



Canadian Air Transport
Security Authority

Administration canadienne
de la sûreté du transport aérien

CANADIAN AIR TRANSPORT
SECURITY AUTHORITY



A N N U A L R E P O R T 2 0 0 3

THE X-RAY ON THE COVER


There's a knife on its side at the bottom of this briefcase.

You may not have noticed it, but our screening officers are expertly trained to spot any potential weapon or suspicious-looking article.

We're the Canadian Air Transport Security Authority (CATSA), and it's our responsibility to oversee key areas of air travel security. We're a newly-formed government agency made up of some of the most knowledgeable and experienced air transport security people in the country. From business travellers to backpackers, families to flight crew, we inspect everyone with the same degree of thoroughness. In addition to rigorous screening of both passengers and baggage, other measures we've taken include:

- purchasing and installing advanced explosives detection systems at airports
- implementing new state-of-the-art screening equipment and techniques
- introducing new, universal standards for screening at all designated airports

We've also put hundreds more screening officers on the ground, and RCMP officers on selected flights.

It is CATSA's mission to provide professional, courteous service to travellers in Canada, and we're committed to ensuring ongoing improvements in the future. 

CANADIAN AIR TRANSPORT
SECURITY AUTHORITY



A N N U A L R E P O R T 2 0 0 3

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T A B L E O F C O N T E N T S



MESSAGE FROM THE CHAIRMAN 1



MESSAGE FROM THE PRESIDENT AND CEO 5



HISTORY AND MANDATE 7



GOVERNANCE 15



MANAGEMENT REPORT 19



PERFORMANCE EVALUATION 35



FINANCIAL STATEMENTS 37



CATSA'S 2002-03 YEAR AT A GLANCE

Build a fully operational organization	<ul style="list-style-type: none">○ Built organization from nil to 112 employees○ Appointed Mr. Jacques Duchesneau President and Chief Executive Officer○ Established permanent headquarters in Ottawa
Improve the screening of passengers and their carry-on baggage	<ul style="list-style-type: none">○ Before December 31, 2002, delivered enhanced training course to all Screening Officers○ Assumed direct legal responsibility for screening passengers at Designated Airports on December 31, 2002 without interruption of services○ Introduced a National Training and Certification Program—a new training program for Screening Officers and increased their on-the-job training○ Established new Standard Operating Procedures for Screening Officers○ Provided state-of-the-art equipment at screening points for more thorough searches
Improve the screening of checked baggage	<ul style="list-style-type: none">○ Developed and implemented a plan to have all checked baggage screened at Designated Airports by December 31, 2005○ Installed advanced technology screening equipment at Designated Airports
Enhance security of restricted areas at major airports	<ul style="list-style-type: none">○ Began developing program for screening of non-passengers and enhancing the restricted area pass system○ Introduced non-passenger screening pilot projects in Calgary and Thunder Bay○ Developed strategic policies and implementation plans with Transport Canada
Enhance police protection onboard aircraft (CACPP)	<ul style="list-style-type: none">○ Entered into funding agreement with RCMP○ Instituted comprehensive coordination and evaluation framework
Enhance police protection at airports	<ul style="list-style-type: none">○ Entered into funding agreements with certain airports○ Helped fund policing at airports
Promote national consistency and increase CATSA visibility	<ul style="list-style-type: none">○ Developed CATSA logo and Screening Officer Uniform to demonstrate to Canadians CATSA's role in air transport security and to ensure consistent security across 89 airports



MESSAGE FROM THE CHAIRMAN

Extraordinary events require an extraordinary response. Clearly, the events of September 11, 2001 fit any and all definitions of extraordinary. The scope, scale and methods of the attacks on the United States have forever changed our world, and they have brought massive changes to air transportation security. I believe the response by the Government of Canada has also been extraordinary.

Legislation creating the Canadian Air Transport Security Authority or CATSA was passed by Parliament in late March 2002 and I was honoured to have been chosen shortly thereafter by the Minister of Transport, to help establish the Authority. Today, at the end of its first year, CATSA is a fully-functioning organization with 112 highly-skilled employees in Ottawa and 13 experienced regional managers in the field.

Building a new Crown corporation from the ground up is surely one of the greatest challenges any Canadian could be given. When CATSA's Vice Chair, Ghislaine Richard, and I arrived in Ottawa on April 2, 2002 to begin laying the Authority's foundations, we started by assuming some of the office space, staff and equipment of the Air Transport Security Corporation, the private organization responsible for passenger and baggage screening run by Canada's airlines until CATSA's creation.

With the able assistance of several Transport Canada employees on loan to CATSA, we obtained temporary office space at 255 Albert Street in Ottawa and began to staff the organization with highly skilled and experienced individuals, drawn from both the public sector and private industry. We retained an executive search firm to begin the task of finding a permanent President and Chief Executive Officer

for CATSA. These efforts came to a successful conclusion in October 2002, when the Board unanimously chose Jacques Duchesneau, CM, the distinguished former Chief of Police of Montreal. Mr. Duchesneau's energetic leadership of CATSA has added much to the organization.

Our 11-member Board of Directors is a cross-section of Canadians drawn from private industry, including Canada's airlines and airports. Given the public's preoccupation with corporate governance, one of the first actions of the Board was to appoint an Audit Committee, chaired by Murray Sigler. It oversees the development of sound procedures for the governance of CATSA, including appropriate contracting policies and strict control of expenditures. Indeed, CATSA's senior managers and its Board are profoundly aware of the higher standards required of all corporations. For that reason, CATSA has employed a full-time director of ethics to manage CATSA's corporate values.

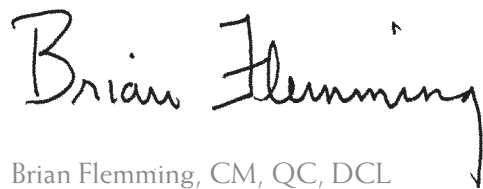
Equally important was the creation of a Human Resources Committee, under the leadership of Steve Baker. The work of this committee has been instrumental in ensuring CATSA has the proper organizational and management structure in place to carry out its mandate. In addition, the committee has undertaken the arduous task of overseeing the development of a pay and benefits program for an entirely new Crown corporation.

I am very proud of CATSA's accomplishments over the past year. We have negotiated contracts with 15 private sector firms to provide passenger and baggage screening services at 89 airports across the country. With the help of those firms, we have deployed hundreds of additional Screening Officers at those airports. We have purchased and installed state-of-the-art screening equipment at airports nationwide. Screening Officers have been trained to higher CATSA standards as a result of the development of our new National Training and Certification Program.

I want to personally thank Transport Canada officials, particularly the Minister and his staff, the Deputy Minister and the Assistant Deputy Minister of Safety and Security for their close cooperation in the establishment of CATSA. I also want to thank the Members of the Board of Directors for being so

attentive to their responsibilities and for their willingness to meet frequently to ensure effective and professional governance. Finally, I thank our managers, our staff, our screening providers and the Screening Officers across Canada for their dedication in CATSA's first year of operation. Without them, we could never have done so much, in so little time.

CATSA's primary role is the security and protection of Canada's travelling public. Thanks to the many initiatives we undertook in our first year of operation, and those of the Government of Canada, I believe Canada's air transportation system is more secure than ever. We at CATSA continue to work towards making it better every day. 🇨🇦



Brian Flemming, CM, QC, DCL

Chairman, CATSA



MESSAGE FROM THE PRESIDENT AND CEO

It was with great enthusiasm that I assumed my role as President and Chief Executive Officer of the Canadian Air Transport Security Authority in October of 2002. Although Canada has always had an excellent air transport security system, following the terrorist attacks of September 11, 2001, the Government of Canada moved quickly to further enhance the security of the travelling public. CATSA was created as the centrepiece of this response. In this, our first year of operation, I strongly believe we have demonstrated our unwavering commitment to fulfilling this important responsibility.

In CATSA's early days, our Chairman Brian Flemming and Vice-Chair Ghislaine Richard, together with a handful of dedicated employees, had the enormous responsibility of starting a new Crown corporation from scratch, finding office space, hiring staff and immediately laying CATSA's foundation to begin carrying out its mandate. It is a tribute to Mr. Flemming and Ms. Richard that we have come so far in such a short time and have in place a professional organization.

Corporate governance and accountability were front page news over the course of last year. It is a priority for me that CATSA govern itself with utmost respect for corporate values and legislative requirements. In addition to the solid stewardship demonstrated by our Board of Directors, CATSA is accountable to the Canadian public through a variety of mechanisms, including reporting to Parliament through the Minister of Transport, being audited by the Office of the Auditor General of Canada, and working closely with central agencies of Government. Our first priority must be security. However, I am profoundly cognizant that we have been entrusted with public funds and, as such, I am committed to responsible fiscal management.

Air transport security in Canada is a multi-layered system that requires close cooperation and coordination among partners and stakeholders. From Transport Canada and other government departments and agencies, to

the screening providers, airport authorities, air carriers, and police forces, every layer plays an important role in the security of the travelling public and in making our system one of the best in the world. All levels of CATSA have worked closely with Transport Canada and other partners, such as the Air Transport Association of Canada and the Canadian Airports Council, to develop and implement our leading edge programs.

These domestic partnerships are further enriched by the strong networks we have begun to build with international security and aviation organizations such as the International Civil Aviation Organization and the International Air Transport Association. I, as well as members of CATSA's management team, have travelled to key airports in the European Union, Israel and the United States to see firsthand their systems and operations. Not only have we learned from their experiences, we have come to see that we also have much expertise to share.

Although technology is an important tool in the fight against terrorism, the human component cannot be underestimated. I would like to personally congratulate the over 3300 Screening Officers across Canada for the service level they have achieved. They screen over 3 million passengers a month and are the bedrock of our operations. The successful transition of screening services on December 31, 2002, and our program delivery since then, are a testament to what private and public security organizations can achieve together to optimize both security and efficiency.

This has been a difficult year for the Canadian aviation industry. We are aware of the consequences our actions can have on the aviation industry and the public it serves. For that reason we will continue to work with all stakeholders, including airports and air carriers, as we move forward with our mandate.

I am proud of the work that we have accomplished to date and I am pleased to present the first Annual Report of the Canadian Air Transport Security Authority. 🇨🇦

A handwritten signature in black ink, appearing to read 'Jacques', with a large, stylized initial 'J' and a long horizontal flourish extending to the right.

Jacques Duchesneau, C.M.

President and Chief Executive Officer



HISTORY AND MANDATE

The date was June 23, 1985. Two pieces of luggage were checked at Vancouver International Airport. One was transported to Toronto and then loaded on Air India Flight 182. The plane stopped in Montreal and then headed to London on what was to be a final stop in New Delhi. In Irish air space, the airplane received clearance from the Shannon air traffic control centre. Eight minutes later it disappeared from the radar. Flight 182 was at 31,000 feet when a suitcase bomb exploded, sending the Boeing 747 hurtling into the Atlantic Ocean off the tip of Ireland. All 329 passengers and crew were killed, including 182 Canadians. The second piece of luggage was transported to Japan and was scheduled to be loaded onto Air India Flight 301 from Tokyo to Bangkok and Delhi. It never made it. Two Japanese baggage handlers were killed and four others were injured at Tokyo's Narita Airport, when the suitcase exploded in the baggage terminal.

