

## 2018-2019 Federal Budget Submission

Prepared for the  
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Standing Committee on Finance

Greater Toronto Airports Authority

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## Summary

A key enabler of Canada's economic productivity and competitiveness, Toronto Pearson is on the verge of becoming one of the world's "mega hub" airports, defined by serving more than 50 million passengers annually, with at least 20 million of those being international passengers. Current mega hub airports include New York's John F. Kennedy, Hong Kong, and London Heathrow.

Serving 44.1 million passengers in 2016, passenger growth at Toronto Pearson continues. Over the past five years, Toronto Pearson has added almost 11 million passengers, equivalent to a 33 per cent increase, largely driven by the connectivity the airport offers and the growth of Canada's economy.

There are clear economic benefits associated with Toronto Pearson's connectivity and passenger growth: more jobs, trade, foreign investment, tax revenue, and tourism for Canada. We also need to grow responsibly. This means taking advantage of the economic opportunity that comes with greater global connectivity, while actively managing and reducing where possible the impact of our operations.

Government investment in regional transit, airport passenger throughput, and support for Duty Free programs can only help Toronto Pearson realize its mega hub potential and the resultant benefits for Canada's economic productivity and competitiveness.

## About Us

The GTAA is a not-for-profit corporation, operating on a commercial basis and managing Toronto Pearson since 1996. There is no taxpayer subsidy to fund operations or airport development, and surpluses are used to support Toronto Pearson's operations.

This commercial focus has resulted in revenue growth, greater operational efficiencies, and improved customer service. In 2016, the GTAA generated \$85.5 million in net income and \$1.3 billion in total revenues (30 per cent of which came from non-aeronautical revenues, such as parking, retail, and concessions). The GTAA paid \$148.1 million in ground rent to the federal government in 2016. An additional \$34.6 million was paid to the municipalities surrounding Toronto Pearson as payments in lieu of taxes.

The GTAA achieved these results while also reducing aeronautical fees paid by air carriers by 25–30 per cent since 2006, and investing more than \$850 million in capital expenditures between 2010 and 2016 to accommodate growth in passenger demand.

Additionally:

- Approximately 49,000 people work at Toronto Pearson. Another 300,000 people work in the surrounding Airport Employment Zone (AEZ).

- Toronto Pearson facilitates an economic impact of \$42 billion, almost 6 per cent of Ontario's GDP. By 2030, Toronto Pearson is expected to account for \$63 billion or 6.8 per cent of Ontario's GDP and support an AEZ of 478,000 people.<sup>1</sup>
- Toronto Pearson managed more than 456,000 flights in 2016, greeted more than 44 million passengers, facilitated 65 airlines operating at Toronto Pearson, and served more than 180 destinations worldwide.
- Toronto Pearson handles a third of Canada's daily passenger air traffic—120,000 passengers per day and more than 150,000 passengers on peak days.
- From 2015 to 2016, passenger volumes grew by a record 8.0 per cent or 3.3 million passengers.
- By 2035, Toronto Pearson is forecasted to serve 80 million passengers, more than 1 million tonnes of cargo, and more than 600,000 flights annually.

Toronto Pearson's opportunity to grow can be complemented by strategic policy changes and investment by the federal government.

As the Committee considers recommendations for the 2018–2019 Federal Budget, we ask that they include the following items.

## **Budget Recommendation 1**

### **Appropriate funding for the Canada Border Services Agency (CBSA) and the Canadian Air Transport Security Authority (CATSA) to deliver a globally competitive service level standard.**

Travellers today demand more from airports, expecting an efficient and consistent experience. Delays in security screening for departing passengers and border processing for arriving passengers are a significant competitive and operational challenge facing Toronto Pearson.

Two key Canadian government agencies work with the GTAA in this regard:

**CBSA:** In 2016, 14.3 million passengers were processed by CBSA at Toronto Pearson. By 2020, this number is expected to grow to 18.6 million passengers. Unfortunately, the funding allocated to CBSA has become inadequate, resulting in insufficient resources to consistently achieve a recommended service level standard of 95 per cent of passengers processed in 10 minutes or less, with no passenger waiting longer than 20 minutes.

In 2016, 985,000 passengers waited longer than 20 minutes to be processed by CBSA at Toronto Pearson. Due to congestion, the GTAA held passengers outside the Customs Hall 218 times and held 178 aircraft off gate, impacting more than 183,000 passengers.

The GTAA is committed to working with CBSA to implement a service level standard that can be easily understood, measured, and reported.

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<sup>1</sup> Frontier Economics Study

**CATSA:** Security screening is another major cause of passenger dissatisfaction at Toronto Pearson, when wait times are significantly longer than at other international airports. For example, at London Heathrow and Hong Kong International Airport, 95 per cent of passengers are screened in less than 5 minutes. At Paris Charles DeGaulle, 95 per cent of passengers are screened in less than 10 minutes.

To increase the number of CATSA operated screening lanes at Toronto Pearson, the GTAA entered a cost sharing agreement with CATSA in 2014. This agreement has been renewed annually. Even with GTAA funding, in 2016, CATSA service declined below 2015 levels.

In 2016, 18.5 million passengers were screened by CATSA at Toronto Pearson:

- 72 per cent of passengers in 10 minutes or less.
- Approximately 5.24 million passengers waited longer than 10 minutes.
- Approximately 2.71 million passengers waited longer than 15 minutes.

This means, on average, every day:

- Approximately 14,345 passengers wait longer than 10 minutes.
- Approximately 7,434 passengers wait longer than 15 minutes.

At some peak times, passengers waited longer than 60 minutes for screening services.

