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

2025 Pre-Budget Submission to the House of Commons Finance Committee

By the National Airlines Council of Canada

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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.

In 2024, air travel passenger volumes and performance metrics have returned to near pre-pandemic levels. Despite these welcome achievements, Canada's airlines and the overall aviation system face a number of policy headwinds that are making the Canadian aviation system less competitive and less affordable in comparison to similar global regimes.

If implemented, the following recommendations could help the federal government and industry make significant strides forward in meeting a number of critical objectives, such as increasing the competitiveness of the air transportation sector and affordability for Canadians, meeting net zero decarbonization targets, increasing supply chain reliability, and driving further economic growth.

Recommendation #1: Enhance competitiveness and affordability by freezing all federal fees and charges, review all third-party fees and charges, and modernize Canada's aviation regulatory regime.

In spring 2024, the House of Commons Standing Committee on Transport, Infrastructure and Communities conducted hearings into the competitiveness of Canada's air travel system. A point on which there was near-unanimous agreement is that the Canadian 'user pay' system is one of the most uncompetitive, costly systems in the world. The Canadian system is characterized by a number of expensive third-party fees, charges and taxes that adds considerable cost for airlines and passengers, and that inhibits growth potential and overall competitiveness.

Passengers and airlines must pay a range of fees, charges, and taxes, each of which are appreciably higher than in many other jurisdictions, notably the United States. These various taxes and fees account for a significant proportion of an airline's ticket price, especially on lower fares. Many of these fees are set without consultation, often lacking 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 (ATSC) would be increased by approximately 33% is one example.

What is particularly concerning is how Canadian fees compare to equivalent fees in the US. For example:

- The excise tax on aviation fuel is 158% higher in Canada than the US.
- With the recent increase in the ATSC, the Canadian security fee will be significantly higher than the equivalent fee in the US (up to C$34.42 compared to C$7.65 in the US).

- Airport Improvement Fees (AIF) are generally much lower at US airports. At 19 Canadian airports, these fees are between 2.5 and 7.5 times the US national average, which translates to approximately C$15.00$45.00 per passenger versus C$6.14 per passenger in the US.

Due to the cost structure in the US, it has been estimated that over 5 million Canadian passengers cross the border to fly out of an American airport – a reality that inhibits growth, jobs and investment in the Canadian air travel system.

Furthermore, if the proposed regulatory framework for the Airline Passenger Protection Rights (APPR) that was released by the Canadian Transportation Agency (CTA) in July 2023 is adopted without significant reform, it will add additional cost to air travel in Canada, and will further isolate Canada as one of the most uncompetitive jurisdictions in the world in which airlines could operate. Furthermore, these proposed changes will have significant negative implications for regional connectivity in Canada.

It should be noted that the federal government appears to treat air travel in a less equitable manner when compared to other modes of transport in Canada – especially in consideration that no other mode of transport operates on the same strict user pay model as aviation. Some specific examples:

- At a time when the federal government is actively pushing for cost recovery in air services, the Minister of Transport issued a statement on July 4, 2024 confirming that cost recovery for Marine Atlantic would be eliminated: “*Marine Atlantic is an essential service for Newfoundlanders. With Budget 2024, we're investing in Marine Atlantic to keep services affordable. And we're eliminating the overall cost recovery policy because that's what's fair.”*

- No other mode of transport has compensable passenger requirements such as APPR, even though the CEO of Via Rail called for a rail passenger bill of rights in October 2023.

- Bill C-52, which has currently passed second reading, would require port authorities to follow certain principles when setting port fees to enhance transparency and accountability; principles not contained in legislation for all air travel ecosystem partners.

Lastly, the Canadian aviation regulatory framework, particularly when compared to other jurisdictions, is in need of modernization. Canada’s aviation regulations often do not reflect the realities of a modern aviation system; they are oftentimes unnecessary or overly burdensome. As one example, biometrics play a fundamental role in the border continuum and the touchless traveller journey. However, Canada’s regulatory framework prevents greater usage of biometrics for air travel, compounded by the absence of a national biometrics strategy – putting Canada at a competitive disadvantage compared to other countries with biometrics strategies in place.

NACC recommends that the Government of Canada implement an immediate freeze on all taxes, fees and charges within federal entities as a means of addressing affordability and bringing much needed stability to the air travel system. In addition, NACC recommends that the federal government conduct a full review of all third- party fees, charges and taxes in the aviation system, with the objective of identifying cost efficiencies and savings, so that the overall cost of air travel can be reduced. Furthermore, NACC recommends a regulatory modernization review, so that the Canadian regulatory framework will keep pace with international standards and recommended practices and encourage growth in aviation, rather than hinder it.

Recommendation #2: Reinvest airport rent back into needed airport infrastructure

Canada's airports currently pay over $400 million more to the federal government in rent payments for Crown land than they receive in infrastructure support. On average, Canada's airports pay 12% of their revenues on rent payments that go directly to federal coffers; funding that could otherwise be used to invest in airport accessibility, sustainability, safety, security, or to increase capacity. This competitive disadvantage for Canadian airports stands in stark contrast to the United States, where the US federal government has invested over $40 billion in US airports since 2020.

