The Governance of Canadian Airports:

Issues and Recommendations

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"Nevertheless, the committee also has concerns about the accountability of those entrusted with the management of airports. In the committee's view, it is essential that airport authorities be accountable for their management. Airports are public infrastructure that must be administrated with a view to the collective well-being of all Canadians. This does not mean that all of the actions of airport operators must be audited; governance by local interests has proven to be effective. However, the committee believes that airport managers should be accountable to a third party for their decisions."

(Extract from *the Report of the Standing Senate Committee on Transport and Communications:* ***"One Size Doesn't Fit All: The Future Growth and Competitiveness of Canadian Air Travel"****, April 2013, page 9.)*

The purpose of this study, *The Governance of Canadian Airports: Issues and Recommendations*, led by Jacques Roy and Michel Nadeau, respectively full professor, Operations management and logistics educational services, HEC Montréal, and Executive Manager of the Institute for Governance (IGOPP), is to provide a picture of Canadian airport governance and assess the airports' governance systems and accountability as well as various modes of ownership.

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Abbreviations

Airports (international codes)

ABQ	Albuquerque Airport
ALB	Albany Airport
ATL	Hartsfield-Jackson Atlanta Airport
AUS	Austin-Bergstrom Airport
BLI	Bellingham Airport
BNA	Nashville Airport
BOS	Boston Airport
BUF	Buffalo Niagara Airport
BTV	Burlington Airport
BWI	Baltimore/Washington Airport
CLE	Cleveland-Hopkins Airport
CLT	Charlotte-Douglas Airport
CVG	Cincinnati Airport
DCA	Ronald Reagan Washington Airport
DEN	Denver-Stapleton Airport
DFW	Dallas-Fort Worth Airport
DTW	Detroit Metropolitan Wayne County Airport
EWR	Newark Liberty Airport
FLL	Fort Lauderdale Airport
HNL	Honolulu Airport
IAD	Washington Dulles Airport
IAH	Houston Airport
IND	Indianapolis Airport
JAX	Jacksonville Airport
JFK	John F. Kennedy Airport
LAS	McCarran Airport, Las Vegas
LAX	Los Angeles Airport
LGA	LaGuardia Airport, New York
MCI	Kansas City Airport
MCO	Orlando Airport
MDW	Chicago Midway Airport
MEM	Memphis Airport
MIA	Miami Airport
MSP	Minneapolis-Saint-Paul Airport
MSY	New Orleans Airport
OAK	Oakland Airport
ORD	Chicago Airport
PBI	Palm Beach Airport
PBG	Plattsburgh Airport
PDX	Portland Airport
PHL	Philadelphia Airport
PHX	Phoenix Airport
PIT	Pittsburgh Airport
RDU	Raleigh-Durham Airport

Airports (international codes)

RIC	Richmond Airport
RNO	Reno-Tahoe Airport
SAN	San Diego Airport
SAT	San Antonio Airport
SDF	Louisville Airport
SEA	Seattle-Tacoma Airport
SFO	San Francisco Airport
SJC	San Jose Airport
SLC	Salt Lake City Airport
SMF	Sacramento Airport
SNA	John Wayne Airport, Santa Ana
STL	St Louis Airport
TPA	Tampa Airport
YEG	Edmonton Airport
YHZ	Halifax Stanfield Airport
YOW	Ottawa Airport
YQB	Quebec City Airport
YUL	Montréal-Pierre Elliott Trudeau International Airport
YVR	Vancouver Airport
YWG	Winnipeg James Armstrong Richardson Airport
YYC	Calgary Airport
YYZ	Toronto Airport

Acronyms

ADM	Aéroports de Montréal
AIF	Airport improvement fee
AMT	Agence métropolitaine de transport de Montréal
BAA	British Airports Authority
CAA	Canadian airport authorities
GRE	Ground run-up enclosure
GTAA	Greater Toronto Airports Authority
HIAA	Halifax International Airport Authority
IATA	International Air Transport Association
LAA	Local airport authorities
MPA	Montreal Port Authority
NAP	National Airports Policy
NAS	National Airports System
SOPRAM	Société de promotion des aéroports de Montréal

1. Introduction

Airports play an essential role in economic and industrial development. That is the case in Canada where airports generate some $45 billion in economic activity and provide 200,000 jobs.[1] Since 1992, Canadian airports have invested more than $14 billion in airport improvements.[2] Canada's four largest airports (Toronto, Vancouver, Montreal and Calgary) handle 66% of total passenger traffic in Canada and 91% of overseas flights.

The Canadian government has opted for a particular form of management and governance of large airports. While it still owns these airports, in 1992 the government handed over responsibility for their management and governance to local authorities. Canadian airports receive no subsidies from the federal government; they do, however, pay substantial rents to the government as the owner. Thus, the airports must fund the modernization of their infrastructure and their operating expenses by their own means.

This report deals with the governance practices that have been adopted to further the successful carrying out of the airports[3] missions and contains certain recommendations for improvements, where necessary, in the areas of management, transparency and accountability. It is based on public documentation and available secondary data, as well as on an analysis of the functioning and results of Canadian airports. It includes three sections: the first recounts the evolution of Canadian airport governance; the second presents an analysis of the governance mechanisms observed in Canadian airports; and, lastly, the third sets out the conclusions and recommendations of the Institute for the Governance of Private and Public Organizations (IGPPO) for improving Canadian airport governance.

1 Canadian Airports Council, "Canada's Airports: Working Together, Moving Forward", http://www.cacairports.ca/english/about/index.php [Consulted in December 2012].

2 *The Future of Canadian Air Travel: Toll Booth or Spark Plug? Report on the Future Growth and Global Competitiveness of Canada's Airports,* prepared for the Standing Senate Committee on Transport and Communications, Ottawa, June 2012, 17 pages.

3 The persons and documents consulted appear in the footnotes and in the references at the end of this report.

2. The evolution of airport governance

2.1. THE HISTORY OF GOVERNANCE

Until the early 1990s, the Canadian government built, operated and maintained Canada's major airports. In 1992, in the wake of the movement towards privatization (Air Canada, Canadian National) and liberalization and economic deregulation of various modes of transportation, and as part of a new national airport policy (NAP), the Canadian government handed over to local airport authorities (LAAs) the management, operation, and development of the airports in Montreal, Calgary, Edmonton and Vancouver.[4] This devolution of responsibilities for airports was subsequently extended to include all of the 26 major Canadian airports that make up the National Airports System (NAS). The NAP also provided for the gradual relinquishing of ownership of small regional and local airports to regional interests, such as municipalities.

So, by virtue of the NAP, the commercial management and operation of NAS airports are entrusted to Canadian airport authorities (CAAs) that must ensure their profitability as well as the provision of services adapted to their users' needs. This is not, in fact, a privatization since the airports to which this arrangement applies are leased to the CAAs under 60-year emphyteutic leases, with an option to renew for 20 years. As a result, the Canadian government retains ownership of the NAS airports without, however, assuming formal responsibility for debts incurred by the airport authorities. Nonetheless, Transport Canada has made a commitment to "guarantee the long-term viability of the National Airports System, which handles over 90% of total traffic".[5] Lastly, in order to preserve their status as not-for-profit organizations, the CAAs must devote their total revenues to the operation and development of the airports under their management.

4 Office of the Auditor General of Canada, Report of the Auditor General of Canada, October 2000, *"Chapter 10 – Transport Canada – Airport Transfers: National Airports System"*, Section 10.3, http://www.oag-bvg.gc.ca/internet/English/parl_oag_200010_10_e_11197.html [Consulted in December 2012].

5 A. Padova, *"Airport Governance Reform in Canada and Abroad"*, The Library of Parliament, Ottawa, Ontario, September 5, 2007, p.3.

2.2. PRIVATE AIRPORT AUTHORITIES

These non-profit organizations, established under the Canada Corporations Act, Part II, do not have share capital and evolve within a rather unusual governance framework.

Various levels of government and special-interest groups such as chambers of commerce have the right to nominate a specified number of members, up to a maximum of 15 for the entire board of directors. Those persons are elected as members at the annual general meeting and become directors of the corporation.

Accountability takes the form of an annual report as well as an informational meeting open to the public. The issues raised most frequently deal primarily with the concerns of citizens who live near airports: unpleasant noise, the hours during which aircraft movements are permitted, etc. Issues concerning finances and strategic planning are rarely discussed.

By delegating the day-to-day management of Canada's major airports to the regions in 1992, the federal government evaded the impending financial burden it would otherwise have had to assume in order to modernize defective, obsolete and inadequate facilities, so as to be able to deal with the very substantial increase in air traffic. Canada's major airports don't receive any subsidies and are responsible for their funding, which comes from both their own cash flow and loans.

Their revenue comes from three sources: the landing fees the air carriers are required to pay, the airport improvement fees paid by the passengers (hidden because they are included in the ticket prices) and other revenues (rental of commercial spaces, parking fees…). The relative importance of these three sources of revenue varies from one airport to the next.

Without share capital, how do these organizations manage to borrow substantial amounts for their modernization and expansion projects? It must be that the lenders are swayed by the implicit commitments of the owner of the facilities, the Canadian government, as well as by the airports' virtual monopoly position, which provides them with a power of taxation in the form of landing fees and charges imposed on passengers and lessees of commercial space.

So, in recent decades, airport governance structures have evolved significantly. Even though the most recent bill, Bill C-20: the Canada Airports Act, which was tabled for first reading in June 2006, died on the Order Paper when a federal election was called in 2008, this bill serves as a reference document for a number of airport authorities that have adopted its main recommendations.

2.3. THE STRUCTURE OF AIRPORT GOVERNANCE ACCORDING TO BILL C-20

In 1999, Transport Canada carried out a five-year review of the LAA leases. In its report, the department noted certain deficiencies concerning airport governance, notably with regard to transparency and accountability.[6] One year later, the Auditor General of Canada expressed concerns regarding the governance regime at Canadian airports, deploring in particular that Transport Canada had not clearly defined its role as the lessor and supervisor of the NAS and that there were deficiencies related to issues such as the imposition of airport improvement fees, the setting up of affiliates and single-source markets.[7]

In March 2003, in response to these two review reports, the federal government tabled Bill C-27, which would have established a new legal framework for the governance of airports and was aimed at correcting the perceived deficiencies. When a federal election was called in 2004, this bill died on the Order Paper. In June 2006, Bill C-20: the Canada Airports Act, was tabled for first reading but it died on the Order Paper when a federal election was called in 2008. Even though it does not have the force of law, Bill C-20 is a reference in this field and several airport authorities have adopted its main recommendations. That is why we describe the broad outlines of the bill in this section.

2.3.1. The composition of boards of directors

Sections 82 to 135 of Bill C-20 specifically describe the conditions that apply to the governance and accountability of Canadian airport authorities (CAAs). They set out the skills required on the part of board members, as well as their general duties. Section 85 stipulates that the board of directors of a CAA shall consist of not less than 9 and not more than 15 directors. In Bill C-27, this number varied from not less than 11 to not more than 15. This bit of information is useful because, as we shall see below, several CAAs have adopted the principles put forward in Bill C-27 proposed in 2003. Just like its predecessor, Bill C-20 provides for better balance in the composition of CAA boards. The number of directors is to be established in the by-laws and the directors are to be selected from among the candidates suggested by the nominating organizations, according to the following weighting:

- The Government of Canada (2 directors);
- The provincial government (1);
- The regional and municipal authorities (between 2 and 5);

6 Transport Canada, *LAA Lease Review Consultation Report*, Ottawa, Ontario, April 14, 1999.

7 *"Chapter 10 – Transport Canada – Airport Transfers: National Airports System"*, Report of the Auditor General of Canada, *op. cit.*

- Non-governmental organizations (between 2 and 5). These organizations are chosen from among at least two of the following groups:
    - An economic organization;
    - A community organization;
    - An association of professionals;
    - A labour organization (that represents neither the employees nor the air carriers);
    - The national association of domestic air carriers (for airports having fewer than two million passengers).
- The national association of domestic air carriers (1 director for airports serving 2 to 10 million passengers and 2 directors for airports with over 10 million passengers);
- The directors described above can appoint a maximum of 3 other directors based on their particular knowledge, experience and skills;
- The directors appoint the airport authority's chief executive officer.

This new proposed composition of boards of directors brought a significant change: *the air carriers would have the right to one or two seats on the board*. The air carriers' presence has always been a subject for debate: due to their contribution in the form of landing fees – more than a third of the revenues – some people claim that the air carriers are the airports' "clients" and should not be represented on their boards due to potential conflicts of interest and their vested interest in favouring sources of funding other than increases in landing fees. Basically, that is an issue in the governance of Canadian airports.

As regards the composition of the boards, Bill C-20 maintained the principle of multi-jurisdictional representation established in 1992 and 1996. Several levels of government continue to designate a certain number of members. The airports' boards of directors are not accountable to any government body. The annual public meetings remain informal and devoid of specific legal validity. In the event of financial difficulties or poor performance, none of the various parties involved in the process of board composition bear any particular responsibility.

2.3.2. The committees of the board

The board of directors of a CAA may create as many committees as it wishes but is mandatorily required to establish a governance committee and an audit committee. The governance committee consists of at least three directors but the number of directors on it must be less than a majority of board members, without, however, being less than three. It should be noted that the airport authority's chief executive officer must not be a member of the governance committee. These same rules apply to the composition of the audit committee. Moreover, the members of that committee must be familiar with basic accounting principles and be able to read and understand financial statements. Lastly, the chairperson of the board of directors may not hold the position of chair of the audit committee. These governance standards are based on good supervisory practices in major Canadian private sector corporations that are listed on stock markets.

