

**Presentation to the House of Commons
Standing Committee on Transport**

AIR LIBERALIZATION:

**A Review of Canada's Economic Regulatory Regime
As it affects the Canadian Air Industry**

**The Ontario Restaurant Hotel Motel Association
March 22, 2005**

Introduction

Good Morning. My name is Terry Mundell and I am president and CEO of the Ontario Restaurant Hotel Motel Association. I want to thank the Standing Committee for the opportunity to bring forward the views of Ontario's hospitality industry on the topic of Air Liberalization.

What is the Ontario Restaurant Hotel & Motel Association?

The Ontario Restaurant Hotel & Motel Association (ORHMA) is Canada's largest provincial non-profit industry association that represents the interests of Ontario's foodservice and accommodation sectors. The ORHMA is dedicated to fostering a positive business environment for Ontario's hospitality industry, while providing value-added services to its members.

Profile of Ontario's Hospitality Industry:

Ontario's hospitality industry is one of the most dynamic and competitive sectors of the provincial economy, generating \$18.32 billion in annual sales and 4.3% of provincial GDP. With more than 22,200 foodservice establishments and nearly 3,000 accommodation properties across the province, the hospitality industry directly employs over 411,000 Ontarians. This represents 7% of total employment. This is net of substantial indirect employment as a result of rounds of spending in the economy. The contribution made by this economic sector is felt in all regions of the province and affects the livelihood of many of Ontario's residents.

Current State of the Hospitality Industry and Declining Tourism

The Ontario hospitality industry is trying to recover from a series of disasters beyond its control such as SARS, West Nile, Mad Cow, the NHL strike, 9/11 and attendant border crossing delays, anti-smoking bylaws and impending legislation plus a strong Canadian dollar. These factors have put a damper on tourism travel patterns into and out of Ontario. For example, tourist visits from the U.S. have plummeted 25% since 2001. Although projections indicate a slight rise in American tourism over the next four years, they still remain lower than 2001 figures. Similarly, intra-Ontario tourism by Ontarians, who represent 73% of the market, is also down as many natives are choosing to travel to destinations outside of the province.

The hospitality sector has been hurting over the past several years with declining tourist spending, lower disposable income of Ontarians and rising costs of doing business. Factors beyond the control of hospitality operators mentioned above not only negatively impact tourist arrivals from outside the country but constrain in-province tourism and local demand. The rising cost of living and higher government taxation take away discretionary household income and negatively affect domestic and international tourist expenditures on travel, meals and consumption of beverages.

We need to examine all the ways and means available to revitalize, stimulate and sustain Ontario's hospitality sector - one of the lynchpins of a healthy Ontario tourism industry. This includes a healthy and competitive national and provincial air transport infrastructure, which is the reason we are appearing before you to-day.

ORHMA Issues on Air Liberalization and the Air Travel Infrastructure

Generally speaking, the ORHMA supports strategies that reverse the downward trend in Ontario tourism and return it to pre-2001 levels of growth. Past policies seem bent on finding solutions based on paying attention to inputs and throughputs instead of outputs. The true output measures are increasing the number of tourists to Canadian and Ontario destinations, making their trip and stay a pleasant one, increasing their spend while here and encouraging a return visit. The focus and emphasis needs to be fixed squarely again on the tourist by providing the safest, highest quality, best selection and most reliable air transportation experience at competitive prices.

How do we accomplish this?

The ORHMA recommends two general solutions that return the focus to the consumer:

- Seriously examine all the surcharges and user fees on ticket prices that result from everyone downloading their costs onto the traveling consumer; and
- Offer fair ticket prices, improve selection and increase quality through policies that promote greater competition through air liberalization in Canada's skies.

I. Surcharges and User Fees on Ticket Prices (Killing the Golden Goose)

There has been no voice for the air travel consumer, now fed up with the multitude of fees, levies and taxes imposed on his or her ticket by the airlines or through downloaded federal programs. Such fees can double the price of air travel, leave the consumer frustrated and bewildered and unlikely to return.

Such fees include:

- Fuel surcharges (for travel within Canada and between Canada and the U.S.) included in the base fare of \$7.50 CAD;
- NAV Canada – either \$9, \$15 or \$20 based on distance. For border itineraries, \$7.50 each way or \$15 CAD per round-trip ticket. This surcharge is collected to cover the fees that Air Canada pays to NAV Canada to operate Canada’s Air Navigation System;
- Insurance surcharges – imposed by airlines, is \$3.00 each way for travel;
- Air Travellers’ Security Tax – enacted by Canada’s Parliament, the charge is to fund security personnel and equipment resulting from 9/11. For domestic or transborder itineraries, the ATSC is \$6 one way to a maximum charge of \$12 CAD and internationally, it’s \$24 for each return or one-way trip. and
- Airport Improvement Fees – either at time of ticket purchase or departure, \$15 at Pearson.

