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## Standing Committee on Transport

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**Monday, March 7, 2005**

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**Chair**

**The Honourable Roger Gallaway**

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## Standing Committee on Transport

Monday, March 7, 2005

• (1530)

[English]

**The Chair (Hon. Roger Gallaway (Sarnia—Lambton, Lib.)):** Good afternoon.

Welcome back to our group from Transport Canada. Our clerk said you're just going to carry on from where you left off the last time. I'm calling it chapter 2, because we have a deck—a term that's often used here in Ottawa—that we didn't get through in an hour the last time.

We have one hour. As you know, the rule here is ten minutes, and then we'll turn to questions.

I don't remember who spoke the last time.

Please proceed.

**Ms. Brigita Gravitis-Beck (Director General, Air Policy, Department of Transport):** Thank you, Mr. Chairman.

Let me briefly reintroduce the government contingent that's here. Maria Pagliarello and I are both on the rent file, and Rod Dean is on program management and divestitures.

**Mr. Brion Brandt (Director, Policy, Security and Emergency Preparedness, Department of Transport):** I'm Brion Brandt. With me is Jean Barrette. We're from the security area of Transport Canada.

**Ms. Brigita Gravitis-Beck:** I think the last time we covered very broadly the history, context, and current initiatives related to Canadian airports. In our ten minutes today we thought we would briefly go through airport rents. You should have a deck with you. I will go through the slides very quickly.

The first slide speaks to the historical context for transfers. It reflects the fact that divestitures occurred at a time in the mid-eighties, in a period of deregulation and fiscal constraint, and as a result, capital resources were in very significant short supply for maintenance of those assets, let alone replacement and expansion. That was the context in which the divestitures occurred. Between 1992 and 2003, major airports were transferred to 21 airport authorities by way of very long-term leases—60 years, with room for further extension.

It's important to note that the model we used to transfer the airports was a unique model. It retained ownership of airport lands at major airports while transferring responsibility for operation, management, and development to community-based, not-for-profit, self-financed private corporations, except with no shareholders. This is a very unique model.

All airport assets, including improvements made by the airport authorities, revert to the Crown at the end of the lease, free of debt, unencumbered. In other words, it's important to note that when we transferred them to the private sector for management and operations, we did not sell them to the private sector. The federal relationship was defined through a lease arrangement at that time.

Rent payments were defined as the annual net revenues over the course of the lease that would have resulted under an assumed Transport Canada operation, plus participation rent. I think in the earlier deck that we shared with you last week we made reference to the fact that rent payments were determined based on fair value considerations as well as the scope for future earnings potential, and that meant sharing from the growth of those airports.

In slide 4 the current situation is outlined. There are 21 individual rent agreements with five different formulae for local airport authorities and Canadian airport authorities. This means there are different terms and conditions for different sites. At the present time, only the nine largest airports pay rent, but all of them, including the 12 smaller ones, will commence paying rent some time in the next 10 to 11 years.

Since 1992 the amount of rent paid to the government has totalled \$2 billion, which is equivalent to the book value of the airports at the time of transfer. Since the transfer, airports have invested in the order of \$9 billion in additional infrastructure.

We note that there are imminent issues, which will be facing us as of January 2006. Edmonton and Calgary revert to a higher rent formula after 10 years on a low formula, which will result in substantial changes in increases in their rent. And we note there are four small players who are expected to come on stream in 2006. We are very sensitive to and aware of stakeholder perceptions.

Airport authorities and airlines are summarized in slide 5. They clearly point to airport authorities' concerns about rents being too high and posing a threat to competitiveness and viability. Specific airports raised specific issues. As we indicated, there are a lot of different circumstances. All of them recognize that the formulae are probably too aggressive. They're based on outdated assumptions. The rents represent very substantial operating costs. We've indicated a few here.

In Montreal there are particular concerns because of the formula as it impedes real estate investment and development. In Vancouver there are particular concerns about the amount of rent relative to the government investment at the time of transfer. We have anomalies across the board. There are lots of examples.

The Canada Airports Council has been actively engaged with us throughout the rent policy review and has proposed a number of different options, which range from eliminating rent altogether to reducing rent by half and having only the top eight airports pay.

Airlines, as you can imagine, have expressed many of the same concerns. Rents trickle down to them, to airport users, and to airline customers. They affect ticket prices, and at a time of increasing competition—and especially for low-cost carriers—the ability to pass on those costs is increasingly constrained.

The next slide, slide 6, speaks to some of the pressures that brought us to consider the review in 2001. They stem from the Auditor General's report of 2000, which raised some serious concerns: that Transport Canada could not demonstrate that the arrangements for transferred airports were equitable, uniform, consistent, and fair; that the transfers and lease amendments for Calgary, Edmonton, and Vancouver after 1992 in fact reflected fair market value. These concerns were echoed by the Standing Committee on Public Accounts.

• (1535)

Transport Canada's response noted that the transfers had always been based on the advice of independent financial experts, but as I note in a subsequent slide, they also prompted us to undertake the review in 2001.

We note the views of the standing committee, which criticized the rent policy and called for a freeze or a moratorium at various points in time. We note that there was an interim government response in July 2003, with short-term financial relief in the form of a two-year, interest-free deferral of a portion of rent and chattel payments.

The rent policy review itself was launched in 2001, when the government directed Transport Canada to review airport rents with a view to developing a new policy that addressed the concerns raised in previous years with respect to equity, consistency, simplicity, and market responsiveness. It was based on better data. Ten years since the airports had been privatized meant that we knew more about how they functioned and what their expectations were. It also provided an opportunity to remove anomalies and address disincentives.

Transport Canada undertook a very substantial review exercise. We hired numerous experts. I believe we have an attachment that indicates, in a few annexes, some of the working studies that were undertaken over three years at substantial cost.

The review was designed to address the concerns we'd heard in the previous years, so it was focused on fairness and equity among similar-sized airports; fairness in terms of a return to government; the viability and competitiveness of airports and domestic airlines, or the air industry; and responsiveness to changing market conditions. Those were the drivers for the review.

I would note that the terms of reference for the study are available on Transport Canada's website.

With regard to considerations as we move forward, we know that Canadian airports, the air side, must continue to remain efficient and cost-effective, and that there are both international and domestic drivers and considerations. We have to think about international and gateway traffic and ensure that we have reasonably priced and

adequate services for the development of Canadian cities and regions.

We recognize that inequities and anomalies have to be addressed, and that they are substantial. As you will recall, simplicity and fairness were among the key objectives for the review.

In our considerations, we also have to factor in fiscal considerations. For example, to what extent should the government be protecting revenue streams that are expected to be provided by rent? Clearly, a reduction in rent will have fiscal implications.

Our last slide, Mr. Chairman, addresses the current status. The rent policy review is complete. We have assessed results and are developing policy options. We have a big challenge in terms of striking the balance between a fair return to taxpayers over the life of the leases and the need to balance excessively high rents. The timing and the direction of making these adjustments both remain to be seen.

I would underscore that fiscal considerations are a key factor. We are working very closely with the Department of Finance, as our minister noted in his last appearance before this committee. I would also note that since we were last here, the Auditor General has released a report. The report speaks to the satisfactory progress made since 2000 but notes and underscores that the rent policy review is overdue in terms of results. We would agree with that.

• (1540)

**The Chair:** Thank you.

Now we'll turn to questions, starting with Mr. Gouk.

**Mr. Jim Gouk (British Columbia Southern Interior, CPC):** Thank you, Mr. Chair.

The last time we had the department before us to tell us about airport situations and so on, it turned out to be more of a history lesson on the department itself. It was useful in that one of the things identified in the given package was that one of the roles of the department is to provide advice and recommendations to the minister on various policies.

In keeping with that, I would like to know what advice or recommendation the department has given the Minister of Transport on the following: airport rents, governance, and open skies.

**Ms. Brigita Gravitis-Beck:** That's a big question.

In terms of airport rent, we have been working very closely with the minister in the context of the rent policy review. As I indicated, that review is complete. The results have been shared with the minister. We are in active discussion with the minister and Minister Goodale's office and staff with respect to options and how we can bring closure to the findings of the review.

That's perhaps the most bottom-line kind of statement I can make.

**Mr. Jim Gouk:** That tells me what you're talking about, but what I want to know specifically is what recommendations, guidelines, or whatever did the department make to the minister relative to that file?

**Ms. Brigita Gravitis-Beck:** Again, I will try to answer your question, Mr. Gouk, but with the rent policy review not yet in the public domain, I'm not sure I will be able to be as specific as you would like me to be.

We have spoken to the minister about both the quantum—the level of rent—and the anomalies that exist between the formulae, and we have made recommendations with respect to how that should be addressed.

We believe, and the AG recognized in her recent report in February, that we have responded to the direction we were given under the terms of reference, which dealt with equity and fairness, simplicity, administration, the ability to respond to market circumstances, fairness to taxpayers, and fairness to the government in terms of the proposals we're bringing forward. But I'm afraid I can't give you the specifics of the proposals until we have clearance from cabinet to do that.

In terms of the governance, I'm going to be perhaps even less satisfactory in my response. Madame Valérie Dufour, who is our lead person on the governance file, is not here today. I can say the comments that have been made to the minister with respect to governance reflect the concerns that have been raised by industry in the context of Bill C-27, and we have tried very hard to address many of those concerns. We have heard the criticisms that we should not be duplicating elements that are covered off through the lease, and we are trying to be responsive to that. We have listened to and heard our minister in terms of his interest that the legislation on governance proceed in tandem with the rent file. So again, at a fairly high level, those would be the comments we have shared and exchanged with him.

In terms of open skies, clearly there's a very active dialogue but it's in early stages, as SCOT was made aware when the minister appeared here just recently. There was an open skies forum that was organized by the Canadian Airports Council at which the minister spoke and at which he also met in a bilateral with Secretary Mineta of the U.S. There is a great deal of interest on this particular subject.