2.3.3. Conflicts of interest

Section 132 of Bill C-20 reads as follows: "Directors and officers of an airport authority may not allow any interests that they have, or any interests that, to the best of their knowledge after having made reasonable inquiries, a related person has, to conflict with or give rise to the appearance of a conflict with the authority's interests." The following sections of the bill describe the procedures to be used to communicate to the airport authority the nature and the extent of such conflictual situations. Directors and officers must, before taking office, complete a written declaration stating that they have read the rules concerning conflict of interest.

2.3.4. Communications, consultations and responsibilities

Before the beginning of each calendar year, an airport authority must adopt a business plan stating its strategic and operational objectives for the next five years. It must also produce an annual report for each calendar year. The report includes, in particular, the following information:

- The extent to which the objectives in its business plan have been met;
- Statistics concerning its principal activities (passengers and cargo traffic);
- A report on governance and the board's committees;
- A report on conflicts of interest that have been observed;
- Audited financial statements and the auditor's report;
- Directors' and officers' remuneration as well as benefits and severance pay;
- A report on consultations that have taken place involving the nominating organizations, the air carriers and the general public in the region served, as provided for in sections 186 to 190 of Bill C-20.

As mentioned above, an airport authority must also hold an annual meeting, open to the public, at which the main operating results are presented and the annual report is made available to the public. Furthermore, any airport authority operating an airport with a customer base that attains the threshold of two million passengers must have an analytical review covering the airport's operations, management and financial performance carried out every five years by an independent outside firm.

When creating supervisory mechanisms, Canadian airports rely, to a great extent, on rules of governance already in effect in the private sector. This business model does not exhibit any obvious shortcomings. "Airport governance is working," concluded the Standing Senate Committee on Transport and Communications in its recent report entitled *The Future of Canadian Air Travel: Toll Booth or Spark Plug?* [8]

In theory, the airports' boards of directors closely follow the guidelines for *fiduciary governance*. The committees and controls appear to be in place. However, governance must go further than supervision of activities and become "creative of value".

A board of directors must add value; the governance process must involve a sound rendering of accounts exercise: **the board must be accountable to someone**. In the event that problems arise, who is to be held responsible? When management and/or supervision are weak, who measures performance and exerts pressure for improvements?

In order to ensure that the **composition** of boards and their level of **accountability** meet the strategic requirements of Canadian airports in the future, this analysis of Canadian airport governance must also take into account the evolution of their economic "model".

8 *Report on the Future Growth and Global Competitiveness of Canada's Airports,* prepared for the Standing Senate Committee on Transport and Communications, Ottawa, June 2012, 17 pages.

2.4. THE CHALLENGES OF THE ECONOMIC MODEL OF CANADIAN AIRPORTS

Over the last twenty years, the above-mentioned enormous transfer of responsibility from the Canadian government to various regions has had a significant impact. By transferring the management of the facilities in return for rents, the federal government essentially asked the local airport authorities to manage the modernization of the facilities and to find adequate sources of financing. Ottawa chose to concentrate on aiding local and regional airports, in particular in outlying regions where airplanes are the only accessible means of transportation. Furthermore, the rent paid to the Canadian government is calculated based on the airport's gross revenue; in 2009, for example, the eight major airports paid a total of $268 million, or 11 % of their total revenues, to the owner of the facilities[9].

In addition, since 2001, the major airports have invested more than $14 billion in capital assets to expand and modernize their facilities for the reception and transportation of passengers and airfreight. These investments were approved within the governance framework described above, in which the government remains the owner of the facilities. There was little public debate concerning the hundreds of millions of dollars devoted to these modernization and expansion projects. Landing fees were increased significantly so, primarily, it was the air carriers who bore the impact of these expenditures.

The air carriers made their dissatisfaction known, particularly in the case of Toronto's Pearson Airport, which, in 2011, had the world's highest landing fees, according to Douglas E. Lavin, Regional Vice-President for North America of the International Air Transport Association![10]

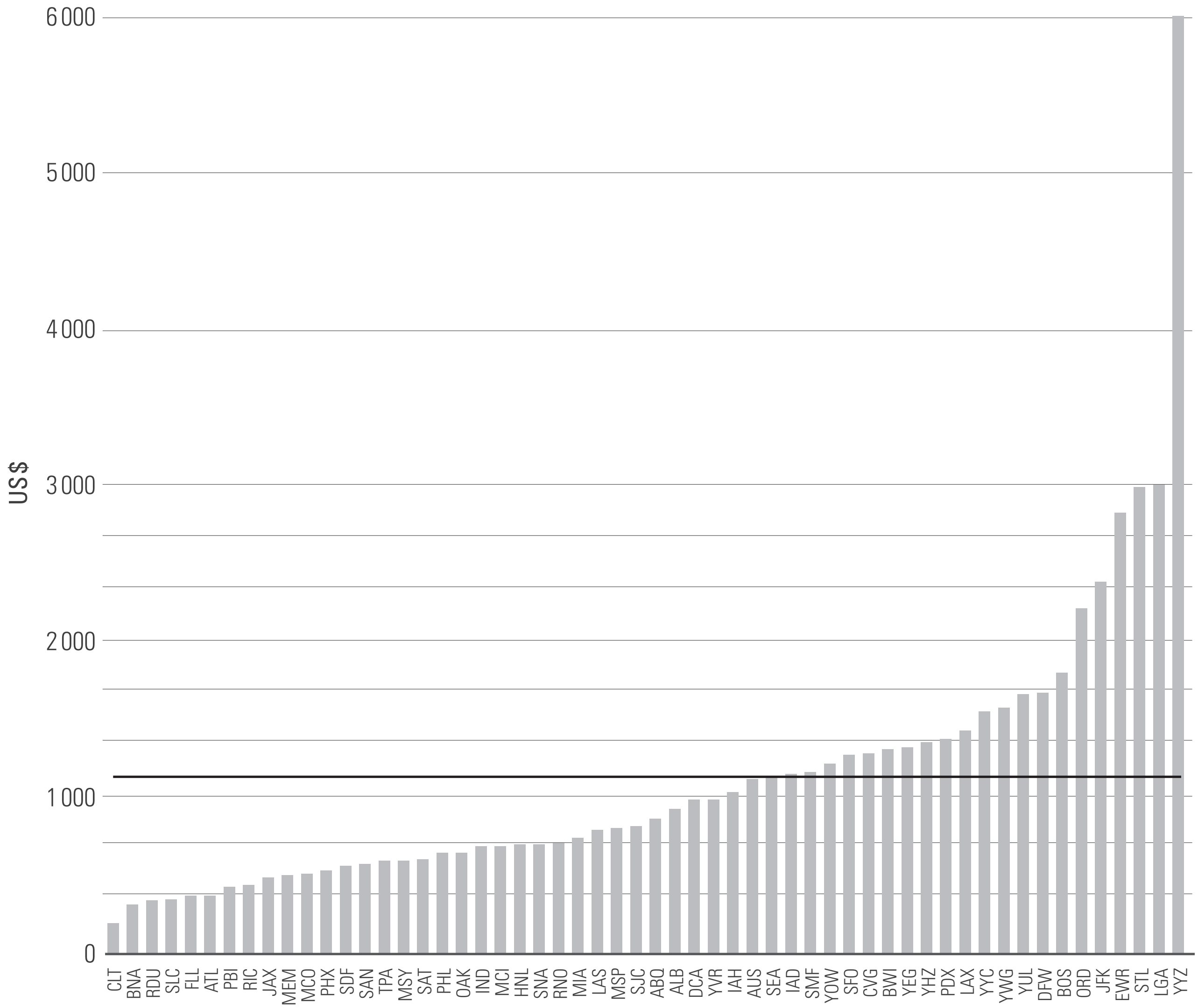
This statement is supported by the two figures below, which compare landing fees at North American airports for a Boeing and for an Airbus. It costs an air carrier at least twice as much to land a Boeing 767-400 in Toronto as compared to other North American cities. While the difference is somewhat less for an Airbus, it remains considerable.

9 *Report on the Future Growth and Global Competitiveness of Canada's Airports, op. cit.*

10 Parliament of Canada, "Proceedings of the Standing Senate Committee on Transport and Communications", Issue 5 – Evidence, December 6, 2011; http://www.parl.gc.ca/Content/SEN/Committee/411/trcm/05evb-49240-e.htm?Language=F&Parl=41&Ses=1&comm_id=19 [Consulted in December 2012].

Figure 1*

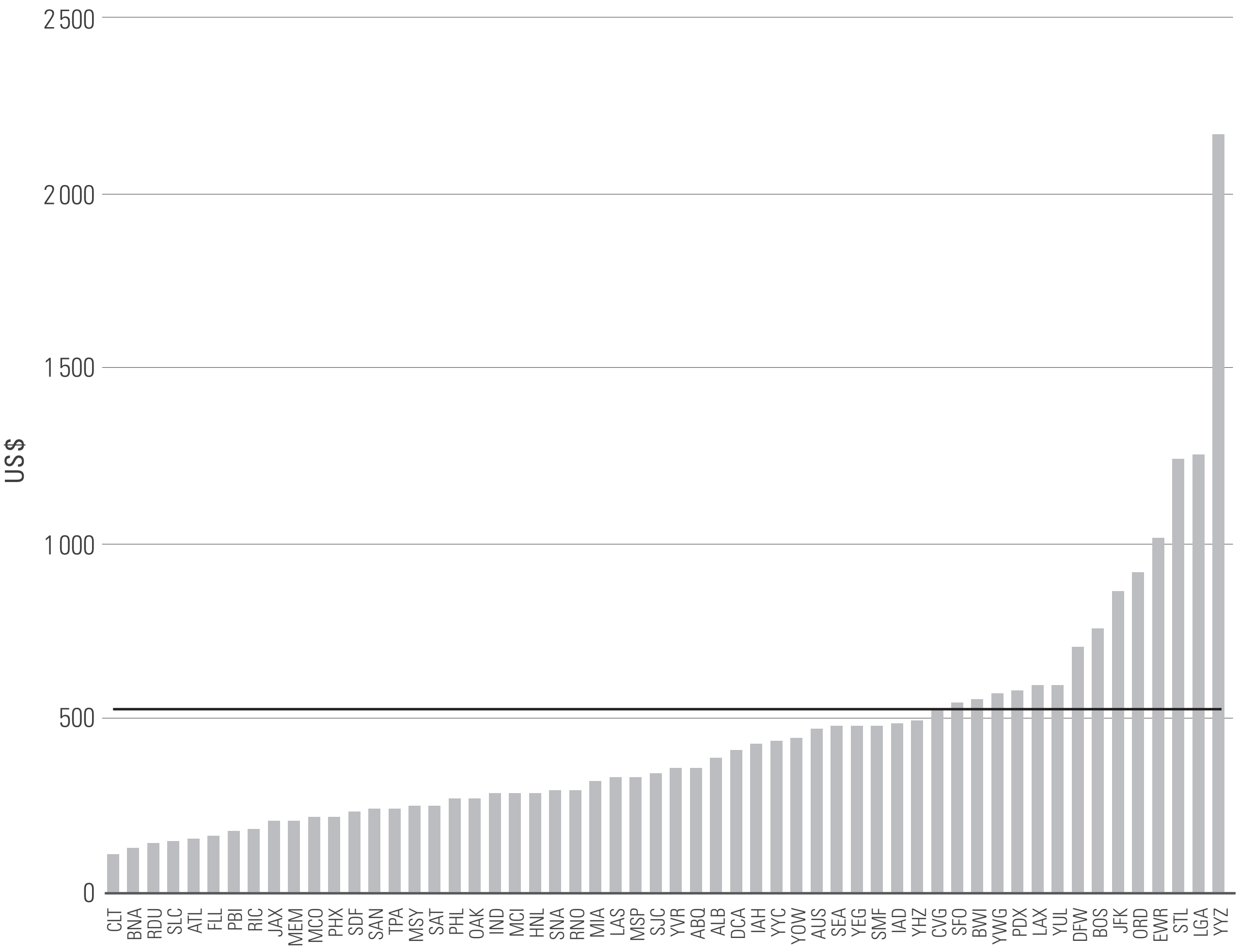
Landing fees for a Boeing 767-400 in 2010 – North America (US$)



*Source : Air Transport Research Society (ATRS), 2011.

Figure 2*

Landing fees for an Airbus 320 in 2010 – North America (US$)



*Source : Air Transport Research Society (ATRS), 2011.

Also, passengers involuntarily bore a significant portion of the bill through airport improvement fees that were doubled and that currently stand at about $30 per ticket.

Obviously, these investments have changed the appearance and size of Canadian airport facilities.

