GREATER VANCOUVER
BOARD OF TRADE

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Monday, December 19, 2016

DELIVERED VIA E-MAIL [Bill.Morneau@canada.ca]

The Honourable Bill Morneau
Minister of Finance
Finance Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Minister,

Re: 2017-18 Pre-Budget Submission for the Government of Canada

On behalf of the Greater Vancouver Board of Trade (the "**GVBOT**"), we respectfully submit the following recommendations to the Government of Canada for consideration in the 2017-18 Federal Budget. These positions reflect the concerns and priorities of the GVBOT Directors and our over 5,000 Member businesses across British Columbia.

Every year, in consultation with our Members and board of directors, we submit our key priorities, identify issues we believe must be addressed, and provide specific and actionable policy recommendations for the Government of Canada.

Upon its release, the GVBOT evaluates each budget based on criteria which reflect the priorities of our Members and the Greater Vancouver business community. The 2017-18 Federal Budget will be evaluated on 4 categories:

1. **Gateway Vision**
2. **Human Capital**
3. **Tax Competitiveness**
4. **Fiscal Prudence**

This past year the GVBOT released the 2016 Greater Vancouver Economic Scorecard (the "**Scorecard**"), which ranked the Greater Vancouver region in relation to 19 other international metropolitan regions on key economic and social indicators. It provided A-B-C-D grades to jurisdictions relative to the performance of their competitors. The aim of the Scorecard is to measure Vancouver's strengths and weaknesses in attracting labour and business investment. This report, and its subsequent iterations, will guide the research and advocacy work of our organization for years to come. While the report was focused on the Greater Vancouver, it also measured and benchmarked other regions across Canada including Calgary, Toronto, Montreal, and Halifax.

Based on consultations with our membership and the conclusions from the Scorecard, we respectfully present the following recommendations as necessary steps in ensuring that, in the face of a changing world, our country is resilient and flexible, fiscally sound, economically competitive, and environmentally and socially responsible.

1. Gateway Vision

Our economic vision centres largely around Greater Vancouver's crucial role as Canada's Pacific Gateway. Ideally located to serve growing Asian markets, Greater Vancouver is a key point of import-export activity for not only the region, but the entire country. About 1/5 of Canada's total trade in goods flows through the Port of Vancouver, the largest, busiest, and most diversified port in Canada.[1] Similarly, Vancouver International Airport plays an increasingly important role as a global transportation hub, setting a new passenger record of over 20 million, and handling 271,000 tonnes of cargo in 2015.

As ties between Asia and Canada continue to deepen, the Greater Vancouver's strategic importance will only become more relevant in the new global economy.

Considering the strong trade relationships our region enables, it is no surprise that the Scorecard identified transportation as Vancouver's most important traded cluster. Transportation and supply-chain are crucial to our region's competitiveness, providing a well-developed infrastructure that attracts businesses and people to the region. This advantage must be leveraged for the betterment of not only our region and province, but the entire country.

<u>Gateway Infrastructure</u>

Given the significance of Greater Vancouver's role as Canada's Pacific Gateway, adequately and sustainably developing the necessary infrastructure will be critical to our country's economic competitiveness in the coming years. To retain and leverage this enviable position, it is of national importance that we continue to invest in trade-enabling infrastructure to ensure the private sector can continue to supply future capacity to retain a highly efficient and environmentally responsible gateway

First, as the Scorecard notes, there has been a general underinvestment in not only public transit, but also road infrastructure. Inadequate financial investment in both of these areas contributes to decreased quality of life and increased congestion. In addition to the immediate impacts of congestion, as time and money are wasted, it has the long-term potential to deter both business investment and human capital inflows. Canada's Ecofiscal

[1] http://www.portvancouver.com/about-us/

Commission estimates that congestion within Greater Vancouver alone costs us about $2.6 billion dollars in lost time and other hidden costs.[2]

Many have pointed to inadequate infrastructure across Canada as not just a trade-inhibiting issue, but also as an untapped opportunity to increase labour productivity. Notably, the Federal Government's newly-formed Advisory Council on Economic Growth recently released their first report, laying out a new path to prosperity for the nation based on infrastructure investment's ability to fuel short- and long-term productivity growth. We support the further exploration and implementation of this growth strategy, particularly given that one of the key challenges facing Canada is low labour productivity. Greater Vancouver, Toronto, Montreal, and Halifax all received "C" grades on productivity in the Scorecard. Calgary received an "A," however the data does not reflect the sharp decline in commodity prices over the past year.

