InterVISTAS
CONSULTING INC.

strategic transportation & tourism solutions

BC Regional Airports: A Policy Guide to Viability

Prepared for:

AIM BC
Airline Industry Monitoring Consortium
OF BRITISH COLUMBIA

AIM BC is managed by

Council of Tourism Association of British Columbia

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Executive Summary

The National Airports Policy. In its 1994 National Airports Policy (NAP), Transport Canada undertook a process to transfer the 150 airports it operated to local control by airport authorities or local governments. In 2004, Transport Canada released a study that examined the financial viability of divested regional and small airports, a decade after the policy was implemented. The study's key result was hidden in a maze of unlinked facts; however, it revealed that

- 48% of airports are not even able to cover their annual cost of operations and are unable to finance capital at all.
- Even those airports managing a surplus on operations can only finance about a quarter of their capital requirements.
- From these figures, it is apparent that few, if any, regional and small airports are viable (in the sense of being able to cover their operating and capital costs) at the tenth anniversary of the NAP.

Many stakeholders are of the opinion that the federal government's airport transfer model was fundamentally flawed.

Clearly this study substantiates the long-held concerns of many stakeholders that the devolution process itself was flawed and that there is a serious issue regarding the viability of regional airports. While viability concerns were subsequently exacerbated by other developments including 9/11, SARS, and airline industry restructuring, these later shocks to the transportation system were never the root cause or main source of viability concerns.

While the Transport Canada study provided facts on the degree of ability of transferred regional and small airports to cover their costs, the study did not examine root causes and offered little in the way of recommendations. Moreover, the study offered no call to action, seemingly abrogating any federal role in the solution to the problem. Indeed, the report notes: "the publication of this study concludes Transport Canada's mandate to report on the financial viability of divested regional and small airports."

In light of the findings of the Transport Canada study, long-standing concerns by the provincial government and other stakeholders about regional airport viability, the recognition that these airports constitute an essential piece of economic infrastructure, and the development of airport support programs in other jurisdictions, AIM BC and the Province of B.C. commissioned this discussion paper to examine the issue and provide a call to action.

Enhancing the Viability of B.C.'s Regional Airports. The action plan outlined in this paper encompasses actions for *all* the key stakeholders to follow to enhance the viability of B.C.'s regional airports. This plan is based on the conclusions reached in this discussion paper:

- Regional airports are essential pieces of transportation infrastructure.
- There *is* a viability issue for regional airports.

- This issue arose in large part from the manner in which the NAP was implemented, and has been exacerbated by recent developments, including industry shocks, increased fees and charges and creeping regulatory burden.
- Other jurisdictions have developed support programs to ensure regional airport viability.

Briefing Action Plan. Within the Action Plan, the identified issues to be addressed include:

- The federal government's policy framework, including regulatory creep since Transport Canada transferred airports, and restrictive air access policies;
- Inadequate funding for capital and operations;
- Airport management/governance practices regarding training and planning;
- Level of service and cost issues for services such as air navigation and customs clearance that airports rely on; and
- Regional infrastructure issues.

> ***Issues to be addressed include:***
> - *The policy framework*
> - *Funding inadequacy*
> - *Airport management / governance practices*
> - *Aviation services*
> - *Regional infrastructure*

Based on the analysis, it is recommended that the following stakeholders take the listed actions:

Province of British Columbia

Policy framework:

- Continue advocacy initiatives for changes to federal policies and practices.

Funding inadequacy:

- Continue or even enhance the Transportation Partnerships Program (TPP).
- Create a subsidy program for small/remote communities not eligible for the Airports Capital Assistance Program (ACAP).
- Work with stakeholders, where appropriate, to develop air service trust funds.

Airport management/governance practices:

- Provide funding for and encourage airport strategic, business, and land-use planning.
- Encourage and support training.

Security and navigation services:

- Engage in advocacy initiatives in support of industry relative to NAV Canada and the Canada Border Services Agency (CBSA).

Regional infrastructure:

- Support development of regional airport system plans by communities.

Government of Canada

Policy framework:

- Ensure that regulatory changes, such as CAR 308, do not decrease airport viability. Where necessary, provide support for capital and incremental operating costs for regulation required for safety and/or security. Implement meaningful consultation procedures.
- Allow Right of Establishment by foreign air carriers or other investors.
- Pursue open skies bilateral agreements.
- Increase permissible level of foreign investment in Canadian airlines providing international service, and implement the ICAO recommended 'principle place of business' provision of air services treaties in place of foreign ownership and control (which ICAO recommends removing).

Funding inadequacy:

- Expand the scope of ACAP.
- Expand funding for ACAP.

Services by others:

- Eliminate/revise the Air Travellers Security Charge (ATSC) and fully find airport security as a national security issue.
- Fully fund customs services at all airports meeting a minimum requirement for it.

Tourism Industry

Policy framework:

- Undertake strategic advocacy for the above government actions.

Funding inadequacy:

- Sponsor a workshop to address community actions to support and rationalise airports.
- Provide marketing support for regional airports.
- Provide advertising support for regional airports.

Services by others:

- Engage in advocacy initiatives in support of regional airports regarding air navigation and security needs and concerns (re NAV Canada and the CBSA).

B.C. Airport Industry

Airport management/governance practices:

- Set standards for a high level of strategic, business and land use planning.

- Set standards for training, and require key airport staff to meet these standards and continue to update skills.

Regional Infrastructure:

- Undertake development of regional airport system plans where relevant.

Aviation Support Industry

Air Navigation and Security:

- Ensure air navigation and security services reflect community needs.

1.0 Introduction

1.1 The Majority of Canada's Regional Airports are not Financially Viable

In its 1994 National Airports Policy (NAP), Transport Canada undertook a process to transfer the 150 airports it operated to local control by airport authorities or local governments.[1] The NAP divided Canada's airports into different categories:

- Twenty-six airports were designated as the National Airports System, which were to be leased to newly constituted not-for-profit airport authorities and charged an annual rent.
- The remaining (roughly 125) airports were divided into categories which included Regional, Local, Small, Remote and Arctic airports. These were to be sold to local government or to a not-for-profit local airport society.

As well, there were 576 certified airports which had never been part of the system of airports operated by Transport Canada.

As part of the National Airports Policy, subsidised operation of the 150 Federal airports was to end, as was its capital program for non-Transport Canada airports, with only a small capital assistance program put in place, roughly one-tenth of the amount of subsidy which had previously supported the 150 federally operated airports.

It is now ten years since the NAP was announced. An issue of growing concern is the financial viability of the smaller airports formerly operated by Transport Canada. It is an especially pressing issue in British Columbia, as its huge geographic area requires a disproportionate number of airports relative to population. Tourism, often referred to as B.C.'s number two economic sector, is highly dependent on affordable, convenient air transport access.

The details in Transport Canada's "Regional and Small Airports Study" reveal that 48% of divested regional and small airports are unable to cover even annual operations costs.

Recently, Transport Canada released its "Regional and Small Airports Study."[2] This study examined the financial viability of divested regional and small airports, a decade after the announcement of the NAP. The study's key result was hidden in a maze of unlinked facts. However, it revealed that 48% of Canada's divested regional and small airports are not able to cover even their annual cost of operations and are unable to finance capital at all.

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[1] Five airports had already been transferred to four communities in 1992: Vancouver, Calgary, Edmonton, and Montreal (Dorval and Mirabel).

[2] Transport Canada, "Regional and Small Airports Study", TP 14283B (08/2004).

Even those airports managing a surplus on operations can only finance about a quarter of their capital requirements.[3] While the study did not specify the number of airports that are able to fully cover both operations and capital costs, it is clear from the above figures that few, if any, regional and small airports are financially viable (in the sense of being able to cover their operating and capital costs without subsidy) at the tenth anniversary of the NAP.

1.2 Airport Viability Affects Tourism and the Economy

The viability of regional and small airports is not an issue of interest only to B.C.'s airport operators. Due to the important role these airports play in facilitating both tourism and general economic development in all B.C. regions, airport viability is an issue that has broad impact. Numerous stakeholders, including the affected communities, the Council of Tourism Associations of British Columbia (COTA), the British Columbia Aviation Council (BCAC), the Airline Industry Monitoring Consortium of British Columbia (AIM BC) and the Government of British Columbia, have indicated a concern over airport viability.

