

Toward a New Airport Policy for Canada



Dr. Mike Tretheway
InterVISTAS Consulting
Chief Economist

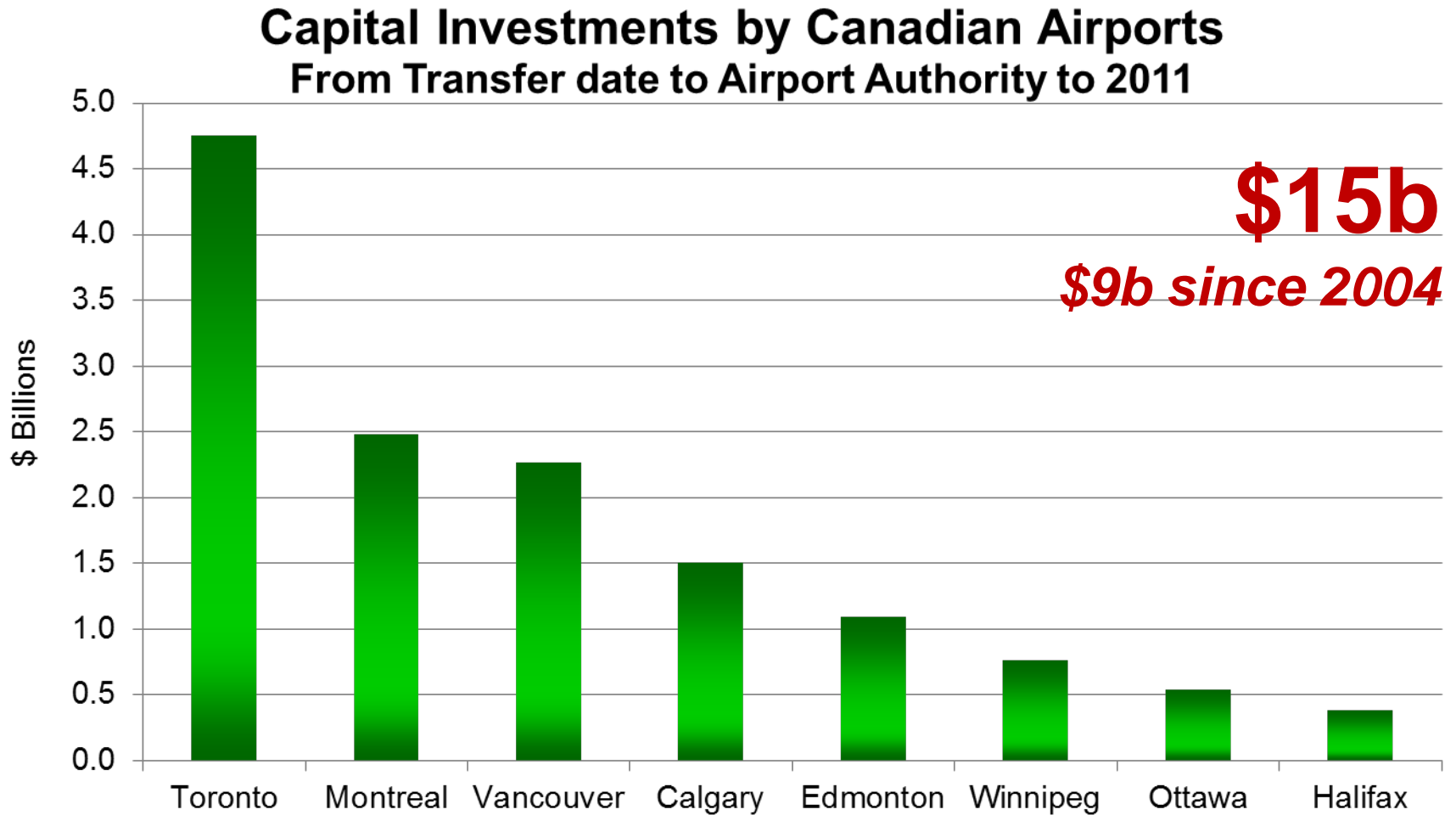
Airport Policy has been a Success

- **YVR today, size of YYZ at transfer**
- **YYC/ADM today, 150% size of YVR at transfer**
- **YYZ has grown past NRT**
- **YWG: almost doubled**
- **YLW grew from 298,000 to 1.4 mn**
- **YYJ doubled**
- **YMM increased by a googleplex**

