

2020 - 2021 Federal Budget Submission

Prepared for the
House of Commons
Standing Committee on Finance

Greater Toronto Airports Authority

- August 2020 -

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Recommendations:

1. **Provide Canadian airports rent relief for 2021 and 2022**
2. **Release *Flight Plan* and establish a Phased, Coordinated Approach to Restarting Air Travel**
3. **Investment in critical infrastructure to enhance passenger safety and low touch technologies**
4. **Provide Canadian airports with the tools to generate more revenue to recover faster**
5. **Provide loan and bond guarantees to Canadian airports**

Thank you for the opportunity to submit our views on measures the federal government (Government) can take to restart the Canadian economy as it recovers from the COVID-19 pandemic.

Impact of pandemic on Toronto Pearson

When COVID first emerged as a threat our first instinct was – as always – for the safety of our passengers and workers in our facilities. We immediately implemented work from home protocols and implemented measures recommended by the Public Health Agency of Canada (PHAC). We jumped into action to bring Canada home and ensured supply chains remained opened allowing necessary medical equipment to be brought into the country.

The pandemic has had a devastating impact on all sectors of the Canadian economy. Travel and tourism have been uniquely hard hit as a result of inter-Provincial and international border restrictions.

Toronto Pearson is an essential part of the Canadian economy, facilitating an economic impact \$42 billion almost 6 percent of Ontario's GDP. Pre-COVID nearly 50,000 people worked at Toronto Pearson and 300,000 were employed in the Airport Economic Zone.

According to the Canadian Airports Council's (CAC) analysis, passenger volumes won't be returning to 2019 levels until 2024 - 2025. This assumes an available vaccine and no long-term global recession. For 2020, CAC anticipates that passenger volumes will decrease by 89 million – a 57% reduction. Internationally the International Air Transport Association (IATA) forecasts airline passenger revenues will fall 50% to \$419 billion in 2020. Earnings in Canada are expected to decrease by \$1.4 billion and revenues by \$2 billion.

Toronto Pearson experienced a 98% decrease in passenger volume for April (2020 over 2019.) The number of airlines decreased to 16 from 67. While there has been some growth in the summer, from domestic travel, it is far below our daily average passenger volume of 130,000 and 1,300 aircraft movements. Given that our revenues are generated through travel activity, the impact on our revenues has been significant.

Taking action where we can

GTAA took immediate steps to reduce expenses by dramatically decreasing our operating and capital spending, implementing a hiring freeze, and sadly, was forced to reduce its workforce by 27% (500 positions).

GTAA successfully completed in late July a Consent Solicitation with its bondholders, which temporarily relieves GTAA from complying with the rate covenant under its Master Trust Indenture for fiscal years 2020 and 2021.

While the 10-months ground rent relief provided by the Government is welcome, it only covers a fraction of fixed costs required to operate Toronto Pearson safely, securely and efficiently. Toronto Pearson was identified early in the pandemic by Government to continue operating international flights. As the airport faced dramatic reductions in revenues, it supported the repatriation of Canadians and continued movement of essential cargo.

Many of our partners also have felt the impact of the pandemic and advised that approximately 11,000 non-GTAA employees have been laid off or furloughed. We are installing physical barriers in all 634 taxi and limos currently serving the airport and providing them a 70% fee reduction for April to December.

GTAA is prepared to be the engine of Canada's recovery when travel resumes. Passenger travel creates foreign direct investment, establishes headquarters for international companies and increases trade.

Our Healthy Airport Commitment

GTAA is investing to support the health and safety of the workforce and passengers and to restore people's confidence in travel.

We began June 1st by implementing four healthy airport principles - mandatory masks for all workers and passengers, physical distancing, restricting terminal access, and increased hygiene/cleaning. On June 23rd we announced our Healthy Airport commitment and additional innovative features including terminal air quality monitoring, fogging/sanitization of carts, robotic floor cleaners, a disinfection tunnel, and trialing probiotics in our washrooms amongst other innovations. We are working closely with our air carriers, government agencies and business partners to deliver this program. GTAA partnered with BlueDot to monitor and manage risk from COVID-19 and other infectious diseases. This partnership will power GTAA's commitment to preparedness and resilience.

We aligned our commitment with international guidance from the International Civil Aviation Organization (ICAO) and implemented a vast majority of their recommendations. The remainder requires government investments to complete; investments in border technology, e-gates, facial recognition, and national principles for restarting travel. We collaborated with industry, Government and agencies on the development of '*Flight Plan*', a collaborative action

plan that is aligned with international best practices in health and aviation and key to a successful restart. GTAA needs the assistance of Government to kick start Canada's recovery by responsibly re-opening travel.

Flight Plan – A Phased, Science-based Plan for Re-opening

Putting health and science at the heart of all decisions, we strongly recommend that a risk-based approach be followed to implement a coordinated reopening of air travel, starting first with domestic travel.

For international travel, GTAA encourages the Government to release *Flight Plan* and establish a framework for reopening with other low-risk countries. This allows for border restrictions and quarantine requirements to be relaxed in a targeted manner for returning Canadians and visitors from low-risk countries. The framework should be based on criteria related to epidemiological situation, containment measures, including physical distancing, and, economic and social considerations in the other country. Flexibility is a key principle, meaning it will always be possible, if necessary, to reintroduce the travel restrictions for a specific country if the epidemiological situation worsens.