1.3 Transport Canada's Study Offered Few Recommendations for Addressing Airport Viability

While the Transport Canada study provided facts on the degree of ability of transferred regional and small airports to cover their costs, the study offered little in the way of recommendations. The study merely suggested higher fees and/or further rationalisation of service and infrastructure. It did not offer any other recommendations and did not consider the implications on service, tourism and economic development. Moreover, the study offered no call to action, seemingly abrogating any federal role in the solution to the problem. Indeed, the report notes: "the publication of this study concludes Transport Canada's mandate to report on the financial viability of divested regional and small airports."[4]

> ***Transport Canada's study of regional/small airport viability identified serious shortcomings,***
>
> ***… but offered little in the way of recommendations to address these issues.***

1.4 This Discussion Paper Investigates What Should be Done Regarding Airport Viability

In light of

[3] Page 6.

[4] Page 7.

a) the results of the Transport Canada study and its view that the report 'concludes' the issue of small airport viability,

b) continuing concerns of the B.C. tourism industry with regional airport viability,

c) the on-going discussions in B.C. concerning the development of a formal northern B.C. airports strategy, and

d) the Small Airport Challenges Workshop held in Edmonton on November 17-18, 2004,

The problem of regional airport viability is due to many sources, all of which must be addressed to achieve long term financial viability.

- ***The policy framework***
- ***Inadequate capital funding***
- ***Management practice***
- ***Airport governance, especially with regard to planning and training***
- ***Lack of regional planning resulting in overlapping airport infrastructure***

AIM BC, in conjunction with the Province of British Columbia, felt it timely to commission a discussion paper to examine the issue and to offer a series of policy recommendations as a contribution to the resolution of this important issue. They engaged InterVISTAS Consulting Inc. to undertake the construction of the discussion paper, based on concepts discussed in the Transport Canada paper, at various forums and elsewhere.[5]

This discussion paper puts forth the view that the problem of regional airport viability is due to many sources, all of which must be addressed to achieve long term financial viability. These problems are due to the policy framework, inadequate funding support, and challenges in management practice and governance. Specifically:

- Airport policy must be modified to prevent regulatory creep which undermines airport financial viability when there is no demonstrable offsetting benefit.
- Federal airline policy is a detriment to the development of regional airline services, which in turn frustrates the generation of airport revenues that would improve the financial viability of regional airports.
- The federal ACAP capital funding program has too narrow a scope for eligible projects and is funded at levels which are too low. This is especially apparent when compared to funding available in the U.S.

[5] The views contained in this report are put forth by the consultant for discussion purposes and do not necessarily reflect those of AIM BC or the Government of British Columbia. AIM BC is a consortium of tourism industry stakeholders whose purpose is to support air access to B.C.'s tourism industry. Management of AIM BC is overseen by the Council of Tourism Associations of BC.

- Training and professional qualifications of airport managers must be addressed. No longer can the new community based airport owners rest on the laurels of the high degree of training and professional development that Transport Canada had provided prior to 1994.
- Many regional airports engage in inadequate planning. Governance of each airport should be such that its board requires a well-developed annual business plan, a medium/long term strategic plan, and master plans.
- In some cases, regions may have overlapping airport infrastructure, raising costs and reducing the viability of all airports in the region. The Provincial Government could play an important role in facilitating regional planning of airports to ensure that the best possible service for the region is achieved while lowering costs through achievement of economies of scale.

1.5 Terminology and Scope of the Discussion Paper

This study examines the economic viability of what we refer to as *regional* airports in B.C. The usage of the term 'regional airports' in this discussion paper is different from that of the federal government in its NAP. For purposes of this discussion paper, "**regional airports**" means those BC airports which had been subsidised and operated by Transport Canada prior to 1994, not including the four larger NAS airports.[6] These regional airports, and their status, are listed in **Table 1-1**.

> ***This paper focuses on "regional airports" which are defined as those B.C. airports previously operated by Transport Canada other than the four large NAS airports.***

[6] Vancouver, Victoria, Kelowna, and Prince George.

Table 1-1: Status of Former B.C. Airports Operated by Transport Canada

B.C. Regional/Local/Small airports formerly operated by Transport Canada			
Airport	**Type**	**Status**	**Current Owner**
Abbotsford	Regional/Local	Transferred	Municipality
Campbell River	Regional/Local	Transferred	Municipality
Castlegar	Regional/Local	Transferred	Municipality
Comox	Regional/Local	Transferred	Airport Society[7]
Cranbrook	Regional/Local	Transferred	Municipality
Dawson Creek	Regional/Local	Transferred	Municipality
Fort Nelson	Regional/Local	Transferred	Municipality
Fort St. John	Regional/Local	Transferred	Airport Society
Kamloops	Regional/Local	Transferred	Municipality
Nanaimo	Regional/Local	Transferred	Airport Commission
Penticton	Regional/Local	Not transferred	Transport Canada
Port Hardy	Regional/Local	Not transferred	Transport Canada
Prince Rupert	Regional/Local	Transferred	Municipality
Quesnel	Regional/Local	Transferred	Municipality
Smithers	Regional/Local	Transferred	Municipality
Terrace	Regional/Local	Transferred	Airport Society
Williams Lake	Regional/Local	Transferred	Municipality
Tofino	Small	Transferred	Regional District

In the table, 'type' refers to the Transport Canada designation for airports it formerly operated. Transport Canada used the following categories to denote airport types:

- **National Airport System airports (NAS)**
  the 26 airports designated by Transport Canada as being of national significance. This includes airports in all provincial capitals, plus airports which had traffic levels in excess of 200,000 enplaned/deplaned passengers per annum as of 1994.
- **Regional/Local airports**
  This consists of 71 airports nation-wide with regional or local significance, which

[7] Comox airfield is owned and operated by the Canadian Forces. The Comox Valley Airport Society operate the passenger terminal and related commercial facilities.

formerly had been operated by Transport Canada. These airports handle commercial scheduled passenger traffic but are outside the criteria for the NAS airports.

- **Small airports**
  This consists of 31 smaller airports, which had no regularly scheduled passenger service in 1994, but which were operated by Transport Canada at that time.
- **Satellite airports**
  These are six airports serving general aviation, but with no scheduled passenger service, which are within an urban region served by an NAS airport, and which had been operated by Transport Canada. In B.C., Boundary Bay and Pitt Meadows were classified as satellite airports.
- **Remote airports**
  These are 13 airports formerly operated by Transport Canada, and which Transport Canada had committed to provide ongoing financial support for continued operation in order to maintain year-round access to otherwise isolated communities. Sandspit is the only remote airport in B.C.
- **Arctic airports**
  These are 6 airports in the three northern territories which were transferred, with funding, to Territorial governments.

It should be noted that there are many other airports in B.C. which are of importance to their communities and to tourism. In this study, these are referred to as "**community airports**." Among many examples in B.C. are Dease Lake, Masset, Bella Coola, and Salmon Arm. While there may be issues of financial viability for these airports, the removal of Transport Canada financial support for operations is not the root cause of any challenges they face. As they were not formerly operated by Transport Canada, they fall outside the scope of this study. Nevertheless, many of the issues raised in this discussion paper may have applicability to the operation of these airports.

1.6 Organisation of this Discussion Paper

Section 2 discusses the essential role of airports for tourism and the economic importance of regional and small airports. **Section 3** looks at the issues which bear upon their lack of financial viability. **Section 4** looks at some practices regarding financing regional and small airports in Canada, the U.S., Europe and Australia. **Section 5** articulates an action plan. A glossary of airport terms is provided in **Appendix A**.

2.0 The Economic Importance of Regional Airports

2.1 Regional Airports Are Essential to Community Tourism

Regional airports are essential to community tourism. They are gateways to their respective regions for tourists arriving from Canada, the U.S., and overseas. These airports also support:

- essential air services, including air ambulance, search and rescue, and forest fire suppression;
- scheduled and charter air services that link the communities to regional, national and international markets for goods, services, and tourists;
- commercial air services such as aerial photography and flying schools; and
- corporate aircraft and general aviation.

Communities have recognised the importance of their airports and taken ownership of them. Airports and air transportation are recognised as the transportation engines of economic development for the 21st century. While all modes of transportation are important, and indeed, multi-modal approaches are increasingly required for both passengers and cargo, air transportation tends to have a disproportionately high impact on economic activity.

Airports support essential air services and link communities to regional, national and global markets for goods, services and tourists.

Air transportation brings in *high-expenditure tourists*. International tourists arriving by air have higher spend rates, on average, than other visitors. Tourists from overseas locations tend to want to travel non-stop to their destinations, and have smooth connections where required. Thus, Vancouver International Airport, the regional airports, and the level of international and regional air services are key components to maximize this opportunity.

Air transport:

- ***brings in high-value tourists;***
- ***facilitates export of high-value goods; and***
- ***attracts value-added activities that stimulate the economy.***

The regional airports are the keys to distributing these tourists throughout the province, helping to spread the existing tourism base around and increasing overall tourism levels. Moreover, improving access to more remote regions can generate new tourism niches, for example, eco-tourism. Air services link B.C.'s tourism destinations with the origin points of the tourists. If the province is to reach its goal of doubling tourism, airports and air services will have to be an important part of the planning process.

