

CHAMBER OF COMMERCE ADDRESS

Garth F. Atkinson
President and Chief Executive Officer
The Calgary Airport Authority

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I'm going to start off today with two words that mean a great deal to us at the Airport Authority: Transparency and Accountability.

The first reason is that these two words are the driving factor behind the recently introduced Canada Airports Act that I'll talk about more in a few minutes. However these two words have also been the foundations of The Calgary Airport Authority since it was established over ten years ago.

I frequently encounter people who struggle to understand the accountability structure of the airport authority and to better explain this, let's look at the three most common models for airport operation and governance around the world.

The most common model worldwide continues to be operation by some level of government. At the other end of the spectrum you have operation by share-capital entities – essentially regulated utilities and while this model can drive more efficient operations, there is also financial “leakage” and the cost burden of regulation.

The Canadian model is unique. Non-share capital, not-for-profit corporations governed by a community-based Board of Directors. This creates the impetus for efficiency and customer service without the motivation to satisfy the return on investment objectives of shareholders. While some people find it difficult that there is no direct link back to government, I suggest to you that this is a good thing and there is no substitute for the accountability of Board members who live and work in the community that the airport serves.

A few of the particulars.....

- We are incorporated under the Regional Airports Authorities Act (Alberta)
- We have operated Calgary Int'l since 1992 and Springbank Airport since 1997 – both by way of long-term lease
- We have a unique Board structure with 17 members appointed as follows:

Calgary Chamber of Commerce – 11 members

City of Calgary – 3 members

Federal Gov't – 2 members

M.D. of Rockyview – 1 member

The success of the Authority is no accident and is due in large part to the governance model – unfortunately – a model that is now threatened by the new Canada Airports Act. The Chamber of Commerce, as the majority appointer, along with the other Appointers, has provided Board members with a tremendous variety of skills and experience – members who have the interests of Calgarians as their number one objective.

Before I get to some of the current activities of the Airport Authority, I need to place our industry within the broader context of transportation issues and the role of government- and for better (and often worse), these two factors seem to be inseparable.

Nation building in Canada has been indelibly linked to various modes of transportation since Confederation. There was the great era of national railway development and then the development of air transport and airports. In these cases, general taxpayer resources were committed to the public good. However, transportation is (and has been for some time) a mature industry that no longer requires subsidization. In fact, I would suggest that our national wealth can only be maximized if producers and consumers are allowed to operate in a free market.

At the root of government decision-making lays the most fundamental question; Should transportation policy and government involvement be directed towards the interests of consumers and taxpayers - or towards the interests of private companies and their shareholders? For most people, the answer to that question is fairly easy, however I believe we have a national

government that at best flip-flops back and forth between these interests and at worst, sometimes acts against the interests of consumers and communities.

Aviation in Canada is suffering as a direct consequence of fiscal and policy biases against air transportation. Rail transportation, that glorious mode of early 20th century travel for both the rich and the poor, continues to devour national resources by way of subsidization as we enter the 21st century. Meanwhile, air travel, so essential in a country as geographically diverse as Canada, has now become a cash cow for government.

For those high-speed rail advocates in the audience, let me say that I am a tremendous supporter of high-speed rail – I just don't want it supported with my tax dollars in any part of Canada! In fact, should high-speed rail become an economic alternative in Alberta at some point in the future, we would want that rail line linked in with Calgary International Airport to promote efficient inter-modal connectivity.

Air travel, on the other hand, has been pummeled with various forms of Federal taxation, to the point where everyone is calling for immediate changes.

As an example, why are enhanced security measures at other ports and borders paid from general revenues while air travel security costs fall 100% on air travelers? The new security tax, even with a recent reduction, is still extracting \$400 million per year from air transportation. It also has to be noted that a significant cost component of the new security measures is NOT paid by this tax but is paid directly by airlines and airports and passed on to travelers and other air transportation users. At Calgary International, we have estimated our incremental infrastructure costs to be up to \$ 75 million dollars over the next few years as facilities are expanded to accommodate new security and associated operational systems.

The Federal Gov't also extracts \$70 to \$90 million dollars per year in federal aviation fuel excise taxes.

And then of course, there is the huge in-direct tax on air travelers that is very close to home. Since 1992, the Federal Government has extracted approximately \$ 1.25 billion dollars in lease payments from transferred airports in Canada and this figure will reach \$ 4 billion within ten years. In

2003 alone, air travelers are paying another hidden tax of about \$7 dollars for Federal Rent every time they board an aircraft – about \$ 270 million dollars in total!

At Calgary, we will have paid \$ 250 million dollars in Federal Rent by 2005. Our 2003 payment of \$23.4 million represents an astonishing 36% of our direct operating costs. But the worst is yet to come. Without a change to the Federal Rent Policy, Federal Rent at Calgary will increase 100% or more in 2006 to well over \$50 million dollars per year. That noise you hear coming from the east is probably the Federal Airport Rent cash register, working overtime!

