CANADIAN AIRPORTS COUNCIL

SUBMISSION TO THE NATIONAL SUPPLY CHAIN TASK FORCE

JULY 2022

Introduction

The Canadian Airports Council (CAC) is pleased to offer a submission for the consideration of the Government of Canada's National Supply Chain Task Force, with the goal of informing the overall work on the supply chain strategy.

The dynamics of supply chains and the economy are complex, but the current effects that are being felt by everyday Canadians because of broken links in the chain is painfully clear. Goods are more expensive, harder to get, and the cost of living is increasing.

Given the global interdependencies between both national economies and the manufacturing and shipping industries that allow goods to flow, we all must concede that our individual ability to effectively address these issues has clear limitations — but that taking action where possible still carries potential for important impact.

To that end, Canada's airports — as key links in the chains that are connecting people to the goods they need — have considered the various ways improvements to the sector could assist.

For the sake of this submission, we have specifically focused on those measures that can be achieved through partnership with the Government of Canada, and how they create the opportunity to make tangible progress towards delivering greater resiliency, and ultimately a greater ability for Canadians to overcome inflation challenges.

Context & Recommendations

Canada's airports' core contribution to global supply chains is primarily through the delivery of goods via belly cargo in commercial airline flights (with the balance coming from dedicated cargo flights). This has long been a critical channel for shipping goods of all kinds — including various purchases made through online marketplaces, to food and beverage, to pharmaceutical and health products.

Prior to the pandemic, 60% of air cargo was belly capacity and 45% was freighter. Now there has been a shift and 55% of cargo is freighter. Air cargo is growing and has proven resilient to this crisis.

Excluding trade with the U.S., pre-pandemic almost 25 percent of Canada's imports and exports were shipped by air. What's more, 80 percent of our cross-border e-commerce is transported by air.

At the height of the pandemic, changing consumer patterns and related global dynamics brought to light the importance of air cargo and the critical role of aviation in the supply chain. There were three specific factors that did this: the spike in demand for goods over services, shocks felt elsewhere through other shipping channels, and the consistently increasing consumer appetite for e-commerce purchases.

To illustrate: According to a recent contribution to the House of Commons from Supply Chain Canada, delays in global container shipping have risen from an industry average of 4 percent to 12 percent. In another recent supply chain study completed by stakeholders from Ontario's Peel Region, the slowing of shipping containers drove local industry leaders to try pivoting to air freight to offset the constriction — but they found that capacity was restricted: "with passenger flights falling 85% during the pandemic, this created severe capacity constraints."

The air sector plays a critical role in the timely movement of perishables goods, representing 54% of North American cargo trade and 12% of that being fresh fruits and vegetables. As belly capacity was restricted these goods continued to need to get to market.

Airlines have made their own pivots — including converting passenger aircraft to dedicated freighter aircraft to meet demand. But given the consistent appetite for goods that has continued — from global purchasers looking to import Canadian seafood, to Canadians' own want for e-commerce purchases — every indication is that the need for increased air freight capacity is high and airlines have added to their freighter service, even as belly capacity has come back to the system.

To meet that demand, capture the associated economic opportunity, and create resiliency that would protect the Canadian portion of supply chains from eroding peoples' purchasing power, investments must be made in airport infrastructure to accommodate an increasingly greater volume of freighter cargo.

<u>National Trade Corridor Fund</u>

We recommend the continued re-capitalization of the National Trade Corridor Fund, providing funding for ground access improvements and further expanding the program parameters so additional relevant project types would qualify, and accelerating project approvals and the flow of funds. To accommodate the arrival and management of more air cargo, it will also be essential to conduct active forward planning on the use of industrial land and roads around the country's most significant logistics zones — which include airports.

From 2017 to 2021, there have been investments through the NTCF in 17 airport projects for a total investment of $298million, however only 6 of these projects ($137 million) were supply chain related. The other projects addressed airport infrastructure needs in the north or safety related infrastructure needs at NAS airports.

Two examples of projects that have demonstrated the importance of investment in air cargo capacity throughout the pandemic are Edmonton and Halifax. With the support of NTCF, cargo apron space was already expanded in Halifax, which greatly assisted throughout the pandemic and now with additional freighter activity continuing the airport is able to accommodate the growth in dedicated cargo service. Edmonton has invested expanded their cargo apron to accommodate more planes at one time and invested in a new Fresh Cargo Centre to expand cold storage to facilitate the movement of more perishable goods.