Air transportation also facilitates increased exports of *high-value goods*. High value goods typically require speed in transport because companies do not want to tie up large capital in inventory in transit. Air transportation is the mode of choice for such goods as it provides a higher level of service than other modes, ensuring goods arrive safe and secure at their destination.

Air also brings in the *high value-added activity* that stimulates an economy – not just in major centres but in regional and more remote points as well. Airports enable high value FTZ activity to take place in small B.C. communities just as readily as in Vancouver or Toronto.[8] Some firms *prefer* to operate out of smaller, less costly centres, provided air access is available. Airports are today's essential infrastructure for value-added economic activity in communities of all sizes.

Airports support aviation by acting as gateways to the region they serve. Airports are the doors through which people and goods pass. Each regional airport with passenger and cargo services acts as the gateway to and from the region it serves.

> ***Airports are today's essential infrastructure for value-added economic communities of all sizes.***

2.2 Airports Have Significant Economic Impact

Inter*VISTAS* has estimated the direct economic impacts of all NAS and regional airports in B.C. based on existing, recent studies. Where studies do not exist, impacts were extrapolated by creating ratios based on economic impacts per passenger. Direct impacts rather than total impacts are estimated to give a clear idea of how many people are employed at B.C.'s airports and how much economic impact they produce. (Total impacts would include so-called indirect and induced impacts.) Although this is an estimate, the methodology is a conservative one.

The estimated impacts are shown below in **Table 2-1**. The 2001 estimated *direct* economic impact of all airports in B.C. (excluding Vancouver) is 3,400 jobs, $85 million in wages, and $100 million in Gross Domestic Product (GDP). Of this, the non-NAS regional airports contribute over 1,400 jobs and $40 million in GDP.

> ***Regional airports directly provide 1,400 jobs in B.C.***

[8] FTZs, or Foreign Trade Zones, are designated facilities which allow goods to be brought into the country tax and duty free to facilitate value-added and re-export activities. Due to their orientation toward international trade, FTZs are usually located near a port or airport.

Table 2-1: 2001 Estimated B.C. Airport Direct Economic Impact
(Not including YVR)

	Jobs	Wages ($millions)	GDP ($millions)
NAS Airport Impacts (not including YVR)	2,000	50	60
Other Regional Airport Impacts	1,400	35	40
Total Provincial Airports Impacts, not including YVR	3,400	85	100

Regional Airport Example: Comox. The Comox Valley Airport illustrates the economic impact of a regional airport. In 2003, InterVISTAS completed an economic impact study for the Comox Valley Airport, a regional airport located on Vancouver Island. Strongly supported by the tourism industry, the direct economic impact of the airport included 100 jobs and $3.0 million in wages. When multiplier impacts are taken into consideration, the total impact of the airport may include up to 180 jobs and $6.0 million in wages. A summary of the economic impact including GDP and output is shown in **Table 2-2**.

Table 2-2: Economic Impact of Comox Valley Airport, 2003

	Jobs	Wages ($millions)	GDP ($millions)	Output ($millions)
Direct	100	$3	$4	$9
Indirect	50	$2	$2	$6
Induced	20	$1	$1	$2
Total	180	$6	$8	$17

Note: Column numbers may not add to total due to rounding.

3.0 Problems Impacting the Long-term Viability of Regional Airports

Issues of regional airport viability and concerns about the manner in which divestment was being handled were identified right from the outset when the NAP was announced in 1994. For example, concerns among the transportation departments of the provincial governments led them to commission a study in early 1995 entitled *Variations to the National Airport Policy Airports Model* outlining alternatives to improve the viability of the regional airports. Follow-up work by the provinces outlined alternative funding mechanisms to ensure a viable airports system.

These viability concerns were subsequently exacerbated by other developments including 9/11, SARS, and airline industry restructuring, but these later shocks to the transportation system were never the root cause or main source of viability concerns.

This begs the question of why the transfers moved forward, despite the fact that Transport Canada's terms for transfer of regional and small airports were perceived to be not favourable to communities. The crux of the matter was that communities and other local, regional and provincial stakeholders recognised the economic importance of regional airports, and the role they would play in facilitating tourism and economic development, and many communities accepted the transfer agreements more or less in desperation because the alternative offered by Transport Canada was airport closure or significant operational downsizing.

It is important to note here that according to Transport Canada's own study conducted 10 years after introduction of the NAP, 48% of transferred airports cannot even cover cost of operations.[9] Furthermore, even those with an operating surplus are able to fund only about a quarter of their capital requirements. Thus the concerns expressed a decade ago have been borne out in fact by Transport Canada.

Factors negatively impacting regional airports include:

- the federal government's policy framework;
- inadequate funding;
- airport management/governance practices regarding training and planning;
- services by others that airports rely on; and
- regional infrastructure issues.

Each factor is discussed below.

[9] Regional and Small Airports Study, July 2004.

3.1 Policy Framework: Regulations

Regulatory Creep. Although Canadian Aviation Regulation (CAR) 308 (aircraft emergency intervention services) represents the highest profile example of regulatory creep, it is just one example of regulatory requirements being added by Transport Canada to former Transport Canada run airports once they are in local hands. During negotiations for the transfer of TC airports, the ministry indicated to many communities that ERS could be an area of potential cost savings for communities through the elimination of unnecessary services. After transfer, however, Transport Canada began the process of imposing more onerous ERS requirements with associated operational and capital costs.

Additional capital costs will range from modest (under $50,000 for Campbell River and Dawson Creek) to significant ($500,000 or more for Cranbrook, Nanaimo, and Smithers). While ACAP may cover a portion of these costs, airports will also incur additional operating costs annually, which ACAP does not cover. Airports such as Abbotsford, Kamloops, Nanaimo, Prince Rupert, and Williams Lake estimate incremental costs of $200,000 or more. In some cases, this represents an increase of 30% or more from the existing operational budget, and could threaten the viability of some airports.

A more recent development with potential impacts on smaller airports is the proposed extension to approach bans, which would require pilots to view a runway at which they are landing from a higher altitude than previously required. The proposed revisions to the existing regulation that will potentially result in fewer landings at many airports, particularly in mountainous terrain or during inclement weather.

The new owners of Canada's regional airports point to examples of how Transport Canada's attitude towards regulation of airports in general has changed since the Department stopped operating airports itself.[10] Simply stated, they allege that Transport Canada has continued to add regulatory burden, and related cost, onto airport operations since it transferred the airports and no longer bears the costs of regulatory burden.

This is an issue that affects not only the regional airports, but the community airports as well. This thus threatens the continued viability of airports that have historically operated without Transport Canada support.

3.2 Policy Framework: Aviation Policy

Restrictive Air Access Policies. Current air bilateral agreements between Canada and other countries restrict foreign air carriers in terms of locations served, frequencies, and types of operations. Adopting a policy of 'open skies', as the U.S. has done with many other countries, would reduce or eliminate many of these restrictions and increase international access to Canada. The 1995 Canada-U.S. bilateral agreement, while not as liberal as the true Open Skies agreements the U.S. has signed with other countries, greatly

[10] It should be noted that Transport Canada does still operate a few remote and non-transferred airports.

increased access and helped increase transborder air traffic and tourism in B.C. and elsewhere. Nevertheless, shortcomings such as lack of open fifth freedom rights reduces the number of foreign carriers providing Vancouver with international air services, and thus limits the accessibility of Vancouver – and B.C. as a whole – to foreign tourists.

Moreover, as Vancouver is not a permitted service point in most of Canada's air bilateral agreements, this policy restriction limits the amount of tourists funnelled through Vancouver to other B.C. points.

While it is likely that open skies agreements with foreign nations are unlikely to lead to other B.C. airports developing as international gateways, there could potentially be opportunity for direct service from other nations to other B.C. points such as Victoria or Kelowna in the longer term.[11] In the shorter term, enhanced access to Vancouver will lead to increased tourist flows through to other B.C. communities.

Other air policy restrictions, such as the prohibition of right of establishment and foreign ownership caps on Canadian carriers, limit the development of international services and restrict the development of additional domestic feeder services and thus limits the potential activity at regional and smaller airports as well as Vancouver International Airport.

This is an important issue, though not critical from the perspective of regional airport viability. It will be possible for airports to continue to get by under a continued poor policy environment. If airports are to truly flourish, however, these issues must be resolved. Air services, and hence airports, cannot realise their potential as long as the federal government continues to cripple them with restrictive policies.

This issue also limits the ability of community airports to fully exploit their potential to attract additional traffic and generate increased revenues.

