NACC CNLA
National Airlines Council of Canada
Conseil national des lignes aériennes du Canada

Brief to the House of Commons Standing Committee on Transport, Infrastructure and Communities

Competitiveness in the Canadian Airline Sector

Submitted by the National Airlines Council of Canada

May 2024

The National Airlines Council of Canada (NACC) welcomes the opportunity to share its perspectives on the issue of competitiveness in Canada's overall airline sector, which builds on the testimony offered by NACC on May 7. NACC represents Canada's largest passenger air carriers: Air Canada, Air Transat, Jazz Aviation LP and WestJet. We promote safe, accessible, sustainable, and competitive air travel through the development of policies, regulations and legislation that foster a world-class transportation system.

Context

The Canadian air travel market is highly competitive. There are 24 airlines serving the Canadian domestic market including 20 offering more than 50,000 seats per year. Furthermore, approximately 70 international carriers operate to Canada and compete with Canadian airlines. Many of these carriers are quite large in comparison to Canadian airlines, including United Airlines, Delta Airlines, Air France-KLM, British Airways, American Airlines, Turkish Airlines, and others.

NACC member airlines welcome further competition in the Canadian airline sector. A competitive air travel system is one in which all airlines, large and small, can operate in an environment that provides equal opportunity to succeed. However, there are a number of issues which will help to foster competition that should be reviewed and overcome in order to enhance competition in air travel in the Canadian context. Some of these challenges are inherent to the natural and population realities of the country, including:

- Providing service to the second largest landmass in the world
- A population of only 40 million, with one of the lowest population densities in the world
- A significant number of regional and remote communities, including Indigenous communities
- Challenging climatic conditions, with harsh winters and unpredictable summer weather – a situation that is becoming more pronounced with climate change.

Despite these natural challenges, Canadian airlines have provided consistent air travel to Canadians for well over 80 years, and in so doing, have become a world leader in civil aviation practices - a fact underscored by the fact that both the International Civil Aviation Organization (ICAO) and the International Air Transport Association (IATA) are headquartered in Canada.

However, there are also significant challenges to competitiveness in the air travel system that are not natural, and that are a function of the policy regime in which airlines operate in Canada – challenges which are inhibiting the growth of the air travel sector, and providing less choice and more costs to Canadian travellers. This increasingly uncompetitive environment in Canada is being noted by foreign airlines.

According to Airlines for America, there has been a 40% reduction in the number of flights by US carriers to Canadian non-hub airports since 2022 due to higher costs and regulations in the Canadian market. El Al, the Israeli air carrier, did not resume its regular direct flights to Toronto Pearson post-pandemic citing the exorbitant costs. If new regulations such as overly punitive APPR regulations are implemented, other foreign carriers have stated they will rethink whether they choose to provide service to the Canadian market.

We outline below a number of the most uncompetitive elements of the Canadian air travel system.

Systemic Challenges to Canada's Air Travel Sector

Expensive Third-Party Fees and Charges: Canada is one of the only countries with a system based predominantly on the user pay principle. Although NACC member airlines are not opposed to user pay in principle, a system in which user pay is the predominant principle is one that results in a plethora of fees, charges, and taxes that passengers and airlines must pay, which when added together has made Canada one of the highest cost jurisdictions in the world.

Passengers must pay airport improvement fees, air navigation fees, the Air Travellers Security Charge, and applicable taxes. Airlines must currently pay service fees to NAV CANADA, landing fees to airports, and fuel taxes on aviation fuel. These various fees are estimated to comprise over one third of the cost of an average airline ticket. As one example, a round-trip flight booked in January 2024 on a major Canadian airline for travel in mid-March between Toronto's Pearson International Airport and Vancouver International Airport had a base fare of $382. The extra costs were $131.56, or the equivalent of over 34 per cent of the base fare, resulting in a price tag of $513.56.

