

Submission to the House of Commons Standing Committee on Transport

March 10, 2005

Halifax, NS

Presented by:

Valerie Payn, President

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The Halifax Chamber of Commerce (The Chamber) is a best-practice business organization that continuously strives to make Halifax an even more attractive city in which to live, work and play. The 2,000 Chamber members employ more than 93,000 people, representing almost one half of Metro Halifax's labour force of 204,000.

Following are air policy topics of concern to the Chamber:

Air Liberalization

- The Chamber believes the federal government should review Canadian international air policy with a view to valuing the economic needs of Canadian regions and communities, rather than focusing on the desires of domestic carriers.

National Airport System Rent

- The Chamber believes that the NAS rent requirements imposed by the federal government should be terminated.

Air Travelers' Security Charge & Tax on Fuel

- The Chamber believes that the air travelers' security charge and the federal excise tax on aviation fuel should be eliminated

Small Airports Viability

- The Chamber is likewise concerned about small airport viability.

The following is a synopsis of recommendations of the Chamber regarding air policy:

Air Liberalization Policy:

Federal transportation policy should focus primarily on the regional economies and needs of Canadians in all areas of the country, including Atlantic Canada - not primarily on the needs of domestic carriers.

Transportation policy needs to recognize the importance of regional access to foreign markets – not merely central Canadian access to foreign markets. This is particularly so for Atlantic Canada given our geographic proximity to a number of those foreign markets to the south, east and west.

This is true both for passenger service and cargo service. In either case “back-hauling” adds destructively un-economical time and cost to travel and shipping. This can directly result in lost markets and lost opportunities.

Excellent transportation into and out of Atlantic Canada, particularly including first-rate air transportation services, is crucial to the economy. Unlike larger centers in Canada, our major markets for both cargo and business and leisure travel are located predominantly elsewhere – in central Canada and internationally (U.S., Europe, Asia). Thus, Atlantic Canadians absolutely require reliable and competitive air transportation links.

Competition is required to ensure the air services provided are responsive to users’ needs and are priced appropriately. Without reliable and competitive air transportation links, economic development within Atlantic Canada is put at fundamental competitive disadvantage.

In order to obtain and maintain these links, federal air transportation policy must allow greater freedom and flexibility for foreign-based airlines, including those operating to and from Europe, also to operate to and from Atlantic Canada and in particular Halifax. Halifax is the eastern gateway to Canada and the air hub of Atlantic Canada.

Specifically what is sought is a greater open skies policy immediately on a bilateral basis, and on a multilateral basis over the longer term.

We are requesting the Canadian government establish such a policy, which is a prerequisite for the first-rate air transportation that Atlantic Canada’s economy requires. Indeed, where no Canadian air carrier interest exists for a proposed international route, a foreign carrier should be granted unfettered access to that route, contingent upon the carrier’s ability to fill a need of the Canadian community or communities served.

The Chamber strongly encourages multilateral liberalization of air policy with other jurisdictions. In the absence of timely progress multilaterally, vigorously pursue "Open Skies" agreements on a bilateral basis with all countries interested. In developing this policy, the federal government must make the interests of Canadian consumers and communities, including benefits to their trade and tourism, a top priority. In the absence of a Canadian carrier showing interest in any route, the government should be prepared to offer the foreign carrier point to point connections between foreign locations and the Canadian community involved without limitations on frequency or gauge of aircraft. Should a Canadian carrier subsequently show interest in the route, continued access to the foreign carrier could depend upon the reaching of a bilateral agreement.

On the issue of providing foreign carrier access between points in Canada, consideration should be given on a case-by-case basis. With regard to granting Right of Establishment in Canada to foreign carriers, it should be kept in mind that Right of Establishment could be contrary to the interests of Canadian carriers that are significant participants in the local economy. If this is deemed to be an issue, consultation on appropriate measures must be undertaken with relevant airports, airlines, communities and other affected stakeholders. It should be noted that foreign carriers established in Canada are required to meet Canadian regulations and establish a separate Canadian operating subsidiary operation solely within Canada and that this subsidiary must have a Canadian office and use Canadian labour.