This, Canada's worst aviation disaster, sparked the largest criminal investigation in the country's history as well as reforms to Canada's air transport security system. Since this tragic wake-up call, Canada, led by Transport Canada, has developed and maintained one of the most secure aviation systems in the world.

The system and manner in which screening services were administered prior to September 11, 2001, was for the most part relatively unknown by the Canadian public. Before CATSA, airlines were responsible for the screening of passengers and their belongings at airports in Canada. In general, at each airport, an airline was designated as the "Lead Carrier" and the Lead Carrier then entered into a contract with a Screening Provider for the provision of pre-board screening services at that airport on behalf of all airlines operating at that airport.

Passengers and their carry-on baggage were screened with metal detectors, X-Ray machines and hand searches for items that could be used to hijack the aircraft. Checked baggage was not always systematically searched before being placed in the cargo hold of an aircraft. Since 1986, a number of security measures were used for the security of checked baggage. This included passenger-baggage match, explosives/vapour detection systems in concert with X-Ray equipment, sniffer dogs and manual search procedures. A non-profit corporation owned by Canadian air carriers, the Air Transport Security Corporation, was responsible for this equipment.

Airports also played a key role. They contracted with police forces and private security firms to patrol all areas of the airport. They also established a security pass system for non-passengers, such as airline employees and caterers, working at the airport. Restricted area passes were issued following a transportation security clearance by Transport Canada, done in collaboration with the Royal Canadian Mounted Police (RCMP) and Canadian Security Intelligence Services (CSIS).

RESPONDING TO SEPTEMBER 11, 2001

After the terrorist attacks in New York, Washington, D.C. and Pennsylvania on September 11, 2001, the Government of Canada took immediate steps to enhance its air transport security capabilities.

New air security initiatives required that all cockpit doors be fortified and locked for the duration of the flight. RCMP officers were put onboard all flights to Reagan National Airport in Washington, D.C. Emergency funding was provided for enhanced pre-board screening at Canadian airports, extra policing, security measures and high-tech explosives detection equipment.

Most significantly, on March 27, 2002, Parliament approved the creation of CATSA, a new Crown corporation responsible for several key aviation security services, through the passage of the *Canadian Air Transport Security Authority Act*. CATSA became operational on April 1, 2002.



CATSA's MANDATE

The CATSA Act sets out CATSA's mandate and also allows for the Minister of Transport to assign it additional responsibilities. CATSA's mandate is divided between operational and administrative functions. On the operational side CATSA is responsible for:

○ Screening passengers and their carry-on baggage

In the screening process (known in the industry as Pre-Board Screening), passengers and their carry-on baggage are examined to prevent a passenger from transporting a prohibited item, such as a knife, firearm, incendiary device, or explosive, onto the plane. The list of prohibited items is set by Transport Canada. Air carriers are responsible for presenting their passengers to screening points prior to boarding. CATSA is responsible for ensuring that these passengers are screened at the 89 airports listed in Appendix 1 (the Designated Airports). These airports handle over 99% of all passenger air traffic in Canada.

○ Screening checked baggage

Through the use of high-tech Explosives Detection Systems (EDS) equipment, CATSA is responsible for screening checked baggage (known in the industry as Hold Bag Screening) at the Designated Airports. This responsibility includes purchasing, installing, operating and maintaining the equipment.

○ Screening non-passengers in restricted areas

When this program is fully operational, non-passengers (such as flight crews, caterers, maintenance personnel and baggage handlers) may be screened at any time at various locations in a restricted area (such as the baggage handling area and the aircraft movement area) of a major airport. This responsibility was assigned to CATSA by the Minister of Transport on November 5, 2002.



In February 2003, CATSA unveiled its new logo which was approved by the Government of Canada. The logo represents all elements of CATSA's mandate. The design evokes the best in Canadian aviation security through the depiction of an airplane taking off from a runway, and the maple leaf — all in the shape of a badge, signifying competence and authority.

○ Enhancing the airport pass system for restricted areas

All non-passengers who work at the airport are required to carry a restricted area security pass. CATSA will work with Transport Canada and major airports to enhance this system. Biometrics and centralized databanks will allow CATSA to track, in real time, the issuance, verification and cancellation of passes. This responsibility was assigned to CATSA by the Minister of Transport on November 5, 2002.

In addition to these operational responsibilities, CATSA also serves as the Government of Canada's program manager for two policing programs. It is important to note that the concerned police agencies make the operational decisions regarding these programs:

○ Overseeing the program of RCMP officers onboard aircraft

CATSA provides funding to the RCMP to place specially-trained police officers onboard Canadian commercial aircraft. This is a covert operation known as the Canadian Air Carrier Protective Program (CACPP).

○ Overseeing airport policing funding agreements

Airports are responsible for contracting with police of local jurisdictions to provide aviation security-related policing at airports. In order to offset some of their costs, CATSA provides funding, under contribution agreements, to airports that are required by Transport Canada regulations to maintain an enhanced police presence.

CANADA'S MULTI-LEVEL AIR TRANSPORTATION SECURITY SYSTEM

Before the creation of CATSA, Canada had one of the best civil aviation systems in the world, with an enviable record for safety and security. Airlines, airports, police agencies, Transport Canada and other government departments and agencies worked collaboratively to ensure the security of the travelling public. In the spirit of continuous improvement, the Government of Canada recognized that more could be done to improve aviation security and it created CATSA. Over the past year, CATSA has established itself as one of the country's key security partners. Regular meetings take place with government departments and agencies, such as Transport Canada, the RCMP and central agencies, as well as with

stakeholders, such as the Air Transport Association of Canada, the Canadian Airports Council, various airport authorities, screening providers, NAV Canada and many more. It is essential that all of these public and private partners work together to address potential threats as the most effective security system is a multi-level system, in which there are numerous checks in place.

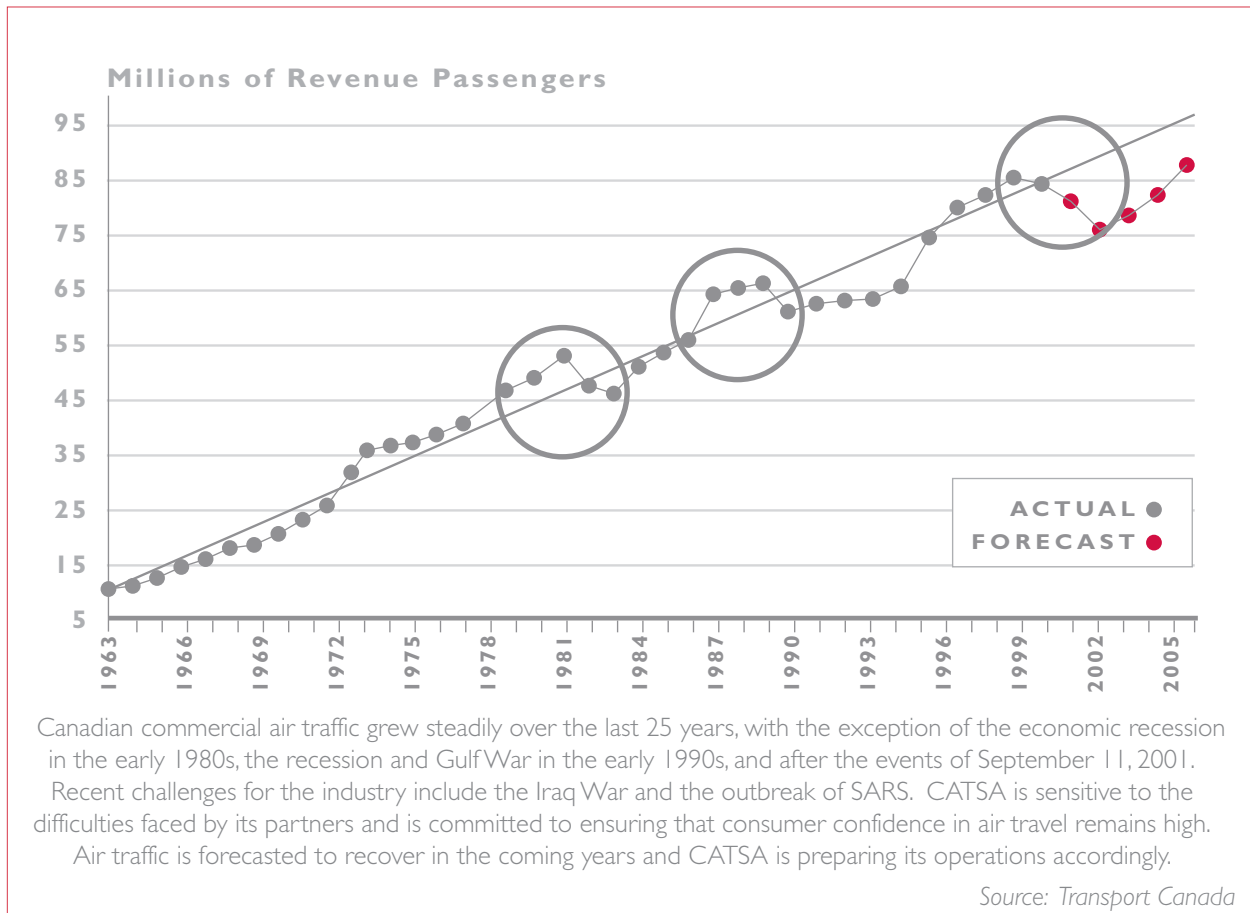
Canada's multi-level system may be conceptualized as "layers of an onion" guarding the travelling public, as illustrated in Diagram 1.

Diagram 1: Canada's Multi-Level Air Transportation Security System



Canada has a well established intelligence community. Before a person reaches the airport, intelligence agencies, including the RCMP, CSIS and Transport Canada, receive reports and analyze the risk, perform security checks and may intervene to prevent security-related incidents from happening at Canadian airports. At the airport itself, airport authorities retain police officers and security personnel to respond to incidents and patrol all areas of the airport and its perimeter. When passengers check in, it is the airlines which validate passengers' flight documents and identification, and verify that they are aware of the contents of their baggage. CATSA then screens passengers as well as their carry-on and checked baggage.

Diagram 2: Trends in Air Travel



As passengers are screened they progress through to the restricted areas of the airport where they wait to board the airplane. Airport authorities ensure that only those passengers who have been cleared through the screening checkpoints or individuals with security passes are allowed in the restricted areas. At present, restricted area passes are issued following security clearance by Transport Canada, done in collaboration with the RCMP and CSIS. CATSA is working with Transport Canada and airport authorities to incorporate biometrics as well as selectively screening pass holders to further enhance restricted area security. As passengers board the airplane, airlines match individuals and their luggage. If luggage has been checked, but a passenger does not arrive to board the airplane, that luggage is removed from the plane. Once the airplane is in flight, there may be RCMP officers onboard, ready to respond to security threats.

As shown by the response to the war in Iraq, this is a flexible system capable of adapting effectively to changing threat levels.

CATSA AND THE GLOBAL STANDARD

CATSA strives to be the benchmark against which other countries compare their air transport security systems. CATSA's President and CEO, Jacques Duchesneau, has stated that "international relations are capital to CATSA. They are capital because of the learning process they provide. We need to learn from other countries. Learning is part of our mandate."