3.3 Financial Viability

Inadequate Capital Funding. In a survey of B.C. airport operators Inter*VISTAS* Consulting conducted in 2001, over 80% of regional airport managers report that they will not meet their capital budgets over the next five years. This points to important shortcomings regarding the capitalisation of these airports. While the federal government operates the Airports Capital Assistance Program (ACAP) to assist regional airports undertake capital projects, the program is limited in scope and budget,

> ***Most small/regional airports in B.C. and the rest of Canada cannot meet their capital requirements.***

[11] A number of other BC airports will likely be able to support international services in coming years. A few examples: Prince George attracting tech stop cargo flights due to its short routing to Asia than Anchorage; Cranbrook attracting charter flights serving its burgeoning resort cluster; Comox attracting Japanese golf charters, ...

and in its current form is insufficient to address all the capital needs of regional airports.[12] To compensate for the shortcomings of ACAP, the B.C. government also funds capital improvements through its Transportation Partnerships Program (TPP).

This capital shortfall impacts both airports trying to grow such as Abbotsford and Smithers, as well as those simply trying to ensure the maintenance of an adequate infrastructure to serve demand while maintaining economic viability, such as Pitt Meadows and Boundary Bay.

This issue is a critical one. Airports can get by in the short, to perhaps medium, run without adequate capital funding by deferring capital projects, but in the long run, this is a critical issue.

Insufficient Revenues to Cover Operating Costs. While many airports improved their financial performance following devolution[13], a large minority continue to be unable to cover even their operating costs. In a survey conducted in 2001, approximately 40% of B.C. airports did not break even and did not expect to do so in the near future. This problem predominantly affects smaller airports. This finding is consistent with the recent federal study which indicated 48% of Canadian regional and small airports cannot cover their cost of operation.

These issues are compounded by the increase in costs being imposed on airports through increases in taxes, fees and charges, as well as regulatory costs.

This issue is a critical one in the short term. Airports that cannot meet their operating costs can continue as a going concern for only a limited period of time before they will be forced to close or curtail operations.

3.4 Airport Management/Governance Practices

Inadequate Planning. In a 2001 survey of B.C. airports, Inter*VISTAS* Consulting found that 17% of regional airports do not have a capital plan, 28% do not have a business plan, 72% do not have a strategic plan, and 44% do not have a Development or Master Plan. This suggests that many airports in B.C. (and likely throughout Canada) are operated without any, or at best a sketchy or rudimentary long-term vision or plan to ensure success or to guide development. This is critical since airports, like any other business with costs and revenues measured in the millions of dollars, need to have business plans to guide operations and development. The lack of such plans hinders the long-term viability of

[12] ACAP is open to airports beyond those transferred from Transport Canada. Any certified airport not owned or operated by the federal government that has year-round scheduled passenger service carrying at least 1,000 passengers annually over the past three years is eligible.

[13] Transport Canada's Regional and Small Airport Study noted the "[t]he great majority of airports, which were in a deficit position at the time of transfer, have been able to reduce significantly that deficit or even generate a surplus since divestiture." According to this study, 90% of airports which are still experiencing operating deficits have been able to reduce that deficit from 30-90% since transfer.

these airports, and suggests a strong need for financial support for planning given that many of these airports do not break even on operations and would have difficulty in coming up with funds to develop these key plans.

This is an important issue. Like that of the situation of a restrictive policy environment, it is potentially possible for airports to get by without proper planning; however, they will not be able to realise their full potential in such an environment. Moreover, airports without adequate planning are in a reactive mode. They run the risk of turning from viable to nonviable due to their inability to anticipate and respond to change. This needs to be addressed in the short to medium term.

Limited Training Requirements. At present, the regional airport system is relying primarily on airport managers who were trained and developed by Transport Canada. When Transport Canada operated a network of airports ranging from small remote airports to Vancouver International Airport and Toronto Pearson International Airport, staff had the opportunity to work in various areas of airport operations, in various types of airports, and in different areas of the country. This system produced people with a wide range of experience. However, with Transport Canada no longer operating such a network of airports, this training opportunity no longer exists. As the current managers retire or resign from their positions, they will have to be replaced by new individuals who have not had the opportunity to come up through the Transport Canada system.

Currently, individual airports certainly provide training to staff, and there exist a number of programs available to provide training to airport managers and other staff.[14] Opportunities for managers to gain experience through terms at other airports also still exist [e.g., Vancouver Airport Services (YVRAS)], though this is certainly less common than it was under Transport Canada. What is lacking however, is a *requirement* for airport operators to undertake training of staff to ensure that airports will have adequately trained staff to take over from those already trained as they retire or otherwise leave the airports.

This is an issue that is important, but not pressing. It will, however, become more and more pressing over time as the current managers retire and airports find there is a limited pool of trained talent to choose from.

3.5 Air Navigation, Security and Customs Services

Reduction in NAV CANADA services. NAV CANADA provides air navigation services throughout Canada, including services provided locally or remotely for regional airports. Services include airport control, advisory services, and weather services. Provision of these services at existing levels is often essential to airports being able to support and attract air services. Recently NAV CANADA completed a level of service review that recommended reduction or discontinuation of many services at regional airports

[14] For example, BCIT offers a diploma program in Airport Operations. UBC offers various courses in management within the Transportation and Logistics program at the Sauder School of Business, including Air Transport Management.

throughout Canada including 11 airports in B.C. For example, Prince George would lose its airport control service, and Abbotsford, Dawson Creek, Quesnel, Smithers and Williams Lake would see reductions in hours of operation of local or remote airport advisory service.[15] In addition to these airports, Castlegar, Fort St. John, Kamloops, Prince Rupert and Terrace would see minor changes that would not substantially affect operations.

The proposed service reductions will have negative impacts on the affected airports and their communities. Operations will decline in quality, with increased delays and the increased possibility of diversions to other airports in poor conditions. Safety, including the effective operation of MEDEVAC flights, could also be reduced. Airports may see loss of some services and increased difficulty in attracting new services with reduced navigational support. Other aviation and related businesses (such as flight schools, tourism, and mineral exploration) may decline or leave entirely with a reduction in NAV CANADA services. As a result, this is a pressing issue in the short run. Services, once removed, will be difficult to get back, particularly as aviation activity declines in response to lower service levels.

Payment for Customs. Customs services are a necessity for all airports operating international and transborder services. These services are provided by the federal government and operated at no expense to airport operators for all major (NAS) airports across Canada. However, this is not the case for smaller airports with transborder services, which are required to pay the full cost of customs services.[16] This situation is perceived to be inequitable, with prohibitively high costs for the affected airports. Small airports are negatively affected in two ways: either they are forced to bear to increased cost burden if they operate transborder services, or they must forego the opportunity to operate transborder services. The current policy discourages and penalises small airports from the operation of transborder services, and negatively affects their financial position either through increased costs or reduced sources of revenue.

The Air Travellers Security Charge (ATSC). Introduced in 2002 to pay for increased security measures following 9/11, the ATSC has been a burden on air transport in general and particularly regional air travel since its inception. Inter*VISTAS* Consulting estimates that the current ATSC results in a loss of 96,600 visitors annually to British Columbia, representing an annual loss of $73.5 million in tourism spending. Aviation is the only mode that has been required to fund 100% of increased security costs imposed since the terrorist attacks.

Currently, the ATSC charge is $6 per enplanement (to a maximum of $12 per ticket) for domestic flights and $10 per enplanement (to a maximum $20 per ticket) for transborder

[15] The recommendation to eliminate the air control tower at Prince George has since been withdrawn; in lieu of that, the Flight Service Station (FSS) at Prince George is to be closed. FSS closures are also proposed at Abbotsford and Dawson Creek.

[16] Kamloops is currently the only regional airport in B.C. that has regular transborder services and must pay for customs services. However, similar airports which might otherwise consider transborder services (such as Comox Valley, which has a new customs facility but currently no transborder service) may be discouraged, currently or in the future, by the prospect of paying for the full cost of customs.

flights. This amount is fixed and is not dependent on factors including ticket price, length of flight, or type of aircraft – for example, it is the same for a Vancouver-Nanaimo flight as for Vancouver-Toronto. The ATSC is thus particularly burdensome on regional flights as it represents a significant portion of the total cost of the ticket. Thus, regional airports suffer the impacts of the charge disproportionately, even though the flights they serve pose minimal security risks.

Given the widespread benefits to Canadian society that stems from airport security, it is not a transportation issue per se but is a matter of national security, and as such should be fully funded by the federal government.

3.6 Regional Infrastructure Issues

B.C. is a large province with a challenging topography and a widely dispersed population, making air transportation a key means of moving people and goods. As a result, B.C. has a large number of airports serving the needs of travellers and shippers alike. Airports, however, have high fixed infrastructure costs and exhibit returns to scale, and yet airport planning has historically been done on an individual community basis. Some airports recognize that under certain circumstances, there are potential synergies to be gained from planning on a *regional* basis.

