NACC CNLA

National Airlines Council of Canada

Conseil national des lignes aériennes du 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, accessible, 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 will be the last to fully recover.

Canada's airlines welcomed the announcement by the Government of Canada on October 1, 2022 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. The strong upsurge in travel demand since the lifting of pandemic related restrictions is a testament to this importance.

As we look to the future and reflect on lessons learned from the pandemic, the importance of a resilient and thriving commercial aviation sector to Canada's overall economic recovery is imperative. 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, new obligations under the Airline Passenger Protection Regulations, and municipal taxes among a plethora of others. In addition, over the past several weeks there has been a proposal to charge a new fee for Transport Canada security checks. 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]".

The pandemic highlighted flaws in Canada's "user pay" model and exacerbated this competitive disadvantage. Facing fewer travellers during the pandemic, several institutions 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 in 2022 to airlines by 29.5%.;

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

This will undoubtedly put Canadian travel at a competitive disadvantage as these costs could in turn be passed on to travelers. High taxes and fees punish Canadian air travellers and Canada's airlines.

More egregious, these various fees and charges are not passed on to the passenger or the aviation system. We recommend that, at a minimum, the Federal 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 U.S., especially during the pandemic, which means they have incurred additional debt which impedes their ability to invest in much needed infrastructure improvement projects. Without the modernization of Canada's airport infrastructure, Canada's aviation system and its travel industry will be left behind and fees will only continue to increase. In fact, to compensate, many airports have already increased their fees in 2022 and 2023.

NACC recommends that the Government of Canada take the immediate step of reviewing, with industry input, all third-party fees, and charges and pause the introduction of any new fees, such as the new proposed fee on security checks. 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 aviation sector itself. For example, airport rent should be reinvested back into the infrastructure of the airport from where it originated. By contrast, the United States has in place 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, airport infrastructure, and transitioning to clean technologies with alternative fuels, electric support vehicles and energy storage would improve our airports and the overall travel experience in Canada. Furthermore, such investments would make Canada's aviation system competitive with our American and global counterparts, especially as many countries, including the U.S., provided significant support packages to airports during the pandemic and continue to do to build safer, more sustainable and more accessible airports. Canada must do the same or it risks becoming an outlier to modern air travel. Airports and other aviation ecosystem partners are critical for Canada's airlines; without infrastructure investment, there is a greater risk of passenger disruptions, and no growth opportunities. Without infrastructure investment, airlines will not be able to meet the demand for travel to, from and within Canada, which hampers our ability to grow tourism and continuously improve the traveller experience.

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

Canada's major airlines are committed to achieving net zero carbon emissions from air travel by 2050 and more generally 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.

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

In addition, they have participated in policy and regulatory processes 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.

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 to ensure that Canadian carriers are not placed at a competitive disadvantage due to a lack of SAF supply. Furthermore, production of affordable 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 global travel rebounding after the pandemic, 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, with the fastest growing tourism markets were located overseas. To remain competitive at the global level, the government must review processes and make strategic investments 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 travelers at our borders to include e-gates, similar to what travelers' experience in Europe. This must also include the development of a trusted traveler program to expedite security screening processes for those possessing these credentials. These types of modern tools are designed to make travel more efficient, secure, safe, and accessible. They currently exist, are essential, and need to be expedited. Other countries have already implemented fully biometric systems; Canada is falling behind in implementing these technologies. With the implementation of greater biometric tools, the passenger experience will improve and travel disruptions and delays will be reduced.
- Working with the U.S authorities to increase officer staffing levels at preclearance airport stations and continuing to leverage the Nexus program to relieve any backlogs and expedite new applications.

- Reviewing processes to ensure robust and reliable processing of Canadian passports and visa applications, that builds for the future and addresses any 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 traveler facilitation.
- Enhance the Air Passenger Protection Regulations (APPR) to include a shared accountability model to be applicable to all aviation organizations that support safe and smooth airline operations and the traveler experience. A key component of such a system would include communication protocols and public reporting on set service standards, so that gaps in the air travel ecosystem could be identified and service standards improved. Travelers must have confidence that their journey is predictable and timely, with clear service standards across the entire aviation system. Further, the Canadian Transportation Agency (CTA) must be provided with the resources necessary to clear the current backlog of claims and ensure that similar backlogs are not allowed to happen in the future.
- Increase resources at Transport Canada to transform their regulatory processes and oversight along with clear service delivery standards to support a resilient and evolving aviation industry, this includes but is not limited to: the processing of credentials for security clearances, the reduction of delays for pilot licensing and certification, the processing and medical credentials, along with a regulatory review to modernize Transport Canada in order to keep up with the evolution of the global aviation industry and international standards.

**Conclusion**

It is critical that Canada's airline industry remains competitive globally both now and for the future. The importance of a strong and thriving commercial aviation sector to Canada's overall economic recovery cannot be overstated. There is no question that the past several years have been a very challenging time for aviation; however, we believe that with air travel volumes returning to pre-pandemic levels that the worst is behind us. With the leadership and continued collaboration of the Government of Canada, Canada's airlines will continue to connect people with one another and Canada to the world in order to contribute to the social well-being of Canadians and to keep our economy strong.