Air Transport Association of Canada
Association du transport aérien du Canada

**Testimony of John McKenna**

**President and CEO**

**Air Transport Association of Canada**

**to the**

**HOUSE STANDING COMMITTEE ON FINANCE**

**ATAC Comments On**

**PRE-BUDGET CONSULTATIONS IN ADVANCE OF THE 2018 BUDGET**

**September 20, 2017**

Good afternoon,

My name is John McKenna and I am the President of the Air Transport Association of Canada.

ATAC has represented Canada's commercial air transport industry since 1934. We have approximately 190 members engaged in commercial aviation operating in every region of Canada.

We welcome the opportunity to comment on three budget issues of great concern to our industry, namely the sale of major Canadian airports, CATSA financing and business model, and the new Carbon Tax coming into effect next year.

The Sale of Canadian Airports

ATAC strongly opposes the sale of major Canadian airports. We firmly believe that the government's intent to sell off airports in order to raise billions to finance its numerous non-aviation infrastructure projects is near sighted, extremely detrimental to our industry, and will result in significantly increased costs for the airlines and their passengers.

Canada's major airports pay over $300 million annually in airport rent to the Federal Government. Compare that to US airports who are heavily subsidized by the state and federal governments, and you'll understand why our industry is struggling to remain competitive with our neighbours to the south.

Costs for carriers and their passengers would increase by hundreds of millions of dollars because investors would expect a reasonable return on the up to 16.6 billion dollars that the C.D. Howe Institute estimates the sale of the larger airports would generate. A reasonable return of 5% would amount to $800 million annually, more than twice the unreasonable airport rent actually being paid to the government. As rent would continue for those airports not sold, the total cost for our industry and its passengers is likely to nearly triple.

Furthermore, airports could see their surpluses simply yield higher returns on investment rather than reinvestment in services and infrastructure. In addition, if the investors are foreign, there is a good chance that profits would simply be expatriated. To meet their investors' appetite for even normal returns, airports will either have to cut services and investments or increase fees significantly.

Recent experience in such projects, for example in Australia, has resulted in costs per passenger to increase by over 50% in the decade following airport privatization. To add insult to injury, the government would impose a huge new burden on our industry and its passengers while not reinvesting one penny of the billions raised back into aviation.

ATAC will fight against such a misguided measure in the hopes that the Federal Government will not jeopardize the long-term viability of the air transport industry for a one-time cash grab.

The Canadian Air Transport Security Authority (CATSA)

The funding and the governance model of CATSA has always been a serious concern for our industry. For over ten years, we have been asking the government why it found it acceptable that the Air Travelers Security Charge (ATSC) collects over 100 million dollars more per year than is appropriated to CATSA. No answer has been forthcoming.

CATSA budgets have been lagging behind. With one of the highest ATSCs in the world, Canada is also the exception in that the government has shouldered the travelling public with 100% of airport security costs. In other jurisdictions, governments assume the bulk of the cost and only rely on the travelling public for a minor contribution.

The government is studying various business options for CATSA and seems to favour a NAV CANADA type model. The pitfall of applying a user-pay model to a security agency is that the governing body would have no decision-making power on the level of service as that would remain the government's responsibility. Consequently, the administrators could be shouldered with new security measures overnight and be expected to fund them, no questions asked.

We would support a model which would be a necessary adjustment on the status quo where the government would work collaboratively with CATSA in policy applications and transform the ATSC into a dedicated fee set by CATSA and adjusted to meet its changing needs. This is supported by the Report on Aviation Safety in Canada tabled in the House of Commons last May by the House Standing Committee on Transport, Infrastructure and Communities.

A National Price for Carbon

The Carbon Tax announced in the last budget is another blow to the competitiveness of our industry. Air carriers are already paying $150 M a year in fuel excise tax on jet fuel. Will the fuel excise tax be replaced by the Carbon Tax or will this be an additional hit on our industry?

The $10 per ton announced for 2018 translates into a .0274 $ per liter. By 2022 this will have raised to 0.1369 $ per liter.

In the competitive world of international aviation, this is totally unreasonable.

I thank the Committee for its time and I am happy to answer any questions.