NACC CNLA

National Airlines Council of Canada

Conseil national des lignes aériennes du Canada

Written Submission for the Pre-Budget Consultations in Advance of the 2024 Federal Budget By:

The National Airlines Council of Canada

January 2024



Summary of Recommendations:

Recommendation 1 - **Sustainable Aviation Fuel (SAF) in Canada:** Work with industry and provinces to introduce, as part of Budget 2024, concrete and comprehensive policies and measures that will support the development of local supply chains of Sustainable Aviation Fuel (SAF).

Recommendation 2 - Invest in airport infrastructure: Permit airports to re-invest rent normally paid to Transport Canada into airport infrastructure and extend the eligibility of existing and future infrastructure programs to Canada's airports.

Recommendation 3 - Comprehensive review of all fees and charges imposed on Canadian air travel: A review is required of all third-party fees and charges and should consider benchmarking with foreign jurisdictions, identify where efficiencies could be gained and where fees should be amended, with an overall goal of reducing the cost for passengers to travel to, from and within Canada.

Recommendation 4 – Properly Resource Transport Canada Civil Aviation: Transport Canada must continue to posture itself as a regulatory authority that is a global aviation leader with a focus on safety, increasing efficiencies, and building resiliency in the current system and the aviation system of tomorrow. To do this, it must be properly resourced to provide its necessary safety and regulatory functions.

Recommendation 5 - Implement policies to train an adequate supply of pilots: NACC recommends that the federal government implement the recommendations of the 2023 TRAN report with an eye to increasing the domestic pipeline of pilots and other aviation professionals in Canada.

Introduction

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

Canada's passenger air travel sector plays a key role in connecting Canadians to each other and the world. Aviation's contribution to Canada includes:

- **Economic impact:** Canada's aviation sector contributes C$51.4 billion to the country's GDP and support some 633,000 jobs, directly and indirectly. It is foundational for all other industries and economic activity, particularly with respect to trade and tourism. Spending by foreign tourists supports another C$16.7 billion of GDP, making a total contribution of C$68.1 billion. In total, 3.2% of the country's GDP was sustained by the input of the air transport sector and foreign tourists arriving by air[i][1].

- **Connectivity**: In a country as vast as Canada, air travel plays a crucial role in connecting every region of Canada to the world. Whether it be for leisure, business, health, education, or any other purpose, air travel provides an indispensable means of connection for all Canadians.

- **Critical link in supply chains:** Canadian aviation is a critical link in Canada's supply chain, moving people, goods, and cargo throughout our country, ensuring that all Canadians have access to the supplies they need to sustain high qualities of life.

Canada's passenger aviation sector has largely rebounded to pre-pandemic levels. Although demand has largely recovered since the pandemic, there are significant headwinds facing Canada's aviation sector that threaten the ability of Canada's airlines to compete globally, to offer affordable air travel, and to meet the sector's stated objective of carbon neutrality by 2050.

For Canada's airlines to be more competitive and to meet our climate change objectives, NACC is recommending the following measures be taken in the 2024 federal budget:

Recommendation #1: Sustainable Aviation Fuel (SAF) in Canada:

According to Canada's 2022 Aviation Climate Change Action Plan, to which NACC is a signatory, 65% of aviation's emissions reductions will come from the use of SAF. However, there is currently no domestic production of SAF in Canada, in part due to the lack of competitive policies and production incentives.

In the U.S, aggressive incentives have been introduced; the U.S. *Inflation Reduction Act* (2022) provides up to $1.75 per gallon of SAF produced. Combined with competitive state-level incentives, energy firms are choosing to invest in production facilities in the U.S. – putting Canada at a competitive disadvantage. Canada is rich in feedstock and knowledge, and the time is now to introduce competitive incentives for SAF production to prevent further loss of investment to the U.S. and to promote the

---

[1] iata.org/en/iata-repository/publications/economic-reports/canada--value-of-aviation/

development of Canada's domestic biofuels industry. This is key to support the industry's objective of carbon neutrality by 2050, and the goal for 10% of all aviation fuel to be SAF by 2030.

