



**Submission to Minister of Finance for prebudget consultations related
to the 2022 Federal Budget
by the Greater Toronto Airports Authority
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Submitted by:

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Greater Toronto Airports Authority

Recommendations

The Greater Toronto Airports Authority recommends the following to the Government of Canada:

Recommendation 1: The Government of Canada should continue to make the air travel process in Canada seamless and comparable to other countries. A leadership role should be taken to harmonize global rules by working with Canada's G7 and G20 partners, and through bodies like the International Civil Aviation Organization (ICAO) and the World Health Organization (WHO).

Recommendation 2: The Government of Canada should reconsider its decision to defer 2021 airport rent and provide a full rent waiver for 2021 and 2022 given the impact of government travel restrictions and negative travel advisories on our finances.

Recommendation 3: The Government of Canada should continue and increase funding infrastructure investment through programs like the Airport Critical Infrastructure Program and the National Trade Corridor Fund to support Canada's competitiveness.

Recommendation 4: The Government of Canada should build upon the theme of how to finance infrastructure from its National Infrastructure Assessment by examining innovative financing suggestions. These include redirecting airport rent to strategic airport investment that support Canada's competitiveness and national objectives to ensure Canada has 21st century infrastructure.

Recommendation 5: The Government of Canada should modernize its duty-free policies and regulations to allow the establishment of Arrivals Duty Free (ADF) and Dual Shop Stores (DSS) at Canadian Airports to further support small and local businesses.

Recommendation 6: The Government of Canada should continue its focus on Supply Chain resiliency and the development of a national strategy that incorporates and highlights the role of aviation in the National Supply Chain. It should specifically partner with industry to improve data collection, transparency, and digitized processing, that acknowledges and addresses competitive and propriety information as well as support initiatives that generate greater service levels with Canada Border Services Agency (CBSA) to better facilitate the movement of goods.

Recommendation 7: The Government of Canada should maintain the subsidy rates of the Tourism and Hospitality Recovery Program (THRP) at their current levels beyond March 2022, with the THRP remaining available to eligible businesses until September 1, 2022. Moreover, the minimum current-month revenue loss requirement should be lowered from 40% to 20% for eligible companies, including airports, to access the THRP.

Recommendation 8: The Government of Canada should ensure that agencies like CBSA and the Canadian Air Transport Security Authority (CATSA) are adequately resourced to meet the requirements for expected increases in travel volumes, meet globally competitive processing standards, and that the Government engage the United States Government to ensure that there is a plan to return to pre-pandemic resource levels at preclearance sites.

This prebudget submission is an amended version of the submission provided in August 2021 for the 2022 federal budget. Given the amount of change since then, the recommendations have been revised. The rapid spread of the Omicron variant impacted the rules for travel and workforces in all sectors, including aviation.

Introduction

Historically, airports have been magnets for jobs and investments. They support trade and tourism and can be significant contributors to local and national GDP.

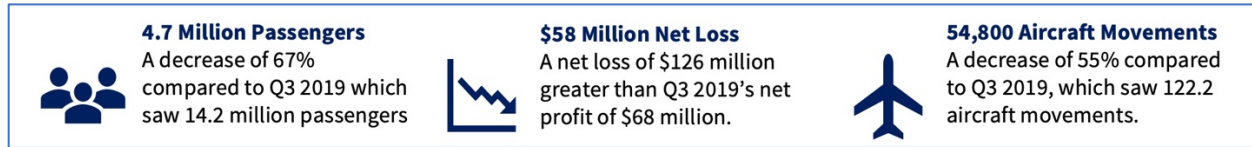
As the formerly 6th most connected airport in the world (now 10th), and second in North America behind Chicago O’Hare, Toronto Pearson is a gateway for foreign direct investment, trade and tourism, and the cornerstone of global travel to Ontario. Toronto Pearson’s direct global connectivity, through daily direct flights to the world’s biggest markets like New York, New Delhi, London, and Tokyo, contributes to the Canadian economy and generates local economic activity. Decreasing connectivity is a bellwether of the urgency to recover the sector to ensure Canada’s reputation as a magnet for investment.

Pre-pandemic, 50,000 people worked at Toronto Pearson. This included not only Greater Toronto Airports Authority (GTAA) employees but also the 200+ companies at the airport who employ security guards, grounds handlers, taxi and limo drivers, border service officers, public health officers and many more. Prior to the pandemic, Toronto Pearson generated more than 330,000 jobs through direct and indirect employment, spending by tourists, and through the catalytic jobs generated by international connectivity.



