



Submission to Minister of Finance for pre-budget consultations related to the 2021 Federal Budget by the Greater Toronto Airports Authority

Submitted by:

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Recommendations

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

Recommendation 1

The Government of Canada convene with industry leaders, such as the Canadian Airports Council, National Airports Council of Canada, Future Border Coalition, airlines and airports, to develop a science-based, phased approach to reopening international travel, beginning May.

Recommendation 2

The Government of Canada reconsider its decision to merely defer 2021 airport rent paid by Toronto Pearson and instead provide a full waiver of rent for 2021 and 2022 given the declining circumstances and additional government-imposed restrictions on air travel this year. A full waiver would provide additional financial stability for this year and next with respect to covenant compliance.

Recommendation 3

The Government of Canada work with the aviation sector, the ICAO, and others to set standards for health verification certificates that can be integrated into existing border and airline processes.

Recommendation 4

The Government of Canada commit to investments in critical infrastructure to support Canada's competitiveness, fund COVID-19 related projects to enhance passenger safety and low touch technologies, fund important cargo data and accessibility projects as well as to invest in the next phase of studies for the airport segment of the ECWE.

Recommendation 5

The Government modernize its duty free policies and regulations to allow the establishment of ADF and DSS at Canadian Airports.

Introduction

The unique circumstances of 2020 and 2021 have provided a rare opportunity to make two submissions for the same federal budget. In August 2020, we provided a submission to the Standing Committee on Finance. A copy of the submission is attached for reference.

Since that time, several new issues have emerged that were not previously contemplated. New variants of the COVID-19 virus have emerged and any hopes of recovery in early 2021 were dashed. While the Government of Canada has acknowledged that travel continues to be one of the hardest hit sectors, no meaningful financial aid has been provided to the sector and additional restrictions on air travel will continue to push recovery down the road.

The Greater Toronto Airports Authority (GTAA) understands and agrees that public health and safety must be our collective paramount priority. We support the government's focus and are working collaboratively with the Government and its agencies to develop protocols that help ensure airports are safe for workers and air travel is safe for passengers, when they are ready to travel again.

Doing Our Part

In early June 2020, the GTAA launched its Healthy Airport commitment, allowing passengers to safely travel through the airport. We began by immediately restricting terminal access to passengers and staff only. Since then we have partnered with companies such as Dexterra, CleanSlate and BlueDot to add layers of safety through innovations.

Dexterra, a longtime partner of the GTAA, worked with us to maintain the cleanliness of the physical infrastructure. We have implemented a probiotic trial to increase the cleanliness of washrooms and are using autonomous cleaners to continually disinfect the floors. Working with CleanSlate we have installed stations where passengers can disinfect their personal electronics such as, phones, tablets and laptops. We have engaged companies such as BlueDot to monitor and predict COVID-19 and other infectious disease risks. They help to provide an early warning system on the spread of the disease and provide us the opportunity to prepare.

Additionally, we have installed air monitoring stations in both terminals which provide real time air quality information to passengers. We have also added UV light for disinfection in the duct system as well as in high touch areas such as escalator handrails.

For our efforts we were recognized by Airports Council International – North America (ACI-NA) and awarded the first ever Healthy Airport Accreditation in 2020. We were the first airport in Canada to achieve this designation.

Creating a healthy physical environment is one step to ensuring healthy travel, but we are going further. We are examining how to create another layer of safety by improving the flow of passengers through the airport and we are examining the whole journey through the airport to

make each step a healthy one. This starts with the passenger entering the airport, proceeding to check-in and to pre-board screening. We're also working with our airline partners who are tasked to ensure passengers have the proper tests and documentations in place before departure. The Healthy Airport journey extends to arriving passengers. Along with our airline partners, we are pursuing innovations to create a low- or no-touch process to get passengers through the airport and onto their flights.

At the airport, we have seen a 68 per cent reduction in jobs among the top airport employers. Over and above the well-publicized airline layoffs, the pandemic is negatively impacting many on-airport employers. For example, GardaWorld recently announced the layoff of 500 screening officers at the airport. Stories like these have become all too common in the aviation industry.

The GTAA made the difficult decision in July of last year to reduce its workforce by 27 per cent, eliminating some 500 positions. We also dramatically decreased both operating and capital expenditures. We have borrowed heavily and took the unprecedented step of asking our bondholders to relieve us from our debt covenants for 2020 and 2021. We have shuttered approximately 45 per cent of the airport. In the third quarter of 2020, our passenger traffic was down 88 per cent from the same period in 2019, and revenues were reduced by 63 per cent. Unfortunately, the worst does not yet appear to be over. 2021 has begun with significant additional challenges that are likely to delay our industry's recovery.