Airport Policy has been a Success

- **1980s airport infrastructure could not support today's traffic**
- **Transport Canada could not have made the needed airport investments of the past 20 years**
 - E.g., YVR – TC would have added runway, but had no plans for a new terminal
 - YQM – no replacement terminal
 - But inspections at transfer discovered it had seven (rotting) roofs

Total Capital Investments by Canadian Airports

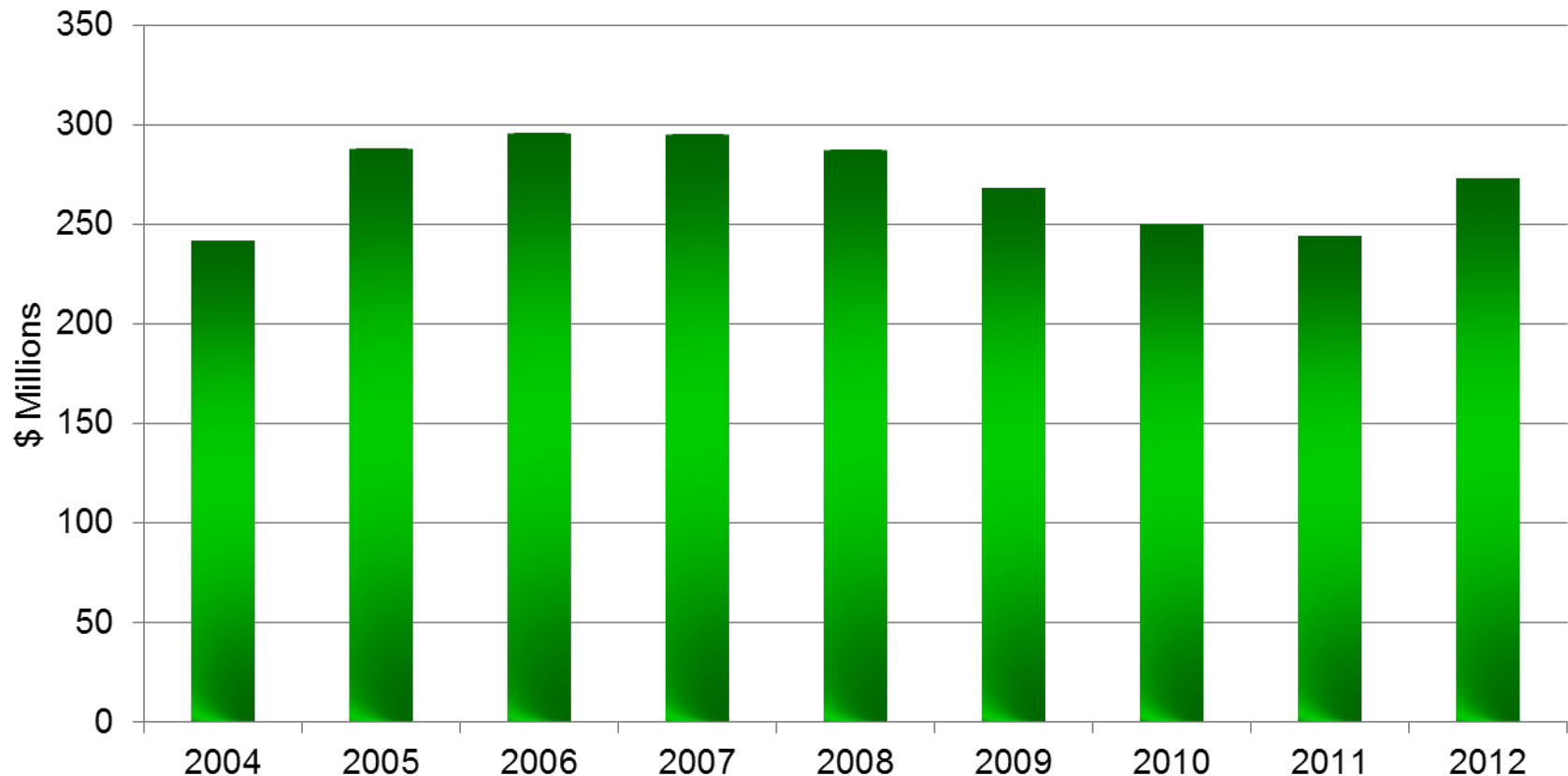


Note: Montreal includes both Trudeau and Mirabel Airports

Source: Airport Annual Reports.

