

# TORONTO PEARSON INTERNATIONAL AIRPORT

## Growing Canada with a Mega Hub Airport

December 2016



Toronto  
Pearson



*Growth at Toronto Pearson enables growth across Canada. Toronto Pearson has the opportunity to join a new tier of airports, enhancing passenger experience and stimulating the economy, if it can succeed in three key areas:*



# 1. INTRODUCTION

***Great cities rely on their airports to connect them to the world.*** Airports are recognized as economic catalysts for the communities they serve, delivering jobs and investments to the local municipalities. The impact of international airports is even greater; they provide links to global markets while fostering trade, investment and tourism. Around the world, a new tier of international airports known as mega hubs are emerging, thanks to growing consumer demand for air travel that is expected to double over the next 30 years. This demand is creating prosperity through global connectivity that far outweighs the economic strength of the local airport's home region.

Already a major global hub airport providing Canadians with a gateway to the world, and home to the second largest employment zone in the country, Toronto Pearson International Airport ("Toronto Pearson"), has the potential to join airports such as London Heathrow, Dubai and Singapore as one of the world's few true mega hub airports, and realize many benefits from coast to coast to coast. This group of mega hub airports are highly connected to a large proportion of the world's GDP and benefit from a high degree of international connecting passengers. Mega hubs are becoming increasingly important in facilitating routes and global trade.

Cities that are home to mega hub airports outperform cities of the same or even larger size, in terms of connectivity, meeting the growing consumer demand for more direct flights to an even greater number of destinations. The connecting passenger flows make routes viable for air carriers that local markets alone could not support. Such connectivity is a source of competitive advantage to the city-region, in which the airport is located, and it confers economic benefits to the country as a whole through the facilitation of greater trade, tourism and foreign direct investment ("FDI").

Within their metropolitan areas, global hub airports become home to major employment clusters, often second only to the area's key central business district as seen in Toronto with the job zone surrounding Toronto Pearson. In addition to the significant number of jobs associated with the operation of the airport, there are direct, indirect, induced and tertiary jobs created by aviation-related industries. Mega hub airports attract businesses that require international connectivity and are willing to pay a premium for proximity to the airport, this in turn impacts land values and uses in the area, particularly when served by robust rapid transit networks.

There is a limited window of opportunity for Toronto Pearson to develop into a mega hub. In North America, John F. Kennedy International Airport ("JFK") in New York and the Los Angeles International Airport have already reached this status with a handful of global hubs following closely behind, competing to achieve mega hub status. The Greater Toronto Airports Authority ("GTAA"), which operates Toronto Pearson, forecasts that regional and international traffic demand may require it to accommodate upwards of 80 million passengers by 2035, which implies an increase in passenger volume of almost 40 million. Adding 40 million passengers in 20 years is not unprecedented: Hong Kong accomplished this feat in 20 years, Frankfurt in 23 years and Singapore in 25 years. More importantly, these airports have been able to support this growth while also delivering best in class passenger experiences.





Toronto Pearson faces a number of challenges which must be overcome before it can unlock its full potential for passengers, trade and growth, and as an anchor employer for the Greater Golden Horseshoe<sup>1</sup> (“GGH”), a key economic zone in Canada. Toronto Pearson faces congestion on its roads and within its terminals. Investment in public transit connecting Toronto Pearson and the Airport Mega Zone (“AMZ”) to the surrounding region will help address road congestion. Additionally, congestion at the processing points within the airport terminals (e.g. security screening, customs, and immigration) must be addressed through the provision of faster security screening and border crossing processes to minimize overall wait times. The adoption of policies to support international passenger connectivity will, in turn, facilitate growth of the hub, as well as non-aeronautical revenues.

Addressing these challenges and supporting Toronto Pearson in becoming a mega hub would provide a host of benefits to Canadians, including increased convenience, choice, improved access and competitive prices. Governments at all levels have a crucial role to play in helping Toronto Pearson to seize the opportunity to become a mega hub airport. By supporting the airport’s development, governments can advance their economic development and trade agendas while fuelling job growth and economic success locally.

### ***The Airport Mega Zone***

*The employment zone around Toronto Pearson is home to the most significant employment concentration in the country after downtown Toronto, according to a report by the Neptis Foundation. The area represents a regionally significant concentration of manufacturing, warehousing and transportation employment, as well as finance and business service jobs. In fact, the Airport Mega Zone (“AMZ”) is home to more finance and business service jobs than all employment in the North York City Centre. Compared to provincial figures showing a net loss in core employment between 2001 and 2011, the total number of jobs in the AMZ grew by 22,550. As the AMZ continues to grow, road congestion is a key constraint as more than 1 million car trips a day are generated by the area, which lacks in transit service. To address the auto dependence of workers in the AMZ, as well as this significant source of traffic congestion and greenhouse gas emissions, regional transit planning needs to focus on a comprehensive approach, better serving the whole area by transit.*

