Let’s Talk Budget 2021: Positioning Canada’s airports for a strong, inclusive and sustainable COVID-19 recovery

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Recommendations

The Canadian Airports Council (CAC) recommends that the government:

Recommendation 1

Provide a moratorium on ground lease rents and interest-free loans (or equivalent operational support) for at least five years or until the business recovers, in order to cover operating costs and alleviate the need for rate increases during the recovery.

Recommendation 2

Increase funding and expand national transportation infrastructure programs to help Canada's airports meet safety and security requirements and adapt to the new realities of COVID-19 and climate change.

Recommendation 3

Make permanent the elevated Airports Capital Assistance Program funding and expanded eligibility criteria announced in the Fall Economic Statement to ensure sustainable recovery at Canada's regional airports.

Recommendation 4

With an inclusive focus on large, medium and small airports, work with Canada's airports and industry partners on a plan to safely restart air travel when it is safe to do so and promote recovery in the Canadian aviation sector.

Introduction

The Canadian Airports Council's (CAC) 54 members represent more than 100 airports, including all of the National Airports System (NAS) airports and most passenger service airports in every province and territory. CAC members handle virtually all of the nation's air cargo and international passenger traffic and 90 per cent of domestic passenger traffic.

An essential element of our national economy, Canada's airports not only serve as gateways to urban and rural communities but also enable economic development and facilitate trade, immigration and tourism. With over 160 million passengers in 2019, airports supported nearly 200,000 jobs and contributed $19 billion in GDP and nearly $7 billion in tax revenue to all levels of government.

However, COVID-19 travel shutdowns in 2020 led to a catastrophic drop in both traffic and revenues. Air service dropped by 95-98 per cent in most communities and some saw services suspended altogether. The longer pandemic travel restrictions remain in place, the deeper the impact; Canada's airports have already had to downgrade their forecasts since December as their worst case scenarios have been surpassed.

Whereas airports had earlier predicted some signs of recovery in early 2021, current traffic patterns, increased restrictions and deeper service cuts are making hope for any improvement this year nearly entirely dependent on a successful vaccine rollout. Even since the Fall Economic Statement (FES) was released, the situation has deteriorated considerably. In fact, the CAC's December outlook shows projected revenue losses for Canada's airports of $5.5 billion for 2020 and 2021 – a $1 billion deterioration since our August analysis. Given that no more than 20 per cent of the measures outlined in the FES will address operational losses, Canada's airports still expect to take on $2.7-2.8 billion in additional debt in 2020 and 2021 – virtually no improvement since their August.

With the enhanced coronavirus containment measures such as travel restrictions and border closures expected to remain in place for some time, the sector's full recovery is not expected for at least another five years.

Though government has provided some sector-specific support for airports and many airports have been able to access the Canada Emergency Wage Subsidy, those programs while helpful, have not provide the level or type of support that the government claims. When the 2020 rent waiver was announced in March the government asserted that it was providing the equivalent of $330 million in relief to the airport sector. In fact this waiver saved only 22 airports just $139 million in costs. With 2021 revenues expected to be $500 million lower than 2020, and with 85 per cent of rent for 2021 not cancelled but deferred to future years, the 2021 benefit will have far less impact. Similarly, the Canada Emergency Wage Subsidy (CEWS) provided $137 million in support to airports in 2020 – a miniscule fraction of the $1.4-1.7 billion that the federal government has regularly claimed was delivered to "air sector workers". And, to put the situation in greater perspective, it should be noted that 200 municipal airports in Canada have not even been able to participate in the program.

For airports the loss of domestic, transborder, and international air service is devastating and will have long term impacts on the communities they serve. With all international, "sun destination" and transborder traffic funneled to only four airports, the many other airports that have lost service due to cuts or government directive will have a disproportionately hard time reestablishing those services when travel resumes.

Even if now is not the time to restart travel, it is the time for industry and government to collaborate on a plan to lift restrictions and begin recovery. Canadian aviation will look a lot different when people are ready to travel again. We need to establish a vision for the aviation system we want on the other side of the pandemic, and what is needed to get us there. We must also to engage with government to map out a risk-based approach to removing restrictions on air travel and travellers at the appropriate times, using appropriate indicators.

As the federal government works with public health officials to safely sustain the Canadian economy, every segment of the sector — from airports to airlines to air traffic control — has worked diligently to reduce costs to shore up liquidity while continuing to safely support essential travel, cargo, medevac, and other critical services. At the same time, we must brace for the potential of successive waves of COVID-19.

While the reality for Canada's airports is very grim, the government has several levers it can pull to make surviving the pandemic easier and help foster a robust recovery when it is safe and people are ready to return to travel.

