

2017-2018 Federal Budget Submission

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Greater Toronto Airports Authority

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Toronto Pearson International Airport is a key part of Canada's economic infrastructure and an important enabler and catalyst of economic activity and growth.

This year, the Greater Toronto Airports Authority (GTAA) celebrates the 20th anniversary of the transfer of management of Toronto Pearson from Transport Canada. Over the last 20 years, Toronto Pearson has grown into one of the world's most important global hub airports, serving as a key international gateway not only for Canada, but for all of North America. Today, the airport is second only to New York's John F. Kennedy Airport in North America for the number of inbound international passengers and more than 67 per cent of the world's economic markets can be reached through daily, non-stop flights.

This connection to the world expands Canada's trade relationships, encourages foreign direct investment and supports Canada as a tourist destination. There are clear economic benefits associated with the substantial growth that Toronto Pearson is experiencing and the global connectivity the airport facilitates—the logical extension being more exports, business, jobs, tax revenue, tourism and investment for Canada.

We appreciate the opportunity to contribute to the Standing Committee's consideration of actions to further enhance Canada's economic growth.

Key facts about the GTAA

The GTAA is a not-for-profit corporation, operating on a commercial basis and managing Toronto Pearson since 1996. There is no taxpayer subsidy to fund operations or airport development.

This commercial focus has resulted in revenue growth, shrinking debt, greater operational efficiencies and improved customer service. In 2015, the GTAA generated \$65.9 million in net income and \$1.2 billion in gross revenues (31 per cent of which came from non-aeronautical revenues, such as parking, retail, and concessions). The GTAA also paid down \$350 million in debt in 2015, and the GTAA's credit ratings recognize this solid financial management—S&P (A), DBRS (A), Moody's (Aa3). In addition, the GTAA paid \$128 million in ground rent to the Government of Canada in 2015.

The GTAA achieved these results while also reducing aeronautical rates (landing and terminal fees) paid by air carriers by 25–30 per cent since 2006, and investing more than \$700 million in capital expenditures between 2010 and 2015 to accommodate the significant growth in passenger demand.

Key facts about Toronto Pearson

- Toronto Pearson managed 443,000 flights in 2015, greeted 41 million passengers, facilitated 60 airlines operating at Toronto Pearson, serving 180 destinations worldwide and connecting to 67 per cent of the world's economy.
- Toronto Pearson handled a third of Canada's daily passenger air traffic—115,000 passengers per day and up to 150,000 passengers on peak days.

- 50% of Canada’s air cargo is shipped from Toronto Pearson.
- Approximately 40,000 people work at Toronto Pearson, and another 245,000 people work in the surrounding area; this Airport Employment Zone is the second largest concentration of jobs in Canada after downtown Toronto¹.
- Toronto Pearson facilitates an economic impact of \$35.4 billion, accounting for almost 6 per cent of Ontario’s GDP. By 2030, Toronto Pearson is expected to account for \$62.1 billion or 6.6 per cent of Ontario’s GDP and an employment zone of 478,000 people—this represents growth of 40 per cent in terms of employment.²
- From 2014 to 2015, passenger volumes grew by 6.4 per cent or 2.5 million passengers. Passenger activity in the international sector, which includes the United States, increased by 7.7 per cent, and domestic sector activity increased by 4.4 per cent.
- By 2033, Toronto Pearson is forecasted to reach upwards of 65 million passengers, more than 1 million tonnes of cargo, and more than 600,000 flights per year.

One of the world’s global hub airports, Toronto Pearson is on the verge of becoming one of the world’s elite “mega hub” airports, one that serves more than 50 million passengers annually, with at least 20 million of those passengers being international in origin. Current mega hub airports include New York’s John F. Kennedy, Hong Kong, Singapore’s Changi, and London Heathrow.

There are many factors that contribute to Toronto Pearson’s growth as a global and mega-hub:

- Supportive government and regulatory framework
- Operational efficiency for passengers and cargo (security screening, customs, immigration, visas, etc.)
- Global air carriers operating from the airport
- Solid financial management
- Globally competitive service level standards for passengers and carriers
- The capacity to accommodate growth, such as opportunities for terminal/runway expansion and direct access to ground transportation networks

Toronto Pearson’s opportunity to grow can be complemented by strategic policy and investments by the Government of Canada.

