CANADIAN AIRPORTS COUNCIL

Written Submission to
Innovation, Science and Economic Development Canada
New Federal Tourism Growth Strategy

August 3rd, 2022

Introduction

We are encouraged by the Government of Canada's drive to build a modern, effective tourism growth strategy that reflects the opportunities and challenges of our time. On behalf of Canada's Airports, we are pleased to put forward this submission — collecting together our key recommendations for your consideration and to inform your work.

There is a clear need for a refresh of the 2019 strategy. Since then, the global pandemic virtually erased tourism to Canada for two years. Operations across the country struggled to pivot their business models, adjust to the evolving public health situation, and stay afloat. As a key fulcrum for global travelers coming to Canada, airports were far from immune. Air passenger traffic dropped by over 90 percent, wiping out the primary source of airport revenue with it. In total over the course of the pandemic, airports were forced to take on an additional $3 billion in debt.

While the strong demand for air travel this summer season has been encouraging for the tourism sector, it has also shone a light on pain points that need more attention, innovation and investment. Addressing these issues would help the country's tourism sector generate the greatest possible economic value for Canada.

In building this submission, we have noted how our sector's needs align with the three areas of focus outlined for this consultation: labour gaps and instability, investment attraction and destination development, and long-term economic growth across the country. We have worked to ensure our recommendations clearly connect back to these key points.

Overall, our submission is rooted in the following:

For global tourists, Canada's airports are the gateways to their travel experiences. Just as Destination Canada competes for tourism interest with global marketing campaigns, airports too must remain globally competitive — especially given the global public attention being paid to air travel right now. Without the capacity to accommodate the demand at our doorsteps, downstream tourism operators across Canada simply will not reap the full benefits that could be generated. But with the right policy decisions — part of an overall effort to support the sector's growth — there is clear potential to make strides.

Furthermore, staff have left the sector and sourcing new talent to replace them is an ongoing challenge. Many regional routes outside main flight corridors, were eliminated and some aren't showing signs of returning. The regional air carrier landscape has shifted, and this impacts communities and tourism. As Canada's airports strive to get back to full speed, they are also all facing mounting critical infrastructure needs, a dearth of options to finance them, and are simultaneously paying rent to the federal government that could otherwise be spent on meeting those crucial needs.

We hope these practical suggestions and steps for improvements will help to ultimately position Canada to better achieve its full potential as a tourism destination.

We appreciate your attention and consideration. Below, we will outline, in detail, the following **recommendations**:

1. **That the government invest in Airport Infrastructure and Refine Critical Infrastructure Programs**
    - **That Airport Rent paid annually to the federal government, be reinvested back into airport infrastructure.**
    - **That the Airports Capital Assistance Program (ACAP) be recapitalized and made permanent to ensure it is leveraged to its maximum effect.**
    - **That the government recapitalize the recent Airport Critical Infrastructure Program (ACIP).**
    - **That the Regional Air Transportation Initiative (RATI) be recapitalized and extended for five more years to support regional airports recovery and route development.**
2. **That the government further expand existing transit without visa, one-stop security (OSS) and immigration policies such at the electronic travel authorization (eTA) program.**
3. **That the government provide stable and predictable funding for border and security agencies for their operations in Canada's airports.**
4. **That the work to expand preclearance between Canada and the US at Canada's airports continue. Furthermore, the Government should continue to work with American authorities to improve and deliver upon existing preclearance agreements.**
5. **That the government relaunch the CATSA pilot project for a Canadian equivalent to the US pre-check – a domestic trusted traveller program with the aim of permanent implementation.**
6. **That the government modernize its duty-free policies and regulations to allow the establishment of Arrivals Duty Free (ADF) and Dual Shop Stores (DSS) at Canadian Airports to further support small and local businesses.**
7. **Implement an engagement strategy to interest Canadian youth in airport related careers to address staff shortages.**

RECOMMENDATIONS

Investing in Airport Infrastructure and Refining Critical Infrastructure Programs

NAS airports are owned by the government of Canada and operated by local authorities, 21 of which pay federal “rent," which is a tax calculated as a percentage of an airport's revenue. That means these funds are no longer available to be used by airports to improve the passenger experience, improve choice or connectivity, make infrastructure improvements or benefit the airport’s local economy.

The federal government receives rent from 21 privately operated NAS airport authorities – $419 million in 2019 and over $6 billion paid since 1992. As a tax on gross revenue, rent is levied on income airports raise to pay for operations and infrastructure investments.

