Airports: A Decade of Achievement at Risk

Management makes the difference

Many people can still recall the so-called "golden age" of air travel in the 1960s and 1970s when the government owned and operated the largest airline and all of the country's airports. By the late 1980s, however, with Air Canada already privatized, the short-comings of federal government airport management were becoming evident to passengers: airport terminals lacked capital investment, customer service was inadequate, decision making was slow, air service development was not a priority and government-contracted food concessions offered Iron Curtain menus at inflated prices.

By the late 1980s, the airport system was also costing taxpayers $400 million a year to operate. Even with downsizing as part of "program review", airports were still costing the government $135 million annually – a situation that was not sustainable. At the same time, federal policy makers began to realize that airports were so important to the economic development aspirations of communities that they would be best operated by the communities in which they were based. The result was an ambitious program of "devolution", beginning in 1992.

Devolution benefits everyone

Devolution wisely transferred responsibility for Canada's airports from the federal government to locally-based, not-for-profit Airport Authorities. These organizations operate under the oversight of locally appointed boards of directors who are directly accountable to the communities they serve.

By any measure, the devolution of over 100 airports across Canada has achieved fantastic results.

"Over the past decade, Canada's airport policy has been an unrivalled success – delivering dramatic improvements in service, enabling communities to ensure local needs are addressed and attracting billions in new capital investment," says Larry Berg, Chairman of the Canadian Airports Council (CAC), an organization which represents over 120 airports serving 97% of Canadian air travellers.

Financially, airports that ten years ago cost $135 million annually, now pay over $250 million in rent to the federal government.

Capital investments have risen from $50 million in 1992, to total over $1.7 billion by 2001, at no cost to taxpayers. These investments are critical to expanding airport capacity to meet demand and to improving accessibility, convenience and security for the travelling public. These improvements have allowed airports to keep pace with the growing volume of passengers, which rose from just over 60 million a year in 1991, to over 85 million by the turn of the millennium.

These benefits would not have been realised had airports remained under federal control. Reporting on devolution in 2000, the Auditor General said, "Since the transfer process began in 1992, most of Canada's airports have undergone major physical improvements [and] these projects have benefited the regions and communities that the airports serve." He added that Transport Canada "...noted that the timing and nature of the projects would have been significantly different had it continued to operate the airports."

Local control has also allowed airports to become much more responsive to the needs of their communities, aligning their business plans with the strategies of local economic development organizations like chambers of commerce, boards of trade and local governments. This has allowed airports to become important drivers of the economy, both locally and nationally, supporting over 300,000 jobs and generating $34 billion in economic output in 2001, as well as contributing almost $4 billion in federal tax revenue.

Devolution's achievements are in jeopardy

Several issues loom on the horizon, however, which could jeopardize the ability of airports to provide essential services to the travelling public and serve the needs of their local communities.

It's no secret there has been a slump in the market for air travel. Terrorism, Air Canada's restructuring, recession and SARS have all taken their toll. This dramatic downturn has endangered jobs and hurt the ability of airports to generate revenue and invest in infrastructure improvements.

Nevertheless, the federal government continues to wring huge sums from travellers. Security charges, fuel taxes and federal airport rents substantially increase the cost of ticket prices at the expense of the aviation industry and those who depend on it.

Federal rents are a particular problem for airports. Currently, the Government of Canada demands over $250 million in rent from airports – this figure represents the largest uncontrollable cost of most major airports. By 2010, the government will have extracted an astonishing $4 billion in federal rent from Airport Authorities. This is more than four times the book value of the nine major airports when they were transferred. In the current environment, this represents a staggering burden for airports, part of which is passed on to travellers and part of which they must absorb.

Compounding the situation, the federal government is moving forward with legislation that will impose costly new regulations on carriers and airports. This legislation, which includes Bill C-27, the Canada Airports Act, holds the potential to seriously affect airports, the communities that depend on them and the passengers they serve. Smaller airports will be most affected by this legislation and have raised the alarm about what it will mean for their communities.

Mike Campbell, President of the Charlottetown Airport Authority, says "The Act, in its current form, would add significant new costs for smaller airports who can least afford it. It fails to recognize the differences between small and large airports, forcing communities as different as Toronto and Victoria to run their airports the same way. Its "one-size-fits-all" prescription is out of step with the current realities. This will likely mean that airports will be forced to increase their fees and charges to airlines, resulting in higher fares and reduced service to smaller communities."

Is a deal a deal?

