

Mr. Barry Rempel
President and Chief Executive Officer
Winnipeg Airports Authority
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Representation to the Standing Committee on Transportation

Introduction

My name is Barry Rempel. I am the President and Chief Executive Officer for the Winnipeg Airports Authority, a non-share capital corporation which operates and manages Winnipeg International Airport. With me today is the Chair of our Board of Directors. Familiar to a number of you, at least by name, Dr. Arthur Mauro is truly an icon in business and aviation circles. Dr. Mauro has presented to numerous Standing Committees and CTA proceedings. His contribution to the success of the WAA model and his counsel is truly appreciated.....

Thank you for the opportunity to appear before you today.

As one of the first 3 airports to be devolved under the revised CAA policy, the WAA began the transformation into an important economic engine of our region in January 1997.

The WAA is a critical component of the new and evolving supply chain serving the region from Nunavut in the North to the Dakotas, from northwestern Ontario to eastern Saskatchewan. Less well known is the crucial role our airport plays in distribution. As a 24 hour transportation hub, Winnipeg International is the 8th largest passenger facility in Canada and has only recently grown into the 4th largest cargo distribution facility and the largest destination for freighter aircraft.

I will focus my comments today on 4 issues of critical importance to the WAA and this region.

- 1) Governance of Airport Authorities, including accountability and transparency,
- 2) Airport Financial Viability
- 3) Air Policy Liberalization,
- 4) and not likely a surprise to the members... Airport Rent.

Prior to addressing the specific issues, I would like to thank the esteemed members of the Committee for coming to our community to hear directly from stakeholders. With the commoditization of air travel today, many more partners are required to effectively meet the needs of the traveling and shipping customer. Without your travel here today, it would be easy to hear only the traditional voices and their lobby representation, thereby ignoring the new reality of customer stakeholders.

Governance

Clearly the Canadian Airports Authority model has served Canada well. Despite recent challenges, including AC's revised business plan and the cessation of operations by Jetsgo, the WAA has seen significant improvements in critical infrastructure and enhanced customer service offerings. In April of 2004, the WAA was honoured to stand with our Airline Consultative Committee to announce the next phase of our infrastructure replacement, a new state of the art passenger terminal facility.

These achievements, critical to the activity of our community were proudly accomplished through consultation, under the direction of our Board of Directors, all the while maintaining financial integrity of the corporation and remaining debt free.

General

It is important to note that the guidance that met those challenges is a model designed specifically for the community we serve. The Accountability inherent in the model has been recognized by the Conference Board of Canada which recently published recognition of our transparency and accountability as contained in our governance principles.

- 1) Accountability,
- 2) Clear delineation of responsibilities between the Board and Management,
- 3) The full Board, not committees are involved in decision making; and
- 4) Transparency.

Task forces are used as required and the Board has access to independent counsel paid for by the Authority.

Accountability

Accountability permeates the model, with board members nominated from seven different community sectors to which they report annually. Working collaboratively, our model encourages the appointment of highly qualified directors. Today the WAA Board is composed of directors that include a former federal Minister of Transport, a former carrier owner/operator, a former Vice President of Air Canada and Chief Air Negotiator for Canada. Our Chairman himself was the former President for one of Canada's largest investment companies, Board member at one of Canada's largest Air Carriers and President of a regional Airline.

Through our Board, policies and programs are established for conducting active, open and multi-directional communications with the community. Evaluations and reports relating to community impacts and perceptions are performed on a regular basis.

A Community Consultative Committee has been established for effective dialogue and dissemination of information on various matters including airport planning. This

committee is comprised of those generally representative of the community including consumers, the traveling public, the Universal Design Advisory Committee, organized labour and the aviation industry.

Transparency

WAA has adopted the model recommended by the TSX. Full particulars of our program are posted on our website.

Major stakeholder reporting and consultation is fundamental to our policies, including the air service providers, who are included in a number of corporate consultative committees.

The Airline Consultative Committee reviews and provides input respecting five-year capital projects. In accordance with Airport Improvement Fee collection agreements carriers have opportunity to approve the capital projects funded by Airport Improvement Fees.

The Airline Operating Committee deals with matter relating to air operations.

Public access is provided to the Airport Master Plan, our five year business plan, the past five years of annual financial statements and business plans, incorporation documents and all signed airport transfer agreements.

It would indeed be regrettable if a legislative regime were adopted from the perceived need to address a specific stakeholder issue without consideration of existing consultation processes.

Airport Financial Viability

Although acutely concerned with the viability of small airports, I will only comment that the health of our regional airports is important and directly impacts the viability of Winnipeg International Airport. The network is critical to the economic success of the region we serve.

Airports today are operating in a new and competitive environment. The air service provider's requirement to meet the demands of shareholders, to the exclusion of historical duty to community, has placed Airport Authorities in the unique position of advocate and competitor.

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.