Our first recommendation is that airport rent should be reinvested back in airports, it could better be deployed to directly benefit travellers in demonstrable ways by investing in infrastructure to create the future airport.

As the government examines future financing options, it should consider a more flexible approach to funding the infrastructure investments required to maintain the competitiveness that drive a significant part of Canada’s economy and tourism in general. Over the longer, term rethinking government’s investment approach in airports will help create airports that are sustainable and ready for the 21st century.

To make this a reality, government needs to rethink how strategic investments in smart, green, and innovative airport infrastructure can support Canada’s global competitiveness, jobs, foreign direct investment, trade, and tourism.

One of the foremost challenges the airports sector is having is the ability to invest to modernize infrastructure — the kind needed to effectively accommodate the projected volume of travelers, to meet the regulatory requirements expected of us by the government, and to allow Canada’s airports to maintain a competitive footing against other juristictions competing for tourists.

During the course of the pandemic the Government provided $1.4 billion in support through critical infrastructure funding and wage subsidies. In contrast, the U.S. government provided $45 billion in operational and capital funding to airports. This is a 40:1 ratio of investment in American airports, which compete for traffic, compared to Canadian ones. For comparison, the population ratio between the U.S. and Canada is 10:1. This is a significant gap. The Canadian government must also look at the longer-term development infrastructure to help Canadian airports maintain their competitiveness.

In addition to airport rent re-investment, we have identified several programs and associated recommendations that could help.

The 2020 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 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.

Further adjustments to ACAP are imperative. Given program funding has been 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 has only been meeting the most acute needs.

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, we recommend that ACAP be recapitalized and made permanent to ensure it is leveraged to its maximum effect. This program supports airports in their safety infrastructure needs, which allows them to focus on building regional connectivity for their communities and visitors.

For similar reasons, we also recommend recapitalizing the recent Airport Critical Infrastructure Program (ACIP), which has had 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.

As a result, there is a pronounced need for government programs that help airports and air carriers ensure regional air routes across the country are sustainable — 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 welcomed RATI's use of direct grants. However, with only $206 million over two years for distribution by the six RDAs, this funding has essentially been sprinkled across the country and without generating 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.

Welcoming Visitors to Canada – Effective & Efficient Borders and Security

Government and relevant agencies must continue to work collaboratively with our airports to invest in a modern digital border and effective screening procedures which will keep Canadian safe while facilitating the movement of Canadians and visitors. This includes biometrics and the digital facilitation of travellers at our border, Nexus, and other tools to facilitate passenger flow. Investments must be made to improve airport facilities, support a positive and efficient traveller experience, and develop a sustainable future airport.

In a post-pandemic world, Canada's Airports view significant potential for digital technologies such as ArriveCAN to evolve from being a pandemic health application to a tool that promotes a more efficient and speedy arrivals experience by allowing travellers to electronically submit relevant information and potentially reduce the time they spend interacting with a customs officer or kiosk at the airport.

Rather than eliminating ArriveCAN, the federal government has an opportunity to leverage this digital tool to modernize our border and make it faster and more efficient for travellers. Mobile applications like ArriveCAN provide the opportunity to move away from on-airport processes like kiosks to fully digital solutions that speed the arrivals process for international air travellers. The success that hub airports have seen in the first week of Advance Declaration's digital integration with ArriveCAN, where on-airport processing time was reduced from an average of 2 minutes down to 40 seconds, is proof positive that putting the power of digital solutions in passengers' hands will reduce bottlenecks and increase airport throughput.

Moreover, Canada must further expand existing transit without visa, one-stop security (OSS) and immigration policies such at the electronic travel authorization (eTA) program to attract more people to and through Canada and avoid leakage to U.S. airports which compete directly with Canadian airports for international passengers.

Under OSS arrangement, Canada and a foreign government agree their aviation security standards are equivalent. Subsequently, passengers from low-risk OSS destinations and their belongings do not have to go through additional screening at Canadian airports. This makes international to domestic airport connections simpler and faster. These expansions will act as a buttress against future competition from U.S. airports as lawmakers push for similar programs to be created south of the border.

Finally, CBSA and CATSA should both strive to meet internationally competitive standards for passenger processing. Currently, CATSA is funded to process 85 per cent of passengers within 15 minutes or less. This is a national standard encompassing all airports at all times of the day, which means that delays continue to be experienced during peak periods.

