NACC CNLA

National Airlines Council of Canada

Conseil national des lignes aériennes du Canada

SUSTAINING THE RECOVERY AND GROWTH OF CANADA'S AIRLINES FROM THE GLOBAL COVID-19 PANDEMIC

Submission to the Department of Finance
Pre-Budget Consultation in Advance of the 2022 Budget

February 2022


Recommendations

The National Airlines Council of Canada (NACC) urges the federal government to adopt the measures listed below to ensure Canada can maintain a safe, efficient, competitive and environmentally sustainable airline industry. As a member of the Tourism Industry Association of Canada's "Recovery Committee", which is formed from the broader travel and tourism sector, with a purpose to chart a path forward for the overall travel and tourism economy, we also support the recommendations outlined in the Tourism Industry Association of Canada's (TIAC) submission to this consultation process.

1. To stabilize the aviation industry and establish a clear recovery plan:
    - Continue support for the national aviation system as required; and
    - Work with the aviation sector to develop a robust plan, based on lessons-learned and science, to fully lift travel restrictions and manage new variants or future pandemics. This plan must promote trust via the predictability and consistency of globally harmonized travel rules.

2. To ensure affordable costs for air travellers, and an efficient operating and cost framework for Canada's air carriers:
    - Remove all testing requirements or other burdensome border measures for fully vaccinated travellers. These are costly to Canadians and curb uptake in travel demand and are no longer justified. The border measures leaned-on at the onset of this pandemic no longer serve their purpose and many countries, including the UK, Ireland, France, Denmark and others, have removed testing requirements for fully vaccinated travellers in response to the current epidemiological context.

3. To support the overall travel and tourism economy:
    - Provide additional funding to Destination Canada for the promotion of personal and business travel in the domestic and for the international inbound travel sectors;
    - 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, and more resilient Canada." We welcome the government's top priority in remaining supportive to Canadians and Canadian businesses – particularly those most deeply affected as a result of the pandemic – by providing the support required to address challenges. The airline industry has been devastated by the pandemic, and airlines are a key economic driver and connector of people and communities. Canada's economic recovery will not happen without the recovery of the Canadian aviation industry.

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 lost their jobs, billions of dollars in aircraft were parked, airline capacity was reduced by approximately 90% and passenger numbers were down 90% or more.

Since these early days, the Government has maintained unprecedented travel restrictions and border measures that are continuing to have a devastating impact on the industry and on our ability to recover. With the global epidemiological situation evolving, other countries have started to ease border measures and policies to transition to living with COVID-19. This has allowed airlines to start to rebuild their connectivity and respective networks. With 3.2% of Canada's GDP and over half a million direct and indirect jobs at stake, Canada's airlines and their workers are urging the Government of Canada to adopt similar policies to enable the full recovery and global competitiveness of the Canadian aviation industry. With this, Canada's airlines will be able to help drive the return to economic prosperity that hundreds of thousands of people are counting on.

Addressing Border Measures - A Plan and Strategy

The implementation of a plan for the removal of travel restrictions for fully vaccinated travelers, with clear timelines and benchmarks based on science, is required. The sector will not fully recover until predictability, consistency and the harmonization of travel policies with our peer countries is achieved. The faster this is addressed, 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 Competitiveness and 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 and support the competitiveness of the industry.

In order to promote the overall travel and visitor economy we propose that the government offer 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, airfare, and destination related activities. As a further means to support the competitiveness of the Canadian travel market, we are of the view that the government should also reinstate the visitor GST rebate program for international visitors.

In addition, we urge the government to address the increasing charges and fees that are making travel more expensive in Canada. It is well documented that high taxes and fees imposed on Canadian airlines and travellers create a competitive disadvantage for Canada's aviation industry versus other jurisdictions. These include airport rents, air traveller security charges, airport improvement fees, NAV CANADA Navigation charges, among others. In fact, Canada previously ranked 31 out of 32 OECD countries in terms of the competitiveness of airport fees and taxes. The pandemic highlighted flaws in Canadas "user-pay" model and exacerbated this competitive disadvantage. With fewer travellers, due to travel restrictions throughout the pandemic, a number of institutions have increased their fees to compensate. NAV CANADA, for example, increased fees by nearly 30%, and many airports are increasing their Airport Improvement Fees. The Federal Government should provide financial support to mitigate any increase in charges and fees related to the pandemic that will impact the cost of travel and hinder the industry's ability to recover, including by providing financial assistance to NAV CANADA to address the 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.

We also urge the Federal Government to review the conditions of the transfer of CATSA assets to a new designated screening entity for passengers, to provide the necessary financial support to ensure the cost of travel will not increase, and to ensure there is sufficient funding capacity to continue to invest in technology.

These measures will help restore 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 industry.

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 (ICAO) Carbon

Offsetting and Reduction Scheme for International Aviation (CORSIA), which is designed to support carbon neutral growth in international aviation. 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, SAFs are the key 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.

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 will this ensure Canadian carriers are not placed 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 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 the use of SAF 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 continue to be immense. Canada's aviation ecosystem has taken on a lot of debt; loans from the government to private market financing in order to survive. The pandemic has hurt many sectors and Canadians, but Canada's airlines and their workers have felt the economic impacts particularly acutely. The importance of a strong and thriving commercial aviation sector to Canada's overall economic recovery cannot be overstated. Countries that successfully sustain and provide support for their aviation, airline and travel and tourism sectors, implement science-based pandemic measures, and support demand and environmentally sustainable aviation operations, will not only protect public health but also drive their overall economic recovery.