> "Today, Canada's air transport infrastructure is ranked first in the world according to the World Economic Forum. In 2011, the Ottawa Macdonald-Cartier International Airport was named by the Airports Council International 'the number one airport of all sizes in North America, and the number two airport in the world serving between 2 million and 5 million passengers annually."[11]

Such a capital investment in vast and ultramodern facilities and equipment should normally have been followed by substantial growth in the volume of business and market share. **But that was not the case.**

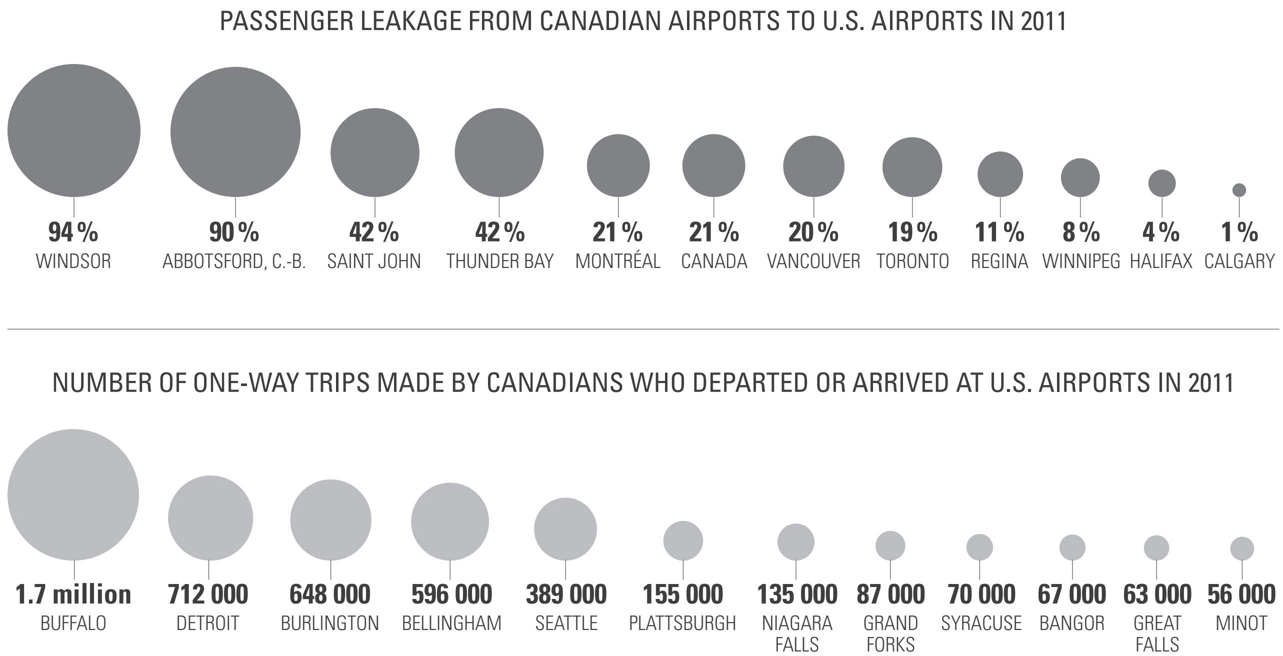
Competition from American airports close to the border remains fierce. Each of Canada's major urban centres is located close to an American border city that has discovered its calling in air transport. Increasingly, Canadian travellers use smaller airports, such as Bellingham (Washington), Niagara Falls (New York) and Burlington (Vermont); these facilities are accessible to 60 % of Canadians who could board a flight in Vancouver, Toronto or Montreal. A recent study of Canadian airports revealed that 4.8 million passengers – the equivalent of 64 Boeing 747s at full capacity per day – departed from or landed at airports along the border. This loss of clientele results in 9,000 fewer jobs and a loss of about $1.1 billion in economic activity.[12]

11 *Report on the Future Growth and Global Competitiveness of Canada's Airports, op. cit.*

12 *Ibidem.*

Figure 3*

Migration of Canadian passengers to American airports

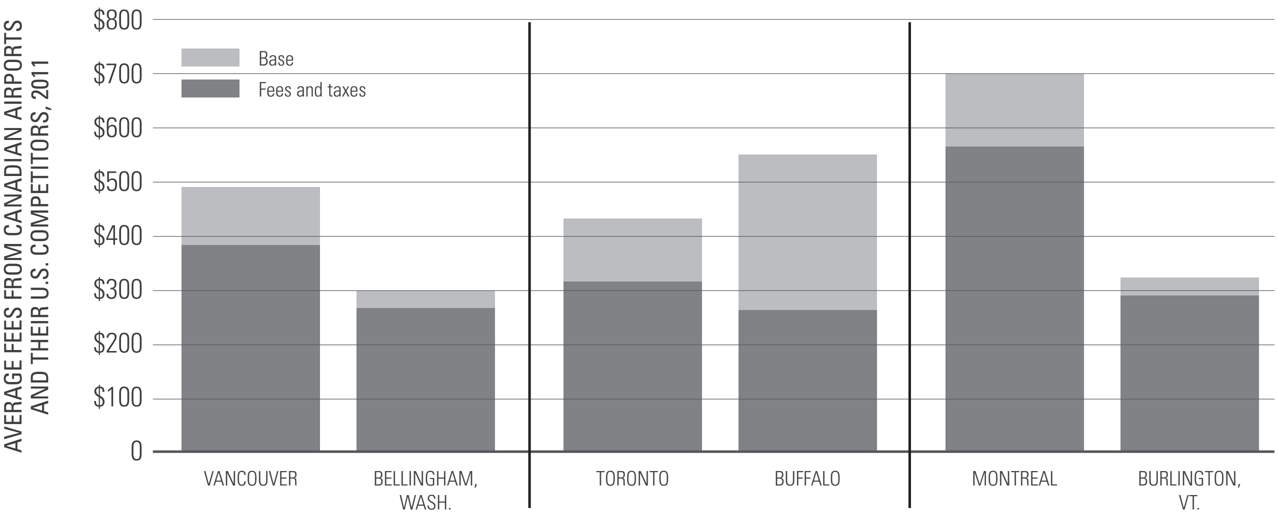


*Source: *The Globe and Mail*, October 4, 2012, p. B6, taken from *Driven Away: Why More Canadians are Choosing Cross Border Airports*, The Conference Board of Canada (October 2012).

Clearly, this migration of clientele is explained by lower fares for tickets used in the United States. The difference varies greatly from one destination to another, often according to the level of competition, as shown in Figure 4.

Figure 4*

Cross-Border Competition – Average Ticket Fares



Note: Comparison based on samples of lowest fares available to common U.S. destinations.

*Source: *The Globe and Mail*, October 4, 2012, p. B6, taken from *Driven Away: Why More Canadians are Choosing Cross Border Airports*, The Conference Board of Canada (October 2012).

A number of taxes and charges contribute to the high cost of air travel for Canadians (see Table 1): passenger security fees, NAV CANADA service charges,[13] airport improvement fees, excise taxes on fuel, municipal taxes and payments in lieu of taxes, the GST and provincial sales taxes. According to the *World Economic Forum*, in 2011 Canada ranked 125th among 139 countries for ticket taxes and airport charges, the higher ranks being occupied by the less grasping countries.[14]

13 NAV CANADA, the country's national civil aviation navigation services provider, is a private sector corporation without share capital financed through debt instruments issued on the open market. It provides the following services across the country: air traffic control, flight information, weather briefings, aeronautics information services, airport advisory services and electronic aids to navigation.

14 *Report on the Future Growth and Global Competitiveness of Canada's Airports, op.cit.*

Table 1*

Breakdown, in Canada and the United States, of the ticket price for a one way trip to a U.S. destination

Example of Taxes and Fees Applied to Base Fare to U.S. Destinations (One Way)

	FROM CANADA ($)	FROM U.S. ($)	NOTES
Base fare	200.00	140.00	Assuming base fare to be 30 per cent lower based on air carrier cost structure comparison
AIF/PFC	20.00	9.20	AIFs from Canadian airports typically $15 to $25; service from the cross-border airports typically connecting flights, so two PFCs of up to $4.60 each apply
Security	12.10	5.12	Security fee in U.S. $2.56 per flight segment, up to a maximum of $5.12
U.S. Federal Excise Tax	17.08	10.50	Fixed charges apply to flights with non-domestic origin; 7.5 per cent tax applied to domestic flight
Sales tax	14.17		GST or GST portion of HST applied to base fare and security fee, plus HST or GST+PST applied to AIF
Flight segment tax		7.60	$3.80 per flight segment
U.S. Agriculture Fee	5.00		International flights only
U.S. Immigration User Fee	7.16		International flights only
U.S. Customs Fee	5.62		International flights only
Total fees and taxes	81.13	32.42	
Total fare	281.13	172.42	

AIF = airport improvement fee; PFC = passenger facility charge
Sources: Air Canada; Orbitz.com; Canada Revenue Agency.

Note: US$-C$ exchange rate assumed to be 1:1

*Source: *Driven Away: Why More Canadians are Choosing Cross Border Airports*, The Conference Board of Canada (October 2012).

To explain the reduced competitiveness of Canadian airports, their executives emphasize the burden of paying 11 % of their gross revenues to the federal government in the form of rent for occupying their lands and buildings. They are demanding the elimination of this rent, the cancellation of the 80-year leases (60 + 20 years) and the outright transfer of the real estate assets to the local airport authorities, as has been the case for several small airports transferred to certain provinces or municipalities.

In its report published in June 2012, entitled *The Future of Canadian Air Travel: Toll Booth or Spark Plug?,* the Standing Senate Committee on Transport and Communications supported these demands.

Has the governance model in place in Canadian airports contributed to the deterioration of the current competitive position? Could changes in governance increase the Canadian airports' chances for strategic success?

3. An analysis of canadian airport governance

In this penultimate section, we will analyze current Canadian airport governance in light of what may resemble exemplary practices within major corporations and what is done in similar organizations, such as the ports. To do so, we will begin by presenting the four key principles of strategic governance put forth by Allaire and Firsirotu[15] and then analyze some recent decisions, taking into consideration the governance structures put in place at Montreal's airports. We will then briefly review the governance of other Canadian airports and the port of Montreal.

3.1. THE FOUR PRINCIPLES OF GOVERNANCE

On the basis of their wealth of experience, including that acquired as observers of the strategic development of major corporations, professors Yvan Allaire and Mihaela Firsirotu are of the opinion that governance that is effective and that **creates value** should be based on the following four key principles:[16]

1. Legitimate and credible directors;
2. An effective strategic planning and management process;
3. A high-quality strategic and financial information system;
4. A motivation and remuneration system that encourages high-level performance.

The authors stress the importance of the first principle, which is a necessary, though not sufficient, condition for the success of any governance initiative at a strategic level. First, the board members must indeed be **legitimate**, that is to say, they represent the interests of stakeholders, shareholders and others. We often confuse "legitimate" and "independent". In a recent work,[17] the two authors demonstrate how a director may be independent (which, in itself, is very good) but not necessarily legitimate (which is preferable). The members of a board of directors must also be **credible**. Credibility is the result of the combination of the competence and integrity of the individuals on the board and the trust they inspire in management and other stakeholders. They must have knowledge and expertise that is relevant to the organization that they are to

15 Y. Allaire and M. E. Firsirotu, *Stratégie et moteurs de performance : les défis et les rouages du leadership stratégique*, Chenelière-McGraw-Hill, 2004, *Changing the Nature of Governance to Create Value*, C.D. Howe Institute, Commentary no. 189, November 2003.

16 *Stratégie et moteurs de performance, op. cit.*, p. 153-156.

17 Y. Allaire and M. E. Firsirotu, *Beyond Monks and Minow: From Fiduciary to Value Creating Governance*, Forstrat International Press, 2005

govern. Unless they have mastered their organization's line of business, the directors must invest time and energy as rapidly as possible in order to acquire knowledge in the field. Such knowledge is necessary in order to be able to engage as equals with the executives managing the business in question. In skimming the lists of members of the boards of Canadian airports, one can't help wondering about the part played by each of these directors in firmly legitimizing their work in the eyes of the public.

The three other key principles of governance are patently obvious. The authors insist that the directors must participate actively in developing the business's strategic plans instead of being content with approving such plans, often drawn up without their involvement. They also suggest that directors insist on information adapted to their specific needs. Dashboards custom designed for their use will be much more effective than a lot of information and reports of questionable relevance. Lastly, the fourth key principle consists of a motivation and remuneration system that encourages better performance by managers, while ensuring equilibrium between long-term and short-term objectives and a sensible balance between internal and external measures.

3.2. GOVERNANCE AT AÉROPORTS DE MONTRÉAL (ADM) AND ELSEWHERE IN CANADA

When referring to governance at Aéroports de Montréal (ADM), it is important to examine two distinct periods, that is to say, from 1992 to 2000 while the board of directors consisted of seven individuals from the business sector, and the period from 2000 to the present when ADM adopted the Canadian Airport Authorities' (CAA) principles of accountability.

3.2.1. ADM: from 1992 to 2000

It is interesting to analyze the governance of ADM in its early stages in light of the four key principles described above. First of all, the issue of legitimacy was very relevant in the context in which these new creations of the federal government, the LAAs, were given a mandate to operate public property (the airports) in a quasi-monopoly situation (at least with respect to the majority of passengers, who were not on connecting flights). The mission of these organizations was surely to provide good service to their users but it was also expected that they contribute to regional economic development while maintaining their financial health. At the time, the organization's sole shareholder, the federal government, did not consider it necessary to ensure that it was represented on ADM's board of directors. The directors were all business people appointed by the municipalities and chambers of commerce in the Montreal area. In short, among all the potentially eligible parties (governments, users, communities), only the business sector was represented on the ADM board. As regards credibility, one can also see some obvious shortcomings as only one director had experience in the field of aviation; the others were all from either the engineering profession or the business sector.

So, it is not surprising that ADM went into new and at times risky ventures, such as for-profit subsidiaries that invested in Eastern European airport projects. But, during that period, the most controversial and strategic decision was, without question, the repatriation of regular international flights from Mirabel to Dorval. As regards governance, what should be remembered about that strategic decision is that the carrying out of the studies and the preparation of documents justifying it were carried out in the fall of 1995 without the knowledge of a majority of the directors and, it appears, of the Société de Promotion des Aéroports de Montréal (SOPRAM), the body that should have been consulted. In fact, only the chair of the board at the time, the chief executive officer and the head of communications were aware of the studies in progress. According to a judgement of the Superior Court,[18] there was even recourse to doctoring of documents and to use of unconfirmed data to attempt to convince the board members and other stakeholders from the sector of the validity of the decision. These circumstances speak volumes about the weakness of the two other key principles of governance, the process of strategic planning and a high-quality information system!

Today, that decision in 1995 still raises questions in the debate about the revival of Montreal as an "international crossroads".

3.2.2. ADM: from 2000 to the present

From 2000 onwards, new management was gradually put in place and the Canadian Airport Authorities' (CAA's) principles of accountability were adopted, along with a revised composition of the board that provided for representation of the federal and provincial governments. It was in 2001 that this new board took shape and there were then 14 directors, only one of whom had experience in the field of aviation, while two others were from the tourism sector and a fourth was from the aeronautics sector (manufacturing). In 2006, there was only one director from the tourism sector and one other who had experience in transportation (shipping). Finally, in 2010, there were two directors who had experience in air transport, and another with experience in shipping.

