



## **Air Liberalization & the Canadian Airports System:**

**Presented to the House of Commons  
Standing Committee on Transport  
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**Presented by:**

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**- A Partnership Managed by The Council of Tourism Associations of BC –**

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## **1.0 Introduction**

The Airline Industry Monitoring Consortium of BC (AIM BC) welcomes the House of Commons Standing Committee on Transportation to the home of the 2010 Olympics, and thanks the Committee for this opportunity to provide input into their air transportation and airport policy deliberations.

The following provides some background and perspective on AIM BC, and its positions on air transport and airport policy. It also provides responses to the specific questions asked of the Standing Committee by the Minister of Transport.

## **2.0 What is AIM BC?**

AIM BC is a consortium of key British Columbia tourism stakeholders concerned about the direction of Canadian air transportation policy. The organization was created in August 2000 when the merger between Air Canada and Canadian Airlines International threatened to dramatically reduce the level of competition in Canadian domestic, transborder and international air service. Events such as Air Canada's restructuring, the terrorist attacks of September 11, 2001, increasing costs due to security fees, fuel surcharges and airport rents, war in Iraq, SARS, and concerns about small airport viability have combined to necessitate the continued work of AIM BC. Current members include the Council of Tourism Associations of BC, Vancouver International Airport, Tourism Whistler, Tourism Vancouver, Tourism Victoria, B.C. Restaurant and Foodservices Association, B.C. and Yukon Hotels' Association, and the B.C. Chamber of Commerce.

## **3.0 Why is AIM BC Concerned About Air Transport and Airport Policy?**

In a nutshell: economic prosperity. The viability of Canada's \$52 billion tourism industry, and B.C.'s \$9.5 billion tourism industry, as well as the many other industries reliant on effective and efficient air transportation, is at stake. An uncompetitive, unresponsive, high cost air transportation system not only harms Canadian travellers and shippers, it threatens the livelihood of the almost 120,000 tourism workers in British Columbia alone, as well as thousands more employed in accommodation and food services, transportation and retail trade.

## **4.0 AIM BC Position on Air Liberalization**

The AIM BC position on air policy matters is driven by the fundamental belief that the broad economic and social interests of Canadians are best served by a vibrant air transportation system that offers the broadest possible range of competitive passenger and cargo services. In particular, Canadian tourism

operates in a highly competitive global environment that absolutely requires Canada to have a world-class and competitive air transportation system.

With this in mind, AIM BC offers the following input to the Standing Committee on Transport on the questions posed of it on air policy liberalization by the Minister, as well as other issues of concern to the Committee.

## 4.1 Domestic Air Services

**Question 1: Should Canada increase the limit on foreign ownership of voting shares in Canadian air carriers from the current 25 percent to 49 percent?**

**Answer: Yes.**

The airline industry is highly capital intensive. The current restriction limits financing options and makes it harder for Canadian carriers to acquire the capital needed to take advantage of service expansion opportunities. It also raises the cost of capital, which decreases the viability of Canadian carriers. These rules also force Canadian carriers into complex arrangements to acquire capital without violating regulatory restrictions, as the Air Canada restructuring shows. Finally, most countries have recognized that such a limit is harmful, and the trend is towards allowing greater levels of foreign investment.

It is difficult to understand why these limitations are still in place. Increased foreign ownership will not harm Canadian carriers, their employees, airports, travellers, shippers, or anyone reliant on air transportation services. Foreign ownership restrictions are not needed to ensure safety or security, as these regulations will apply to all carriers.

Raising the limit on foreign ownership will help ensure a more vibrant, more viable Canadian airline industry to the benefit of travellers, shippers, communities, the economy and the air carrier industry itself.

**Question 2: Should Canada go further and remove constraints on who controls Canadian air carriers, such that foreign interests could establish, or acquire control of, air carriers in Canada, for the purposes of offering domestic services only (right of establishment)?**

**Answer: Yes.**

AIM BC believes right of establishment is a positive step to ensure the most competitive environment for Canadian travellers and shippers. Beyond domestic benefits, however, AIM BC strongly supports right of establishment as a means of improving *international air access* to the many Canadian tourism attractions

outside of the handful of Canadian international gateways. Right of establishment would allow foreign international carriers to connect to flights serving these non-gateway points and improve their ability to attract high-spending foreign tourists.

AIM BC believes that the terms granting right of establishment should require such carriers to employ Canadians to operate the airline, register their aircraft in Canada, and abide by all Canadian safety, security and language regulations. This approach would not only ensure a level playing field, it would maximize benefits to Canada.

**Question 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?**

**Answer: Allowing right of entry is the proper approach to take to inject more domestic competition and improve foreign carrier access to the domestic market.**

## 4.2 Transborder air services

**Question 4: Should Canada seek negotiations with the United States in an effort to further liberalize the current air agreement between the two countries?**

**Answer: yes, and immediately.**

An open exchange of fifth freedom operations would greatly enhance the attractiveness of existing Canadian gateways, and open up secondary points for direct service.