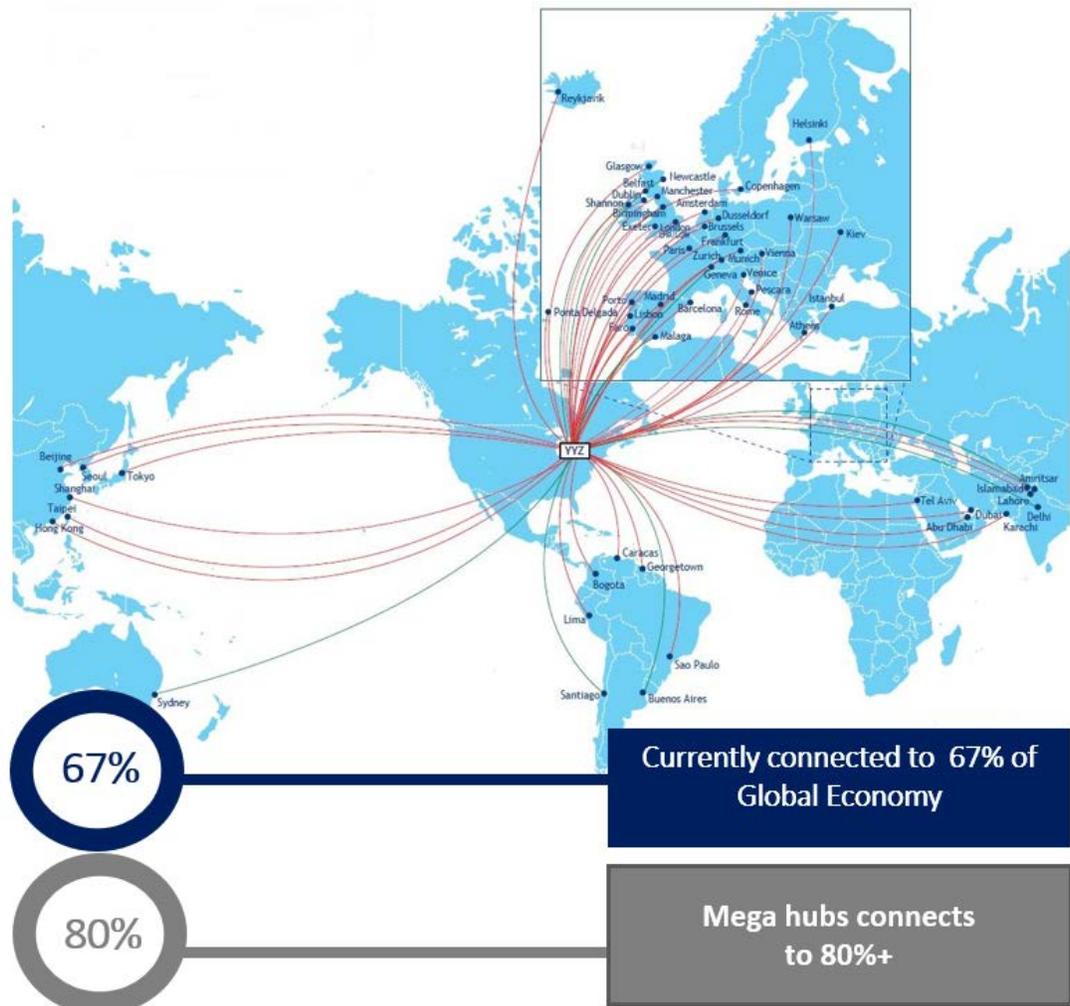
<sup>1</sup> The Greater Golden Horseshoe is a region of Southern Ontario and is the most densely populated and industrialized region in Canada. The region covers approximately 33,500 km<sup>2</sup> and the core of the region includes Niagara Falls, Hamilton, Toronto and Oshawa. The wider region reaches the Waterloo region, Barrie and Peterborough.



## 2. MORE DESTINATIONS FOR TRADE AND TOURISM

While there are some large airports that facilitate travel within North America, connectivity from the continent to the rest of the world is primarily facilitated by a few key international airports, which include the mega hubs in New York and Los Angeles, as well as a small group of global hubs, which includes Toronto Pearson. In recent years, Toronto Pearson has experienced rapid growth in passenger volumes, as a result of Canada's economic expansion – and the particular strength in the Greater Golden Horseshoe (“GGH”) – the gradual shift to a more services and export-focused economy, and the GTAA's investment in new and modern facilities. There has been particularly significant growth in international passenger volumes making Toronto Pearson one of the most important international aviation hubs in the Americas.

In 2015 alone, Toronto Pearson connected 443,000 flights and 41 million passengers between 180 destinations worldwide. It is forecasted that Toronto Pearson will end 2016 having served more than 44 million passengers. The airport connects the GGH to some of the most important economic centres in the world: 67 per cent of the world's GDP is accessible by daily, non-stop, scheduled services from Toronto Pearson. In North America, Toronto Pearson today is second only to JFK as measured by numbers of international passengers and routes.



