CANADIAN AIRPORTS COUNCIL
CONSEIL DES AÉROPORTS DU CANADA

Canada's Airports: Working to Adapt, Recover and Deliver for a Post-Pandemic Future

Written Submission for the Pre-Budget Consultations in Advance of the 2022 Federal Budget

SUMMARY OF RECOMMENDATIONS

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

Recommendation 1

Provide a moratorium on ground lease rents for at least five years or until the airport sector business recovers, and offer more options for interest free loans and operational support programs in order to cover operating costs and alleviate the need for user rate increases during the recovery.

Recommendation 2

Make permanent the elevated Airports Capital Assistance Program funding and expanded eligibility criteria — to ensure sustainable recovery at Canada's smaller airports and ensure the protection of regional routes — and expand, refine and increase the funding for national transportation infrastructure programs to help Canada's airports meet safety, security and transit requirements.

Recommendation 3

Promote recovery of Canadian airports of all sizes by taking decisive policy steps — including modernizing the Customs Act to permit International Airports to offer Arrivals Duty Free for inbound international travelers, advancing Electronic Travel Authorization (eTA) 2.0 and revitalizing the Canada Foreign Trade Zone (FTZ) policy and program to allow businesses to leverage tax advantages.

INTRODUCTION

Canada's airports are crucial transportation hubs that drive economic development in communities across the country. But the pandemic has created critical operational and revenue pressure which is expected to have a long-term impact on the recovery of both airports and the many businesses that make up the aviation sector ecosystem. Further government policy changes are required in order to fuel the recovery.

For context: Prior to the pandemic, Canada's airport sector saw over 160 million passengers, employed more than 200,000 people, generated more than $19 billion in GDP, and paid more than $400 million in ground rent to the federal government. Starting in March 2020, our sector experienced declines of between 85 and 100 per cent in passenger volumes. The situation became more critical at the end of 2020 and early 2021 as air travel restrictions increased. As a result, the Canadian Airport Council's December 2020 outlook dimmed, projecting that airports' revenue losses would increase by $1 billion, reaching $5.5 billion for 2020 and 2021. Additionally, Canada's airports were projected to take on roughly $2.8 billion in additional debt in 2020 and 2021.

The pandemic also exposed a fundamental vulnerability in the otherwise very effective "user pay" structure of Canada's airport model. The uniquely Canadian structure has delivered well for the last thirty years — allowing the country's airports to invest over $30 billion towards ensuring modern infrastructure that is safe and secure — but it only works when there are users. Throughout the pandemic, airports stayed open to support essential services like transit of cargo (including vaccines), the movement of healthcare, government and other essential and emergency personnel, while offering the same functionality and high level of safety and security regardless of whether there are passengers or not. This meant costs could not be reduced in line with revenue losses or passenger declines.

For months, the number of commercial air services was tightly constrained and the economic benefits that Canadian airports historically provided to their surrounding communities virtually disappeared. While Canada's overall air connectivity – direct and indirect – was growing steadily across regions before the pandemic, many cities have been left with much reduced domestic services — and for some airports all air services were suspended indefinitely.

Thankfully, climbing vaccination rates in Canada and around the world have created a dynamic environment where air travel policies and protocols are progressively changing as weeks go by. Despite that encouraging movement, airports' recovery will remain challenging as restrictions will continue in a variety of forms in order to protect global public health. Given that evolving landscape — and the ongoing need for public policy help — the recommendations outlined here are designed to take a longer-term, strategic view of the sector's needs to inform the government plans for Budget 2022, versus focusing on some of the operational pain points that come with the step-by-step changes that are currently a feature of the reopening.

Our recommendations are as follows:

DELIVER RENT RELIEF

Federal pandemic measures delivered welcome rent relief for some airports — including the waving of 2020 rent for all airports. The measures fell short in providing fully effective assistance, however, given the multi-year recovery that's projected for the sector. We have identified specific pain points for 2021 and beyond.

For the four largest airports, which paid 85 per cent of the rent in 2019, rent was simply deferred and only for 2021. That deferral, which will need to be repaid starting in 2024, only increased these airports' overall debt load and has provided very little actual financial relief.

For the next 12 airports in terms of size, rent was waived only for 2021. With revenue 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 percent of rent paid in 2019.

Rent was also waived for three years for only the eight smallest National Airport System (NAS) locations – 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 peak of the pandemic, Canada's airports took dramatic steps to preserve cash. This allowed them to focus funds on operating costs and employing staff. For heavily regulated businesses such as airports, which rely on passengers for about 90 percent of revenue but with highly fixed costs that can only be cut by 10-20 percent, taking on debt to operate through the pandemic was critical to survival.

Looking ahead — with $2.8 billion in additional debt being taken on by airports — travelers and users will be facing higher costs, and a less competitive aviation sector in Canada. Given rent is charged on gross revenue an airport earns, the inevitable increases in rates and charges required to pay down the extra debt and interest will increase the amount rent airports will have to pay the federal government in future years.