The current rent regime is clearly a **DISASTER IN PROGRESS** and all stakeholders in the aviation industry have called on the Federal Government for an immediate moratorium on Federal Airport Rent.

International air policy in Canada is also dysfunctional and cries out for liberalization. Although the domestic industry has been de-regulated and the transborder market largely de-regulated, foreign routes continue to be directly controlled by the Federal government. The current system is heavily skewed towards Toronto, Vancouver and Montreal. In Calgary, we lose out because carriers that want to bring passengers and cargo to Calgary on a non-stop basis are frustrated by a complex and biased system of international bi-lateral agreements.

The recent Blueprint published by Transport Canada (titled Straightahead – A Vision for Transportation in Canada), appears to largely support the status quo in terms of international air policy. This is unfortunate and a fresh perspective is clearly needed.

Although we run an airport, not an airline, we are intimately involved with air carriers on many levels and we are partners in the industry grouping of air transportation.

Running an airline is a tough, tough business. The product is highly perishable, the barriers to entry are not that high and competition is fierce. Given that the industry in North America has collectively lost money since Orville and Wilbur first took to the sky, airline investors need to have either very deep pockets or live a very long time.

Having said that, I suggest to you that the domestic airline industry in Canada and even North America is not broken.

Yes, we have the war in Iraq, we have high fuel prices, we have the SARS outbreak and we have ice storms in Toronto that appear to consequentially shut down a significant amount of flight activity across Canada. However, it is the “legacy” air carriers, those with low labour productivity and high wage rates that are broken. Companies without those problems, such as Southwest in the United States and WestJet in Canada are coping, even in these very trying times.

In the United States, the major legacy carriers are trying to reinvent themselves, either directly under Chapter 11 or while hovering about the edges. In Canada, Air Canada filed last week for protection under the Companies’ Creditors Arrangement Act. To quote Robert Milton; “the business model is broken and it must be fixed without burning any more furniture – Air Canada and our people need to embrace a culture change and a new way of doing business”.

I don’t know whether Air Canada will be successful or not in their restructuring but they certainly have a chance. They certainly know what the key problem is and here again I quote Robert Milton, who stated to his own employees; “With WestJet’s wage cost and productivity levels, Air Canada would have added some \$ 1.3 billion to the bottom line”. Air Canada has significant cash on hand for the restructuring (and unfortunately some of our cash – about \$ 5 million dollars to the point of filing) and they also have significant debtor-in-possession financing in place. On a personal level, we appreciate that Air Canada staff continue to work, and serve their customers, despite the obvious distractions and we wish them well during these difficult times.

I believe the greatest danger to the long-term health of the Canadian aviation industry is the possibility of renewed Federal Government involvement in Air Canada, either directly or indirectly, and my request is fairly simple:

Stay out of it – stay out of it – stay out of it!

This is a matter for Air Canada management, employees, creditors and shareholders to work out by themselves – and succeed or fail – they must be left alone to work it out by themselves.

The only role for the Federal Government in this situation is to act quickly to reduce or remove those punitive fees and charges, for all industry players, that are denying air transportation the level playing field it requires.

As I mentioned earlier, at the date of filing Air Canada owed the Airport Authority approximately \$5 million dollars, which represents about 4% of the Authority's annual revenues. In addition, although passenger traffic in Calgary has remained strong to this point, there is some potential for short-term impacts and our revenue base may be somewhat affected by near-term reductions in Air Canada capacity.

As a result of these events, I have characterized our fiscal situation as difficult, but certainly not desperate. Like any business, we will look first to near-term cost reductions and I expect that our Board of Directors will be considering the deferral of a number of capital projects as we ride out this current period of disruption.

Amidst the current backdrop of turmoil in the aviation industry, the Federal Government has dropped another regulatory burden on airports, in the form of the Canada Airports Act that was tabled in parliament on March 20, 2003. My bias is obvious, however I believe that one of the most progressive initiatives by the Federal government over the past decade was the devolution of airports to local airport authorities. This is an Act that will create an economic and governance regulatory regime for airports in Canada. It will initially apply to thirty airports and in the future, any airport that reaches a threshold of 200,000 passengers per year.

This Act may not be the end of the world as we know it, however it will:

- Increase the administrative burden and associated costs for airports – costs that will have to be passed along to airlines and passengers
- Be particularly challenging for smaller airports whose financial viability is already tenuous
- Impose a “one-size-fits-all” philosophy on Board composition and governance matters that is simply not required

This is perhaps simply not the time to impose additional regulatory burdens on the aviation industry and we encourage the Federal government to put this initiative aside and focus on more pressing matters.