Throughout the pandemic, Pearson continues to support the essential movement of cargo and people, including the movement of vaccines. Pearson is one of four airports that was chosen to receive international flights. Over the course of 2020, the industry pivoted to support the movement of cargo when passenger aircraft were grounded and Pearson handled a 60 per cent increase in dedicated cargo flights.

We continue to see other countries stepping in to ensure the future competitiveness of their airports by providing significant financial grants and other aid. We are concerned that Canada's airports are falling behind and will not be able to catch up. We have provided several recommendations below, which will help shore up our competitiveness, get us ready for when travel does resume and to support the country's economic recovery.

Loss of competitiveness has a direct impact on job creation both at the airport and in the local economy. At this time, it is important that government make critical investments in airport infrastructure, such as investments in technology to modernize our border and goods movement processes, better transit connections, important accessibility projects and environmental projects to support a sustainable economic recovery.

Canada is a trading nation, and pre-COVID, Toronto Pearson was the fifth most connected airport in the world. Having international connections is crucial to the prosperity of our country. In fact, each daily international service has a \$54 million impact on Gross Domestic

Product. Clearly, if Canada's airports aren't given the tools needed to rebound in a post-COVID world, the country's economy will also suffer.

Recommendations

1. 2021 shaping up to be worse than 2020

In 2020, the anticipation for 2021 was that the sector would begin a slow recovery as all partners had invested in ensuring healthy travel for their passengers and workers and signals were somewhat positive. Unfortunately, the virus has continued to spread globally — and in Canada — and there have been a number of more transmissible variants that have surfaced. This has led to additional federal travel restrictions, provincial stay at home orders and government strongly encouraging Canadians to avoid all non-essential travel. Early in 2021, Air Canada and WestJet announced further layoff and route cancellations, which further reduced activity. It is possible that further reductions to operating and capital expenditures may be required to adjust to the new realities of 2021. These adjustments may entail additional layoffs, shuttering more of the airport and delaying essential maintenance and infrastructure.

With the new federal mandatory requirements coming into effect shortly and anticipated to be in place until April 30, we run the risk of dropping to passenger activity levels comparable to the onset of the pandemic. The GTAA supports making health a priority, yet the government must also begin to prepare for a phased, safe, restart of travel that follows a science-based approach.

Government Ministers Marc Garneau and Bill Blair, as well as the government's foremost medical expert on the pandemic, Dr. Teresa Tam, have acknowledged that air travel is not a significant factor in the spread of the virus. Further, there has been a significant amount of data collected about the benefits of testing and other measures to protect from the importation and transmission of COVID-19, both globally and in Canada. The GTAA through a co-sponsored study conducted by McMaster Health Labs demonstrated that less than two per cent of travellers were COVID-19 positive and that a testing regime can quickly identify these travellers and provide a viable alternative to blanket 14-day quarantines. Arrivals testing has been piloted at Calgary and Toronto Pearson Airports, including mandatory testing at Toronto Pearson since February 1st. Departures testing has also been in place at YVR since December 2020. The data from these pilots should be used to inform a phased restart plan.

A well-designed testing regime based on globally-accepted standards from organizations such as the International Civil Aviation Organization (ICAO), together with nationally consistent standards will help to bring down the number of COVID-19 positive travellers and restore confidence in air travel.

To ensure the air travel sector is prepared for a phased recovery, the GTAA recommends the following:

Recommendation: The Government of Canada convene with industry leaders, such as the Canadian Airports Council, National Airports Council of Canada, Future Border Coalition, airlines and airports, to develop a science-based, phased approach to reopening international travel, beginning May.

2. Ground Rent for 2021 and 2022

In March 2020 the Government of Canada provided a ground rent waiver for the remaining 10 months of rent due to the federal government. The GTAA appreciated the move as it provided some stability at a time when revenues had been dramatically impacted due to almost non-existent passenger activity. In subsequent discussions with the Government, we conveyed the need for a continuation of the rent relief program for 2021 and 2022. We were disappointed that the Government chose not to accept our recommendation and instead, in the Fall Economic Statement (FES), provided a deferral of 2021 rent, rather than a full waiver.

