



**NACC**  
National Airlines  
Council of Canada



**RESPONSE BY THE NATIONAL AIRLINES COUNCIL OF CANADA (NACC)**

**AND THE AIR TRANSPORT ASSOCIATION OF CANADA (ATAC)**

**TO**

**THE PROPOSED FEDERAL BENCHMARK AND BACKSTOP FOR CARBON PRICING**

**INTRODUCTION**

The National Airlines Council of Canada (NACC), the Air Transport Association of Canada (ATAC) and their members are pleased to respond to Environment and Climate Change Canada's invitation to comment on the proposed federal benchmark and backstop for carbon pricing.

**I. BACKGROUND**

We recognize the need to respond to the global challenge of climate change. In alignment with the global aviation industry, we have adopted ambitious targets to reduce carbon dioxide (CO<sub>2</sub>) emissions from air transportation. These targets are:

- Improve fuel efficiency by an average of 1.5 per cent a year from 2009 to 2020;
- Cap CO<sub>2</sub> emissions from air transportation at 2020 levels; and
- Reduce net CO<sub>2</sub> emissions by 50 per cent over 2005 levels.

In pursuit of these goals, we are:

- Investing in new technology, including the advancement of biofuels;
- Improving infrastructure, including modernizing air traffic management systems;<sup>1</sup>
- Maintaining more efficient aircraft operations; and
- Investing in excess of \$30 billion between 2005 and 2020 in more fuel-efficient aircraft<sup>2</sup>.

Beginning in 2005 we were parties to the world's first voluntary agreement with the Government of Canada to address greenhouse gas emissions from aviation, and starting in 2012, we participated in the subsequent initiative, *Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation*, which set ambitious goals to reduce CO<sub>2</sub> emissions from both domestic and international aviation and to contribute to global efforts to minimize aviation's carbon footprint.

---

<sup>1</sup> Infrastructure and air traffic management system improvements have been financed through the NAV CANADA fees paid by airlines

<sup>2</sup> Fleet renewal provides significant fuel savings; emissions can be reduced by up to 20 per cent by replacing older airplanes.

Our efforts to date have been successful. Between 2008 and 2016, the Canadian aviation industry improved its fuel efficiency by an average of 13 per cent. We also worked with our international partners and with the Government of Canada toward an international framework to reduce global aviation emissions of CO<sub>2</sub>.

In October 2016, aviation became the first industry to develop a global sector approach to limit CO<sub>2</sub> emissions, culminating in the International Civil Aviation Organization (ICAO) adoption of the Carbon Offsetting and Reduction Scheme for International Aviation, known as CORSIA. Under this global agreement, aircraft operators are required to purchase offsets, or “emission units,” for the growth in CO<sub>2</sub> emissions above 2020 levels covered by the framework.

When it was signed, CORSIA had the support of both the Canadian aviation industry and the Government of Canada. Minister of Transport Garneau said at the time that Canada had played a leading role in securing what he called an “historic” agreement, with 85 per cent of the world’s emitters participating in a voluntary carbon-offset system beginning in 2021.

## II. INDUSTRY VIEWPOINT

NACC and ATAC believe that Canadian aviation and our international colleagues have demonstrated a strong commitment to reducing aviation’s carbon footprint.

We believe that any carbon-pricing scheme for aviation must be evaluated in light of several factors. These include:

- how well a particular carbon-pricing scheme reduces aviation CO<sub>2</sub> emissions;
- how the scheme affects the competitiveness of Canadian aviation, considering the industry’s current cost structure;
- how the scheme affects Canadian jobs and tourism in Canada; and
- how the scheme affects the provision of affordable and accessible travel for Canadians.

We agree with the Government of Canada that a national approach is needed to determine how to treat interjurisdictional emissions. We appreciate that the Government recognizes that aviation-specific issues need consideration. The Government has stated its intention to “engage with provincial and territorial governments and stakeholders to ensure that this emission source is properly covered.”<sup>3</sup> Such engagement is required, and we look forward to participating.

However, the current backstop proposal raises a number of concerns for our sector. For instance, the framework proposed differs from that of all non-backstop jurisdictions and places an additional burden on airlines. It does so by requiring fuel users to purchase fuel with the levy embedded and to self-assess how much fuel was used within a backstop jurisdiction in order to see relief. Upfront exemptions, such as those currently in place in British Columbia and Alberta, would have presented a much lighter administrative burden on airlines.