Looking to the future, my own “vision” regarding the appropriate role of government in transportation and particularly air transportation is fairly straightforward:

- Create and maintain a level playing field between different modes of transportation
- Move progressively to a total free-trade environment for both passenger and air cargo services
- Remove foreign ownership restrictions
- Take out in taxes no more than is put back in
- And of course, end Federal Airport Rents and sell airports to local airport authorities

Finally, I’ll turn to what perhaps people thought I would talk about most today – The Calgary Airport Authority.

I can break our mandate at the Authority into three main areas:

- Operations
- Infrastructure Planning & Development
- Economic and community development

From an operational perspective, the airport is a miniature city that never sleeps. 24 hours a day, 7 days a week, passenger and cargo operations are keeping our city connected with the world. About 8 million passengers per year, over 21,000 per day come and go on 134,000 airline movements. Although passenger traffic was only up 1.2% in 2002, this represented the strongest growth in Canada and perhaps in North America. Safety and security are major touchstones in our industry – flying has never been safer and will continue to improve with new technology.

The operational highlight of 2002 was certainly the G8 summit. As a successful “team Calgary” event, this was certainly the most demanding logistical, operational and security event ever conducted at the airport.

Activity and traffic has grown considerably at the airport over the past decade and as a consequence, we have been very busy with renovations and expansions to airfield, terminal and groundside facilities. By the end of 2004, The Calgary Airport Authority will have invested \$ 700 million dollars in capital renovation and expansion projects.

The major projects completed in 2002 were.....

New Concourse “D” with 25,000 m² of terminal space, 125,000m² of aircraft apron and 11 new loading bridges.

We completed a major renovation of the arrivals level, the first since 1977, which included among other things a new information centre, new washrooms, a convenience store and new airline facilities.

We also completed the second addition to our car parkade in 10 years; an addition that added over 1,000 new stalls and is connected by plus-15 to the new Concourse.

The last component of the current expansion program, the widening of the old Concourse D, is currently underway and will be completed around the end of 2004. This project will provide additional baggage capacity, airline check-in, additional retail and food & beverage and see the completion of the public area of international arrivals.

When we plan for the future expansion of the airport, we don't think in terms of years – we think in terms of decades. Our first Master Plan was approved by our Board in 1996. We have been engaged in a Master Plan Update over the past 2 years and will shortly move into an active public and stakeholder consultation phase.

On the screen is a diagram of what the airport will probably look like in twenty years or so and I'll highlight some of the key changes as follows:

- The fourth runway, a north/south parallel 16-34, will be constructed along with associated taxiways and support infrastructure. We estimate this runway is currently 8-10 years away.

- Barlow Trail South, from McKnight to the air terminal building, will be de-commissioned concurrent with the construction of the new runway.
- Additions will be added to Concourse B/C and Concourse A and the Canadian Inspection Services area will be further expanded.

An important part of the Authority's mandate and one of the key reasons for creating locally controlled airports, is economic and community development. With the assistance of an extensive marketing and promotional program, there were 17 new passenger links in 2002 including non-stop service to Detroit, Whitehorse and Honolulu. We have 10 new airlines serving Calgary including Air North, Alaska Airlines and America West. Calgary's passenger network now includes 96 destinations, with 67 of those being on a non-stop basis.

Air Cargo has been a major focus of the Authority over the past several years and Calgary is now the western Canadian hub for FEDEX, UPS, Emery Worldwide, Bax Global, Purolator and commencing in May 2003, DHL. We also have an extensive cargo network with 31 destinations, including 24 on a non-stop basis. Cargolux has been a unique Calgary success story and they added a third weekly flight to Europe in February 2003.

The Authority has been intimately involved in the development of Rotary Challenger Park, which is sited on 23 acres of land donated by the Authority. Phases 1 and 2 of this innovative park for persons with disabilities will open in 2003.

We are also a key partner with SAIT in the development of the new Art Smith Aero Centre for Training & Technology, which will be located on airport lands and will open in 2004.

I am also very pleased to advise that we are moving ahead with a golf course development in the recreational reserve area of the airport. This exciting project is spearheaded by Ron Mason, President of the Copper Point Golf Club in British Columbia and includes renowned golf course architect Gary Browning, as the chief course designer. We hope that at least the first phase will be open for play in 2004.

The Calgary International Airport is a strategic asset and economic engine for the community with a total economic impact of over 46,000 jobs and \$3.7 billion in value-added GDP.

As a final comment, I wish to recognize two groups of people who make all of this possible:

- The staff of the Airport Authority who, along with our thousands of service partners, are dedicated to making Calgary the finest airport in Canada, and
- Our White Hat Volunteers who support us at many special events as well as providing daily assistance to travelers

Thank you.