We are the anchor employer in the second-largest employment zone in Canada and contributed 6 per cent to Ontario’s GDP and helped to generate \$5.4 billion in federal tax revenue from tourism.

The pandemic and government-imposed restrictions on air travel continue to have a devastating impact on passenger traffic, revenues, and aircraft movements. Below are Toronto Pearson's 2021 Q3 results.



As a result of the pandemic, in 2020 GTAA downsized its workforce by 500 positions, and there has been an overall reduction of nearly 14,000 jobs across the airport. Operating and capital budgets were dramatically reduced. In 2020 the GTAA reduced its capital investment program by \$265 million to a minimal approximate \$100 million annual capital spend on maintenance and restoration. Critical programs amounting to billions of dollars to enhance the long-term capacity and competitiveness of Toronto Pearson were cancelled.

We have accessed the Canada Emergency Wage Subsidy (CEWS) to support our employees and are appreciative of the 10-month ground rent waiver in 2020. However, given the prolonged restrictions because of Omicron, this is not enough. As Canada looks to recover, we must look to get back to position where Toronto Pearson can once again help drive prosperity for Canada.

Continuing to do our part

Toronto Pearson continues to support the essential movement of cargo and people, including the movement of vaccines. Industry pivoted to support cargo movement when passenger aircraft were grounded. Pearson saw a 60 per cent increase in dedicated cargo flights.

Toronto Pearson is positioned to help Canada move into a period of economic recovery and growth in partnership with the government. Governments all over have come to the aid of their airports because of their strategic value as national transportation assets that drive their country's prosperity. The United States, in addition to the billions provided in grants in 2020, has just announced another \$20 billion to be awarded in 4 years for airport infrastructure investments to ensure their ongoing competitiveness. Canada must do the same or risk falling behind.

While the government created and provided funding to airports through the Airport Critical Infrastructure Program (ACIP), it does not compare to the investments made by other countries. We fear that Toronto Pearson and other Canadian airports may be overtaken by other global hub airports as the world recovers from COVID-19 faster than Canada. International air connections help to create foreign direct investment and high valued Canadian jobs. To support Canada's continued competitiveness and Toronto Pearson as Canada's largest airport, we have made several recommendations for consideration by the government as it constructs the 2022 budget.

The first three recommendations lay out the foundations for recovery and creating the airport of the future. The next two focus on diversifying revenue and harmonizing international rules. The last recommendation reflects the growing importance of ensuring supply chain resiliency in Canada and the significant role played by the aviation sector to ensure the import and export of valuable cargo.

Recommendations

1. Harmonizing global rules and regulation and developing a playbook for the future

Even with the changes announced on February 15th, there continues to be travel restrictions and requirements in Canada that negatively impact demand and are out of step with other countries around the world.

Canadians did what was asked of them. They got vaccinated. They remained at home in lockdown. No other sector has embraced vaccination mandates for its customers and workforces more than the aviation sector. Now is the time to continue to peel back these travel restrictions based on the evidence of the lack of efficacy of the test in travel, and to make travel in Canada seamless and aligned with other countries.

Travel restrictions around the world are contradictory and confusing. After 9/11 there was a concerted effort amongst countries and aviation stakeholders to develop a set of international rules for screening passengers. The pandemic provides a similar opportunity to create consistency of health standards around the world. The Canadian government can play a leadership role to harmonize global rules by working with its G7 and G20 partners, and through bodies such as ICAO and the WHO.

A playbook is needed for the next pandemic to mitigate the use of blunt instruments such as border closures and travel bans. Canada is well positioned to play a leadership role internationally.

Recommendation 1: The Government of Canada should continue to make the air travel process in Canada more seamless and comparable to other countries and take a leadership role to harmonize global rules by working with its G7 and G20 partners, and through bodies like ICAO and the WHO.

2. Providing a ground rent waiver for 2021 and 2022

In March 2020, recognizing the impact on airport revenues, the Government of Canada provided a 10-month ground rent waiver. The GTAA appreciated the move as it provided some stability at a time when revenues had been dramatically impacted. Financial weakness has shown the need for the continuation of the rent relief program for 2021 and 2022, and not the announced deferral. At the time of the April 2021 budget, the expectations for recovery of the aviation sector were vastly different than what has transpired since that time. With inflation hovering at 4 per cent, well above the Bank of Canada's target rate of 1 to 3 per cent, interest rates are expected

to increase over the course of 2022 and 2023. A waiver of rent would have an additional benefit of relieving the interest burden from not having to borrow to pay for rent.