The department is doing its homework. It's fact-finding to ensure we are prepared and able to respond to whatever this committee may provide in the sense of advice and to move forward in early spring. We are looking at what elements of an air liberalization regime we may be able to do in the short term and at what elements may require longer-term consideration, but all of that is still in its very early stages.

• (1545)

**Mr. Jim Gouk:** With all due respect, our agenda today says that this is a briefing session on the Canadian airports system. We're about to embark on travel and hearings across the country to talk to people about, among other things, airport rents, governance, and open skies. We invited the department to come in and bring us up to date on where the department is and what they see as being suggested.

You have already stated previously that you provide advice and recommendations to the minister on these files. Here we are about to study this, and we have no idea of what it is you're offering by way of advice or recommendations. Wouldn't that be useful to us as we embark on this study of these very subjects across the country? Why is it that you're here now in a briefing session for us and won't brief us on anything you're doing relative to these subjects?

**Ms. Brigita Gravitis-Beck:** In fairness, sir, I think we're trying to give you as much of a response as we can with the information we are able to share at this time. In terms of open skies, we shared a guidance document with this committee, which is the template we're using for our own considerations and discussions internally, and we're all starting from the same point. Airport rent is a file that has to be considered by cabinet, and we're here to provide you with all of the background and the context for that particular review that we can.

**Mr. Jim Gouk:** Would it be fair to say, though, that you have provided advice and recommendations to the minister that cannot be released at this time because it's still being dealt with in cabinet and so on?

**Ms. Brigita Gravitis-Beck:** That is correct. Our review on rent policy is completed, and in that we have provided recommendations.

**Mr. Jim Gouk:** So you're really briefing us on the fact that recommendations have been made but that you can't share them.

**Ms. Brigita Gravitis-Beck:** We're briefing you on the fact that there is a context in which that policy work was done, and we're pleased to share as much as we can with you.

**Mr. Jim Gouk:** I have no further questions.

**The Chair:** Monsieur Carrier.

[*Translation*]

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Thank you, Mr. Chairman.

If I understood correctly, your recommendations concerning the new rent policy are ready and you have completed your work. That is not surprising, given that this study was launched in 2001. The industry deplores rent increases, the reasons for which cannot always easily be comprehended. For example, costs rose by 306 per cent in Montreal in 2003.

Do you intend to table your recommendation to the committee in the very near future, after receiving the go-ahead from the department? When will we be getting this information?

[*English*]

**Ms. Brigita Gravitis-Beck:** Thank you, Mr. Carrier.

As I indicated, we are in discussions right now with finance. Because of the fiscal implications of any options we pursue, we have to collaborate and look at the art of the possible. Those discussions are ongoing.

I think the Minister of Finance has made statements that he is hopeful we can reach resolution before summer recess, before July, and we are certainly working to see what can be done to be responsive within that schedule, if not sooner.

[Translation]

**Mr. Robert Carrier:** So then, if I understand correctly, you will be hearing from the Finance department before July. Therefore, you will not be ready to unveil your new policy until sometime next fall. Judging from what you're saying, there does not appear to be any real urgency to this situation.

[English]

**Ms. Brigita Gravitis-Beck:** In fairness, I think the intent is to try to bring this issue to closure before July 1. I believe that is what the Minister of Finance stated, but his comments are on the public record, and I'm not speaking for him.

That said, our conversations with them are ongoing; they have begun. They are not being delayed for any particular timeline, and our intention would be to bring this to resolution as soon as we possibly can.

[Translation]

**Mr. Robert Carrier:** Thank you.

[English]

**The Chair:** Ms. Desjarlais.

**Mrs. Bev Desjarlais (Churchill, NDP):** With regard to page 10, annex A, and the figures for the airport rents, could you tell me what the passenger levels were in 1992, as compared to passenger levels in 2004?

• (1550)

**Ms. Brigita Gravitis-Beck:** I can't, but I'll turn to my colleague and ask if she can.

**Ms. Maria Pagliarello (Director, National Airports Policy, Department of Transport):** Thank you, Ms. Desjarlais.

**Mrs. Bev Desjarlais:** Pick any one of them, Vancouver or Toronto, just to give me an idea of what the differences would be.

**Ms. Maria Pagliarello:** Okay. I could take a stab, but I'd have to think through about 12 years' worth of data. We would be more than pleased to provide you with the numbers for each and every one of the airport authorities listed on page 10.

If I had to guess, in 1992—and I'm looking at my colleague, Mr. Rod Dean—I think Vancouver at the time was, and I am going to take a stab, probably seven million passengers. I think that's about right. Today Vancouver would be about half of Toronto's Pearson, which would be about 15 million passengers.

**Mr. Rod Dean (Director General, Airport Programs, Department of Transport):** I can tell you that in 2003 Vancouver handled exactly 12.9 million. I have that on my BlackBerry. I don't have 1992, but I think between seven and eight million is probably the right ballpark.

**Mrs. Bev Desjarlais:** In a previous meeting here, I had asked about the comparisons of what the rents were like at airports, or whether there had been comparisons of airports, say, in the U.S., and what the payment process was there. I am just wondering if you have further information on that today.

What type of system is used at different airports in the U.S.?

**Ms. Maria Pagliarello:** In the United States, many of the airport authorities are owned by the municipalities. They're essentially operated as not-for-profits.

On average, the majority of U.S. airports do not pay rent. As far as we know, only about three or four pay rent. The Port Authority of New York and New Jersey that manages LaGuardia, JFK, and Newark pays about 8% of gross revenues in rent. Washington National pays about 1% of gross revenues in rent. As I said, most of them do not pay rent; they pay property taxes or municipal taxes, etc., and the remaining cost structure is almost identical to Canada's cost structure.

**Mrs. Bev Desjarlais:** Has there ever been a comparison done of the 8% of the gross revenues, or that type of comparison? How would that play out in Toronto and Vancouver?

**Ms. Maria Pagliarello:** We have done those comparisons. I didn't bring those numbers with me today, but we did do exactly that when we looked around the world at different models.

**Mrs. Bev Desjarlais:** Is it possible for us to get a more comprehensive position on some of those comparisons? I think it's important for us to know as committee members exactly what types of systems are out there and what the comparisons are.

**Ms. Brigita Gravitis-Beck:** I think the question you ask is very much to the point and it is very much one of the key questions that we asked in the context of the review. Again, I can refer to some comments that are made in the OAG's report, which noted that we had done some comparisons of both the divestitures in other countries and the terms under which they were done, in terms of what the returns were to government.

They also noted that we had looked at the returns on investments of Canadian airports compared to other airports internationally, where we could find some like experience, because we have to come as close as we can to this apples and apples comparison despite the unique model we have. So the OAG has already noted that that is part of what we looked at in the context of the rent policy review. But in terms of the actual details of the elements in that review, I think again we have to wait for release from our ministers as that dialogue continues.

**Mrs. Bev Desjarlais:** Just along those lines, whether or not included in that cross-revenue are the other outside interests that the airport authorities are involved in and possible revenues that they have coming from that source, is that also part of the comparison?

**Ms. Brigita Gravitis-Beck:** Are you asking whether we have considered revenues coming from non-aeronautical sources such as subsidiaries and commercial...?

**Mrs. Bev Desjarlais:** That are utilized by the airport authorities as part of—

**Ms. Brigita Gravitis-Beck:** As part of their revenue base? Yes, all of that was considered.

**Mrs. Bev Desjarlais:** Okay. Thank you.

**The Chair:** Mr. Wrzesnewskyj.

**Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.):** You stated that the airports are a unique model, and today you seem to be concentrating on rents. In this brief you presented it says since 1992 the total rent paid is \$2 billion. From 1992 until when?

•(1555)

**Ms. Maria Pagliarello:** Until 2005.

**Mr. Borys Wrzesnewskyj:** I guess if you go back to 1992 and work it forward, that's about 6% to 7% of land value at that time. That's pretty close to a rental rate that you might find on large tracts of property. You said you had various things you looked at when you were establishing the rents. How do you go about it?

**Ms. Brigita Gravitis-Beck:** Just in terms of your first comment, I did say in my opening remarks that we have recovered roughly the net book value of the properties we transferred at the time, based on the value they were transferred at, and that's reflected in this number, this \$1.7 billion. It's roughly \$2 billion.

In terms of looking at the rent model, again, I'll refer to some comments that were made by the OAG in her recent report, which indicated that under the review they noted that we were making a distinction between the valuation of the property and what an appropriate level of rent was for the government to collect, and that again is one of the things at the heart of the review.

We did a lot of work in the context of valuations. If you look at the studies that were done, there were a number of studies that dealt with appropriate valuation techniques for real estate transactions, for property transactions. So a lot of the thinking was on the appropriateness of using valuation models, and we reached a conclusion that based on the kind of operation of airports, it was more than a real estate transaction. It really is a transfer of a going concern, and how to put a value on a going concern that is a monopoly and relatively unique is a challenge, and that was one of the issues we had to look at in the context of the review. Again, as the OAG noted, we looked at comparisons with other countries, trying to find airports of similar situations.

**Mr. Borys Wrzesnewskyj:** I'd like to follow up on the comment you just made that these are monopolies, that these are unique situations. It's hard to use the market to arrive at a specific formula. Are you looking at the fact that these were set up as non-profit corporations, but in their lease agreements there seems to be a flaw that allows for for-profit subsidiaries? Are you looking at that aspect?

**Ms. Brigita Gravitis-Beck:** As I indicated in response to Madam Desjarlais' comment, we are looking at revenues combined in terms of total operations, which include both the aeronautical and non-aeronautical sides and subsidiaries. We are looking at what is appropriately included in terms of a revenue base.

**Mr. Borys Wrzesnewskyj:** What we've heard today is we're looking at things and reports are coming forward. Yet these have been established for years now. When can we expect to have some of these issues addressed? The leases are pretty large documents, but it does appear that there were oversights. When are we actually going to see some recommendations from your department on how to fill these holes?

We'll move on to another area of concern in a second.

**Ms. Brigita Gravitis-Beck:** As I indicated, these are issues that currently are under discussion with cabinet and between ministers, and we as officials are at their call in terms of timeliness of release of that information.