We are more concerned, however, that the Government’s *Technical Paper on the Federal Carbon Pricing Backstop* has set the stage for a national carbon tax on aviation fuels, while failing to either

---

<sup>3</sup> Technical Paper on the Federal Carbon Pricing Backstop, p.15

demonstrate the environmental efficacy of a carbon tax or consider its impact on the competitiveness of Canada's aviation sector.

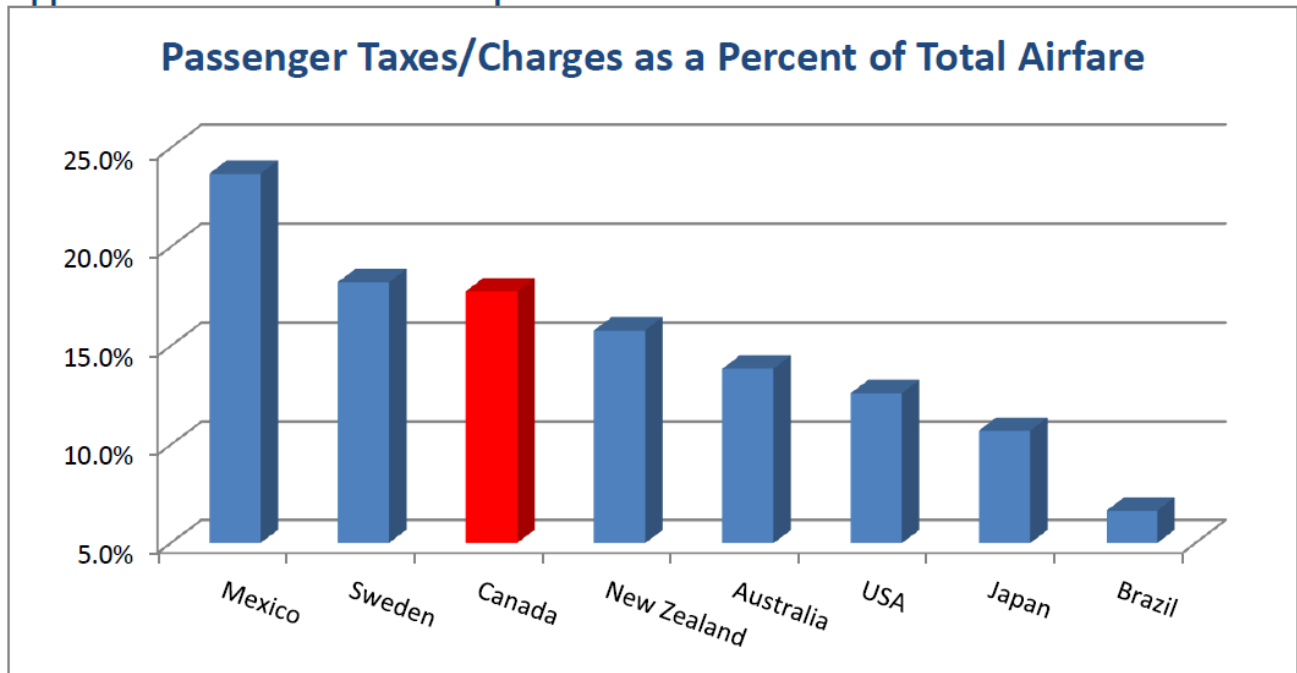
A national carbon tax on aviation fuel is not our preferred approach, for a number of reasons.

First, introducing a national carbon tax would exacerbate Canadian aviation's already severe competitiveness problems (see chart), caused in large part by the already substantial burden of government taxes, fees, airport rents, and other levies under our current user-pay system.

In addition to its uncompetitive aviation cost structure, Canada borders the United States, home to several large international carriers, including Delta Airlines, the world's largest carrier. With over 75 per cent of Canadians living within 90 minutes of the US border, Canadian airlines are already losing a substantial number of passengers to US carriers – approximately five million per year according to the Conference Board of Canada. The United States provides its carriers with an extremely competitive tax environment and subsidized infrastructure for their operations. All of these factors combine to further erode our ability to collect 'feeder traffic' from smaller airports to our hubs to feed our international services.

In 2015, Canada was ranked 130 out 141 countries by the 2015 World Economic Forum Tourism Competitiveness Report when it comes to taxes, rates and charges. In this context, any incremental fee added to Canadian aviation's existing cost structure that provides no benefit in the form of reduced CO<sub>2</sub> emissions or improved service will only increase the cost of airfares, making Canadian carriers less able to compete with US-based carriers.