In light of the continuing and new restrictions on air travel, a deferral of rent for 2021 alone does not provide the GTAA with the financial stability needed to maintain operations. As noted, the GTAA has already taken dramatic steps to reduce capital and operating expenditure. We reduced more than 500 positions at the GTAA, nearly 30 per cent of our staff, and have reduced capital expenditures by more than \$265 million dollars. Furthermore, in 2020, the GTAA took the unprecedented step of requesting from our bondholders that we be relieved of our financial covenants for 2020 and 2021. While this was granted, it does require us to fulfil our obligations by 2022, another reason for our request for a full rent waiver in 2021 and 2022.

Since November 2020, when the Government made the decision to provide a deferral rather than a waiver, there have been additional changes in the aviation environment. The emergence of variants over the holiday season caused all governments to impose greater restrictions on air travel, including the Government of Canada's mandatory testing and hotel restrictions. The Province of Ontario announced a stay-at-home order and imposed mandatory arrivals testing at Toronto Pearson, and local municipalities continued to clamp down on people disobeying the provincial orders. Ontario schools remained closed after the holidays for January until mid-February. This is not the same environment as when the deferral was announced. The Standing Committee on Finance in its pre-budget report recognized the need for the government to provide a moratorium on ground rent and to provide operational support to airports as well as grants to maintain liquidity.

In the first three quarters of 2020, Toronto Pearson experienced an 88 per cent decrease in passenger activity, with the majority of passengers travelling during the pre-pandemic months of January, February and part of March. In the first three quarters of 2020 Toronto Pearson welcomed 11.8 million passengers compared to 38.6 million in 2019. Of the 11.8 million passengers, 9.6 million came through Toronto Pearson in the first quarter of 2020. To put the decrease in activity into perspective, Toronto Pearson now handles the same amount of flights in one day as that handled in one hour pre-pandemic. This trend is not likely to change unless the Government takes the actions recommended in this submission.

With travel being heavily discouraged and restricted in 2021 until at least May 1st, it is quite conceivable that 2021 may see fewer passengers than 2020. Given these extreme changes that have occurred since the Government's announcement of the deferral in November 2020, we recommend the following:

Recommendation: The Government of Canada reconsider its decision to merely defer 2021 airport rent paid by Toronto Pearson and instead provide a full waiver of rent for 2021 and 2022 given the declining circumstances and additional government-imposed restrictions on air travel this year. A full waiver would provide additional financial stability for this year and next with respect to covenant compliance.

3. Nationwide Verification Standardization

The concept of Health 'passports' or 'certificates' are leading to significant conversations across the global aviation sector as the technology is considered to have real potential to help drive the industry recovery. Verification of COVID-19 test results and/or vaccination is an important factor in ensuring the viability of a testing regime and to ensure travellers can move efficiently without having to use today's cumbersome paper-based process. Many countries currently require COVID-19 test results on arrival, and it's likely that a COVID-19 vaccine confirmation will also be required soon. A mobile solution will allow passengers to verify their identity and prove their health status by storing results of COVID-19 tests — and eventually— digital vaccination records.

There are a number of digital platforms available for collection and secure transmission of health data such as CommonPass, International Air Transport Association's Travel Pass or the International Chamber of Commerce's AOK Pass. Delta and United Airlines are piloting the use of Clear Health Pass on flights between Los Angeles and Honolulu. United Airlines flights from John F. Kennedy Airport in New York to London Heathrow Airport are using Common Pass and Delta Airlines has flights between Hartsfield-Jackson Airport in Atlanta and Rome using the AOK Pass. At last report there are more than 40 different platforms being developed to support digital health certificates. Government and industry need to evaluate these platforms to determine their capability for digital identity verification, secure transmission of test results to health and border authorities, and proof of vaccination.

This brings the urgent need for governments to set common standards that are aligned with global standards. Without establishing a set of industry-wide standards, the use of different digital health solutions could create a fragmented system, which in turn, would further complicate the passenger experience.

Another challenge for Canada and other countries is the fact that vaccination records are not digital, rather, in many cases they remain paper based. There is a need for the federal government to set standards to digitize vaccination and other health records.

To ensure proper verification of tests and vaccination records, the GTAA recommends the following:

Recommendation: The Government of Canada work with the aviation sector, ICAO and others to set standards for health verification certificates that can be integrated into existing border and airline processes.

4. Investment in critical infrastructure to preserve competitiveness, enhance passenger safety, accessibility and low touch technologies

The Government and the aviation sector must together adapt to the new normal of ensuring a healthy environment for travel. For the GTAA, this means an investment in critical infrastructure to both address the impacts of COVID-19 and to remain competitive globally.