In addition, funding is needed to continue to build and maintain the infrastructure necessary to support these initiatives. Long-term, stable, and predictable funding must be provided to the relevant departments and agencies to ensure these programs can be properly implemented and maintained.

Pre-clearance

Preclearance is an effective and secure way to facilitate the movement of passengers travelling between Canada and the United States. In recent years, enhancements and expansion to existing preclearance arrangements have been made to allow more passengers across Canada to benefit.

While legislation expanding pre-clearance was adopted in 2017 and the Government reached an agreement with their US counterparts in 2019, progress has stalled on this expansion preclearance at Canadian airports. It is crucial that the work to expand preclearance between Canada and the US at Canada's airports continue, in particular, by allowing shovel ready projects at Billy Bishop Toronto City Airport and Québec City Jean-Lesage International Airport. Furthermore, the Government should continue to work with American authorities to improve and deliver on existing preclearance agreements so adequate staffing resources are available at Canadian locations.

Security Screening

Government and relevant agencies must continue to work collaboratively to improve the domestic travel security experience. A domestic trusted traveller program, similar to pre-check in the US, is required to have an effective risk-based security screening regime. Prior to the pandemic, CATSA had begun a pilot project of such a program. This pilot should be relaunched with a goal of full implementation. This true trusted traveller program pilot, which allowed travellers to be process faster given they had pre-qualified for the program, allowed passengers to not remove their belts or shoes and could keep laptops in their bags.

Facilitate New Revenue Generating Activities at Airports

Airport authorities operate as a business and rely on three sources of revenue; aeronautical revenue in the form of landing fees from air carriers, non-aeronautical revenue, such as retail services purchased at the airport, and an airport improvement fee on each ticket – dedicated to an airport infrastructure fund. There are a number of innovative ideas that, if adopted, would diversify its non-aeronautical revenue. First and foremost is Arrivals Duty Free (ADF) and Dual Shop Stores (DSS).

Modernizing the Customs Act to permit International Airports to offer Arrivals Duty Free for inbound international travelers 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.

There are currently more than 48 countries who have ADF, most notably Australia. Several Canadian airports conducted an economic study which showed that ADF would provide a positive revenue flow to both the provincial and federal governments.

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.

We recommend that the Government of Canada modernize its duty-free policies and regulations to allow the establishment of Arrivals Duty Free (ADF) and Dual Shop Stores (DSS) at Canadian Airports to further support small and local businesses.

Support Labour Needs

The labour shortage in the travel and tourism sector is not unique in Canada, nor are there simple solutions. It's clear that the necessary decisions airports made to scale back operations during the pandemic — to reflect the catastrophic reduction in both demand and revenue — meant former members of the sector chose other sources of employment. That's understandable, and it's unrealistic to expect they will quickly shift back as Canada has endured some of the strictest domestic public health policies for travel around the world.

Beyond the acute staff shortages are the long-term needs. The Tourism Industry Council notes that while labour in the Canadian economy expanded by 3 percent in May 2022 relative to the same period in 2019, the tourism labour force still lags 9.2% below its 2019 level. This shortage represents 203,000 fewer people employed or seeking employment in the tourism sector, leaving unfilled tourism jobs, and representing a significant drag on the recovery of the tourism sector.

The biggest obstacle to filling positions is the difficulty in attracting qualified and reliable employees. This has caused many operators to scale back their operations to allow them to manage with the smaller staffing contingent. This is also the case for aviation. Looking to the future, airports and the aviation sector will continue to need more pilots, baggage attendants, air traffic controllers, security screeners, border officers, drivers and beyond.

There are steps that can be taken to develop aviation's labour pool, but there are indications that to secure future workers **airports will need to begin to engage in promotion and generating interest in airport careers starting with children at the elementary school age.**

To address the shortage of labour in the tourism sector broadly, the Tourism HR Canada recommends the following:

- implement a comprehensive Tourism Immigration Strategy;
- implement an Indigenous Workforce Strategy;
- increase high school tourism programs;
- modernize post-secondary tourism programs;

- facilitate improved worker and student mobility;
- incentivize public and private investments in infrastructure.

Given the importance of tourism to the overall growth of the Canadian economy, Canada's Airports support the development of comprehensive strategy to attract more people to work in the tourism sector.

Conclusion

Once again, we thank you for your work and consideration of our recommendations. Our sector has long played a critical role in connecting people across vast distances. Our members look forward to continue playing that key role as we transition out of the pandemic, and are determined to be a strong contributor to Canada's tourism ecosystem and our economy.