



**NATIONAL AIRLINES COUNCIL OF CANADA**  
**CONSEIL NATIONAL DES LIGNES AÉRIENNES DU CANADA**

## **UNLEASHING THE POWER OF AVIATION: JOBS, TRADE AND TOURISM**

Submission to the House of Commons Standing Committee on Finance  
2016 Pre-Budget Consultations



## Executive Summary

The National Airlines Council of Canada (NACC) is pleased to contribute to the House of Commons Standing Committee on Finance's pre-budget consultation process in preparation for Budget 2016. The NACC makes the following recommendations to ensure the Canadian aviation sector's ability to create jobs and stimulate trade and tourism:

- **Aviation is an enabler of economic activity:** First and foremost, there needs to be a recognition that the aviation sector is an enabler of economic prosperity and as such, its uncompetitive cost structure needs to be addressed.
- **Aviation Security:** Revisit aviation security funding to ensure a direct and transparent correlation between ATSC revenue and required funding for screening services. Furthermore, the funding model should reflect the nature of aviation security threats and funding for aviation security should not be the sole financial responsibility of air travelers.
- **Airport Rent:** Revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations. Over the medium-term, the Government of Canada should re-invest funds garnered from rent back into the air transportation sector.
- **Aviation Fuel Taxes:** Ensure the federal aviation fuel tax is competitive and re-invest revenue collected from the tax in the air transportation system.
- **Make it Easier to Fly, Visit and Do Business in Canada:** Continue investments to improve and streamline the visa process. This includes maximizing the use of the upcoming Electronic Travel Authorization (eTA) program by applying it to additional partner economies such as Brazil and Argentina and exempting "transiting" passengers from the program.
- **Passenger Facilitation:** Continue investments to improve and streamline security screening and border processing at airports.
- **Environment sustainability:** Increase collaboration with industry on alternative aviation fuel research and development.



## **Introduction**

The National Airlines Council of Canada (NACC) is pleased to contribute to the House of Commons Standing Committee on Finance's pre-budget consultation process in preparation for Budget 2016.

The NACC is the trade association representing Canada's largest passenger air carriers: Air Canada, Air Transat, Jazz Aviation LP and WestJet. We promote safe, sustainable and competitive air travel through the development of policies, regulations and legislation that foster a world-class transportation system.

## **Aviation Matters**

NACC member airlines have a lot to be proud of when it comes to their commitment and contributions to our country. Aviation in Canada has an annual economic footprint of over 35 billion dollars, providing benefits and opportunities to communities across Canada. All in all, the aviation sector directly employs 141,000 people and supports more than 400,000 high-value jobs in key industries.

The benefits of the aviation industry go well beyond these employment numbers however. Airlines link communities and families to one another, and to the world. They unlock a community's potential and make it easier for Canadian businesses to access new customers and new markets. These roles are especially important in Canada, due to the vastness of our country, our close family and personal ties to other countries and our reliance on international markets.

## **Challenges: Revenue, Jobs, Trade and Tourism Left on the Table**

Despite the aviation sector's promising trajectory, it is faced with a number of chronic policy challenges which impede the industry's ability to compete in global markets, and fully contribute to Canada's economic and social fabric. The single-most pressing concern and cause preventing Canada's aviation sector from living up to its full potential is the highly uncompetitive nature of the sector's cost structure.

The unvarnished reality is that Canadian air carriers compete directly with airlines around the world that are supported by government policies that view air transportation as a strategic public investment. In contrast, Canada's outdated policy framework treats the industry as an infinite source of public revenue.

## **How to Ensure the Vitality of the Canadian Aviation Sector and its Ability to Create Jobs and Stimulate Trade and Tourism: NACC Recommendations**

- 1. First and foremost, there needs to be a recognition that the aviation sector is an enabler of economic prosperity and as such, its uncompetitive cost structure needs to be addressed**

The attractiveness of Canada as a business and tourism destination is greatly affected by the myriad of tax, infrastructure, and cost-recovery policies that successive Canadian governments have implemented for the aviation sector. In our view, the combined impact of these policy decisions over the last 20 years has had a corrosive effect on the viability of travel and tourism in Canada. Instead of approaching the aviation sector as a key driver of long-term economic growth, Canada's outdated policy framework treats the industry as an infinite source of public revenue by downloading government taxes, fees and other charges on airfares.



