



**NACC**

National Airlines  
Council of Canada

**CNLA**

Conseil national des lignes  
aériennes du Canada

# CLIMATE EMERGENCY: THE REQUIRED TRANSITION TO A LOW CARBON ECONOMY

**Submission to the Standing Committee on Finance**  
Pre-Budget Consultations in Advance of the 2020 Budget

August 2019



## Recommendations

1. Develop an appropriate carbon pricing policy for aviation that considers the unique and global competitive nature of the Canadian aviation sector, and that includes a:
  - National and consistent approach to the pricing of aviation fuels across the country; and a
  - Domestic carbon offset system that would align with the emissions reduction approach for the global airline industry (CORSIA)
  
2. Expand Canada's Sustainable Aviation Fuel (SAF) production capacity by:
  - Developing a sustainable aviation fuel strategy and supportive policy;
  - Signaling intent to expand Canada's SAF production capacity through comprehensive, long term targeted measures that will attract capital investment;
  - Leveraging industry funds via loan guarantees and capital grant programs; and
  - Allowing accelerated capital cost allowance for new production facilities.
  
3. Incentivize the domestic use of SAF through blending inducements including:
  - Exempting SAF from the federal carbon tax
  - Exempting SAF from the federal excise tax on aviation
  - Refundable tax credits accessible by airlines and aviation fuel suppliers



## Introduction

The National Airlines Council of Canada (NACC) is the trade association representing Canada's largest passenger air carriers: Air Canada, Air Transat, Jazz Aviation and WestJet. We promote safe, environmentally responsible and competitive air travel through the development of policies, regulations and legislation that foster a world-class transportation system.

Collectively, our members fly more than 71 million people per year and carry over 92% of the domestic air traffic and 65% of Canada's international air traffic. We employ over 50,000 Canadians directly and contribute to an additional 400,000 jobs in related sectors such as aerospace and tourism.

NACC welcomes the theme of this year's pre-budget consultations: *Climate Emergency: The Required Transition to a Low Carbon Economy*. Canada's major airlines have a strong commitment to reducing carbon emissions from air travel. However, the industry faces a number of structural obstacles that prevent it from accelerating the pace of decarbonization. This submission will briefly examine those obstacles and provide recommendations for an alternate flight path for achieving clean growth in air travel.

## Context

Fuel is typically the largest variable cost for airlines, often representing as much as 30% of operating costs. The industry is also saddled with extremely tight margins and some of the highest government-imposed costs in the world. For airlines, reducing fuel consumption is therefore as much as business imperative and as an environmental one.

As reported under Canada's Action Plan to reduce emissions from aviation, between 2008 and 2017, Canadian aviation improved its fuel efficiency by 15.6% mostly from air carrier investments in fleet renewals and upgrades. Airports and air traffic control have also contributed to fuel efficiencies through improved navigation procedures and energy efficient airport facilities and equipment. We have made significant progress in mitigating our carbon impact, however we are faced with certain challenges that could impede further progress in achieving emissions reductions from aviation including:

**Demand for air travel is increasing:** The International Air Transport Association (IATA) indicates that passenger air travel has increased by 50 percent in the past 6 years alone, and forecasts that more than 4.5 billion airline tickets will be sold in 2019, a 4.6 percent increase from 2018. Reducing emissions by way of reducing demand for air travel is therefore not a realistic option.

**Patchwork of carbon pricing regimes:** Airlines in Canada are currently subject to a patchwork of carbon pricing regimes. These include regimes set by a few provincial governments (e.g., British Columbia) and that apply to intra-provincial travel only. The federal carbon tax backstop applies to the remaining provinces, again for intra-provincial travel only. Still, the majority of domestic flights are inter-provincial and not currently subject to any carbon pricing regime.

At the international level, emissions from aviation were excluded from the 2015 Paris agreement. Notwithstanding, the International Civil Aviation Organization (ICAO) adopted self-policing guidelines known as Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to address carbon emissions from international aviation. Under CORSIA, the aviation industry will spend over \$40 billion on offset projects that cap the climate impact of flying. The international aviation community and representatives from civil society



chose carbon offsets as the best way to reduce its emissions for a simple reason: Due to the unique and global competitive nature of aviation, they were determined to be a more effective market mechanism to achieve emission reductions than a carbon tax. Under CORSIA, aircraft operators will purchase offsets, or “emission units”, for growth in their carbon emissions above 2020 levels. The federal government is a signatory to this global agreement which will apply to the international routes to applicable states flown by Canadian carriers as of next year.

This current patchwork of carbon pricing schemes to which Canadian carriers are subject to is expensive to administer, creates competitive distortions among carriers and regions, penalizes some flights (e.g., those that originate and terminate within the same province), and will increase the cost of air travel. Most importantly, and as will be discussed later, it will not reduce emissions nor will it support aviation in more rapidly transitioning to low-carbon air travel (e.g., using Sustainable Aviation Fuels) – at least not through existing or proposed domestic measures.

