policy, but rather can we afford not to?