We also note that, because our region is bounded on all sides by mountains, the ocean, and the United States border, the supply of land for port expansion or other industrial land uses is severely restricted. Our diminished ability to generate continued, long-term economic growth through industrial land expansion makes it imperative that we make concentrated infrastructure investments that best leverage our existing competitive advantages.

Recommendations:

1) Work with the Province and other partners to advance key projects within Greater Vancouver, including:
   I. Replacement of the George Massey Tunnel with a 10-lane bridge;
   II. port expansion at Roberts Bank Terminal 2;
   III. improved rail capacity in the Lower Mainland;
   IV. a six-lane replacement for the ageing Patullo Bridge, undertaken in cooperation with TransLink.
2) Meaningfully consider the recommendations from the Government of Canada's Advisory Council on Economic Growth's report *Unleashing Productivity Through Infrastructure*, and invest in trade-enabling infrastructure as a main budget priority for the coming year.[3]

Optimize Canada's Supply Chain

In addition to substantial infrastructure investments in British Columbia, we also note the importance of comparable infrastructure improvement and expansion across the country. We applaud the Government's recent announcement of a $10.1-billion investment in trade infrastructure, aimed at ensuring strong trade corridors. As these funds are allocated, we

[2] Canada's Ecofiscal Commission, https://ecofiscal.ca/reports/traffic/getting-from-here-to-there-in-metro-vancouver/ .
[3] http://www.budget.gc.ca/aceg-ccce/pdf/infrastructure-eng.pdf

emphasize the necessity of a well-planned, coordinated infrastructure development strategy.

To maintain transportation corridors that can efficiently move goods to end destinations and crucial points of export, it is critical to develop the capacity of the entire infrastructure network. As previously discussed, when congestion plagues transportation routes, there are significant financial costs. If certain regions remain underdeveloped, trade could be seriously damaged as bottlenecks curtail the capacity of Canada's interdependent transport corridors.

Ensuring the efficiency and cost-effectiveness of Canada's internal commercial transportation options will be especially important because global economic growth is expected to slow in the coming years. We urge the Federal Government to develop a nationally-coordinated transportation infrastructure plan that will optimize infrastructure capacity throughout Canada.

Recommendations:

1) Coordinate trade-enabling infrastructure and transportation investments across provinces in order to minimize bottlenecks and ensure the smooth transport of goods, across the supply-chain.

<u>Expand Inter-Provincial and International Trade</u>

In June 2016, the Senate released a report suggesting that internal trade barriers reduce Canada's Gross Domestic Product substantially, generating billions of dollars in losses each year. This is especially significant as international trade deals increase market competition domestically. Until interprovincial trade barriers are adequately addressed, these agreements may mean that it is easier for foreign-based companies to operate in Canada than it is for a firm from a neighbouring province to do the same. By July, Premiers had reached an agreement-in-principle (AIP) on the Canadian Free Trade Agreement; however, no further details have since been released. After a long delay in establishing interprovincial free trade, businesses are eager to find out how any new regulations will affect them. We urge the Federal Government to provide the business community and Canadian citizens with the relevant information and certainty as soon as possible.

Further, the AIP is said to include a number of exemptions from free trade put forward by individual provinces as well as by the Federal Government. We call upon the Federal Government to advance and implement such exemptions sparingly, ensuring full transparency throughout the process. We also encourage the negotiating parties to set clear sunset periods on these exemptions, as discussed in this year's talks.

We encourage the Federal government, working with the provinces, to continue eliminating internal barriers to trade within Canada. Specifically, challenges such as the lack of harmonized transportation and manufacturing rules among provinces hamper growth and the smooth flow of goods across our country.

Furthermore, we support the continued pursuit and expansion of international Free Trade Agreements (FTAs). As the future of multilateral deals such as the Trans-Pacific Partnership becomes uncertain, the Federal Government should continue to look for suitable bilateral agreements, particularly in Asia. These agreements should look to expand the ability of Canadian firms to expand into high-growth markets, and for Canadian consumers to benefit from greater global economic integration.