Aside from the fact that many of these fees are set without consultation, there is often a lack of transparency as to how or why fees are set at the rate they are - the announcement in the 2023 federal Budget that the Air Travellers Security Charge would be increased by approximately 33% is a good example.

These various third-party fees are typically significantly higher in Canada than they are in the US, which contributes to the price disparity often found between air travel in Canada versus the US. A few examples of these disparities:

- The excise tax on aviation fuel is 158% higher in Canada than the US.
- Once the increases to the Air Travellers Security Charge announced in Budget 2023 take effect, the Canadian security fee will be significantly higher than the equivalent fee in the US (C$34.42 compared to C$7.65 in the US).
- Airport Improvement Fees are generally much lower at US airports. At 19 Canadian airports, these fees are between 2.5 and 7.5 times the U.S. national average of C$6.14 per passenger.

The below example, which compares fares for two similar routes, with a similar base, illustrates the impact of high taxes and fees in Canada vs the US:

Canadian Example

Toronto – Sudbury, Round trip, May 23-26:

Price Breakdown for 1 Adult	
Air Transportation Charges	
Departing Flight – Adult	$139.00 CAD
Return Flight – Adult	$139.00 CAD
Carrier Surcharges – Canada	$ 32.00 CAD
Taxes, Fees and Charges	
Harmonized Sales Tax – Canada – 100092287 RT0001	$ 51.21 CAD
Airport Improvement Fee – Canada	$ 65.00 CAD
Air Travellers Security Charge – Canada	$ 18.92 CAD
Grand Total – Canadian Dollars	**$445.13 CAD**

US Example

Washington – Akron, Round Trip, May 23-26:

Price Breakdown for 1 Adult	
Adult (per passenger)	*$197.21 USD*
Passenger Facility Charge (US)	$ 9.00 USD
Segment Tax (US)	$ 10.00 USD
Transportation Tax (US)	$ 14.79 USD
US Security Fee (US)	$ 11.20 USD
Grand Total Per Person – USD	**$242.20 USD**

In this example, fees and taxes are more than double in Canada than in the US, on a similar base fare.

- Canada: **$135.13 CAD**
- USA: 44.99 USD = **$61.84 CAD**

In short, the high cost of third-party fees and charges represents a significant cost drain on the overall air travel system, which keeps prices high, and the ability to invest low, thereby impacting the competitiveness of the sector.

Airport Rent Not Reinvested in Airport Infrastructure: Since 1992, the federal government has charged “ground rent” to Canada’s largest airports. Between 2013 and 2023, Canada’s airports paid over $3 billion in rent to the federal government, which included a year where rent payments were suspended due to the pandemic. In 2022-23, airports paid over $419 million in rent, a 42% increase in 10 years. Airport rents can represent up to 12% of an airport’s overall budget.

At the same time, the federal government invests only a small portion of these rent payments back into airport infrastructure. Between 2013 and 2020, an average of $32 million per year was invested in airports via the Airports Capital Assistance Program (ACAP), which represents approximately 9% of the rents collected by the federal government in the same period.

By contrast, the US government has invested massively in its airports. Since 2020, the US government has invested over US$40 billion in American airports. This is a clear competitive disadvantage for Canada.

Because airport rents are so high, and the return so little, airports are hamstrung in their ability to modernize infrastructure, pursue growth, and must charge Airport Improvement Fees that are considerably higher than American airports. All of this puts Canadian airports, and therefore the Canadian air travel system, at a competitive disadvantage compared to US and other international counterparts.