Government's collection of the **Air Travellers Security Charge** (the dedicated fee that passengers pay for security screening), **airport rent** and **aviation fuel taxes** are some examples of how the user-pay approach has mutated into an over-pay approach (and easy source of public revenue) at the detriment of the aviation sector's competitiveness.

a) ATSC (Air Travellers Security Charge)

Funding for aviation security in Canada is based on a 100 per cent user-pay model where air travellers are required to cover the full costs of not only passenger screening but also the costs of providing seats for in-flight RCMP officers and general "Transport Canada regulations and oversight."

In the fiscal year 2014-2015, the federal government collected \$696 million from the Air Travellers Security Charge (ATSC) levied on passengers. By comparison, the Canadian Air Transportation Security Authority (CATSA) reports the total government funding received during the same year to be nearly \$598 million, a short fall of \$98 million. In fact, as the table below illustrates, revenues generated from the ATSC are increasing year over year while government funding for CATSA is declining. This discrepancy is exacerbated by annual increases in passenger traffic requiring CATSA services.

Air Travellers Security Charge (ATSC) Revenue and Canadian Air Transport Security Authority (CATSA) Funding -- millions

	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
ATSC Revenues	600	631	635.6	662	696	3,224.6
Total government funding for CATSA	596.2	584.4	549.9	538.9	598	2,867.4
<b>Annual surplus for government</b>	<b>3.8</b>	<b>46.6</b>	<b>85.7</b>	<b>123.1</b>	<b>98</b>	<b>357.2</b>

Since 2010, the government has accumulated a surplus of **\$357 million that is not being directed to CATSA**. Given the existing user-pay nature of Canada's aviation security funding model, there should be more transparency and accountability regarding the ATSC revenue. There should be a direct and transparent correlation between ATSC revenues and the funds allocated to CATSA in order to ensure that CATSA is being sufficiently funded to meet passenger demand. Furthermore, the NACC believes that funding for aviation security should reflect the reality that the nature of the threat against aviation is a threat against national security. As such, funding for aviation security should not be the sole financial responsibility of air travelers.

**Recommendation:**

**Revisit aviation security funding to ensure a direct and transparent correlation between ATSC revenue and required funding for screening services. Furthermore, the funding model should reflect the nature of aviation security threats and funding for aviation security should not be the sole financial responsibility of air travelers.**



## b) Airport Rent

To date, airports have paid over \$5 billion to the government in airport rent. Considering that at the time of their transfer in the 1990s, the airports were valued at \$2.9 billion (in 2012\$), that is a \$2.1 billion overpayment that has not been reinvested back into the aviation sector.<sup>1</sup>

With airport rent being calculated as a percentage of gross revenue, the price of every aeronautical service an airport provides must be marked up by at least the amount of rent charged. This increases the airport's break-even point and raises the amount of revenue that must be generated. This leads to higher operating fees for air carriers which, unfortunately, are passed on to the passenger.

To provide more incentive for airports to maximize non-aeronautical revenue, the ground rent formula should be amended to cap rent payments at current levels and exempt non-aeronautical revenue from the calculation of rent.

### **Recommendation:**

**Revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations. Over the medium-term, the Government of Canada should re-invest funds garnered from rent back into the air transportation sector.**

## c) Aviation Fuel Taxes

The federal excise tax on aviation fuel was introduced in the 1970s to fund air transportation infrastructure and Air Canada, before its privatization. However, aviation fuel taxes – now at 4 cents per litre federally – are collected as part of general revenues. By contrast, the Canadian aviation industry is paying more than three times the 4.4 cents per gallon U.S. federal jet fuel excise tax whose collection is re-invested in the air transportation sector through the Airport and Airway Trust Fund (AATF). In fact, U.S. taxes on airfares and cargo waybills are also re-invested through the AATF.