Recommendations:

1) Release additional available details about the Canadian Free Trade Agreement AIP as soon as possible;
2) Implement exemptions to interprovincial free trade sparingly and transparently and ensure that all agreed-upon sunset periods for exemptions are applied in a timely, appropriate manner;
3) Continue to pursue mutually-beneficial bilateral and multilateral FTAs, particularly with high-growth Asian markets such as China and Japan.

<u>Ensuring Air Competitiveness</u>

Earlier this year, the GVBOT advanced a policy resolution at the Canadian Chamber of Commerce (CCC) AGM encouraging the Federal Government to work towards increased competitiveness within the air travel industry. CCC members passed the resolution, indicating the Canadian Chamber of Commerce's official adoption of this position. (See full resolution, Appendix One)

The Canadian Global Cities Council (CGCC), a coalition of Canada's eight largest urban regional chambers of commerce (including GVBOT) has identified air competitiveness and airport policy as its top priority.

Air travel is a crucial economic enabler that fruitfully connects businesses with opportunities around the globe and across the country. However, a lack of competition, barriers to facilitation, and inadequate returns on government-imposed fees/surcharges have driven up prices for customers. The result is a higher cost for conducting both international and inter-provincial business and, ultimately, waning global competitiveness.

We urge Canada to pursue mutually beneficial liberalized air access agreements in all current and future bilateral air agreements. 'Open Skies' aviation regimes are being increasingly adopted around the world, and while Canada has committed to liberalizing air access, many new and existing agreements still contain restrictions that significantly limit competition.

Transport Canada has recently announced an increase to the ceiling of foreign ownership of Canadian air carriers. We are encouraged by this change and its potential to increase air competitiveness. We also urge the government to proceed responsibly, giving due consideration to key stakeholders as appropriate. Our airport and associated air carriers are important to enabling trade and fulfilling our regional role as Canada's Gateway to the Asia-

Pacific. We ask that the government work to ensure transparent and responsible governance of all air carriers.

We note and support the Government's recent announcement that they will work with the Canadian Air Transport Security Agency (CATSA) to reduce time spent on security for air travellers. We also support further review of the regulatory, financing, and delivery models for air transportation security, as set out in CTA Review Recommendation 8.

Recommendations:

1) Pursue mutually beneficial liberalized air access agreements in all bilateral air passenger transport negotiations and further liberalize existing bilateral air agreements, especially with Free Trade Partners and Asian markets;
2) Facilitate the movement of passengers in, out, and through Canadian airports by allowing transit without visas wherever appropriate, harmonizing immigration and trusted traveller programs with the U.S. and expanding the use of Electronic Travel Authorization;
3) Overhaul the regulatory, financing and delivery models for airport security, as set out in CTA Review Recommendation 8, including the establishment of a customer service mandate and performance standards comparable to competing jurisdictions; and ensuring the provision of stable and predictable funding that meets the needs of both increasing passenger volumes and evolving security risks.

Airport and Port Share Capitalization

We note our concern about recent discussions around the share capitalization of major Canadian airports. In order to maintain a competitive, responsible and sustainably governed air transportation industry, it is crucial for airport authorities to reflect the values and direction of the communities they serve. Share capitalization would pose a key threat to such independence. We understand the budget challenges of ensuring secure, long-term funding for large infrastructure projects. However, we strongly encourage the Federal Government to consider the negative potential impacts of share capitalization of Canada's airports including higher costs, lower service levels, less capital investment, decreased competitiveness, and the loss of community control of a key economic generator and facilitator of trade and tourism for the region.

Canada's airports have already been paid for by passengers, airlines and the airport authorities. If airports are sold, users will have to pay for them all over again and at a much higher cost in order to finance the shareholder return and cost of acquisition. Moreover, the money from the sale of the airports would be redirected away from the airport and the region and used for infrastructure investments in other sectors of the economy.

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.

Airports are strategic national infrastructure, and we think that the ultimate accountability should remain to Canadian citizens rather than corporate shareholders. The one-time fiscal windfall of such a move does not outweigh its long-term implications on our air-travel competitiveness.

As this conversation expands to include the prospect of port privatization, we are worried about the long-term social and economic impacts such decisions would have. We ask that before discussions on port privatization move forward, the Federal Government engage with key stakeholders so that we may better learn about the objectives of this process.

Recommendations:

1) Maintain a competitive and responsibly governed transportation industry by retaining the current governance model for Canada's major airports; and
2) Engage directly with stakeholders such as GVBOT before moving any further on the privatization of Canada's ports.