Looking more closely into the legitimacy and independence of ADM's directors, we see that they are drawn largely from nominating organizations related to municipal and economic circles and, as a result, the other kinds of organizations suggested in Bill C-20 (community organizations, associations of professionals, labour organizations and the national association of air carriers) are represented poorly, or not at all. Furthermore, the two representatives of the major air carriers are both former Air Canada executives. In this regard, it is interesting to compare the composition of ADM's board of directors with the composition of the boards of the airports in Toronto (GTAA), Ottawa, Vancouver, and Calgary (see Table 2). In this table, we see that the representation of various sectors of activity proposed by Bill C-20 is more respected elsewhere, with the exception

18 P. Viau, "Jugement de la Cour supérieure dans l'affaire opposant H. Meilleur, A. Gamache et CÉSAMM contre Aéroports de Montréal", Superior Court, Montreal, February 12, 1997.

of Calgary where we observe a very strong concentration of directors appointed by the chamber of commerce. So, one might wish for more diversity in the composition of the board in Montreal (and in Calgary, but we will come back to that). Moreover, section 93 of Bill C-20 provides that "No more than three directors who have been nominated by the same nominating body may serve on a board at any time". Also, it would be pertinent that ADM's annual report provide a little more detail regarding the sought-after and current profiles of its directors, including the nominating organization which each represents, and thus follow the example of what is published in the annual reports of the Toronto, Vancouver and Calgary airports.

Referring again to Table 2, we also notice that the other airports (with the exception of Calgary) tend to reserve a significant number of positions for directors recruited and appointed by the board ("co-opted") rather than being recommended by a nominating organization. This formula often makes it possible to ensure greater autonomy of the directors, to secure better representation of the community and to select directors who have relevant experience (tourism, aviation) and complementary knowledge (academics, professionals). This tendency is well illustrated by the 2010 Annual Report of the Ottawa International Airport: "The qualifications required of a director are included in the by-laws. Collectively, the directors shall have experience in the fields of law, engineering, accounting and management, and air carrier management. In addition, the by-laws include restrictions to eliminate possible conflicts of interest arising from relationships with selecting bodies, thereby ensuring the independence of directors and reinforcing their fiduciary responsibilities to the Authority. The Governance Committee has the power to ensure that the selecting bodies provide candidates for nomination to the Board having the skills and expertise necessary for the Board as a whole to carry out its duties."[19]

19 Ottawa International Airport, *Établir des liens ici et dans le monde, 2010 Annual Report*, p. 26.

Table 2

Composition of the boards of directors of the Montreal, Toronto, Ottawa, Vancouver and Calgary airports, according to the nominating bodies

NOMINATING BODY	MONTREAL	TORONTO	OTTAWA	VANCOUVER	CALGARY
Government of Canada	2	2	2	2	2
Provincial government	1	1	1	0	0
Regional and municipal authorities	5	5	3	3	4
Chambers of commerce	3	1[b]	2	1	8
Another non-governmental organization	0	0	2	1	0
A professional association	0	2	0	2	0
Air carriers' national association	2[a]	0	1[d]	0	0
President and chief executive officer	1	0	0	1	0
Governance committee of the board of directors	1	4[c]	3[d]	5	0

a These two members represent the principal carriers that do business with Montréal-Trudeau airport. Currently, they are former Air Canada executives.
b One of the members also represents a professional association (engineers).
c These directors represent the community and are chosen by a formal recruitment and selection process. They include individuals who have experience in tourism and aviation in particular.
d As of 2010, the air carriers association will no longer be among the nominating bodies. The board will appoint four directors.

In the current context, in which no legislation to replace Bill C-20 and provide a framework for airport governance is foreseen, it seems useful to us to formulate recommendations as to the composition of the boards of directors of the Canadian airport authorities. We will return to this point in the final section.

3.3. AIRPORT GOVERNANCE ELSEWHERE IN THE WORLD

Until the end of the 1980s, major airports worldwide were owned by national or local governments, which were also responsible for their operations. Things began to change with the privatization of the three London airports and of four other British airports that were acquired by the British Airports Authority (BAA), a public company listed on the London Stock Exchange. In 2006, BAA was acquired by a consortium made up of Ferrovial, a Spanish company, the Caisse de dépôt et placement du Québec and a Singapore investment fund. Since that time, several other airports around the world have been privatized (for example, Rome, Copenhagen, Vienna, Auckland, Belfast, Budapest, Melbourne, etc.). Also, other governance structures have been adopted in order to improve airport efficiency and growth in revenues from non-aeronautics sources, often called airport commercialization.

In a recent article, researchers Oum, Ader and Yu[20] measured the efficiency and profitability of 116 airports worldwide (including the six major Canadian airports) by classifying them according to **six types of governance**, that is, airports operated by:

1. A government agency or department
(e.g. Atlanta, Chicago, Singapore);
2. A private corporation or a mixed private-public corporation
in which the private sector is the majority shareholder
(e.g. Heathrow, Rome, Melbourne);
3. A mixed private-public corporation in which the public sector
is the majority shareholder
(e.g. Brussels, Hamburg, Beijing);
4. A local, private authority under long-term lease,
with the government retaining ownership of the airport facilities
(e.g. Boston, Montreal, Hong Kong);
5. A local authority belonging to different levels of government
(e.g. Amsterdam, Munich, Milan);
6. A government corporation that is 100% government-owned
(e.g. Barcelona, Paris CDG[21], Oslo, Seoul).

20 T. Oum, N. Ader and C. Yu, "Privatization, Corporatization, Ownership Forms and their Effects on the Performance of the World's Major Airports", *Journal of Air Transport Management*, vol. 12, 2006, p. 109-121.

21 Since the study was carried out, the corporation entered the stock market, in June 2006. According to 2011 reference documents from Aéroports de Paris, the French government does not hold more than 52.1% of the capital and voting rights. http://www.amf-france.org/DocDoif/txtint/RAPOSTPdf/2012/2012-029700.pdf [Consulted in December 2012].

To measure airport efficiency, the authors used a productivity ratio by comparing the outputs (numbers of passengers and aircraft movements, and non-aeronautics revenues) to inputs (numbers of employees, and costs other than labour and capital). They also took into account airport characteristics such as size, average number of passengers per plane, type of traffic (international or domestic) and capacity. Using a regression model, they arrived at the following results:

- Private airports as well as those operated by local, private authorities (types 2 and 4) have higher profit margins than those reported by the other types of airports;
- Airports operated by mixed corporations where the public sector is the majority shareholder (type 3) are significantly less efficient than those wholly owned by the public sector (type 6), an interesting result at this time of debate centred around public private partnerships (PPPs);
- There is no significant difference between the performance of airports operated by local, private authorities (type 4), such as Montreal and Toronto, and that of airports operated by public agencies or departments in the U.S. (type 1);
- Contrary to popular belief, there is no statistical evidence to the effect that airports in which the private sector is the majority shareholder (type 2) are more efficient than those operated by government agencies (type 1) or by government corporations that are 100% government-owned (type 6);
- Furthermore, airports operated by a mixed private-public corporation where the public sector is the majority shareholder (type 3) and those that come under a local authority belonging to various levels of government (type 5) demonstrate the worst performance levels.

It is important to note that, in the United States, the airports operated by a government agency or department (type 1) benefit from a very high degree of autonomy, which puts them in a category that might be labelled "quasi-private". In fact, these airports depend largely on financial support (direct or indirect) of locally present airline corporations for their investment projects, which gives the corporations power to influence strategic decisions related to expansion projects and airport charges. In short, these airline corporations continuously exert pressure on American airports to improve their efficiency.[22] In another article based on the same sample of airports, Oum and his new collaborators arrived at the same conclusions using different methodology, which was stochastic frontier analysis.[23] In addition, they analysed the particular case of airports operated by port authorities and concluded that the latter should cede airport management to independent airport authorities, such as those found elsewhere in the United States and Canada.

22 T. Oum *et al.,* « Privatization, Corporatization… », *op. cit.*

23 T. Oum, J. Yan et C. Yu, « Ownership Forms Matter for Airport Efficiency: A Stochastic Frontier Investigation of Worldwide Airports », *Journal of Urban Economics*, Vol. 64, 2008, p. 422-435.

Lastly, other authors have attempted to evaluate the impact of various governance structures on airport performance. Some observed that private airports were more customer friendly and provided better service to their users[24] while others suggest that airports that have taken a cutomer-based approach generally demonstrate better performance levels.[25] Other research tends to show that American airports that are operated by local authorities (type 4) perform better than those operated by municipalities (type 1), but is based on a single output, that is, the number of aircraft movements observed.[26]

3.4. ACCOUNTABILITY AND TRANSPARENCY AT CANADIAN AIRPORTS

By relinquishing the management of major Canadian airports to private organizations, the federal government has not retained decision-making powers that would allow it to intervene effectively in the strategic management of these airports authorities. Admittedly, they must produce financial statements, an annual report, a ground-use plan, etc. but they are not required to get approval for their investment projects, or borrowings, or for fee increases imposed on their users in order to finance such projects. At the very most, will the federal government be informed or consulted!

In 2000, the Auditor General of Canada examined the transfers of airports and expressed concerns about the new governance practices instituted since 1994. At the time, she stated that: "the Department has failed to assume a leadership role and to properly monitor the growing use of airport improvement fees, sole-source contracting at major airports, and activities of subsidiaries in order to ensure that the interests of the public are protected."[27]

24 A. Advani et S. Borins, « Managing Airports: A Test of the New Public Management », *International Public Management Journal*, Vol. 4, No 1, Spring 2001, p. 91-107.

25 N. Halpern, et R. Pagliari, « Governance Structures and the Market Orientation of Airports in Europe's Peripheral Areas », *Journal of Air Transport Management*, Vol. 13, No 6, 2007, p. 376-382.

26 J. Airola et S. Craig, « Institutional Efficiency in Airport Governance », Unpublished manuscript, Department of Economics, University of Houston, Houston, Texas, 2001.

27 *"Chapter 10 - Transport Canada - Airport Transfers: National Airports System", Report of the Auditor General of Canada, op. cit.*, para. 10.156.

In fact, across Canada, the investments made by the airports of the National Airports System (NAS) rose to $1.2 billion in 2009 alone, which was the same amount as in 2005. The projects were largely financed by the users, who were required to pay airport improvement fees (AIFs) that in 2009 reached $716 million, that is, 27.5% of the total revenues of the NAS airports.[28] It is relevant to note that in 2005 AIFs represented revenues of $504 million, that is, 24% of total revenues. So, we see a substantial increase in this source of funding over the years. Table 3 shows the AIFs that were in effect at the major Canadian airports in 2011, as well as the revenues generated by AIFs in 2009. We note that these fees constitute a significant portion of airport revenues, even to the extent of representing the main source of revenue for the Calgary and Winnipeg airports.

Table 3*

Airport improvement fees at certain Canadian airports

AIRPORT	AIF PER PASSENGER (2011)	AIF REVENUES IN 2009 ($ THOUSANDS)	PERCENTAGE OF TOTAL REVENUES (2009)
Calgary (YYC)	$25	89 085	35,8 %
Halifax (YHZ)	$20	18 219	29,5 %
Montreal (YUL)	$25	103 969	29,6 %
Ottawa (YOW)	$20	27 261	32,6 %
Québec (YQB)	$25	10 542	33,4 %
Toronto (YYZ)	$25	262 331	23,5 %
Vancouver (YVR)	$15	86 509	24,1 %
Winnipeg (YWG)	$20	28 954	35,3 %

*Source : Compiled based on data from Transport Canada, *Transportation in Canada 2010 - An Overview*, and Air Canada, *What are the additional charges in my Fare? Airport Improvement Fees* (AIFs), 2012.

28 Transport Canada, "*Transportation in Canada 2010 - An Overview*", p. 20.

Some question the necessity of so many expansion projects as well as the legitimacy of hidden taxes such as the AIFs. For example, at an aviation conference held in Ottawa in January 2004,[29] the former federal Minister of Transport, Mr. Gordon Young, the same person who held that position during the airport devolution of the early 1990s, came to express his regrets and admit that if he were to do it all over again, he would not proceed with such a transfer of airports to local authorities. In fact, Mr. Young was referring to expansion projects judged unnecessary (as in Ottawa) or too costly (such as in Toronto).

Before proceeding with a case-by-case study of Canada's major airports, we should note the following observation from the Calgary Airport's Strategic Operating Plan 2009-2012. All of the characteristics are not transposable to all of the airports, but, at the least, the operational and managerial constraints that are described at all the airports studied are recognizable, without regard to their economic context or management structure:

> **KEY BUSINESS CHARACTERISTICS &**
> **PRINCIPLES FOR SUSTAINABLE OPERATIONS**
>
> The key characteristics that define our business are as follows:
>
> - Capital intensive
> - Heavily regulated (Federal)
> - Leasehold complexity (80-year lease)
> - Heavily taxed (Federal rent tax)
> - Significant public exposure & accountability
> - Influence more than we control
> - Constantly evolving air carrier requirements
> - Wide diversity of stakeholders/interests

In the cases of at least four of the major airports studied, which experienced rapid growth over the last two decades (namely, Toronto, Halifax, Calgary and Vancouver), it has been observed that the second criterion for effective governance (that is: *an effective strategic planning and management process*) has been scrupulously implemented, generally with the creation of a master plan for the next 20, 25 or 30 years, strategic plans for the next five and 10 years and, lastly, annual planning tools.