This issue is only relevant in a few cases where airports really serve significantly overlapping catchment areas. The complication is determining where catchments overlap: this is not just a case of a simplistic circular radius as may be the case elsewhere, but is defined by geography, topography and surface access. Due to the nature of the terrain, this is more important for B.C. than for most other places in Canada.

In those cases where nearby airports should be considered part of a regional system, there is a need for a regional systems plan to help define roles and avoid duplication not only of services, but of expensive infrastructure so that limited investment funding from communities and other sources can be used to maximum effect.

The example of Comox and Campbell River shows how this could work in practice. The two facilities, in recognition of their respective strengths, have embarked upon different development initiatives. Comox has a runway and terminal building sufficient for significant passenger services, including intercontinental services, but has little land for development. It is focussing, in part, on WestJet and other commercial large jet air services. Campbell River has ample land for development. It is developing an aviation-oriented industrial park. Together, the two facilities are offering a complete package that individually they would be hard-pressed to provide. The respective focus of the two airports are synergistic – in effect they are increasing the size of the overall pie they share. As a result, both should prosper to a greater degree than could be expected if they tried to duplicate services.

Even in a future where enhanced airport operating and capital support is available, and airport viability is not directly an issue, communities could find that an airport system approach is still the preferred course of action. In situations where two or more airports are determined to effectively share a common catchment area, splitting traffic among the two (or more) airports may lead to a situation where none of the airports has the necessary critical mass to support a level of service (frequency, size of aircraft, level of fare) that reaches the threshold to support a truly viable local and regional economy. While all airports in the system may attract a certain level of activity, the region as a whole suffers from sub-optimal traffic levels (and hence revenues) and higher than necessary infrastructure and operating costs.

The experience with low cost carriers is that people will drive two and a half or more hours to access the air service of their choice. Thus communities within this range of each other could readily combine their respective market demands to attract a higher level of service at one selected facility than could be supported at separate facilities. Rationalization of service at one facility could lead to higher frequency of service, and/or service by larger aircraft than could be otherwise supported, both of which could have a market stimulation effect.

In cases where rationalization of scheduled services led to the replacement of small turboprop or regional jet service for service by jet aircraft such as a 737, there could be significant tourism and cargo spin-off benefits. Such larger aircraft can accommodate equipment such as skis or hunting rifles, etc., and offer a level of comfort and service that could expand the base of tourists the communities could draw from. In addition, the use of larger aircraft provides the operator with greater scope for offering discount fares to stimulate the market. This stems both from the fact that available seat costs tend to be lower on such aircraft than they are for regional jets, and the larger number of seats allows for more opportunity to accommodate special groups (e.g., conventions, tour groups, etc.). Finally, 737 type aircraft can accommodate air cargo, giving shippers an option that simply does not exist with regional jets, and potentially stimulating value-added activities and exports.

A systems approach to airport planning and operation could lead to increased service levels, higher traffic levels, stimulated economic activity, higher airport system revenues, lower airport system costs, and improved airport system viability. However, communities wishing to take advantage of this potential face a difficult task. Taking an airport systems approach requires another layer of planning that to date has not been widespread. As discussed above, airports are in many cases not undertaking sufficient planning as it is, let alone undertaking this task as well.

There is a role here for the provincial government in helping communities and airports fund regional airport systems plans. The direct benefit for government for this funding is through more effective airports, and through an ability to channel scarce airport funding to projects that will offer the largest economic impact for the province.

3.7 Conclusions

B.C. faces a number of issues that threaten the viability of regional airports. Many of these issues such as the federal air policy, inadequate funding, and the absence of a systems planning approach are not new, and have been around since the National Airports Policy was implemented. Other issues such as regulatory creep, air navigation system cutbacks, customs charges and the limited business, strategic, marketing and Airport Master planning that is undertaken have been added to the mix, further exacerbating the situation. Some issues such as the lack of a requirement for training standards will not make their full impact known for years.

Many of the issues noted above, however, are not necessarily confined to B.C. or Canada. Before considering what actions should be taken to address these concerns, it is useful to examine what some other countries have done to address similar concerns.

4.0 Government Airport Support Programs

Currently, the federal government and many provincial governments offer programs to assist regional airports and/or air service to these airports. The programs of the federal government and selected provincial governments are listed below.

4.1 Canada

4.1.1 Federal Programs

Prior to instituting the National Airports Policy, the federal government through Transport Canada owned and operated most airports in Canada with scheduled passenger service. Responsibilities for all airport activities, including operations, maintenance, capital improvements, staff training and related costs were thus borne by the government, and not necessarily tied to the revenue earned by the airport. Many smaller airports were effectively subsidised through this arrangement. Furthermore, airports not owned by Transport Canada but with scheduled service also benefited from a capital program, the Local/Local Commercial Airports Assistance Program.

Following divestiture, however, the federal government eliminated any financial involvement in the divested airports, except for transitional financing and residual capital financing for safety projects and cancelled the Local/Local-Commercial Airports Assistance Program. Airports are now expected to be financially self-sufficient. While a large majority have improved their financial performance and have either reduced their operating deficits or (in a few cases) achieved an operating surplus, many have difficulty meeting additional costs including capital improvements and training.

The federal government still offers a few programs to assist in funding and/or operating regional airports, though these programs tend to be limited in scope. These programs are described in detail below.

Airports Capital Assistance Program (ACAP). The most wide-reaching of the programs is the Airports Capital Assistance Program (ACAP), which provides funding assistance on capital projects concerning safety, asset protection and operating cost reduction. The program is available to all airports with scheduled passenger service of at least 1,000 passengers over the previous three year period and certified (or nearly certified) under the requirements of the Canadian Aviation Regulations. Any eligible airport can apply for funding, and must demonstrate justification for the project and financial need. Airports must contribute 0-15% of costs depending on their passenger volumes. Funding for the program is currently about $38 million per year. While the program has been largely successful insofar as providing assistance with the highest priority projects, it is limited in scope and budget. A review of the program by Transport Canada in 2004 revealed that only projects in the highest two priority categories (airside safety-related projects and airside mobile equipment safety-related projects) regularly received funding. Of the 126 projects funded during that period, only one Priority 3 (air terminal and groundside safety-related projects) project and no Priority 4 (asset protection and operating cost reduction) projects were funded. The effective scope of the program is thus limited mainly to airside, safety-related projects, which may only incidentally help in reducing costs or otherwise improving long-term viability.

Labrador Coast Airstrip Restoration Program. This program provides funding for major restoration projects of airstrips in Labrador, and does not apply to any airports outside the region. The federal government contributes 100% of the cost to qualifying projects.

Remote Airports. The federal government is responsible for the funding or operation of 13 remote airports across the country. Airports qualify as remote if air is the only reliable year round mode of transportation available to the community it serves. Sandspit is the only remote airport in B.C.

In addition to the remote airports, a few regional airports have yet to be divested and are still operated by Transport Canada. In British Columbia, this includes Penticton and Port Hardy.

4.1.2 British Columbia

British Columbia offers some capital funding support to regional airports, though the focus of this support has shifted in recent years. Previously, the province offered the Air Transport Assistance Program (ATAP), a program similar to ACAP but directed at smaller airports not eligible for federal funding. Funding was provided up to 100% for the smallest airports while larger ones were expected to share part of the cost. Total funding under ATAP was up to $2 million annually. The program was suspended as a cost-saving measure in 2001.

More recently, in 2003 the province introduced the Transportation Partnerships Program offering capital grants to airports and ports. The program is funded at $10 million per year. Airports (and ports) interested in seeking grants under the program must apply to the Ministry of Transportation, including a business case (outlining economic impacts) and financial partnerships. Cranbrook Airport was the first to receive funding under this program.

The province also offers support to airports through property tax exemption and the availability of crown land. The Community Airport Exemption Regulation applies to 12 airports in the province and exempts them from property tax levies on aviation-related improvements. The province also operates an Airport Land Program that offers free crown land to local and regional airports.

4.1.3 Alberta

Alberta provides support to smaller airports through its Community Airport Program, which offers assistance on rehabilitation work on airside pavement for community airports. The program is applicable to airports that are not eligible for federal funding. The province provides 100% of funding for qualifying projects. In 2004, the CAP funded 7 airports totalling $2.4 million in funds.

4.1.4 Saskatchewan

Saskatchewan offers a Community Airport Assistance Program to assist smaller airports in maintaining their infrastructure. To qualify, airports must meet minimum requirements for runway size, community population, and distance from an existing adequate airstrip. Airports are eligible for up to $2,800 every four years for surface treatment. Annual funding for the program is roughly $100,000.