The GTAA took the unprecedented step of requesting from our bondholders that we be relieved of our financial covenants for 2020, 2021 and 2022 because of continuing weakness in our finances. This gives us an exemption from bond covenant compliance, but it does not relieve us from making interest payments.

The rent deferral for 2021 does not provide the GTAA with the financial stability needed and full recovery is still years away.

Recommendation 2: The Government of Canada should reconsider its decision to defer 2021 airport rent and provide a full waiver of rent for 2021 and 2022 given the impact of government travel restrictions and negative travel advisories on our finances.

3. Helping Canada compete

As a result of the impact of the pandemic, in 2020 the GTAA reduced its capital investment program by \$265 million and halted millions of dollars in future capital investment. This meant that many important projects to enhance the long-term capacity and competitiveness of Toronto Pearson were cancelled. Two projects of the many which had to be cancelled are the Arrivals and Transfer Facility at Terminal 3 (T3 ATF) and increasing our Terminal 3 Baggage Storage capacity.

Improvements to the T3 ATF would enhance passenger safety by ensuring that connecting passengers would remain on the secure side of the airport. Currently, an internationally arriving connecting passenger must collect their bags, exit through Customs and Immigration, and then re-check in for their connecting flight. Terminal improvements would allow passengers to remain on the secure side while they make their connection to their next flight. Importantly, improvements to the T3 ATF also makes more efficient use of CATSA resources as passengers do not have to be rescreened.

The T3 ATF would also ensure that connecting passengers do not mix with domestic and international passengers on the public side. In addition to enhancing safety, processing time would be reduced substantially, saving passengers an average of 45 minutes, and bringing Terminal 3 on par with Terminal 1.

Baggage Storage is an important part of the flow of passengers within the airport. Passengers arrive hours in advance of their flights and check their bags. The bags must be stored until the time of the flight. In T3 we had begun a project to increase baggage storage capacity that subsequently had to be shut down due to the pandemic.

Ongoing critical investments in infrastructure, technology and transit are required to continue to develop a safe environment for passengers and workers, meet our regulatory requirements and “build back better.” Canadian airports require a longer-term plan to rebuild and be positioned to support Canada’s global competitiveness. These types of improvements not only benefit passengers travelling through the airport, they also impact the competitiveness of the airport as

a connection option. More connections help to support more direct routes, making the Greater Toronto Area a more attractive place for foreign direct investment and tourism. These types of capital investments provide long-term benefits to local regions.

Recommendation 3: The Government of Canada should continue and increase funding infrastructure investment through programs like the Airport Critical Infrastructure Program and the National Trade Corridor Fund to support Canada’s competitiveness.

4. Rethinking infrastructure financing and building the airport of the future

GTAA participated in the National Infrastructure Assessment consultation conducted in 2021. One of the objectives of the consultation was to explore opportunities to improve public and private sector funding, financing, and innovative ways to pay for infrastructure. Long-term infrastructure requires a long-term, goal-oriented approach rather than a short-term view dominated by election cycles.

The GTAA’s 60-year ground lease with the federal government, which began in December 1996 and contains a twenty-year term extension option, requires that the GTAA return the airport at the end of the lease unencumbered by debt. This stipulation could hinder the GTAA’s ability to plan and invest in long-term infrastructure development towards the end of the lease.

With regard to funding and financing infrastructure, the government should take a more flexible approach to funding the infrastructure investments required to maintain the competitiveness that drives a significant part of Canada’s economy. Over the longer, term rethinking government’s investment approach in airports will help create airports that are sustainable and ready for the 21st century.

To make this a reality, government needs to rethink how strategic investments in smart, green, and innovative airport infrastructure can support Canada’s global competitiveness, jobs, foreign direct investment, trade, and tourism.

Aviation is at a pivot point and government can become a partner in transitioning airports to green infrastructure through additional funding options like CIB and a green fund that could support many worthy projects. Projects such as achieving Net Zero, creating a local electric charging network, facilitating a utility plant conversion to greener sources, developing pipelines for SAF generation and fueling, achieving energy efficiency, increasing biosecurity, and implementing digital tools that allow flexibility for expansion and contraction. Finally, as the travel environment continues to evolve, we also need to prioritize higher order transit to support the 300,000 jobs in the Airport Employment Zone.