<u>Continue Investment in Transit Infrastructure</u>

As you are aware, the movement of goods, services, and people is critical to the economic and social future of families and businesses in the Lower Mainland. As stated before, traffic congestion costs Greater Vancouver over $2.6 billion per year.

In the 2016 Greater Vancouver Economic Scorecard, Greater Vancouver, Toronto, and Montreal all received earned a C-grade in non-car commuting, while Halifax and Calgary earned Ds. Vancouver, Montreal, and Calgary also received C-grades in average travel time to and from work (10th out of 19 jurisdictions). Toronto earned a D. These poor grades are indicative of a major barrier to our regional and national economic competitiveness. More broadly, these issues create significant bottlenecks in the movement of goods and people in our cities, especially along major corridors connecting our communities such as the George Massey Tunnel in Greater Vancouver.

At the same time as noting these concerns, the GVBOT congratulates the Federal Government on its investment in transit over the last year, notably the partnership with the Government of British Columbia to invest $616 million in funding Phase 1 of the "Mayors' Plan" and advance planning efforts on initiatives like the Broadway Skytrain Expansion and Surrey rapid transit projects. Also, we recognize the Federal Government's efforts to move away from the one-third, one-third, one-third model of infrastructure financing. We also note the announcement of additional public transit funding for the coming decade (as laid out in the Fall Economic Statement).

While we are encouraged by the recent progress on public transit expansion and improvement, we remain concerned that the strength of our families, businesses, and overall economy will be negatively impacted should the Federal Government's continued dedication to meaningful, timely transit investments waiver.

An insufficient transit network compounds Greater Vancouver's housing affordability crisis by limiting housing choices and transportation options.

In the coming years, an adequate public transit system that is well prepared for population growth will be critical in ensuring a high quality of life and business competitiveness within Greater Vancouver.

Recommendations:

1) Build on the momentum created by recent transit funding with future investment in Phase 2 public transit expansion and improvement;
2) Move forward on important public transit projects in the Lower Mainland including:
    I. 27 KM of LRT in Surrey and to Langley
    II. Millennium Line extension along the Broadway-UBC Corridor

2. Human Capital

In order to improve our economic competitiveness, the GVBOT recognizes the importance of attracting, developing and retaining human capital. The Scorecard gave the Greater Vancouver region a C in both educational attainment and productivity levels. This indicates that there is room to improve labour markets in the region, for the benefit of the national economy. The Federal Government should work to address the growing disparity between labour market supply and shifting labour market demands. Not only does the existing workforce require better support in adapting to change, Canada must strengthen its ability to attract, develop and retain the workers that businesses need to grow.

<u>Attract Human Capital</u>

In order to attract human capital to Canada, the Federal Government should work towards streamlining and modernizing the recognition of foreign credentials. This would allow greater access for foreign talent in Canadian labour markets.

Recently, the Government announced the Global Skills Strategy, a short-term immigration work permit program. We suggest that reforms to, and in support of, the labour market should also consider improvements to the Temporary Foreign Workers Program (TFWP). It is vital that changes are made to the TFWP to enhance certainty for workers and employers, increase safety and reliability for participants, properly punish bad actors who abuse the program, and raise its overall accessibility so that it may be a more effective tool in addressing short-term labour shortages. Specifically, revisiting the Labour Market Impact Assessment (LMIA) process could provide greater certainty for employers and workers.

Any national strategy to grow our stock of human capital must also take into consideration untapped pools of labour already within our country, such as women, Indigenous peoples, and new Canadians.

Recommendations:

1) Modernize and streamline foreign and provincial credential recognition schemes;
2) Improve the Temporary Foreign Workers Program to ensure certainty for workers and employers;
3) Revise the Labour Market Impact Assessment process.

<u>Develop Human Capital</u>

Greater Vancouver's low Scorecard ranking in productivity and educational attainment is a clear sign that investment in the development of our existing human capital is necessary to improve our national economic competitiveness. Investment in our post-secondary institutions to improve access to training in both academia and the trades, especially for women and Indigenous people, will boost productivity and continue to develop Canadian labour markets.

