Port and Major Airport Share Capitalization

Issue

The Ministry of Finance is currently investigating the "share capitalization" of Canada's ports and major airports, as suggested in recommendations 9.3b and 10.3a of the 2016 Canada Transportation Act Review. This would change the current ownership structure so they are owned by private shareholders and no longer operate as not-for-profit commercial airports or quasi-commercial port authorities. Such a decision would have significant adverse effects on the transportation sector, to the detriment of Canadian consumers, businesses, and local economies.

Background

Our critical transportation infrastructure connects businesses with opportunities around the globe and across the country. It links visitors with tourism operators and helps students and professionals pursue educational and business opportunities. Our ports and airports create hundreds of thousands of jobs, facilitate the movement of people and capital, and ensure that Canadian products get to market. Therefore, their governance is of the utmost importance to Canada's business community.

As commercial entities, these pieces of critical infrastructure have already harnessed the efficiencies that come with a privatization model. Our current ownership model is a successful "made in Canada" story that has facilitated significant sustainable growth in our transportation industry.

However, a move towards a forced share capitalization ownership model, regardless of short-term capital inflows, would jeopardize Canada's long-term economic competitiveness and would significantly reduce their responsiveness to the interests of the Canadian economy, public and business community. Such a move would drive up costs, and require greater government oversight to regulate these newly minted private-sector monopolies.

We strongly urge the Federal Government to consider the negative potential impacts of share capitalization of Canada's ports and major airports, including higher costs, lower service levels, less capital investment, decreased competitiveness, and the loss of control of a key economic driver and trade facilitator.

<u>Major Airports</u>

Currently, non-profit airport authorities operate Canada's major airports. Their major capital investments have already been paid for by passengers, airlines, and the airport authorities. If these airports are sold, it will essentially amount to re-financing previous investment at a much higher cost in order to finance shareholder return and cost of acquisition.

Through the process of commercialization in the 1990s, Canada's airports have already reaped the benefits of privatization including; transferring capital and operating expenses from taxpayers to private operators; access to capital markets at relatively low rates of borrowing; market discipline and increased efficiency; customer service focus; and striving for innovation. Under the current governance system, Canadian passenger and freight services have thrived and recently globally ranked 16th out of 140 in terms of quality of infrastructure.[1]

Profits from airports would no longer be directly invested back into the entity and instead be used to pay dividends to shareholders, who would be incentivized to maximize profit margins and shareholder returns. These for-profit entities would also face changes to their ability to borrow money and make the necessary investments in long-term infrastructure.

The Federal Government continues to collect land and infrastructure lease payments and profit from the operation of passenger screening services. Due to fees, taxes, and charges, including after-tax fuel costs, Canadians face some of the highest air-travel costs in the world, negatively impacting our economic competitiveness. In 2013, Canada ranked

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[1] World Economic Forum, Global Competitiveness Rankings 2015, http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/

136th out of 140 in terms of competitive cost structure.[2] Share capitalization does not offer a solution to this situation and would only exacerbate these issues and move future decision-making outside of the public interest.[3]

Australia has already gone through this process with its airports and it has been found that airports collect significantly more aeronautical revenue per passenger than before their airports were share capitalized, meaning that passengers and airlines are paying more to access the airports.[4] Despite these increases in revenues, ratings of service quality have not substantially changed. The Australian Competition and Consumer Commission (ACCC) suggests that airlines and passengers in Australia have paid up to $1.6 billion too much for airport access due to this model.[5] The chair of the ACCC, Rod Sims, recently claimed that while privatization often enhances efficiency and economic activity, the move toward share capitalization was "severely damaging" to Australia's economy.[6]

Canada Port Authorities

Established under the *Canada Marine Act (1998)*, Canada Port Authorities facilitate Canada's trade objectives in a commercially viable way, ensuring goods and passengers are moved safely and efficiently, while protecting the environment and considering local communities. They also act as agents of the federal Crown to manage federal land, an important function of which is Indigenous consultation and engagement as well as project and environmental reviews under *Canadian Environmental Assessment Act, 2012*.

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

Canada Port Authorities already operate in a quasi-commercial manner, and would have little to gain in terms of efficiency if they were to be privatized. Further, much of the revenue earned by port authorities is reinvested in infrastructure (in the case of Canada's largest port, the Port of Vancouver, an average of $90 million per year). If privatized, a material proportion of that capital investment cash flow would likely be redirected to service debt and ultimately provide a financial return to private owners.

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

Recommendations

That the Federal Government:

1. Engage directly with stakeholders and industry experts before any further discussions regarding changes to the governance models of Canada's major transportation infrastructure;
2. Maintain a competitive and responsibly governed transportation industry by refraining from forced share capitalization of these assets; and
3. Focus government attention on improving the competitiveness of our airports and ports cost structure, including appropriate funding programs to ensure safe and secure operation of our nation's transportation infrastructure.

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[2] World Economic Forum Index of Cost of Access http://www3.weforum.org/docs/TTCR/2013/TTCR_DataTables10_2013.pdf

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

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

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

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