COVID has disrupted the industry in Canada and globally. It has also provided us the opportunity to examine how we can move forward in a sustainable manner, which allows us to build back better, stronger and in a more resilient way in the short and long term.

Canada needs airports that are sustainable and ready for the 21st century.

GTAA has pledged to reach Net Zero by 2050 and embraces our corporate responsibility as a steward of the environment. We manage environmental issues effectively by ensuring regulatory compliance, employing best management practices and being innovative in reducing our environmental impact. We worked at the North American and international levels to have Airports Council International (ACI) North America and ACI World adopt a Net Zero commitment by 2050.

The current model has had several flaws exposed when passenger traffic is severely impacted. While some would argue that this is a once-in-a-lifetime event and airports will once again grow themselves back to prosperity, we believe that the philosophical underpinnings of the model need to be examined to ensure that the airport of the future is resilient and can operate efficiently and sustainably.

Our recommendation to reallocate airport rent to infrastructure development for 10 years represents a fundamental shift in the relationship between the government and airports and can provide annual funding towards strategic, sustainable, and innovative infrastructure investment in airports.

Airports pay a rent to the federal government based on the number of passengers in that year. In 2019, Toronto Pearson paid approximately \$170 million. We believe there is an opportunity to reinvest those monies into strategic infrastructure investments to rebuild our national competitiveness and develop the airport of the future. Over a 10-year period, this could result in \$1 billion in infrastructure investment in Toronto Pearson.

The government itself has begun to ask questions related to new infrastructure funding models and the relationship between owners of infrastructure and funders of infrastructure. This was a key theme of the National Infrastructure Assessment consultation.

Recommendation 4: The Government of Canada should build upon the theme of how to finance infrastructure from its National Infrastructure Assessment by examining innovative financing suggestions. These include redirecting airport rent to strategic airport investment that support Canada's competitiveness and national objectives to ensure Canada has 21st century infrastructure.

5. Provide Canadian airports with the tools to generate more revenue to recover faster

The Government of Canada can assist Canadian airports by providing them the opportunity to increase Non-Aeronautical Revenue (NAR) through the establishment of Arrivals Duty Free (ADF) and Dual Shop Stores (DSS).

Canada's duty-free program is out of date and in dire need of modernization. ADF allows arriving international passengers to purchase duty free products prior to leaving the airport. There are

currently more than 48 countries who have ADF, most notably Australia. Toronto Pearson, along with several airports, conducted an economic study which showed that ADF would provide a positive revenue flow to both the provincial and federal governments.

DSS provides the opportunity to increase sales by allowing sales of duty-free goods to international passengers and duty paid goods to domestic passengers and employees.

Recommendation 5: The Government of Canada should modernize its duty-free policies and regulations to allow the establishment of Arrivals Duty Free (ADF) and Dual Shop Stores (DSS) at Canadian Airports to further support small and local businesses.

6. Leverage aviation to build more resilient supply chains

Toronto Pearson is essential to resilient Canadian supply chains, whether it is flying in life-saving vaccines and medical equipment or necessary food and household necessities. Toronto Pearson processes more than 45 per cent of Canada's air cargo. With a significant volume of cargo transported in the underbelly of passenger aircraft and a growing all-cargo business, it is critical for governments at all levels to provide certainty around air travel to ensure essential supplies are delivered where they are needed most.

Airports have been a physical facilitator of aviation, and although that remains critical, the importance and imperative for businesses and organizations to shift toward digitalization has been greater than ever. Working to introduce and invest in modern technology, innovations and solutions will progress Toronto Pearson to a digital future and enable more seamless movement of passengers and goods, new and more efficient ways of operating and more robust, multi-purpose and sustainable use of physical infrastructure.

Goods movement, global supply chains and logistics are critical to the global economy. We believe that extending the airport's role from an air cargo facilitator to an active player with a broader focus on logistics and multi-modal airport integration is essential. Developing facilities, introducing systems, and providing services that maximize the use of airport land and contribute value to logistics operators is imperative.

Throughout the past 24 months, the aviation industry has been drastically impacted. This has shifted our focus on the ways in which we can leverage our core business in aviation—and our land assets—to support the development of other industries in the region. We are looking at the potential redevelopment of lands surrounding the airport to attract and grow industries possessing strong synergies with aviation.