### **Recommendation:**

**Ensure the federal aviation fuel tax is competitive and re-invest revenue collected from the tax in the air transportation system**

## **2. Make it Easier to Fly, Visit and Do Business in Canada**

Immigration, border security and passenger screening policies play an important role in ensuring the safety and security of air travellers and Canadians in general. They also have a direct impact on the attractiveness of a country for visitors and trading partners. If Canada is to achieve its growth potential, it must act as a true global gateway and ensure that its passenger facilitation processes maintain our security while encouraging growth.

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<sup>1</sup> CD Howe Institute, Full Throttle: Reforming Canada's Aviation Policy, January 2014,



#### a) Visas and Electronic Travel Authorizations

Given air transportation's role in expanding markets, establishing business relationships and attracting tourists, ensuring a competitive aviation sector is essential.

The upcoming introduction of the electronic Travel Authorization (eTA) program provides a great opportunity to direct resources to mitigate security risks appropriately and facilitate the processing of all visitors. Given that the eTA will now require an additional step for tourists and business visitors who currently do not need to obtain any pre-authorization and can simply purchase their ticket, we must ensure that its implementation does not deter trade, travel and tourism to Canada.

We are very pleased by the government's commitment to remove the burdensome visa requirement for Mexican travellers. Such a move will allow Canada to maximize the benefits of the Canada-Mexico Air Transport Agreement, create new opportunities for Canadian businesses and boost trade, investment and tourism between the two countries. We believe that Mexico is a good place to start optimizing the upcoming eTA program and we encourage the government to also apply the eTA to important partner economies such as Brazil and Argentina.

Further, the issue of transiting passengers merits special attention. To ensure Canada's competitiveness, it is crucial that foreign nationals who are transiting through Canada on their way to the U.S. and who already have an American ESTA as well as foreign nationals who are exempted from visa requirements because they are transiting through Canada under the Transit without Visa program or the China Transit Program should also be exempt from eTA requirements.

#### **Recommendation**

**Continue investments to improve and streamline the visa process. This includes maximizing the use of the upcoming Electronic Travel Authorization (eTA) program by applying it to additional partner economies such as Brazil and Argentina and exempting "transiting" passengers from the program.**

#### b) Improve Security Screening and Border Processing at Airports

Passengers, to their credit, recognize the need and importance for aviation security. The frustration comes from the lack of resources and efficiency which translates into longer wait times and delays. We all have a stake in the effectiveness of aviation security and we believe the government should recognize that ensuring safe and secure air travel is a public good and needs to be funded accordingly. As discussed above, since 2010, the government has accumulated a surplus of \$357 million that is not being directed to CATSA.

Besides ensuring appropriate funding, it is important to make screening commensurate to the risk posed by the individual passenger by complementing physical screening with increased intelligence. This means making better use of the available information prior to arriving at the checkpoint (passport, airline ticket, PNR, API, information received from trusted traveller programs).



In recent years, we have seen a number of improvements in automatic passenger processing through pre-registered systems such as NEXUS. Many of the improvements are felt across the system, and the federal agencies involved in their creation and deployment are to be commended. However, these and other passenger facilitation programs need to be continuously and robustly endorsed.

#### **Recommendation**

**Continue investments to improve and streamline security screening and border processing at airports.**

### **3. Environment sustainability: Increase collaboration with industry on alternative aviation fuel research and development.**

We recognize the importance of improving fuel efficiency and reducing emissions from air travel. The development of sustainable aviation biofuel is a key initiative in this regard and is especially important as the industry prepares to meet its global goal of carbon neutral growth by 2020. While we have seen very positive developments on this front, there is no question that significant advances in commercializing biofuels are still required.

Consequently, increased collaboration between industry and government on research and development of alternative fuels for aviation is important.

#### **Recommendation**

**Increase collaboration with industry on alternative aviation fuel research and development.**

#### **Closing Comments**

The NACC member airlines are committed to working with the federal government in the ongoing development of forward-looking policies that ensure the future of a safe and secure, environmentally responsible and cost-competitive air travel sector in Canada.

We would be pleased to discuss our recommendations further with the Finance Committee.