**Mr. Borys Wrzesnewskyj:** All of these major airports have a positive cashflow. Is that correct?

**Ms. Brigita Gravitis-Beck:** There is one airport, Toronto, that is currently not in a positive cashflow.

**Mr. Borys Wrzesnewskyj:** I think if you look at the numbers, you'll see that it's not showing a profit but it has a positive cashflow, and a significant one. It has significant amortization costs that are built into it. If you take out the amortization costs they've built in, it's actually positive in terms of its cashflow.

These are non-profit corporations, and most of them have substantial profits. Is Transport Canada looking at what they are doing with these profits? They're generating profits every year. What exactly is happening with those profits?

•(1600)

**Ms. Maria Pagliarello:** I'd like to respond to that.

Not all airport authorities necessarily have positive cashflows. If you look at one year, then perhaps it was so in that one year. We've looked at various years, and we've also looked at some forecasts they would have provided their bond-rating agencies when they were issuing bonds and what not. We have seen some negative cashflows, which, one could argue, could be rectified by either reducing costs or increasing fees.

In terms of dealing with some of these issues, the airport legislation, which is being drafted at the moment, will be dealing with issues such as subsidiaries and the strong market power of some of these airport authorities primarily through the design of a fee chapter where we will have some charging principles similar to the Civil Air Navigation Services Commercialization Act.

**Mr. Borys Wrzesnewskyj:** I'm looking at a table of ten airport authorities in 2003—Toronto, Vancouver, Montreal, Calgary, Edmonton, Ottawa, Winnipeg, Halifax, Victoria, and Moncton. Those are the biggest ten, it appears.

**Ms. Maria Pagliarello:** Is that the OAG report?

**Mr. Borys Wrzesnewskyj:** Yes, it is. All of them show a positive cashflow. So which one are you referring to?

**Ms. Maria Pagliarello:** I am referring to future financially oriented information that we were provided in confidence by airport authorities. That is future information.

**Mr. Borys Wrzesnewskyj:** My next question—

**The Chair:** I'd like to jump in here. Your question was where are the airports that have a negative cashflow, and the answer, as I understood it, was that you have confidential information that would indicate that. Did I hear you correctly?

**Ms. Maria Pagliarello:** During the whole review—

**The Chair:** Which review?

**Ms. Maria Pagliarello:** —the rent policy review—we did get information dealing with the future. It's not an accurate statement to be saying that all 21 airport authorities will necessarily have a positive cashflow for every single year. As I said, they have various methods of rectifying that, and I'm fairly confident that they would do that.

**Ms. Brigita Gravitis-Beck:** With regard to your comment about profit, these are not-for-profit corporations, which means that they have to balance revenues with expenses on an ongoing basis. If there are shortfalls in some years, they are intended to be temporary, and they are intended to be cash-management issues that can be addressed fairly readily.

**Mr. Borys Wrzesnewskij:** But what I'm leading to is do we know what the reserves are for each of these airports? Some of them are generating significant profits. Do we know where those reserves are? They're building up profits year in, year out. Do we know what's happening to those reserves and how those are being treated?

**Mr. Rod Dean:** I could answer that. We examine their annual statements, their financial statements, regularly. As we said, they are not-for-profit organizations. They cannot distribute the surpluses. Some have large retained earnings, but retained earnings don't necessarily mean cash in the bank. That's the bricks and mortar. That's the contributed capital. As the airport authorities produce cash surpluses, then those surpluses are what go to financing the capitalization. So while they're recorded as retained earnings, they're not necessarily cash in the bank.

**Mr. Borys Wrzesnewskij:** It would be really helpful if we could get some of that tabulated for us, so that we know what we might be dealing with.

I'd like to move on to another part. The leases that were signed obligated the airports to do a number of things. Most of them had environmental impact clauses within the leases. For instance, I'll read the one from the GTAA, the biggest airport:

The Tenant shall ensure that mitigation of noise emanating from aircraft in the takeoff, ascent, descent, approach and terminal phases of flight is a part of the mandate of a noise management committee which the Tenant shall establish and which shall include at a minimum, the Tenant, the Minister or his designate....

And then it lists off some other groups that could be part of a committee of that sort.

Are you happy with the committee that's been established in the GTAA?

**Mr. Rod Dean:** We talked a little bit about this the last time I was here. That's outside my specific subject area. It's part of the safety and security group. But I'll just quickly reiterate what I said last time.

When we transferred each and every airport, all of these airports had a noise management plan that was established by Transport Canada. When we transferred the airports, each authority had to adopt that noise management plan and they could not amend it without the minister's approval and only upon input and consultation with the noise management committee.

So to the extent that they have been varied since the time of transfer, it has been with full consultation and noise management committees.

● (1605)

**The Chair:** Your time's up.

**Mr. Borys Wrzesnewskij:** Thank you.

**The Chair:** Mr. Gouk.

**Mr. Jim Gouk:** Just this one question, before I pass it to Mr. Batters.

I understood that the group said that they have confidential documents to provide more current and up-to-date information than we presently possess. As we are leaving to study these very matters on Wednesday night, can they provide those documents to us before we leave?

**Ms. Brigita Gravitis-Beck:** The information that we have is of a confidential nature and comes from the airport authorities themselves. We cannot share it without their release.

**Mr. Jim Gouk:** Without whose approval?

**Ms. Brigita Gravitis-Beck:** From the airport authorities. It's their forecast, their assessments of traffic volumes, etc.

**The Chair:** The airport authorities you refer to, are you referring to the Canadian airport authorities, the umbrella organizations?

**Ms. Brigita Gravitis-Beck:** Correct.

**The Chair:** They'll be here as a group, so we can get that from them.

**Ms. Brigita Gravitis-Beck:** The large airports.

**Mrs. Bev Desjarlais:** You're referring to each airport authority, not the body.

**Ms. Brigita Gravitis-Beck:** Correct. Yes, not the association, each individual airport authority.

**The Chair:** Fine. Thank you.

Mr. Batters.

**Mr. Dave Batters (Palliser, CPC):** Thank you, Mr. Chair.

I'd like to welcome members of the department to the committee to answer our questions today. On a very snowy day, it's nice that everyone could make it.

In discussing this behemoth that is airport rent, this cash cow, it's obviously a very topical area, as it's something that's been raised in the House a number of times. I just want to touch on it a little, because I think it's very important that we have on the record the impact of airport rents in 2005.

Recently I asked a question of the Minister of Transport, and I believe the Minister of Finance answered the question, about airport rents. The Minister of Finance was quite eager to point out that in my home city of Regina as well as in Saskatoon and St. John's and Thunder Bay these changes are due to take place in 2006. However, he seemed to skirt the issue that significant changes happened this year, in 2005.

I'd like the members of the department to maybe discuss some of these significant changes. Particularly, as I look down my chart, I see Montreal, Calgary, Edmonton, Victoria. And Quebec City, in the transport minister's back yard, is now paying rent for the first time. I would like to have on the record some of the impact that was felt in this country in terms of airport rent in 2005.

**Mr. Rod Dean:** I don't have the exact 2005 figures with me. I don't know if either of you have, but I can tell you what triggers the changes. The formulas that are included in the ground lease are all based on passenger volumes, and in some cases, for example in Montreal, they had a sliding scale where in the early years of the ground lease a relatively low revenue per passenger was included, and this was to recognize the fact that they were running two airports and one was under capacity, etc. The formula that was negotiated actually had this increasing slowly over time. So two things are happening. One is that the unit revenue per passenger is increasing as a result of the formula. More importantly, all of these airports are experiencing great growth. Quebec City, for example, is possibly going to be paying rent for the first time this year because of a great increase in transborder traffic, charter traffic to the Caribbean.

Not to be too facetious about it, what's happening is that the airports are victims of their own success. As the passenger volumes go up and exceed certain triggers, certain thresholds, then the rent goes up accordingly. And it's not that the landlord is actually doing anything; what's happening is that the formula that was negotiated is simply operating in a way that produces these higher rent numbers. And it's the same right across the country.

**Mr. Dave Batters:** I can assure you, sir, that the people who I've talked to from the airport authority in Regina don't see this as a product of their success by any means. And it's not a small matter for them. They are concerned in a big way. This will be the single biggest line item on their budget for next year, if this thing does go ahead. They're very concerned about the impact that will have on ticket prices, on the competitiveness of our city, frankly. The ticket prices obviously will be passed along to the flying public. Increases of 15%-20% in terms of ticket prices can have a family decide that instead of hopping on a plane to Calgary we'll just pack the family in the car and we'll drive to Calgary.

They're very concerned as to what this will mean for the industry. Minister Goodale has been talking about addressing this since last fall, when I first asked him about it. And now we're hearing today that we should have some movement on it by summer. Frankly, it should have been addressed in this budget, as your minister, the Minister of Transport, aptly pointed out. Minister Lapierre was outraged that this was not included in this budget. He said so at an industry breakfast the day of the budget, and joked about putting the minister—maybe he wasn't joking—on a no-fly list. So today I sit here, and we're asking questions of members of the Department of Transport and trying to think what good is going to come of this.

The Minister of Transport must feel somewhat irrelevant on this whole matter. And here we have the officials who are advising the Minister of Transport, so I think we commiserate with you for now and we're in this fight together versus the Minister of Finance to finally take some action, follow the advice of members of his own caucus and appreciate the serious situation we have with airport rents, the fact that every single player in the industry and every air traveller believes that this needs to be addressed. The Department of Transport believes it needs to be addressed, and with the finance minister it just continues to fall on deaf ears.

I have no further questions.

•(1610)

**The Chair:** Mr. Scarpaleggia.

**Mr. Francis Scarpaleggia (Lac-Saint-Louis, Lib.):** I believe Mr. Wrzesnewskij was interested in following some of his.... Maybe I'll just go then.

Your presentation was very interesting, but it's a very complex subject and we seem to be going through it quite quickly. Perhaps you could clarify a couple of principles you talked about. For instance, on the idea of having recovered the net book value, could you explain to me in layman's terms what you mean by that?

