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PRESIDENT AND CHIEF EXECUTIVE OFFICER

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Mr. James Rajotte, M.P.
Chair, House of Commons Standing Committee on Finance
House of Commons
Ottawa, Ontario
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By email: finapbc-cpb@parl.gc.ca

Dear Mr. Rajotte:

Introduction and summary

International air travel is highly competitive as airports and governments around the world compete to attract travelers and flights. Governments and airports do this because air travel is a proven engine of long term sustainable economic growth, making cities hubs for both business and tourism. There are numerous examples of cities that have prospered into major centers of international commerce as a direct result of being a hub for travelers: Singapore, Dubai, Charlotte and Frankfurt to name a few.

To attract and retain regular flights, airports look to keep costs low for airlines and travelers while improving the travel experience. Airports around the globe are constantly looking for new and different ways to achieve this. The Vancouver Airport Authority is proposing three steps the federal government to support increased air travel and the business that comes with it. The recommendations are:

1. Additional funds to CATSA for pre-board security screening while a longer-term structural review of screening function is performed.
2. A pilot project for arrivals duty free at selected airports in Canada.
3. Provide new funding to CBSA to strengthen and expand automated border clearance at airports throughout Canada and increased support the Nexus program.

Additional Funds for Pre-Board Screening

Airports that move passengers and cargo quickly and efficiently attract more passengers and more flights. The Vancouver Airport Authority does everything it can to ensure that passengers are able to move through the airport quickly and are happy with their experience; however security line-ups have been steadily growing resulting in more missed flights, and more frustrated passengers.

Passenger volumes at the Vancouver International Airport and other major airports across Canada have increased measurably for the last several years. However, the Canadian Air Transport

Security Authority CATSA's budget is essentially frozen at 2010 levels. This is despite the fact that the pre-board security screening of passengers at Canadian airports is paid for by the Air Travellers Security Charge applied to individual passenger airfares. Simply put, although the Government of Canada is collecting more revenue, those funds are not being used to fund more security screening.

We believe that the system should work on a straight forward cost recovery system that relies on the Air Travellers Security Charge. However, according to Transport Canada 2014/2015 estimates, security charge will generate a surplus of \$74 million over the costs of the aviation security it pays for.

The Vancouver Airport Authority would like to see this surplus reinvested back into CATSA. Further we support the work of the Canadian Airports Council and the Canada Transportation Act review panel as they consider the Canadian security screening structure, funding model, and regulatory regime.

Arrivals Duty Free

Arrivals duty free now exists in 58 countries including Australia, China, Brazil, Norway and Switzerland. The concept is popular both with travelers, who find it improves choice and convince, and with governments who are able to repatriate economic activity that might otherwise have been lost. The experience in these jurisdictions has been that arrivals duty free both generates new sales and repatriates sales from abroad without affecting existing domestic sales. For example in 2012, the Bermuda Department of Communication and Information found that "Arrivals Duty Free has no appreciable impact on other local retail sales."

Customer demand

Arrivals duty free is an untapped market in Canada, but many travellers are already aware of the concept because of their travels to countries that do have it. In 2011, a duty free operator in the international arrivals area of the Vancouver International Airport conducted a survey of close to 10,000 passengers. 89% of passengers arriving to Canada stated they would likely purchase from duty free upon arrival in Canada (65% "definitely make a purchase" and 24% "consider purchasing").

Pilot Project Proposal

The Vancouver Airport Authority is proposing a pilot program that would shift duty free purchases from abroad to Canada's domestic airport network. From Vancouver's perspective, we strongly believe such a program would be popular with travelers and would generate an estimated \$21 million in annual sales by year five, creating the equivalent of 120 new full time jobs.

Specific to the Vancouver International Airport we would propose a one year pilot project for a retail kiosk in our international baggage claim area to offer duty free products for sale to returning Canadian residents and visitors. The products for sale at the kiosk would be limited to liquor, cosmetics and confectioneries. No tobacco would be sold in support of the Provincial government's campaign to reduce smoking.

The Kiosk's retail offering would be designed to specifically compete with the duty free offerings of other airports and would therefore differ from those in the domestic market. For example, liquor would be sold in 1 liter size bottles instead of domestic 750 ml sizes, cosmetics would be sold in travel sets exclusive to travel retail, and confectionary will focus on imported products generally not available in the Canada.

Once fully implemented, the arrivals duty free kiosks would provide an opportunity to market BC products and culture to international visitors, supporting both federal and provincial tourism objectives. All purchases at the arrivals duty free kiosk would be declared at customs and count towards the passenger's personal exemption and declaration.

Review period

After six months of pilot project operations, survey and sales data would be compiled and submitted to both levels of government for an interim review. After nine months of pilot project operations and a review of results, the British Columbia government would send to the federal government their recommendation on which of three choices should be adopted: arrivals duty free become a permanent program; extend/modify the pilot; or discontinue the pilot at the end of the 12 month period.

Benefits

Arrivals duty free offers significant benefit to both travelers and Canadian airports:

- BC residents returning from international destinations and foreign visitors will enjoy increased choice and convenience;
- New jobs will be created at the Vancouver International Airport;
- New revenue for the Vancouver Airport Authority to help support airport priorities such as our capital program and to maintain competitive landing fees.

Arrivals duty free can also be expected to yield environmental and operational benefits as well. Duty free products purchased elsewhere upon departure and onboard a flight increase aircraft weight and, therefore, fuel consumption/carbon footprint. We estimate fuel savings of over \$1.3M

per year if arrivals duty free were implemented across the country. The reduction in emissions from these fuel savings would be thousands of tonnes of carbon dioxide equivalent.

Continued Support for Innovative Programs Facilitating International Travellers

Programs like the Automated Border Control, NEXUS and transit without visa have tremendous value/potential to ease the movement of travellers through our airports. However, we are falling behind competing airports in the U.S. and elsewhere as Canada is underinvesting in these programs. When the travel experience of entering or leaving Canada becomes slower and less enjoyable than in other jurisdictions, Canada will invariably lose passengers, flights and the economic impact that comes with them.

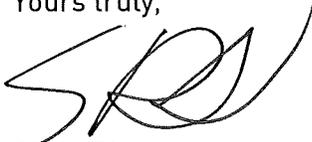
Other jurisdictions are better realizing that airports are a pipeline for business and should benefit from government investment, rather than being asked to shoulder an increased share of boarder and security costs. We need better support for initiatives like the Nexus program for pre-screened frequent travellers and increased cooperation with other international partners who have with similar trusted traveller programs.

The Vancouver Airport Authority is asking the federal government to provide new funding to CBSA to strengthen and expand automated border clearance at airports throughout Canada and increased support the Nexus program. Doing so will help us continue to increase the number of passengers we serve and increase the economic impact we have on Vancouver, British Columbia and Canada.

Conclusion

The world of international air travel is extremely competitive as more and more jurisdictions realize how vital a pipeline airports are for business. The recommendations we have made would help enhance our operations in order to attract passengers and flights, so that the Vancouver International Airport can serve as an engine of economic growth.

Yours truly,



Craig Richmond
President & Chief Executive Officer
Vancouver Airport Authority