

Testimony of John McKenna  
President and CEO of the Air Transport Association of Canada  
To the Senate Committee on National Finance  
June 30, 2010

Good afternoon ladies and gentlemen Members of the Committee,

My name is John McKenna and I am the President and CEO of the Air Transport Association of Canada. I am accompanied today by Mr. Mike Skrobica, Vice President, Industry Monetary Affairs.

ATAC has represented Canada's commercial air transport industry for over 75 years. We have over 185 members engaged in commercial aviation in Canada operating in every region and providing service to the large majority of the more than 700 airports in the country.

We certainly appreciate the opportunity to speak to you here today on an important aspect of aviation security, that being its financing through the Air Travelers' Security Charge (the ATSC).

We have many questions on the issue of security:

- Why are Canada's security charges so high as compared to other countries?
- Where is the accountability between the ATSC revenues and CATSA funding?
- Why do revenues collected through the ATSC far exceed the amount being spent on security?
- What is the justification for a 50% increase in the ATSC?
- Is the Minister going to simply increase CATSA's budget and the ATSC every time a new security loophole is discovered?

Canada's ATSC was very high even before the latest increase. In 2008, ATAC conducted a survey to rank the 175 security fees charged by governments and airports worldwide. At that time, Canada's security charge was the second highest in the world, second only to the Netherlands. After the increase announced in February we believe the Canadian security charges will be the highest in the world, the international fee alone having increased 52% from \$17 to \$25.91. In the US, the international security charge is \$5.00.

So we ask, why are Canada's security charges so high as compared to other countries? We do not applaud the government for striving to be No. 1 by increasing a tax that was already yielding a surplus.

We are very concerned by the lack of accountability between the ATSC revenues and CATSA funding. How much money is collected through the ATSC? What percentage of it actually goes to CATSA? Does any of it end up in the general account?

The Honorable John C. Major, who chaired the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, recommended that

- 29.3 a. *The collection, retention and disbursement of the ATSC should be subjected to comprehensive and transparent accounting. All revenues from the ATSC should be traceable and should be used solely for civil aviation security.*

*b. An annual report of ATSC revenues as well as expenditures by program or department is recommended; and*

*c. CATSA should be the main beneficiary of funds from the ATSC.*

Source: Report on the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, page 217

The last report by the Auditor General on the ATSC dates back to 2004-05. Without audited information, we can only speculate as to the revenues generated versus the Parliamentary Appropriation to CATSA, which we have done.

We looked at numbers supplied by CATSA and Statistics Canada. Our estimates are based on the 48 million passengers screened by CATSA in 89 Canadian airports during fiscal year 08-09. The numbers put forth by CATSA concur with Statistics Canada reports of 108,117,822 passengers enplaned or deplaned during calendar year 2008, with some 54,042,935 departing passengers, CATSA's clientele.

Statistics Canada indicates that 62.9% of these passengers were on Domestic flights, 19.5% were on Transborder flights, and 17.6% were on International flights.

Based on these numbers, it becomes a simple exercise to estimate the revenues generated by the ATSC. The attached spreadsheet suggests that revenues generated by the ATSC well exceed CATSA appropriation even before the increase in the ATSC. Based on these calculations, of the ATSC collected in 2008 – 2009, more than \$70 million was retained as general revenue by the Government of Canada and not used to fund the CATSA.

The exception being 2009-10 when the ATSC did not generate enough money to fund CATSA as the government had allocated a special Olympic fund of \$175 million to finance the special requirements of the Olympics. The government can't then raise the ATSC on the pretext that it is not generating enough money to pay for airport security when it places punctual specific Olympic security demands on CATSA.

Once the increases in the ATSC have been factored in, and considering the budget allocation for CATSA of \$1.5 billion over the next five years, the revenues generated by the ATSC will produce an annual surplus of over \$225 million.

We fail to understand why the 50% increase in the ATSC is necessary.

We now find out that the revenues generated by the ATSC also fund air security projects at Transport Canada and the RCMP but officials won't tell us how much is going to each. Interestingly enough, the law that created the ATSC fails to mention what the fees are financing. There is no indication whatsoever dictating what the funds generated by the ATSC are to be used for.

