The Canadian Model
BACKGROUND

• Airport privatization policy established in Canada in the late 80’s when government was broke and airports were badly underfunded…
  • Vancouver, Calgary, Edmonton and Montréal were the first airports to be privatized under the Airport Transfer Act (1992).
  • Eventually, all 26 large or nationally-significant airports in all provinces and territories were "privatized".

• The responsibility for the operation, management and development was transferred to not-for-profit airport authorities (CAAs)

• BUT, very important, the government retained ownership through long-term leasing to CAAs - Leases are for 60 years (option of a further 20).
  • Theoretically, Airports are to be restituted to the government at the end of the lease.
The Canadian model is the only one revolving on community-minded, not-for-profit corporations.

CAAs are non-share capital corporations incorporated under Part II Canada Corporations Act, and are exempt from income tax.

CAAs do not pay dividends but pay rent to the Government of Canada as well as municipal taxes.

All «surpluses» (profits) are reinvested in the business.

Main sources of funds are cash flow from operations, airport improvement fees (AIFs) and debt instruments – The system does not provide for funding from the government.

CAA's benefit from high credit ratings. Financial metrics are in line with best performing airports
GOVERNANCE

• Board of Directors
  • 2 members named by Transport  Canada, the owner of the property.
  • Other members named by the Board from lists of candidates proposed by nominating entities e.g. Province (1 seat), Municipal Regional Community (5 seats), Chamber of Commerce (3 seats), Airlines (2 seats). The board itself appoints one member. The nominating entities have the possibility to suggest 3 candidates for each available seat. The board is not bound by these suggestions, although they are normally the result of a consensus.
  • 100 % apolitical – no elected members allowed, no active civil servant
  • CEO is the only member from management
GOVERNANCE

- Strict governance and transparency rules set out in the ground lease and corporate by-laws: e.g. CAAs must publish an annual report and hold a public annual meeting.

- CAA's aim to manage by consensus through Community Advisory Committee, Airport Operators Committee, Airline advisory Committee, etc.
  - All major decisions are reviewed by stakeholders with a veto to the airport
  - Total transparency on operating costs
GOVERNMENT OVERSIGHT

• Prices are not subject to any review, approval or appeal process.
  • Unfettered ability to set rates and charges
  • Obligation to publish price changes 60 days in advance and with prior consultation in some cases.

• Non compete clause on international flights in a 75-mile radius around the airport

• Transport Canada may at any time audit records and procedures to ensure compliance with the ground lease –
  • Annual lease compliance report

• CAAs subject to independent performance reviews every 5 years.

• Of course, CAAs must comply with all applicable laws and regulations.
ISSUES AND POTENTIAL FOR CHANGE

• Good governance relies on a competent, efficient and independent Board of directors, but that is true for all models.

• Management has little incentive to optimize operations but some do and stakeholders can pressurize management to do so.

• A growing issue concerns the amount of rent and taxes that Canadian airports must pay, with little or no service in exchange.
  
  • Because of their heavy tax burden, major Canadian airports face stiff competition from subsidized U.S border airports.

• Inflexible capital structure: Because of the absence of equity financing and heavy debt, traffic growth is essential to investment. Should it become necessary over time, there will always be the possibility of raising some equity.
  
  • In fact, the Canadian model is ready to evolve toward a more flexible capital structure.
RESULTS

• The Canadian model actually works well and actually better now than in the first years (learning curve)
  • Toronto cutting back its aeronautical rates

• Major Canadian airports rank among the best, they are efficient and infrastructures are well maintained and regularly upgraded.

• Financing is simple and expansion projects are tied to community needs, not government agenda.

• Community involvement is a “plus.”
BALANCE BETWEEN ALL STAKEHOLDERS

- **Government**: retains ownership and control, gets a steady stream of rent revenues
- **Operator**: has full management autonomy with only very light regulation and government oversight
- **Local community**: gets jobs, economic impact, tourism, local tax and good-quality infrastructure that meets its needs
- **Lenders**: low risk on account of exclusivity right over territory
- **Airlines and Passengers**: good-quality infrastructure, competitive rates
- **Taxpayers**: the model is entirely self-financed