Saskatchewan also own operates 18 airports in the northern part of the province. The province spends approximately $1.2 million annually to operate these airports. However, it does not have a long-term capital budget for these airports and depends largely on ACAP funding for capital funding.

4.1.5 Manitoba

The Manitoba government owns and operates 24 airports in the northern part of the province. Total provincial funding for the operation and capital costs of the airports is in the range of $7-8 million per year. These airports depend minimally on ACAP for capital funding.

The Manitoba Airport Assistance Program assists in funding the operation of small airports that are open to the public but do not receive class 1 or 2 commercial services. Airports must meet minimum size and certification requirements. Assistance is $1,200 per year for airports without unpaved runways, $2,400 for airports with paved runways. Total funding is about $70,000 per year.

Up until mid-2004, the Manitoba Airport Capital Assistance Program provided funding for capital improvements at small airports that are not owned by the Manitoba government or an airport authority, and are not eligible for ACAP. Funding was provided at 50% of total cost with the airport owner responsible for the remainder. Funds were allocated on a priority basis with the highest priority given to airside infrastructure rehabilitation or improvement. Total funding was about $300,000 per year. The program was discontinued due to financial pressures, to allow the government to focus on operating its northern airports.

Table 4-1: Major Airport Assistance Programs in Canada and Western Provinces

Program	Eligibility	Description	Annual Funding (approximate)
Canada			
Airports Capital Assistance Program (ACAP)	Certified airports with scheduled passenger service over 1,000 passengers per year.	Assistance on capital projects. Covers 85-100% of costs per project.	$38 million
Labrador Coast Airstrip Restoration Program	Airstrips in Labrador	Full funding of airstrip restoration projects	$1 million
Remote Airports	Airports where air is the only reliable year-round transportation	Remote airports are federally funded and operated.	$3 million[17]
British Columbia			
Transportation Partnerships Program	Airports and ports	Capital improvement grant. Must prove business case and include financial partnerships to qualify.	$10 million
Community Airport Exemption Regulation	12 regional airports	Exemption from property taxes on aviation-related improvements	
Airport Land Program	Public or private airports not owned or operated by the federal government	Free grants, leases, licenses or permits for crown land to be used for airport purposes	n/a
Alberta			
Community Airport Program	Airports not eligible for federal funding	Full funding for airside rehabilitation projects	$2.4 million
Saskatchewan			
Community Airport Assistance Program	Small airports meeting minimum runway size and distance from other airports	Funding for airport maintenance projects	$100,000

[17] This number includes the cost of operating a few non-remote airports that Transport Canada has not yet completed the transfer of.

Program	Eligibility	Description	Annual Funding (approximate)
Northern airports	18 airports in northern Saskatchewan	Full funding for operation of airports	$1.2 million
Manitoba			
Manitoba Airport Assistance Program	Public airports not receiving Class 1 or 2 commercial services	Assistance in funding operations	$70,000
Northern airports	24 airports in northern Manitoba	Operation and capital funding	$7-8 million

4.2 United States

4.2.1 Federal Programs

The federal government offers three major programs to assist airports. Two are targeted at smaller airports while the third is available to all public airports, though small airports are assisted to a greater extent. These programs are described below.

In 2004, the U.S. airport system received US$3.4 billion in support from the federal government's Airport Improvement Program.

In stark contrast, the Canadian airport system provided about $200 million (net) in support to the federal government in 2004.

Airport Improvement Program (AIP). The AIP is the largest of the three programs and applies to most U.S. airports. The program is funded from ticket taxes collected in the Airport and Airway Trust Fund and legislative appropriations and provides funding for airport improvements related to enhancing airport safety, capacity, security, and environmental concerns. Funding from the AIP can be applied to both actual infrastructure improvements and to professional services including planning, surveying, and design. It is not applicable to improvements on terminals, hangars, or non-aviation improvements. The AIP covers 75% of the costs of projects for large and medium primary hubs (80% for noise related projects) and 90% for smaller airports. Grants in 2004 totalled US$3.4 billion.[18]

[18] In contrast, the Government of Canada collects close to $250 million in rent from Canadian airports, and returns about $50 million in the form of capital and operating support to airports and airlines.

Essential Air Services (EAS). The EAS program was created following airline deregulation in 1978, to ensure that smaller communities maintained links to the national airport system.[19]

Under EAS, the Department of Transportation determines for each eligible community a hub city to link to (connecting the community to the national network), the minimum number of round trips and seats available, characteristics of the aircraft to be used, and maximum number of stops between the community and the hub. Airports are eligible under the EAS program if they are at least 70 miles from a large or medium hub, or in the case where the subsidy per passenger exceeds $200, they are at least 210 miles from a medium or large hub.

The Essential Air Services program preserves air service to small communities.

The program guarantees that qualifying airports will continue to receive basic essential service by providing a procedure for replacing services if existing services are ceased or reduced (including offering subsidies when needed), and requiring incumbent carriers to continue serving communities until the replacements begin service. In most cases, subsidies are not required (as of June 1, 2004 the program subsidised services to 138 points including 33 in Alaska). Total annual subsidies have been as high as $100 million per year, and funding has been set at a minimum of $50 million annually since 1998.

Small Community Air Service Development Program. The Small Community Air Service Development Program is a pilot program, started in 2001, designed to assist small airports with the marketing and promotion of air services. The program is available to airports smaller than what the FAA classifies as small hubs, and which have either inadequate service or unreasonably high fares. The program was allocated $20 million for 2004.

Funding for all these programs is drawn from the Airport and Airway Trust Fund, which is supported by user fees, fuel taxes and other similar revenue sources.

To make a comparison of federal programs easier, the Canadian and U.S. programs are summarised in **Table 4-2** below. It is clear

The U.S. federal government provides about US$3.5 billion in net financial support for airports.

Ignoring for the moment the more than $250 million the Canadian federal government extracts from the system in the form of various taxes, fees and airport rents, the federal government provides only about about $42 million in financial support (US$35 million), 1/100 the level of the U.S. government's support.

[19] Prior to deregulation, carriers were required to serve every point on their operating certificate with minimum twice daily service.

that the level of support by the Canadian government is a tiny fraction of the level of support provided by the U.S. government. Even after applying the 10:1 rule of thumb for Canadian-U.S. comparisons, and inflating Canada's level of support by an order of magnitude, the resultant level of support is still an order of magnitude less than that of the U.S.! Furthermore, it must be kept in mind that this comparison considers only what the Canadian government puts into the airport system. It does not include the significant amount of airport rent the federal government extracts from the system, in the form of security fees and rents from larger NAS airports, which alone is in the $250 million range and climbing.[20]

4.2.2 State Programs

In addition to the substantial level of support available from federal programs, many states offer additional assistance to small airports. A number of state programs are described below. This list is not exhaustive but provides an illustration of the types of programs operated by various states, and in particular those with dispersed population centres similar to those in B.C. and Western Canada, and states in proximity to B.C.

Washington State.

Washington State has a **Local Airport Aid Program** providing funding for airport improvement projects. The program covers the improvements involving planning, pavement (i.e., airside surfaces), safety improvements, maintenance and operation. 55% of the funding is directed to smaller airports having fewer than 20 aircraft based there. Funding can cover up to 95% of project costs (up to a maximum $250,000), though a higher contribution by the local sponsor increases the prioritisation of funding. The program contributed $1.0 million in grants in 2004. Funding for the program is provided through a tax on general aviation fuel sold in the state.

Other programs include the **Washington State Aviation Pavement Management Program**, which collects and maintains information on pavement conditions at all airports (used to identify necessary maintenance and repair, and identify funding priorities), and the **Airport Land Use Compatibility Program**. The latter program was created to assist in local airport planning, to ensure that land surrounding airports is not developed in uses that would adversely affect airport operations, or that would themselves be adversely affected by the airport. This includes considerations for height hazards, other safety issues, and noise from the airport and flight paths. The program assists in guiding planning decisions through the availability of resources in four main areas: general technical assistance (including the facilitation of communication with surrounding communities), a best practices handbook, comprehensive plan review, and technical outreach workshops.

[20] The federal government has indicated that once again it will consider options to address airport rents, but no action has been announced.