NACC, along with many other stakeholders, have recommended for years that the federal government fully reinvest those rent payments into airport infrastructure. The House of Commons Standing Committee on Transport, Infrastructure, and Communities itself recommended such a policy in its 2023 report entitled "Enhancing the Efficient, Affordable Operation of Canada's Airports".

NACC recommends that the federal government fully reinvest the funds it receives via airport rents back into airport infrastructure.

Recommendation #3: Strengthen incentives to produce domestic Sustainable Aviation Fuel (SAF) supply in Canada

Airlines around the world, including all of NACC's member airlines, have committed to net zero carbon emissions by 2050. Canada's 2022 Aviation Climate Change plan, to which NACC is a signatory, has indicated that approximately 65% of the path to achieving net zero will come from switching conventional jet fuels to Sustainable Aviation Fuels (SAF)[1]. Currently approved SAF pathways can reduce emissions by 75% or more, compared to jet fuel over its entire life span[2]. This includes production, distribution, transportation and combustion. SAF can also reduce other harmful emissions like particulates and sulfur by 90% and 100% respectively. Given that it is considered a "drop in fuel", SAF can be used with no changes needed to current infrastructure and existing jet engines.

To reach the aspirational goal of 10% SAF usage by 2030, Canada would need to produce or source 1 billion liters of SAF to meet domestic demand. At present, Canada has no domestic production of SAF; the Canadian refining industry faces major disadvantages in establishing production versus other jurisdictions. The lack of federal incentives, particularly when compared to the generous production incentives contained in the US Inflation Reduction Act and state tax credits targeting SAF production, will continue to impact Canadian competitiveness, and puts at risk the ability of Canada's airlines to meet decarbonization objectives. Moreover, this also represents a considerable lost economic opportunity, particularly given Canada's inherent advantages for SAF production, including abundant access to raw materials and an existing energy workforce.

In Budget 2024, the federal government recognized the need to support the production of SAF by introducing incentives for all biofuels, of which SAF is a subset. The incentives included expanding the

[1] https://publications.gc.ca/collections/collection_2023/tc/T42-29-2022-eng.pdf

[2] https://www.iata.org/en/programs/sustainability/sustainable-aviation-fuels/

mandate and disbursements under the Canada Infrastructure Bank, the Clean Fuels Fund, and compliance payments under the Clean Fuel Regulations to support biofuels production in Canada. However, these measures do not target SAF specifically, and are not competitive with the measures contained in the US Inflation Reduction Act. Without strengthened SAF incentives, Canada will be unable to competitively produce SAF domestically and moreover meet the decarbonization objectives set forth in the Aviation Climate Change plan, and will make Canada an outlier in international aviation.

As a result, NACC and other stakeholders are calling for more strategic and supportive incentives to position Canada as a world leader in SAF production. NACC fully supports the recommendations submitted by the Canadian Council for Sustainable Aviation Fuels (CSAF), which includes:

- ***CFR Compliance Fund in support of biofuels: The federal government seed the first two years of sustainable aviation fuel (SAF) and biofuels support (two tranches of $500M each) announced in Budget 2024 and launch the new program in 2025.***
- ***Use the new CFR compliance fund program to support a SAF purchase incentive for madein Canada fuel.***
- ***Use the Clean Fuel Fund (CFF) to unlock investments in SAF.***
- ***Finance Canada should extend the Clean Technology Investment Tax Credit to include capital investments made in SAF production facilities.***
- ***Canada should introduce a commodity price contracts for difference (CFDs) or revenue certainty mechanism to support SAF production, providing certainty to both airlines and SAF producers.***
- ***The Canada Infrastructure Bank (CIB) take a tiered approach when allocating loan amounts. At least 30% of the allotted CIB envelope is allocated to SAF related projects, both novel and current.***
- ***Allow for a book and claim mechanism for SAF use in Canada.***
- ***Funding for air fleets under the Low-carbon Fuel Procurement Program (LCFPP) should be allocated to SAF only produced in Canada.***

Recommendation #4: Introduce measures to address aviation labour supply

Canada's airlines are powered by their people – the tens of thousands of people who work in Canada's airlines are highly committed and passionate about connecting Canadians to each other and the world. The aviation ecosystem is reliant on the availability of a large, well-trained, competent workforce, which includes an adequate supply of pilots and maintenance engineers to meet current and future needs. However, according to a 2022 labour market forecast by the Canadian Council for Aviation and Aerospace, Canada's air transportation sector will need to fill at least 44,000 new skilled positions between 2021 and 2028, including highly skilled roles such as pilots and mechanics. This, at a time when the demand for trained aviation professionals is growing globally.

In the spring of 2023, the House of Commons Standing Committee on Transport, Infrastructure, and Communities released a report on 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 amending the Canada Student Loans program to make student pilots eligible for loans.

NACC recommends that the federal government, in partnership with provinces and territories and other key stakeholders, develop and implement an aviation labour supply strategy that would include extending Canada Student Loans to student pilots, and that would provide support for new and existing training facilities and programs.