The new dimensions of global air transportation security are leading to progressive changes in systems, equipment and human resource requirements. Similarly, the proliferation of innovative threats will undoubtedly lead to an increased public demand for more sophisticated and cost effective security operations. The more CATSA is aware of the security operations being implemented elsewhere, the better it is able to assess the effectiveness of its own operations. CATSA must remain proactive. It must continually gauge and evaluate the vital role it plays in enhancing the Canadian air transport security system. Research into global air transport security models encourages the development of practices, policies and procedures for implementation as best practices.

Over the past year, CATSA officials made site visits to Heathrow Airport and Manchester Airport in England, Charles de Gaulle 2 Airport in France, and Ben Gurion Airport in Israel, to name a few. During these visits, CATSA took the opportunity to learn about the structural organization and standards of the air security systems in these countries.

On the North American front, CATSA has worked closely with its U.S. counterpart, the Transportation Security Administration, to stay abreast of the latest technological improvements, equipment, training practices, and best practices for meeting trans-border security requirements.

In the area of aviation security-related policing, CATSA stays informed of best practices at the international level through the relationships it has established with such organizations as Interpol, the

International Association of Chiefs of Police, the International Association of Airport and Seaport Police, the Airport Law Enforcement Agencies Network, and the Law Enforcement and Security Liaison branch at the Transportation Security Administration.

Having the benefit of a solid foundation set by its air transport sector partners, CATSA systems are as good as, or better than, ones employed worldwide. To stay one step ahead of terrorists, CATSA must continue to improve. 🏛️



From left to right: Ghislaine Richard, Vice Chair, CATSA; Brian Flemming, Chairman, CATSA; Assad Kotaite, President of Council, ICAO; Lionel Alain Dupuis, Canadian Representative to ICAO; Jacques Duchesneau, President and CEO, CATSA



GOVERNANCE

CATSA is an agent Crown corporation subject to the requirements of Part X of the *Financial Administration Act*. The *Financial Administration Act* makes clear that CATSA is accountable to Parliament through the Minister of Transport, and is subject to several statutory reporting requirements.

CATSA is governed by a Board of Directors composed of 11 members, including the Chairman, Mr. Brian Flemming, appointed by the Governor in Council, on the recommendation of the Minister of Transport. Of the 11 members, two were nominated by airport representatives, and two were nominated by airline representatives.

The Board of Directors has established committees, including the Audit Committee and the Human Resources Committee. Each committee comprises members of the Board of Directors, and exercises powers delegated to it from the Board.

The Audit Committee provides important oversight and review functions with respect to CATSA's financial management. The four Committee members cumulatively bring many years of financial experience including accounting and financial management expertise. The Audit Committee's specific responsibilities are to ensure that ethical practices and financial controls are in place. This includes ensuring oversight of corporate records, systems and management practices. The Committee also actively solicits information about sensitive matters.

The Human Resources Committee was established to review CATSA's human resources policies, including its compensation and benefits plans, and performance and evaluation plans. The four committee members provide valuable leadership and assistance with respect to human resources issues.

CATSA'S BOARD MEMBERS



Brian Flemming
Chairman, CATSA

Mr. Flemming brings many years of experience in the field of law and business as well as having served as Chairman of the Canada Transportation Act Review Panel.



Ghislaine Richard
Vice-Chair, CATSA

Mme Richard served as Canada's permanent representative on the Council of the International Civil Aviation Organization (ICAO) and previously held the positions of Chair and Vice-Chair of the Civil Aviation Tribunal of Canada.



Steve J. Baker
President and CEO, London International Airport



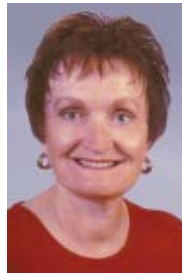
Pierre Beaudry
President, Aeronautics Canada (Turnkey) Inc.



Gordon Cheesbrough
Managing Partner, Blair Franklin Capital Partners Inc.



Ronald Clark
Retired, formerly Vice-President, Corporate Safety and Environment, Air Canada



Mary Martin
Assistant to the President, Canadian Auto Workers' Union, Airline Division



Murray Sigler
President and CEO, Calgary Chamber of Commerce



Darrel Smith
Consultant, Safety and Environmental



Lecia Stewart
Vice President, High Speed Rail, Bombardier



Anil Wirasekara
Executive Vice President and Chief Financial Officer, MacDonald Dettwiler

Jacques Duchesneau manages CATSA's day-to-day operations. The division of responsibilities between the Board of Directors and the President and CEO is consistent with good corporate governance practices. The President and CEO's executive team is comprised of: Mark Duncan, Vice President and Chief Operating Officer; Michael McLaughlin, Vice President and Chief Financial Officer; Ian MacKay, Vice President, Law, Policy and Corporate Secretary; and Randall McCauley, Vice President, Corporate Affairs.

CATSA'S EXECUTIVE TEAM



Mark Duncan
V.P. and Chief
Operating Officer



**Michael
McLaughlin**
V.P. and Chief
Financial Officer



Ian MacKay
V.P. Law, Policy and
Corporate
Secretary



**Randall
McCauley**
V.P., Corporate
Affairs

As of March 31, 2003, CATSA was staffed at 112 full-time equivalent employees. As part of meeting the challenge of enhancing security performance standards and services, CATSA also employs 13 Regional Managers on contract to oversee CATSA's activities at all Designated Airports. Currently, most Regional Managers are physically located at major airports and they have proven to be instrumental in ensuring a seamless transition to CATSA assuming responsibility for passenger screening. In addition to providing daily oversight at the largest airports, Regional Managers travel to smaller airports between two and four times per year. CATSA's Regional Managers currently provide operational support and guidance to 15 screening providers.

CATSA operates on a not-for-profit basis. The December 2001 federal budget allocated \$1.94 billion to CATSA over five years to be funded by annual appropriations. At the same time, the Government of Canada established an Air Travellers Security Charge payable by passengers. CATSA does not set, collect or administer the Air Travellers Security Charge. Its proceeds flow to the Consolidated Revenue Fund.


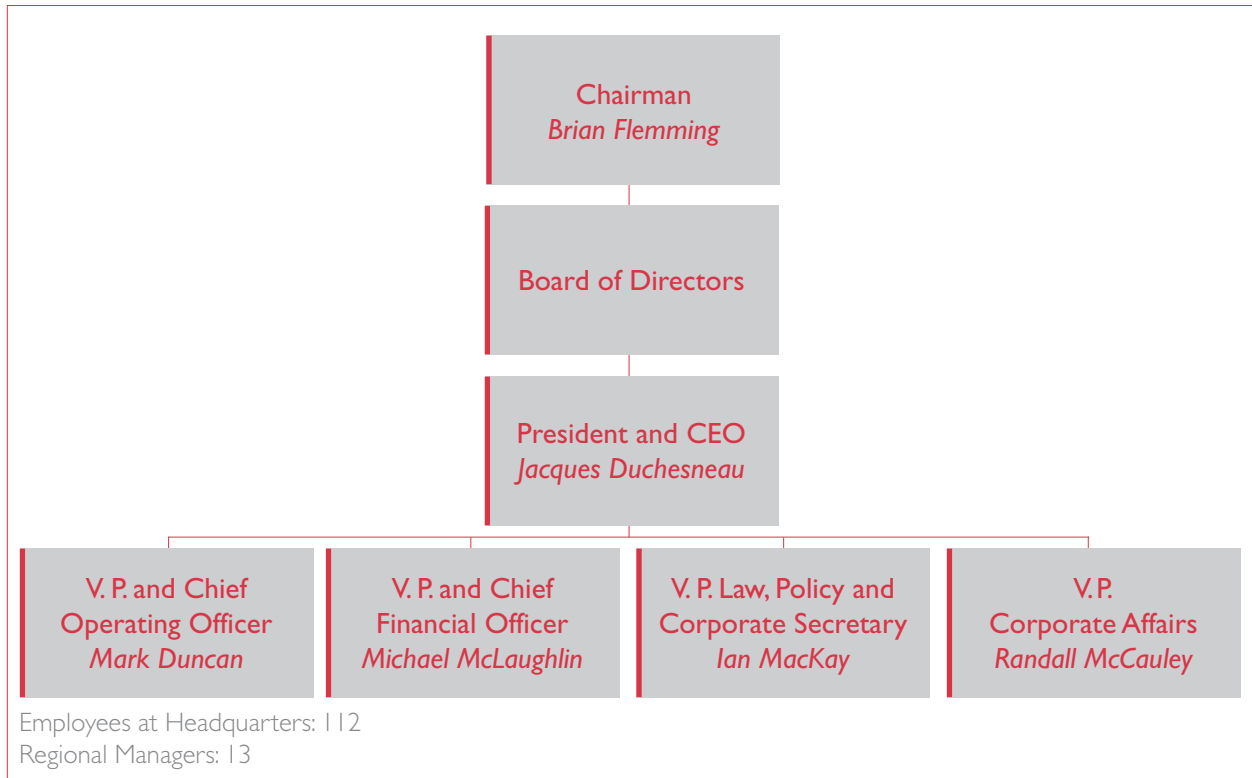
The Auditor General is the Auditor for CATSA. In conducting its audits, the Office of the Auditor General has access to all the information it requires. 

Diagram 3: Organization of CATSA





3 MANAGEMENT REPORT

All the necessary elements are in place for CATSA to carry out its mandate: a motivated and highly-trained workforce; state-of-the-art screening equipment; and sound financial management policies. With these key components, along with its partners in the air transport industry, CATSA is contributing to a safer, more secure air transportation system in Canada.

CATSA is always looking for innovative ways to deliver its programs and services without compromising security. As described in this chapter, CATSA is on schedule in meeting its mandate.

BUILDING THE ORGANIZATION

As an indication of how seriously the Government of Canada considered the new threats to air transport security, CATSA went from concept, to legislation and funding through the December 2001 Budget, in a few short weeks.

Even after the inception of CATSA, however, there was still much to do. The Chairman and Vice-Chair were appointed on March 28, 2002. As of April 1, 2002, CATSA had no personnel, no headquarters, no administrative policies and no information technology systems. Since that date, the full Board of Directors was appointed and CATSA's management team was recruited. Together they established the corporate structure necessary to support the implementation of CATSA's mandated responsibilities.

CATSA's success hinges upon its staff. Whatever systems are in place, and whatever technologies are employed, CATSA recognizes the importance of human intelligence in all that it does.

It is crucial that CATSA recruit, retain, and motivate highly qualified employees. As an interim measure, during the first seven months of operations, CATSA was staffed by personnel either on loan from the Government of Canada (Interchange Agreements) or on short-term contracts. To adequately address this challenge, CATSA developed its own Human Resources Framework, and benefit and pension plans in order to make employment offers that are competitive with those offered in the National Capital Region. To contribute to CATSA remaining an employer of choice, CATSA established policies and guidelines to recruit, retain and motivate highly qualified employees. Over the course of the year, CATSA experienced tremendous growth, from zero to 112 employees. To remain flexible and responsive, CATSA is limiting its staff to a core group of highly skilled professionals and contracting out specific activities to the extent feasible, provided that this approach is the most cost-effective, public confidence is maintained, and security is not compromised.