Recommendations:

1) Continue to improve access to post-secondary education in both academia and the trades, especially for women and Indigenous people;
2) Improve support for graduates to find jobs and incentivizing employers to hire and retain interns and new graduates;
3) Incentivise employer support for employee re-training and credential upgrades;
4) Increase funding for post-secondary research to fuel product commercialization and innovation, as well as post-secondary infrastructure spending

<u>Retaining Human Capital</u>

The GVBOT remains concerned about the state of housing affordability in the Greater Vancouver region. Our Scorecard ranked the region as 15th amongst 17 selected comparable cities around the world for housing affordability, with a median home price that is 10.6 times the median household income. Low housing affordability reduces the region's ability to attract and retain talent, particularly when it comes to younger demographics. Elevated home prices limit the region's attractiveness to younger people, especially those between the ages of 25-34, demographically a more productive segment of the population. In turn, decreased access to skilled human capital has the potential to deter businesses from locating or growing in the Greater Vancouver region. This is not just a Greater Vancouver story, Toronto is also experiencing a period of rapidly deteriorating affordability, and this is having considerable economic and demographic implications.

In line with the recommendations we outline in the Scorecard, the GVBOT encourages the Federal Government to work with the Province and municipalities to increase housing supply and housing diversity. We also note the Federal Government's efforts to implement a National Housing Strategy and hope that this strategy explores, implements, and supports solutions to the housing affordability problem within the Greater Vancouver region.

Though we acknowledge that this challenge has a strong municipal dimension, all levels of government must commit to exploring how the scarcity of affordable housing options impacts our economy and our ability to attract and retain human capital. We call on the Federal Government to work alongside the Provincial and local governments and provide funding, if necessary, to gather research that enables a more developed understanding of the root causes of low housing affordability.

While both demand-side and supply-side pressures contribute to rising housing costs, the Greater Vancouver Board of Trade would like to see greater attention given to growing overall housing stock in the province. Cooperation and collaboration between all levels of government is key to effectively addressing the affordability crisis. The GVBOT's position on housing supply were captured in a 2016 BC Chamber AGM resolution (See full report in Appendix 2).

Recommendations:

1) Ensure the National Housing Strategy addresses Greater Vancouver's housing affordability issue and includes a focus on attracting and retaining human capital;
2) Work with the Province and municipalities to remove barriers to development and to form ways to incentivize growth, density, and diversity in the housing stock.

<u>Adjust Canada Health Care Transfers</u>

The GVBOT is of the view that the Canada Health and Social Transfer must be age adjusted to account for the increased costs of providing health care to seniors age 65 and over. The proposed, per capita-based funding formula for the program should incorporate a methodology that recognizes the different demographic and population compositions of each province.

British Columbia has a growing population of seniors. The 2011 Census counted nearly 688,715 seniors living in B.C. According to the census, the percentage of British Columbians aged 65 and over was 15.7 per cent, compared to 14.8 per cent nationally. It is estimated that the percentage of seniors in B.C. will reach 24.7 per cent by 2036, with the fastest-growing demographic being those 85 and older.

There are estimates that the funding formula based solely on a per capita basis will cost B.C.'s health-care system $202 million. As B.C.'s Finance Minister has noted, this approach does not "operate in a way that is favourable" to the province. This plan does not acknowledge the significant efforts that have been made to contain health care costs in the province, nor its ageing population.

When B.C.'s shifting demographics are translated to health spending trends for seniors in Canada, the cost projections are staggering. The increases in health care spending for seniors compared to other age groups are as follows: $6,223 for those aged 65 to 69, $8,721 for those 70 to 74, and $12,050 for those 75 to 79. The increases jump to $20,113 for those 80 and older.

Recommendations:

1) Adjust the Canada Health Transfer funding formula to account for the demographic pressures faced by each province.

3. Tax Competitiveness

The GVBOT recognizes that over the years the government has made great strides in establishing Canada's relative tax competitiveness within the G8. We believe that maintaining this competitiveness is crucial to ensuring that Canada remains a leader in attracting business investment. At the same time, we ask for certainty and fairness – both key factors in attracting and retaining investment in Canada - within the tax system.

We also note that both corporate and personal tax rates play a key role in guaranteeing the strength of our economy going forward. Canadian companies, including startups and early-stage businesses, compete vigorously with their US counterparts for talent. As such, the GVBOT encourages the Federal Government to maintain our existing personal tax competitiveness. Competitive personal taxes help attract and maintain a skilled labour force, encouraging highly-trained wage earners to stay in Canada.

