ENHANCING CANADA'S AIR TRAVEL COMPETITIVENESS (2016)

Air travel is a crucial economic enabler connecting businesses with opportunities around the globe and across the country. It links visitors with tourism operators and helps international students pursue educational opportunities. It is a major job creator with strong spin-offs. It facilitates the movement of people and capital, and ensures that Canadian products, especially high-value and/or time sensitive (i.e. perishable) exports, get to market.

Canada's unique geography makes this an especially important issue. In a large country, with low population density, and regional economic diversity, air travel serves as a vital link within a broader national transportation network that includes highways, rail, and sea ways. Canada's economy is very dependent on trade, thus making the facilitation of trade an important issue.

However, the high cost of air travel to, from, and within Canada is significantly hampering our global competitiveness, and stunting aviation as a key economic enabler. A lack of competition, barriers to facilitation, and high structural costs have driven up prices for customers, whom data shows, are increasingly sensitive to price. Canada's poor price performance in these areas is apparent and not only deters leisure travelers looking to visit Canada, but increases the cost of conducting both international and inter-provincial business, which directly impacts job growth.

Furthermore, as agreements such as Comprehensive Economic and Trade Agreement (CETA) with the European Union and the Trans Pacific Partnership (TPP) advance Canada's integration into world markets, it is essential that a country spanning three oceans positions its transportation sectors to take fully take advantage of new opportunities. Without access to affordable and reliable air travel, relationships are not made, business is not done, and the economy suffers.

The 2016 Canada Transportation Act review report, *Pathways: Connecting Canada's Transportation System to the World* (the CTA Review),[1] underscores the importance of transportation, and the long-term significance of developing a competitive air travel industry. Canada has slipped from 8th to 17th in global rankings for International Tourist Arrivals over the past 15 years, underlining the urgency to this issue.

In order to build the confidence of industry stakeholders, it is important to have an open and transparent Air Bilateral priority setting process to guide our single air negotiator. The process needs to be more inclusive of key industry stakeholders so that the limited resources get directed in an efficient way according to industry participants.

There are a number of factors influencing the current condition of Canada's air sector. Therefore, strategies aimed at enhancing the competitiveness of Canadian air travel and strengthening its economic enabling capabilities, must be multifaceted. Primarily, three key areas must be addressed in tandem: competition, facilitation, and costs.

Competition

Greater competition, particularly for international travel, comes from liberalized bilateral air access agreements. In order for an aircraft to fly between two countries both governments must negotiate bilateral air transport agreements, regulating frequency, capacity, ownership, tariffs and other commercial aspects. Currently, there is an

1 http://www.tc.gc.ca/eng/ctareview2014/canada-transportation-act-review.html

international trend toward more liberal aviation regimes known as 'Open Skies', where bilateral—or in some cases multilateral—agreements generally include unlimited capacity between, and beyond the countries involved, and market driven pricing regimes.[2]

The Canadian government has adopted a Blue Sky policy[3] committed to liberalizing air access. Since 2006, of the country's 85 Air Transportation Agreements, about half include more open international air policies. However, many current air access agreements still contain restrictions that significantly limit competition. Mutually beneficial agreements and the liberalization of air access provide an opportunity for increased competition for international travel to-and-from airports around the country. This offers consumers the benefit of greater choice and potentially lower prices.

The benefits of liberalizing Canada's air policy would significantly improve economic opportunities throughout Canada by increasing connectivity of global business. Further liberalized air access agreements would open new international markets, allow more carriers to operate in Canada, and improve price competitiveness of Canada as a destination. It would provide foreign carriers with greater access to the Canadian market, creating jobs on the ground, and provide domestic carriers more opportunities abroad.

However, liberalized air access policies must be pursued in conjunction with domestic reforms which allow Canadian carriers and airports to compete in a more-open market. While greater competition will lead to more efficient, market-based outcomes. The process of liberalization should also be mindful of the strategic importance of the domestic industry. Therefore, Canada must also address barriers to facilitation and government imposed cost-structures.

Facilitation
Facilitation refers to the movement of people, cargo, and planes through an airport. It encompasses physical, legal, and technological procedures and systems. Enhancing facilitation at Canadian airports improves outcomes for airports, airlines, and customers.

Today, significant facilitation barriers are preventing Canadian airports from acting as more viable international hubs. Under-resourced and underequipped security procedures delay passengers and their belongings from entering and leaving airports. Strict visa screening requirements for transiting passengers, who have generally already been vetted by their destination country, prevents first-class airports such as YVR and Pearson from attracting more business. Much like road congestion, these delays and inefficiencies hinder the effectiveness of industry, and slow down the economy.

A robust facilitation strategy can push Canada toward becoming a global hub of passenger aviation traffic—growing volume, lowering costs and providing new opportunities for industry. The CTA review estimates transit facilitation benefits from easing transit visa requirements alone can increase airline volume by 25-50%.