The ATSC should be used to fund CATSA and only CATSA. It is not an additional source of general revenue for the government for which it does not have to be held accountable. CATSA's budget is entirely financed by the ATSC, whereas in the US, air travelers only finance 30% of the Transportation Security Administration's budget, 60% of the TSA's budget comes from general revenue.

Our request is endorsed by the Report chaired by the Honorable John C. Major as it recommended specifically that:

*29.1 Funding for civil aviation security should be derived primarily from government.*

Source: Ibid

The current appropriation for CATSA is \$235 million, to which an additional \$1.5 billion over five years was announced by the government in February. How can the government establish a five-year appropriation for CATSA when it is so obviously prone to precipitated responses to incidents which lead to additional security measures?

Is the Minister going to simply increase CATSA's budget and the ATSC every time a new security loophole is discovered?

How much security is enough security? How much security can we afford?

Increasing the ATSC is not the answer. We don't need more layers of security, what we need is better security.

CATSA simply implements additional security measures without doing any threat assessment whatsoever. That is done either by the RCMP or by CSIS. Shouldn't this be financed by the government's general revenue, as are all other aspects of national security?

Has the government determined what the real security threat to Canada is? Are we prepared for it?

Is our security equipment efficient, sufficient or outdated?

Are security measures just going to continue to accumulate or are the authorities going to dedicate themselves to developing and implementing a more efficient single step screening process aimed at improving security, reducing the number of screening stages and the time and personnel required to process passengers? Industry sees the current airport security lines as inefficient and a real opportunity for terrorists.

Finally, is Canada able to come up with made-to-measure security which reflects our own needs in light of the security threat in Canada?

Our other concern is CATSA's performance. Has the government determined that CATSA's performance is comparable from an economic point of view to other screening agencies worldwide? If so, how have they arrived at this conclusion, where is the evidence to support this and what parameters were used? The customers of our members are footing the security bill and they are entitled to receive this information.

Finally, why did the Minister of Transport announce a tax measure one week in advance of the Budget? Does the government really think that the aviation community and the travelling public are so gullible that they would not see the obvious ploy to protect the Budget's claim of no tax increases?

In closing, let me reiterate that the commercial air transport industry believes in good and efficient security but not in security at all cost.

Thank you.

**ATSC Generated Revenue Estimate Calculation Sheet**  
**Air Transport Association of Canada**

Number of passengers	Statistics Canada: Passengers enplaned and deplaned Top 50 Canadian airports 2008				Number of passengers screened as reported by CATSA in 2008-09	
	Reported by Stats Canada		Total enplaned		Total deplaned	
	Domestic flights	62.9%	33,986,219	34,006,313	30,185,972	62.9%
Transborder flights	21,135,243	19.5%	10,564,498	10,570,745	9,383,205	19.5%
International flights	18,990,047	17.6%	9,492,217	9,497,830	8,430,823	17.6%
	108,117,822	100.0%	54,042,935	54,074,887	48,000,000	100.0%

Air Travelers' Security Charge	Number of passengers	ATSC Before increase		ATSC After increase		Total collected
		2008-2009	2009-2010	2010-2011 Estimate	2010-2011 Estimate	
Domestic flights	30,185,972	\$9.33	\$9.33	\$14.24	\$14.24	429,848,240
Transborder flights	9,383,205	\$7.94	\$7.94	\$12.10	\$12.10	113,536,778
International flights	8,430,823	\$17.00	\$17.00	\$25.91	\$25.91	218,442,632
	48,000,000					761,827,650
House Appropriation to CATSA		2008-2009	2009-2010	2010-2011 Estimate	2010-2011 Estimate	428,348,000
Revenue surplus		\$ 71,113,760	\$ (118,538,240)	\$	\$	333,479,650

Sources: Statistics Canada: Air Carrier Traffic at Canadian Airports 2008, Table 1-1 and Table 1-2  
 Canadian Air Transport Security Authority, Annual Report 2009, page 5 and Note 5