Canada’s Regulatory Framework: Civil aviation is a highly regulated sector in any jurisdiction in the world. An efficient and modern regulatory framework is a critical tool to ensure that air travel maintains its excellent safety rating, and that the overall system is efficient and viable. However, Canada’s regulatory framework is in need of an overhaul, as its current structure is putting Canada at a competitive disadvantage. Concerns with the regulatory framework include the following:

- *Outdated regulations that do not reflect the modern aviation system:* Like many sectors, change is constant in civil aviation as technology and processes improve. However, regulations in Canada have not kept up with technological and other changes, especially in comparison to other countries. As an example, Canada’s regulations require manual verification of passenger documents during the boarding and screening process, despite the fact that new modern biometrics and facial recognition technology could be implemented to facilitate and speed up the boarding process. Other countries have already put in place the regulatory framework to allow use of biometrics; Canada’s regulations have not been modernized.
- *Regulatory support or service from the federal government is lacking*: Many regulations require service from Transport Canada to be implemented. For instance, Transport Canada provides medical certifications for pilots, and issues Restricted Area Identity Cards (RAICs) for staff working in secure locations. However, over the past several years, there have been many instances of delays in the issuance of RAICs and medical certifications; delays that have contributed to system disruptions, which inhibit performance of Canada’s airlines.

- *Unnecessary or burdensome regulations*: There are many examples of regulations that are overly burdensome or costly when compared to other jurisdictions. A very recent example is the proposed regulatory framework for the Air Passenger Protection Regulations (APPR) unveiled by the Canadian Transportation Agency (CTA) in July 2023. Although NACC is not opposed to a reasonable passenger protection regime, if the proposals as presented in July 2023 are adopted, Canada would have one of the most punitive passenger rights regimes in the world, which would drive up costs and threaten regional connectivity. The associated 'cost recovery' component of the APPR regime is another such example – no such 'cost recovery' system, whereby airlines pay a levy for appeals launched by the passenger, is in place anywhere in the world. A number of foreign airlines have suggested that if adopted, the APPR regime would force them to rethink their service to Canadian markets, and many stakeholders, including provincial premiers, have expressed strong concerns over the impact that these costly APPR regulations could have on regional service in Canada.

Proximity to US Airports: Approximately three quarters of Canada's population live within 160 kms of the US border, and many significant Canadian population centers lie within close proximity to US airports. For instance, Toronto and Buffalo; Vancouver and Bellingham or Seattle; Montreal and Plattsburgh or Burlington; and so forth.

As we discussed above, the fees and charges in the US air travel system are significantly less than the Canadian system; as a result, overall air travel costs for passengers flying out of the US can be much cheaper. Given the short distance to access a US airport, it has been estimated by the Canadian Airports Council that over 7 million travellers per year cross the border to fly out of a US airport. This is a significant loss of opportunity for Canadian airlines and airports.

Lack of Sustainable Aviation Fuel (SAF) Supply: Airlines around the world, including all of NACC's member airlines, have committed to net zero emissions by 2050. This objective was also contained in Canada's Aviation Climate Change Plan, which was released by the federal government in 2022. According to the Climate Change Plan, 60% of emissions reduction from the airline sector will come from switching conventional jet fuel to Sustainable Aviation Fuels (SAF), which is an alternative fuel produced from various feedstock sources, and which can reduce lifecycle carbon emissions by up to 80%. It is also a "drop in" fuel, meaning that it can be used in existing jet engines without the need for modifications or equipment replacement. Because Canada is rich in both the feedstocks and human resources required to manufacture SAF, Canada could be a global leader in SAF production.

However, using current technology, the costs to produce SAF can be 2 to 5 times more expensive than conventional jet fuels – which has inhibited greater SAF production without government support.

Because of its critical importance to meeting climate change targets, there is a significant global demand for SAF, as reflected in the fact that global supply is expected to triple in 2024 compared to 2023, according to the International Air Transport Association (IATA). Due to the current price differential between conventional fuels and SAF, many countries have introduced policies to incentivize the domestic production of SAF. For instance, under the Inflation Reduction Act, American producers can claim a credit of between $1.25 - $1.75 per gallon (depending on the carbon reduction realized). In the meantime, it was only in the April 16, 2024 federal Budget that the federal government announced its first intent to support SAF production; announcing that biofuel production facilities (of which SAF is a subset) would be eligible for funding under the Clean Fuel Fund and the Canada Infrastructure Bank. Although a welcome start, these announcements will take time to be implemented, and will not have an impact on production for years to come.