The demand for SAF is strong domestically and internationally. In 2022, 300 million litres of SAF were produced, representing only 0.1% of total global aviation fuel consumed. However, with airlines around the world committing to reach carbon neutrality, the demand will continue to increase as countries and airlines globally aim to meet various SAF targets. This demand was heightened following the Third ICAO Conference on Aviation and Alternative Fuels (CAAF3) which took place in Dubai from November 20-24, 2023, where countries around the world reaffirmed their commitment to aviation carbon neutrality and pledged to implement policies designed to spur production of alternative fuels. As such, incentives for SAF production are essential to ensure Canada airlines are positioned to be competitive internationally.

In June 2023, the Canadian Council for Sustainable Aviation Fuels (C-SAF) released a roadmap and path forward on how to establish a SAF market in Canada, and policy recommendations for the federal and provincial governments to incentivize a SAF market in Canada. NACC supports the policy proposals being recommended by C-SAF, which includes the following:

- Implement refundable investment tax credits at a rate of 50% for SAF production facilities.
- At the same time, a production tax credit (PTC) with a ten-year horizon equivalent to the one in the United States should be implemented.
- If a PTC is not possible, Canada should implement introduce a commodity price contracts for difference (CFDS) or revenue certainty mechanism to support SAF production and boost its uptake, providing certainty to both airlines and SAF producers.
- Allow for a book and claim mechanism for SAF use in Canada.

As such, NACC recommends that the Government of Canada work with industry and provinces to introduce concrete and comprehensive policies and measures to aid in the development of local supply chains of SAF. This will require the prioritization of sustainable feedstock, preserving Canada's leadership, competitiveness in aviation and develop an affordable and resilient SAF industry in Canada.

Recommendation #2: Invest in airport infrastructure: Canada must invest in and upgrade its airport infrastructure to become more efficient, sustainable, and resilient. Since the divestiture from the federal government to airport authorities in the early 1990s, Canadian airports have paid over $6 billion to the federal government. During the pandemic, airports took on $3.2 billion in debt to remain operational, preventing further investment in much needed infrastructure and expansions.

The lack of capital available for airport infrastructure has had several repercussions – expansion plans have been put on hold, Airport Improvement Fees (AIF) have increased, and infrastructure requirements and upgrades have not proceeded. This lack of available capital means that airports will not be able to meet growing travel demands, contributes to passenger delays, puts airports at a disadvantage compared to other countries, and is a disincentive for foreign air carriers to fly to Canada given the significant cost and lack of infrastructure. Other countries have invested heavily in airport infrastructure. The U.S., for example, has announced over $40 Billion USD in airport infrastructure support since 2020.

Only with new, more equitable funding, will Canada's airports be able to best support safe, predictable, efficient airline operations, be more competitive to prevent cross border leakage to U.S airports, increase affordability for consumers, and implement accessibility measures to better accommodate the demographic of the travelling public.

Further, as key transportation hubs, airports should be able to access existing federal infrastructure programs including the Canada Infrastructure Bank, the Canada Growth Fund and future federal-provincial infrastructure agreements in order to finance necessary upgrades and expansion.

NACC is therefore recommending that airports be able to re-invest rent normally paid to Transport Canada into airport infrastructure and extend the eligibility of existing and future infrastructure programs to Canada's airports.

Recommendation #3: Comprehensive review of all fees and charges imposed on Canadian air travel: Third party fees and charges make the cost of air travel in Canada more expensive than most other countries, particularly the United States. Airport rents, Airport Improvement Fees, NAV CANADA service fees, and Air Travel Security Charges are among the third-party fees and charges that passengers must pay when flying in Canada. At the onset of the pandemic, NAV CANADA increased fees by 29.5% (although there will be a slight reduction effective January 2024), the Air Travellers Security Charge was increased by 33% in Budget 2023, and many Airport Improvement Fees have increased well over inflation over this past year. This is on top of new costly obligations being imposed on airlines via the *Air Passenger Protection Regulations* (APPR) passed by Parliament in June 2023.