**In order for the aviation sector to achieve real emission reduction opportunities, we therefore recommend that the federal government develop an appropriate carbon pricing policy for aviation that considers the unique and global competitive nature of the sector, and that includes a national and consistent approach to the pricing of aviation fuels across the country. Further, we recommend the adoption of a carbon offset system to reduce domestic aviation emissions modelled after CORSIA to align with the international consensus on carbon pricing for aviation.** Our analysis shows that such a system would be far less costly for consumers, less costly to administer, would minimize competitive imbalances and emission leakage, and most importantly, result in measurable emission reductions.

#### **Carbon tax Ineffectiveness:**

The Canadian airline industry is now dealing with the new – and problematic – federal carbon tax. To be clear, NACC fully supports putting a price on carbon, and believes that market-based mechanisms should be the centerpiece of every carbon reduction strategy. However, the federal carbon tax fails to recognize a number of fundamental economic realities; chief among them that due to commercial aviation’s technological maturity – the fruit of years of massive investment in fleet renewal – over the short and medium term, a carbon tax cannot incentivize emissions reductions. Put another way, airlines have already achieved most of the fuel efficiency possible with today’s technology. For those airlines, a carbon tax is just that – another tax on air travel that will make it more expensive to fly, exacerbate passenger and emission leakage, curb growth in the visitor economy, and cause significant market distortions -- and do nothing to help reduce emissions. The carbon tax must incorporate the work that our sector has done to increase efficiency.

#### **Ineffectiveness of Regulatory Caps:**

Equally, the aviation industry has concerns with proposed regulatory measures to reduce emissions, for example the Clean Fuel Standard (CFS), because they will be complex to implement, and may lead to our sector paying for other modes of transport to decarbonize rather than leading to emissions reductions within the aviation sector. Key to our concerns is that the CFS is designed to encourage fuel switching – something airlines cannot yet do as low carbon fuels that are functionally equivalent to petroleum jet fuel (e.g., Sustainable Aviation Fuels (SAF)) are not currently commercially available domestically and have very limited availability internationally.



Still, with demand for air travel projected to double over the next 20 years, and the global imperative to reduce carbon emissions from all sectors, reducing our industry's global carbon footprint will require the development of a commercially viable supply of SAF. In fact, SAF is the only way to generate significant carbon emission reductions in commercial aviation over the medium term. Various studies show that the use of SAF can reduce carbon emissions by as much as 80 percent. The rest of this submission explains the economic barriers to SAF, and offers recommendations for incentivizing its production and use in Canada.

## Sustainable Aviation Fuel (SAF) Prospects

Canada has important natural advantages in SAF development including sustainable feedstocks, commercially available production technologies, and an engaged, committed and world-leading airline industry. Still, the commercialization of SAF has so far proceeded at a pace that is at odds with its potential breakthrough impact on the aviation sector's carbon footprint. Moreover, low carbon aviation fuels lag behind other liquid renewables used in transport (such as ethanol, biodiesel, and renewable diesel) in the deployment of commercial-scale production capacity and level of consistent use.

The inescapable reality is that in addition to being in very limited supply, low carbon aviation fuels are very costly to commercialize and purchase. In an industry with very tight operating margins and where fuel costs are a top operating expense, the use of a higher price fuel will be limited.

The primary barriers to greater low carbon aviation fuel production and use are economic, and are at least three fold. First, low carbon aviation fuel is currently more expensive to produce than renewable diesel and therefore requires a higher selling price to justify the additional processing expense. Second, integrating low carbon aviation fuel into airport fuel systems requires additional logistics and operational procedures. Third, there is not yet effective government policy in place to sufficiently address the economic barriers to the production, integration, and use of low carbon aviation fuel so commercial scale up is currently very limited.

In this context, we recommend that the federal government expand Canada's SAF production by:

- Developing a renewable aviation fuel strategy so Canada becomes a world leader in producing aviation SAF from sustainable Canadian feedstocks;
- Signaling intent to expand Canada's SAF production capacity through comprehensive, long term targeted measures that will attract capital investment;
- Leveraging industry funds via loan guarantees and capital grant programs; and
- Allowing accelerated capital cost allowance for new production facilities.

As renewable fuel blending requirements do not exist for aviation, we also recommend the federal government incentivize SAF use through blending inducements including:

- Exempting SAF from the federal carbon tax when blended with aviation fuel. In addition to improving the economic rationale for aviation decarbonization, this measure would afford SAF the same treatment as other renewable fuels in the gasoline, diesel, and natural gas fuel pools.
- Exempting SAF from the federal excise tax on aviation jet fuel (\$0.04/litre).
- Exploring refundable tax credits accessible by airlines and aviation fuel suppliers when blending SAF.