NACC
National Airlines Council of Canada

CNLA
Conseil national des lignes aériennes du Canada

Written Submission for the Pre-Budget Consultations in Advance of the 2023 Federal Budget By:

The National Airlines Council of Canada

List of Recommendations:

- **Recommendation 1:** That the government review all third-party fees and charges imposed on Canadian airlines and travelers and support investment in aviation infrastructure.

- **Recommendation 2:** That the government support the development of Sustainable Aviation Fuel in Canada.

- **Recommendation 3:** That the government further promote Canada as a top tourist destination of choice and cement Canada’s aviation industry as a competitive global industry.

Introduction

The National Airlines Council of Canada (NACC) represents Canada's largest passenger air carriers: Air Canada, Air Transat, Jazz Aviation LP and WestJet. NACC promotes safe, sustainable and competitive air travel by advocating for the development of policies, regulations and legislation to foster a world-class transportation system.

Pre-pandemic, our members collectively carried over 80 million passengers annually, directly employed over 60,000 people and served as a critical component of Canada's overall air transport and tourism sector, which supported more than 630,000 jobs. Prior to March of 2020, air transportation had hit record growth and record passenger volumes. Canadians had never been better connected to each other, and to the world.

Few industries have been as impacted by the pandemic as Canada's airlines, and their workers. We were the first hit, the hardest hit, and remain among the last to recover.

Canada's airlines welcomed the recent announcement by the Government of Canada removing all remaining pandemic-related border measures. The importance of a strong and thriving commercial aviation sector to Canada's overall economic recovery cannot be overstated.

As we look to the future and reflect on lessons learned from the pandemic, the importance of a strong and thriving commercial aviation sector to Canada's overall economic recovery cannot be overstated. And while we are optimistic about the future of air travel and tourism, we urge the Government of Canada to adopt the recommendations listed below to ensure Canada can maintain a strong and vibrant airline industry. To do this, NACC is putting forth the following recommendations:

Recommendation 1: That the Federal Government review all third-party fees and charges imposed on Canadian airlines and travellers and support investment in aviation infrastructure.

It is well documented that high taxes and fees imposed on Canadian airlines and travellers create a competitive disadvantage for Canada's aviation industry relative to other jurisdictions. These fees include airport rents, air traveller security charges, airport improvement fees, NAV Canada Navigation fees, and municipal taxes among others. As noted in the latest review of the Canadian transportation system and the *Canada Transportation Act*, "*Canada is unique among its competitors in charging onerous rents and taxes that undermine competitiveness*[1]".

[1] https://tc.canada.ca/sites/default/files/migrated/ctar_vol1_en.pdf

The pandemic highlighted flaws in Canada's "user pay" model and exacerbated this competitive disadvantage. Facing fewer travellers during the pandemic, a number of institutions have increased their fees to compensate, and when combined, these fees constrain the aviation sector and the associated local economic benefits. As one example, NAV CANADA increased its service fees to airlines by 29.5% at the onset of the pandemic; a figure that will undoubtedly put Canadian travel at a competitive disadvantage as these costs could in turn be passed onto the traveler. We recommend as a baseline that Government increase its investment in airport infrastructure across the country to support the sector's competitiveness. Airports in Canada have not benefited from the same level of support as the US, especially during the pandemic, which means they have incurred additional debt which that impedes their ability to invest in much needed infrastructure improvement projects.

NACC recommends that the Government of Canada take the immediate step of reviewing, with industry input, all third-party fees and charges. The end goal should be that taxes and fees imposed on industry either directly related to services for passengers or otherwise be reinvested into the industry. For example, airport rent should be reinvested back into the infrastructure of the airport from where it originated. When looking at other jurisdictions US model ,consists of an Airport & Airway Trust Fund which uses aviation excise taxes and other support from government to "finance the Federal Aviation Administration's (FAA) investments in the airport and airway system, such as construction and safety improvements at airports and technological upgrades to the air traffic control system, as well as FAA operations, including providing air traffic control, overseeing commercial space launches, and conducting safety inspections.[2]" Investments in new digital tools, repairs to tarmacs and baggage carousels, and transitioning to clean technologies with alternative fuels, electric support vehicles and energy storage – each of these would improve our airports and make them competitive with their American and global counterparts, as many countries, including the US, provided significant support packages to airports during the pandemic.