29 Air Currents Aviation Conference – Building the Future of Canada's Air Transport Policy, Ottawa, January 26-28, 2004.

In all cases, it has been observed that these tools have been developed with the greatest care, where, for example, consultation of the interested parties (government partners, municipalities, air carriers, retailers) has been the object of a credible process. In all cases, the documents published at the outcome of these planning processes are communication tools that meet the highest professional standards and are intelligible and well documented.

In reading these documents, one gets the feeling that nothing has been left to chance, that existing airport authorities are aware of the public's expectations, as well as those of the politicians, regarding their transparency and accountability, and that as a result they wish to demonstrate "that they have really done their homework."

You will see below, in the case of the Toronto airport, that when a credit agency such as S&P assesses an airport authority's financial communications, it pays close attention to every detail.

3.4.1. The situation in Toronto

The situation in Toronto is particularly interesting as a number of stakeholders, including the airlines, have criticized the renovation project at Toronto's Pearson Airport, which today is in fact one of the airports having the highest landing fees in the world.

At this point, it is important to recount the origins of a "crisis of confidence" experienced by the airport authority. Recent communications materials used by the airport are careful to document and justify, in retrospect, past decisions that were the likely subjects of criticism (see excerpts from the "2011 Strategic Plan" below).

Toronto Pearson is one of the five gateways to North America (along with New York, Miami, Los Angeles and Chicago) and the busiest airport in Canada, having served 33.4 million passengers in 2011.

In the words of the GTAA (the Greater Toronto Airports Authority, an organization established in 1996), it soon found itself facing the difficult choice of remaining a major Canadian airport of national and regional importance, a Canadian gateway, or becoming an American global hub, one of the 30 major airports worldwide. In the end, the second option prevailed, a choice based on long-term economic performance.

> *Transforming our airport into a global hub is only one step on a longer journey. As we pursue our vision of becoming North America's premier aviation portal, we will make Toronto Pearson a place where convenience and efficiency converge with boldness, curiosity and the pure romance of air travel to offer you a whole new world of choices. [...] To achieve our vision, we must work constantly to ensure that all customers have compelling reasons for choosing Toronto Pearson – not just once, but time and again.*[30]

Fulfilling that vision must have involved an immense amount of work. Without going into detail, we note simply that, among other things, it was necessary to replace two existing terminals by entirely new buildings, without the work interrupting the airport's daily operations, while managing a series of construction sites spread out over a period of almost 10 years, and without having much room to manoeuvre in terms of available sites.

The amount invested in these projects came to $4.4 billon[31] and was the subject of numerous criticisms. In the early 2000s, the International Air Transport Association (IATA), made some unflattering statements about the management of Pearson Airport, as can be seen from the titles of certain press releases in 2003 and 2004: "New Charges at Toronto Airport Ignore Airline Community's Call For Cost Control"[32], "Stakeholders Beware: GTAA is out of Control"[33] and "Toronto Airport Inefficiency Hits Passengers With 25% Hike in Airport Improvement Fee".[34] This outcry prompted Pearson Airport's executives to make changes that brought about a 10% reduction in its landing and air terminal fees in 2010, which resulted in a reduction in the fees that it charged for the third year in a row.[35] Nevertheless, the AIFs passengers are required to pay, that is, $25 per passenger, plus $4 per passenger on a connecting flight, are among the highest in the country.

30 Greater Toronto Airports Authority (GTAA), *2011 Strategic Plan.*

31 Airports Council International, "Taking a Vision from Concept to Reality Toronto Pearson's New Terminal 1 opens", Centerlines, The official ACI-NA magazine for and about airports – Spring 2004.

32 International Air Transport Association (IATA), "New Charges at Toronto Airport Ignore Airline Community's Call For Cost Control" Press Releases, N°33, October 31, 2003, http://www.iata.org/pressroom/pr/Pages/2003-10-31-01.aspx [Consulted in December 2012].

33 International Air Transport Association (IATA), "Stakeholders Beware: GTAA is out of Control" Press Releases, N°11, May 4, 2004, http://www.iata.org/pressroom/pr/pages/2004-05-04-01.aspx [Consulted in December 2012].

34 International Air Transport Association (IATA), "Toronto Airport Inefficiency Hits Passengers With 25% Hike in Airport Improvement Fee" Press Releases, N°25, August 3, 2004, http://www.iata.org/pressroom/pr/pages/2004-08-03-01.aspx [Consulted in December 2012].

35 Canada Newswire (CNW) "L'évolution de Toronto Pearson récompensée par un prix de l'industrie mondiale du transport aérien soulignant l'amélioration" Press Releases, June 7, 2010, http://cnw.ca/en/releases/archive/June2010/07/c2707.html [Consulted in December 2012].

We leave the last word to Standard & Poor's, which recently restated its confidence in the Pearson Airport authority:

> "We [Standard & Poors] believe the Greater Toronto Airports Authority's (GTAA) business profile remains very strong despite recent challenges from the slowing global economy and ongoing volatility in oil prices.
>
> The ratings on GTAA reflect Standard & Poor's assessment of the following factors:
>
> - A still significantly higher debt and cost burden compared with that of other airport facilities that we rate globally, although the authority's common use platform and residual rate-setting framework make direct comparisons more difficult with other rated peer airports. Although high, GTAA's cost per enplaned passenger declined to about C$34 in 2011 (Standard & Poor's calculated) from about C$39 in 2009, due to five consecutive declines in landing and terminal fees since 2007. The announced decrease in terminal charges and landing fees for 2012 is likely to result in a further decrease in GTAA's cost per enplaned passenger to about C$32 in 2012. Our projections indicate that this ratio will remain near this level through 2013. This is among the highest in Standard & Poor's rated airport portfolio;
>
> - Exposure to passenger volumes, which are susceptible to the cyclical nature of Canada's and the global economy and other event risks. Canadian airport authorities (CAAs) have long-dated capital planning horizons that rely heavily on passenger traffic growth, which, if it doesn't materialize, could leave CAAs with reduced financial flexibility. [...]"[36]

3.4.2. The situation in Winnipeg

In Winnipeg, the recent inauguration of a new air terminal has sparked controversy. Indeed, some experts, including Professor Barry Prentice of the University of Manitoba, claim that this project was unnecessary because the existing air terminal could have been renovated and that, in any case, there was no urgency to increase airport capacity considering the rather modest projections for passenger traffic. Until 2002, Mr. Prentice was a member of the board of directors of the Winnipeg airport authority. At the time, he called for a cost-benefit analysis to be done before undertaking construction of a new air terminal. In short, the studies he called for were never carried out.[37]

36 Standard & Poor's (S&P) "S&P affirms Greater Toronto Airports Auth ratings", August 24, 2012, http://www.reuters.com/article/2012/08/24/idUSWNA412220120824 [Consulted in December 2012].

37 C. Mitchell, "Terminal illnesses: Were the costs, and benefits, of construction and demolition plans at the airport properly addressed?", Winnipeg Free Press, October 28, 2011, http://www.winnipegfreepress.com/opinion/columnists/terminal-illnesses-132767563.html [Consulted in December 2012].

In addition to questions about whether the new air terminal should have been built, the project's costs are also the subject of some controversy. Indeed, the estimated costs of this project increased from $200 million initially, that is to say in the early 2000s, to $350 million in 2004, $560 million in 2005 and $572 million in 2006, while the projected surface area in fact decreased in relation to the initial project. According to the same source, today the total costs of the project are estimated to be $585 million, not including possible future cost overruns.[38]

Meanwhile, the AIFs imposed on Winnipeg travellers have reached $20 per passenger, which in 2009 amounted to revenues of nearly $29 million, and represent the airport's principal source of revenue, or 35.3 % of its total revenues.

The issues related to sound management of the Winnipeg Airport were clearly expressed in 2005 before the Standing Committee on Transport, and a few excerpts from that debate deserve to be reproduced here.

> "To understand Airport viability it is important to understand that transferred infrastructure had not seen investment for many years. We have taken steps to update infrastructure so critical to the prosperity of the region we serve. For the WAA that infrastructure replacement has included runways and taxi ways as our first priority.
>
> The next phase, including the previously referenced passenger terminal facility, is targeted for completion in 2009. The debt associated with this construction will be paid from the Airport Improvement Fee over the life of the structure.
>
> In order to remain competitive with US or even the larger Canadian airports, in the struggle to attract air service providers the WAA relies on creative solutions, including creation of subsidiaries for sourcing of optional services. Nearly 20% of our primary revenue sources is generated from concessions and parking. We rely on the use of subsidiaries to generate this revenue and any legislation limiting innovation and creativity of subsidiary operations will require alternate funding to offset lost opportunity."[39]

38 *Op. cit.*

39 Rempel, Barry, "Representation to the Standing Committee on Transportation", April 19, 2005, http://www.waa.ca/uploads/ck/files/Reports/2005_SCOT_HearingPresentation.pdf [Consulted in December 2012].

3.4.3. The situation in Calgary

As has be seen in Table 2, the composition of the board of directors of the Calgary airport is strongly influenced by the local chamber of commerce, which recommends the appointment of eight of the 14 directors. Recently, the board approved an ambitious $2.4-billion development program consisting of a new international air terminal worth $1.4 billion and a new runway for $620 million.

The directors consider that the current capacity of the air terminal and runways is insufficient to meet projected demand over the coming years.

To justify the urgency of building a new runway, the Calgary airport authority has made a point of mentioning a particularly busy period in 2007 when the number of aircraft movements (take-offs and landings) at peak times is purported to have come close to the runways' capacity. Yet, since 2007, the number of movements has gone from 245,559 to 232,489, a decrease of 5.3%, in spite of a slight increase in the number of passengers. This phenomenon is not unique to Calgary; in fact, in recent years, we have seen a stabilization of the number of aircraft movements due in particular to the increase in the sizes of commercial airplanes and, as a result, the average number of passengers per plane. While we do not intend to challenge the need to build a new runway in Calgary, it is rather surprising to note that the study justifying such a project includes projections of approximately 400,000 aircraft movements in 2025, in other words an average annual increase of 3.7% as compared to 2010, while the historical tendency in Calgary between 1995 and 2010, according to data published by Transport Canada, is in the order of 0.6%.[40] This historical tendency can be compared with that of Vancouver, where the number of aircraft movements went from 268,231 in 1995 to 254,914 in 2010.[41]

In short, the approximately $2 billion that Calgary is preparing to invest between now and 2015 should be reimbursed with the aid of AIFs that, at the rate of $25 per passenger, are already among the highest in Canada. Calgary residents live in a wealthy province, but they are not insensitive to this type of fee. Indeed, there was quite a controversy surrounding the project for a tunnel linking the downtown area and the airport, an almost $300 million project that became necessary due to the construction of the new runway, which will result in the closure of the current access road. With the federal and provincial governments refusing to pay the bill, the City of Calgary will have to assume the cost. The decision to go ahead with the construction of this tunnel was made in February 2011 during a meeting of the Calgary city council that was held behind closed doors and resulted in a close vote of eight to seven. Many Calgary residents feared that the tunnel project would delay other capital investment projects that were considered to be of higher priority.[42]

40 Calgary Airport Authority, « Parallel Runway Project Comprehensive Study", Vol. 1, Summary, October 20, 2010.

41 Vancouver International Airport, YVR, www.yvr.ca [Consulted in December 2012].

42 CBC News, "Airport tunnel approved in narrow vote", February 8, 2011, http://www.cbc.ca/news/canada/calgary/story/2011/02/08/calgary-airport-tunnel-vote-approve.html [Consulted in December 2012].

It is somewhat surprising that a $300 million tunnel project stirred up so much controversy while the $2.4 billion airport development project went almost unnoticed by the media. Admittedly, there was some reaction following the announcement of another increase of the AIF, from $22 to $25, as of March 2011, but that was nothing compared to the saga surrounding the tunnel project. Perhaps the explanation can be found in the difference between the governance structure of the city council, which is made up of elected representatives, and that of the airport authority's board of directors, where perhaps the all-too-harmonious atmosphere of a private club prevails. But, ultimately, the residents of Calgary will be the ones to pay for all these projects.

3.4.4. The situation in Vancouver

The Vancouver airport, the country's second largest with 16.8 million passengers in 2010, has also invested in improvements that cost approximately $1.4 billion and were completed in 2009, in time for the 2010 Winter Olympic Games. But the comparison ends there, since the directors of the airport have succeeded up until now in maintaining the AIF at $15 per passenger (and even $5 for destinations within British Columbia), which is a lower rate than at other major Canadian airports, as shown in Table 3. It is interesting to note that the composition of the board of directors of the Vancouver airport is quite diverse, as can be seen in Table 2, and that the chair of the board has a great deal of experience as a senior executive in airline companies.

Since the retrocession of Hong Kong to China in 1997, the Vancouver airport has experienced continuous growth in passenger and cargo traffic. Somewhat similar to the situation at Pearson Airport, the airport authority is faced with the challenge of managing demand that doesn't appear to be letting up. In skimming various annual reports (*Sustainability Report, Environment Report, Governance Report*, etc.), one sees the hand of a managerial team that doesn't want to leave anything to chance in the management and planning of something that, it must be acknowledged, is a true success story.

If we compared it to how a shopping centre or a large hotel is marketed, we would clearly be talking about "destination marketing". For example, the collection of large-scale works of art that have been commissioned from aboriginal artists perpetuating millennial traditions (totems, canoes, sculptures of animals, etc.) and decorates the air terminal's open-plan spaces in a spectacular way has an estimated book value of about $7 million (according to the 2011 Annual Sustainability Report).

The airport authority's communications demonstrate that considerable efforts are made to be transparent about its management policies, including in particular its policy concerning remuneration of its executives, which is discussed in the report on governance.[43]

43 Vancouver Airport Authority, 2011 Governance Report
http://www.yvr.ca/AR/2011/assets/pdf/vancouver-airport-authority-2011-governance-report.pdf
[Consulted in December 2012].