**Ms. Brigita Gravitis-Beck:** The whole concept of a net book value is looking at the value of the asset at the time of the transfer. So in the state they were in, an estimate of its worth—

**Mr. Francis Scarpaleggia:** After depreciation and everything?

**Ms. Brigita Gravitis-Beck:** Yes. And then looking at the.... Sorry, the rest of your question was...?

**Mr. Francis Scarpaleggia:** You keep talking about having recovered net book value by the time the leases were signed.

**Ms. Brigita Gravitis-Beck:** If you look at annex A to the presentation, which just looks at the amount of rents that have been paid over the period since divestiture took place, they roughly total \$1.8 billion. That is roughly the value of the net book value. The net book value is in the order of \$2 billion. If we look at the resources, they're roughly in line, so we have recovered through our rent payments an amount approximately equivalent to the net book value.

**Mr. Francis Scarpaleggia:** Does this mean that everything that's gained since is essentially gravy? Is that what we're saying?

**Ms. Brigita Gravitis-Beck:** If you are comparing it to net book value, that is correct.

**Mr. Francis Scarpaleggia:** Do we use net book value in the formula? Is that part of the formula?

**Ms. Brigita Gravitis-Beck:** Net book value is simply one measurement against which one can look at the amounts that have been recovered. There are those who would argue that airport authorities should pay no further rent, that we have recovered the net book value and the government should now just step aside. Part of the rent policy review was very much focused on what is a fair return to government. There was a general sense that the government is entitled to an ongoing rent at some value to be determined as a result of the review on an ongoing basis because of the asset that it continues to provide for the services rendered to the airport authorities.

**Mr. Francis Scarpaleggia:** Let's assume for a moment we were transferring some theoretical airport right now. Would you say, if we sold this land to the private sector for office buildings, the value of the land is so much, this is what we would get, and we would have a right to earn a rate of return equal to what they used to call in economics—and I don't know if they still do—the social rate of interest on this land? Would that enter into the equation of calculating rent? In other words, is there an economic optimal equilibrium solution to this, or is this really a political economy problem where the answer is indeterminate but arrived at through political negotiation—that is, the airports one day say it's too much, it's too aggressive, and the government then pulls back a bit?

Theoretically speaking, of course, this is obviously not an exact science, but based on what you've been saying so far, is that correct?

•(1615)

**Ms. Brigita Gravitis-Beck:** What I would say is both elements that you've identified are accurate. The whole premise of our rent policy review was to try to find a validation to fair value to government and fair value to users. That was the premise, that was one of the initial objectives. And we were very heartened by the comments of the Auditor General in the February report, which indicated that it was not unreasonable in this situation of the airport model to differentiate between the value of the airport, the asset, and what was a fair rent to government. This is an important element that underpinned our review in the findings and assessments of all these experts.

We were gratified that the OAG felt that it was not unreasonable to take this kind of an approach. It means that we have identified and we have put forward recommendations with respect to what we feel is a fair rent. We have looked at other models in other countries to try to find some point of reference, some point of comparison, to validate what might be reasonable returns to government, and this forms the basis of the recommendations we've brought forward.

**Mr. Francis Scarpaleggia:** My next question would—

**Ms. Brigita Gravitis-Beck:** In the end, it was a political decision—

**Mr. Francis Scarpaleggia:** It is political, that's what I'm getting at.

**Ms. Brigita Gravitis-Beck:** —as to what cabinet ministers choose to do.

**Mr. Francis Scarpaleggia:** Yes.

Considering that many airports are along the U.S. border, would it be a justifiable decision if the government decided it was going to lower rents significantly—and albeit there'd be a cost to the public purse—as a policy decision to make them more attractive to airlines that wanted to park there? Would that be justifiable from the Auditor General's point of view, from your point of view? In other words, can we start subsidizing this sector in some way by cutting rents and helping them expand or attract more airlines? I don't know, I'm just throwing that out. But if it is a political decision I would imagine we could go in that direction if we wanted to, if we decided for some reason we really wanted to, as a country, put a push on air travel.

**Ms. Brigita Gravitis-Beck:** I keep harping on it, and I don't mean to restate the obvious, but in the context of our review the focus was fair return to government. Again, based on the assessments we did of other airports in other countries for returns to government for approximate like situations—which was, as I said, a challenge to compare apples and apples—we provided an assessment of what we felt was a reasonable return to government. Some recommendations have gone into the system. Now, decisions taken by ministers will have to consider the fiscal implications of that. Ministers may choose to be more generous than our recommendations might suggest, and they may choose to be less generous.

**Mr. Francis Scarpaleggia:** But you agree that it's a political decision and an issue of political economy and not really a purely economic decision.

**Ms. Brigita Gravitis-Beck:** Policy decisions in government are always political decisions.

**Mr. Francis Scarpaleggia:** Thank you.

**The Chair:** Thank you.

Mr. Batters.

**Mr. Dave Batters:** Thank you, Mr. Chair.

I'll touch on airport rent a little, and then I want to ask a question on CATSA, if someone will entertain that question.

I found the sheet enunciating changes in airport rents. To get it on the record, Montreal saw a 375% increase in 2004 and a 43% increase in 2005; Calgary will see 107% increase in 2006; Edmonton will see a 447% increase in 2006, from \$4 million to in excess of \$22 million; and of course my own city of Regina is looking at \$690,000 next year. People are very concerned about the impact on service that this will have with possible reductions in service.

During the week we were on break, there was a major announcement regarding Air Canada pulling its main service from a number of communities. Regina was one of those that was affected, as was Saskatoon. We'll now be serviced by smaller regional jets.

I had conversations with officials at Air Canada and asked whether there was a link between the fact that rent was not addressed in the budget and the changes in terms of service. They would only say that the airline received absolutely no help and no support from this government for the past five to seven years and that this change in service is absolutely connected. So I would put that forward for the committee's consideration.

I have a question about CATSA. Part of the agenda today was supposed to be on security. What is your relationship with CATSA, and how is CATSA financed from the Department of Transport? Could you enlighten me a little on that?

•(1620)

**Mr. Brion Brandt:** In answer to your second question, the Department of Transport does not fund CATSA. CATSA receives appropriations that are taken from the air traveller security charge, so they're essentially operating on annual appropriations.

Our relationship to CATSA is one where CATSA provides operational services at the airports, including screening of passengers and bags, non-passenger screening, and a variety of other operational services. Our role vis-à-vis CATSA is to ensure that there is a regulatory regime in place, the right kinds of security measures are in place, and there is a compliance regime in place to ensure that the standards CATSA is supposed to adhere to are in fact adhered to.

**Mr. Dave Batters:** Does CATSA in essence report to officials at the Department of Transport or do they report to the Minister of Transport to ensure that they're complying with all of your guidelines and your direction?

**Mr. Brion Brandt:** They don't report to officials at the Department of Transport. CATSA is a crown agency that has a board of directors. The board of directors is accountable to Parliament through the Minister of Transport. There isn't a direct link in terms of governance between the department and CATSA.

**Mr. Dave Batters:** Thank you.

**The Chair:** Thank you, Mr. Batters.

Monsieur Carrier.

[*Translation*]

**Mr. Robert Carrier:** Someone mentioned earlier that it would have been nice to receive your recommendations respecting the new rent policy before the committee goes on tour. I tend to think the department doesn't want to show its hand before the committee begins travelling to avoid giving us some arguments that we could use. In my view, this is what the department has in mind: let the committee travel without providing it with the information stemming from all of the studies conducted. That's what I think is going on, and you can deny it if you want.

I would like to know, however, if you will take into account the air liberalization policy so dear to the Minister in your rent policy study. My sense is that liberalization will have a significant impact on rents, that is if we want airports to attract business. I'd like to hear your comments on this subject.

[*English*]

**Ms. Brigita Gravitis-Beck:** We have indeed been very concerned about competitiveness—viability in the first instance, competitiveness in the longer term—and in that regard what we have been looking at is a fair return relative to other airports that appear to be similar. We are looking at what would be a fair level of rent to come from Canadian airports to the federal government, but that does take into account viability and competitiveness considerations.

But you are right, we have to consider competitiveness in the context of air liberalization and competition.

[*Translation*]

**Mr. Robert Carrier:** I'd like you to clarify something for me. Do you take into consideration competition with US airports? As someone pointed out, most US airports do not pay rent. The cost of renting airport space is passed along to users. Your study of competition in the industry must also take into account the way in which airports operate in the United States, in light of liberalization. Agreed?

• (1625)

**Ms. Brigita Gravitis-Beck:** I agree.

[*English*]

**The Chair:** The last word goes to Mr. Bonin.

**Mr. Raymond Bonin (Nickel Belt, Lib.):** Thank you, Mr. Chairman.

I will give you an example of why I don't like acronyms. For you, "OAG" is the Office of the Auditor General. For me, as a former airliner, it's the Official Airline Guide. So I don't like acronyms.

Airlines don't measure their profits or their position on passenger loads. They measure it by "passenger load factors", the percentage of the aircraft that is revenue-generating.

I will have two questions. The first one should be a short one. You may want to elaborate more on the second one.

I am wondering why the information of these airport authorities is confidential. They have no competitors and they are public bodies. I fail to see why that information would be confidential.

When I talk to students in schools, we talk about laws, and I compare them to computers. If you buy a computer, in three years it's outdated. Many times laws, by the time we put them into place and pass them, or very soon after, are outdated.

Here we have 14 studies since 2001-02, in an industry that is changing more than computers or anything else. It cannot take into consideration a new airport in Ottawa, a new airport terminal in Toronto, the closure of Mirabel, the load factors for the airlines that have gone up tremendously. I'm concerned that cabinet is making decisions based on this outdated information of 14 studies.

Those are my two questions.

**Ms. Brigita Gravitis-Beck:** I'm sorry, could I ask you to repeat your second concern, with respect to the outdated...?

Your first concern is just why information is confidential, and I appreciate that.