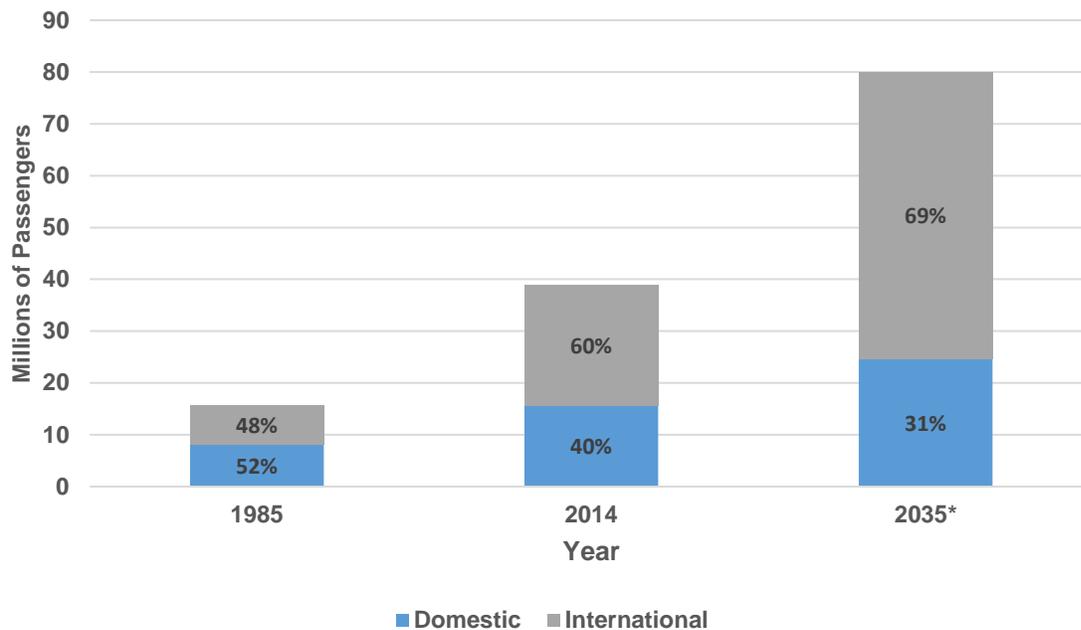
As one of North America's key gateways to the world, Toronto Pearson provides connectivity not only to passengers originating from the GGH, but also to passengers from other parts of Canada, the United States and South America. Canadian cities that are unable to support point-to-point routes with international destinations benefit from the added connectivity that Toronto Pearson provides. For example, in 2015, there were 2.1 million passengers who used Toronto Pearson to connect between international destinations and other parts of Canada, while there were 914,000 passengers connecting on journeys to and from the United States. Toronto Pearson is also an important enabler of tourism, as 42 per cent of visitors to Canada arrive at Toronto Pearson.

### Enabling Tourism

*Non-stop, jet flights from Toronto to Kelowna, B.C. allows skiers from the Eastern United States and Europe to enjoy Big White, while arriving at the same time as their skis and boots.*



**Figure 1: Toronto Pearson passenger numbers and mix 1985-2035**



Source: Toronto's Global Hub Airport: Sustaining Growth & Delivering Economic Benefits

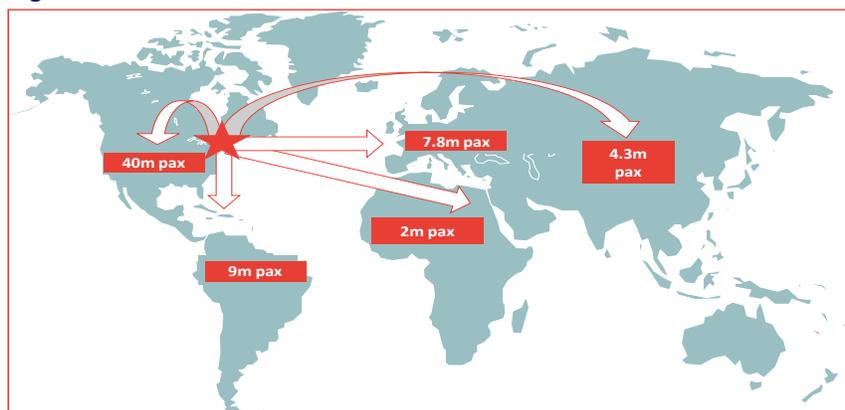
\* Forecasted values





Toronto Pearson is an essential component of the logistics supply chain for Canada's export industries, acting as the link between the national ground transportation network and global markets. Toronto Pearson facilitates 15 per cent of the province of Ontario's exports, which is equivalent to 6 per cent of all Canadian exports.<sup>2</sup> The airport provides pivotal support for exports from all parts of Canada, including \$79 million in live Atlantic Canada lobster and \$1.7 billion in diamonds nationwide. Toronto Pearson facilitates 50 per cent of Northwest Territories' total exports in diamonds alone. The growth of Toronto Pearson is anticipated to continue, supported by its geographical advantage as the primary international airport for many parts of Canada and the North Eastern United States. With the potential to accommodate 80 million passengers by 2035 and an increasing international reach, Toronto Pearson has the opportunity to become a mega hub.