The report on governance also mentions all contracts over $100,000 awarded without an invitation to tender, explaining in each case why the competitive process was bypassed. Here are two examples, among others:

> "$1,758,800 $ Booz and Co
> Management Consulting
> Reason: The goods or services are of a proprietary nature
> or there is only one qualified supplier
>
> $246,225 InterVistas Consulting Inc
> Customer service and service quality surveys
> Reason: The supplier has been awarded a contract for a similar product
> or service by the Airport Authority as the result of a competitive process
> within the previous five (5) years."

Because of growing demand for this Asian gateway to Canada and the Pacific Northwest region, the Vancouver Airport will have to create a new runway within a few years. It is interesting to note how carefully the airport authority documents various possible options for construction of this new runway.[44] The solution that would cause the least disruption to bordering neighbourhoods is the one known as the Foreshore Runway, which would involve building a pier out in the ocean, to the west of the existing runways. The planners are perfectly aware of the issues raised by this solution:

> "The Foreshore Runway: This new 4,270 m (14,000 ft) runway, extending westward from the Sea Island dyke onto the foreshore of the ocean, would be used for arrivals and departures and would add capacity of approximately 210,000 takeoffs and landings to YVR's annual capacity at an estimated cost of $1.2 billion. The Foreshore Runway would provide the required length for current and future aircraft. While it would impose a significant footprint into the foreshore with subsequent aquatic habitat impacts, it would also minimize aircraft noise impacts on the community."[45]

The Environment Report also reveals how careful the airport authority is to remain one step ahead of criticism that might be detrimental to its image or its freedom to act. The Vancouver airport is built on an island, 12 km from the downtown area, against the sea on its west side, but surrounded by residential neighbourhoods on the other three sides. It's easy to imagine that when the airport was first built nearly 80 years ago, coexistence with residential functions did not pose a problem, but today, the suburbs have caught up to it.

44 Vancouver International Airport, "YVR: Your Airport 2027 - 20-Year Master Plan", 2007, www.yvr.ca/Libraries/Who_We_Are/yvr_masterplan.sflb.ashx [Consulted in December 2012].

45 *Ibidem*, p. 21.

"In 2011, the Airport Authority built Canada's first Ground Run-Up Enclosure (GRE). Located at YVR's Airport south, the GRE reduces noise from run-ups performed by propeller aircraft to neighbouring communities by up to 50 per cent. The $10-million facility uses aerodynamic design combined with sound absorbing panels and louvered vents channels noise up instead of out."[46]

Certain excerpts from articles published in the local press show the degree to which the Vancouver Airport Authority is aware of the challenges posed by competition from American airports and the efforts it is prepared to make on political and commercial fronts in order to retain its competitive position.

"YVR is facing increasing competition from other airports; both travelers and airlines have choices," said Larry Berg, President and CEO, Vancouver Airport Authority. "In order to remain competitive and an airport that British Columbia can be proud of, we must continue to invest in projects that make it easier and faster for passengers and their baggage to move through the airport. [...]

To help fund these improvements, the Airport Authority is increasing the Airport Improvement Fee (AIF) from $15 to $20 beginning May 1, 2012, for passengers travelling to destinations outside of B.C. Passengers travelling within B.C. and to the Yukon will continue to pay $5. The AIF at YVR will still be among the lowest in Canada, with most other major airports collecting $25 per passenger."[47]

"On behalf of Vancouver Airport Authority, I [Larry Berg] offer my congratulations to the Government of British Columbia for delivering on its promise to eliminate the aviation fuel tax for international commercial flights operating out of B.C.'s airports, including Vancouver International Airport (YVR). […] Aviation fuel tax relief is an important strategy that supports Canada's Pacific Gateway. It makes it easier for airports in B.C. to compete for international traffic with airports in other jurisdictions such as Alberta and Washington State that do not have this type of tax."[48]

46 Vancouver Airport Authority, 2011 Environment Report; http://www.yvr.ca/AR/2011/assets/pdf/vancouver-airport-authority-2011-environment-report.pdf [Consulted in December 2012].

47 Vancouver Airport Autrhority, "Vancouver Airport Authority Maps Out 10-Year Strategy to Build a Better Airport for British Columbia", Latest News January 25, 2012 http://www.yvr.ca/en/flight-information/latest-information/12-01-25/Vancouver_Airport_Authority_Maps_Out_10-Year_Strategy_to_Build_a_Better_Airport_for_British_Columbia-2678036900.aspx [Consulted in December 2012]

48 Vancouver Airport Authority, "Vancouver Airport Authority comments on B.C. Government's elimination of the aviation fuel tax for international flights", News Releases, February 23, 2012.

3.4.5. The situation in Montreal

Since 1997, following the example of the other airport authorities, ADM has carried out renovation and expansion projects that have cost almost $1.6 billion and have resulted in a long-term debt of $1.5 billion as of 2010. In Montreal, the AIFs have gone from $10 in 1997 to $15 in 2001, to $20 in 2007 and to $25 per passenger in 2010. In 2010, these fees generated revenues of $126.6 million for ADM, representing 32.2% of the revenues of the Montreal airport authority and the second largest source of revenue after aeronautics activities.

There are other investment projects planned for the short and medium term in Montreal, notably to expand the international pier. It is anticipated that an additional $800 million will need to be injected into Montreal's airport infrastructures over the next five years, excluding the $600 million that was foreseen, until last year, for the establishment of a dedicated rail shuttle linking the airport and the downtown core.[49] The latter project has been the subject of debate, as its profitability has not been demonstrated and because it has not been integrated into the suburban rail system put forward by the Agence métropolitaine de transport de Montréal (AMT). Does the Montreal region really have the means to buy itself a dedicated rail shuttle in addition to an improved suburban rail service toward the west? Would it not be more reasonable to integrate the airport service into the existing and future suburban rail system? Regarding ridership, what is the real potential of this rail link? Are there not other more economical ways to serve this market (such as express buses, reserved lanes)? These are all questions that ADM's directors should be asking themselves. When juggling these different options, the directors should normally think about how to justify their choice that they would have to present to some authority or other. However, at this point in time, ADM's board of directors is not accountable to any authority concerning investments…

49 AéroMontréal, Real Estate and Commercial Services, ADM, Electronic Newsletter, vol. 6, no. 4, December 20, 2010.

3.4.6. The situation in Quebec City

As we have seen, a real explosion in airport improvement fees has taken place in Canada during the last decade. Even smaller airports such as the one in Quebec City have not escaped it. In fact, at $25 per passenger, the AIFs in Quebec City are among the country's highest. These fees became necessary in order to finance a $225 million investment project planned for the period between 2011 and 2015. It seems that this project is required in order to cope with a strong increase in demand forecasted over the coming years. Indeed, based on the recent growth in the number of travellers, the executives of the Quebec City airport foresee the number of passengers going from a little over one million to almost 1.5 million between now and 2015, an increase of 50 % over five years. At this rate, passenger traffic would double to reach two million passengers by 2020. If the recent trend appears to confirm the optimism of the airport executives in Quebec City, the historical tendency should induce greater caution. In fact, between 1995 and 2005, the average annual increase in passenger traffic in Quebec City was only 1.67%.

In order to respect its capital budget, the Aéroport de Québec has received several million dollars in aid from the Quebec government.

3.4.7. The situation in Halifax

On a smaller scale, Halifax presents similarities with Vancouver and Toronto. In fact, Atlantic Canada's largest airport bills itself as the "gateway" to the Maritimes. Growth in passenger traffic has been relatively modest, with an average rate of increase of 1.5% since 2004. Nevertheless, the airport's executives saw fit to increase the AIF from $10 to $15 in March 2009, and then to $20 on January 1, 2011. It was anticipated that in 2011 the AIFs would bring in $26.5 million, that is, 34.4% of the airport's total revenue, which would make them the leading contributor to revenues coming from aeronautics charges. Those charges have made it possible to finance an approximately $400 million improvement program until now. The airport's development plan foresees that other investments will be required over the next 20 years in order to cope with an increase in passenger traffic of about 3% per year.[50] The cost of these investments is not available.

To highlight its management performance and back up the validity of its decisions, the airport authority ordered, from a consulting firm, an assessment of its economic performance[51] and an assessment of its economic impact for the period from 2000 to 2010.[52]

50 Jacobs Consultancy, "Halifax Stanfield International Airport Master Plan", January 2011. http://www.hiaa.ca/images/pdf_files/2011/Master%20Plan%20Public.pdf [Consulted in December 2012]

51 "Halifax International Airport Authority: Five-Year Performance Review: 2005 to 2009", prepared by Chris Lowe Planning & Management Group, March 2, 2010.

52 "Halifax Stanfield International Airport: 2010 Economic Impact Report", prepared for Halifax International Airport Authority by Chris Lowe Planning & Management Group, September 2011.

According to these experts:

"After the 2000 transfer of the facility from Transport Canada, HIAA and tenants have invested approximately $450 million in new capital (development) projects and the maintenance of capital. These projects represent over 70% of the total capital improvements at airports in Atlantic Canada, and confirm HSIA's dominant position in both the air passenger and air cargo segments.

From 2011 and future years, an additional $300 million is expected to be spent on capital projects by HIAA and tenants. This level of investment does not include the 'Airport City' element of the Updated Master Plan that could result in significantly more capital projects. Applying the 2011 average Nova Scotia construction wage of $46,640, future expenditures of $300 million will provide 4,220 FTE jobs and $190 million in wages and salaries.

For 2008, the Airport contributed close to $1.3 billion to Nova Scotia's economic output, and provided 12,575 full-time equivalent (FTE) jobs with wages and salaries of $456 million. These employees contributed $55 million to the Province of Nova Scotia in terms of personal and consumption taxes and $20.8 million in retail sales taxes. [...]

An important metric is the increase in wages in comparison to growth in the provincial GDP (gross domestic product). GDP grew by 4.3% while Airport-related employment increased by 8.2%, and wages and salaries went up by a very robust 18.5% which reflects the increasing role of high paying professional, aerospace and technical jobs.

The facility's regional dominance was enhanced in October 2006 when U.S. Customs and Border Protection Services initiated preclearance for passengers destined to the U.S. on direct flights.

(According to another source, this granting of a pre-clearance status to the Halifax Airport was obtained in spite of the opposition by the Bangor International Airport, in Maine, a competitor located 400 km West of the HSIA.)

To finance the near-term capital improvements, the Authority raised $135 million in revenue bonds due in 2050. Standard & Poor's Rating Service assigned an A+ rating to the bonds that reflect the Authority's strong operating performance."

Excerpts from the 2011 Annual Report

Metro Transit enroute to the airport:

With 5,400 people working in the 24/7 operation that is Halifax Stanfield, our airport is its own community. Add to that the value of easier, more cost-effective access to and from the airport for both passengers and employees, and there's a clear business case for dedicated public transit. A case that ultimately appealed to both Halifax Regional Municipality (HRM) and Metro Transit.

In 2011, HRM announced its decision to extend public transportation to the airport in 2012. Because we recognize the value of this new service, HIAA is contributing half a million dollars to the capital costs of purchasing new Metro Transit vehicles. […]

Rethinking tomorrow's airport, from the groundside out:

As part of our 20-year Master Plan, HIAA began taking the first steps in 2011 toward an ambitious, long-term project: the commercial development of our airport property from the terminal building to Highway 102.

Our vision? To transform our groundside real estate into a multi-faceted regional centre for trade and commerce, creating a significant revenue development opportunity for HIAA.

The possibilities? Limitless. Think convenient services for travellers, visitors, tenants, employees and area residents. Industry-specific services for businesses and specialized facilities for regional exporters. And in the process, new jobs and economic activity generated where it matters most: right here. […]

The record passenger traffic contributed to higher revenues from the Airport Improvement Fee (AIF) ($26.8 million in 2011, up from $19.7 million in 2010). The AIF rate rose from $15 to $20 on January 1, 2011.

Total expenses increased in 2011 to $74.4 million (compared to $65.4 million in 2010). This rise in expenses is attributed to an increase in our ground lease rent to Transport Canada from $4.3 million in 2010 to $5.2 million,[53] [...]

Early in 2011, we welcomed the federal and Nova Scotia governments as funding partners on the $28-million project to extend our main runway from 8,800 to 10,500 feet. Under the cost-sharing arrangement, the province is investing $5 million and the federal government is investing up to $9 million, with the remaining $14 million provided by HIAA."

Halifax, like Quebec City, must seek revenue sources from various levels of government to carry out its capital investment projects. It appears that the three internal sources mentioned previously are insufficient. This is a situation that is likely to reoccur at several other Canadian airports.

53 This rent paid to Transport Canada represents 7% of the airport's total annual expenses.

3.5. COMPARISON WITH THE PORT OF MONTREAL

The board of directors of the Montreal Port Authority (MPA) is composed of seven members, all of whom are from the business sector in the Montreal region. Three directors are appointed by the three levels of government (federal, provincial and municipal) and the remaining four represent users of the port. There is no representation from the chamber of commerce but rather a majority of the directors represent the users (stowage businesses, shipping companies). Compared with the airports, the main difference is, obviously, that the Port of Montreal handles cargo almost exclusively, the rare passengers being on cruise ships.

At the Port of Montreal, with a majority of its board of directors representing its users, one might expect operational efficiency to be a higher priority than regional economic development. It is therefore not surprising that the MPA fought fiercely against tourism development projects and residential real estate projects (condominiums) that were proposed in the past, as replacements for port activity, on the site of the port and in particular on Bickerdike Pier. It is also noteworthy that the MPA takes pride in its good financial performance, with 27 consecutive profitable years until 2009, and a capital investment program financed using self-generated funds. At the Port of Montréal, there is no talk of AIFs, but rather of more conservative financial management with little or no long-term debt.

