NACC CNLA
National Airlines Council of Canada
Conseil national des lignes aériennes du Canada

MEASURES TO RESTART THE CANADIAN ECONOMY AS IT RECOVERS FROM COVID-19

Submission to the Standing Committee on Finance (FINA)

Pre-Budget Consultations in Advance of the 2021 Budget

August 2020

Recommendations

Canada's major airlines will be called upon to play a key role in restarting Canada following the covid-19 global pandemic – we impact every sector of the economy, every region of the country, in every community large and small. The National Airlines Council of Canada (NACC) recommends the following measures to support Canada's economic recovery by alleviating the financial crisis facing the aviation sector, and promote environmentally sustainable aviation:

1. In conjunction with industry, undertake a comprehensive review of the User-Pay Plus approach to Canadian commercial aviation. This review should identify all possible measures that can be taken to alleviate rates and fees recognizing that left unchecked the User-Pay Plus approach will result in ever-increasing costs to industry and consumers that are simply not sustainable given the extensive economic chaos created by the pandemic.
2. In conjunction with industry, develop a sector-specific financial support program that addresses aviation's liquidity challenges more effectively than the current Large Employer Emergency Financing Facility (LEEFF).
3. Provide appropriate financial support to NAV CANADA to cover its projected revenue shortfall and thus obviate the need for the 29.5% increase in navigational fees scheduled to take effect in September 2020, and address NAV CANADA's projected financial requirements through to 2022.
4. Temporarily suspend the excise tax on jet fuel.
5. Temporarily suspend the Air Transport Security Charge (ATSC).
6. Temporarily implement a zero-rated GST on passenger flights and associated Airport Improvement Fees.
7. Introduce a federal travel credit to promote air travel.
8. To mitigate the carbon impact of air travel and rebuild the economy in a sustainable way:

   (a) expand Canada's Sustainable Aviation Fuel (SAF) production capacity by:
   - Developing a SAF 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.

   (b) 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
   - Exploring 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.

As 2019 drew to a close, Canada's economy was benefitting tremendously from a level of air service and connectivity never experienced before, connecting communities large and small across the country and with the world. This was due to years of multi-billion dollar investments by Canada's airlines in new aircraft and service expansion. In 2019, NACC member airlines carried over 80 million passengers, directly employed over 60,000 people and served as a critical component of Canada's overall air transport and tourism sector which supports more than 630,000 jobs.

This web of connectivity and economic development came to an abrupt halt in early 2020 as a result of the COVID-19 pandemic.

Impact on Aviation

Aviation has been devastated by the economic chaos created by COVID-19. Tens of thousands of employees have lost their jobs, billions of dollars in aircraft are parked as capacity has been reduced by approximately 80% to 90%, service in some markets has been eliminated, and flights that do operate often do so with very few passengers. According to recent Statistics Canada data, operating revenues are down by more than 90%. It is expected it will take the aviation industry 3 to 5 years to get back to the number of destinations, service levels, and passenger volumes that existed at the end of 2019.

Despite these challenges, aviation will be called upon to play a key role in re-starting Canada as we impact every sector of the economy, every region of the country, in every community large and small.

This submission recommends ideas to support the economic recovery of Canada and commercial aviation, including measures to alleviate the financial crisis facing the sector and measures to rebuild the economy in a sustainable way by reducing carbon emissions from aviation.

Re-thinking User Pay Plus when there are No Users

Canada has always had a very aggressive user-pay plus approach to the provision of aviation infrastructure and services, compared to other countries that view the sector as an economic enabler and thus provide some direct government funding and support.

The pandemic has demonstrated that an aggressive user-pay model does not work when there is a catastrophic drop in users, with no clear end in sight as to when demand will return.

For example, while other jurisdictions have provided financial assistance to their air navigation service providers, NAV CANADA has not received federal government support, and has informed airlines that air navigation charges will increase 29.5% in September 2020 as it struggles to meet its debt covenants in the wake of the massive drop in flights.

