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

SUPPORTING THE RECOVERY OF AIRLINES IN CANADA POST-PANDEMIC

Submission to the Department of Finance

Pre-Budget Consultations in Advance of the 2021 Budget

February 2021

Recommendations

The National Airlines Council of Canada (NACC) recommends that the federal government adopt the measures listed below to ensure Canada can maintain a strong and vibrant domestic airline industry, and support environmentally sustainable aviation. In addition, as a member of the Tourism Industry Association of Canada's "Recovery Committee", which brought together representatives from the broader travel and tourism sector to chart a path forward for the overall tourism economy, we support the recommendations outlined in the Tourism Industry Association's submission to this consultation process.

1. To stabilize the aviation industry and establish a clear recovery plan:
    - Introduce meaningful sector specific support for the aviation sector including air carriers, airports, and third-party service providers such as Nav Canada; and
    - Ensure the government works with the aviation sector to develop a robust testing strategy based on science that is tied to reduction in quarantine and border restrictions and enables a phased approach to resumption of international travel, and addresses a clear path to remove domestic travel restrictions.

2. To ensure affordable costs for air travellers, and an efficient operating and cost framework for Canada's air carriers;
    - Temporarily suspend the Air Travellers Security Charge (ATSC); and
    - Provide adequate funding to address the projected budget shortfall impacting Nav Canada that has led to a substantial increase in air navigation fees.

3. To support the overall travel and tourism economy:
    - Provide additional funding to Destination Canada for promotion of domestic and in-bound international travel;
    - Introduce a travel and tourism incentive program with a refundable federal travel credit that includes the cost of air travel; and
    - Reinstate the visitor GST rebate program for international visitors.

4. To mitigate the carbon impact of air travel:

    (a) 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.

    (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; and
    - 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.

NACC welcomes the theme of this year's pre-budget consultations on measures the federal government should take "to create new jobs and build a greener, more competitive, more innovative, more inclusive, more resilient Canada" once the COVID-19 pandemic has abated. Our perspective is that of an industry that has been devastated by the pandemic, but is also a key economic driver and connector of people and communities, and is critical to Canada's economic recovery and international competitiveness.

During the early stages of the pandemic, the NACC joined the Tourism Industry Association of Canada's (TIAC) "Recovery Committee", a broad tourism working group tasked with developing policy proposals to ensure the survival of the tourism sector, and chart a path forward for the overall tourism economy. The NACC supports TIAC's pre-budget recommendations that have also been submitted to this forum and elsewhere.

Current State of Aviation

In 2019, our members collectively carried over 80 million passengers to communities across the country and the world. They employed over 60,000 Canadians directly, and over the past decade had built a level of connectivity and service – regionally, domestically and internationally – that supported more than 630,000 jobs in the overall transport, tourism and aerospace economy.

This web of connectivity and economic development came to an abrupt halt in early 2020 as a result of the COVID-19 pandemic. Tens of thousands of aviation employees have lost their jobs, billions of dollars in aircraft are parked, airline capacity has been reduced by approximately 90% and passenger numbers are down 90% or more. Due to the crushing economic impact of the pandemic and the myriad of travel restrictions and border measures that have been initiated, our members have been forced to significantly reduce or eliminate service to communities in every region of the country, and internationally.

In sum, 2020 was the worst year in the history of commercial aviation. It is expected that it will take the aviation industry between three and five years to get back to the number of destinations, service levels, and passenger volumes that existed at the end of 2019.

Addressing Sectoral Support / Testing and Quarantine Strategy

The length of time it will take for aviation to recover will be heavily influenced by two factors. First, the scope and timing of the sector specific financial assistance that the federal government committed to providing the industry, which has not yet been announced at the time this report was submitted. Second, the implementation of an effective science-based strategy for the restart of the aviation sector including testing tied to reduction in quarantine and border restrictions, and removal of domestic travel restrictions. Our views on these critical issues are well documented elsewhere and will not be discussed in detail here. However, the main takeaway is that the faster meaningful support is delivered and an effective recovery strategy concerning testing, quarantine and border measures is established, the sooner the aviation industry will be able to stabilize and begin to recover from the devastation of the pandemic, to the benefit of Canadians and the economy at large.