Air cargo has been growing globally since 2014 and the pandemic has further expedited that growth. More investment is necessary, in projects like those noted above, to support air cargo development and investment into airport real estate to service the growth in freighter traffic to meet consumer demand.

Over the past five years, air cargo projects have not been prioritized for investment in NTCF to the extent of other modes of shipping. It is recommended that an airport specific stream of NTCF of $500 million over 5-years should be invested to support the significant growth in Canadian air cargo capacity.

Foreign Trade Zones

We also need to modernize our current Foreign Trade Zones (FTZ) to more effective support Canada in its competitiveness and attraction of business. Canada's current FTZ offering is confusing, not competitive, and an administrative burden with minimal benefit. Addressing these issues will require legislative change and improvements to the process will encourage third party investment in Canadian airports.

Compared to other jurisdictions such as Singapore, the US and UAE, Canada has focussed less on FTZs as a strategic economic tool.

A modernized framework for Free Trade Zones has the potential to reposition Canada in the global supply chain while also supporting the post-pandemic economic recovery. FTZs can prevent tax leakage, both on-shores businesses and stimulates new businesses, creates jobs, reduces GHG emissions and leverages the new benefits from Canada-United States-Mexico Agreement (CUSMA)– all without significant financial burden to the federal treasury. The three recommended changes to FTZ include:

1) 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.
2) Integration of a new FTZ framework with advanced logistics and border security policies such as the US Customs Trade Partnership Against Terrorism (CPTAT) and Canadian Partners in Protection (PIP) programs.
3) Implementation of cohesive administrative and licensing processes for designated Free Trade Zones.

These proposed changes are aligned with Canada's long-term agenda for homemade, value-add production—which ultimately will result in the repatriation, creation and retention of jobs for Canadians in key emerging industries.

Supply Chain Digitization

There is also a highly critical need to reduce paperwork and red tape and create one common digital technology platform to move and clear goods. We need to make it seamless for companies and shippers to want to move goods through Canada. Navigating a maze of different legal frameworks and requirements is more challenging in our current, heavily paper based and fragmented system.

Canada can look to a number of countries and airport examples for best practices in digitation of supply chains including Amsterdam, Atlanta, Dallas, Singapore and Mumbai. Digital corridor solutions exist within the airport / air cargo environment and should be developed and adopted in Canada. This requires partnership of all stakeholders across the supply chain. Innovation starts with information and we need to have more transparency of information in order to have a baseline of data of goods moving by air now and strategize for improvements. Government can be a lead partner in data sharing that would assist industry partners to understand the vulnerabilities to manage risks and identify opportunities to make decisions to enhance the supply chain process. An integrated and coordinated supply chain where all participants are informed will drive decision making to optimize performance.

Airports are willing, engaged and committed to supporting a pilot program with the ability to stand up a proof of concept for feedback and review in a short timeframe.

Seventh Freedoms

All-cargo seventh freedom rights are also in need of review, to better enable air carriers to fly cargo between two countries other than the home country. The International Civil Aviation Organization (ICAO) has been encouraging a wider adoption of all-cargo seventh freedom rights to foster greater resiliency in the global cargo supply chain, and there has been encouraging movement on this within Latin America. For us, doing so would create greater opportunity for trade with the U.S., an ongoing key source for our country.

Having 7th Freedom cargo rights would help prevent shortages for essential goods and services and it would decrease the cost for global air carriers to service our market. To illustrate; currently a middle eastern cargo carrier would fly a freighter full of goods to Philadelphia, unload the cargo, then fly to Halifax empty to pick up seafood and return to the middle east. If 7th Freedom cargo rights were permitted, goods could also be carried on the Middle Eastern freighter from Philadelphia (US) into Halifax (Canada), which would lower the cost of the route for the carrier and increase global trade.

Labour

Another key element is protecting and developing Canada's labour pool to strengthen and secure the supply chain work force. We will continue to need more drivers, pilots, warehouse workers and beyond. Increasing access to training and long-term career opportunities could be a possible measure to ensure those workers will be available to sustain Canada's needs. In parallel, there is acute need to speed up related processing for security clearances, passport issuance, and refine rules on crew fatigue management and duty days.

Conclusion

Canada's airports are eager to grow their critical role in the local, regional, and global supply chain. The pandemic, shifting global trends, and climate change have only accelerated the reliance on and importance of the air sector to move goods around the globe and across our country. We now need government to make some policy and program changes to help the sector live up to its potential and capitalize on the economic opportunities that lie ahead.

We are grateful for the opportunity to deliver this submission to the task force and look forward to continuing the dialogue.