¹ The Neptis Foundation

² Frontier Economics Study

As the Committee considers recommendations for the 2017–2018 Federal Budget, we ask that they include the following three items, discussed in more detail below:

1. Appropriate funding for the Canada Border Services Agency (CBSA) and Canadian Air Transport Security Authority (CATSA) to deliver a globally competitive customer service standard, consistent with other world-class airports.
2. Changes to Duty Free Programs to increase non-aeronautical revenues.
3. Transit investments to support groundside connectivity to Toronto Pearson.

Budget Recommendation 1

Appropriate funding for CBSA and CATSA to deliver a globally competitive customer service standard, consistent with other world-class airports.

The efficient flow of passengers is an essential element of the operations of Toronto Pearson and the passenger experience there. When passenger flow is good, the Airport can achieve full efficiency and deliver resulting benefits for the Canadian economy. When the passenger flow is poor, it results in long lines and wait times, flight delays, missed connections and a major inconvenience to passengers—be they business, personal, or tourist travellers from Canada or abroad— all impacting the Canadian economy.

Two key Canadian government agencies work with the GTAA in this regard:

- The Canada Border Services Agency (CBSA) manages customs and immigration for passengers and cargo arriving at Toronto Pearson.
- The Canadian Air Transport Security Authority (CATSA) manages the mandatory security screening (passenger and baggage) for all departures. It is also responsible for screening employees and vehicles entering the secure area of airports.

Delays in both CBSA processing for arrivals and CATSA screening for departures are two of the biggest operational challenges facing Toronto Pearson. We all have shared goals in safety and security, and growing Canada's economy—both CBSA and CATSA can positively influence the flow of people and goods.

Unfortunately, funding for both agencies has not kept up with passenger growth at Toronto Pearson. Solutions are multi-pronged as it is a complex environment. Technology modernization and process improvements must continue; however, additional staff resources are essential to handle current and future growth. This is particularly acute for CATSA.

CBSA: In 2015, 12.7 million passengers were processed by CBSA at Toronto Pearson. By 2020, this number is expected to be 17.9 million passengers annually. Passengers coming from international destinations requiring customs and immigration screening are the fastest growing segment at Toronto Pearson.

From January to December 2015, 980,000 passengers waited longer than 20 minutes to be processed. This represents more than all of the passengers processed by CBSA at Edmonton International Airport in 2015.

Of those 980,000 passengers:

- 700,000 were processed in 20–30 minutes.
- 250,000 were processed in 30–50 minutes.
- 30,000 took longer than 60 minutes.

As of May 2016, the CBSA Hall has been so busy that the GTAA has had to hold people outside the Customs Hall 61 times, with an average wait of 32 minutes, and this is after a long international flight.

CATSA: Passenger volumes continue to increase, but funding and staffing of CATSA's security screening lanes has not kept pace with growth, and CATSA's mandate has expanded to include employee and vehicle screening. Multiple reviews and assessments have occurred over the years to address concerns. CATSA's inability to handle the growing demand for their services results in significant delays, impacting travellers, air carriers and the Canadian economy.

The passenger screening benchmarks of world-class, global and mega hubs are clear:

- London Heathrow (UK): 95 per cent of passengers screened in 5 minutes or less.
- Paris Charles DeGaulle (France): 95 per cent of passengers screened in 10 minutes or less.
- Frankfurt (Germany): 90 per cent of passengers screened in 10 minutes or less.

Toronto Pearson's goal (shared by Canada's aviation industry) is 95 per cent of passengers screened in 10 minutes or less.

In 2015, 17.6 million passengers were screened at Toronto Pearson:

- 73 per cent of passengers were screened in 10 minutes or less.
- Approx. 4.75 million passengers waited longer than 10 minutes.
- Approx. 2.3 million passengers waited longer than 15 minutes.