After beginning work at a temporary location, CATSA relocated its headquarters to 99 Bank Street in Ottawa. Using the concept of innovative office design, CATSA established a professional setting well within the cost guidelines employed by the Government of Canada. In accordance with the *Financial Administration Act*, CATSA established sound financial systems and practices. CATSA's contracting policies and procedures were developed to promote transparency, openness, fairness and value for money. As the strategies for implementing the mandate were developed, CATSA recruited business analysts,

ACCOUNTABILITY

CATSA is cognizant of its responsibilities as a governmental agent and is accountable to both the public and its stakeholders. CATSA has worked closely with Transport Canada, the Air Transport Association of Canada and the Canadian Airports Council to ensure security services are delivered appropriately. CATSA is committed to achieving an optimal level of public and stakeholder accountability without compromising Canadian air transport security. The following accountability checks on CATSA are in place:

- Parliament, through the Minister of Transport
- Transport Canada
- Committees of the Senate and House of Commons
- Office of the Auditor General
- Board of Directors representative of the air transport sector and all Canadians
- Key pieces of legislation: *CATSA Act, Aeronautics Act, Financial Administration Act, Access to Information Act, Privacy Act, Official Languages Act*
- Corporate Plan reviewed and approved by Treasury Board
- Corporate Plan Summary tabled in Parliament
- Annual Report tabled in Parliament
- Regular meetings with stakeholders, for example, air carriers, screening providers, the Canadian Airports Council, etc.

information technology experts and project management support. These technology experts now work hand-in-hand with subject-matter experts in developing innovative ways for CATSA to deliver its mandate.

Other members of the CATSA team have worked diligently to ensure that management is well briefed and informed and that legislative reporting requirements, such as this Annual Report, are met.

To coincide with the assumption of operational responsibilities, CATSA developed a communication and branding program. The objectives of this program included raising the awareness of CATSA and its mandate, generating a strengthened confidence in the security of air travel, promoting an awareness, tolerance and support for increased security measures, and informing Canadians of their responsibilities in terms of secure air travel.

The sections which follow illustrate the hard work of the professional members of CATSA's operations team in the successful implementation of the mandate to date.

PRE-BOARD SCREENING (PBS) OF PASSENGERS

With the creation of CATSA in April 2002, the administration of screening services at airports changed considerably. Between April 1, 2002 and December 30, 2002, CATSA provided funding to the Lead Carriers to cover the costs associated with the delivery of PBS. A two-day "upgrade" training course was also provided to all Screening Officers in order to raise the level of services they provided. Effective December 31, 2002, CATSA assumed direct responsibility for the delivery of PBS at the Designated Airports. CATSA took over the contracts which were in place between the Lead Carriers and the various Screening Providers. Under these standard contracts, the Screening Provider provides security screening of passengers and carry-on baggage. The services are to be performed by persons who, as of December 31, 2002, and thereafter, are certified as a "Screening



Officer" by Transport Canada and/or CATSA. At the time of the takeover of the existing contracts, CATSA modified the contracts to better reflect CATSA's operating philosophy. CATSA has, for example, established minimum rates of pay to attract and retain a responsible workforce. The screening contracts require Screening Providers to adhere to CATSA's Standard Operating Procedures.



Under the CATSA Act, CATSA has the option of delivering PBS and other screening services in several ways: by Screening Providers; by Airport Authorities; and by employees of CATSA. Entering into the screening contracts was the most efficient and rapid way for CATSA to assume operational control over PBS services. CATSA is now in a position to assess the efficiency of providing screening services in this manner and to evaluate the alternative ways in which screening services might be provided.

THE NATIONAL TRAINING AND CERTIFICATION PROGRAM

CATSA is devoted to the training and continuous improvement of security screening personnel working in the Designated Airports across Canada. CATSA's new National Training and Certification Program is designed to provide individuals with the competencies required to effectively perform their jobs in a challenging work environment. Security, technology and customer service are themes repeated throughout these programs and are designed to foster consistency and quality in the service being provided.

The National Training Program provides new Screening Officers with the opportunity to progress through a multi-level training curriculum with on-the-job training. To become CATSA certified, Screening Officers must advance through Level 1 and Level 2 training courses. After successfully passing the Level 2 training course, the new Screening Officer will be CATSA certified. This will allow the new Screening Officers to be eligible for Ministerial designation. Upon designation, a new Screening Officer is eligible to advance to Level 3 training, specialized training, and endorsement testing associated with

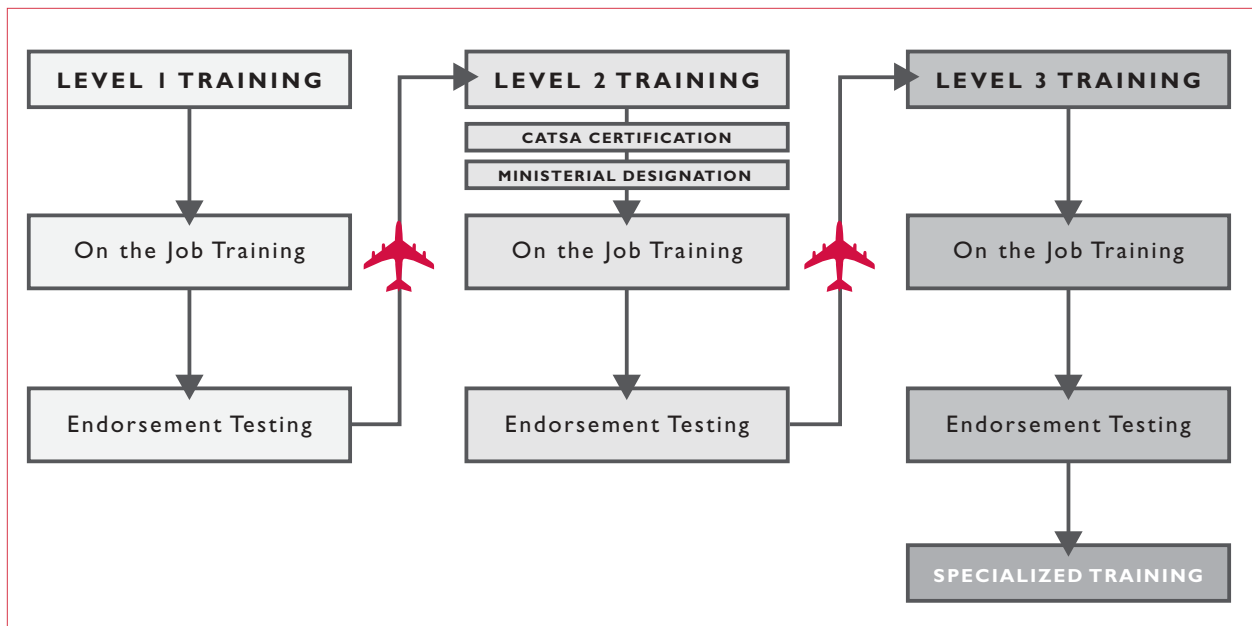
other steps of the National Training Program. Several hundred Screening Officers have progressed through this system, which is in addition to the enhanced training course provided to all Screening Officers before December 31, 2002. Training will continue on an ongoing basis as individuals move through the progressive levels of the National Training and Certification Program and as new individuals are hired. In comparison to the previous training program, Screening Officers are now provided with more tailored programs and increased on-the-job supervision.



Minister of Transport, David Collenette and Jacques Duchesneau, President and CEO, CATSA, present certificate to newly designated screening officer.

The National Training Program delivery may vary from airport to airport according to passenger volume and equipment distribution. A special program has been developed for smaller airports that recognizes the special requirements for each of these airports while maintaining the integrity, quality and consistency of the National Training Program. Even after the Screening Officer has been trained, certified and is working

Diagram 4: CATSA National Training and Certification Program



in the airport, ongoing training is still a requirement. If, for example, a new technology or procedure is introduced, CATSA will provide additional training to Screening Officers. The continued development of a highly skilled workforce is consistent with the ongoing enhancement of screening services.

During the Summer of 2003, CATSA will be introducing its new Training Management System. Components of this system will include: a learning management system, distance learning, smart cards, and portable records. In the Fall of 2003, CATSA will undertake a consultation process to solicit feedback from stakeholders to help set the direction for the improvement and advancement of the National Training and Certification Program.

EQUIPMENT

One of the most visible changes experienced by travellers at the majority of screening points is the presence of both X-ray equipment and Explosives Trace Detection equipment. Explosives Trace Detection tests are conducted by passing a swab over carry-on baggage and then testing the swab for the presence of any trace elements of chemicals used in explosives. The installation of such equipment at all PBS checkpoints will be completed by December 31, 2003.

As sophisticated as the technology is, CATSA recognizes that its most important resource is human. It is people who operate the equipment, people who interpret the data and, most importantly, people that prevent terrorists from realizing their plans. It is for this reason that CATSA places a great deal of emphasis on the training and certification of Screening Officers.



CUSTOMER SERVICE

Although security must remain the top priority, CATSA is committed to providing courteous, professional and efficient service to the travelling public. This code of behaviour is emphasized in the National Training Program. In addition, CATSA is working with airlines, airports and other stakeholders to address areas of common interest, such as the continued flow of passengers through screening points. To enhance the level of service, CATSA is gathering passenger and baggage forecasting statistics to ensure there are adequate levels of staff and equipment available to serve travellers at all times.

COMMON LOOK AND FEEL



Another of CATSA's fundamental objectives is making certain that travellers experience a "common look and feel" at all screening checkpoints across Canada. In addition to standard security procedures nationwide, CATSA is introducing a consistent presentation of all major features such as signage, accessories and layout at screening points. Travellers will soon come to recognize the CATSA brand of courteous and professional service. CATSA firmly believes that the confidence of the Canadian travelling public will continue to grow as passengers familiarize themselves more and more with the enhanced screening services being delivered at airports across Canada. The Common Look and Feel Program will also include a standard uniform for all Screening Officers at the Designated Airports.

THE SCREENING OF CHECKED BAGGAGE (HOLD BAGGAGE SCREENING)

The primary objective of screening checked baggage is to prevent a threat item from getting onto an aircraft. Since the Air India tragedy of 1985, several security measures have been in place. Checked baggage is selectively screened in a variety of ways including specialized equipment, manual search procedures, and passenger-baggage matching procedures.

Since its creation, CATSA has been implementing much stricter security measures for checked baggage and using state-of-the-art equipment.

CATSA has adopted the internationally accepted best practice of a multi-level, integrated system for screening checked baggage, which incorporates both conventional methods and modern equipment. In this process, all bags start by going through basic screening and, should the presence of an explosive be suspected, the baggage goes through additional levels of screening until it is either cleared as being free of explosives (in which case it is sent for loading onto the aircraft) or subjected to further scrutiny which may include reuniting the passengers with their luggage for manual searching, or turning it over to local police. While the *Aeronautics Act* does not require passengers to be present when checked baggage is opened and searched for explosives, it does require that signage be posted advising passengers that such action may be taken. CATSA will make every attempt to reconcile the passenger with the bag, either in person or through the use of a video monitor, before opening it. Under this policy, however, CATSA may open bags without the presence of the passenger, if necessary.