**Mr. Raymond Bonin:** In the second one, my concern is that cabinet is making decisions based on outdated studies, 14 of them. The last couple may be modern, but out of 14, the majority have to be outdated, in an industry that has changed from a takeover of a bankrupt airline to becoming or almost becoming bankrupt to now doing very well.

How can they make decisions on information like that?

**Ms. Brigita Gravitis-Beck:** Those are both good questions.

In terms of the confidentiality, let me answer generally, and then if Maria can add or help me out I'd appreciate it.

Obviously the information we receive from the companies is commercially confidential, in the sense that they are looking at forecasts over a long term. Those forecasts may or may not materialize, and I think regardless of the fact that we want to see transparency and to see greater disclosure, in the public interest, it is appropriate for the airports to make decisions about the degree of certainty that applies to very distant forecasts and their validity and context.

As well, the information that was shared by the airport authorities was combined with forecasts from the Department of Transport. In that sense, the information is combined to tell a story, combined to provide an analysis.

**Mr. Raymond Bonin:** But it can't be challenged.

**Ms. Brigita Gravitis-Beck:** But the airport authorities.... It has been challenged by the technical experts who worked with all of the information.

• (1630)

**Mr. Raymond Bonin:** We're directors of the board of Canada.

**Ms. Brigita Gravitis-Beck:** Indeed. The approach we took, with the extensive engagement of technical experts and the development of an internal advisory group within government to help us throughout the three years, was intended to provide the challenge function, the transparency, and also in a sense a type of peer review in terms of credibility. It is a complex issue. It isn't one that is perhaps best dealt with before a large audience of very diverse interests. The intent of using these experts was to ensure that we had that validity and challenge function.

Let me address your second question, which is a difficult question in terms of the length of time of the work that's been done. I would say two things. One is, all of the work we have done is done within the same context, in the sense that the information from the airport authorities, the forecast from the department, the benchmarking comparisons with other countries have all been done in the same context. In that regard, the trends that would affect any one set of that data affect all of them, which gives us a certain comfort.

What we have also done is to look at updating some of the information as we have improved forecasts, particularly for the next year and the next five years. It's less easy to do for the 60-or-whatever-year period of the lease. We have tried to do this in the context of the recommendations we have brought forward. So we have been sensitive to that concern.

**The Chair:** With that, we're out of time, more or less. I thank you for coming.

I have just a very quick question on what I would call the veracity of the advice you offer to the minister. On page six of your deck you refer in a historical context to the Auditor General's report of October 2000, to the Standing Committee on Public Accounts' criticism—this is with respect to the deals for transferred airports—and say that Transport Canada's, that is, your response was, this was based on a lot of advice we received from experts.

Now if I flip over to page seven, in terms of airport rents you note that you're hiring experts again. You spent \$2.7 million. Why would I as a member of this committee, given that your answer based on the 2000-2001 criticisms was you had engaged experts, think you're going to give the minister good advice this time based on these outside experts? When do you learn that experts are not always expert?

I would also like to know whether these are the same pool of experts you're using this time whom you might have used in the run-up to 2000.

**Ms. Maria Pagliarello:** I'll try to respond to that. I'm looking to my colleague Rod Dean, who was also intimately involved with the earlier transfers.

The earlier transfers were not only based on the advice of independent experts. And no, they're not necessarily the same experts. This time around we've used a collectivity of many, not just necessarily one firm. Together, that collectivity of experts has helped us tremendously in terms of converging in the same direction on some of the key results of the rent policy review.

We have confidence that the expert advice we have received so far, which ranges from economic advice to real estate advice to just commercial leasing in the public sector as well as the private sector,

has been useful in terms of arriving and helping us complete the rent policy review.

**The Chair:** Thank you, Ms. Pagliarello.

Now I have to wrap this up, but in your deck on page six you refer to "experts" in the plural. Your answer suggests to me that you had "an expert" at that time. So again I will ask you, are you in the same pool of experts, or if you're talking about a collectivity, how broadly based is this collectivity? Could you perhaps give us a list? Maybe you could undertake to provide us with a list of the experts you refer to on page six of your deck and the experts you refer to on page seven, and maybe we could make a comparison on who's different or how it's different. Could you do that?

**Ms. Brigita Gravitis-Beck:** We could do that, for sure.

**The Chair:** Thank you very much.

Thank you for coming. I think you can understand that there's a level of frustration here today with regard to your answers, but we understand the limitations you are under in terms of political decisions.

We will suspend for three minutes. We will have ATAC up in a minute.

Before we suspend, I want to advise members that Mr. Moore has provided, in both official languages, a notice for a motion that will be dealt with at our next meeting. I will read it, but it will be available. It is that the Standing Committee on Transport invite the Minister of Finance to appear before our committee in order to discuss the Canadian airports rent policy.

Thank you, Mr. Moore.

Thank you for coming.

Ms. Desjarlais.

**Mrs. Bev Desjarlais:** I have a point of clarification. Being that we had representatives here who were going to talk about airport security, and we did have a deck on airport security, somehow I was of the impression that at some point they were going to be able to give us a bit of discussion on this.

•(1635)

**The Chair:** They will come back. We have CATSA up next.

**Mrs. Bev Desjarlais:** They'll come back again?

•(1640)

**Mr. Fred Gaspar (Vice-President, Policy and Strategic Planning, Air Transport Association of Canada):** Thank you very much, Mr. Chairman.

Before I start, I do want to underscore that we will be speaking today primarily on the issue of liberalization. To Ms. Desjarlais' point, we are always available to come to speak to the committee on other issues, and we do look forward to appearing before you separately on the issues of rent, governance, and other infrastructure matters.

Good afternoon. I'm very happy to appear before you on behalf of ATAC, as the chairman mentioned, to speak to the issue of liberalization. Your deliberations will have a profound impact on the future development of our industry, so let me first commend the spirit with which you have approached this issue by holding broad consultative hearings across the country. You have set out on the right path. Hopefully we can shed some light to help you find your way.

As you know, ATAC represents the commercial aviation sector in Canada. With approximately 300 members, we represent virtually all scheduled carriers, as well as flight schools, regional aviation organizations, and other stakeholders.

I would like to make it clear from the outset that ATAC agrees with the principle of further liberalizing Canada's air policy framework. Nonetheless, it is true that there is no industry-wide consensus as to exactly how to get where we all want to go. We do agree, however, on a few core principles, which I would like to share with you today as a suggested framework for your deliberations.

First, a fact-based approach grounded in sound business analysis must inform and guide the debate. Let's not rush to grease the squeaky wheel.

Second, win-win objectives must be sought. It's only reasonable to expect that any proposal you bring forward should focus on achieving a balance of benefits. That means Canada should seek to liberalize first with those countries whose markets are large enough to deliver economic benefits to Canadian carriers as well as to foreign carriers.

Third is reciprocity. Ours is a proud, vibrant, but fragile industry. While our members shy away from no one when it comes to competition, they do expect that competition to be fair, as would any other business.

Fourthly, process matters. Because you're being asked to come up with creative solutions to complex issues, there can be no substitute for comprehensive, interactive, and open dialogue with stakeholders.

Five, address the whole picture. Ultimately, Mr. Chairman, any proposal this committee makes must be workable. Unless and until we address key issues involving airport governance, airport rents, and improved customs and immigration efficiencies, no liberalization initiative will deliver any meaningful benefits for Canadians. Additionally, addressing the whole picture involves looking at the political climate for any proposals you may wish to make to ensure that they are saleable to all stakeholders.

**The Chair:** Mr. Gaspar, could you slow down a little bit? I think the translators are having a problem.

**Mr. Fred Gaspar:** What do we mean by ensuring that facts and sound business analysis should inform the debate? We refer here to responding to passenger demand such as it is, and not as we may wish it to be. It is essential that we put aside notions of this debate offering a panacea to every community that dreams of international flights. Put simply, international flights from Cranbrook to Cairo, or sadly, Mr. Chairman, even from Sarnia to Seattle, are not coming tomorrow just because you may allow it to happen today.

The principles of sound public policy development dictate that government must use economic forecasting and other analytical tools to understand the consequences, both intended and unintended, of each proposal.

One potential area of consequence lies in the cargo world. Canadian cargo operators are willing to support some degree of increased liberalization so long as it respects the principle of a level playing field and gives them a reasonable assurance of future success. For example, some carriers are particularly concerned about co-terminalization and seventh freedoms, which they fear may unfairly tip the balance of trade in favour of their U.S. competitors. Their U.S. competitors often operate and own large wide-body aircraft, while Canadian players, who serve a smaller market, tend to operate differently. Hence, in this case, reciprocity itself does nothing to ensure the ongoing viability of Canadian cargo carriers. To compete, they feel they would need to expand aggressively into U.S. markets, which would require a significant investment of short-term capital to grow their fleet, and increase long-term capitalization requirements to manage the larger operation effectively.

Clearly, this would take time and money. So any proposal you may recommend should include an adjustment period for cargo operations.

Canada's air cargo operators also need assurances that any proposal would provide more than simply esoteric benefits. Let's recall that many large U.S. cargo operators have strict scope clauses in their collective agreements that prevent any significant subcontracting opportunities by Canadian carriers.

This leads to my next point, the need to seek win-win objectives. Again, we refer here to ensuring that a balance of benefits exists in any proposal you bring forward. Whether we refer to cargo carriers, small regional airlines, or larger airlines, government must be mindful to draft legislation and enact proposals that do not make losers out of Canadian success stories. Let's be careful not to liberalize just for the sake of doing so. Let's pursue liberalization first with those markets that offer something of benefit in return. Why would we unilaterally spend limited government resources negotiating one-off special access deals, for example, with the Emirates or Iceland, when the only real benefits to be had are by those countries' home carriers?

While some airports may contend that it doesn't matter who operates into their facilities, we would respectfully suggest that not all traffic is equal. Canadian carriers provide a disproportionately massive benefit to Canadian airports and to the Canadian economy. We are here for the long haul, so to speak, whereas niche foreign carriers will not hesitate to leave the Canadian market at the first sign of trouble.