**Figure 2: How Toronto Pearson connects Canada to the world**



Source: Frontier Economics study for GTAA

<sup>2</sup> GTAA: Toronto Pearson supports Ontario's export economy



At the same time, the GTAA has the capacity required to support this increase in growth. The current governance model—the GTAA is a not-for-profit corporation that operates Toronto Pearson as a commercial, for-profit business—has generated unparalleled results among North American airports, while several cash strapped airports in the United States have struggled to accommodate growing air demand (see Figure 3).

**Figure 3: GTAA’s management of Toronto Pearson airport**



### 3. A CRUCIAL COMPONENT OF THE ECONOMY

City-regions play a central role in driving global economic growth. Around the world, the 300 largest cities generate almost half of the world’s output despite accounting for only 20 per cent of the world’s population.<sup>3</sup> Many city-regions, such as the Greater Golden Horseshoe (“GGH”), are the dominant clusters of economic activity and the engines of their local, regional and national economies.

The economic prosperity of city-regions is inextricably linked to their connectivity to the rest of the world, which is primarily provided by large international hub airports.<sup>4</sup> By expanding the reach of trade, foreign direct investment (“FDI”) and tourism, and by facilitating deeper integration with international markets, greater connectivity provides city-regions with increased opportunity for economic growth. Moreover, it is the connectivity provided by large international hubs that will allow Canadian businesses to participate fully in the trade agreements that are being pursued by Canada’s Federal Government.

<sup>3</sup> The Global Metro Monitor

<sup>4</sup> International hubs are large airports that primarily facilitate and accommodate larger aircraft used for intercontinental and international travel. Domestic hubs primarily handle domestic flights and primarily use short- to medium-haul aircraft and carriers. For example, although Chicago O’Hare is a high volume airport, the majority of its flights are domestic.





Hub airports enable several unique economic benefits by providing connectivity to destinations that would not otherwise be reached. For example, Toronto Pearson provides direct routes to destinations such as Tel Aviv, Madrid and Copenhagen, markets to which the GGH on its own could not likely support a direct route. As a result of the hubbing of traffic that occurs at the airport, these routes become viable, and thereby, local businesses benefit from direct access to existing and new customers and expanded markets.

In addition, hub airports generate substantial economic activity and employment as a result of their extensive operations and the operations of various associated businesses, such as hotels, ground transportation businesses and off airport parking facilities.

Southern Ontario is a thriving metropolis and home to businesses that are critical to the nation's economy, and the region's airports play a significant role in accommodating and supporting this growth. The economic value facilitated by the airport encourages businesses to locate close to the airport, further accelerating growth of the local economy. The area around Toronto Pearson, the Airport Mega Zone ("AMZ"), is now the second largest employment zone in Canada with more than 300,000 jobs. Additionally, the growth of Toronto Pearson would increase economic activity within the AMZ, generating additional jobs.

Hub airports are therefore valuable assets and facilitate economic development in a city-region. Indeed for some cities, the presence of a major hub airport has become a key driver of economic growth and a source of competitive advantage. For example, in Dubai, the contribution of the aviation sector to GDP is estimated to be more than 25 per cent and growing.

### **Jobs across Canada**

*Due to superior connectivity provided by Toronto Pearson, INKAS Group of Companies has been headquartered in Toronto for over two decades, offering security solutions to retailers, government agencies, financial institutions, global corporations and high profile individuals all over the world.*



Recent research suggests that the contribution that Toronto Pearson makes to the Canadian economy is already substantial. When the benefits of connectivity are taken into account, Toronto Pearson is estimated to support a total of \$42 billion or 6.3 per cent of Ontario's GDP and 332,000 jobs. However, these impacts could be even bigger if Toronto Pearson can seize its opportunity and develop into a mega hub as current trends suggest it could. With the current forecasts of GDP growth and with the prospect of Toronto Pearson increasing its share of the North American connecting traffic market, it is estimated that by 2035 there could be more than 80 million passengers passing through Toronto Pearson each year. The effect thereof would be to support an estimated 8.5 per cent of Ontario's GDP and up to 700,000 jobs.

In light of the social and economic benefits, Toronto Pearson as a mega hub airport would represent a major economic milestone, for the GGH, and for all of Canada. There are currently a small number of mega hubs, which are becoming increasingly influential in the global aviation industry, controlling international routes and the flow of goods and people by air. While other airports in North America struggle to address capacity issues, the ascension of Toronto Pearson to this group of mega hub airports and its establishment as one of North America's premier hubs would bring substantial economic benefits to Ontario residents, and more broadly to all Canadians. Toronto Pearson's connection to the world expands Canada's trade relationships, encourages FDI and supports the GGH, Ontario and Canada as a tourist destination.