A variety of methods exists for detecting the presence of threat objects in luggage: from conventional methods, such as hand searches, to sophisticated equipment, which can more rapidly perform baggage inspection.

CATSA assumed direct legal responsibility for screening on December 31, 2002 and has been tracking activities at screening points ever since.

For example, during March 2003 there were 303 potential threats detected. While items were intercepted by Screening Officers, upon closer examination many objects were found to be innocuous and the threat was discounted.

CATSA's Screening Officers were finding items such as toy guns in people's luggage. Or, in cities like Sudbury, with a strong mining presence, Screening Officers were finding trace elements of explosives that miners came into contact with at work.

These results show that there may be a low level of risk that potential threats will materialize. Nonetheless, the consequences are severe if they do. Because of this, CATSA has established a strict threshold for its Screening Officers. Identifying the toy guns and miniscule amounts of explosives prepares them for identifying the real threats. Monitoring and learning from these events will enable CATSA to fulfill its commitment to continuous improvement.

The three major categories of Explosives Detection Systems equipment are:

Type of Equipment	Functionality
AT X-ray machines (advanced technology)	Produces a two-dimensional image of what is inside a bag. Can be automated or used by an operator who looks at each image on a computer monitor. Used for checked and carry-on baggage.
Explosives Trace Detection system (ETD) machine	Detects minute traces of explosive residue which may be found on the outside of luggage. Analyzes a sample taken from a bag using a swab. Used on checked and carry-on baggage.
CAT-scan X-ray machine (CTX)	Using Computed Axial Tomography (CAT), these machines take hundreds of X-ray pictures to produce a three-dimensional image of what is inside a bag. A trained operator looks at these images on a computer monitor to spot threat objects.

CATSA is continually reviewing the available technology to ensure that Canada employs leading edge equipment and methodologies. As new suppliers become available, CATSA will look for ways to reduce its equipment costs and minimize the impact of its installations on airports and passengers, provided that security is not compromised.

ENHANCING THE SECURITY OF AIRPORT RESTRICTED AREAS

Even prior to September 11, 2001, Canadian airports were internationally recognized for the security systems in their restricted areas, such as the waiting areas for screened passengers, baggage sorting areas, or the apron. All non-passengers who worked at the airport, such as airline employees, caterers or ground crews, were issued security passes by the airport (and not their employers, as in many countries). Airports would not issue these passes until an extensive security background check (coordinated by Transport Canada with the RCMP and CSIS) was completed.

In addition, airports secure access points to the restricted areas typically through the use of security guards. Airports also normally employ both static checkpoints and patrols of the airside and perimeter to secure these areas. If non-passengers entered a restricted area through a screening point, they would be screened just as a passenger would.

The Government of Canada, in its commitment to continuously enhance aviation security, recognized that more could be done. On November 5, 2002, CATSA assumed two new responsibilities. First, CATSA is to introduce the selected screening of non-passengers entering restricted areas at major airports (known as Non-Passenger Screening or NPS). Second, CATSA is to implement an Enhanced Restricted Area Pass (ERAP) system in partnership with airports. With these new responsibilities, CATSA's mandate was extended to non-passengers and will be further defined by the passage of regulations by Transport Canada in 2003.

In March of 2003, CATSA started two pilot projects, in Calgary and Thunder Bay airports, for NPS. Lessons learned from these pilots will be incorporated into the design of the full NPS system.

Building upon research done by Transport Canada, CATSA is developing the ERAP. It will provide a standardized system, using a centralized database, for the issuance, verification, cancellation and tracking of restricted area passes and will incorporate biometric technology. Biometric technology provides the ability to measure biological characteristics of a person such as fingerprints, voice recordings, irises, heat patterns and facial images and then compare these characteristics against previously enrolled images for the purpose of recognition. This system provides more assurance than photo identification that the person in possession of the card is the person to whom it was issued. Transport Canada, the RCMP and CSIS will continue to be involved in the issuance of security clearances for ERAP.

POLICING PROGRAMS

Since November 2001, in order to meet the requirements imposed by the United States Government, RCMP officers have been placed on all flights to Reagan National Airport in Washington, D.C.

Over the past year, CATSA entered into an agreement with the RCMP to fund the expanded development of the Canadian Air Carrier Protective Program (CACPP). A special training regimen for qualifying officers was developed and program coverage was expanded beyond Reagan National to include selected domestic and other international flights. This covert operation uses specially trained RCMP officers, known as Aircraft Protective Officers (APOs), to reduce the possibility of any unauthorized person assuming control of a Canadian commercial aircraft.

While all operational decisions, such as the level of training required for an APO and the choosing of flights to be covered, are made by the RCMP, CATSA retains significant oversight and evaluation responsibilities. In order to evaluate the performance of the CACPP, CATSA, in conjunction with the RCMP, has developed an evaluation framework which assesses the relevance, success and cost-effectiveness of the program.

CATSA's other policing program relates to airports. Following the terrorist attacks of September 11, 2001, major airports were required by Transport Canada to meet new policing standards. In addition, as a result of more rigorous screening practices, Screening Officers call on police for assistance more frequently than before. Both of these factors contributed to higher policing costs for airports. In order to offset part of these costs, CATSA entered into funding agreements with major airports. Other than requiring that this funding be used for the delivery of specific aviation security-related policing functions, as opposed to security guards or special constables, CATSA does not specify how airport policing is to be conducted. That is a matter prescribed by Transport Canada and implemented by the airports and police forces of local jurisdiction.

As the program manager for these policing programs, CATSA has a vested interest in the success of these initiatives. At the same time, CATSA must ensure that it has access to the most up-to-date and accurate information possible in order to assess their success. Whether contributing towards the costs of enhanced aviation security-related policing or providing funding to the RCMP to put APOs onboard aircraft, CATSA continues to work not only alongside airlines and airport authorities, but also with various law enforcement organizations.

Here in Canada, CATSA became an associate member of the Canadian Association of Chiefs of Police and the Canadian Airport Police Commanders Committee. At the federal government level, CATSA formalized working relationships with Transport Canada's Security Intelligence Unit and Special Operations Unit, and with the Joint RCMP-CSIS Intelligence Unit. CATSA's membership in domestic and international law enforcement organizations has increased its capacity for the sharing of information and best practices between the various police organizations providing on-site services at Canadian airports.

VIGILANCE

The struggle against terrorism and terrorist activities does not end when the headlines fade. Integrity may be defined as doing the right thing when no one else is looking. For CATSA, this means remaining vigilant in its unwavering commitment to security so that Canadians will have peace of mind knowing that the system is secure. If the air transport system remains secure, the continued flow of people and goods supports competitiveness, sustainable growth and an efficient transportation system.

Now, almost two years since the terrorist attacks against the United States, CATSA cannot permit itself to become complacent. The relevance of an air transport security organization remains high. Terrorist attacks against the aviation system, whether motivated by political reasons or by individuals and groups trying to improve their own circumstances, can take many forms. Terrorists have already demonstrated to the world the horrendous effects a single attack can have on the unsuspecting and the innocent.

The universal availability of technology has afforded great opportunity to terrorists. Technology provides terrorists with access to scientific and technological knowledge and innovation as well as the means to organize their efforts. As technology evolves to detect the terrorist threats, it also broadens the scope of those threats. CATSA must be a knowledgeable, vigilant, and an active player in air transport security in order to address these threats.

Each organization has a vital role to play in the fight against terrorism. Some are tasked with promoting international cooperation against terrorism while others are tasked with eliminating the architects of terrorism. CATSA's role is to help make Canada's air transport system a harder target for terrorist activity.

THE DIFFERENCE CATSA MAKES


The following chart demonstrates CATSA's activities over its first year of operation compared to the air transport security environment that existed in Canada prior to the creation of CATSA:

Issue	Pre-CATSA	CATSA
Accountability	Individual airlines abided by Transport Canada regulations	CATSA is accountable to Parliament through the Minister of Transport. CATSA also works closely with central agencies of government. The Auditor General of Canada is CATSA's auditor
Consistency	Various screening contracts were in place with different Screening Providers at different airports leading to inconsistent screening services across Canada	CATSA introduced standard screening procedures at all 89 Designated Airports
Objective	Airlines met security regulations at the least cost and with the least impact on passenger flow	CATSA's highest priority is security
Training of Screening Officers	A single course, with limited hours of on-the-job training, was provided	CATSA developed a multi-level national training and certification program which includes expanded on-the-job training
Screening of checked baggage	Selected screening was in place	A plan has been developed and implemented to have all checked baggage screened at the Designated Airports by December 31, 2005. In accordance with this plan, CATSA has installed advanced technology screening equipment at airports across Canada. \$1 billion has been allocated over five years to purchase, install, operate, and maintain this sophisticated screening equipment
Working conditions for Screening Officers	Generally low paying jobs with high turnover rates	CATSA introduced minimum wages, better training and the potential for career development. Turnover rates are appreciably lower as a result

Issue	Pre-CATSA	CATSA
Integrating equipment into screening operations	The Air Transport Security Corporation, which was wholly owned by airlines, purchased and installed equipment. This equipment was then operated by the employees of the different Screening Providers	All equipment is now purchased and installed by CATSA. In operating the equipment, all Screening Officers now abide by CATSA's standard operating procedures
Security measures for airport restricted areas: screening non-passengers and the use of restricted area passes	<p>Airports had checkpoints at restricted area access points</p> <p>Non-passengers were generally not screened</p> <p>Non-passengers were issued a restricted area pass after extensive background check completed by TC, RCMP and CSIS</p>	<p>CATSA started pilot projects for Non-Passenger Screening in Calgary and in Thunder Bay.</p> <p>The pass system will be enhanced through the use of biometrics and national databanks.</p>
Policing at airports and onboard aircraft	<p>RCMP officers were only on flights to Reagan National Airport in Washington, D.C.</p> <p>Airport Authorities were subject to regulatory requirements for policing airports</p>	<p>The CACPP has been developed. It provides specialized training for RCMP officers and increased funding so that coverage could be expanded to selected domestic and other international flights.</p> <p>CATSA provides, by contribution agreements, funding to Airport Authorities for a portion of the aviation security-related policing costs</p>
Identity	There was minimal public awareness that responsibility for screening rested with airlines	Clear, visible evidence through consistency of service, signage and uniforms that CATSA is responsible

LOOKING AHEAD

Over the past year, CATSA has successfully met the challenge of establishing an organization and delivering its mandated responsibilities. As CATSA moved through the start-up phase to fully operational status, it has developed significant air transport security expertise. In order to effectively carry out existing responsibilities, however, it is crucial that CATSA consider the future as well as its past performance.

By keeping abreast of changing technologies and assessing international best practices, CATSA is continuously examining ways to improve the effectiveness of its existing programs. Moreover, through this analysis, CATSA is positioning itself as an important security partner — not only prepared to implement new responsibilities, but also to actively participate in the development of new initiatives as the global security landscape evolves. 