This means, on average, every day:

- Approx. 13,000 passengers wait longer than 10 minutes.
- Approx. 6,300 passengers wait longer than 15 minutes.

At peak times, passengers have waited more than 60 minutes for screening services.

The cost of air traveller security and screening is covered by user fees generated through the Air Travellers Security Charge (ATSC), collected on a per passenger basis. The ATSC is directed to the federal government's Consolidated Revenue Fund.

The ATSC came into effect in 2002 to fund the air travel security system, including all of the functions performed by CATSA, but these funds are not fully allocated to CATSA:

- With security charges of up to \$25 per passenger, in 2014–2015, ATSC revenue was roughly \$700 million (nationally). Only 80 per cent of this was allocated to CATSA’s operating and capital costs. The ATSC generated approximately \$150 million a year more than was dedicated to CATSA.
- After successive years of funding reductions, in 2016, CATSA was provided with \$29 million in funding to keep service levels at par with 2015 levels, levels that are below global standards and customer service expectations.

Consistent with the Standing Committee’s request for growth initiatives, now is the time to invest in Canadian airports to support their continued growth.

A pilot project is in place until March 2017, which allows Toronto Pearson to use its funds to purchase additional CATSA screening lines during peak periods. We recommend this program be formalized and implemented fully at airports that request it.

Toronto Pearson’s continued growth as a global hub—bringing significant economic growth to Canada—is dependent on the fast, efficient flow of passengers.

Budget Requests

1. To accommodate the largest passenger growth sector, Toronto Pearson requires \$2 million in funding for new CBSA officers in order to meet a standard of 90 per cent of passengers screened in 20 minutes or less.
2. Increase CATSA funding to enable it to manage growing passenger traffic at Canadian airports and implement a federally mandated service level standard consistent with excellent customer service in world-class airports—95 per cent of passengers screened in 10 minutes or less. The GTAA estimates that CATSA operations at Toronto Pearson require \$20 million in additional funds in 2016 to meet this higher standard.
3. Additionally, we understand CATSA requires capital funding of \$60 million to implement new technology (called CATSA Plus) across Canada in 2017 and 2018; this technology will enable CATSA to significantly improve passenger throughput at every screening lane.
4. Formalize a program that allows airports to pay for a higher level of service (better than 95 per cent in 10 minutes or less).

Budget Recommendation 2

Changes to Duty Free programs to allow Dual Shop Stores and Arrivals Duty-Free

Dual Shop Stores: The Dual Shop Program allows all passengers (international and domestic) to purchase any products in a Duty Free shop when travelling through a mixed departures zone at an airport terminal; all sales to international passengers are governed by the Duty Free program and all sales to domestic passengers are subject to all appropriate taxes and duties.

This will improve the overall passenger experience, while maintaining the integrity of the Duty Free program at all Canadian airports through clear and defined processes, risk mitigation techniques and tax remittance to the Canada Revenue Agency (CRA).

Benefits Include:

- Competitive service in Canadian airports consistent with U.S. and European airports.
- Increased government revenues through the remittance of the applicable taxes and duties paid on domestic sales, as well as airport rent.
- Gains made from corporate and income tax.
- Improved revenues to airport authorities through rent paid by retailers, which help to offset aeronautical fees and charges.
- Passenger convenience.

A Dual Shop Program has been operating in the United States for more than five years. Sales to domestic passengers are equivalent to approximately 10–15 per cent of current duty free sales.

Annual duty free sales in Canadian airports represent approximately \$415 million. Based on the performance of the U.S. program, the implementation of the Dual Shop Program across Canada is expected to result in sales growth of \$27.7 million, generating additional federal and provincial taxes of \$3.75 million annually.

Arrivals Duty Free: Canadian airports today are permitted to sell certain goods duty free to passengers on their departure from Canada. Arrivals Duty Free (ADF) would permit passengers arriving at international airports in Canada to purchase duty free goods on arrival. ADF is available in more than 50 countries around the world.

The introduction of an ADF Program in Canada would repatriate revenue that is currently lost to foreign jurisdictions every time passengers purchase duty free products when they depart a foreign airport.