These are all net of GST and PST (and taxes compounded on top of taxes). Fuel and insurance surcharges have been imposed by the airlines. However, the remainder (NAV Canada charges, Security tax, and Improvement fees) results from former federal responsibilities downloaded through new agencies or non-profit entities onto the consumer without any voice or representation by the consumer or affected stakeholders.

RECOMMENDATION 1: The ORHMA recommends that the Government, when making decisions that affect the air travel infrastructure, make the air travel consumer paramount in its decision-making, versus the profitability of airline companies or airport authorities. The impact on the traveling consumer should be considered first and foremost before imposing potentially-crippling fees and levies on ticket prices.

A case in point is the Greater Toronto Airport Authority. Without apparent debate from any public body, the federal government created the GTAA through the National Airport Program: a local not-for-profit corporation without share holdings and accountable to no-one in particular. The GTAA signed a lease with the federal government beginning at \$117 million yearly subject to CPI (now upward of \$143 million). These lease payments compare with the start-lease payments for other cities: Vancouver (\$56 million), Calgary (\$35 million), and Montreal (\$4 million). (In July 2003, the Minister of Transport deferred \$41 million of annual rent due to SARS and Air Canada's difficulties but will be paid back commencing in 2006). These unfair lease payments directly affect the level of competitiveness of Toronto and the Pearson airport as a destination.

Further expansion and improvement costs resulting from the condition of Pearson airport when turned over to the GTAA will ensure the voiceless air consumer will endure AIFs perpetually. Again, no airport consumer, who bears the costs of ground lease payments and airport improvements was ever consulted. This bears on the issue of the GTAA governance and accountability. The only entity it seems accountable to is itself. There needs to be greater participation and transparency among the GTAA's various stakeholders in its decision-making; specifically

- Greater disclosure of its financial activities of the airport and its subsidiaries;
- A consultation and approval process before any changes in its fees and charges;
- Public communication of changes to airport by-laws and other key airport decisions; and
- Need for a conflict resolution or dispute resolution mechanism.

RECOMMENDATION 2: The ORHMA recommends that the federal government as landlord review the unfair ground lease payments imposed on the GTAA and substantially lower or remove these payments. Any savings realized should be reflected in lowering the fees charged to air travelers using Pearson airport.

RECOMMENDATION 3: The ORHMA recommends that the GTAA have greater accountability and transparency in decisions that affect its stakeholders including:

- **Greater disclosure of its financial activities of the airport and its subsidiaries;**
- **A consultation and approval process before any changes in its fees and charges;**
- **Public communication of changes to airport by-laws and other key airport decisions; and**
- **Need for a conflict resolution or dispute resolution mechanism.**

II. Offer fair ticket prices, improve selection, and increase quality through policies that promote greater competition and transparency in ticket pricing through air liberalization in Canada's skies.

Returning to the theme of consumer-first, the ORHMA agrees with any policies that will provide air travel consumers to Ontario the fairest prices, best selection, and highest trip quality. As partners in the tourist industry, the government, air agencies, private airlines, and the hospitality industry must look toward mutual policies that renew the competitiveness and drive the revitalization of Canada's and Ontario's air travel and tourist industries. Maintaining the *status quo* will not address the stagnation in Ontario's tourist industry and the flight of tourists to other destinations.

We agree with the position taken on air liberalization by many other provincial and national tourism bodies that promotes competitiveness in Ontario and Canada's skies. That being said, the ORHMA supports those changes in Canadian air regulation if they can positively impact the decision of the air travel consumer to choose Ontario as a destination plus translate into the best ticket prices, greatest selection and highest quality air travel.

Whether the decision is to permit an increase in foreign ownership of Canadian airlines, allow foreign carriers unfettered access to Canadian markets in return for our similar access to foreign markets (right of establishment), establish a NAFTA-style air space agreement in North America, or simply to re-open negotiations with a number of major trading partners on a multi-lateral basis toward air liberalization, as long as any of these options results in greater competitiveness that drives improved service to the consumer, the ORHMA is in support.

However, the measured impact of any of these choices is only speculation. The ORHMA recommends that all the various options that are being put forward on air liberalization be examined closely from a cost-benefit perspective to choose those with the best cost-benefit ratios based on the major outcome variable: more tourists to Canada and Ontario.

RECOMMENDATION 4: The ORHMA agrees with any policies that will drive greater competitiveness with the view to providing air travel consumers to Ontario the fairest prices, best selection, and highest trip quality. The ORHMA further recommends that all the various options that are being put forward on air liberalization be examined closely from a cost-benefit framework to choose those with the best cost-benefit ratios based on the major outcome variable: more tourists choosing Canada and Ontario as their first choice in destination.

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