Canada clearly needs a more open air services agreement with the U.S. The 1995 agreement, which fell short of a full open skies agreement, nevertheless resulted in significant growth in transborder services. Canada's tourism industry benefited, trade was facilitated, and shippers and travellers had greater choice and lower cost. Canadian air carriers benefited as well, with Air Canada becoming a dominant transborder carrier and with new entrant Canadian carriers also recently breaking into the large U.S. market.

**Question 5: Should Canada seek negotiations with the United States in an effort to achieve a U.S.-style open skies agreement?**

**Answer: yes, and immediately, for the reasons noted above.**

**Question 6: Should Canada seek negotiations with the United States to address issues that go beyond open skies? If so, what issues specifically?**

**Answer: Canada should negotiate right of establishment.**

### **4.3 International air services**

**Question 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 air negotiations?**

**Answer: Canada's transportation policy should be an enabling policy.**

Canadian policy should be geared towards enabling the transportation system to facilitate travel and trade. Canada's industrial policy in general is not designed to promote certain companies over others. So too, its transportation policy should not be concerned with propping up the financial returns for Canadian and foreign shareholders of privately held airline companies at the expense of Canadians at large. While AIM BC certainly respects the interests of Canadians employed by the air industry, we note that government regulation has not ensured the viability of carriers in the past, and that Canadian employment security would be best met by opening up markets to provide Canadian carriers with global opportunities and by allowing right of establishment.

In a competitive environment, the interests of airlines converge with those of its customers – if carriers offer a service people want, they do well; if they do not offer what people want, they will not do well. The problem of achieving the “proper balance” stems from governments trying to predetermine what level of service should exist for users and which carriers the service should be provided by. Air carriers and all those reliant on air services would be better served by allowing air carriers to respond to the needs of the market.

**Question 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?**

**Answer: Yes.**

Charters play a highly useful role in supporting the tourism industry. It simply does not make sense, in a mature competitive industry with a global focus, to impose restrictions that limit foreign air carrier access to this market. In a similar

manner, we would expect Canadian carriers to have the same opportunities to provide services elsewhere.

**Question 9: Should different approaches be taken to the two questions above for passenger and all-cargo services?**

**Answer: AIM BC believes that creating an open competitive environment is equally valid for passenger and all-cargo services, regardless of whether they operate scheduled or charter services.**

If progress towards an open competitive environment can be hastened by dealing with passenger and all-cargo issues separately, this should be considered by the Government of Canada. If, however, progress in one area is best achieved by linking it to the other, then we would expect this approach to be adopted. We trust that the Government of Canada is in a good position to determine which approach to adopt with each negotiating partner.

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

**Answer: Right of establishment and the “principal place of business” clause should be exchanged with all our trading partners. Market integration should first focus on a single North American Aviation Market, but should also consider the Transatlantic Aviation Area as is being discussed by the EU and the U.S.**

Right of establishment and the replacement of foreign ownership and control provisions in air services agreements by principal place of business criteria, as recommended by the International Civil Aviation Organization (ICAO), should be a key objective for the Government of Canada with all our established trading partners. We accept that such a policy may not be appropriate with all nations from a national security perspective, but as a general rule, these should be adopted as policy.

Regarding market integration, a North American Aviation Market should be the first priority as an integral support to the functioning of the North American Free Trade Agreement. If Mexico is not interested, then a common aviation market with the U.S. should be sought. Further expansion beyond that should likely occur first with Europe, which has gone far down this road already. Eventually, it is possible, that international aviation, which supports the globalization of all other industries, might itself one day become a global industry.

**Question 11: Would Canada be better served by adopting a multilateral (many countries) or plurilateral (smaller group of like-minded countries) approach for further air liberalization? Would this be practical?**

**Answer: While a multilateral approach would appear to be the “cleanest” approach, we anticipate that a plurilateral approach is more likely to lead to success. We trust, however, that the Government of Canada is in the best position, given its on-going relationship with the world’s communities, to determine the approach that will lead to success the quickest.**

The upcoming 2010 Olympics provides Vancouver, B.C. and Canada with an opportunity to showcase our tourism attractions on the world stage. It is imperative that our international air access is improved quickly in order for us to maximize the economic impact of the Olympics and its legacy.

## **5.0 AIM BC Position on Airport Governance, Financial Viability and Rents**

### **5.1 Airport Governance**

AIM BC believes that Canadian Airport Authority governance structures should reflect local needs rather than a rigid, one-size-fits-all, national model. These Authorities were created to operate the National Airport System airports as local economic generators responsive to the needs of their communities, and it is clear here in British Columbia that this has been a success. As an example, at a recent forum held by the Vancouver International Airport Authority on its future development, even those in the audience that expressed concerns about airport development commended the Authority’s commitment to involve all elements of the public in the development of airport plans. Airport Authorities already provide a wealth of information to their communities and are closely involved in many aspects of the communities. This reflects the commitment our airports have to be responsive to their communities, and it is essential that these Authorities retain the flexibility to meet local and regional needs – as they were set up to do.