Nevertheless, the situation could evolve differently over the coming years because the new *Canada Marine Act* will grant greater flexibility and financial autonomy to Canadian port authorities, which may benefit from this by embarking on expansion or renovation projects. In particular, this is the case for west coast ports, which are facing capacity problems due to the growth in trade with countries in Asia, including China. However, unlike the airports, the ports are closely monitored by the sites' owner, namely the Canadian government. In fact, the federal Minister of Transport has the right to veto the port authorities' investment and financing projects. According to a representative of the MPA, the Minister appears to have learned from the airports' unfortunate experiences and has reserved important powers in the *Canada Marine Act*.

As for the directors' credibility, it is difficult to comment because there is little information regarding their qualifications. We know that the board includes three directors of corporations, two lawyers, one notary and one accountant. One can suppose that these directors have acquired knowledge of the port sector through their other work activities or simply through contact with the MPA. In 2011, there was a controversy when a member of the federal Prime Minister's cabinet attempted to intervene in order to ensure the appointment of a president and chief executive officer who was not the board's choice.[54] As for the other key principles of governance, it is difficult to comment on them due to a lack of available information from public sources.

54 Denis, M.-M. and Leblanc, D. "*Ingérence politique et jeux de coulisses au Port de Montréal*", from a joint investigation by Radio-Canada and The Globe and Mail, April 20, 2011 http://www.radio-canada.ca/regions/Montreal/2011/04/19/007-port-montreal-nomination.shtml [Consulted in December 2012].

3.6. THE NEW ECONOMIC ENVIRONMENT OF CANADIAN AIRPORTS

Like international tourism, the aeronautics world has seen major changes since the destruction of the World Trade Center towers in September 2001. There are fewer travellers in the airports, which have significantly increased security standards and budgets allocated to the protection of airport users and employees.

Between 2001 and 2010, the number of passengers entering or leaving one of Canada's nine major airports increased from 72.6 million to 90.2 million. This is a national increase of 24%, or approximately 2% per year. Airports such as Calgary and Montreal have fared even better, with increases of 42% and 37% over the decade. (Doubtless, Pearson's more modest increase [15%] is explained by the popularity of the downtown airport.)

This modest growth of 2% per year has not prevented the managements of these nine major airports from pursuing extensive capital investment projects during this period, with annual costs between $1.1 billion and $1.6 billion.

To finance these construction projects, aeronautics revenues, i.e. the landing fees paid by the air carriers, have been increased by nearly 100%, going from $559 million to $1 billion. The AIFs paid by passengers have soared by approximately 200%, going from $225 million to $761 million. The capital asset acquisitions of $14 billion have been financed solely by the increases demanded from the air carriers and passengers. The local airport authorities' indebtedness has also increased; over the decade, the annual finance charges have climbed from $137 million to $641 million during the decade, an increase of 367%.

Over the last 10 years, the airport operations model has made it possible to add facilities that are among the world's best and are envied by many countries but the work has resulted in development costs for the airport authorities. The air carriers and passengers have borne significant increases in user fees. It has also been necessary to increase the debt load, which, in spite of the current low rates, is nearing one quarter of the revenues, due in particular to the major airports' indebtedness. In 2011, in Toronto, interest charges amounted to $431 million, compared to revenues of $1.1 billion.[55]

This very costly upgrading of facilities was managed in various ways, depending on the particular airport. Some charged the air carriers more, while others charged the passengers more. And the liabilities continued to grow, with increasingly heavy debt at a number of major airports.

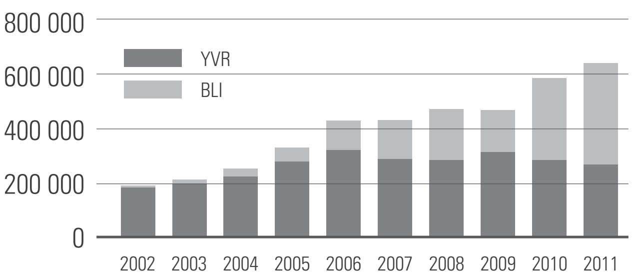
55 Greater Toronto Airports Authority (GTAA), *Management's Discussion and Analysis for the Year Ended December 31, 2011, dated March 28, 2012*;

But these changes did not prevent deterioration of the competitive position of Canadian airports in comparison with the American border airports. This assessment becomes evident when one looks at the market shares of the airports in Vancouver (YVR) and Bellingham (BLI), or Toronto (YYZ) and Buffalo-Niagara (BUF), on flights to, respectively, Las Vegas (LAS) and Orlando (MCO).

Table 4*

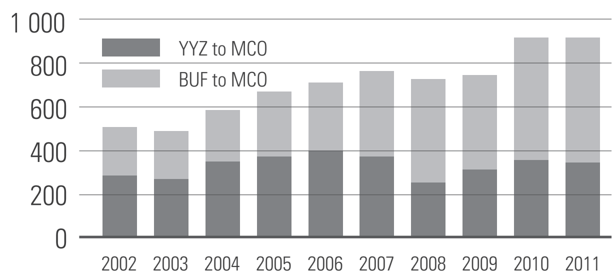
Comparison of market shares between Canadian and U.S. airports

Market Share to LAS from YVR and BLI, 2002-11
(number of passengers)



Source: Vancouver Airport Authority; Canadian Airports Council.

Market Share to MCO from YYZ and BUF, 2002-11
(number of passengers, 000s)



Source: Greater Toronto Airports Authority.

*Source: *Driven Away : Why More Canadians are Choosing Cross Border Airports*, The Conference Board of Canada, 2012.

The increases in operating costs and fees demanded from air carriers and passengers have made Canadian airports less competitive. The operating costs at Canadian airports have become much higher than those of their American competitors, which, incidentally, receive substantial subsidies from various levels of government in the United States.

The cancellation of the rents paid to Transport Canada (equal to 11% of total revenues) cannot provide a complete solution to the financial handicap faced by Canada's airports. Even if it owned its facilities and did not pay any rent to Ottawa, Pearson Airport probably would not be able to compete with the airport in Niagara Falls, New York, which recently received hundreds of millions of dollars from the U.S. Treasury for a new runway. The lack of competitiveness of Canadian airports cannot be attributed to a single factor. The two tables below demonstrate the significance of a number of costs in the competition with the border airports. The cost differential is even more significant for families that are travelling while on their annual vacation.

Table 5*

Total cost of a ticket departing from Toronto and from Buffalo

Mississauga City Centre and ST. Catherines City Centre to YYZ and BUF

FROM MISSISSAUGA	TO YYZ	TO BUF	FROM ST. CATHERINES	TO YYZ	TO BUF
Fare ($)	432,00	323,00	Fare ($)	432,00	323,00
Distance (km)	18,00	155,00	Distance (km)	108,00	66,00
Buffer time (mins.)	27,00	155,00	Buffer time (mins.)	108,00	66,00
Airport arrival buffer time (mins.)	120,00	60,00	Airport arrival buffer time (mins.)	120,00	60,00
Border buffer time (mins.)		45,00	Border buffer time (mins.)		45,00
Time cost ($)	58,80	104,00	Time cost ($)	91,20	68,40
Taxi ($)	40,00		Taxi ($)	100,00	
Gas ($)		37,20	Gas ($)		15,84
Toll ($)		6,00	Toll ($)		6,00
Parking ($/week)		50,00	Parking ($/week)		50,00
Total ($)	530,80	520,20	Total ($)	623,20	463,24
Total (family of four) ($)	1 885,60	1 593,20	Total (family of four) ($)	2 010,40	1 500,64

*Source: *Driven Away : Why More Canadians are Choosing Cross Border Airports*, The Conference Board of Canada, 2012.

Table 6*

Total cost of a ticket departing from Montreal, Burlington and Plattsburgh

Longueuil to YUL, BTV, and PBG

FROM LONGUEUIL	TO YUL	TO BTV	TO PBG
Fare ($)	573,00	292,00	292,00
Distance (km)	26,00	152,00	100,00
Buffer time (mins.)	52,00	152,00	100,00
Airport arrival buffer time (mins.)	120,00	60,00	60,00
Border buffer time (mins.)		30,00	30,00
Time cost ($)	68,80	96,80	76,00
Taxi ($)	84,00		
Gas ($)		36,48	24,00
Toll ($)			
Parking ($/week)		84,00	
Total ($)	725,80	509,28	392,00
Total (family of four) ($)	2 513,60	1 482,08	1 344,00

*Source: *Driven Away : Why More Canadians are Choosing Cross Border Airports*, The Conference Board of Canada, 2012.

In 1992, the Canadian government chose an original way to develop air transport in the country. Retaining certain rights, such as charging rent for facilities that it continued to own, Ottawa entrusted airport management to local authorities, which have to come up with ways of finding significant sources of funding. That is what the boards of directors have done, without really accounting for the related investments, which have been funded by contributions that were invisible to the public eye.

Owing to the Canadian government's policy of leaving the airports to fend for themselves, and taking into account the Auditor General's comments on Ottawa's absence of leadership, one has to question Canadian airport governance, keeping in mind the conclusions of the researchers Oum *et al*. (2006, 2008). How could a revision of the parameters of the current airport governance model contribute to finding better solutions for the viability and growth of Canadian airports?

4. Conclusions and recommendations

It's important to keep in mind the very essence of governance:

> "Governance consists of implementing all measures necessary for an organization to achieve the ends for which it was created, in a manner that is transparent, effective and respectful of its stakeholders' expectations.
>
> So, governance is made up of rules governing accountability and operating principles put in place by the board of directors in order to establish the organization's strategic aims, ensure the supervision of senior management and encourage the emergence of values such as integrity and excellence within the organization." Yvan Allaire (IGOPP)

If the model in place since 1992 appears to have met the stakeholders' expectations, it must be acknowledged that certain problems concerning the competitiveness of Canadian airports still lie ahead.

Based on the foregoing analysis, two questions appear to be crucial:

1. Are the mechanisms for public reporting and accountability adequate?
2. Should the composition of the board be re-examined?

4.1. MECHANISMS FOR PUBLIC REPORTING AND ACCOUNTABILITY

The main issue relating to the governance of Canadian airports lies in the fact that they are quasi-monopolies managing public assets that have boards of directors that are not accountable to anyone. Aside from the issue of their impacts on people who live near them and are directly affected by them, airports generate only limited interest among most municipal councillors; the regions and their communities do not appear to be concerned with the management of these facilities, which survive in an administrative limbo; local airport authorities' strategic decisions are not examined by the public, the media or special-interest groups. The air carriers sometimes curse about increases in landing fees but often their direct interests are limited to these fees. Some air carriers are consulted by the major airports concerning their capital investment programs but the discussions are no more than consultations. The passengers bear their share of the improvement fees but, because they never see the bill, they don't participate much in the process.

Among the big losers affected by the reduction in the competitiveness of Canadian airports are the provinces and municipalities where these airports pursue their economic activities. Like highway, rail and maritime transport, air transport is a decisive asset when it comes to regional dynamism. To compete with their American counterparts, perhaps Canadian airports should, at some point, recognize the limits of the current self-financing mechanisms and the need to turn to new sources of funding.

Today, everyone recognizes the vital role played by the airports in the development of Canada's regions. In cities across the country, they act as powerful economic and industrial engines; they play a part in the competitive positioning of various urban centres (for example: the frequency of direct flights to Asia or Latin America). They also play an important role in the development of strategic industrial sectors that have particular needs for air transport of cargo, like the aeronautics and pharmaceutical sectors. The aim of the process of devolution to the regions, initiated by the Canadian government in the 1990s, was to reflect the strategic importance of airport facilities at the local level.

As well, contributing to regional development appears in the mission statements of a number of airports, including Montreal's:

> *"Aéroports de Montréal's mission is threefold:*
>
> - *Provide quality airport services that are safe, secure, efficient and consistent with the specific needs of the community.*
> - *Foster economic development in the Greater Montréal Area, especially through the development of facilities for which it is responsible.*
> - *Coexist in harmony with the surrounding environment, particularly in matters of environmental protection."*

It should be noted that the 2nd and 3rd points in ADM's mission statement are linked to regional development; it is to be expected that the provinces and major Canadian municipalities closely follow economic activities related to development of their local airports. Currently, the involvement of these two levels of government in airport governance is rather vague: a few representatives assigned to the board but, in the end, they do not have to report specifically to any particular organization.

Reporting and accountability are at the heart of the governance mechanism. The managers report to the board, which, in turn, reports to the principal stakeholders. In the case of the small airports, control has been transferred to municipal authorities. With a transfer of ownership, the reporting process becomes clear. In the case of the major airports belonging to the NAS, they are not really accountable to any organization whatsoever, except as regards the provisions of their leases with Transport Canada. In our opinion, two possibilities for increasing the accountability of airports are worth exploring: (1) a transparent mechanism for reviewing strategic decisions concerning capital investments (expansion projects and their financing, in particular AIFs) and (2) transfers of airports to regional governments (provinces or municipalities).

4.1.1 The establishment of review mechanisms

In its most recent report, the Standing Senate Committee on Transport and Communications felt that the managers of airports should report on their decisions to a third party and recommended that "Airport Authorities establish review mechanisms that would allow for stakeholders and airport clients to better scrutinize decisions made by the Airport Authorities."[56] We agree wholeheartedly while being more specific about the practical details that could characterize such a mechanism. Once again, because airports are public property, it is important that the interests of their users be represented.

That could be done through a *Strategic Review Committee* that would be made responsible for independently and transparently reviewing the main decisions involving large investments (to be defined, over $20 million for example) and fee increases (for example, landing fees and AIFs). These decisions and investment projects should be the subject of rigorous and independent analysis in order to determine their necessity, financial profitability, social profitability and effects on regional economic development. When they are completed, the analyses and studies should be made public and available on the Internet sites of the airport authorities so that the general public and other stakeholders can read them and make their comments.

