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

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Summary of Recommendations:

Recommendation 1: Work with industry and provinces to introduce, as part of the Fall Economic Statement, concrete and comprehensive policies and measures that will support the development of local supply chains of Sustainable Aviation Fuel (SAF).

Recommendation 2: Permit airports to re-invest their rent into airport infrastructure and extend eligibility of existing and future infrastructure programs to Canada's airports.

Recommendation 3: Amend Bill C-52 to include enforceable service standards and accountability for all entities in the air travel ecosystem.

Recommendation 4: Conduct an immediate review of all third-party fees and service charges in air travel to find efficiencies and reduce cost.

Recommendation 5: Ensure Transport Canada is resourced with required expertise to support Canada's Air Transportation System of today and tomorrow.

Recommendation 6: Develop funding programs for the training of future airline pilots including loan program for students, while respecting provincial and territorial jurisdictions, to ensure Canada has an adequate supply of pilots to meet labour demands.

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 our association 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 supports 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].

- **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 2023 Fall Economic Statement and the 2024 federal budget:

Recommendation #1:

Sustainable Aviation Fuel (SAF) in Canada: Work with industry and provinces to introduce, as part of the Fall Economic Statement, concrete and comprehensive policies and measures aiding the development of local supply chains of SAF. This will require the prioritization of sustainable feedstock, preserving Canada's leadership, competitiveness in aviation and the development of an affordable and resilient SAF industry in Canada. The 2023 federal Budget introduced tax credits, designed to stimulate the clean electricity and hydrogen energy markets; however, no measures were introduced for biofuels, including SAF.

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 development of Canada's domestic biofuels industry. This is key to supporting 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 exists. In 2022, 300 million litres of SAF were produced, representing only 0.1% of total global aviation fuel consumed, and the demand will continue to increase as countries and airlines globally aim to meet various SAF targets. As such, incentives for SAF production and domestically developed supply of SAF are essential to ensure Canada airlines are postured to be competitive internationally.

In June 2023, the Canadian Council for Sustainable Aviation Fuels 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 these policy recommendations:

- SAF to generate credits in low carbon fuel standards as a voluntary opt-in;
- Provide SAF-specific production incentives (at a higher level than renewable diesel), such as the SAF producers tax credit in the Inflation Reduction Act;
- Waive all federal and provincial carbon tax on SAF that meets a certain minimum carbon intensity standard; and
- Federal procurement of SAF for federal fleets to support increasing market demand.
- Establish an industry-government working group dedicated to developing SAF policy.

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 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 have not proceeded. This lack of available capital means that airports will not be able to meet growing travel demands, it contributes to passenger delays, puts airports at a disadvantage compared to other countries, and is a disincentive for 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.

All third-party fees and charges collected by the aviation system should be reinvested back into improvements of aviation infrastructure. Further, 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.

Recommendation #3:

Introduce enforcement mechanisms to the shared accountability framework in Bill C-52: In June 2023, the government introduced Bill C-52, an Act to Enact the Air Transportation Transparency Act. This legislation introduces a system of "shared accountability", and Canada's airlines are of the view that all organizations within the air travel ecosystem should be held to account for air travel disruptions.

In April 2023, NACC released a report and framework for how such a system could be created. It relied on four components: service standards for all entities in the air travel system; public reporting on measurable performance data; implementing a communications protocol in the case of disruptions; and a system whereby airlines could seek compensation if travel disruptions were caused by other entities who failed to meet service standards.

Bill C-52 will require all travel chain entities, other than the Canada Border Services Agency (CBSA), to develop service standards, collect and share data, and to establish communications protocol. Transport Canada has suggested that airlines could seek compensation via contractual relationships with each service or infrastructure provider; however, this is not feasible nor realistic given the complexity of the system, and without a regulatory requirement to do so.

As a result, NACC is recommending that Bill C-52 be amended to include financial obligations on all travel chain entities, including the CBSA – whereby there would be financial repercussions if service standards were not met. By extending these requirements, Bill C-52 would much better represent a true "shared accountability" system and would improve the overall air travel system in Canada.

Recommendation #4:

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, 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%, the Air Travellers Security Charge was increased by 33% in Budget 2023, and many Airport Improvement Fees have increased this past year. This is on top of new costly obligations being imposed on airlines via the Air Passenger Protection Regulations (APPR) introduced in the 2023 federal Budget.

As a result of these increasing fees, passengers flying to and from Canada pay significantly higher costs, especially compared to U.S carriers. As a result, passengers may opt for cross border travel from the lower-cost U.S. market where fees are significantly less.

Third-party fees represent a competitive disadvantage to 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 to invest in lower-cost jurisdictions. U.S carriers have already reduced flights to non-hub Canadian markets by 42% due to the high fees and costs associated with the Canadian market.

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

Recommendation #5:

Ensure Transport Canada 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. Canada is host to the International Civil Aviation Organization in Montreal; 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.

Recommendation # 6:

Ensure funding 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 and it must include pilots in adequate numbers. In the fall of 2022, standing committee of transport, infrastructure, and communities (TRAN) studied the anticipated labour shortages 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 loan program for students.

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.

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