Toronto Pearson and the Canadian aviation industry goal is 95 per cent of passengers screened in 10 minutes or less, with no passenger waiting longer than 20 minutes. Additionally, the Air Travellers Security Charge (ATSC), established to cover the cost of air traveller security and screening, should be fully committed to funding CATSA. Currently, the GTAA estimates that only 85 per cent of the ATSC, about \$720 million collected in 2015-2016, is dedicated to CATSA.

The GTAA is undertaking additional analysis to share with government that demonstrates the investment needed at Toronto Pearson to achieve our recommended, globally-competitive service level standard for CBSA and CATSA.

### **Budget Request**

1. Implement a federally mandated service level standard for CBSA and CATSA—95 per cent of passengers screened in 10 minutes or less, with no passenger waiting longer than 20 minutes—consistent with other world-class airports, and increase funding for both agencies to efficiently manage passenger growth at Toronto Pearson.

### **Transit Investments—Multimodal Transportation Hub at Toronto Pearson**

For Toronto Pearson to maximize its economic contribution, it must be poised to support the Greater Golden Horseshoe area, particularly as road congestion around Toronto Pearson reaches critical levels.

With 300,000 people employed in the area around Toronto Pearson, the AEZ has more jobs than the central business districts of any major Canadian city, besides downtown Toronto.

Despite its size and economic importance, the AEZ has extremely limited transit options. Employees in the AEZ are dependent on personal vehicles, contributing to traffic congestion in the region and limiting their employment productivity.

It is estimated that travel times to the AEZ will increase by 25–35 per cent by 2043.

Passengers today expect connectivity and multiple transportation options when they arrive in one of the world’s most forward-thinking city regions. We see this in the percentage of passengers taking public transit at other world-class airports:

- 30 per cent in Vancouver
- 40 per cent in Amsterdam
- 60 per cent in Shanghai

By comparison, only 10 per cent use public transit at Toronto Pearson.

The West Greater Toronto Hamilton Area (GTHA) needs a regional transportation hub that complements Union Station downtown and provides connectivity for a region experiencing job and employment growth outside Toronto’s downtown core.

Nearly twice as many West GTHA commuters travel across the top of the GTA—the “Northern Arc”—to North Toronto and York Region, than to downtown Toronto. Yet, direct transit routes along the Northern Arc are limited, and fewer than 10 per cent of commuters along the Northern Arc use transit.

The Midtown Arc generates 134,000 trips per day from the west, and only 9 per cent of those trips are by transit.

Located between three municipalities, four major highways and several planned and existing transit lines, Toronto Pearson is well positioned to connect the surrounding regions and serve as the second major mobility hub for the GTHA.

To support the increased use of transit to the airport and the AEZ, Toronto Pearson has identified the following transit lines as priorities for government investment with connectivity to a regional transit centre at Toronto Pearson:

- Eglinton Crosstown West Light Rail Transit—Toronto
- Mississauga Bus Rapid Transit—Mississauga
- Regional Express Rail, Kitchener-Waterloo Line—Ontario
- High Speed Rail connecting Toronto, Kitchener-Waterloo, London, and Windsor—Ontario
- Finch Light Rail Transit—Toronto

### **Budget Request**

1. Explore every opportunity—in support of municipal and provincial governments, and the GTAA—to establish a phased, cost-shared investment plan to connect the various transit lines noted above to a new multi-modal regional transit centre at Toronto Pearson.

## Changes to Duty Free program to allow Dual Shop Stores and Arrivals Duty-Free

**Dual Shop Stores:** Dual Shop stores allow all passengers (international and domestic) to purchase duty free products when travelling through a mixed departures zone at an airport; all sales to international passengers are governed by the Duty Free program, and all sales to domestic passengers are subject to appropriate taxes and duties.

These stores will improve the overall passenger experience, while maintaining the integrity of the Duty Free program at all Canadian airports through clear and defined processes, risk mitigation techniques, and tax remittance to the Canada Revenue Agency (CRA).

Benefits Include:

- Competitive service in Canadian airports, consistent with U.S. and European airports
- Increased government revenues through the remittance of the applicable taxes and duties paid on domestic sales, as well as airport rent
- Further gains made from taxes, both on corporations and income
- Improved revenues to airport authorities through rent paid by retailers, which help to offset aeronautical fees and charges

A Dual Shop program has been operating in the United States for more than five years. Sales to domestic passengers are equivalent to approximately 10–15 per cent of current duty free sales.

Annual duty free sales in Canadian airports represent approximately \$415 million. Based on the performance of the U.S. program, a Dual Shop program across Canada is expected to increase sales by \$27.7 million, generating additional federal and provincial taxes of \$3.75 million annually.

**Arrivals Duty Free:** Today Canadian airports are permitted to sell certain goods duty free to passengers on their departure from Canada. Arrivals Duty Free (ADF) would permit passengers arriving at international airports in Canada to purchase duty free goods on arrival. ADF is available in about 60 countries around the world.

The introduction of an ADF program in Canada would repatriate revenue that is currently lost to foreign jurisdictions, and help Canadian duty free operators compete with their foreign counterparts who can sell on departure and arrival. There would be no cost to the government, and no changes in inventory, licensing requirements, or personal exemptions with an ADF program.

Expected financial benefits of ADF to Canada include:

- 80 per cent net new purchases
- \$280–\$350 million in repatriated sales (currently spent in foreign airports)
- More than 700 new direct and indirect jobs across Canada
- Nearly \$18 million in revenue and taxes for the federal government

**Budget Request**

1. Work with the federal and provincial governments to introduce Dual Shop Duty-Free stores and Arrivals Duty Free, consistent with other jurisdictions around the world.