Rents Paid to Transport Canada by Canadian Airports

Rent Paid to Transport Canada



Source: Transport Canada Annual Reports.

Airport Policy Success

- **Inadequate and decaying infrastructure expanded &/or replaced**
- **Airports put active marketing programs in place**
- **Now work with tourism industries and chambers of commerce**
- **Has reduced airport operating costs**
 - Especially at Canada's smaller airports

Airport Policy Next Steps

- **While airport policy achieved great initial success ...**
- **... There is a need for further evolution of the policy**

Definition of NAS Airport

Change the Definition of an NAS Airport Allow 2nd Tier NAS airports, at their choice, to become Regional/Local Airport

- Dividing Line was politically chosen
 - So all provincial capitals were NAS
- But economic folly
One size does not fit all
 - Economics of Gander (100,000) is not same as YYZ
 - St John (225,000) is not same as Halifax

Definition of NAS Airport

Change the Definition of an NAS Airport Allow 2nd Tier NAS airports, at their choice, to become Regional/Local Airport

- Smaller NAS airports
 - Need greater certainty for long term financing
 - Unlikely to pay meaningful rents
 - Long term capital investment will be problematic
 - Need access to safety related investment support

Increase ACAP

Airport Capital Assistance Program

- Only available to regional/local airports
- Somewhat larger fund needed for existing airports
 - Expand eligibility criteria
- Expanded R/L airport base requires some increase

End of Lease Needs to be Fixed

Current NAS agreements

- At end of lease
 - Lands and all improvements returned to Federal Gov't
 - NO compensation to airport authorities
 - NO assumption of Airport Authority debt
 - Airports must be maintained as 1st class facility to last day

End of Lease Needs to be Fixed

EOL is not economically viable or sensible

- Financing CAAs will be problematic as lease end approaches
- Fees & Charges will need to increase dramatically
- Will need to deviate from GAAP/IFRS depreciation schedules
 - Any investment must be fully depreciated in short period
- Simply extending an uneconomic lease is not good policy
 - E.g., affects terms and cost of debt, valuation, etc.

End of Lease Needs to be Fixed

Australian EOL

- At end of lease
 - Lands and all improvements returned to Federal Gov't
 - **Fed gov't compensates airport operating company for transferred assets**
 - Formula used, based on book value with some inflation adjustment
 - NO assumption of Airport Authority debt
 - Airports must be maintained as 1st class facility to last day

“Sell” Airport Lands?

- **At time of privatisation, airport operator governance model and land sale are linked**
 - New airport companies cannot raise 100% debt financing for prepaid lease or land purchase
 - Hence, access to paid in equity was needed/critical
 - With not-for-profit governance model
 - Prepaid lease or sale was not possible
 - Hence, annual rents were used

“Sell” Airport Lands?

Optional transfer of Airport Land fee simple?

- Rent issues go away!
- **Option 1:**
 - Airports are critical asset supporting entire economy, emergency response and social connectivity
 - Transfer to not-for-profit authorities for \$10,
 - with \$1 option to repurchase if they cease to be airports
 - Restrictions on land use (only airport related)
 - Environmental liability would need to be addressed

“Sell” Airport Lands?

Transfer Airport Land fee simple?

- **Option 2:**
 - Go to tender to sell right to operate airport
 - Too late!
Airports already in hands of legal entities who would need to be compensated for damages by terminating ground lease

“Sell” Airport Lands?

Transfer Airport Land fee simple?

- **Option 3:**
 - Sell airport land existing airport authorities
 - Values would need to be established
 - PV of existing rents?
 - Perhaps some airports may have sufficient equity (Retained earnings via AIFs) to finance
 - Should option be allowed to convert to private, for access to equity?

Airline Policy

Foreign Ownership

- **Current:**
 - Canadian owned and control, 75% Canadian equity
- **On the Table:**
 - Reduce domestic ownership to 51%
- **Proposed**
 - Replace Cda Trans Act limits on foreign ownership
 - With Investment Canada Act
 - Would allow foreign ownership in many cases
 - But deny foreign ownership where not in national interest

Paying for Aviation Security

- **Core Security Cost to be paid by General Treasury**
 - Terrorism is a threat to all Canadians
 - It is not the driven by the decision to travel
- **Service Levels**
 - Should be paid travellers
 - I.e., extra staffing to reduce queue times

Thank You

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