It should be noted that the Winnipeg market is not of sufficient size and mass to enjoy the benefit of revenues attributable to large (or frequent) aircraft operations. Additionally, Winnipeg International Airport is unique in another way. As the only NAS airport in Canada that is also an active Air Force Base, approximately 10% of our aeronautical activity is with the Department of National Defence. No revenue is payable in view of the lease which provides that DND is not to be charged for services provided.

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.

Liberalization

For Canada and the WAA to be truly competitive, International air policy needs to reflect the revised needs of consumers and the reality of a global industry. Generally speaking, the WAA agrees with the position forwarded by the Canadian Airports Council

It is important to pick up where the CAC position leaves off and note our position on cargo liberalization and the critical impact of changes on Winnipeg and the region.

Canada's air policy should promote the economic and social interests of Canadians. Agreements which are designed to promote carriers' financial interest at the expense of consumer interests are wrong headed. Future negotiations should not link passenger and cargo sectors. Decisions made with respect to passenger service liberalization should not influence decisions on cargo services.

As noted in the introduction, on a proportional basis, Air Cargo and the impact of regulatory changes in this area are more important to Winnipeg than any other airport in Canada. It is the significance of Winnipeg as an air cargo hub and its potential for generating increased business activity and employment in this region which influences the position taken by the WAA with respect to liberalization.

As such we wish to briefly address the significance of Cargo Trans-shipment, cargo cabotage and modified sixth freedoms for cargo.

Transshipment

This past September, Minister Lapierre designated Winnipeg as a transshipment point. Transshipment enables cargo with a foreign origin and destination to be flown to Winnipeg, stored and shipped to its final destination by air or any other mode.

The WAA is appreciative of this designation and has received tremendous support from the local community and industry. This is an excellent program to enable under-utilized international airports to compete for traffic with airports already having the critical mass of international services. It is of great value to Winnipeg.

WAA supports the continued use of the transshipment program to promote increased cargo activity at underutilized international airports. Open access to this program requires careful consideration as such action could negatively affect the benefits intended for underutilized Canadian international airport facilities.

Cabotage and Modified Sixth Freedoms for Cargo

While these are separate issues, they have similar impacts for the cargo industry in Winnipeg. The WAA does not support the granting of Cargo cabotage (domestic flying by a foreign carrier) or indirect cargo cabotage (also known as modified sixth freedoms or home-country cabotage, referring to hubbing a domestic route through a foreign hub by a foreign carrier). While recognizing that cabotage may offer the hope of some increased transborder service in specific cities, it is our view that the negative impacts will greatly outweigh the benefits.

The services of Canadian carriers using Winnipeg as a hub will be significantly reduced or eliminated. US carriers will use US hubs, US equipment and US pilots to the detriment of our domestic market. Much of the overnight courier and express activity currently taking place in Winnipeg would be shifted to the US, taking capacity, airport revenue and jobs with it. Winnipeg is likely to be hurt more than any other airport by this type of liberalization.

WAA strongly recommends against permitting direct or indirect cargo cabotage.

Airport Rent

And now for the area you'd been waiting for us to raise.

We recognize that this Committee has been sympathetic to the airport rent issue in the past and understand that you have already heard a great deal regarding the lack a public policy reason for rent and how the amount due to the Crown for the transferred assets has long since been paid. In that light we can advise that we endorse the submission of the Canadian Airports Council and will be address matters that are unique to Winnipeg.

It is our position that if rent is to be paid at all, it should be based on the ability to pay and the book value of the assets initially transferred. Consideration should be given to the

unique circumstances of a particular airport. Indeed some of the apparent 'discrepancies' in rent paid by various Airport Authorities may be justified based on the value of assets at the time of transfer and that Authority's ability to realize revenues from the customer base. Some Airports received Sea Kings and others a 747-400. This principle can not be lost in an apparent attempt to attain 'equitable treatment'. Consideration should also be given which recognizes that our Airport is an operating Canadian Forces Base.

Conclusion

In conclusion, the WAA has been remarkably successful as an independent, local enterprise working closely and harmoniously with all stakeholders. This has been the case, despite the turbulence encountered with air service providers, the significant changes in our industry over the past few years.

Our success must be attributed in large measure to our governance process, transparency and accountability to all stakeholders. We have attracted highly skilled directors, significant community support and public recognition for the manner in which we conduct our affairs. Notwithstanding that we have initiated much needed infrastructure improvements at substantial cost which must ultimately be borne by the consumer.

To remain successful, we must be competitive, innovative and entrepreneurial.

Competitiveness requires that the overall net impact of liberalization initiatives should be carefully assessed and quantified before implementation.

If rent payments must be continued, they must be significantly reduced, participation rent eliminated and future payments tailored equitably to an airports specific circumstances.

The future is about policy which appropriately focuses on the consumer and the roles of the new supply chain partners in delivering the services required. The WAA supports a legislative framework that will enable the continuation and growth of the benefits realized since devolution of airports to airport authorities.