### **Enabling Exports**

*In 2014, \$39 million of Canadian live lobster was exported to China via a value route direct through Toronto Pearson, enabling Atlantic Canadian lobster to be on a dining room table in Beijing in 24 hours.*



## **4. REALIZING THE OPPORTUNITY**

The potential for Toronto Pearson as an asset to generate increased economic growth for the region is considerable. As Toronto Pearson grows, however, it is important to recognize the potential challenges it faces. Lessons learned from other major airports, including London Heathrow, which today is operating at capacity and losing significant shares of international traffic to Dubai, highlight the risks of not preparing appropriately and investing for the anticipated growth.

There is a time-limited opportunity to address the barriers facing the airport quickly, so that Canadians can realize the economic and social benefits. Three priority areas have been identified to help Toronto Pearson deliver a better passenger experience and enhanced levels of economic growth for the region and nation. First, improved transportation access to the airport will allow the region to benefit from the economic activities generated by the airport. Second, achieving hassle-free passenger flow for originating, destination and transfer passengers is critical; and finally, policy amendments are necessary to encourage foreign travellers to come to Canada to visit, invest and do business.



## OUTSIDE THE AIRPORT – TRANSIT INVESTMENTS

The connectivity of the Greater Golden Horseshoe (“GGH”) depends not only on the availability and frequency of flights from Toronto Pearson, but also on the ability of the region’s transportation infrastructure to provide access to, from and around the airport for both employees and passengers. Rapid and frequent transport links with downtown Toronto and other parts of the GGH reduce journey time and reduce the cost of travelling for business people, tourists, and employees, which in turn is likely to facilitate greater economic benefits in the region.

Improving transit infrastructure around the airport with transit lines linked directly to Toronto Pearson will shorten commute times for passengers and employees, and ease congestion on the roadways making it easier for goods movement—a critical component of the airport’s operations and the region’s economy. The highways around Toronto Pearson are among the most congested in the region and carry the highest value goods of any roadway in the country. Shifting people out of their cars and onto transit would free up space for high-value products to move more quickly.

According to the Neptis Foundation, the Airport Mega Zone (“AMZ”) is the second largest employment area in the country, only smaller than downtown Toronto with a workforce of 465,000.<sup>5</sup> Despite its size and economic importance, the area surrounding Toronto Pearson has limited transport connections to the city and region, inconveniencing both employees and passengers. The area also is in close proximity to many of the region’s priority neighbourhoods, including Rexdale, Humberlea, Mount Olive, and others.



<sup>5</sup> Pearson Connects: A Multi-Modal Platform for Prosperity

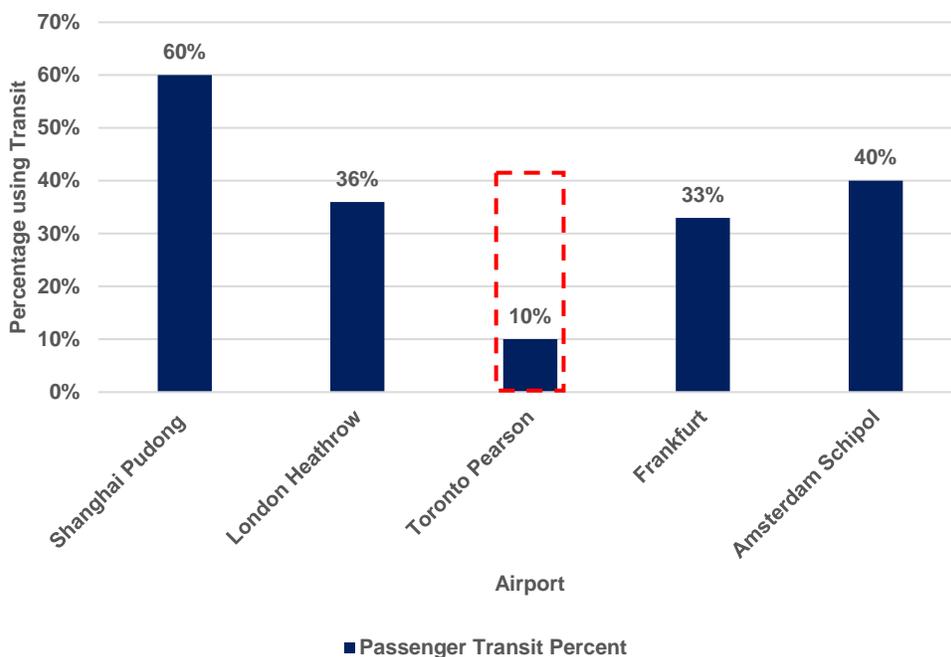


Only 10 per cent of passengers and employees combined use public transit at Toronto Pearson today, which is referred to as the transportation mode split. This figure is particularly low by international standards (See Figure 4). For example, the figure for London Heathrow, is 36 per cent, while the average passenger mode split to transit at mega hubs around the world is 34 per cent. Toronto Pearson aims to achieve a mode split to transit for passengers and employees of between 20 and 30 per cent.