4 PERFORMANCE EVALUATION

In keeping with good corporate governance, CATSA is committed to providing independent evaluations of its performance. CATSA developed an evaluation framework that will provide an objective evaluation of its progress in meeting its mandate. The evaluation strategy for each program is focused on three key issues:


- Relevance — Does the program continue to be consistent with corporate and government-wide priorities, and does it realistically address an actual need?
- Success — Is the program effective in meeting its intended outcomes, within budget and without unwanted negative outcomes? If not, is the program making progress toward the achievement of the intended outcomes?
- Cost-Effectiveness — Are the most appropriate and efficient means being used to achieve outcomes, relative to alternative design and delivery approaches?

While CATSA has been operational since April 1, 2002, during the early months of its operation the organization was still in its “start-up” phase. It did not, for example, assume direct responsibility for screening passengers until December 31, 2002. In order for evaluators to do their assessments, they need to gather data while CATSA is at fully operational status over a period of several months. In the coming year they will have the opportunity to make those assessments and CATSA will report on their findings in the 2004 Annual Report.

At this point, however, CATSA can report on the steps it has taken to audit its operations. Most significantly, CATSA engaged consultants to carry out an Independent Verification and Validation

analysis of key components of its operations. The report examined contract management practices, the purchase and installation of EDS, and the functioning of the National Training and Certification Program. The overall conclusion was that these areas were well-managed and on track. Areas for improvement were identified, and a work-plan for addressing them was developed and implemented.



CATSA also developed a Special Operations unit which reports directly to the President and CEO. This team is responsible for testing screening operations in all 89 Designated Airports. The Special Operations unit will audit the operational effectiveness of procedures, quality of personnel and supervision, and customer service. The Special Operations initiative is carried out in close collaboration with the infiltration tests conducted by Transport Canada inspectors who also review CATSA's screening operations. 



FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the results of operations and the financial condition of CATSA should be read in conjunction with the financial statements and notes thereto included in this Annual Report. As this is CATSA's first year of operations, no comparative figures are available or shown.

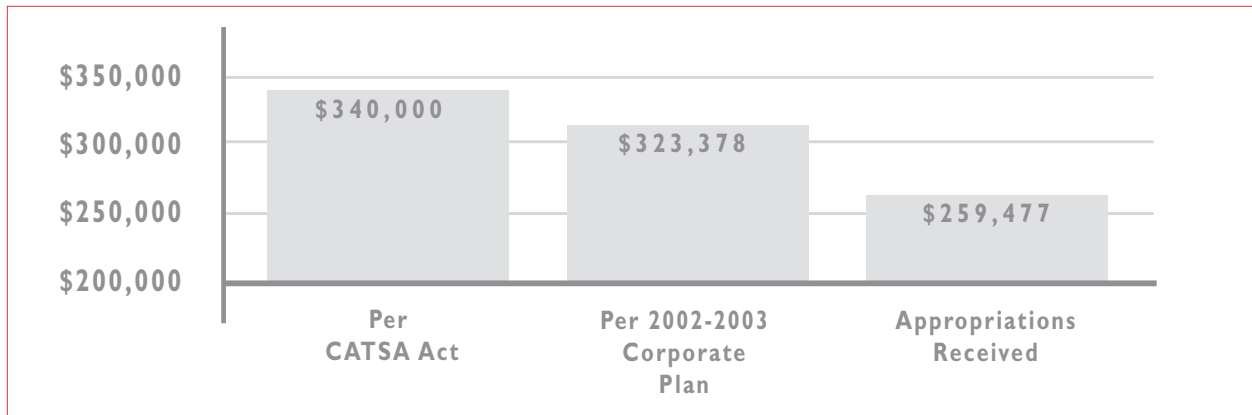
FUNDING

CATSA was established April 1, 2002 as a not-for-profit Crown corporation with revenues being generated primarily from appropriations from the Consolidated Revenue Fund.

Under the CATSA Act, an amount of \$340.0 million was appropriated to the Minister of Transport from the Consolidated Revenue Fund for payment to CATSA for operating and capital expenditures incurred by CATSA in its first year of operations. On September 30, 2002, CATSA completed its first Corporate Plan, and after careful review of operating and capital requirements, determined that it could provide the required high level of aviation security to Canadians, while requiring \$323.4 million for its first year of operations. CATSA's second Corporate Plan, approved in part by the Governor-in-Council on March 27, 2003, allowed the re-profiling (carrying forward from one year to another) of \$24.5 million of capital funding to the 2003-2004 fiscal year. Therefore, the year one appropriation amount after adjusting for approved re-profiling is \$298.9 million. The reference level for fiscal 2002-2003 was approved through the 2003-2004 corporate plan process at \$259.5 million. The resulting balance of \$39.4 million was not used.

Actual appropriations received during the fiscal year amounted to \$259.5 million, of which \$170.3 million was appropriated in operations and \$89.2 million was appropriated in capital related expenditures.

Diagram 5: Appropriations for the year ending March 31, 2003



FINANCIAL CONDITION

CASH

The cash balance in CATSA's bank account at March 31, 2003 was \$31.6 million. These funds will be disbursed to CATSA's suppliers in the regular course of business in order to pay the balance of \$59.6 million in accounts payable and accrued liabilities. In fiscal 2004, Transport Canada will be providing sufficient funds on a monthly basis to meet the needs of the organization.

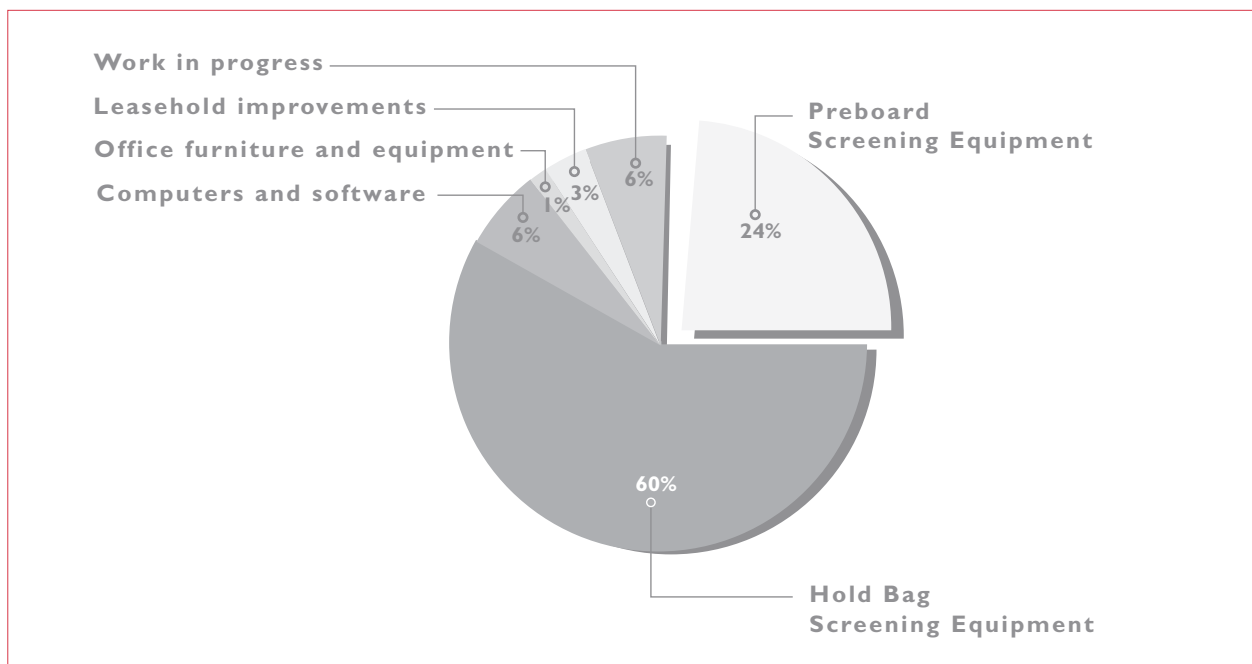
ACCOUNTS RECEIVABLE

Accounts receivable balance at year-end was \$45.4 million, of which Parliamentary appropriations comprised the vast majority at \$40.5 million.

CAPITAL ASSETS

Capital Assets with a net book value of \$110.6 million were recorded at March 31, 2003. This represented assets of \$120.5 million netted against amortization of \$9.9 million. Included in the \$120.5 million is screening equipment with a net book value of \$48.0 million transferred to CATSA from Transport Canada for a nominal purchase price of \$1 dollar.

Diagram 6: Net book value of capital assets at March 31, 2003 by category



ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A balance of \$59.6 million in accounts payable and accrued liability at year-end is comprised of regular payments to suppliers for ongoing operations, as well as payables for capital acquisitions.

DEFERRED CAPITAL FUNDING

Deferred capital funding reflects the nature of CATSA's funding, in that acquisitions of capital assets are made with funds from the Consolidated Revenue Fund. As such, deferred capital funding is a liability to

offset the unamortized value of the capital assets. Included in deferred capital funding is an amount of \$13.2 million, which represents an appropriation invoiced in March of 2003, received in April 2003, but not used at March 31, 2003.

LIQUIDITY

The Authority's current ratio, calculated as the current assets divided by the current liabilities is calculated as \$85.2 million divided by \$59.6 million or 1.43. This is generally considered to be a ratio consistent with the ability to meet current obligations. In particular, this ratio suggests that the cash balance is at an appropriate level.

RESULTS OF OPERATIONS

PRE-BOARD SCREENING

The statement of operations and equity shows an expense of \$125.7 million in pre-board screening for the year ending March 31, 2003. During the period of April 1, 2002 to December 31, 2002, CATSA assumed the financial responsibility for pre-board screening in the form of reimbursement to lead carriers. From December 31, 2002 onwards, CATSA has assumed full operational and financial responsibility for pre-board screening, by assuming contracts directly with the existing screening providers.

The majority of the \$125.7 million was spent on payment for screening services. Also contained in the \$125.7 million were funds for the training of screeners, consumable supplies for Explosives Detection Systems (EDS), as well as depreciation on pre-board screening EDS equipment.

AIR TRANSPORT SECURITY-RELATED POLICING PROGRAMS AND HOLD BAG SCREENING

In CATSA's first year of operation, air security-related policing programs and hold bag screening costs amounted to \$37.2 million. Costs included in this category include contribution payments to certain Airport Authorities to partially offset the costs of aviation security-related policing, the Canadian Air

Carrier Protective Program, which places RCMP officers on flights, and all costs associated with the screening of checked baggage.

ADMINISTRATION

Administration costs of \$11.9 million were recorded in the statement of operations and equity for the year ending March 31, 2003. These costs include salaries, benefits and professional services for employees and consultants at CATSA's headquarters as well as rent and facilities related costs. CATSA's headquarters support operations through the delivery of IT services, human resource services, financial administration and planning services as well as contract administration of screening provider contracts.

SCREENING OF NON-PASSENGERS AND ENHANCED RESTRICTED AREA PASS SYSTEM

Costs related to these two programs are minimal in fiscal 2003. Both programs were assigned to CATSA on November 5, 2002. More representative costs relating to these programs will be incurred in fiscal 2004.

PARLIAMENTARY APPROPRIATIONS FOR OPERATING EXPENDITURES

Included in Parliamentary appropriations for operating expenditures is an amount of \$4.2 million invoiced in March of 2003, received in April 2003, but not used at March 31, 2003.

