44. PORT AND MAJOR AIRPORT SHARE CAPITALIZATION

Background

The Ministry of Finance is currently investigating the “share capitalization” of Canada’s ports and major airports, as suggested in recommendations 9.3b and 10.3a of the 2016 Canada Transportation Act Review. This would change the current governance structure so they are owned by a private group of shareholders and no longer operate as not-for-profit commercial entities.

Our critical transportation infrastructure connects businesses with opportunities around the globe and across the country. It links visitors with tourism operators and helps international students pursue educational opportunities. Our ports and airports create jobs, facilitate the movement of people and capital, and ensure that Canadian products get to market. Therefore, their governance is of the utmost importance to Canada’s business community. A move towards a share capitalization ownership model, regardless of short-term capital inflows, would jeopardize Canada’s long-term economic competitiveness and would be detrimental to the interests of the Canadian public and business community.

To maintain a competitive, responsible, and sustainably governed transportation industry, it is crucial for port and airport governance to reflect the values and direction of the communities they serve, and to protect national economic interests. A model in which share holders make decisions regarding our critical transportation infrastructure would pose a key threat to such responsible governance, drive up costs, and require greater government oversight to regulate these newly minted private-sector monopolies. As commercial entities these pieces of critical gateway infrastructure have already harnessed the efficiencies that come with a profit-maximization model. Our current governance model is a successful “made in Canada” story, that has facilitated significant sustainable growth in our transportation industry.

We understand the budget challenges of ensuring secure, long-term funding for large infrastructure projects. However, we strongly urge the Federal Government to consider the negative potential impacts of share capitalization of Canada’s ports and major airports, including higher costs, lower service levels, less capital investment, decreased competitiveness, and the loss of control of a key economic driver and trade facilitator. Decisions would move from the communities or representative user groups in which these critical pieces of infrastructure operate to large groups of shareholders looking to optimize returns.

Major Airports

Currently, non-profit airport authorities operate Canada’s major airports. Their major capital investments have already been paid for by passengers, airlines, and the airport authorities. If these airports are sold, users will pay for them all over again and at a much higher cost in order to finance shareholder return and cost of acquisition.175 Our airports are already privatized, and there are no economic advantages to changing directions.

Through the process of commercialization in the 1990s, Canada’s airports have already reaped the benefits of privatization including; transferring capital and operating expenses from taxpayers to private operators; access to capital markets at relatively low rates of borrowing; market discipline and increased efficiency; customer service focus; and striving for innovation. Profits from airports would no longer be directly invested back into the entity and instead be used to pay dividends to shareholders, who would be incentivized to maximize profit margins and shareholder returns. These for-profit entities would also face changes to their ability to borrow money and make the necessary investments in long-term infrastructure. YVR’s 2030 investment plan is evidence that the current model already properly incentivizes these investments.

Due to fees, taxes, and charges, including after-tax fuel costs, Canadians face some of the highest air-travel

175 http://www.cbc.ca/news/canada/british-columbia/privatization-proposed-federal-changes-1.3848696

costs in the world, negatively impacting our economic competitiveness. Share capitalization would only exacerbate these issues, and move future decision-making outside of the public interest.176

Australia has already gone through this process with its airports and it has been found that airports collect significantly more aeronautical revenue per passenger than before their airports were share capitalized. Meaning that passengers and airlines are paying more to access the airports.177 Despite these increases in revenues, ratings of service quality have not substantially changed. The Australian Competition and Consumer Commission (ACCC) suggests that airlines and passengers in Australia have paid up to $1.6 billion too much for airport access due to this model.178 The chair of the ACCC, Rod Sims, recently claimed that while privatization often enhances efficiency and economic activity the privatization of Australia's airports and ports was "severely damaging" to the economy.179

Canada Port Authorities

Established under the *Canada Marine Act (1998)*, Canada Port Authorities facilitate Canada's trade objectives in a commercially viable way, ensuring goods and passengers are moved safely and efficiently, while protecting the environment and considering local communities. They also act as agents of the Federal Crown to manage federal land, an important function of which is Aboriginal consultation and engagement.

If they were to be share capitalized, government would have to take on the regulatory and statutory functions currently under the responsibility of Canada Port Authorities. This would require a significant regulatory overhaul, and the overall process of privatizing such a monopoly would place a significant resource burden on the government.

Canada Port Authorities already operate in a quasi-commercial manner, and would have little to gain in terms of efficiency if they were to be privatized. Such a move would risk compromising long-term competitiveness, reduce investment in infrastructure, and undermine public trust in our ports.

As Canada continues to develop its critical gateway infrastructure and tap into new markets, it is vital that the Federal Government make no decision that would jeopardize the long-term competitiveness of our ports and airports.

THE CHAMBER RECOMMENDS

That the Federal Government:

1. Maintain a competitive and responsibly governed transportation industry by retaining the current commercial model for Canada's ports and major airports wherever appropriate; and

2. Engage directly with stakeholders and industry experts before any further discussions regarding changes to the governance models of Canada's major transportation infrastructure.

Submitted by the Greater Vancouver Board of Trade and the Richmond Chamber of Commerce

Supported by the Greater Nanaimo Chamber of Commerce, the Greater Westside Board of Trade, the Kelowna Chamber of Commerce and the Prince George Chamber of Commerce

The Policy Review Committee <u>supports</u> this resolution

176 http://www.theglobeandmail.com/report-on-business/rob-commentary/the-model-is-not-broken-only-dented-the-trouble-with-canadian-airport-privatization/article33359029/

177 https://www.accc.gov.au/system/files/2015-16%20AMR%20revised%206%20March_0.pdf

178 https://yow.ca/en/media-center/cta-review/accc-suggests-airport-regulation-says-flyers-pay-16b-extra-fees-due-privatisations

179 https://www.theguardian.com/australia-news/2016/jul/27/acccs-rod-sims-says-privatisations-severely-damaging-economy