Further, we applaud your decision of earlier this year to abandon a proposed plan to increase the taxation of stock options. Stock options have become an essential tool in bridging the compensation gap in Canada. This is of particular importance to Vancouver, where the tech sector represents a significant — and growing — economic cluster. We thank you for recognizing the importance of stock options for Canadian companies trying to attract talent.

Recommendations:

1) Maintain personal and business tax competitiveness to enable our nation to effectively compete for financial and human capital.

<u>Simplify Tax Regulation</u>

We would like to note our support for your announcement in Budget 2016 that your government would be reviewing the nation's tax regime to remove inefficient and ineffectual taxation measures. In recent years, we have noted that Canada's taxation structure has been growing in its complexity. This can be seen in multiple pieces of taxation legislation, including the proposed changes to subsection 55(2) of the Tax Act, intended to target transactions that give rise to certain inappropriate tax results. Highly complex or poorly-targeted tax measures have the potential to create uncertainty in respect to conventional business transactions and increase the administrative burden on taxpayers. We encourage you, in undertaking your review, to prioritize the elimination of overly complex tax measures with the ultimate goal of streamlining the system to ensure efficiency and ease of compliance.

Recommendations:

1) Include tax system simplification as a key outcome in the governmental review of Canada's tax regime.

4. Fiscal Prudence

Canada is recognized globally for sound fiscal policy and is well positioned to further attract foreign direct investment. In conjunction with the spending priorities outlined above, the GVBOT views it as an imperative that Canada continues to preserve this global reputation by committing to maintaining the federal debt-to-GDP ratio at a prudent level.

The debt-to-GDP ratio must offer government the flexibility to withstand shocks and unforeseen needs, both social and economic. As outlined in our other priorities, we see smart and strategic federal spending as an important factor in the economic success of our country.

However, the GVBOT is concerned by the Parliamentary Budget Officer's recent Economic and Fiscal Outlook, particularly Canada's worse than anticipated fiscal performance and the revised forecasted deficits of $25.1 billion in 2016-17 and $27.8 billion in 2017-18.[4] Due to the current economic climate, and the new fiscal realities faced by the government, we urge prudent fiscal management and a commitment by the federal government to make significant progress in reducing its fiscal deficit to a more responsible and sustainable level. We strongly highlight the importance of presenting a viable economic plan that includes a route back to a balanced budget.

In addition, the GVBOT notes the rising household debt and real estate prices in Canada. We support the recent increase to minimum down payment for higher-priced homes. The GVBOT encourages the government to continue its efforts to ensure discipline in the residential lending market, and its attempt to reduce taxpayer exposure to the housing sector.

Recommendations:

1) Maintain the federal debt-to-GDP ratio at a level in line with other OECD states;

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[4] Fall Economic Outlook 2016, page 69. http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/toc-tdm-en.html

2) Continue to make prudent economically enabling investments in infrastructure and human capital;
3) Develop and communicate a strategy to return Canada to a balanced budget within a reasonable period.

Conclusion

The Greater Vancouver Board of Trade's recommendations are made in the spirit of encouraging the Federal Government to continue to build on the strength of our provincial economy and to pursue the benefits that a strong economy brings to all citizens. We support fiscal policy and performance that appropriately balance the needs of businesses with those of the residents who rely on the goods and services from both the public and private sectors. On this note, we commend the Federal Government on the fiscal prudence and sound economic policies that have characterized the last year.

We look forward to the opportunity to work with you to further strengthen our country's economy and meaningfully address the critical challenges documented within the Scorecard.

Sincerely,

Greater Vancouver Board of Trade, per;

Iain J.S. Black, ICD.D
President and CEO

CC:
[Federal Cabinet Ministers]
[Members of Parliament, Greater Vancouver Region]

Appendix One

Enhancing Canada's Air Travel Competitiveness

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Enhancing Canada's Air Travel Competitiveness

Issue

Air travel is a crucial economic enabler connecting businesses with opportunities around the globe and across the country. It links visitors with tourism operators and helps international students pursue educational opportunities. It is a major job creator with strong spin offs. It facilitates the movement of people and capital, and ensures that Canadian products, especially high-value and/or time sensitive (i.e. perishable) exports, get to market. However, a lack of competition, barriers to facilitation and a need for greater value from government imposed fees/surcharges have driven up prices for customers - deterring leisure travelers looking to visit Canada, and increasing the cost of conducting both international and inter-provincial business.