The GTAA has increased investments in its existing terminal transit centres with enhanced signage and lighting, however the GGH requires another multi-modal transit hub to support its growth. Such a facility should include a network of busses, airport express trains, metro/rapid transit and regional/national trains. A multi-modal transit hub would provide travel options and capacity for the millions of people who travel to, from and through the airport, or the surrounding employment zone.

The Union Pearson Express represents a significant upgrade in public transit access between the airport and downtown Toronto, and is proving popular with passengers and employees. The Union Pearson Express is not sufficient in meeting the mode split Toronto Pearson needs, as it can only serve 800 passengers per hour, coming directly from downtown.<sup>6</sup> While there are a growing number of planned transportation routes approaching Toronto Pearson, such as the Eglinton and Finch LRTs, Regional Express Rail (“RER”) and High Speed Rail, currently none will connect directly to Toronto Pearson.

**Figure 4: Use of public transit at various international airports**



<sup>6</sup> Although the primary service point of the Union Pearson Express is Union Station in downtown Toronto, it also has two other select locations on its route, servicing a smaller portion of passengers. The Union Pearson Express has limited connectivity to Toronto Transit and the west end of Toronto.



**Figure 5: Toronto's Multi-Modal Hub**



Source: *Pearson Connects: A Multi-Modal Platform for Prosperity*

currently missing in the regional transit system. Passengers, employees, and business travellers need proximity, flexibility and certainty when it comes to travel to and from the airport. Regional transportation investments—particularly those approaching Toronto Pearson—should be planned with this in mind, and should consider how to provide systems of supporting infrastructure that will connect the airport to the city and surrounding areas.

*Canada's \$2.47 billion of capital investment in transit in 2007 led to a total increase in output of \$3.7 billion, implying a multiplier of 1.49 on public transit investments. The creation of a new regional transit hub serving Toronto Pearson, the surrounding employment area, the GGH as well as the Kitchener-Waterloo to Toronto innovation corridor would represent potentially one of the most effective, efficient and productive transit investments in the nation, fulfilling current needs while leveraging existing assets for broader social, economic and environmental benefit.*

## **Delivering an integrated transit network for the Greater Golden Horseshoe and the Airport Mega Zone:**

### **Recommendation 1**

The Federal Government of Canada should move to enhance GTAA investments in a multi-modal hub by providing significant cost sharing of transit projects undertaken by the Province of Ontario and the cities of Toronto and Mississauga to connect a multi-modal hub at Toronto Pearson.

<sup>7</sup> C.D. Howe Institute. (2013). *Cars, Congestion and Costs: A New Approach to Evaluating Government Infrastructure Investment*. Commentary No. 385.

<sup>8</sup> The Neptis Foundation



## INSIDE THE AIRPORT – SECURITY SCREENING & BORDER CROSSING

Today's traveller demands more from airports. In addition to reaching a large number of destinations through daily non-stop flights, Canadians and global passengers also expect airports to provide a timely, efficient, and consistent experience. International connecting airports credit part of their success and competitive advantage to their ability to move passengers, particularly by connecting passengers to their flights with the shortest possible connection times. These times rely heavily on the airport's ability to process passengers through security screening and customs quickly.

Passenger safety is paramount to all airports and security screening is an important part of all air travel. At the same time, ease of travel through security screening is a core requirement for originating and transfer passengers who have come to expect an elevated level of convenience and comfort while travelling through a mega hub. Wait times at airports will determine the time passengers leave their home or work to come to the airport. If this process is too long, passengers may run the risk of missing their flight and choose another airport. As a result, it is the goal of any world-class airport to ensure that security screening is conducted effectively and efficiently, upholding security standards while minimizing inconvenience to passengers. Currently Toronto Pearson is not able to achieve this balance. Delays in security screening for departing passengers and border processing for arriving passengers are significant operational challenges facing Toronto Pearson.

### I. Security Screening

Security screening is one of the major causes of passenger dissatisfaction at Toronto Pearson, with wait times lasting significantly longer than at many other major international airports. For example, at certain peak times, more than 50 per cent of passengers who travel through Toronto Pearson can expect to wait longer than 20 minutes for pre-board screening, whereas at London Heathrow and Hong Kong International Airport, 95 per cent of passengers are screened in less than 5 minutes.

As it is, the security screening at Toronto Pearson, which is funded by the Federal Government by way of a passenger security charge, is struggling to manage the existing flow of passengers; but as passenger volumes continue to grow, the strain on security screening is only likely to increase. Multi-pronged solutions leveraging new technology (called "CATSA Plus"), modernization, process improvements, as well as additional funds for the necessary number of screening staff are required to address this growing and complex problem.



Through the impact it has on passenger journey time, excessive wait times for security screening constrains passenger travel and hence limits the economic development opportunity of Toronto Pearson. There is value in the time lost in security lines, and long waits increase the cost of travelling through the airport, causing some passengers to switch to other routes or elect not to travel at all. The longer the wait time, the less attractive it is to fly through Toronto Pearson. As a result, the current state of security screening at Toronto Pearson may act as a drag on the airport's growth potential and its ability to generate additional non-aeronautical revenue through retail, food and beverage.

