Rebuilding the economic sustainability of Atlantic Canada's airports

Submission to the House of Commons Standing Committee on Finance's pre-budget consultations in advance of the 2021 federal budget

Atlantic Canada Airports Association

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Recommendation Summary

Assist in mitigating airport operating financial challenges

Recommendation #1:

- Create a moratorium on airport ground lease rents for the next five years for all NAS airports to maintain operational liquidity as air traveller demand recovers. In addition, permanently eliminate ground lease rents for all NAS airports, with exception of the largest 8.

Recommendation #2:

- Provide short-term operating grants for airports to strengthen and maintain financial liquidity.

Assist airports in meeting critical infrastructure capital expenditure needs

Recommendation #3:

- Provide expanded funding to existing programs (ACAP, National Trade Corridor Program Expansion, federal/provincial bilateral agreements) to implement critical infrastructure capital expenditures.

Recommendation #4:

- Provide new programming specific to the realities of COVID-19 to assist airports in meeting emerging new and/or enhanced safety and security requirements.

Assist the air travel industry in restoring traveller confidence and demand

Recommendation #5:

- Develop and implement promotional, security and passenger movement initiatives that aid in restoring traveller confidence in and demand for pan-Canada and international air travel.

Background and Current Situation

- The Atlantic Canada Airports Association is a not-for-profit association representing the interests of 12 airports in Atlantic Canada.
- Member airports are not-for-profit, non-share capital corporations operated as businesses where operating surpluses are invested in airport operations, infrastructure and air service development.
- The COVID-19 pandemic has had a devastating negative economic impact on airport revenues resulting in significant operating losses.
- Between April and June 2020, year-over-year passenger traffic is at 4 percent of normal levels. It is currently estimated that passenger traffic in 2020 will be 70 to 80 percent lower than 2019.
- While passenger traffic dominates airport revenues, revenue losses are compounded by tenant demands for pricing concessions (car rentals, foodservice, retail, carriers).
- It is currently estimated that Atlantic Canada's airports will experience a $140 million loss in revenue in 2020 compared to 2019.
- Governments and public health officials have been proactive in implementing border restrictions and traveller self-isolation requirements, but these actions have contributed materially to reductions in air travel demand and the significant financial losses incurred by airports.
- The longer air travel is restricted, the more financially strained and weakened the region's airports become, and the harder it will be for airports to be economic 'spark plugs' for the communities they serve.
- No amount of financial planning or oversight could have prepared the air travel industry for the impacts of COVID-19.
- Considerable uncertainty exists as to future impacts associated with the presence of COVID-19.
- Atlantic Canada's airports play a key role in the economic vitality of Atlantic Canada. Air transport is the connective tissue of the Atlantic Canadian economy; connecting regional companies to corporate headquarters elsewhere, moving goods and services throughout North America, and so on.
- Global, Atlantic Canada-based corporations are able to headquarter their operations in this region due to efficient air access. If this access were to diminish or disappear altogether, these major employers could relocate to a major centre with better air travel options, further exasperating the economic recovery challenge.
- Atlantic Canada's airports are expecting a protracted 4-5-year recovery in air traveller demand to regain 2019 levels of traffic.
- Airports provide essential services but have considerable fixed costs and must maintain infrastructure at highly regulated operational standards for the safety and security of travellers, ground crews and flight crews.

- Airports operate as efficiently as possible. There is limited ability to significantly reduce operating costs, approximately 90% of operating costs are fixed and maximum reductions have already been implemented.
- Airports' financial juggling is not sustainable. Without federal financial aid it is likely that there will be a dramatic increase in the cost of air travel, with the risk that this will contribute to an extended lack of motivation for the public to fly and act as a deterrent for returning or new air service to the region.

Discussion

Assist in mitigating operating financial challenges

Recommendation #1:
Create a moratorium on airport ground lease rents for the next five years for all NAS airports to maintain operational liquidity as air traveller demand recovers. In addition, permanently eliminate ground lease rents for all NAS airports, with exception of the largest 8.

Recommendation #2:
Provide short-term operating grants for airports to strengthen financial liquidity.

- The impacts of COVID-19 to date are unprecedented and have resulted in devastating negative economic impact on airport revenues resulting in significant operating losses.
- No amount of financial planning or oversight could have prepared the air travel industry for the impacts of COVID-19.
- As not-for-profits, airport operating surpluses are re-invested in airport operations, infrastructure and air service development.
- Negative cash flow challenges financial sustainability as most airports have been forced to use capital reserves for operational purposes and/or borrow to finance operations.
- Airport ground lease rents to the federal government are revenue based and historically have been a major operating cost. As air travel demand recovers, ground lease rent payments will increase, which will contribute to the challenges of financial recovery.
- Eliminating ground lease rents is straightforward to implement and would make a significant contribution to the medium and longer-term financial recovery among Atlantic Canada's 3 largest airports including Halifax Stanfield International Airport, St. John's International Airport and Greater Moncton Roméo LeBlanc International Airport.
- Near-term operating losses being incurred have serious negative financial implications that cannot be responsibly addressed through the use of capital funds or the addition of debt to finance operating working capital.
- Atlantic Canada's airports face a material near-term financial liquidity crisis. Fixed term, non-permanent operating grants from the federal government would be invaluable in helping to mitigate the liquidity issue and in assisting airports to transition to the operational realities of the presence of COVID-19.
- It is notable that under the 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act, the U.S. federal government has authorized $10 billion USD in non-repayable funding as economic relief for U.S. airports affected by COVID-19 and an additional $13 billion USD is being sought to expand this relief effort to US airports.