Table 4-2: Comparison of Canadian and U.S. Federal Programs

Program	**Eligibility**	**Description**	**Annual Funding (approximate)**
Canada			
Airports Capital Assistance Program (ACAP)	All airports with scheduled passenger service, certified under CARs	Assistance on capital projects. Covers 85-100% of costs per project.	C$38 million
Labrador Coast Airstrip Restoration Program	Airstrips in Labrador	Full funding of airstrip restoration projects	C$1 million
Remote Airports	Airports in communities where air is the only reliable year-round transportation	Remote airports are federally funded and operated.	C$3 million
Total Support			**C$42 million**
U.S.			
Airport Improvement Program (AIP)	Public airports, and private airports with FAA reliever status or minimum traffic levels	Funding for airport projects improving safety, capacity, security, or environmental concerns. Funding is 75% for larger airports and up to 90% for smaller airports.	US$3.4 billion
Essential Air Service Program (EAS)	Smaller airports a minimum distance from small or large hub airports	Subsidies (where necessary) to carriers to provide basic essential air service to communities	US$50 million
Small Community Air Service Development Program	Airports not larger than a small hub, with inadequate service or unreasonably high fares	Funding to assist airports in attracting additional service	US$20 million
Total Support			**US$3.4 billion**

State law requires that all local governments with a public use airport have plans and regulations in place to discourage incompatible uses adjacent to the airport, and that state assistance (as through this program) is available to local governments.

Washington State, and other states, provide funding to airports for infrastructure as well as planning studies to preserve their economic contribution to communities.

Oregon.

Oregon provides funding for local airports through its **Financial Aid to Municipalities** (FAM) program. This program provides funding for airport improvements including capital and planning projects. Funding is up to $25,000 per project, which must be matched locally. The amount may also be used as a sponsor match to secure federal AIP funding.

Oregon also offers **Aviation Planning Services** for local airports. Through this, they provide technical assistance, evaluation and comments to local governments in applying state land use laws around airports.

Michigan.

With its location on two peninsulas, Michigan is heavily dependent on local air service for access and funds several programs to support it. The **Air Service Program** is aimed at improving scheduled service to Michigan airports, through three mechanisms. First, it funds capital improvement and equipment, with state funding of up to 90% for airports with fewer than 150,000 passengers per year, and 50% for larger airports. The maximum grant per project is $80,000. The second mechanism is carrier recruitment and retention, which assists in establishing, maintaining, and increasing service levels at airports of 150,000 passengers or fewer. Support is provided by means of feasibility studies, risk sharing, and incentives. The last element is airport awareness, which provides 90% funding and up to $25,000 for projects to increase public awareness of local airports up to 150,000 passengers.

The **State/Local Small Airport Development Program** provides funding for capital improvement projects for small airports under 150 based aircraft. State funds are provided at 90% of the total cost with the remainder provided by local funding. The program funds projects that are not eligible for, or are too low a priority for, federal funding.

The **State/Local Airport Development Program** is another program matching state and local funding. This program provides funding at 50% of total costs up to a maximum of $75,000. Eligible projects are capital improvement programs including preventative maintenance and airport zoning plans.

Lastly, the state's **Loan Program** provides loans of up to $100,000 to publicly-owned airports for airport related projects. These loans have a low, capped interest rate and must be paid back over a maximum of 10 years. Loans can be used towards a local match obligation for other programs, but cannot exceed 90% of the local match.

Kansas.

Kansas provides support to its smaller airports through its **Airport Assistance Program**. This program funds capital improvements to airside pavement and equipment, to a maximum of $1 million per project. The program is open to all airports expect 'primary' airports, and is funded to a total of $3 million per year.

Virginia.

Virginia operates the **Virginia Airports Revolving Fund**, which provides loans for eligible projects including capital improvements (airside and groundside infrastructure and buildings), machinery and equipment, purchase of land, rights-of-way, aviation and water rights. Loans are subsidised by at least one half percent below market rates. The program provided approximately $11 million in loans in 2004.

New Mexico.

New Mexico operates the **Air Service Assistance Program** (ASAP), which assists small communities in securing local air service. The program applies to communities which do not qualify for federal Essential Air Service funding. The state will match local funding up to $200,000, which is used to secure scheduled intrastate commercial service. Funding may also be used in conjunction with the federal Small Community Air Service Development Program.

4.3 Australia

Australian governments support regional air services as well as infrastructure and planning projects at small airports.

Federal and state government programs in Australia assist regional airports either directly or indirectly through supporting regional air service. The federal government provides support for regional air services. The **Remote Air Service Subsidy** (RASS) directly subsidises air carriers to serve selected communities with scheduled weekly services. Operators are selected through a competitive tender process. Communities can apply for inclusion in the RASS program, and must demonstrate both a need for weekly air service, and that they are sufficiently remote in terms of surface travel from a population centre receiving weekly or better air service. The addition of new communities is subject to budget constraints in any given year. Funding for 2004-2005 was budgeted at A$3.3 million, subsidising services to approximately 250 remote communities.

State programs also offer assistance to regional air service. Queensland, for example, operates a program called **Regulated Air Services** that is similar to the federal RASS scheme but is not limited to small communities or to supporting only weekly service.

Western Australia offers a **Regional Airports Development** scheme to fund infrastructure improvements at smaller airports. This program covers up to 50% of costs in areas including planning, access, and development. Other states have introduced similar programs.

4.4 European Union

Direct state assistance to airports in Europe, including regional airports, is limited by the European Union's policies against subsidisation of airports in the interest of maintaining fair competition among the myriad of airports. However, regulations do provide for the subsidisation of services on less commercially viable routes, under a program called **Public Service Obligations** (PSO). This permits a member state to subsidise "thin" routes within its territories to maintain adequate service on those routes. States operating PSO programs must publicly tender for these routes (singly or grouped); the winning carrier is awarded a monopoly on such routes and a subsidy if needed, in exchange for providing a minimum acceptable level of service. As of 2001, PSOs were operated in eight EU member states (France, Germany, Ireland, Italy, Portugal, Spain, Sweden, and the UK) as well as Iceland and Norway (not EU members but part of the European Free Trade Association), with 157 PSO routes between them.

Despite policies against airport subsidies in order to maintain fair competition among the many European airports, governments still provide financial support to maintain air services in 157 thin markets.

4.5 Conclusions

Jurisdictions such as the U.S., Australia and the European Union all have provision for support of small and regional airports either directly (e.g., through infrastructure investments and funding support for planning studies) or indirectly (e.g., through support of regional air services).

Although Canada does have the Airports Capital Assistance Program for safety-related infrastructure assistance for small and regional airports, Canada differs from other jurisdictions in that its federal government has a net disinvestment taking place in the airport system as it withdraws in rent from the airport system an amount far greater than what it returns through ACAP.

Other jurisdictions such as the U.S., Australia and Europe provide significant levels of support for small and regional airports.

5.0 An Action Plan for Success

This section provides an action plan for the key stakeholders to follow to enhance the viability of B.C.'s regional airports. This plan is based on the conclusions reached in this discussion paper:

- there is a viability issue for regional airports
- this issue arose in part from the manner in which the NAP was implemented, and has been exacerbated by recent developments, including industry shocks, increased fees and charges and creeping regulatory burden
- regional airports are essential pieces of transportation infrastructure
- other jurisdictions have developed support programs to ensure regional airport viability
- issues to be addressed include:
  - the federal government's policy framework;
  - inadequate funding;
  - airport management/governance practices regarding training and planning;
  - services by others that airports rely on; and
  - regional infrastructure issues.

Based on the foregoing, the following actions should be taken by the various key stakeholders.

5.1 Province of British Columbia

Policy framework:

- **Continue advocacy initiatives for changes to federal policies and practices.** There are a number of federal tax, regulatory and policy issues that require change. The Government of B.C. has a great deal of influence federally, and is well positioned to advocate change in support of the airport and aviation industry. The political weight B.C. can add to the industry voice is critical.

Funding inadequacy:

- **Continue or even enhance the Transportation Partnerships Program.** This program, targeted for airports and ports, is a key step forward and provides much needed support for strategic initiatives. It should be retained, or if possible, enhanced to ensure critical infrastructure investment can take place.
- **Create a funding program for small/remote communities not eligible for ACAP.** The Ministry of Transportation should create a program to ensure that smaller and particularly remote communities continue to receive at least a minimum acceptable level of scheduled air service. Such a program should include provisions to provide for

replacement services if existing services are discontinued or reduced below the minimum level, with tendering for subsidised service if necessary.

- **Work with stakeholders to develop air service trust funds.** Stakeholders such as the tourism industry, business and exporters have a vested interest in enhanced air service levels. The province could facilitate the development of such programs throughout the province to help enhance airport revenues.

Airport management/governance practices:

- **Provide funding for and encourage airport planning.** Many regional airports in B.C. lack a fully developed set of plans, including Business Plans, Strategic Plans, Master Plans and Marketing Plans, hindering their long-term viability. Lack of funding is the main cause for this deficiency. To address this, the Government of British Columbia should develop a program to provide financial support for the development of plans including master plans, development plans, capital plans, business plans, strategic plans, and marketing plans. This program should be provided on a cost-shared basis with the airport operator. Having a requirement for such plans to be in place in order to be eligible for provincial capital funding programs would encourage airports to undertake such planning.
- **Encourage and support training.** Most regional airports still rely heavily on airport managers who were trained by Transport Canada, though the agency no longer retains this role. To maintain a high level of quality in airport management, particularly as current managers retire or resign, the Government of British Columbia could make eligibility for its support programs dependent on such training being implemented and potentially develop a program to help fund the training of airport management staff.