Recommendation 1: Provide a moratorium on ground lease rents and interest-free loans (or equivalent operational support) for at least five years or until business recovers, in order to cover operating costs and alleviate the need for rate increases during the recovery.

With air travel in 2021 now forecast to be below that of 2020 across Canada's airports as a result of new and increasingly severe requirements, the situation has changed drastically since the FES was released. While the FES included rent relief for some airports, it fell short in providing meaningful assistance, especially in light of worsening conditions.

For the four largest airports, which paid 85 per cent of the rent in 2019, rent is only deferred and only for 2021. This deferral, which will need to be repaid starting in 2024, only increases these airports' overall debt load and provides very little actual financial relief.

For the next 12 airports (including Billy Bishop) in terms of size, rent is waived only for 2021. With revenue so dramatically reduced, rent for these airports will be minimal relative to the debt being taken on in 2021. These airports were responsible for just under 15 per cent of rent paid in 2019.

The FES also waived rent for three years for only the eight smallest NAS airports – none of which may reach the $5 million in revenue at which ground rent is levied. These eight airports were responsible for only 0.3% of the rent paid in 2019.

Throughout the crisis phase of the pandemic, Canada’s airports have taken drastic and difficult steps to preserve cash, which has enabled them to focus funds on operating costs and the continued employment of staff. For heavily regulated businesses such as airports, which rely on passengers for about 90 per cent of their revenue but with highly-fixed costs that can only be cut by 10-20 per cent, taking on debt to operate through the pandemic is the only means of survival.

Looking ahead, with between $2.7-2.8 billion in additional debt load being taken on by airports, travellers and users will be facing higher costs, and a less competitive aviation sector in Canada. Ironically, given that rent is charged on every dollar in revenue an airport earns, the inevitable increases in rates and charges required to pay down the extra debt and interest will actually increase the amount rent airports will have to pay the federal government in future years.

A full moratorium on ground lease rent for the duration of this pandemic-related downturn would allow the 22 privately operated airports across Canada to navigate the long and short term impacts of COVID-19, support the efforts of the federal government to speed up Canada’s economic recovery, and help restore levels of service.

During the recovery period, as airports start to generate revenues once again, further relief from the revenue-based ground rents can help preserve cash flows to support investments in infrastructure, control costs for airport users and travellers and employee retention. Depending on how long traffic is suppressed, it could take five years or longer to sufficiently address the deep financial losses airports are sustaining with very low traffic volumes.

To help airports, including those that do not pay rent, interest-free loans (or equivalent operational support) would provide direct, immediate support for liquidity. This would sustain safe operations and maintain jobs, as well as stabilize and preserve borrowing capacity to allow these airports to adapt as passenger volumes rebound.

Recommendation 2: Increase funding and expand national transportation infrastructure programs to help Canada's airports meet safety and security requirements and adapt to the new realities of COVID-19 and climate change.

With traffic forecasts for 2021 and beyond significantly more pessimistic than anticipated when the FES was released, airports' ability to self-fund critical safety, security, transit, and climate change projects has been severely limited. While the user pay system stood for nearly thirty years as a pillar of strength of the Canadian airport model, it fails when there are no users. As a result, airports will need additional funding from existing and new programs to offset their financial positions and ensure they can keep pace with regulatory, social, and environmental realities.

The FES allowed the creation of the Airport Critical Infrastructure Program (ACIP) with $500 million over six years to establish a new transfer payment program to support large airports in making critical investments in safety, security, transit infrastructure. While program details are still being developed, ACIP is intended to be a cost-sharing program where Transport Canada provides only a percentage share of the funding required to implement a project. Airports are encouraged to seek out other sources of funding to support their investment whether from other levels of government or privates sources.

While this is a welcome program announcement, with the scale of projects it is intended to fund, such as the new Réseau express métropolitain (REM) station at the Montreal Airport which is a $600 million project alone, there is concern that there will be very little funding left for other projects. According to internal member surveys these funds fall well short of what is required. Our aggregate numbers show Canada's airports will need $1.8 billion for safety, security and transit projects that are in the works or planned. These initiatives include runway-end safety areas (RESAs), which will reduce the risk of damage to planes should they over or undershoot the runway. RESAs are mandated by federal regulation and will cost an estimated $225 million nationally with $75 million of that total required to be invested in the next three years. The ACIP funding envelope should be expanded to accommodate the needs of more airports in recognition of the deteriorating financial circumstances that have only worsened since the FES was announced. The mandate should also be expanded to support projects that would help in environmental protection and climate change.