This strategic review committee could be chaired by the chairperson of the airport's board but its members should be independent from the board and be selected for their skills in analyzing such kinds of projects, their knowledge in the fields of airports and transportation, and their strategic vision of regional development.

56 *Report of the Standing Senate Committee on Transport and Communications, **"One Size Doesn't Fit All: The Future Growth and Competitiveness of Canadian Air Travel"**, Apil 2013, page 9.*

Certain airport authorities will likely oppose the establishment of such a control mechanism, arguing that the provisions of the leases binding them to the federal government are sufficient in this regard and that such a mechanism is not necessary. It would probably be necessary that the federal government impose such a mechanism when renegotiating the leases. And, the airports are loudly demanding reductions of, or else the complete elimination of, the rents that they must pay to Ottawa each year. They are supported in this quest by the *Standing Senate Committee on Transport and Communications*: "In The Future of Canadian Air Travel: Toll Booth or Spark Plug?, the committee recommended that Transport Canada establish and implement a plan to phase-out ground rents for airports that are part of the National Airport System. The committee also recommended that the Government of Canada transfer full ownership of these airports to the airport authorities that operate them in order to reduce impediments to their development and profitability."[57] In this context, it would be appropriate that the federal government relax the current formula for calculating the rents (by establishing them as fixed amounts rather than having them increase with the airports' revenues) in exchange for the imposition of review mechanisms like the *Strategic Review Committee* proposed above.

It is useful to recall that the airports are public property and enjoy a quasi-monopoly position in the market. The federal government is therefore absolutely justified in making sure that a mechanism to control costs and fees is put in place. Moreover, such mechanisms exist in other sectors (energy, communications) and other countries, notably in Australia where the major airports are subject to an organization that monitors the prices[58] and the service levels offered.[59]

Recommandation #1

It is recommended that the NAS airports create *Strategic Review Committees* that would be made responsible for independently and transparently reviewing the main decisions involving large investments and fee increases. These decisions and investment projects should be the subject of rigorous and independent analysis in order to determine their necessity, financial profitability, social profitability and effects on regional economic development. When they are completed, the analyses and studies should be made public and available on the Internet sites of the airport authorities so that the general public and other stakeholders can read them and make their comments. In exchange for the establishment of such Committees, the federal government would agree to relax the current formulae for calculating the rents by limiting them to maximums that reflect the values of the airports at the time of their devolution.

57 *Report of the Standing Senate Committee on Transport and Communications, **"One Size Doesn't Fit All: The Future Growth and Competitiveness of Canadian Air Travel"**, Apil 2013, page 16.*

58 Australian Competition and Consumer Commission, "Airport Prices Monitoring and Financial Reporting Guideline", June 2009 (http://www.accc.gov.au/).

59 Australian Competition and Consumer Commission, "Guideline for Quality of Service Monitoring at Airports", June 2013 (http://www.accc.gov.au/).

4.1.2 The transfer of the airports to regional organizations

Notwithstanding the foregoing, one should also ask oneself whether the Canadian government should continue the movement begun in 1992 to transfer the management of the airports to provinces and municipalities. Thus, the federal government could offer the provinces and major Canadian cities the option of acquiring the real estate assets of Canadian airports for reasonable prices. Such transfers of ownership would resolve the issue of the rents collected by Ottawa. Obviously, the purchasers would have to borrow funds to buy the assets; a portion of the debt of each airport would probably be left on its balance sheet. But, at least with a schedule for its repayment, the airport authority would see light at the end of the tunnel. For the federal government, the amounts received would be welcome in the context of seeking to balance the budget. Moreover, by transferring ownership to the regions, the federal government would shelter itself from creditors' claims against the real estate assets and from other debts of the airport authorities. Also, by becoming the owners of the facilities, the provinces and cities would take on clearer mandates with respect to the governance of the airports and the supervision of their management.

In this way, the airports could better integrate themselves in the economic development of Canada's regions. Moreover, without being prophets of doom, we believe that in the medium and long term the provincial and local public authorities might have to involve themselves in the financing of certain airports, as is the case with our main competitors south of the border.

By assuming some responsibility for this activity, the provinces would make it possible for air transport to be better integrated with Canada's other major modes of transporting people, the highways and railways. In Alberta and British Columbia, the provinces do not have representation on the boards of directors. The cities and the chambers of commerce assume responsibility for all local leadership: what is essential is that the boards recognize that they must defend their performance and that in the event of poor results the directors might well lose their positions. Each region of the country could choose its governance model according to the distinctive identity of its environment. In this regard the province of Alberta has already created a regulatory framework, the *Regional Airports Authorities Ac*[60], which resembles Bill C-20 and contains the framework for the creation and functioning of regional airport authorities, like the one for Fort McMurray. In this context, each Canadian province could decide whether it will assume the responsibility or allow some of the region's municipalities to fulfil the mandate.

60 http://www.qp.alberta.ca/documents/Acts/R09.pdf

Naturally, in all cases, the federal government would continue to pursue its regulatory activities in this sector (immigration, customs, health protection, air safety etc) but the management of the buildings, businesses, parking lots and other facilities would be transferred to provinces or municipalities by the sales of assets. Moreover, this model has already yielded good results for the small airports.

While allowing a majority of directors who have "legitimate and credible" experience and who come from outside the realm of government to take care of the management and supervision of the boards' activities, the provinces/municipalities could, in this way, take over control of the development of this powerful economic lever that is air transport.

Every year, the board of directors should report to a provincial or municipal authority, justifying its performance and strategic decisions. The media could comment on the results; some might choose to make comparisons between the performances of certain airports across the country and elsewhere in the world.

Under the supervision of a provincial or multi-municipal authority, a truly autonomous board of directors could do a good job, as the researchers Oum *et al* (2006, 2008) underlined in their conclusions:

- There is no significant difference between the performance of airports operated by local, private authorities (type 4), such as Montreal and Toronto, and that of airports operated by public agencies or departments in the United States (type 1);
- Contrary to popular belief, there is no statistical evidence to the effect that airports in which the private sector is the majority shareholder (type 2) are more efficient than those operated by government agencies (type 1) or by government corporations that are 100% government-owned (type 6).

It is essential that real accountability be restored to airport boards. Due to the potential use of public funds in financing, British style privatization is not desirable for the time being.

Recommandation #2

While continuing to bear full responsibility for activities coming within its jurisdiction (safety, international trade, immigration, customs, etc) the Canadian government should offer provinces and municipalities the opportunity to acquire the real estate assets and equipment of Canadian airports. The prices should be reasonable. The debt burden would probably be easier to carry than than the current rents which increase with the revenues.

4.2. THE COMPOSITION OF THE BOARD

In light of the foregoing, it must be concluded that current airport governance exhibits shortcomings in terms of effectiveness, transparency and vigilance. As this study shows, the airport governance experience since 1992 has resulted in control by a small group of directors who, doubtlessly in good faith, manage these public facilities without really being accountable to the users and taxpayers. In order to improve accountability and transparency, major changes are required.

Considering that no bill is foreseen to replace Bill C-20 and provide a framework for airport governance, it strikes us as also necessary to make recommendations concerning the composition of the boards of directors of the Canadian airport authorities. In doing so, it is helpful to review the principles that should serve as a guide for the composition of these boards.

First, as previously noted, corporate directors should be legitimate, in other words, provide effective representation on behalf of the stakeholders.

In the same spirit of legitimacy, it is desirable that the principal users of the facilities be represented while being independent from the nominating organizations. Therefore, it is pertinent that the boards of Canadian airports include directors suggested by air carriers' associations, as provided for in Bill C-20. However, to ensure their independence, it is important that these directors do not currently occupy management positions with corporations that have business dealings with the airports and have not retired from such a corporation.

As Canadian airport authorities play an active part in the economic development of their regions, it is important that the political officials of the provinces, municipalities and economic organizations also be involved in nominating candidates for directorships. Using a profile that includes well-defined skills and expertise, the board of directors should suggest member candidates to the organization that owns the facilities (the federal, provincial or municipal government, as the case may be). That organization could then approve these candidacies with respect to half of the available positions. Socioeconomic organizations could continue to propose candidates; but these candidates would be required to have a free hand in relation to the organizations that nominated them and not simply act as a communication channel on behalf of those who nominated them.

The boards should not become the affair of the "permanent staff" of the socioeconomic organizations. The directors must be independent from the organizations that suggest that they be appointed. This is not always obvious and, to avoid these organizations having too much influence on the airports' boards of directors, we recommend that the number of directors appointed by these organizations be limited to two instead of three, as was provided for in Bill C-20. This recommendation is consistent with what is increasingly observed at major Canadian airports, as can be seen in Table 3.

We have described the importance of “credible and legitimate” directors, the first and essential principle of the Allaire-Firsirotu model. But it must be recognized that the primary legitimacy is that of the owner, the shareholder or the member who has a significant financial interest in an organization. Where airports are involved, no one has a financial interest because the business does not have its own capital. But it could be said that the appointed individuals gamble with their “reputational capital”.

Individuals in the public eye may accept positions as directors and, if difficulties arise, their reputations are put at risk. However, as airports and their performance rarely make the headlines, the risk to their reputations is very slight.

Some board members may have a direct interest in airport management (for example, representatives of air carriers, passengers, the local community, etc). Their colleagues are aware of this reality. But everyone knows that the director is clearly working for the good of the organization and not for the defence of particular interests. Also, it should be emphasized that employees working for special-interest groups may have difficulty managing their loyalty toward the organization for which they act as a director and their loyalty to the organization that they work for on a regular basis.

The board can include officials from municipal and provincial organizations. However, if a board must report to a government organization that has one of its managers on the board in question, the reporting exercise will be uncomfortable.

The chair of the board should be chosen by the elected individual responsible for the supervision of the airport. It is important that this person be trusted by the governmental organization responsible for the supervision of the airport. Lastly, the standards in force regarding terms of office (three times three years) could be renewed.

Recommandation #3

It is essential that the boards of directors of airports be composed of legitimate and credible directors. Each board should create a profile of all the expertise and varied skills that it is desirable to have on the board. Below are some guiding principles concerning the composition of the boards of Canadian airports:

- **The directors must have knowledge in the field of airports or, in a more general way, of air transport, or expertise that is relevant for the organization that they manage, that is, engineering, accounting, law or management.**
- **The number and variety of the non-governmental organizations that can propose candidates to the boards of Canadian airports should be increased to ensure greater representation of the community.**

- **The directors must be independent from the nominating organizations that suggested that they be appointed. For example, no executives or retirees. The board reserves the right to accept or reject the candidates proposed.**
- **No nominating organization can recommend more than two of the directors, in order to avoid certain organizations having predominance on the board.**

4.3. CONCLUSION

The major Canadian airports, members of the National Airport System, have invested heavily in their infrastructures since the federal government entrusted the management of the facilities to them during the 1990s. As a result, the users of these airports enjoy today facilities which are among the most modern and efficient in the world. Of course, these investments had to be financed by a substantial increase in the indebtedness of the airport authorities, a debt which is largely repaid by fees imposed on users; for instance, the airport improvement fees (AIFs), have increased spectacularly in recent years.

That's when their governance becomes an issue as the boards and management of airports do not have to give any accounting, or ask for any authorization, for their investment decisions or the increases in airport fees.

Airports are public property and their management should be transparent and accountable. We recommend that a review mechanism be set up for decisions about infrastucture investments and airport fees. The decision of the Department of Transport to call for the creation of such a review mechanism should be accompanied by a decision to review the level of rents imposed on airports by the federal government.

Airports have become powerful levers of economic growth in various regions of Canada. It would seem appropriate thus for the provinces and municipalities to play a more significant role in the development and strategy of airports in their proximity, including in facing up to the competition from American border airports.

The Canadian government could offer to sell the airports to the relevant provinces and major municipalities. Such devolution could have many benefits:

- In this governance scenario, airports managing large annual investment budgets would most likely thbe subjected to close monitoring by the provincial governments and/or the major municipalities who will eventually have to play a part in funding these airports in order to continue modernizing them.
- The federal government could take the lead by completing the exercise initiated in 1992, by transferring ownership of the lands and buildings to regional organizations.
- Such a transfer would settle once and for all the issue of the rents currently collected by Ottawa. An advantage would be that the debt contracted would be stable whereas, in the current system, the rents continue to increase with the volume of business.

However, such a change in accountability calls for maintaining a high quality of governance. The boards must count on legitimate and credible individuals who have experience in managing a business that generates several tens, if not several hundreds, of millions of dollars in revenues. For that reason, the appointment of board members must result from a rigorous process designed to attract individuals who have suitable experience and temperament.

In line with the conclusions of the recent report of the Standing Senate Committee on Transport and Communications, this report raises three sets of questions about the governance of the Canadian airport authorities:

1. Is the supervision by Transport Canada useful, sufficient or adequate? Canadian airports want the rents reduced, ideally abolished. Can the Canadian government demand greater control over the airport authorities' activities in exchange for a reduced rent?
2. What would happen if the Canadian government offered to sell the fixed assets to the airport authorities, to the cities, and/or to the provinces while retaining the strategic activities incumbent upon federal authorities, in particular those relating to security and safety?
3. Should the airports wish to make new investments and ask for assistance from municipalities or provinces, would it not be pertinent to set up a *Strategic Review Committee* with representatives of local governments to assess these proposed investments?

A better governance framework will not resolve the issue of the competitiveness of Canadian airports. However, transparent and rigorous accountability would produce a framework for fruitful discussion with the provincial and regional governments about the challenges with which airports have to cope.

Canada is a vast country where rail and air transportation play a vital role. Aiport facilities are crucial infrastructures for our economy as well as for the dynamism of Canada's large urban centres. Solid, value-creating governance of our airports is an important building block and an essential driver of theirm performance. It is hoped that this report brings a modest contribution to the important debate about the future arrangements and governance of Canadian airports.

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