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2 *While the term Open Skies is sometimes used interchangeably with more Liberalized Bilateral Agreements, it is important to note that in many cases incremental steps may be taken to prove benefits to Canada. For example, Open Skies agreements may be 'sun-setted' after a period of trial, or they may transition to full Open Skies over a period of time. These steps would serve to protect the parties to the negotiated agreement from unintended consequences.*
3 https://www.tc.gc.ca/eng/policy/air-bluesky-menu-2989.htm

Costs
Finally, reviewing and reducing government imposed taxes, fees and charges on passengers and the industry would further improve Canada's ability to develop a more competitive air travel sector. Canadian air travelers face significantly higher fees and prices compared to their U.S. counterparts. This has historically driven some traveling in-and-out of Canada to use nearby U.S. airports such as Sea-Tac and Buffalo-Niagara International Airport; however, the trend has been tempered with the depreciation of the Canadian dollar relative to the USD.

Traveller surcharges have created an environment of "user-pay plus," where travelers are charged more than the services they are provided. For example, fees such as the Air Travelers Security Charge are taken into general government revenue, rather than directly funding airport security procedures. In other jurisdictions, services such as security are seen as a public good and funded by the broad tax base. Just as highway policing is funded by the general public—as it serves a significant economic and social purpose—so should essential air travel services.

Government revenues from the air sector 2013-14 (M)			
Airport Rent	Air Travellers Security Charge	Fuel Tax	**Total**
$294.4	$661.9	$97.2	**$1,053.5**
Government investment in the air sector 2013-14 (M)			
Airport Capital Assistance Program	Canadian Air Transport Security Authority Budget	Subsidy for 18 TC-owned and operated airports	**Total**
$29.8	$559.1	$38.2	**$627.1**
Difference (M)			**$426.4**

CTA Review (Appendix K, p. 142)

Furthermore, airports pay significant fees to by the governments in the form of ground rent. These costs inevitably trickle down to travelers, and raises prices. This is in stark contrast to the United States where the government subsidizes air terminals. While a subsidy may lead to a different sort of market distortion, Canadian air travel still requires a more level playing field which allows it to compete. High-cost structures lead to higher prices, and risk pushing travelers and revenue to other modes of transport, or to not travel at all.

Lastly, in addition to current restrictive bilateral agreements, facilitation, and cost structures, existing ownership limitations prevent foreign investment in the Canadian airline industry. This restriction prevents Canadian carriers from supporting their balance sheet through foreign investment, and makes it extremely difficult for new competitors to enter the market place.

THE CHAMBER RECOMMENDS

That the Federal Government works with the Provincial Government to:

1. Pursue mutually beneficial liberalized air access agreements in all bilateral air passenger transport negotiations, and further liberalize existing bilateral air agreements, especially with Free Trade Partners:
    a. Conduct periodic reviews of Blue Skies policies to ensure that bilateral access matches demand; and

   b. Implement 2016 CTA review recommendation of required initial flight frequency with safe and secure partners with progression toward more liberalized air access agreements to provide market certainty; and
   c. Adopt an open and transparent priority setting process, inclusive of key industry stakeholders, to determine top priorities as they relate to expanding Canadian bi-lateral air access agreements.

2. Facilitate the movement of passengers in, out, and through Canadian airports in order to position the Canadian air sector to better compete internationally by implementing the measures set out in Recommendation 6 of the CTA Review, notably:
   a. Allowing transit without visa for citizens of all but those from a limited list of high-risk countries at all Canadian airports;
   b. Harmonizing immigration and trusted traveller programs with the U.S. and other trusted jurisdictions; and
   c. Streamlining visa processing for all visitors to Canada, including expanding the use of the Electronic Travel Authorization instead of visas for low risk travellers.

3. Develop a high level and overarching national aviation hub and travel strategy, to improve airports' cost competitiveness, and thereby enhance Canada's competitiveness, by:
   a. Examining government imposed cost structures in the form of fees, taxes, airport rent and other charges and allowing airports to operate Arrivals Duty Free to enhance non-aeronautical revenues; and
   b. Increasing funding, and expanding eligibility, for the Airports Capital Assistance Program in order to support safe and efficient local and regional airports and a healthy and connected national air system.

4. Overhaul the regulatory, financing and delivery models for airport security, as set out in CTA Review Recommendation 8, including:
   a. Establishing a customer service mandate and performance standards comparable to competing jurisdictions; and
   b. Ensuring the provision of stable and predictable funding that meets the needs of both increasing passenger volumes and evolving security risks.

5. Increase foreign ownership investment limit for Canadian passenger carriers to 49 per cent on a bilateral basis, with an initial emphasis on the European Union.