The FES also announced the creation of the Airport Relief Fund. This one year $65 million program is intended to further assist airports to manage the financial implications of reduced air travel. While details have yet to be announced, this could be a very important program to fill gaps in programs and ensure airports are able to be ready, safe and secure when travellers are ready to fly again.

Recommendation 3: Make permanent the elevated Airports Capital Assistance Program funding and expanded eligibility criteria announced in the Fall Economic Statement to ensure sustainable recovery at Canada's regional airports.

The FES included additional funding to the Airports Capital Assistance Program (ACAP) of $186 million over two years starting in 2021-22. As the CAC, along with our counterparts across the airport sector, have long advocated for an increase to $95 million annually to meet current demand and appropriately adjust funding to meet increased regulatory requirements, inflation, and other matters, this increase is welcome. The FES also expanded eligibility to National Airport System (NAS) airports with fewer than one million passengers in 2019, and adjusted the cost sharing ratio to reflect the financial challenges facing smaller airports.

As the industry adjusts to the reality that 2021 will likely be worse than 2020, and with many smaller airports generally impacted harder through a complete loss of service, ACAP will be essential tool to ensure that airports can keep up with their safety and security investment obligations and requirements. As such, the funding adjustments made to the program in the FES should be made permanent to ensure that the utility of this vital program is leveraged to its maximum effect.

ACAP enhancement is a long-term investment in regional economic development and long-term prosperity. Small and regional airports play a vital role in communities, connecting small and medium businesses in smaller areas with broader markets. Cancelled flights and closed airports will hold back recovery.

Recommendation 4: With an inclusive focus on large, medium and small airports, work with Canada's airports and industry partners on a plan to safely restart air travel when it is safe to do so and promote recovery in the Canadian aviation sector.

Since spring 2020 the Canadian Airports Council has been seeking engagement and collaboration with government to develop a vision for the aviation system we want on the other side of the pandemic, and a plan for what is needed to get us there. The first step in this is to create a roadmap to restart travel and support recovery in the travel and tourisms sectors.

One key step is for the federal government to introduce a nationally consistent and globally aligned testing protocol that is compatible with and meets or exceeds the standards of our global counterparts and the International Civil Aviation Organization (ICAO).

With the enhanced testing and quarantine measures put in place in January 2021, Canada now has one of the strictest sets of requirements in the world for arriving international travellers. While it is our hope that these measures are effective and stop the importation of COVID and its new variants, the system is not sustainable as currently designed.

We are calling on the Government of Canada to work with industry to pursue a risk-based approach to testing as part of a comprehensive plan to restart air travel. Testing requirements should be adjusted based on the level of risk. This would allow travellers from low-risk countries to enter Canada based on certain testing requirements while those from higher risk countries would need to undergo more exhaustive testing both abroad and within Canada.

The CAC recognizes that this may necessitate additional requirements for travellers. However, the vision described above is consistent with the recommendations of ICAO's Collaborative Arrangement for the Prevention and Management of Public Health Events in Civil Aviation (CAPSCA), which includes the United States Centers for Disease Control and Prevention (CDC), European Centre for Prevention and Disease Control (ECDC) and the World Health Organization (WHO).

Canada should also adopt a globally accepted secure health verification process (i.e. "health passports") to confirm identity, negative test results and/or proof of immunization using digital platforms like CommonPass or the International Air Transport Association's (IATA) Travel Pass. Thought should also be given to integrating these platforms into the Canada Border Services Agency's ArriveCAN app or creating a new health information transmission and storage function within the app. Regardless of whether the Government of Canada requires health passports, other countries will.

All of this will require funding to ensure financial struggling airports and industry partners are not additionally burdened, nor are our passengers shouldering additional costs when the time comes to stimulate traffic and support recovery.

This is not a vision for a short term solution. Even once mass immunization is achieved in Canada, the ability to communicate verified testing and vaccination information will be essential for our government and others around the globe to have confidence in accepting arriving travellers. The COVID pandemic will have a long tail but we can build a system to support, manage, and mitigate the spread of the disease in the travel process.

Ultimately, the CAC is calling on government to work with the sector to chart a course towards restart and recovery. There will be a time when it is safe and people want to travel. We want both industry and government to be ready when that time comes and to expedite that economic impact it will have.

Conclusion

As the country emerges from COVID-19, Canada's airports remain focused on working constructively with government on solutions that will benefit all Canadians. We have a historic opportunity to rebuild the sector better, stronger, greener, and more efficient than ever before. Shovel-ready projects at our airports will create construction jobs, further stimulating immediate recovery and creating a significant multiplier effect throughout regional economies.

Canadians deserve to have access to safe and high-quality air travel, no matter where they live. The health of the entire air transport system is not only essential to serving communities and Canadians through this crisis, but also key to our long-term economic recovery.