The introduction of ADF would help Canadian duty free operators compete more effectively with their foreign counterparts who can sell on both departure and arrival. There would be no cost to the government, and no changes in inventory, licensing requirements or personal exemptions with an ADF program.

Expected financial benefits to Canada:

- 80 per cent net new purchases.
- Repatriate about \$100 million in overseas sales (currently spent in foreign airports.)
- Generate close to 600 new direct and indirect jobs across Canada.
- \$9 million in new tax revenue to the federal government.

Budget Request

That the Government of Canada work with the provinces to introduce Dual Shop Duty-Free stores and Arrivals Duty Free, consistent with other jurisdictions around the world.

Budget Recommendation 3

Transit investments—Multimodal transportation hub at Toronto Pearson

At Toronto Pearson, significant time and resources are dedicated to assessing what the Greater Golden Horseshoe will look like 40 years into the future, especially as road congestion in the Toronto Pearson area reaches critical levels.

The area around Toronto Pearson has extremely limited transit options connecting the approximately 300,000 people who work at and around Toronto Pearson to their jobs. Despite its size and economic importance, the Airport Employment Zone (AEZ) is not well connected to the city or the region through transit; this results in traffic congestion in the area reaching critical levels and limits the employment growth in the area. Travel times to the AEZ are expected to increase 25–35 per cent by 2043.

Modern passengers expect connectivity and multiple transportation options when they arrive in one of the world's most forward-thinking city regions. For example, the percentage of passengers taking public transit at other world-class airports is significant:

- 30 per cent in Vancouver
- 36 per cent in London
- 40 per cent in Amsterdam
- 50 per cent in Hong Kong
- 60 per cent in Shanghai

By comparison, 10 per cent use public transit at Toronto Pearson.

The Greater Golden Horseshoe needs a regional transportation hub that complements Union Station downtown and provides equivalent connectivity for a region experiencing job and employment growth well outside Toronto's downtown core.

There is a major opportunity for the Government of Canada, alongside the Government of Ontario, municipal governments, and Toronto Pearson, to undertake a region-building project that serves a multitude of transportation needs. This is an initiative that carries national economic significance as the Greater Golden Horseshoe Area, particularly the western Greater Toronto Area, is set to double in population over the next 20–30 years.

Like air connectivity, ground connectivity drives economic benefits. A multimodal transit hub located at Toronto Pearson would provide a critical connection for existing and planned transit lines that all come within reach of the airport. It would keep people and goods moving throughout the region, while also providing a host of other social and environmental benefits.

To support this multimodal hub and the increased use of transit in the Airport Employment Zone, Toronto Pearson has identified the following transit lines as priorities for government investment with connectivity to the multimodal hub:

- Eglinton Crosstown West Light Rail Transit—City of Toronto
- Mississauga Bus Rapid Transit extension to the hub—City of Mississauga
- Regional Express Rail, Kitchener Waterloo Line—Province of Ontario
- High Speed Rail connecting Toronto, Kitchener-Waterloo, London and Windsor—Province of Ontario
- Finch Light Rail Transit extension to the hub—City of Toronto

The GTAA intends to make investments to further develop and undertake studies to build the multimodal hub.

Budget Request

That the Government of Canada continue to support municipal and provincial governments by providing 1/3 cost sharing of transit projects undertaken by the Province of Ontario and the cities of Toronto and Mississauga to connect to a multimodal hub at Toronto Pearson.

Summary

Toronto Pearson plays a critical role in increased economic growth for Canada, providing connections for passengers and cargo around the world, and accessing international markets, resulting in greater global reach and increased business, export, tax revenues, tourism and job opportunities for Canadians.

As the largest airport in Canada and a major driver of economic growth in Canada, Toronto Pearson looks forward to continuing to work with the Government of Canada to make and capitalize on the investments needed to function efficiently, and support the growth and demands of today and tomorrow's economy.

Thank you for the opportunity to provide input to the 2017–2018 Pre-Budget Consultation. We are confident that the strong partnership between the GTAA and the Government of Canada will allow us to embrace our shared opportunities.