The EU established the following criteria in coordination with the European Centre for Disease Prevention and Control:

- 16 to 20 cases of new infections per 100,000 population would be deemed “low-risk”.
- Trend in new infection rate.
- Response to COVID-19 - information relating to testing, surveillance, contact tracing, containment, treatment and reporting.

Many countries have assessed Canada as low-risk and opened or announced they are opening up to Canadian residents. Until Canada reciprocates, these announcements will result in limited increase in travel. Canada must take steps to emulate other countries and develop a framework for responsible reopening of travel with other low risk countries. We recommend that *Flight Plan* be completed and released as quickly as possible, so that industry and the public can understand the expectations and requirements for international travel.

Recommendations

GTAA submits the following recommendations of measures that Government can take to restart the Canadian economy:

1. Provide Canadian airports rent relief for 2021 and 2022

As part of our 60 (+20 year) year lease with Government GTAA pays rent through a progressive rent formula that maximizes at 12% of gross revenue.

GTAA appreciates the rent relief provided by Government. Based on the final revenue numbers for 2019, ground rent accounted for 12% of our annual expenses. Rent relief provides an immediate benefit by reducing expenses during a year of severely reduced revenues as well as a benefit to covenant calculations. The reduced operating expense improves EBITDA, Net Income, Debt Service, and all critical metrics in calculating bond covenants and credit metrics.

GTAA continues to look at all options for increasing financial stability; future year rent relief is an important option to facilitate ongoing operations.

2. Release *Flight Plan* and establish a Phased, Coordinated Approach to Restarting Air Travel

GTAA supports Government's actions to ensure the safety of Canadians from the pandemic. The aviation industry has implemented global best practices to reduce risk of COVID-19 transmission and provide a healthy environment for our employees and passengers. Through Toronto Pearson's Healthy Airport commitment and in collaboration with our partner airlines, we believe that Government should support the opening of domestic travel across Canada as well as healthy travel corridors with other low-risk international destinations, using COVID-19 testing as appropriate and in alignment with emerging international standards.

Further, we encourage Government through Health Canada and PHAC, and in cooperation with Provincial health officials, to examine and approve a rapid testing standard for use at airports. Airports and carriers are currently examining options to deploy rapid testing as another layer of protection and as means of restoring confidence in travel.

We applaud Government's efforts to employ national standards to ensure employee and passenger safety through requiring masks and temperature screening. We recommend increased promotion of the ArriveCAN app and require airlines to hand out the forms en route to those without the app to enhance flow and physical distancing at the airport.

3. Investment in critical infrastructure to enhance passenger safety and low touch technologies

GTAA recommends that Government examine investment in critical infrastructure to enhance passenger safety. Government and the aviation sector must together adapt to the new normal of ensuring a healthy environment for travel. For Toronto Pearson this means an investment in an Arrivals and Transfer Facility at Terminal 3 (T3 ATF). The current configuration at T3 requires transiting passengers to collect their bags, exit the secure area and re-check their bags to continue on the next leg of their journey.

In partnership with Government, GTAA can reconfigure the flow to ensure transiting passengers remain on the secure side, thereby reducing interaction with the general passenger population. This not only contribute to a healthier environment but also expedites passenger flow, reduces queues and congestion, and facilitates physical distancing. This investment could create approximately 10,000 direct and indirect jobs over the life of the project.

Other areas where Government can partner with airports is with border modernization and additional low-touch or no-touch processes that contributes to healthy travel, including facial recognition technology (currently used for incoming NEXUS travellers) and accelerating the Digital Travel Credential (DTC), and enabling touchless technology such as e-gates. Modernizing the cargo supply chain through digitization of data is also needed.

The GTAA continues to undertake a detailed study of potential transit connections to the airport from various points in the region, including Eglinton LRT. These connections will help to connect the GTA to Canada's second largest employment zone.

4. Provide Canadian Airports with the tools to generate more revenue to recover faster

Government can assist Canadian airports by providing opportunities to increase Non-Aeronautical Revenue through the establishment of Arrivals Duty Free and Dual Shop Stores.

Arrivals Duty Free (ADF) allows arriving international passengers to purchase duty free products prior to leaving the airport. There are currently over 60 countries who have Arrivals Duty Free, 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. Our study found that, pre-COVID, Canada lost sales of approximately \$300 million. ADF increases total market opportunities for Canadian goods.

Dual Shop Stores (DSS) provide the opportunity to increase sales by allowing sales of duty free goods to international passengers and duty paid goods to domestic passengers and employees.

This model generates a net positive cash flow for government, protects jobs currently and generates much needed revenue for airports. Our recommendation is that these stores be established and allowed to sell current duty-free products (with the exception of alcohol and tobacco). ADF and DSS would provide financial stability for Canadian airports, its duty-free operators and their employees.

5. Provide loan and bond guarantees to Canadian airports

Loan and bond guarantees from Government enables airports to avoid action by creditors until passenger activity levels return to profitable levels and, in the case of a loan or bond default, the airport does not revert to the lenders.

Conclusion

Thank you once again for the opportunity to submit our ideas. We request an opportunity to present at the Committee's public hearings for the 2021 budget.