So yes, let's liberalize, but let's talk to our Canadian carriers about where there are reciprocal, long-term opportunities to be found.

Indeed, we are absolutely united in our call for trade reciprocity. If foreign carriers have access to our markets, government should ensure that our carriers have access to theirs. We are asking for no more and no less than what is fair. This is a fundamental principle of modern economic realities.

Another fundamental reality of our modern economy is interdependence. That's why we're asking you to look at the whole picture. No proposal can exist in a vacuum. To that end, this committee deserves credit, Mr. Chairman, for examining this issue while at the same time examining airport rents and airport governance. Unless and until Canadian airports are freed of the burden of federal airport rents, they will never be able to effectively compete with foreign airports for connecting traffic. Similarly, unless the long-term interests of airports and carriers are realigned through meaningful governance reform, scarce resources will be wasted in pursuit of goals that carriers may not be prepared to support.

We are asking you as well to ensure that government service agencies are included in your study. In Toronto, for example, an inbound passenger from a small U.S. market looking to connect onward to Tokyo may have to ride two buses to three different terminals while clearing Canada customs and being re-screened by CATSA, despite the fact that this passenger has absolutely no intention of entering Canada. Unless you fix this mess, no liberalization deal will ever attract this passenger to fly through Pearson again on his way overseas. Pearson needs an in-transit facility, and Canadian airports must be allowed to establish comingling areas subject to security protocols.

We should also consider this debate in the broader context of the European Union discussions. Where should government be putting its scarce resources? Should we undertake a process parallel to the EU discussions, or conversely, should we be focusing on liberalization talks currently under way with China and India?

Again, respectfully, we would suggest this committee should focus on any and all opportunities that deliver meaningful benefits to Canadians. And when confronted with conflicting proposals, you may want to ask yourselves this question: what can we do to provide the greatest benefit to Canadians and Canadian businesses with the least negative consequences?

•(1645)

In closing, I would ask you to keep in mind that Canadians and their businesses depend on a healthy aviation sector. Sadly, the aviation industry worldwide is rarely far from potential trouble. In Canada we have had to deal with the demand shocks of SARS and September 11. Air Canada has recently emerged from bankruptcy protection. WestJet has just recorded its first quarterly loss, and some carriers are offering the lowest fares ever seen in the marketplace. Meanwhile, oil prices are at historic high levels, and airport rents are on a permanent upward trend. In contrast to these realities, airports are furiously investing in the *Field of Dreams* approach to infrastructure development—"If you build it, they will come."

We would ask you to keep this economic climate in mind when drafting your legislation or making proposals. As you go about this important work, I would ask you to recall the principle that has guided physicians since ancient times: first, do no harm.

Once again, I would like to thank you for allowing me this time to present a broad industry perspective on the issue, and I would like to leave you with one final thought: getting a good deal done is more important than getting it done quickly.

Thank you, Mr. Chairman. I now invite your questions.

**The Chair:** Thank you, Mr. Gaspar.

Mr. Gouk is going to start questions.

**Mr. Jim Gouk:** I have just a couple of things. I've read through the information as well as listened to you, and I understand most of these issues, but there is one thing that's missing that I'd like to get your opinion on.

The fundamental difference between the American aviation system and ours is density. I know when we talked open skies air liberalization the last time around, one of the great problems was slot times and gates. Most airports here are looking for business. They have to because they have to pay this exorbitant rent charge. So they're looking for business and in most cases they have capacity. Although there might be a little jockeying for slot times, our air traffic control system can get them. But what about Canadian carriers going down to the United States? Is there a problem getting gates at certain airports if there is any expense? What is your recommendation with regard to reciprocity on slots and gates?

•(1650)

**Mr. Fred Gaspar:** That's a very salient point, because you're absolutely right. As I said, unless any proposal actually delivers meaningful and tangible benefits, then it only has so much value.

I guess the quick answer to that question is that we feel there is obviously a discrepancy in terms of slot access and gate access at various airports, and the bigger airports clearly are more congested in the United States and more difficult. Nonetheless, our carriers have shown a tremendous resiliency in terms of opening up new markets and operating into new areas.

Right now we're stuck in the middle of winter, and you all know quite well that there are any number of airports in Florida that Canadian carriers operate to. For instance, where Miami might be really hammered for an early morning arrival, there are carriers that have found an open new route to Sarasota, for example, and there are customers that are responding, because Sarasota is still warmer than Ottawa in the winter.

**Mr. Jim Gouk:** Everywhere is.

**Mr. Fred Gaspar:** That's right.

Yes, we do think the issue of slot access should be addressed, but it isn't one that necessarily should stop further liberalization discussions if there is an impasse and an inability for governments and airports as a whole to come to an agreement on slot access, because the carrier community can respond.

**Mr. Jim Gouk:** In your capacity with ATAC as well as the other hat you wear, what assurances do you feel you could give us, or indeed do you believe any exist, that opening up our skies to foreign carriers that are obviously going to fly the major density routes will mean Canadian airlines will continue to actively serve smaller communities and not pull in so they can compete directly head-to-head against the American carriers and foreign carriers coming in? Is it going to cause problems in these small locations?

**Mr. Fred Gaspar:** Obviously I can't speak to any one of our member companies' specific business plans, but I can give you an overall assurance that Canadian carriers, as any business would be, are primarily interested in growing their customer base. Being based in Canada, carriers want to drive new traffic. They want to identify new customer opportunities.

To get to the nuts and bolts of your question, why would they not abandon a Canadian community if they could see an opportunity to fly between two points in the United States? Put simply, in order to serve a route effectively and efficiently, most carriers will find they need a certain density, a certain penetration in the market. In order to be able to effectively manage resources to ensure that an aircraft in case of mechanical problems is not stuck far away from its home base, a carrier will always want to maximize growth closest to home before it expands. There are several efficiency reasons for that. Can we give you an absolute blanket assurance that wouldn't happen? No, but I think it does stand to reason that logically it wouldn't occur. Canadian carriers are always going to want to drive growth in Canada before they go looking for growth elsewhere.

**Mr. Jim Gouk:** How much influence would it have for the feeder aspect, if you are now competing out of hubs with a variety of other carriers, that you are going to want at least as much, if not more, access to smaller airports in order to feed your larger flights going elsewhere, where you've got competition, to ensure that if they start on your plane, they will probably continue to fly on your plane once they get to a hub?

How much of an influence would that have on your decision, operating out of smaller airports?

**Mr. Fred Gaspar:** If I understood the question correctly, I think carriers.... I think our members are going to want.... Because Canada is small, population-wise, and because its population is spread so thinly across a long border, certain dynamics with respect to maximizing feed into centralized or hub airports are always going to exist. It will always be necessary for service to smaller airports to continue.

Whether it continues through a smaller carrier-feeder relationship or through the same larger airline operating smaller aircraft, it will continue. But you are correct—it will always seek the most efficient manner in which to continue.

I think smaller airports can look forward to liberalization being a boon to them, because it will allow them to really shine, in terms of operating most efficiently and attracting those airlines best positioned to respond to the economies of that particular airport.

• (1655)

**Mr. Jim Gouk:** If we have foreign carriers come in, competing with Canadian carriers on point-to-point travel between the major airports inside Canada, presumably that could result in a reduction of

prices as things get more competitive and people cut to the bottom line.

How much is that going to negatively influence the fare structure for smaller airports, where we don't have that competitive nature to offset the reduced revenues of major route travel inside of Canada?

**Mr. Fred Gaspar:** Let me admit, first of all, I don't know. I think it is a bit of a mug's game for anyone to be able to sit here today and say what the specific effect on fares out of smaller feeder airports is going to be in light of any liberalization initiative.

Again, I can give you a sense as to what's likely to happen. My sense is.... I don't think.... First of all, service between major communities in Canada has probably rarely, if ever, been so inexpensive, in terms of the ticket prices offered in the marketplace.

I think the effect on fares will certainly not be inflationary, again for all the rational reasons—that is, airlines are always going to be watching out for the other guy, and, similarly, in a truly reciprocal arrangement, they are going to be in the other guy's backyard doing the same kind of thing. So we are very confident it won't be inflationary, but we can't give you any absolute assurance on the level to which it will decrease fares.

**Mr. Jim Gouk:** In the United States the American air carriers have parked an awful lot of equipment that can be ready to fly pretty quickly. They have tremendous capacity. If we open the market, they have tremendous capacity to expand. How much ready-to-go capacity do Canadian airlines have to reciprocate in the United States?

**Mr. Fred Gaspar:** Well, to be perfectly blunt, very little, but I don't think the American carriers have that much of it either. Carriers are increasingly trying to manage their business as much as possible toward maximizing fleet utilization. Carriers don't like to carry unutilized assets on the books. In the States there was certainly a transition period after September 11. A lot of assets were parked in the desert; many of those have since either been returned to lessors or sold to leasing companies.

Canadian carriers don't have huge fleets just sitting out there waiting to expand. Nonetheless, again, we are pretty confident....

Again, I need to make the difference between passenger carriers and cargo carriers. Passenger carriers, in particular, are looking forward to the day when they can expand their fleets and invest in new market opportunities. They certainly won't shy away from doing so, as long as the economies of scale are there and their forecasting models show there are wins to be had.

**The Chair:** Thank you.

Madame St-Hilaire.

[*Translation*]

**Ms. Caroline St-Hilaire (Longueuil—Pierre-Boucher, BQ):** Thank you, Mr. Chairman.

Mr. Gaspar, in your statement, you alluded to the problem associated with the general principle of liberalization. You were one of the participants in the Open Skies forum. What findings emerged from this forum? I don't seem to see any in your presentation. You highlighted your concerns, the issues that need to be raised and what our expectations should be, but you don't seem to offer up any concrete solutions. I don't get the feeling that you are following up on the forum's findings. Do you plan to do so at some point?