While it is critical that the CATSA security infrastructure at Toronto Pearson maintains the safety and security of passengers, it is important to understand that there are options to improve wait times. The problem is primarily one of under-funding: although growth in air travel has led to significant growth in Air Transportation Security Charge ("ATSC") revenue, this has not been reflected in increases in funding allocations from the Federal Government for pre-board security screening. In 2011, 99 per cent of these revenues were allocated to CATSA, but by 2014 this figure had dropped to 86 per cent. There are now insufficient funds to support a world-class security screening process, which requires investment in additional personnel and new, innovative screening processes and technologies. The problem has developed to the point where the GTAA has taken the unprecedented action to self-fund a portion of pre-board screening resources to assist with the reduction of wait times during peak hours.

## II. Border Crossing

The experience of passengers arriving into Canada by air is equally challenging. In 2016-2017, the Canada Border Services Agency ("CBSA") will process 14.4 million passengers, up 1 million from 2015, and 2 million from 2014.

In 2015, almost 1 million passengers waited longer than 20 minutes to be processed by CBSA. In August 2016 alone, 500,000 people waited longer than 20 minutes to see a border officer, and the hall became backed up 48 times due to CBSA's inability to keep pace with the processing of international arriving passengers. During these times when passengers were held outside the customs and immigration arrivals hall, wait times to see an officer averaged 45 to 60 minutes.

The funding allocated to the CBSA, the body responsible for operations at border points of entry in Canada, has become inadequate, resulting in a lack of support for technological advancements, sophisticated trusted traveller programs and the number of CBSA officers required to facilitate a smooth process.

The CBSA must be funded and enabled to work to achieve a balance between executing its security mandate and meeting the expectations of travellers for timely customs and immigration throughput. This means adequate funding for staff, implementation of technological advances, process improvements and greater enrolment in trusted traveller programs.



## Improving the passenger experience to maintain international competitiveness:

### ***Recommendation 2***

In order to reinstate acceptable security screening service levels, Toronto Pearson requires an additional allocation of \$20 million in CATSA funding annually for additional officers in order to meet a standard processing time of 95 per cent of passengers in 10 minutes.

### ***Recommendation 3***

CATSA requires an estimated \$25-30 million one-time investment to install CATSA Plus at all screening points at Toronto Pearson. Additionally, the GTAA will invest upwards of an estimated \$30 million to retrofit the facilities to accommodate this new technology that will enable CATSA to significantly improve passenger throughput at every screening lane.

### ***Recommendation 4***

In order to accommodate the largest passenger growth sector, international passengers, Toronto Pearson requires \$5 million annually in funding for additional CBSA officers. This would allow CBSA to meet a standard of screening 90 per cent of passengers in 20 minutes or less at all times of day, including peak hours.

## **INTERNATIONAL PASSENGER SUPPORTIVE POLICIES**

As Toronto Pearson continues to grow as an international hub, the needs of connecting passengers must be fully considered. Connecting passengers are vitally important for global airline networks and mega hub competitiveness, allowing more flight routes and options for passengers than would otherwise be sustained based on local demand alone. Developing mega hub capabilities, which include facilitating a high volume of connecting traffic, as opposed to origin-destination oriented airports, is key to capturing the tremendous growth in air traffic that is currently taking place. Airports, airlines and governmental policies must align their interests in areas including visa requirements in order to attract passengers to transit through the country.

According to an InterVistas report on Transit Passenger Processing, Canada has a unique opportunity to capture transiting air traffic arriving from both the east (Europe) and west (Asia Pacific) heading onwards to the United States. The volume of this traffic is expected to increase in coming years, with the U.S. Commerce Department forecasting a 20 per cent increase in international arrivals into the United States between 2015 and 2020. In order for Canada to secure its future share of this growing connecting passenger market, it must recognize that Minimum Connect Times (“MCTs”) need to decrease to meet passenger demand for convenience. Decreased MCTs allow airlines to offer greater connections, and thus, increase passenger counts at airports.





## I. Transit Visas Requirements<sup>9</sup>

An important component of lower MCTs relates to visa policies for transiting passengers, as well as the evolution of travel documentation towards a range of electronic mechanisms.

There are currently three broad categories of visa policies for connecting passengers. Depending on the country, these policies range from the requirement for a valid visa or third country documentation, an electronic travel authorization (“eTA”), or in some cases, the requirement for a visa or electronic travel authorization is eliminated altogether.

Around the world, mega hub airports in Europe, the Middle East, and a range of Asian airports require no visa or eTA for transit through the airport. Many of these airports also employ electronic mechanisms for travel documentation such as pre-processing. Visa-free transit policies and electronic mechanisms for documentation provide significantly greater convenience to passengers, yet maintain all the appropriate vetting for security purposes. If a transit visa application must be made before the flight, passengers are inconvenienced, and more likely to avoid transiting through that country. Even if a transit visa can be obtained at the connection airport, it adds time to the transfer and inconveniences the passenger.