Given the disparities in support, it is not surprising that energy producers in North America are establishing production facilities in the US, rather than Canada – and therefore there is currently no notable SAF production in Canada. This is a competitive disadvantage for the Canadian air travel system at a time when SAF availability will drive investment and route decisions by airlines around the world.

Recommendations to Enhance Competitiveness

To achieve the dynamic, affordable, and accessible air travel system that Canadians deserve, the federal government must be willing to address the policies and factors that are inhibiting a truly competitive system from being realized.

But to do this, the federal government needs to refresh its vision for the role of air travel. Rather than view civil aviation as a cash cow, it is critical to rethink air travel for what it is - an indispensable link that connects Canadians to each other and to the world, a critical component of the domestic and global supply chain, and an economic enabler for a wide range of sectors such as trade and tourism.

NACC is providing the following recommendations on how to enhance competitiveness in the air travel system:

- *Review all third-party fees and charges:* Although NACC doesn't oppose the concept of a user pay system, such a system must be balanced with the significant advantages that an affordable, accessible, and efficient air travel system brings to Canada. As a result, a full review is required of all third-party fees and charges in the Canadian aviation system. Such a review should benchmark with foreign jurisdictions, and should 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.

- *Reinvest airport rent back into airport infrastructure*: One of the most immediate changes the federal government could make to enhance competitiveness is to reinvest the rents that are paid by Canada's airports back into airport infrastructure. The Canadian Airports Council estimates this would return approximately $400 million into the system to enable modernized infrastructure, allow for growth to meet current and future demand, and would reduce the cost pressures on Airport Improvement Fees.

- *Regulatory modernization review*: In a highly regulated sector such as aviation, it is imperative that government ensure that regulations are reviewed and modernized on a continuous basis to ensure that they are still relevant and reflect technological advancements. In addition, Transport Canada needs to be properly resourced to ensure that it can deliver the regulatory services and requirements for which it is responsible.

  NACC is recommending that Transport Canada launch a comprehensive regulatory modernization exercise to ensure that regulations are reflective of the current air operating environment, and that they are not putting Canada in an anti-competitive position compared to similar jurisdictions. Furthermore, 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.

- *Implement a Robust Shared Accountability Model*: One way in which Canada could enhance its competitive position globally is by introducing a robust 'shared accountability' model in which all entities in the air travel system, not just airlines, are accountable to publicly reported service standards, and where those performance standards are publicly reported. Although the concept of 'shared accountability' has been endorsed internationally by IATA, there is no jurisdiction that has implemented such a robust system. Canada has the opportunity to demonstrate leadership and a competitive advantage by being one of the first countries to do so.

- *Implement SAF Incentives and Framework Policy:* Although NACC and many aviation stakeholders welcomed the announcements in the 2024 federal Budget to support domestic production of biofuels, including SAF, the reality is that these announcements will take time to implement, and depending on the details associated with the programs (which will not be available for some time), may not be as competitive as the incentive provisions in the US Inflation Reduction Act. To ensure that Canada does not lose out on SAF opportunities and can ensure SAF supply, NACC is calling for an aggressive schedule to implement the SAF measures announced in Budget 2024, introduce a SAF framework to provide regulatory certainty respecting its use, and engage with the energy sector immediately to actively encourage the introduction of SAF production as quickly as possible.

Conclusion

NACC thanks the House of Commons Transport, Infrastructure and Communities Committee for undertaking this study. Canada's airlines are an indispensable force for good in connecting Canadians to each other and to the world, they are a critical component of Canada's supply chain, they are a tool for nation building, and airlines support growth in a wide variety of related sectors. With a more competitive policy and regulatory framework, Canada's airlines can strengthen these vital roles, for the betterment of passengers, and the overall country.