NET RESULTS OF OPERATIONS FOR THE YEAR

Net results of operations for the year ended March 31, 2003 are shown as \$6.1 million. This is comprised primarily of received but not used operating appropriation of \$4.2 million.

EQUITY

The balance of equity at the end of the year was \$8.791 million. This is broken down as follows:

Spare parts inventory	\$	4.4
Unspent portion of operating funding		4.2
Prepaid expenses		0.2
Equity – end of year	\$	8.8

MANAGEMENT'S RESPONSIBILITY STATEMENT

CATSA's management is responsible for the preparation and integrity of the financial statements contained in this Annual Report. These statements, recommended by the Audit Committee and approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Information contained in the Annual Report is consistent with that contained in the financial statements.

To fulfill its responsibilities, the Authority maintains systems of internal control, policies and procedures to provide reasonable assurance that relevant and reliable financial information is produced. In addition, these systems of control exist to protect the assets of the Authority.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, frequently meets with its external auditor — the Office of the Auditor General — and with management to ensure that the assets of the organization are properly protected, to review financial information produced and to review the internal control of the Authority.

The Authority's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Jacques Duchesneau, C.M.
President and Chief Executive Officer



Michael J. McLaughlin, C.M.A.
Vice President and Chief Financial Officer

May 16, 2003



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of the Canadian Air Transport Security Authority as at March 31, 2003 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and the by-laws of the Authority.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 16, 2003

Canadian Air Transport Security Authority

Balance Sheet

As at March 31, 2003

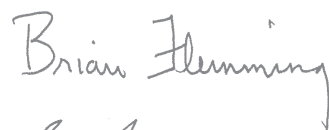
(Thousands of dollars)

	2003
Assets	
Current	
Cash	\$ 31,675
Accounts receivable (note 4)	45,437
Spare parts inventory	4,398
Prepaid expenses (note 5)	3,718
	85,228
Capital assets (note 6)	110,616
	\$ 195,844
Liabilities	
Current	
Accounts payable and accrued liabilities	\$ 59,568
Long-term	
Deferred capital funding (note 7)	127,320
Employee future benefits (note 8)	165
	127,485
Equity	8,791
	\$ 195,844

Commitments (note 10)

Approved on behalf of the Board of Directors

Brian Flemming
Chairman



Murray Sigler
Director



The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Statement of Operations and Equity
For the year ended March 31, 2003
(Thousands of dollars)

	2003
Expenses	
Pre-board screening	\$ 125,698
Air security related policing programs and hold bag screening	37,170
Administration	11,976
Screening of non-passengers	39
Enhanced restricted air pass system	39
	174,922
Revenues	
Interest and other revenue	910
	174,012
Net cost of operations before government funding	
Government funding	
Parliamentary appropriations for operating expenditures (note 3)	170,261
Amortization of deferred capital funding (note 7)	9,866
	180,127
Net results of operations for the year	\$ 6,115
Contributions from Transport Canada (note 11)	2,676
Equity – end of year	\$ 8,791

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Statement of Cash Flows

For the year ended March 31, 2003

(Thousands of dollars)

	2003
Cash flows from (used in)	
Operating activities	
Net results of operations for the year	\$ 6,115
Items not affecting cash:	
Amortization of capital assets	9,866
Amortization of deferred capital funding	(9,866)
Employee future benefits	165
Net change in non-cash working capital balances (note 12)	12,206
	18,486
Financing activities	
Parliamentary appropriations	
Capital funding (note 3)	89,216
	89,216
Investing activity	
Acquisition of capital assets	(76,027)
	(76,027)
Increase in cash	31,675
Cash – End of year	\$ 31,675

Supplementary cash flow information: Interest received for the year ended March 31, 2003 amount to \$901.

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

1. Authority, objects, and programs

The Canadian Air Transport Security Authority (CATSA) was established under the *Canadian Air Transport Security Act* (the "CATSA" Act), S.C. 2002.c.9.s.2 which came into force on April 1, 2002.

The Government's objectives in the establishment of CATSA were to enhance air transport security, improve public confidence in the air transport security system, increase Government visibility in air transport security, provide a consistent approach across the system, integrate air transport security services and deliver services in an efficient and effective manner, having due regard to the interest of the travelling public. In assuming responsibility for certain air transport security functions previously undertaken by the private sector, the Government of Canada made it clear that CATSA's actions were to be driven by security concerns, not economic considerations.

CATSA's primary objective is to further the Government of Canada's objectives through the effective delivery of its mandated responsibilities. CATSA's responsibilities under the CATSA Act fall into five major areas:

1. Pre-Board Screening of Passengers and their carry-on baggage;
2. Hold Bag Screening;
3. Air security related Policing Programs
4. Non-Passenger Screening at major airports
5. Enhanced Restricted Area Pass system for major Canadian airports.

Responsibilities relating to non-passenger screening at major airports and enhanced restricted area pass system for major Canadian airports were assigned to CATSA on November 5, 2002 pursuant to sub-section 6(2) on the CATSA Act, which allows the Minister of Transport to assign other air transport security functions to CATSA. Initial planning for these responsibilities occurred during the period from November 2002 to March 2003, with implementation expenses primarily starting after April 1, 2003.

CATSA is not subject to the *Income Tax Act*.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

2. Significant accounting policies

The financial statements of CATSA have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

(a) Spare parts inventory

Spare parts are valued at the lower of weighted average cost or replacement cost.

(b) Capital assets

Capital assets are recorded at cost, less accumulated amortization. The cost of assets includes shipping, and installation costs. Amortization is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Preboard screening equipment	7 years
Hold bag screening equipment	7 years
Computers and software	3 years
Office furniture and equipment	5 years

Leasehold improvements are capitalized and amortized on a straight-line basis over the life of the related leases.

Amounts included in work in progress are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the above stated policy.

(c) Employee benefits

CATSA maintains two defined benefit pension plans, a registered pension plan (RPP) and a supplementary pension plan (SPP), to provide retirement benefits to its employees. Pension costs are actuarially determined using the projected benefit method, prorated on service and managements best estimate assumptions. The latest valuation was completed by an independent actuary as at December 31, 2002. The discount rate used to determine the accrued benefit obligation was based on market rates for long term high quality bonds. Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets.

The net pension plan expense consists of the actuarially determined pension benefits for the current year's service, imputed interest on projected pension obligations net of interest earned on pension assets and the amortization of actuarial gains or losses and other items over the average remaining service period of active employees expected to receive benefits under the plan. Actuarial gains or losses are amortized only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

The cumulative difference between the pension expense and funding contributions is reflected in the balance sheet as employee future benefit.

CATSA also provides other non-pension post-retirement benefits for employees including vacation pay, short and long term disability, and post-retirement health care, dental care, and life insurance. With the exception of vacation pay, the cost of these benefits is accrued for as earned by the employees and is actuarially determined in a manner consistent with the methods used for the pension benefits. Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

(d) Parliamentary appropriations and deferred capital funding

CATSA's primary source of funding is appropriations received from the Government of Canada. Parliamentary appropriations for operating expenditures are recorded in the statement of operations and equity. Parliamentary appropriations for capital expenditures are recorded as deferred capital funding in the balance sheet, and are amortized on the same basis and over the same periods as the related capital assets. Upon disposition of funded depreciable capital, CATSA recognizes into income all remaining deferred capital funding related to these capital assets.

(e) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Exchange gains resulting from the translation of foreign currency balances are included in other revenue. Exchange losses resulting from the translation of foreign currency balances are included in administration expenses.

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimated useful life of capital assets and employee future benefits are the most significant items where estimates are used. Actual results could differ from these estimates.

(g) Security considerations

In the interest of security at airports in Canada and pursuant to Section 32 of the CATSA Act, information relating to air security related policing programs is not made public. To achieve this, the statement of operations combined the expenses relating to hold bag screening and air security related policing programs.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

3. Parliamentary appropriations

CATSA's primary source of funding is appropriations received from the Government of Canada. Parliamentary appropriations approved and amounts utilized by CATSA during the year are as follows:

Use of appropriations

Appropriations Approved

Parliamentary appropriation approved as per CATSA Act	\$	340,000	
Re-profiled amount approved for subsequent years as per 2002-2003 Corporate Plan		(16,622)	
Re-profiled amount approved for subsequent years as per 2003-2004 Corporate Plan		(24,521)	
			\$ 298,857

Appropriations Unused

Unused portion of Parliamentary appropriation			(39,380)
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Appropriations Utilized

Operating funding	170,261		
Capital funding	89,216	\$	259,477

4. Accounts receivable

Accounts receivable are comprised of:

Parliamentary appropriations	\$	40,477	
GST		2,396	
Other		2,564	
			\$ 45,437

5. Prepaid expenses

Prepaid expenses are comprised of:

Deposit on purchase of capital assets	\$	3,515	
Other		203	
			\$ 3,718

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

6. Capital assets

	Cost	Accumulated Amortization	Net book value
Preboard screening equipment	\$ 30,235	\$ 4,220	\$ 26,015
Hold bag screening equipment	72,062	4,379	67,683
Computers and software	7,171	1,073	6,098
Office furniture and equipment	1,630	98	1,532
Leasehold improvements	2,868	96	2,772
Work in progress	6,516	—	6,516
	<hr/>	<hr/>	<hr/>
	\$ 120,482	\$ 9,866	\$ 110,616

On April 1, 2002 Transport Canada transferred screening equipment with a net book value of \$47,970 to CATSA for a purchase price of \$1. The net book value of these assets has been recorded as deferred capital funding and will be amortized at the same rate as the screening equipment.

7. Deferred capital funding

Parliamentary appropriation to finance the acquisition of capital assets	\$ 89,216
Transfer of screening equipment from Transport Canada at net book value	47,970
Amortization of deferred capital funding	(9,866)
	<hr/>
Balance, end of year	\$ 127,320

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

8. Employee future benefits

CATSA maintains defined benefit plans providing pension and other retirement and post-employment benefits to its employees. Pension benefits are based on the average of the best 5 consecutive years of pensionable salary. Employees are required to contribute a percentage of their pensionable salary to the plan, with CATSA providing the balance of funding as required, based on actuarial valuations, with payments to the fund being made monthly.

Based on the actuarial determination valuation of the pension plans and other benefit plans as at December 31, 2002, the status of the plans are as follows:

	Pension (RPP and SRP)	Other Benefit Plans
Accrued Benefit Obligation		
Benefit obligation	\$ —	\$ 436
Service cost	180	38
Interest cost	68	6
Transfer in	5,227	—
Prior service cost	811	—
Actuarial loss	353	58
Accrued benefit obligation at December 31, 2002	\$ 6,639	\$ 538
Plan Assets		
Expected return on plan assets	\$ 52	\$ —
Investment experience gain	4	—
Actual return on plan assets	56	—
CATSA Contributions	—	—
Plan participants' contributions	—	—
Benefits paid	—	—
Transfer receivable	5,227	—
Fair value of plan assets at December 31, 2002	\$ 5,283	\$ —
Reconciliation with Funded Position		
Accrued benefit obligation	\$ 6,639	\$ 538
Assets	5,283	—
Surplus/(unfunded liabilities)	(1,356)	(538)
4 th quarter contribution adjustment	88	—
	(1,268)	(538)
Unamortized prior service cost	804	430
Unamortized net loss	349	58
Accrued benefit liability at March 31, 2003	\$ (115)	\$ (50)

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

Since CATSA made contributions to the fund between the measurement date and the fiscal year-end date, an adjustment must be made for such contributions in the reconciliation of the funded status of the plan provided in the notes.