[English]

**Mr. Fred Gaspar:** Madam St-Hilaire, your point is well taken. You've caught me at an awkward moment. For those members who don't know, I've been with ATAC for about a week. That forum took place immediately before I started with ATAC. Nonetheless, a lot of issues were fleshed out. Our comments today do reflect the position that our president brought to the forum.

ATAC is a consensus-driven organization. It's for that reason we're not here today with a specific road map as to how to guide your deliberations. In terms of what you can expect in the future, we will continue to solicit our members and to try to come up with the most and the best proactive solutions you could hope for.

I would like to draw attention to what's behind a lot of what I'm saying. There are some very real, tangible opportunities today. If you pursue, as I said, opportunities that exist today for reciprocal benefits for Canadian carriers, I think you'll find a lot of our members will look for what's known as the big elephant in the room, and that is the American market.

If we were to pursue the agenda that Minister Lapierre and Minister Mineta spoke to at that conference, which is to seek ways to further liberalize our two markets, I think you would find a wide consensus in the industry, both among regional carriers and larger carriers, that in fact there are opportunities to be had, albeit to varying degrees and focusing on different segments of that market.

● (1700)

[Translation]

**Ms. Caroline St-Hilaire:** I'd like to come back to the Open Skies forum. Could we possibly get a copy of the forum's findings? Do you know if a summary of the proceedings is available for the benefit of committee members?

[English]

**Mr. Fred Gaspar:** I believe that forum—and, Mr. Chair, you can correct me—was organized by the Canadian Airports Council. I think they would be in a better position to provide you with that feedback.

[Translation]

**Ms. Caroline St-Hilaire:** You told my colleague that you were more or less convinced that regional service would not be discontinued, but that you couldn't actually give any guarantees. You even said that airlines would do well to expand their customer base. That's more or less why we're examining this issue. We can appreciate that airlines want to make money and that therefore, they offer service on the most lucrative routes. I don't know that the Montreal-Gaspé and Montreal-Magdalen Islands routes are very lucrative. How can we be certain that these routes will never be abandoned in favour of the more profitable ones?

[English]

**Mr. Fred Gaspar:** Thank you for your question. I think you have opened the door to a particularly important discussion, and that has to do with the proper role we all play in the system here.

I think carriers would be the first to say that it is an entirely legitimate public policy exercise for small communities or communities of any size across this country to determine their own economic growth priorities and what kind of priority they put on their growth. But I think it would be an inefficient exercise to draw from that conclusion that carriers should address those goals in an inefficient or unprofitable way, only because it's ultimately not sustainable. Some of our member carriers responded quite recently by saying, "The best way we can serve smaller centres is through smaller aircraft, which can fly more frequently or with fewer seats".

But I'd also like to draw your attention to one particular solution that has been brought forward in the United States, of all places, and that is a piece of legislation called the Essential Air Services Act. They confronted this issue not long ago whereby small communities were saying, "The big guys are all competing between New York and L.A., but what about Minot, North Dakota?" Without getting into the nuts and bolts of the act, because I don't know it well enough, it basically puts out to tender air service and says, "Whereas we believe it is important for community X to be served at least twice a day in two different directions, offering at least 150 seats, we're going to offer the following dollar subsidy. We now invite bids." In most cases, not only were they able to attract numerous bids, even sometimes below the subsidy level they offered, but it was often local, small regional carriers that won the contract, thereby achieving two policy goals at once: achieving the service that was desired and promoting the development of small business.

**The Chair:** Mrs. Desjarlais.

**Mrs. Bev Desjarlais:** I want to follow up on that. You brought up the point that it shouldn't be up to the airlines to offer the need within public policy. Would it be reasonable to say, then, that it's within the realm that the government shouldn't take a position of having no rents to benefit private air carriers that are profit-driven?

**Mr. Fred Gaspar:** I'm not sure I follow your point. I wonder if you could give me more.

**Mrs. Bev Desjarlais:** Well, it's not up to the airlines to provide a service based on a social policy need. Is it not therefore fair to ask why the airports, which are owned by the people of Canada, should provide rent-free service to air carriers that are profit-driven?

**Mr. Fred Gaspar:** Your point is well taken.

One way to look at that airport rent question is to recall that it is a form of double taxation. If I may, just to answer your question, I'll point out that those airports were built with public dollars, and if I can I'll personalize it for a moment. If my parents or grandparents built that airport through their tax dollars and now I'm paying for that airport again with my user fee, it's not a question of providing a free subsidy; it's a question of paying for the asset twice.

•(1705)

**Mrs. Bev Desjarlais:** Well, if Air Canada was still owned by the people of Canada, I would say that would be a just argument, but given the fact that it's now privately owned, I would say all we're doing is benefiting a for-profit company. I'm not saying that's necessarily a bad thing or that companies shouldn't make a profit, but I think we need to keep the context in place here. It's not okay for you to disregard social policy for one aspect and then say you should get this rent-free because it's beneficial to your airline and you're providing so much for Canada. I just want to keep it all in perspective.

I'll just get to a couple of other questions. For colleagues around the table, since there are a good number of new members, who exactly is ATAC? Exactly which air companies are members of ATAC? How many members do you have and who are they?

**Mr. Fred Gaspar:** Well, we have approximately 300 members. I didn't bring my full membership list with me, but all the major carriers that are known to Canadians are members.

**Mrs. Bev Desjarlais:** Can you make that list available?

**Mr. Fred Gaspar:** Certainly.

**Mrs. Bev Desjarlais:** And who are members of the Canadian Airports Council?

**Mr. Fred Gaspar:** I think they can best speak for themselves. I'm not absolutely certain, but I think it includes most of the major airports.

**Mrs. Bev Desjarlais:** It's just that you mentioned that the conference was put on for them, so I thought that maybe you as ATAC would know who the Canadian Airports Council members were. But that's fair enough; I'll get that information.

Is there any kind of duty structure for ATAC and the airlines that are involved?

**Mr. Fred Gaspar:** There is a duty structure. Again, I've been there a week, but I think it's based on the number of passengers carried per annum.

**Mrs. Bev Desjarlais:** And how is ATAC set up? Is it a not-for-profit corporation? How does it operate?

**Mr. Fred Gaspar:** It's not that we don't make money. I would have to get back to you as to the exact governance structure. With respect to your point, there is an operational reality you might be interested in, and that's what I spoke to earlier. It is a consensus-driven organization, so it's not putting your hands in the air and the most votes win.

**Mrs. Bev Desjarlais:** It would just be interesting to have them, because, again, there are a number of new members, while I've had seven years to get the nits and grits on it.

In regard to issues related to open skies, presently transport is exempt from NAFTA. What would happen, in your view, if open skies was brought into place in the area of passenger or cargo within the liberalization aspect you mentioned?

**Mr. Fred Gaspar:** In terms of forecasting what Canadians could expect?

**Mrs. Bev Desjarlais:** What would happen under NAFTA with this?

**Mr. Fred Gaspar:** I would have to defer to trade policy experts in terms of how it would dovetail or of which legislative documents would take priority if there were ever a trade conflict. I really couldn't speak to that. In large part it depends on what proposals you make and what proposals the minister ultimately brings forward in the form of legislation, but we're pretty confident that a properly done liberalization wouldn't present any conflicts with NAFTA.

**Mrs. Bev Desjarlais:** I'm wondering how Canada's beef industry, softwood lumber industry, and other industries would feel about that, with the issues they've had with NAFTA and not really being able to get anything resolved.

**Mr. Fred Gaspar:** That's actually a very good point, and that's one of the reasons we're recommending that a fact-based approach based on developing a sound business case be your guidance. Although it does sound like one of those namby-pamby statements that means nothing, what we're specifically getting at there is that we would recommend that you really dig into the nuts and bolts in terms of identifying to the minister that you want him to proceed with this type of proposal, that these are the elements you want to see in there, and that this is what you don't want to see in there. To really make a liberalization proposal work, the t's do have to be crossed and the i's do have to be dotted, and it has to be done in the context of a market where carriers on both sides of the border can really benefit.

But to your point, absolutely. We don't need a document that's just generic and doesn't lay out the groundwork or the opportunities.

**Mrs. Bev Desjarlais:** Okay.

In regard to the comments—I'm not sure who made them, though it might have been Mr. Gouk—on the number of aircraft available and the excess in the U.S., and your comments that Canada really doesn't have that kind of excess, would it be possible then that if we do not have those excess aircraft available, and a market were seen in the U.S. with a much denser population to work with, that an aircraft might be taken off, say, a Regina-Ottawa route and be used on a route in the U.S.?

•(1710)

**Mr. Fred Gaspar:** It is entirely true that carriers today deploy their assets from one market to the other every time they adjust their schedules. So that is foreseeable.

But I guess I do need to qualify my earlier comments. Carriers don't have excess equipment on hand today, but carriers do have ready access to equipment through lessor relationships. Actually, that's probably the primary way they do it. It would not take a large amount of time for a carrier to say, "I'd love to serve market X, but geez, if only I had a plane..." Getting a plane is a matter of time.

**Mrs. Bev Desjarlais:** About how long does it usually take to get an aircraft for a particular route?

**Mr. Fred Gaspar:** To be honest, I don't know. But I've never heard it identified as a barrier or a concern within the industry; I've never heard someone say that it takes too long. And especially now with Bill C-4 making its way through the House, anything that makes it easier in terms of mobile-equipment-leasing protocols is just going to help secure assets that much better.

**Mrs. Bev Desjarlais:** Thank you very much.

**The Chair:** Mr. Wrzesnewskyj.

**Mr. Borys Wrzesnewskyj:** In your report you mentioned that Pearson did not have an in-transit facility. With this new facility they've built, I would expect that they would have one on line to be built. Is that correct; and if so, when will they have it?

**Mr. Fred Gaspar:** Obviously, they can speak better to their own plans. But I'm glad you raised that point, because I did want to offer a little clarification. To the best of my knowledge, it certainly was Pearson's intention to make connectivity in the in-transit process the most effective and efficient one possible. They did have to relook at their plans after September 11, and we don't begrudge those decisions or their having to revisit those plans. But it does speak to the need to revisit all of those issues, including security protocols.