Recommendation 2: That the government support the development of Sustainable Aviation Fuel in Canada.

Canada's major airlines are committed to reducing carbon emissions from air travel and supporting environmentally sustainable aviation in line with Canada's Aviation Climate Action Plan as drafted by Transport Canada. Over the past several years our member airlines 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 policy and regulatory development to implement the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which is designed to support carbon neutral growth in international aviation, and lead to a "net zero" emissions aviation sector globally by 2050.

[2] https://www.faa.gov/about/budget/aatf

Airlines 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). However, the most impactful policy development in support of reducing aviation's carbon footprint is the development of Sustainable Aviation Fuels (SAFs).

Simply put, according to the federal government's own Aviation Climate Action Plan released in September 2022, SAFs are the most impactful means to generate significant carbon emission reductions in commercial aviation over the medium to long 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. However, these low carbon fuels are not currently commercially available in Canada and have limited availability internationally.

Various governments (e.g., the US, EU, UK) are increasingly implementing aggressive policies to support the domestic production of SAF. Canada must follow suit. Not only to stimulate the creation of a SAF market in Canada, but ensure Canadian carriers are not placed at a competitive disadvantage due to a lack of SAF supply. Furthermore, production of SAF in Canada will directly support the objective of fostering post-pandemic economic growth.

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 SAF production and use are three-fold:

1. SAF is currently more expensive to produce than renewable diesel and therefore requires a higher selling price to justify the additional processing expense.
2. Integrating SAF into airport fuel systems requires additional logistics and operational procedures to be implemented by airports.
3. There is not yet effective government policy in place to sufficiently address the economic barriers to the production, integration, and use of SAF. There are also fiscal barriers to the use of SAF. For example,, the SAF portion of blended aviation fuel is currently subject to the carbon pricing regime – 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 pricing framework not only to improve the business rationale for aviation decarbonization, but also to 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 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 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 deductions for new production facilities.

2. Incentivize the use of SAF through blending inducements including:

- Exempting SAF from the federal carbon pricing regime 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.

Recommendation 3: That the government further promote Canada as a top tourist destination of choice, and cement Canada's aviation industry as a competitive global industry.

With Canada joining peer countries in eliminating pandemic-related border measures, it is important that the government take the steps necessary to improve the accessibility and attractiveness of Canada to foreign tourists. Prior to the pandemic, tourism in Canada was a $105 billion industry, and the fastest growing tourism markets were located overseas. To remain competitive at the global level, the government must review processes and increase in investment to make travel as seamless as possible by:

- Investing in a modern digital border and effective screening procedures. This includes implementing biometrics and the digital facilitation of travellers at our border through e-gates, similar to what travellers experience in Europe.
- Working with the U.S authorities to increase officer staffing levels at preclearance airport stations and to re-open Nexus assessment centers in Canada to relieve the backlog of more than 300,000 applications.
- Reviewing processes to ensure robust and reliable processing of Canadian passports and visa applications, that builds for the future and addresses the current backlogs so that Canadians can travel, and Canada can welcome more visitors and students. For example, this could include expanding the Electronic Travel Authorizations (ETA) program to more low-risk visa-required nationalities, including targeted implementation in support of transit traveller facilitation.

Conclusion

It is critical that the Canadian airline industry remains competitive globally now and for decades to come and that travellers have confidence that their journey is predictable, timely and enjoyable, with clear service standards across the ecosystem. The importance of a strong and thriving commercial aviation sector to Canada's overall economic recovery cannot be overstated.

With the continued collaboration of the Government of Canada, Canada's airlines will help drive a return to the connected way of life that matters to all of us; connecting people with each other, and Canada with the world, in order to contribute to the social well-being of Canadians and to keep our economy going.