Assist airports in meeting critical infrastructure capital expenditure challenges

Recommendation #3:
Provide expanded funding to existing programs (ACAP, National Trade Corridor Program Expansion, federal/provincial bilateral agreements) to implement critical infrastructure capital expenditures.

Recommendation #4:
Provide new programming specific to the realities of COVID-19 to assist airports in meeting emerging new and/or enhanced safety and security requirements.

- Airports provide essential services but have considerable fixed costs and must maintain infrastructure at highly regulated operational standards for the safety and security of travellers, ground crews and flight crews.
- As not-for-profits, airport operating surpluses are invested in airport operations, infrastructure and air service development.
- The ability of Atlantic Canada's airports to address existing regulated infrastructure needs in a timely manner has been seriously compromised due to the negative financial impacts of the COVID-19 pandemic.
- Incurring additional debt for capital expenditures is not within the financial capacity of Atlantic Canada's airports without creating issues of financial sustainability and greatly increasing the cost of travel in the region in the future.
- The federal government is well-positioned to leverage existing funding programs to aid airports with non-debt partnership funding of infrastructure projects by increasing total program funding.
- For example, for several years an increase in Airports Capital Assistance Program funding to $95 million from $38 million has been advocated. Now, more than ever, the need and justification exists. Small airports would benefit greatly from increased federal percentages of support toward safety related projects.
- COVID-19 has forced airports to make unexpected and unplanned capital expenditures on infrastructure changes to address new health and safety regulations and protocols. This is an evolving situation and it is almost certain in the near-term that additional expenditures will be required for touch point reduction, testing and contact tracing.
- As COVID-19 related capital expenditures were unexpected and unplanned they have added considerable additional financial pressure on Atlantic Canada's airports.
- Given the financial liquidity issues faced by airports, federal government financial assistance specific to COVID-19 capital expenditures is needed.
- Federal assistance could consist of expanding the programs' contemplated scope, increasing total funding available, or increasing the federal government percentage share of the contribution. This could also be targeted to projects of a safety, security, or regulatory compliance nature.

Assist the air travel industry in restoring traveller confidence and demand

Recommendation #5:
Develop and implement promotional, security and passenger movement initiatives that aid in restoring traveller confidence in and demand for pan-Canada and international air travel.

- Despite health and safety measures implemented by airports and air carriers, the general public has low confidence in air travel due to COVID-19.
- Whether it is pleasure, personal or business travel, airports play an essential role in air travel and the resulting economic activity that all Canadians benefit from given the significant economic multiplier effect directly linked to air travel.
- The federal government has the expertise, scope and scale to play a leading role in restoring confidence in air travel. This can be achieved through any combination of promotion that enhances awareness, knowledge and comfort, and in-transit innovation that enhances "touchless," safe distancing and efficient passenger movement.

In Conclusion

- Atlantic Canada's airports have worked hard over the past decade with the federal government to create a policy environment that improves the cost competitiveness of aviation in Canada. In early 2020, the industry was poised for the largest tourism season on record supported by significant increases in air access both domestically and from Europe.
- The negative economic impact of COVID-19 on airports is unprecedented. It has had a material negative impact on the traditional Canadian airport business model in place since the federal government exited the business of operating airports in the 1990s.
- The immediate impacts of COVID-19 have created serious financial liquidity issues for Atlantic Canada's airports. Business recovery will be protracted, and future financial health and sustainability will be impeded by the significant short-term losses being incurred.
- Atlantic Canada's airports play an important role in the economic vitality of the communities served, the Atlantic region, and the national air transportation network. We must begin today to adapt and reposition airport operations to the realities and impacts of COVID-19 and to restore the enormous economic potential in air travel to and from Atlantic Canada that existed prior to the onset of the virus.
- The federal government has well-established partnerships with Atlantic Canada's airports. As Canadians adapt to the presence of COVID-19 there is both a critical immediate and near-term need for additional federal government financial support that is key to long-term economic recovery and financial health, and the ability of Atlantic Canada's airports to efficiently, cost-effectively and competitively serve air service providers and travellers.

ACAA
Atlantic Canada Airports Association
Association des Aéroports du Canada Atlantique