CALGARY AIRPORT AUTHORITY

March 18,2005

Federal Airport Rents in Canada – A Disaster in Progress!

Air travelers in Canada may not know it, but every time they board an aircraft approximately $7.00 of their airfare migrates to the Government of Canada as what many describe as a hidden 'federal airport rent tax.'

There is no credible public policy basis for the levels of rent extracted from Canada's airports.

The Federal Government is using airports to extract a hidden tax from air travelers and the air transportation industry.

Here's some background on the issue as it stands today and the implications to air travelers in Canada if a sustainable solution is not found…..

Beginning in 1992, the Government of Canada transferred responsibility for airports to local airport authorities – not-for-profit, non-share capital corporations responsible for the management, maintenance and development of the airport(s) in their city or region.

The Government of Canada assessed the value of each airport at the time and 'negotiated' a rent formula, deemed appropriate at the time, to recognize the Canadian taxpayers investment in Canadian airport infrastructure.

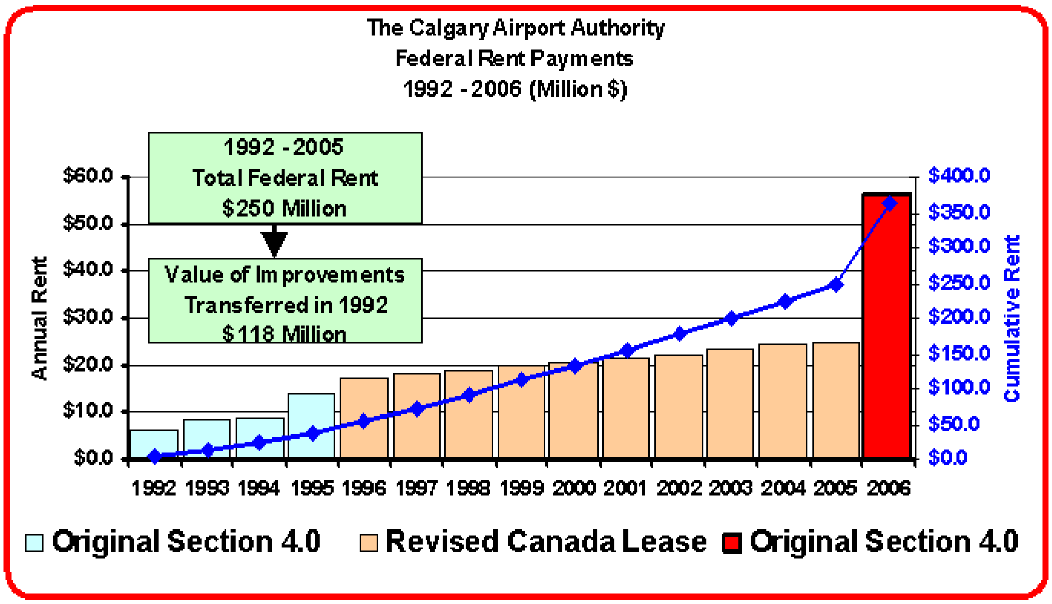
The Net-Book Value of all airports transferred from the Government of Canada to Local Airport Authorities was approximately $1.5 billion.

The cumulative rent paid to the Government of Canada thus far by those same airports has been approximately $1.75 billion.

Airports across Canada have not only covered the original investment by the Government of Canada, they have covered 100 percent of the post-transfer operating costs of the airport and they have also had to fund billions of dollars in expansion, refurbishment or upgrades necessary at their respective airports.

What About Calgary?

The following graph depicts the annual escalation of airport rent paid to the Government of Canada by The Calgary Airport Authority since 1992 and the current federal airport rent tax increase scheduled for 2006.



Since 1992, over $250 million has been paid for a facility valued at $118 million at time of transfer.

From 1992 to 2005, approximately $750 million in capital restoration and expansion has been invested at Calgary International Airport – projects endorsed by the airlines as necessary and appropriate to maintain safety standards and meet their growing facility needs.

Zero dollars are contributed by the Government of Canada towards airport expansion or improvements. Government agencies pay zero rent for office or other space they occupy in airports.

Capital operating projects are funded by revenues from airline landing fees, public parking, tenant concession fees, land rentals or other miscellaneous revenue sources that vary from airport to airport.

Airport expansion projects, both on the airfield and air terminal(s) are funded by Airport Improvement Fees, collected by the airlines on behalf of the local airport authority. The Airport Improvement Fee is shown on the ticket and goes directly to specific expansion projects, which in Calgary's case were all endorsed by the airlines serving Calgary.

With Airport Improvement Fees, the traveler receives something tangible and real in return.

The ‘Federal Airport Rent Tax’ provides nothing in return. Monies paid by airport authorities in the form of rent go into government general revenues and are spent on whatever the Government chooses.

Airports, airlines and many others in Canada believe the ‘federal airport rent tax’ is nothing more than another hidden tax on Canadians – specifically those that purchase air travel. While some may argue that airport rent is justified as a return on investment in airports by the Canadian taxpayer, it must be remembered that air travelers are those same taxpayers. Put simply, they are paying themselves with their own money!

What Happens January 1^{st}, 2006?

If there is no change in airport rent policy by the Government of Canada by January 1, 2006, airport rents are scheduled to increase by various percentages and amounts at airports across Canada.

In the case of Calgary, its annual rent tax will increase by 125 percent from $25 million to $56 million.

Where will the money come from to cover this increase?

From air travelers.

The federal airport rent tax is funded by landing and terminal fees charged to airlines each time they land. This cost, in addition to the many other costs of doing business as an airline, eventually makes its way to the air traveler in the form of the air fare paid to fly from A to B.

The Calgary Airport Authority estimates it will be necessary to increase airline aviation fees by 60 percent effective January 1, 2006, if the federal airport rent tax increases as currently planned by the Government of Canada.

Airlines, who are already operating on very thin margins of profitability with many losing money year after year, will have no choice but to increase airfares to cover this totally unnecessary cost increase.

What should be done?

The Calgary Airport Authority believes airport rents should be reduced by at least half to begin with and eventually eliminated. The original investment has been paid for and then some. Virtually every square foot of the original terminal has been either refurbished, replaced or expanded with air travelers' money – not the government's.

There was an expectation by airports, airlines and the many entities impacted by the rising cost of air travel in Canada, that this crisis would be addressed with a sustainable solution in the February 23 federal budget delivered by Finance Minister Goodale.

It was not addressed.

It needs to be addressed.

Now.

For more information and opinion, see:

Canadian Airport Council – www.cacairports.ca
Air Transport Association of Canada – www.atac.ca