Background

In a country like Canada, with low population density, and regional economic diversity, air travel serves as a vital link within a broader national transportation network that includes highways, rail, and sea ways. Canada's economy is very dependent on trade making the facilitation of trade an important issue.

However, the high cost of air travel to, from, and within Canada is significantly hampering our global competitiveness, and stunting aviation as a key economic enabler. A lack of competition, barriers to facilitation, and high structural costs have driven up prices for customers, whom data shows, are increasingly sensitive to price. Canada's poor price performance in these areas is apparent and not only deters leisure travelers looking to visit Canada, but increases the cost of conducting both international and inter-provincial business, which directly impacts job growth.

Furthermore, as agreements such as Comprehensive Economic and Trade Agreement with the European Union (CETA) and the Trans Pacific Partnership (TPP) advance Canada's integration into world markets, it is essential that a country spanning three oceans positions its transportation sectors to take fully take advantage of new opportunities. Without access to affordable and reliable air travel, relationships are not made, business is not conducted, and the economy does not grow.

The 2016 Canada Transportation Act review report, *Pathways: Connecting Canada's Transportation System to the World* (the CTA Review), underscores the importance of transportation, and the long-term significance of developing a competitive air travel industry. Canada has slipped from 8th to 17th in global rankings for International Tourist Arrivals over the past 15 years, underlining the urgency to this issue.

In order to build the confidence of industry stakeholders it is important to have an open and transparent Air Bilateral priority setting process to guide our single air negotiator. The process needs to be more inclusive of key industry stakeholders so that the limited resources get directed in an efficient way according to industry participants. There are a number of factors influencing the current condition of Canada's air sector. Therefore, strategies aimed at enhancing the competitiveness of Canadian air travel and strengthening its economic enabling capabilities, must be multifaceted. Primarily, three key areas must be addressed in tandem: competition, facilitation, and value.

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Competition

Greater competition, particularly for international travel, comes from liberalized bilateral air access agreements. In order for an aircraft to fly between two countries both governments must negotiate bilateral air transport agreements, regulating frequency, capacity, ownership, tariffs and other commercial aspects. Currently, there is an international trend toward more liberal aviation regimes known as 'Open Skies', where bilateral—or in some cases multilateral—agreements generally include unlimited capacity between, and beyond the countries involved, and market driven pricing regimes.

The Canadian government has adopted a Blue Sky policy[3] committed to liberalizing air access. Since 2006, of the country's 85 Air Transportation Agreements, about half include more open international air policies. However, many current air access agreements still contain restrictions that significantly limit competition. Mutually beneficial agreements and the liberalization of air access provide an opportunity for increased competition for international travel to-and-from airports around the country. This offers consumers the benefit of greater choice and potentially lower prices.

The benefits of liberalizing Canada's air policy would significantly improve economic opportunities throughout Canada by increasing connectivity of global business. Further liberalized air access agreements would open new international markets, allow more carriers to operate in Canada, and improve price competitiveness of Canada as a destination. It would provide foreign carriers with greater access to the Canadian market, creating jobs on the ground, and provide domestic carriers more opportunities abroad.

However, liberalized air access policies must be perused in conjunction with domestic reforms which allow Canadian carriers and airports to compete in a more-open market. While greater competition will lead to more efficient, market-based outcomes. The process of liberalization should also be mindful of the strategic importance of the domestic industry. Therefore, Canada must also address barriers to facilitation and ensure value for costs placed on travelers and industry.

Facilitation

Facilitation refers to the movement of people, cargo, and planes through an airport. It encompasses physical, legal, and technological procedures and systems. Enhancing facilitation at Canadian airports improves outcomes for airports, airlines, and customers alike.

Today, significant facilitation barriers are preventing Canadian airports from acting as more viable international hubs. Under-resourced and underequipped security procedures delay passengers and their belongings from entering and leaving airports. Strict visa screening requirements for transiting passengers, who have generally already been vetted by their destination country, prevents first-class airports such as YVR and Pearson from attracting more business. Much like road congestion, these delays and inefficiencies hinder the effectiveness of industry, and slow down the economy.

A robust facilitation strategy can push Canada toward becoming a global hub of passenger aviation traffic—growing volume, lowering costs and providing new opportunities for industry. The CTA review estimates transit facilitation benefits from easing transit visa requirements alone can increase airline volume by 25-50%.