The industry is at a loss to understand how the government can conclude that the provision of safety services by an organization that was created by federal statute, and has a comprehensive service requirement to provide those services regardless of how many aircraft are operating, is not deserving of direct federal support tailored to meet NAV CANADA's specific needs. It must be noted that the 29.5% increase will only recoup a small portion of the projected financial shortfall through to 2022. There is no indication yet what further fee increases may be necessary given the lack of government support.

In addition to air navigation fees, industry and consumers in Canada are charged a variety of other direct and indirect fees that other countries have lowered since the pandemic to benefit consumers, and reduce industry costs.

Furthermore, virtually all our major trading partners have implemented aviation-specific financial loan support programs, again to provide relief to a sector that will play a critical role in their respective economic recoveries.

As such we recommend that the federal government:

1. In conjunction with industry, undertake a comprehensive review of the User-Pay Plus approach to Canadian commercial aviation. This review should identify all possible measures that can be taken to alleviate rates and fees recognizing that left unchecked the User-Pay Plus approach will result in ever-increasing costs to industry and consumers that are simply not sustainable given the extensive economic chaos created by the pandemic.
2. In conjunction with industry, develop a sector-specific financial support program that addresses aviation's liquidity challenges more effectively than the current Large Employer Emergency Financing Facility (LEEFF).
3. Provide appropriate financial support to NAV CANADA to cover its projected revenue shortfall and thus obviate the need for the 29.5% increase in navigational fees scheduled to take effect in September 2020, and address NAV CANADA's projected financial requirements through to 2022.
4. Temporarily suspend the excise tax on jet fuel currently set at 4 cents per litre for domestic flights.
5. Temporarily suspend the Air Transport Security Charge (ATSC). This charge is levied directly on travellers at varying rates for domestic and international travel.
6. Temporarily implement a zero-rated GST on passenger flights and the associated Airport Improvement Fees.
7. Introduce a federal travel credit to promote air travel.

It must also be recognized that airlines are continuing to invest millions of dollars in new procedures and practices in order to protect the safety of consumers and employees during the pandemic. It is expected that further pressure on rates and fees will continue as airports and other service providers also continue to invest in safety measures due to COVID-19. Thus, operating costs overall are continuing to escalate making government action all the more necessary.

Supporting the Green Recovery

Canada's major airlines have a strong commitment to reducing carbon emissions from air travel. For many years, they have taken measures to reduce their carbon footprint through substantive fuel efficiency improvements, and their support for Canada's participation in the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). More recently, they have also engaged in federal government-led carbon reduction initiatives including carbon pricing schemes such as the Greenhouse Gas Pollution Pricing Act (GGPPA), and the Clean Fuel Standard (CFS).

While these measures are laudable in their intent, they will only be modestly effective in reducing the sector's carbon footprint. Rather, they will be eclipsed by the potential of another instrument to decarbonize air travel – Sustainable Aviation Fuels (SAFs) – which are the key way to generate significant carbon emission reductions in commercial aviation.

SAFs are functionally equivalent to petroleum jet fuel, but made from various sources such as waste and purpose-grown plants that do not compete with food production. Various studies show that the use of SAF can reduce carbon emissions by as much as 80 percent. Due to extensive testing, SAFs are certified as safe, sustainable, and ready-to-use.

Unfortunately, these low carbon fuels are not currently commercially available in Canada and have very limited availability internationally. That said, various governments (e.g., US, EU, UK) are increasingly creating incentivizing policies for SAF which will weaken the competitive position of our member airlines if Canada does not follow suit. Of course, the increased availability and use of SAFs in Canada would also serve the broader objective of rebuilding the post-pandemic economy in a sustainable way.

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.

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 significant 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 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.

To mitigate the carbon impact of air travel and rebuild the economy in a sustainable way, we recommend that the federal government

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

2. Incentivize SAF use through blending inducements including:
    a) 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.
    b) Exempting SAF from the federal excise tax on aviation jet fuel.
    c) Exploring refundable tax credits accessible by airlines and aviation fuel suppliers.