Components of Expense

Service cost	\$ 180	\$ 38
Interest cost	68	6
Expected return on plan assets	(52)	—
Amortization prior service cost	7	6
Amortization experience gain (loss)	—	—
Pension expense/(income) at March 31, 2003	\$ 203	\$ 50

The significant actuarial assumptions adopted in measuring the company's accrued benefit obligations are as follows:

	Pensions	Other benefit plans
Discount rate	7.00%	7.00%
Expected return on plan assets	6.75%	n/a
Inflation	3.00%	3.00%
Long-term rate of compensation increase (including inflation and promotion)	4.75%	4.75%

Employees transferring from the Federal Public Service will be given the option to transfer pension benefits and benefit obligations to CATSA's pension plan once a Reciprocal Transfer Agreement is in place, or to leave them with the Public Service Superannuation Fund until retirement. Management has assumed that all entitled employees will transfer such pension credits. It is estimated that the transfer of pension benefits will result in an unfunded liability of \$811 based on estimated plan obligations of \$6,038 and estimated plan assets of \$5,227.

The unfunded liability will be amortized over the expected average remaining service lifetime of the related active employees.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

9. Financial instruments

CATSA's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. Management believes the carrying values of the latter two financial instruments approximate their fair value, due to their short term to maturity.

10. Commitments

(a) Operating leases

CATSA is committed under operating leases for the rental of equipment and office space. Minimum annual lease payments under the terms of these leases are as follows:

Year ending March 31

2004	\$	1,816
2005		1,723
2006		1,609
2007		1,673
2008		1,600
2009 to 2012		6,003
	\$	14,424

(b) Other Contractual obligations

CATSA is committed under various contracts for the next three years for;

Equipment purchases,
Screening services, and
Equipment maintenance.

Year ending March 31

2004	\$	106,255
2005		4,122
2006		30
	\$	110,407

For the reasons as disclosed in note 2(g), commitments relating to air security related policing programs are not disclosed in this note.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

11. Related party transactions

CATSA is related to Her Majesty the Crown in the right of Canada including the Government of Canada, its departments and other agencies. CATSA enters into transactions at market value with these entities in the normal course of operations, and pursuant to authority given in the CATSA Act.

CATSA had the following transactions with related parties for the year ended March 31, 2003.

- (a) Her Majesty as represented by the Royal Canadian Mounted Police (RCMP). For reasons as disclosed in note 2(g), expenses relating to air security related policing programs are not disclosed in this note.
- (b) Her Majesty as represented by Consulting and Audit Canada (CAC). CAC provides invoice verification services for the Pre-board screening program. Expenses during the year amounted to \$670, with \$259 as an outstanding balance.
- (c) Her Majesty as represented by the Department of Justice. The Department of Justice seconded employees through the Interchange program. Expenses during the year amounted to \$44.
- (d) Her Majesty as represented by the Public Works and Government Services Canada (PWGSC). PWGSC provides translation services to CATSA, as well as internetworking services. Expenses during the year amounted to \$291, with \$162 as an outstanding balance.
- (e) Her Majesty as represented by Transport Canada. As disclosed in note 6, Transport Canada transferred capital assets amounting to \$47,970. Transport Canada also transferred spare parts and consumables with a net book value of \$2,086 and \$590 respectively, for a purchase price of zero dollars. This is reflected as a contribution to equity.
In addition, Transport Canada seconded employees through the Interchange program, provided contracting services, and provided "Fly smart" brochures. Expenses during the year amounted to \$694, with \$151 as an outstanding balance

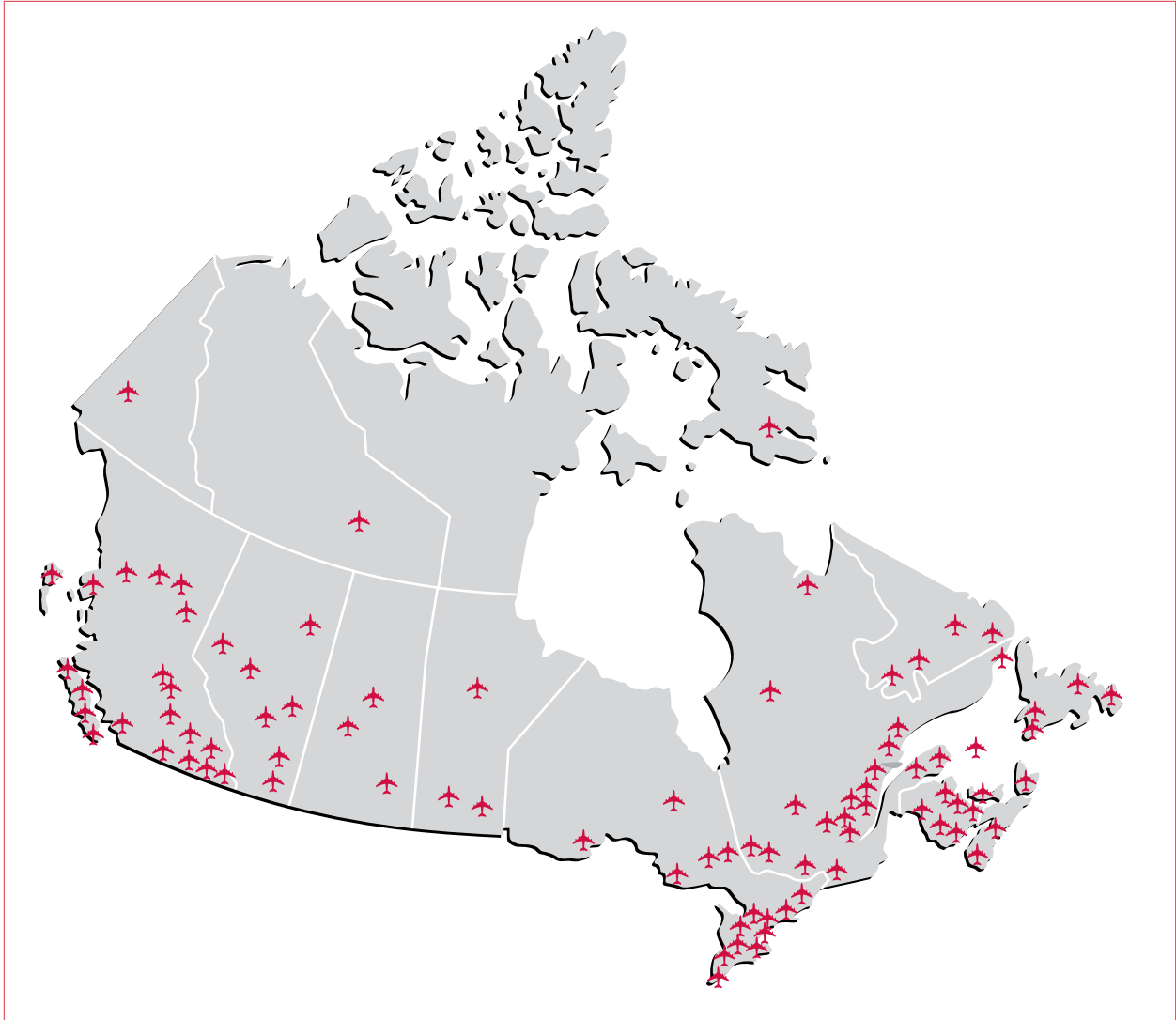
12. Net changes in non-cash working capital balances

	2003
Accounts receivable	\$ (45,426)
Spare parts inventory	(2,312)
Prepaid expenses	387
Accounts payable and accrued liabilities	59,568
	\$ 12,206

As disclosed in note 4, the difference of \$3,516 in prepaid expenses relates to a deposit on capital assets. This amount is included in Parliamentary appropriations utilized for capital funding. Furthermore, as disclosed in note 11(e) consumables transferred from Transport Canada were initially recorded as prepaid expenses.

APPENDIX 1

Designated Airports



Designated Airports

Region	Airport		
Atlantic Total: 18	Halifax Charlottetown Fredericton Gander Moncton St. John's	Saint John Bathurst Charlo Churchill Falls Deer Lake Goose Bay	St. Anthony St. Leonard Stephenville Sydney Wabush Yarmouth
Quebec Total: 20	Dorval Mirabel Quebec City Alma Bagotville Baie-Comeau Chibougamau/Chapais	Gaspé Iles-de-la-Madeleine Kuujuaq Kuujuarapik La Grande Rivière La Grande – 3 La Grande – 4	Lourdes-de-Blanc- Sablon Mont-Joli Roberval Rouyn-Noranda Sept-Iles Val d'Or
Ontario Total: 15	Ottawa Toronto (Pearson) London Sudbury Thunder Bay	Toronto (City Centre) Windsor Hamilton Kingston Kitchener-Waterloo	North Bay Sarnia Sault Ste-Marie Timmins Toronto/Buttonville
Prairie and Northern Total: 16	Calgary Edmonton Winnipeg Iqaluit Regina Saskatoon	Whitehorse Yellowknife Brandon Fort McMurray Grande Prairie	Lethbridge Lloydminster Medicine Hat Prince Albert Thompson
Pacific Total: 20	Vancouver Kelowna Prince George Victoria Abbotsford Campbell River Castlegar	Comox Cranbrook Dawson Creek Fort St. John Kamloops Nanaimo Penticton	Prince Rupert Quesnel Sandspit Smithers Terrace Williams Lake

APPENDIX 2

Glossary

Airport Authority	An operator of an airport listed in the <i>Airport Transfer (Miscellaneous Matters) Act</i>
APO	Aircraft Protective Officer; a specially-trained police officer of the RCMP who is present on certain flights
CACPP	The Canadian Air Carrier Protective Program
CATSA Act	The <i>Canadian Air Transport Security Authority Act</i>
CTX	A type of Explosive Detection X-ray machine
Designated Airports	The 89 airports, as listed in Appendix 1, at which CATSA is responsible for the provision of screening services as designated by the regulations issued by Transport Canada
EDS	Explosives Detection Systems: manual or automated systems used primarily to check for explosives in carry-on baggage and checked baggage
ERAP	Enhanced Restricted Area Pass system: the national system being developed by CATSA for enhanced control of access to restricted areas of airports
ETD	Explosive Trace Detection systems: manually operated equipment used to detect minute traces of explosive residue on the outside of carry-on baggage and checked baggage
HBS	Hold Baggage Screening: the screening of checked baggage using EDS equipment
NPS	Non-Passenger Screening: the screening of selected non-passengers accessing restricted areas of airports. Non-Passengers include all airport workers accessing restricted areas of airports, such as flight crews, refuelers, caterers, aircraft groomers, maintenance personnel, airport baggage handlers, concession staff, etc
PBS	Pre-Board Screening: includes the screening of passengers, their belongings and carry-on baggage
VDS	The Product name for a type of Explosive Detection X-ray machine
VIS	The Product name for a type of Explosive Detection X-ray machine