Most importantly, notes Mr. Berg from CAC "The legislation represents a unilateral change in the contract that communities agreed to when they assumed responsibility for operating and managing their local airport – without any offsetting adjustment in federal rent payments." He adds, "Imagine if the owner of an office building announced that his tenants had to fundamentally change the way they ran their businesses on the property, but that they would remain on the hook for the full rent for the remainder of their lease. That is roughly the situation we could face."

An appropriate alternative

To head off the potentially serious harm this legislation poses to airports across the country and to counteract the effects of the downturn in air travel, CAC is advocating a different approach.

First and foremost, CAC recommends a moratorium on the $250 million rent charged to airports annually and a suspension of the Air Transportation Security Charge. This would alleviate an enormous government-imposed financial pressure that is increasing costs for the industry and discouraging air travel. The House of Commons Standing Committee on Transport released a report in April urging the government to move quickly in this direction.

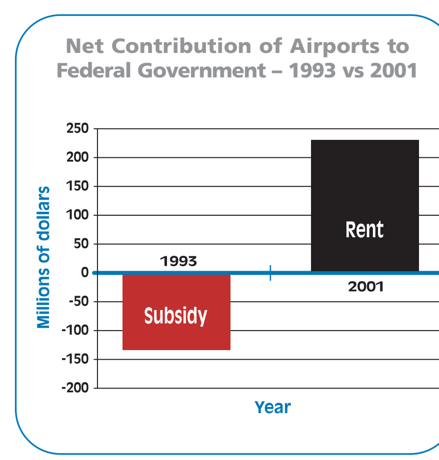
Second, CAC recommends that the federal government use the breathing space provided by the moratorium to negotiate an appropriate rent structure for the "new normal". This is important to stay competitive with US airports which enjoy many advantages. For instance, U.S. airports pay virtually no rents, no municipal taxes, are able to issue tax-free bonds and receive billions of dollars in U.S. government funding for airport expansion.

Third, the government is about to introduce regulatory changes that will significantly affect the way airports operate. These changes are being enacted in the absence of any comprehensive risk assessment or economic impact analysis regarding their effect on the industry. CAC strongly urges the federal government to delay Bill C-27 until the full impact of these changes can be thoroughly examined and understood. To do otherwise, would needlessly put a decade of achievement at risk.

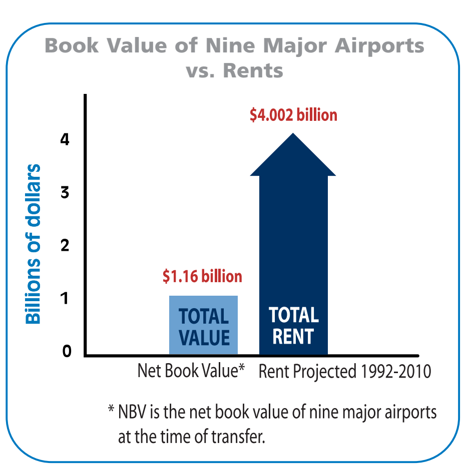
The Success of Airport Devolution

By any standard, the transfer of airports to community control has delivered for Canadians.

- ✓ Service to the traveling public has improved dramatically.
- ✓ Billions have been invested in capital improvements by airports across Canada.
- ✓ Capital projects, once covered by taxpayer dollars, are now paid for without government contributions or guarantees.
- ✓ Canada's airports, are now realizing their potential as engines of economic growth for their communities. In 2001, airports supported over 300,000 jobs in Canada and generated $34 billion in economic output as well as contributing almost $4 billion in tax revenues.
- ✓ The direct financial benefit to the federal Treasury has been dramatic: from a $135 million deficit prior to 1992 to a $240 million plus surplus in 2002 – a net annual gain of well over $350 million in only ten years. While this has been good news for the federal government, it has created problems for the aviation industry.



Threatened by Federal Rent Demands



* NBV is the net book value of nine major airports at the time of transfer.

By 2010, rents collected from airports are scheduled to total more than $4 billion. This is almost four times the book value of the airports when they were transferred.

Escalating federal rents mean higher prices for air travellers – on top of the battery of government-imposed security taxes, surcharges and other fees. This cost burden is discouraging air travel at a time when Canada's aviation industry is in crisis.

Recognizing this fact, the House of Commons Standing Committee on Transport recommended a two-year moratorium on federal rents. The Canadian Airports Council believes this recommendation is a step in the right direction.

The time has arrived for the Government of Canada to act – to eliminate the rent burden for the benefit of air travellers, air carriers, airports and the communities that they serve.

It's Time for Federal Rent Relief

for more information: www.cacairports.ca