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Value

Finally, reviewing and ensuring value for already imposed government fees and surcharges on passengers and the industry would further improve Canada's ability to develop a more competitive air travel sector. Canadian air travelers face significantly higher fees and prices compared to their U.S. counterparts. This has historically driven some traveling in-and-out of Canada to use nearby U.S. airports such as Sea-Tac and Buffalo-Niagara International Airport; however, the trend has been tempered with the depreciation of the Canadian Dollar relative to the USD. Therefore, it is important to ensure that the industry and consumers are receiving greater direct value for these costs.

The current regime of fees and surcharges has created an environment of "user-pay plus," where users are charged more than the services they are provided. For example, fees such as the Air Travelers Security Charge are taken into general government revenue, rather than directly funding airport security procedures. In other jurisdictions, services such as security are seen as a public good and funded by the broad tax base. Just as highway policing is funded by the general public—as it serves a significant economic and social purpose—so should essential air travel services.

Government revenues from the air sector 2013-14 (M)			
Airport Rent	Air Travellers Security Charge	Fuel Tax	**Total**
$294.4	$661.9	$97.2	**$1,053.5**
Government investment in the air sector 2013-14 (M)			
Airport Capital Assistance Program	Canadian Air Transport Security Authority Budget	Subsidy for 18 TC-owned and operated airports	**Total**
$29.8	$559.1	$38.2	**$627.1**
Difference (M)			**$426.4**

Furthermore, airports pay significant fees to by the governments in the form of Ground Rent. These costs inevitably trickle down to travelers, and raises prices. This is in stark contrast to the United States where the government subsidizes air terminals. While a subsidy may lead to a different sort of market distortion, Canadian air travel still requires more-level a playfield which allows it to compete. High-cost structures lead to higher prices, and risk pushing travelers and revenue to other modes of transport, or to not travel at all.

There must be a more direct linkage between the use-fees paid by travelers and the services they are provided by the public sector. Providing greater value for these fees and surcharges is necessary to build a competitive industry, capable of enabling greater economic activity. Lastly, in addition to current restrictive bilateral agreements, facilitation, and cost structures, existing ownership limitations prevent foreign investment in the Canadian airline industry. This restriction prevents Canadian carriers from supporting their balance sheet through foreign investment, and makes it extremely difficult for new competitors to enter the market place.

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Recommendations

That the federal government:

1. Pursue mutually beneficial liberalized air access agreements in all bilateral air passenger transport negotiations, and further liberalize existing bilateral air agreements, especially with Free Trade Partners
    a. Conduct periodic reviews of Blue Skies policies to ensure that bilateral access matches demand
    b. Implement 2016 CTA review recommendation of required initial flight frequency with safe and secure partners with progression toward more liberalized air access agreements to provide market certainty
    c. Adopt an open and transparent priority-setting process, inclusive of key industry stakeholders, to determine top priorities as they relate to expanding Canadian bi-lateral air access agreements.

2. Facilitate the movement of passengers in, out, and through Canadian airports in order to position the Canadian air sector to better compete internationally by implementing the measures set out in Recommendation 6 of the
    a. Allowing transit without visa for citizens of all but those from a limited list of high-risk countries at all Canadian airports;
    b. Harmonizing immigration and trusted traveller programs with the U.S. and other trusted jurisdictions; and
    c. Streamlining visa processing for all visitors to Canada, including expanding the use of the Electronic Travel Authorization instead of visas for low risk travelers.

3. Develop a high level and overarching national aviation strategy, to improve airports' cost competitiveness, and thereby enhance Canada's competitiveness, by:
    a. Examining already imposed government fees and surcharges to ensure value for travelers and industry;
    b. Allowing airports to operate Arrivals Duty Free to enhance non-aeronautical revenues; and
    c. Increasing funding, and expanding eligibility, for the Airports Capital Assistance Program in order to support safe and efficient local and regional airports and a healthy and connected national air system.

4. Overhaul the regulatory, financing and delivery models for airport security, as set out in CTA Review Recommendation 8, including:
    a. Establishing a customer service mandate and performance standards comparable to competing jurisdictions; and
    b. Ensuring the provision of stable and predictable funding that meets the needs of both increasing passenger volumes and evolving security risks.

5. Increase the foreign ownership investment limit for Canadian passenger carriers to 49 per cent on a bilateral basis, with an initial emphasis on the European Union and the United States.