Air Navigation, Security and Customs:

- **Engage in advocacy initiatives in support of industry relative to Nav Canada and Canada Border Services Agency.** There are cost and service issues related to air navigation services and customs services at smaller airports. The Government of B.C. can provide much needed advocacy support in these areas.

Regional Infrastructure:

- **Support development of regional airport system plans.** Some airports may wish to undertake regional planning in order to capitalize on potential synergies. The Government of B.C. should provide funding support for such plans.

5.2 Government of Canada

Policy framework:

- **Reduce the regulatory burden of CAR 308 and other regulations.** To help offset the growing costs that have arisen from the increased ERS requirements in CAR 308, Transport Canada should develop a formula to share the costs (capital and operating) of meeting these requirements with the airport operators (e.g., through incremental funding for ACAP). In addition, Transport Canada should guard against further instances of regulatory creep that impose higher costs on airports with often disputable benefits. An effective consultation process needs to be followed, which gives weight to the views of stakeholders.

- **Allow Right of Establishment.** The Government of Canada should revise its ownership restrictions for airlines to permit foreign ownership of domestic airlines in Canada. Permitting foreign investors, including foreign airlines, to establish airlines in Canada would provide access to greater capital, technology and expertise, and increase the competitiveness of air travel. Airports and passengers would benefit from better service, lower fares, and stimulated demand.
- **Pursue open skies bilaterals.** As a matter of policy, the Government of Canada should pursue liberal air bilateral agreements similar to the "Open Skies" agreements the United States has negotiated with many countries worldwide. Current air bilaterals, even the current so-called 'open skies' agreement with the U.S., are much more restrictive, and limit the routings and types of operations that can take place on international flights. To increase international access to Canadian points, the Canadian government should negotiate new bilaterals with the U.S. and other nations to eliminate restrictions on fifth freedoms, allow modified sixth freedoms, and remove all limitations on frequencies and points served.
- **Increase permissible level of foreign investment in Canadian airlines.** As noted above, the government has already broached this as a possibility, and it requires only an Order in Council rather than a legislative amendment. Canada should implement the ICAO recommendation that the foreign ownership and control clause in air services agreements should be replaced with a principle place of business clause.

Funding inadequacy:

- **Expand the scope of ACAP.** Most regional airports in B.C. and the rest of Canada cannot meet their capital budgets on their own and require outside funding. While ACAP exists to assist regional airports in funding capital projects, the current qualification and prioritisation criteria limit the types of projects that are approved for funding to safety related projects. The program should be broadened to allow a wider range of capital projects (e.g., those needed to attract increased services) to qualify for ACAP funding.
- **Expand funding for ACAP.** Historical increases in ACAP funding have not compensated for the combined effects of inflation, increasing airports applying, and requirements due to regulatory creep. Transport Canada should tie the level of funding for ACAP to demand, so that funding will be sufficient as demand increases and particularly if ACAP criteria are modified as recommended above.

Air Navigation, Security, Customs:

- **Eliminate/revise the ATSC.** The Air Travellers Security Charge (ATSC) imposes the burden of increased security costs entirely on air travellers, with negative effects on air carriers and airports. It is particularly burdensome on regional air travel as it makes up a disproportionately large portion of the ticket price. The ATSC should be eliminated to bring aviation in line with other modes of transportation that do not pay for increased security requirements. In other words, as a national security issue, the federal government should fully fund airport security.

- **Fully fund customs services at all relevant airports.** The current policy requiring small airports to pay the full cost of customs services while larger airports receive the services at no charge imposes high costs on smaller airports operating transborder services. Furthermore it discourages small airports from pursuing such services and in so doing limits their potential revenue sources. The federal government should fully fund customs services at all airports meeting minimum requirements.

5.3 Tourism Industry

Policy framework:

- **Undertake strategic advocacy for government actions.** While the tourism and airport industries can take important actions on their own to increase the viability of regional airports, the most important actions include those outlined above for the provincial and federal government. The tourism industry, led by COTA, should undertake strategic advocacy in support of the actions outlined above.

Funding inadequacy:

- **Sponsor a workshop to address community actions to support airports.** The workshop would gather local stakeholders, and address issues such as travel trust funds, the potential for rationalisation of air services, and training and planning support.
- **Provide marketing support.** Small airports, and the carriers providing service to these small points often have very limited marketing budgets to promote these services. The tourism industry, ranging from associations to individual attraction operators, could help in a number of ways, including highlighting transportation information on websites and promotional brochures, promoting these transportation services at tourism trade shows, contributing accommodations etc. for prize packages to promote the start-up of new services, etc.
- **Advertising support.** Services to small airports are generally not well known outside of the local market. Providing transportation information in advertisements in in-flight magazines and radio and television advertisements featuring behind the gateway tourism marketing in international markets would make the transportation options better known.

Air Navigation, Security and Customs Services:

- **Engage in advocacy initiatives in support of industry relative to Nav Canada and Canada Border Services Agency.** There are cost and service issues related to air navigation services and customs services at smaller airports. The tourism industry can provide much needed advocacy support in these areas.

5.4 B.C. Airport Industry

Airport management/governance practices:

- **Require a high level of planning.** While the lack of funds is an issue (which provincial funding would partially address), airports should still be expected to contribute towards their own planning. A full set of plans for each airport will help them properly guide decisions, anticipate challenges, and ensure long-term viability.

- **Require standards for training.** Airports must remain committed to initial and ongoing training for their employees. B.C. airports should work with the CAC to develop training programs that will benefit all airports. Government funding could help with cost of training. Membership could play a role.
- **Adopt best practices.** Work with the CAC to promote identification and adoption of industry best practices.

Regional Infrastructure:

- **Undertake development of regional airport system plans where relevant.** Where it makes sense, airports should adopt a regional planning approach to improve the viability of the system.

5.5 Aviation Support Industry

Air Navigation, Security and Customs Services:

- **Ensure air navigation services reflect community needs.** NAV CANADA should ensure that community needs are taken into account when reviewing its services, and ensure that changes to its level of service do not adversely affect airports or the aviation industry.

Appendix A: Glossary

ACAP: Airport Capital Assistance Program, a federal program to provide capital funding assistance for certain airside, safety related investments for regional airports.

Aeronautical revenues: revenues from fees and charges on airlines and other aircraft operators for runway and core terminal services (check-in facilities, gates and other public areas, etc.).

AIF: Airport Improvement Fee: A fee charged for capital improvements.

AIP: Airport Improvement Program: The largest U.S. government airport funding program, currently US$3.4 billion annually.

ATAP: Air Transport Assistance Program, a provincial B.C. airport program to support airports in the province.

CAA: Canadian Airport Authority. These are airport authorities transferred under the National Airports Policy (NAP).

CARs: Canadian Aviation Regulations. CARs regulates every aspect of aviation in Canada.

CARAC: Canadian Aviation Regulation Advisory Council.

CPA: Canadian Port Authority.

CTA: (1) *Canada Transportation Act*, or (2) Canada Transportation Agency.

Downgauging: Substituting a small aircraft for a larger one. Results in lower traffic and lower landing fees paid.

EAS: Essential Air Services program. U.S. subsidy program to preserve air service to small communities.

ERS: Emergency Response Services. Services dealing with aircraft incidents.

FTE: full time equivalent. This measure adjusts the number of jobs to person years of employment.

LAA: Local Airport Authority. The first four airport authorities, Calgary, Edmonton, Montreal and Vancouver, transferred under the 1987 policy.

NAP: National Airports Policy of 1994.

NAP Regional Airports: The NAP defines regional airports as, roughly, those with scheduled passenger service but less than 200,000 passengers per year. The

NAP defines 18 B.C. airports as regional. Although no cut off is given, some airports with scheduled service are not defined as Regional in the NAP.

NAS: National Airport System: theoretically, the 26 largest airports in the country.

PFC: Passenger Facility Charge, a U.S. charge on enplaning passengers. By law, airlines must collect PFCs once the U.S. Dept. of Transportation has approved an airport's uses of the PFC.

PSO: Public Service Obligations. A European Union subsidy program to support air services on less commercially viable routes.

RTE: reduced time employee.

TPP: Transportation Partnerships Program. B.C. program supporting strategic port and airport investments.

VIAA: Vancouver International Airport Authority.