A complete moratorium on ground lease rent for five years would allow Canada's 22 privately operated airports to navigate the long- and short-term impacts of the pandemic, support the federal government's push to accelerate Canada's economic recovery, and help reinstate levels of service. Through the recovery period, as airports are generating revenues once again, further relief from ground rents would help preserve cash to support investments in infrastructure, to control costs for airport users and travelers, and to help employee retention.

To help airports, including those that do not pay rent, interest-free loans (or comparable operational support) would also help with needed liquidity. This would help maintain safe operations and jobs, and stabilize and preserve borrowing capacity to allow these airports to adapt as passenger volumes rise.

REFINE CRITICAL PROGRAMS

The Fall Economic Statement included supplementary funding to the Airports Capital Assistance Program (ACAP) of $186 million over two years starting in 2021-22. This increase was welcome. It also expanded program eligibility to NAS airports with fewer than one million passengers in 2019, and adjusted the cost sharing ratio to reflect the financial challenges facing smaller airports.

Adjustments to ACAP are imperative. Given program funding is frozen at $38 million for 20 years, though, the CAC estimated (before the pandemic) that ACAP would need $95 million more annually to keep pace with inflation and regulatory requirements. Even with the two-year top-up, the funding is only meeting the most acute needs.

With little remaining time in 2021 to make up for the losses of 2020, ACAP could be an essential tool to ensure airports can keep up with their safety and security investment requirements and for delivering long-term investment in regional economic development and prosperity. As such, ACAP should be recapitalized and made permanent to ensure it is leveraged to its maximum effect.

For similar reasons, we also recommend recapitalizing the recent Airport Critical Infrastructure Program (ACIP), which currently has an envelope of $489.6 million for disbursement over five years. Despite the program's structure — which is intended to encourage cost-sharing for the construction of safety, security, and transit-related infrastructure improvements — the extremely high demand means its effectiveness is limited. For context: Our aggregate numbers show Canada's larger airports — for whom the program was intended to support — will need $1.8 billion for relevant projects that are underway or planned. Recapitalizing this program will allow airports to make very necessary investments to meet their regulatory requirements for effective safety and to ensure mass transit connectivity.

As outlined, the pandemic has forced airports — of all sizes — to borrow money to finance operations.

While all airports are in the same position, the impact of this increased debt is more pronounced for smaller airports, since they have fewer opportunities to diversify their revenue streams (e.g. parking and other concessions). With various travel restrictions expected to persist, the debt burden airports are accumulating is growing significantly, making it very difficult for small airports to offer competitively priced services on regional routes. This squeeze puts those offerings, which are important for maintaining connectivity across our country's vast distances, at risk.

As a result, there is a pronounced need for government programs that help airports and air carriers ensure regional air routes across the country do not disappear — in particular the Regional Air Transportation Initiative (RATI). Expanding access to the previously mentioned Airports Capital Assistance Program (ACAP) is also extremely important.

The entire industry welcomes RATI’s use of direct grants. However, with only $206 million over two years for distribution by the six RDAs, this funding will essentially be sprinkled across the country and not generate the full impact required. To remedy this, we propose the program be recapitalized and extended for five more years to ensure it will have a meaningful impact and achieve its aim to assist the sector recover with regional connections intact.

PROMOTE AIRPORT RECOVERY

Beyond the refinements to capital programs outlined above, there are a range of further decisions the federal government could take that would make a positive, tangible impact on the ability of Canada’s airports to recover.

First: Modernize the Customs Act to permit International Airports to offer Arrivals Duty Free for inbound international travelers. This would support Canada’s tourism strategy and allow visitors to purchase made-in-Canada products on arrivals – similar to many other countries around the world – and allow airports to capitalize on this new revenue stream to support recovery, and to deliver new tax revenues to government.

Second: Revitalize the Canada Foreign Trade Zone (FTZ) policy and program to allow businesses to leverage tax advantages by introducing legislation, and associated changes to regulations that include:

- The immediate removal of value-added restrictions (Section 273.1(7) of the *Excise Tax Act*) to eliminate the competitive disadvantage of Canadian FTZPs vis-à-vis their U.S. counterparts;
- The integration of the proposed new FTZ framework with advanced logistics and border security policies such as the US Customs Trade Partnership Against Terrorism (CTPAT) and Partners in Protection (PIP) programs; and
- The implementation of cohesive administrative and well-defined licensing processes for grantees, operators, and users of designated Free Trade Zones.

Third: Continue the digitalization of travel by advancing progress on Canada’s Electronic Travel Authorization (eTA) 2.0.

GOING FORWARD

The support for airports and aviation announced at the height of the pandemic were welcome and represent important steps toward helping the Canadian aviation sector recover, but more is required.

We look forward to an opportunity to work with Parliamentarians and to further discuss the importance of these matters to local communities across the country. Canada needs a healthy and competitive air sector that serves the entire country with affordable and efficient access to air service, and we are optimistic that further progress can be made towards ensuring that will continue.