The impact of high third-party fees and charges was confirmed in December 2023 in a study released by the Montreal Economic Institute, which concluded that "Excessive fees and taxes on airlines and airports are being passed down to travellers and making ticket prices less competitive[2]". The authors of the study went so far as to state, "*Ottawa prefers to treat our airports as cash cows, rather than the essential transportation infrastructure that they are. These taxes have a direct effect on the high cost of domestic travel in this country*".

As a result of these increasing fees, passengers flying to and from Canada pay significantly higher costs, especially compared to U.S. carriers. Third-party fees represent a competitive disadvantage for Canadian carriers and reduce access to air travel for Canadians, given that many foreign and domestic air carriers will not choose to serve regional markets due to higher operating costs; opting instead to fly to lower-cost jurisdictions. U.S carriers have already reduced flights to non-hub Canadian markets by 52% in 2023 compared to 2019 due to the high fees and costs associated with the Canadian market.

[2] https://www.iedm.org/wp-content/uploads/2023/12/note162023_en.pdf

A review is required of all third-party fees and charges and should consider benchmarking with foreign jurisdictions, identify where efficiencies could be gained and where fees should be amended, with an overall goal of reducing the cost for passengers to travel to, from and within Canada.

Recommendation #4: **Ensure Transport Canada Civil Aviation is properly resourced:** A modern and transformative aviation regulator requires the funding and technical expertise to support a leading and competitive world class airline sector. Transport Canada Civil Aviation's ability to serve as a world class regulator and safety expert was put into question in December 2023 when the International Civil Aviation Organization (ICAO), which is based in Montreal, delivered an audit report of the federal government's safety processes and programs. The audit report downgraded Canada's rating to a C grade, down from an A+ in the previous audit. Although the audit in no way suggests that Canada's aviation sector is unsafe – on the contrary, Canada is one of the safest jurisdictions in the world for air travel – it does suggest that federal aviation programs, processes and policies need to be updated and modernized if they are to meet current and future needs. However, it cannot accomplish this unless it has the resources to properly evaluate and implement the changes identified in the ICAO audit – all while engaging closely with industry.

Transport Canada must continue to posture itself as a regulatory authority that is a global aviation leader with a focus on safety, increasing efficiencies, and building resiliency in the current system and the aviation system of tomorrow. To do this, it must be properly resourced to provide its necessary safety and regulatory functions.

Recommendation # 5: **Implement policies to train an adequate supply of pilots:** Canada's airlines are powered by their people. The aviation ecosystem is reliant on the availability of a large, well-trained, competent workforce, which of course includes an adequate supply of pilots to meet current and future needs. In the spring of 2023, the House of Commons Standing Committee on Transport, Infrastructure, and Communities (TRAN) released a report on labour shortages[3] in the Canadian transportation sector, and recommended that the federal government, while respecting provincial and territorial jurisdictions, collaborate with air pilot unions, industry, and community organizations to develop funding programs for the training of future airline pilots, including extending existing student loan programs for pilot students. Unfortunately, this report has been largely ignored, and no significant measures to increase the supply of pilots was included in the 2023 Budget.

NACC recommends that the federal government implement the recommendations of the 2023 TRAN report with an eye to increasing the domestic pipeline of pilots and other aviation professionals in Canada.

[3] https://www.ourcommons.ca/DocumentViewer/en/44-1/TRAN/report-9/

Conclusion

Canada relies on a competitive, accessible, affordable, sustainable air travel sector. Aviation is one of the most "global" industries: connecting people, cultures, and businesses across continents. As the post pandemic period has demonstrated, Canadians yearn to be connected to each other and to the world. It is for this reason that Canada needs a world class, sustainable, competitive, and accessible air travel system. The recommendations in this submission are steps in the right direction to realize that objective.