As a result of our financial situation, in 2020 the GTAA reduced its capital investment program by \$265 million. This meant many important projects to enhance the long-term capacity and competitiveness of Toronto Pearson were cancelled, including as an example, the Arrivals and Transfer Facility at Terminal 3 (T3 ATF), which is required to improve the connection functionality of Terminal 3. Other countries are ensuring the future competitiveness of their airports by providing significant financial grants and other aid. We are concerned about the long-term competitiveness of Canada's aviation sector following COVID-19 and a healthy Toronto Pearson is important to preserve jobs, global trade and tourism — critical enablers of Canada's competitiveness.

COVID-19 has also impacted the requirements for processing passengers and the technology to not only move people efficiently, but also in a manner that protects their health and well-being. We therefore are seeking government investment in pre-board screening, border modernization and additional low-touch or no-touch processes that contribute to healthy travel, including facial recognition technology, accelerating the Digital Travel Credential project, and enabling touchless technology such as e-gates. Modernizing the cargo supply chain through digitization of data is also needed to further support the essential movement of goods and remove archaic data handling practices that hamper productivity.

The Government in its FES announced the creation of a \$500 million Airport Critical Infrastructure Program which is presumably to be used for projects similar to ones mentioned above. However, the government has yet to provide any details on the program.

The GTAA has been a long-time vocal and financial supporter of better transit connections to Toronto Pearson. With the financial impacts of COVID-19, we are no longer in a position to support the investment in transit studies related to the Eglinton Crosstown West Extension (ECWE) and other projects as we have in the past. In order to keep this important project advancing, we encourage government step up to fund the next phases of studies to ensure that this project not stop at this critical juncture. The province has confirmed its commitment to support future studies to advance the ECWE and we call on the federal government to do the

same. The Standing Committee on Finance recognized the need to accelerate investments in public transportation and which helps fight climate change and contributes to the economic recovery.

The GTAA is committed to ensuring that each passenger has a seamless experience while travelling through the airport. We are committed to fulfilling the requirements of the Accessible Canada Act and the Accessible Transportation for People with Disabilities Regulations. The pandemic however has hampered our ability to meet the deadlines set out by the Canadian Transportation Agency (CTA). The CTA has granted some extensions and we are working with them and Transport Canada to ensure that we can meet the needs of all passengers.

The GTAA has a suite of environmental retrofits that allow us to further support environmental action plans, including building modifications, lighting upgrades and expanded fleet electrification.

Critical investments in infrastructure, technology and transit are required to continue to develop a safe environment for passengers and workers, meet our regulatory requirements, as well as to ‘grow back better.’ The GTAA recommends the following:

Recommendation: The Government of Canada commit to investments in critical infrastructure to support Canada’s competitiveness, fund COVID-19 related projects to enhance passenger safety and low touch technologies, fund important cargo data and accessibility projects as well as to invest in the next phase of studies for the airport segment of the ECWE.

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 60 countries who have ADF, most notably Australia. Toronto Pearson along with several airports conducted an economic study which showed ADF would provide a positive revenue flow to both the provincial and federal governments. Our study found that, pre-pandemic, Canada lost sales of approximately \$300 million. ADF increases total market opportunities for Canadian goods. Canada is losing sales to other countries which are moving to promote local Duty Free.

China is aggressively moving to keep duty free sales local by implementing ADF as well as creating duty free zones, such as Hainan Island, to promote the return of tourist shopping and meet demand from Chinese consumers for duty free shopping. Duty Free sales in China are

expected to grow at an annual rate of 22 per cent, while at the same time, Chinese purchases overseas are expected to be three per cent. Current travel retailers in Canada are still seeing a significant negative impact from COVID-19 (80 per cent to 90 per cent vs 2019) and Hainan duty free is an indication that the China domestic duty free market is gaining a great deal of momentum.

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. This model generates a net positive cash flow for government, protects jobs 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.

To help Canadian airports achieve financial stability sooner through access to additional revenue opportunities, the GTAA recommends the following:

Recommendation: The Government modernize its duty free policies and regulations to allow the establishment of ADF and DSS at Canadian Airports.

Conclusion

The GTAA continues to work in collaboration with the Government, agencies and other aviation partners to create a safe and healthy environment for passengers and airport workers. We continue to support a science-based phased approach to resume travel and commit to continuing to generate and share data to be used as the basis for future decision-making.

We would be pleased to discuss this submission in greater detail.