The Chamber believes the federal government should review Canadian international air policy with a strong predisposition to valuing the economic needs of Canadian regions and communities, rather than focusing on the desires of domestic carriers.

In addition, where there are no Canadian dedicated air cargo services providing service from a given Canadian community to a foreign location, foreign carriers wishing to connect this community or region with a foreign location ought to be granted full access to that market based solely on the needs and potential of the marketplace. For example, presently perishable fish and seafood products leave Nova Scotia by truck to make air connections at Montreal and Boston's Logan airport for overseas markets.

National Airport System ("NAS") Rent:

The airline industry is in our view significantly over-burdened with various federal charges. A major one is NAS rent. The Chamber believes that the NAS rent requirements should be terminated, a position consistent with that of the Halifax International Airport Authority ("HIAA").

Costs of these rents are passed on to a commercial air transport industry already over-burdened with excessive federal charges. Airports are not assets that the federal government should use to generate maximum

revenues. These airports are important infrastructure, critical to the government's responsibility to maintain a national transportation system. The government's focus should be to ensure that airports are properly managed and serve the interests of local communities. This would guarantee the continued production of enduring benefits for all stakeholders, including the federal government.

The federal government has benefited greatly from the transfer of airports to local authorities. The system was subsidized at a rate of well over \$100 million per year in the years prior to the first transfers, and over \$5 billion has been invested in capital infrastructure by airport authorities since first taking over airports. At the Halifax International Airport, the HIAA has spent \$60 million on capital in the last three years; more than was spent by the federal government here in the previous ten years. These investments are being made in assets that continue to be owned by and vest in the federal government, at no cost to the taxpayer.

HIAA has lived up to the promises and goals of the airport devolution program. It has introduced disciplined financial management, and has met local needs for expanded air service; high customer services standards, and the enhancement of economic activity in the local community.

Current and future rent requirements interfere with HIAA's ability to continue to make Halifax an attractive place to do business and visit.

The Chamber believes the NAS rent requirements imposed by the federal government should be terminated.

Air Traveler's Security Tax & Tax on Aviation Fuel:

Although NAS rent is a very large federal charge imposed upon the air industry in Canada, it is not the only of such charges. Two others are security charges and the air fuel tax. The fuel excise taxes and the air travelers' security charge ("ATSC") are two direct costs added to a flight. These charges are having a dramatic negative impact on economic activity in communities. Industry stakeholders have long argued for the removal of excise taxes on airline fuel and most recently the removal of the ATSC. The Chamber also believes that the federal excise tax on aviation fuel should be eliminated.

Small Airports Viability:

The system of airports, which includes smaller airports increases the mobility of people and goods outside major centres, gives business opportunities to smaller air carriers, and provides essential feeder traffic to larger hubs. A strong transportation industry requires a viable and interconnected system of large and small airports to support it.

In summary, we thank the Standing Committee on Transport for the opportunity to appear before you to discuss issues relating to Canadian Air Liberalization and we encourage the Standing Committee to urge the federal government to take action to develop a policy that would focus on serving travelers, users and shippers.

Witnesses:

VALERIE PAYN is President of the Halifax Chamber of Commerce. Valerie has been President since 1995 and was the General Manager of the Halifax Board of Trade prior to that. Valerie sits on the boards of the Greater Halifax Partnership and the Canadian Professional Sales Association.

BRUCE RUSSELL, QC is a partner of the Atlantic region law firm McInnes Cooper, practising tax litigation. He is a graduate of Dalhousie University (B.A. (Hons.)) and the University of Toronto (J.D.). Bruce chairs the Transportation Committee of the Halifax Chamber of Commerce

ROBERT GAEDE is the Owner of ClearView Promotions, a company he founded in 1996. Prior to that he was a Canadian Air Force Pilot and served Canada in the CF and RCAF for over 33 years. He is a member Halifax Chamber of Commerce and a volunteer member of the Transportation Committee, as well as Chair of the Air Sub-Committee. He previously served the Chamber as Chair of the Small Business Committee.

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