This may include innovation and technology, goods and logistics, health and wellness, and assess the opportunity for residential and entertainment developments that contribute to affordable housing options for Canadians. Additionally, investments in infrastructure for land assets to be development-ready and swiftly accommodate the needs of industries as they come online will be imperative, giving the nation a competitive advantage. Many cargo facilities require

redevelopment. Digitalization of cargo should be seen as an opportunity to increase the efficiency to cargo movement and utilize data to create future improvements.

GTAA participated in the National Supply Chain Summit and supports the government's continued focus on improving the resiliency of the supply chain.

Recommendation 6: The Government of Canada should continue its focus on supply chain resiliency and the development of a national strategy that incorporates and highlights the role of aviation in the national supply chain. It should specifically partner with industry to improve data collection, transparency, and digitized processing to acknowledge and address competitive and proprietary information, as well as support initiatives that generate greater service levels with CBSA to better facilitate the movement of goods.

7. Sustaining business in light of continued weakening finances

In October, the government replaced its broadly based CEWS program with two targeted programs geared towards the tourism and hospitality sector, and a program for the hardest hit companies: the THRP and the Hardest Hit Business Recovery Program. Airports, including Toronto Pearson, benefited from the CEWS program, with the wage subsidy helping to ensure that further positions did not need to be reduced. We also appreciate being eligible for the THRP; however, the program's restrictive criteria have prevented Toronto Pearson from qualifying.

THRP is currently available only until May 7, 2022, and the subsidy rates will decrease by half as of March 13, 2022. This is unhelpful given the ongoing need for the program.

The decision to decrease the THRP subsidy rate in March was likely based on the expectation that economic activity would increase significantly and thereby allow the Government to lower the subsidy rate. At the time this approach appeared valid; however, since then the emergence of the Omicron variant has led to further reductions in passenger traffic rather than the expected increase.

Recommendation 7: The Government of Canada should maintain the subsidy rates of the THRP at their current levels beyond March 2022 and continue to make the THRP available to eligible businesses until September 1, 2022. Moreover, the minimum current-month revenue loss requirement should be lowered from 40% to 20% for eligible companies to access the THRP.

8. Resourcing for recovery

As travel restrictions are changing, provinces move to remove vaccine verification requirements, and people begin to make the decision to travel again, it is important that there is a plan to ensure adequate resources are available to handle expected increases in passenger volumes. As we move towards the summer travel season, it is important that all government agencies are resourced to support recovery and increasing traveller volumes.

As we saw firsthand, COVID-related health measures put tremendous strain on CBSA and its ability to process even significantly reduced numbers of inbound international travellers. While travel measures are being rolled back and technology is being used, there remains a need to adequately fund CBSA to ensure that the agency has sufficient resources available at the airport to process at a level of 90 per cent of arriving travellers in 20 minutes or less.

To help Toronto Pearson regain its competitive position, it is important for the government to ensure that CATSA is adequately funded to exceed its current service level standard of processing 85 per cent of passengers within 15 minutes or less, and to move beyond this standard to an internationally competitive rate of 95 per cent of passengers processed within 15 minutes or less. In the longer term the government needs to examine the most effective model that can support an investment in technology to allow Canadian airports to regain their competitiveness.

US Customs and Border Protection (US CBP) provides officers for preclearance airports. As a result of the decrease in traffic, officer counts at preclearance airports have lowered. As traffic resumes, it is important that these resources are returned to their pre-pandemic levels. The Government of Canada must engage the US Government to ensure there is a plan to return to the pre-pandemic level of officers.

As passenger traffic returns it is important to ensure that all agencies are properly resourced, with FTEs and digital tools, to meet the expected increase in demand.

Recommendation 8: The Government of Canada should ensure that agencies like CBSA and CATSA are adequately resourced to meet the requirements for expected increases in travel volumes and meet globally competitive processing standards. The Government of Canada should likewise engage the US Government to ensure that there is a plan to return to pre-pandemic resourcing levels at preclearance sites.

Conclusion

The GTAA continues to work in collaboration with all levels of government, agencies, and other aviation partners to create a safe and healthy environment for passengers and airport workers. We continue to support an approach to resume travel in a safe and scientifically validated manner. Toronto Pearson is a significant driver of jobs, investment, trade, and tourism, and if leveraged properly, can be positioned to support Canada's economic recovery and future prosperity. We would be pleased to discuss this submission in greater detail at your earliest convenience.