**Passenger Taxes & Charges  
Percent of Total Airfare Paid  
Applicable to Domestic Air Transport**



Source: International Air Transport Association (IATA)

Second, there is no evidence that a carbon tax on aviation fuel would reduce the carbon footprint of aviation in Canada. Theory suggests that carbon taxes would reduce emissions in two ways—by encouraging industries to adopt emission-reducing technologies and by reducing demand for air travel.

Canada's airlines are already adopting emission-reducing technologies and, despite the many taxes and fees that Government has already placed on aviation in Canada, demand for air travel continues to grow. For a carbon tax to be effective at reducing emissions from passenger air travel, it would have to dampen demand enough to reduce the number of aircraft flying, not just load levels, resulting in the loss of service to Canadian communities.

The Government has presented no evidence that another tax, regardless of its purpose or name, will accelerate the development of emission-reducing technology, reduce demand for air travel, or reduce emissions. It will, on the other hand, increase the cost of flying in Canada, encourage Canadians to cross the border in pursuit of cheaper fares, and further harm the overall competitiveness of our industry.

Third and finally, a carbon tax is incompatible with the CORSIA agreement signed with ICAO in October 2016, with the full support of the Government of Canada.

## **OUR SOLUTION**

These arguments should not be construed as opposition by NACC, ATAC or their members to reducing aviation's carbon footprint. However, we disagree strongly with the proposed mechanism, a national carbon tax on aviation fuel.

In its place, we propose that the Government of Canada establish a carbon-offsetting scheme for domestic aviation similar to the CORSIA agreement established for international aviation by ICAO in 2016.

The International Air Transport Association (IATA) agrees with this approach, writing that "carbon offsetting also guarantees a higher degree of environmental integrity compared to carbon taxation. Provided adequate quality criteria are implemented, each emission unit surrendered will in effect deliver an equivalent reduction in CO<sub>2</sub> emissions. In contrast, there is no guarantee that for each tonne of CO<sub>2</sub> taxed, there will be a tangible reduction in CO<sub>2</sub> emissions, in particular if tax revenues are not earmarked for such initiatives."

In line with our commitment under the CORSIA agreement to carbon-neutral growth by 2020, the federal government should establish a baseline date against which future emissions are compared. Each aircraft operator would be responsible to reduce its own carbon emissions beyond its established baseline by using either eligible Carbon Offset Credits from an open market or low-carbon biojet fuel.

This approach would produce real, measurable reductions in CO<sub>2</sub> emissions. It would also align Canada's aviation-emissions strategy with that of the international community, and allow carriers to harmonize their domestic operations with their international requirements. Given the cross-border nature of aviation, emission reduction policies affecting the sector should strive to be harmonized across jurisdictions, both domestic and international, as much as possible.

## CONCLUSION

In summary, we propose that international and inter-jurisdictional domestic air transport should be excluded from the scope of all Canadian carbon taxes/levies and cap-and-trade regimes, based on the following principles:

- The terms and conditions of existing Air Service Agreements (ASAs) between Canada and various third-party States;
- The taxation policies detailed by ICAO, of which Canada is a Contracting State; and
- Global measures adopted by ICAO to address CO<sub>2</sub> emissions from aviation, specifically the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Furthermore, we propose that the Government of Canada establish a carbon-offsetting scheme for domestic aviation similar to the CORSIA agreement established for international aviation by ICAO in 2016.

We look forward to continued discussions with Environment and Climate Change Canada on how this proposed course of action can best be implemented.

-

The National Airlines Council of Canada (NACC) is the trade association representing Canada's largest passenger air carriers: Air Canada, Air Transat, Jazz Aviation LP, and WestJet. We advocate for safe, environmentally responsible, and competitive air travel by promoting the development, by governments, of policies, regulations, and legislation to foster a world-class transportation system. Collectively, NACC member airlines carry over 71 million passengers annually and directly employ more than 50,000 people. NACC represents almost 90 per cent of domestic passenger traffic and 65 per cent of international traffic in Canada.

The Air Transport Association of Canada (ATAC) is Canada's national trade association representing approximately 200 companies dedicated to commercial air transport in Canada including scheduled and charter, passenger and cargo, air carriers operating regionally, nationally and internationally as well as the industry that supports them.