Intelligence MEMOS

From: Steven Robins

To: The Hon. Marc Garneau, Minister of Transportation

CC: The Hon. Bill Morneau, Minister of Finance

Date: February 23, 2017

Re: **AIRPORTS FOR SALE?**

The federal government's Fall Fiscal Update planned $186 billion in infrastructure spending. The question is how to pay for it. If Ottawa sold its eight major airports, it could raise between $7 and $16 billion in new financing for infrastructure and benefit air travellers in the process.

In the early 1990s, Ottawa transferred control of the airports to local non-profit airport authorities on long-term leases. These local airport authorities took on responsibility for modernizing our major airports. However, the Canadian model is unique worldwide. Countries such as the UK, France, and Australia have instead transferred ownership to private corporations.

Canada's airport authority model isn't the best for travellers. Why?

Ottawa takes a share of each airport's revenue in ground rent. The cost of the rent is a burden that distorts airports' behaviour, leaving them unable to pursue some business opportunities. This reduces the range of services travellers can receive at airports and drives prices higher.

If Ottawa chooses to sell the airports, it needs to move carefully to protect the public interest. It needs to run an open, competitive sale that includes Canadian and international investors. That is how Canadian taxpayers will get the best price for their assets. Ottawa also needs to empower the Canadian Transportation Agency to monitor the price-setting process of airports to protect airlines and travellers.

A 2015 World Economic Forum's Travel and Tourism Competitiveness report ranked Canada 130th out of 138 countries for the cost of airport charges and ticket taxes - a significant portion is the airport operating cost. Selling the airports to abolish the rent and bring in a new owner to lower costs at our airports can address this problem.

Travellers would benefit from a sale. Without the burden of the current ground lease, a private owner would be able to pursue new business opportunities and finance investments over longer time horizons. Both ideas would drive down costs. Further, a private shareholder would likely focus on reducing costs, to improve their own profitability.

New owners would have a strong incentive to pass on these savings to their highly price-sensitive customers. Evidence from Europe shows that airport charges fell when airports were privatized. The current airport authority boards represent many different stakeholders, and are likely less focused on cost than a private owner would be. This led the International Air Transportation Association to criticize the Toronto airport authority for making "gold-plated terminal investments."

Selling airports would reduce costs for travellers. However, a sale would also finance new infrastructure that will make our cities stronger and help grow the economy. These investments have real costs – and governments have limited budgets. Rather than have government investments tied up in airports, they should sell them and put the money into the new infrastructure Canadians need.

Selling equity stakes in Canada's largest airports would help finance the government's ambitious investment plans in new infrastructure. Travellers would see costs fall as the distortionary leases are eliminated, and all Canadians would benefit from new infrastructure. The time for a sale is now.

Steve Robins is a joint MBA and Master of Public Policy Candidate at Harvard University, and is the author of the C.D. Howe Institute study "A Better Flight Path: How Ottawa can Cash In on Airports and Benefit Travellers."