Supporting Demand in the Travel and Tourism Economy

As the sector works to restart, we urge the government to introduce specific measures to incentivize travel and tourism in order to help bring back the hundreds of thousands of jobs across all sectors of the economy that are impacted by commercial aviation, and ultimately support the overall competitiveness of the Canadian travel market.

An efficient operating and cost framework for Canada's air carriers, and affordable costs for travellers, are key to the economic well-being of our communities. In this context, we recommend the federal government implement various measures to decrease the cost of air travel related to government fees.

First, we propose that the government temporarily suspend the Air Travellers Security Charge (ATSC) which is levied on a per passenger basis for the provision of pre-board screening by the Canadian Air Transport Security Authority.

Second, we recommend the government provide financial assistance to Nav Canada to address its projected cash shortfall which to date, has resulted in an 29.5% increase in navigational fees charged to air carriers. Other countries have provided financial assistance to their air navigation service providers in order to address budget shortfalls and avoid fee increases during a pandemic.

In order to promote the overall travel and visitor economy we propose that the government increase funding to Destination Canada for the promotion of domestic and in-bound international tourism. We also support the introduction of a refundable federal travel credit to encourage Canadians to explore the country, with a 25% tax credit on qualifying expenditures up to a maximum of $5,000 and qualifying expenditures to include accommodation, air fare and destination related activities. As a further means to support the competitiveness of the Canadian travel market, the government should also reinstate the visitor GST rebate program for international visitors.

Supporting the Green Recovery – Sustainable Aviation Fuel (SAF)

Canada's major airlines have a strong commitment to reducing carbon emissions from air travel. Over the past several years they have invested billions of dollars in new, more fuel-efficient aircraft, and adopted procedures to continuously improve operating efficiency and lower fuel consumption. In addition, they have participated in the policy and regulatory development to implement the International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which is designed to support carbon neutral growth in international aviation. 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).

In addition to the above measures, the most impactful policy development in support of reducing aviation's carbon footprint, is the development of Sustainable Aviation Fuels (SAFs). Simply put, the furtherance of SAFs is the <u>key</u> way to generate significant carbon emission reductions in commercial aviation over the medium term.

SAFs are functionally equivalent to petroleum jet fuel, but made from various feedstock including agricultural and municipal waste. SAFs can reduce aviation carbon emissions by as much as 80 percent.

Unfortunately, these low carbon fuels are not currently commercially available in Canada and have limited availability internationally. That said, various governments (e.g., US, EU, UK) are increasingly implementing aggressive policies to support the domestic production of SAF. Canada must also follow suit. Not only will this ensure Canadian carriers are not ultimately put at a competitive disadvantage due to a lack of SAF supply, but development of the production of SAF in Canada will directly support the objective of rebuilding the post-pandemic economy in a sustainable way.

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 primary barriers to 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.

There are also fiscal barriers to the use of SAF. For one, the SAF portion of blended aviation fuel is currently subject to the carbon tax – a measure seemingly at odds with the federal government's own climate change agenda. We propose to exempt the SAF portion of blended aviation fuel from the carbon tax not only to improve the economic rationale for aviation decarbonization, but also afford SAF the same treatment as other renewable fuels in the gasoline, diesel, and natural gas fuel pools. Other proposals to incentivize the use of a SAF include an exemption from the federal excise tax, and refundable tax credits for airlines and aviation fuel suppliers.

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

1. 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.

2. Incentivize SAF use through blending inducements including:
   - Exempting SAF from the federal carbon tax when blended with aviation fuel;
   - Exempting SAF from the federal excise tax on aviation jet fuel; and
   - Exploring refundable tax credits accessible by airlines and aviation fuel suppliers.

Conclusion

The challenges facing the aviation sector are immense, yet the importance of a strong and thriving commercial aviation sector to Canada's overall economic recovery cannot be overstated. Countries that successfully provide support for the sector, that implement a science-based testing and quarantine policy, and that implement measures to support demand and environmentally sustainable aviation operations, will not only protect public health but also drive their overall domestic recovery and take market share, future investment and jobs from countries that do not successfully undertake these various actions.