### **5.2 Airport Financial Viability and Rents**

The issue of airport rent has been well documented. In its submission to the Standing Committee, the Canadian Airports Council indicates that the federal government has received rent revenues of \$2 billion so far, with another \$2.3 billion forecast over the next five years. Had it retained these airports, the federal government not only would have forgone this revenue, it would have had to *expend* \$1.5 billion to cover losses. Given one of the federal government’s principles in the transfer was to be “no worse off,” airport rents are clearly excessive. The Standing Committee is to be commended for having previously

recommended suspending rents while a review was undertaken, and we encourage the Standing Committee to recommend this finally be resolved.

We would like to stress the importance of reducing rents not only to relieve some of the financial burden on Canadian air carriers, travellers and shippers, but to improve the competitiveness of Canada's tourism attractions to potential foreign visitors. Excessive rents raise the cost of a visit to Canada, and in the intensely competitive environment in which we operate, this puts us at a significant disadvantage, particularly compared to the U.S. where low airport charges are possible because the federal government supports airports rather than treats them as "cash cows."

Increased security costs, including the Air Travellers Security Charge, is another source of increased cost detracting from the competitiveness of our tourism industry. AIM BC does not downplay the importance of security – in fact safety and security are key selling points of Canada as a tourism destination – but we maintain that issues of national security should be addressed through general revenues rather than through transportation user charges.

Canada's airport policy should be striving to improve the competitiveness and effectiveness of our airport system, rather than unnecessarily burdening it in order to financially support other government objectives.

## **6.0 AIM BC Position on the Viability of Small and Regional Airports**

Tourism is not just important to the largest Canadian gateway communities such as Vancouver, Toronto and Montréal. There are a wealth of tourism opportunities in smaller communities ranging from Vancouver Island to Newfoundland, and from southern Ontario to the Yukon, NWT and Nunavut.

Small and regional airports are the key to bringing Canada's unmatched tourism potential to the global market. While the federal government has some programs in place to support these airports, the programs are too narrow and limited, and risk being overwhelmed by additional regulatory burden being imposed on airports. As it now stands, a Transport Canada sponsored study acknowledged that almost half of the small and regional airports cannot even cover their operating costs, let alone their capital costs.

Canada simply needs a federal airport policy that recognizes the important contribution these airports make to the Canadian economy, and revises funding programs and regulatory burden to respond to these important needs.

## 7.0 Other AIM BC Positions

The data that are publicly available in Canada are dated and insufficient for interested stakeholders to properly monitor the transportation industry and assess the effectiveness of Canada's policies. While Bill C-44 has provisions for the Minister to collect data, it does not provide for the public dissemination of information that would enable this monitoring and assessment function to be readily performed. AIM BC recommends that the timely public provision of improved data be addressed by Bill C-44.

## 8.0 Specific Recommendations

AIM BC offers the Standing Committee on Transportation the following specific recommendations for consideration:

- Increase the limit on foreign ownership of voting shares in Canadian air carriers from 25% to 49%.
- Grant right of establishment for air carriers to our trading partners, and ensure that carriers established in Canada under this provision employ Canadian crews, register their aircraft in Canada and abide by all Canadian safety, security and language regulations.
- Focus on right of establishment instead of the granting of cabotage rights as the proper way to go to provide greater foreign air carrier access to the domestic market.
- Immediately negotiate an "Open Skies" agreement with the U.S., including right of establishment.
- Adopt an international air policy that is geared towards facilitating tourism, trade and travel rather than focussing on air carrier interests.
- Liberalize charter regulations to remove restrictions on foreign air carrier service between Canada and third countries.
- Liberalize foreign carrier access in both the passenger and the all-cargo sectors. Whether the two are linked or dealt with separately should be driven by the approach which would best lead to liberalization.
- Adopt right of establishment and "principal place of business" clause in negotiations with all trading partners where legitimate security are not an issue.

- Work with the U.S. (and Mexico if interested) to develop a common North American Aviation Market, and then work with others, starting with Europe, to expand this concept globally.
- Achieve liberalization via a multilateral or plurilateral approach where possible, and bilaterally where necessary, in order to achieve liberalization quickly.
- Ensure a new *Canada Airports Act* maintains a community-responsive approach to governance that provides flexibility for Canadian Airport Authorities to be structured according to the differing needs of their communities, and avoids a prescriptive one-size-fits-all approach.
- Adopt an airport policy that strives to improve the competitiveness and effectiveness of our airport system, rather than unnecessarily burdening it in order to financially support other government objectives. To that end, NAS airport rents should be reduced, and security costs funded through government general revenues rather than transportation user fees.
- Implement the following with respect to small and regional airports:
  - Reduce the regulatory burden of CAR 308 and other regulations.
  - Expand the scope of ACAP to allow a wider range of capital projects (e.g., those needed to attract increased services) to qualify for ACAP funding.
  - Expand funding for ACAP so that funding will be sufficient as demand increases and particularly if ACAP criteria are modified as recommended above.
  - Eliminate the ATSC to bring aviation in line with other modes of transportation that do not pay for increased security requirements.
  - Fully fund customs services at all relevant airports to expand opportunities for transborder and international air services.
- Make improved data publicly available in a timely manner.