I guess the question it would raise is, do we need to use the bluntest hammer every time? If security protocols dictate there be no in-transit facility, I guess our question would be, is there a way to make an in-transit facility that is secure and safe and addresses what you're really trying to get at?

**Mr. Borys Wrzesnewskyj:** So you're just not quite sure what Pearson has in mind?

**Mr. Fred Gaspar:** No, I really don't know, unfortunately.

**Mr. Borys Wrzesnewskyj:** My next question is about our significant trade imbalance with the States—to our benefit. I assume we're probably shipping more cargo in their direction than they're shipping in our direction. Is that correct?

**Mr. Fred Gaspar:** You know what, I really would have to look into that for you. I'm not certain, but I do know that—

**Mr. Borys Wrzesnewskyj:** That would be fascinating to know, because it would be one of the deciders on this particular issue.

That leads me into the whole question of scope clauses. How prevalent are they among U.S. carriers? Do they also exist in your collective agreements?

**Mr. Fred Gaspar:** The large U.S. cargo carriers all have them. It speaks to one of the big concerns our cargo operators have, that they're looking at ways of not having to spend hundreds of millions of dollars to be competitive tomorrow in the case of liberalization. They might logically look at subcontracting as one opportunity, but then the scope clauses are right there to prevent that from happening.

**Mr. Borys Wrzesnewskyj:** So if an agreement were put forward that actually said there was a requirement that local regional carriers have the opportunity to bid, and that it be an open process, would that satisfy your concerns? And would that perhaps even give us a bit of an advantage, because some of the U.S. carriers' hands are tied by their agreements?

**Mr. Fred Gaspar:** I think the extent to which you address that concern in any proposal you might make would certainly be reflected in the goodwill you'd get back from the Canadian cargo community. I think that a lot of our cargo members perhaps feel that in the midst of this big debate their interests are getting lost; so I certainly think they'd be very appreciative to hear about any proposal that would specifically carve out very tangible and real opportunities for them to succeed in the short term. Obviously, I can't specifically

say what their immediate reaction would be to that, but I think you would find that it would be positive.

**Mr. Borys Wrzesnewskyj:** Great.

Now for my last question. We have foreign ownership rules in place. If we were to review those, is there an actual cost in terms of the capital markets? Are carriers paying a premium to raise capital because of those foreign ownership rules, or is the capital market so fluid these days that it really doesn't matter?

• (1715)

**Mr. Fred Gaspar:** To your point, there are so many factors involving the rates at which carriers borrow money and the vagaries of the market are such that it is quite impossible to pin down and to say that factor X is the reason why it's more expensive to raise money.

It is absolutely true that increasing foreign ownership limits is an important step in broadening access to the pool of capital, and ours is such a capital-intensive industry that this can't help but be good. It can't help but make Canadian carriers more nimble.

**Mr. Borys Wrzesnewskyj:** Would you be able to provide us with some numbers and some examples so that it becomes real for us, as opposed to...? There's the assumption, but one can easily assume it, that with the capital markets these days it really doesn't matter; they're very fluid.

**Mr. Fred Gaspar:** I'll certainly get back to you on that. Thank you.

**The Chair:** Are there any further questions for Mr. Gaspar?

Go ahead, Ms. Desjarlais.

**Mrs. Bev Desjarlais:** You may not know the answer to this, but because the scope clause came up... Again, under NAFTA, I'm wondering whether particular clauses could be ruled as a trade barrier under NAFTA and have to be changed, much along the lines of Canada having to change patent legislation because of particular WTO rulings, and other issues related to environmental products that were seen as damaging here in Canada and not seen as damaging there and Canada then had to pay compensation. I'm wondering whether this would be something that might just be ruled out of order under NAFTA.

**Mr. Fred Gaspar:** It would be pure conjecture on my part, not having a legal background, but it's a very valid position that you bring forward and one that should be explored. And it does speak to what I said at the beginning, which was that I absolutely encourage you to go down all those roads and to pursue all the different avenues that lead you to those answers before a deal is actually signed, because you'll find the level of buy-in and the level of support you get from Canadian cargo carriers will directly reflect the extent to which you address their very detailed concerns.

**The Chair:** Mr. Carrier.

[Translation]

**Mr. Robert Carrier:** Good afternoon.

You highlighted a certain number of problems associated with setting a liberalization policy, particularly as regards competition with the United States. You do not want to see Canadian companies at a disadvantage as a result of this policy. You also stated that a certain balance of benefits must be achieved for the different carriers, so that none receives an unfair advantage.

Based on my knowledge of how Transport Canada operates, it appears that it favours protracted studies of a confidential nature. I say this because mention was made of studies undertaken in 2001 and not yet completed. Unless Transport Canada conducted many studies that I am unaware of, I think it will take many years to resolve the problems that you have identified. You maintain that the department shouldn't set a policy strictly for the sake of doing so. It must ensure that this policy will benefit companies as a whole. Could you give me an idea of how long it would take to establish such a policy? You also maintain that this policy should be formulated in conjunction with a new airport rent policy. We're awaiting a speedy decision by the department. I only hope that the department doesn't hold off on drafting the airport rent policy until the liberalization policy is firmly in place. That is still several years away.

I'd appreciate your comments on this matter.

[English]

**Mr. Fred Gaspar:** Your point is well taken. I can certainly see how you would think that because we're starting out with a very generic guideline it could take a while. But in fact we would suggest that by pursuing the guideline we're laying forward, it will help you actually focus on where the opportunities do exist and not focus on generic questions about liberalization and allowing everyone to fly everywhere and anywhere at any time.

If you do focus on where the real opportunities are to be had, we think actually it won't take a long time at all. It will actually help expedite your review and actually help expedite liberalization. Obviously, the immediate opportunity to be had for Canadian carriers and Canadian consumers is the U.S. market, so that would be one suggestion. We certainly don't mean to limit your review, and it's for that reason I didn't specifically tell you to go there first. As parliamentarians, it's entirely within your capacity to decide where to focus. But in answer to your question, I'm just suggesting how it could be done rather expeditiously. I think that's where most Canadians still travel. That's where most traffic happens. That would be the first area, I think, where there's a real opportunity to be had.

Then as you start addressing that area, how can you get it done quickly? Well, I would suggest we do it and then take it one bite at a time. So right now Canada and the U.S., through the original 1995 open skies agreement, have what are known as, I guess, reciprocal third and fourth freedom rights: the right to fly from one point in your home country to one point in the return country.

If you were to look at allowing access to fifth and sixth freedom rights, which would allow Canadian carriers, for instance, to make one stop in the U.S., pick up passengers, continue on to another international destination and vice versa.... If you really went toward that very tangible approach of chewing up one element of the puzzle, we think it could be done fairly quickly. To that extent, we were very

heartened by Secretary Mineta's comments that he was willing to discuss the issue of liberalization with his market in particular.

● (1720)

**The Chair:** Thank you.

We'll give the last word to Mr. Wrzesnewskyj.

**Mr. Borys Wrzesnewskyj:** I'm just curious: cargo carriers require pretty different facilities at airports from the passenger carriers. At Pearson—I'd like to come back to Pearson—does that create problems? Most passengers, I assume, would like to arrive during the day. Does it create a problem when cargo is forced into nighttime slots and there are various restrictions on that? I'm just curious about some of that.

**Mr. Fred Gaspar:** Obviously, I would prefer them to speak to the specifics of their operation, but I don't think so. I think you'll find that most cargo carriers will tell you they would rather operate when it's most efficient and effective for them to do so. They don't really want to be competing with very congested runways to begin with, so at times of day when the business traveller is going to be travelling.... They don't want to be flying into Orlando just before the opening dates at Disney World either, so I don't think there's that much conflict.

**Mr. Borys Wrzesnewskyj:** In a big market like the GTA, where we have huge amounts of cargo being moved around and also large numbers of passengers, would it make sense to take a look at the possibilities of one airport, for instance Pearson, specializing in passenger traffic, and perhaps Pickering specializing in cargo, and creating a facility that deals with just that particular part of the business?

**Mr. Fred Gaspar:** I'm glad you raised that point, because it speaks to one of the other elements I had mentioned, and that is really the need to realign interests in terms of the whole governance framework too. I guess the simple answer to your question is maybe, but we can't afford it. Right now our industry is not in a position where we can afford to hear the GTA musing about the possibility of building another airport and about the possibility of doing one thing here and another thing there.

In a really great year our member carriers hope to make ten cents on the dollar. We haven't had a year like that in a long time. So what we say is to take a piecemeal approach and to really address development issues in response to what the consumer is actually driving at, as opposed to using outdated forecasting models.

I'm going to be very specific and brief, Mr. Chairman, because I know you want to conclude this session.

After September 11, 2001, when carriers were reducing their capacity and carriers were on the verge of potentially not existing any more, there were airports saying, "Well, that's all well and good, but that will all shake itself out. I have to build an airport for 50 years from now, because there is no responsiveness right now between the people making the decisions on asset allocation at airports and the people who are paying the bills. And those are the airlines and ultimately the consumers."

**The Chair:** Thank you very much. Thank you very much for coming, Mr. Gaspar. This is a good beginning.

I just want to advise members—before you all leave—of a little announcement here on the issue of the flight attendants, which is listed on the agenda today. I wanted to advise you that Ms. Wokes, along with some senior officials, will appear on the flight attendants ratio issue on April 6.

**An hon. member:** Will that be open or in camera?

**The Chair:** I'm sorry, that will be in camera. I should have told you that.

On April 4 we have scheduled a site visit to the Ottawa Airport.

We should be travelling to Winnipeg, Calgary, and Vancouver in the week of April 11, with a side visit to the border crossing in Surrey.

That's just for your information.

● (1725)

**Mr. Jim Gouk:** Just one thing with regard to the flight attendant meeting: will the document from Ms. Wokes be available to all of us?

**The Chair:** Yes, that's why we're having an in camera session.

Okay, we stand adjourned.

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