By creating a policy framework that supports the connection of international passengers, passenger volumes will grow as more passengers choose to connect through Toronto Pearson. As a result, the GTAA will achieve stronger non-aeronautical revenues. This opportunity can be further enhanced with amendments to the Canada Customs Act, which would allow for increased spending by international passengers, and could allow the Canadian economy to repatriate revenue that is currently lost overseas.

<sup>9</sup> InterVistas: Transit Passenger Processing



## II. Arrivals Duty Free and Dual Duty Free Shops

Non-aeronautical revenues can be enhanced by allowing arrivals duty free (“ADF”) and dual duty free stores. ADF allows international passengers to purchase duty free on arrival at an airport. It is available in more than 50 countries around the world, and China’s Ministry of Finance recently approved applications for 16 new ADF shops in 10 of China’s international airports, increasing global competition for duty free sales. ADF is currently not permitted in Canada, where passengers are only permitted to purchase duty free on departure. Dual duty free stores allow all passengers (international and domestic) to purchase any products in a duty free shop in a mixed departures zone. All sales to international passengers are governed by the duty free program, and all sales to domestic passengers are subject to taxes and duties. Access to ADF and dual duty free stores is the standard at mega hubs. Without these amenities, Toronto Pearson would not be able to meet the expectations of international passengers.

At the same time, the introduction of ADF and dual duty free would allow Toronto Pearson to leverage the increased passenger numbers to increase non-aeronautical revenues. Currently, the absence of ADF means that Toronto Pearson does not capture the any of significant duty free sales potential of arriving passengers. At existing levels of passenger volume, it is estimated that introducing ADF would lead to an additional \$100 million of revenue, support an estimated 600 direct and indirect jobs, and generate an additional \$9 million in tax revenue to the Federal Government.<sup>10</sup> As passenger numbers grow, these impacts will be even greater.



<sup>10</sup> GTAA: 2017 Federal Budget Submission



Dual duty free stores also present an opportunity to enhance non-aeronautical revenues. The dual shop program is estimated to result in sales growth of \$27.7 million, generating additional federal and provincial taxes of \$3.75 million annually.<sup>11</sup> The implementation of a dual shop program in other airports is a good example of a revenue enhancement option that has been successful in countries across the globe, generating additional funds for the airport and the government. For example, the dual duty free program has been successful in the United States for more than five years, boosting sales to domestic passengers of approximately 10–15 per cent of current duty free sales. ADF and dual duty free therefore represents a significant opportunity to support business for airport duty free operators in Canada, and generate additional sales, new jobs, and direct federal taxes, while simultaneously boosting the financial sustainability of the airport.

### **International passenger supportive policies:**

#### ***Recommendation 5***

The Federal Government should move to create a made-in-Canada solution for connecting and international passenger processing by joining those countries that only require a visa or eTA for passengers from high-risk countries transiting through an airport, and no such requirement for passengers from other countries.

#### ***Recommendation 6***

The Federal Government of Canada should work with the provinces to introduce dual shop duty free stores and arrivals duty free at Canadian airports.

## **5. CONCLUSION**

Toronto Pearson International Airport is Canada's main trade corridor to the world and home to the second largest economic zone in the country. Its potential to develop into one of the world's leading airports is limited by congestion on roads, and inside the terminals. The tools to help secure this significant economic opportunity and to meet the demands of travellers are within reach. By partnering with the airport to ensure transit investments are made for the Greater Golden Horseshoe, and policies are implemented to deliver service standards competitive with other mega hub airports, governments can unlock economic opportunity from coast to coast to coast.

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<sup>11</sup> Canadian Airport Dual Shop Program Proposal



# UNLOCKING GROWTH: POLICY RECOMMENDATIONS TO SUPPORT A TORONTO PEARSON MEGA HUB

## Delivering an integrated transit network for the Greater Golden Horseshoe and the Airport Mega Zone:

### ***Recommendation 1***

The Federal Government of Canada should move to enhance GTAA investments in a multi-modal hub by providing significant cost sharing of transit projects undertaken by the Province of Ontario and the cities of Toronto and Mississauga to connect a multi-modal hub at Toronto Pearson.

## Improving the passenger experience to maintain international competitiveness:

### ***Recommendation 2***

In order to reinstate acceptable security screening service levels, Toronto Pearson requires an additional allocation of \$20 million in CATSA funding annually for additional officers in order to meet a standard processing time of 95 per cent of passengers in 10 minutes.

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CATSA requires an estimated \$25-30 million one-time investment to install CATSA Plus at all screening points at Toronto Pearson. Additionally, the GTAA will invest upwards of an estimated \$30 million cost to retrofit the facilities to accommodate this new technology that will enable CATSA to significantly improve passenger throughput at every screening lane.

### ***Recommendation 4***

In addition to accommodating the largest passenger growth sectors, international passengers, Toronto Pearson requires \$5 million annually in funding for additional CBSA officers. This would allow CBSA to meet a standard of screening 90 per cent of passengers in 20 minutes or less at all times of day, including peak hours.

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