



**NACC**

National Airlines  
Council of Canada

**CNLA**

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  
Pre-Budget Consultations in Advance of the 2017 Budget**



## 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 2017.

It is with great enthusiasm that we note the focus of this year's pre-budget focus as we believe a competitive aviation sector is a perfect catalyst for helping Canadians, communities and businesses maximize their contribution to the country's economic growth. We provide the following recommendations to ensure a competitive aviation sector that will be able to help the government achieve its objectives.

- **Aviation is an enabler of economic activity: Recognition that the aviation sector is an enabler of economic prosperity and as such, its uncompetitive cost structure needs to be addressed.**
- **Security Funding: Revisit aviation security funding to ensure a direct and transparent correlation between ATSC revenue and required funding for all screening services (pre-board, non-passenger, vehicle).**
- **Airport Rent: In the short term, revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations. Over the long-term, phase out airport rent.**
- **Carbon Pricing: Ensure an appropriate carbon pricing policy for aviation.**
- **Biojet fuel: Develop a renewable aviation fuel strategy. Canada should become a world leader in producing aviation biofuel.**
- **Security Screening: Legislate a customer service mandate and regulated performance standards.**
- **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.**



## **I. Introduction: How Aviation Achieves the Government's Goals of Helping Canadians, Communities and Businesses**

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

The air transportation sector in Canada plays a vital role in enabling social and economic growth. Aviation in Canada has an economic footprint of more than \$35 billion annually, providing benefits and opportunities to communities across Canada. The aviation sector directly employs 141,000 people and supports more than 400,000 high-value jobs in key industries. NACC member airlines carry more than 60 million passengers per year and directly employ 46,000 people.

It is with great enthusiasm that we note the focus of this year's pre-budget focus as we believe a competitive aviation sector is a perfect catalyst for helping Canadians, communities and businesses maximize their contribution to the country's economic growth. For example, aviation unlocks the potential of urban, rural and remote communities and helps businesses expand and serve domestic and international customers. Airlines also support entrepreneurs, internal and international trade and regional development. These roles are especially important in Canada due to the vastness of our country and our close family and personal ties to other countries.

The importance of aviation was also echoed in the Canada Transportation Act Review Report "*Pathways: Connecting Canada's Transportation System to the World*" issue in February 2016. This report recognized that the aviation sector acts as economic engine for communities and for the country as a whole, enabling the flow of professional services, tourism and high-value, time sensitive exports and is a major factor in attracting foreign investment.

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.

It is against this backdrop that we provide the following recommendations to ensure a competitive aviation sector that will be able to play a significant role in achieving the government's objectives.

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

### **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) and **airport rent** 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)

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.**

**Recommendation:**

**Revisit aviation security funding to ensure a direct and transparent correlation between ATSC revenue and required funding for all screening services (pre-board, non-passenger, vehicle). 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.

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



## **Recommendation:**

**In the short term, revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations. Over the long-term, phase out airport rent.**

## **2. Environmentally Responsible Air Travel: Ensuring an Appropriate Carbon Pricing Policy for Aviation and the Importance of Alternative Aviation Fuel**

NACC airlines are committed to reducing emissions and enhancing the environmental performance of air travel. The aviation sector partnered with the federal government in 2012 to develop *Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation*. The Action Plan brings together airlines, airports, NAV CANADA, aircraft and engine manufacturers, and other partners across the supply chain to reduce greenhouse gas emissions from aviation.

The international aviation community has set the following three targets: 1) Improving fuel efficiency by an average of 1.5% per year from 2009 to 2020; 2) Stabilising emissions from 2020 with carbon-neutral growth; and 3) Reducing net emissions from aviation by 50% by 2050 (compared to 2005 levels). These targets are underpinned by four pillars of action: 1) technology innovation; 2) operational improvements; 3) infrastructure efficiencies and 4) smart economic measures.

Canada is also working with the International Civil Aviation Organization (ICAO) to implement a global market based measure for aviation to meet the goal of carbon neutral growth from 2020. A global agreement is the best way forward and will clearly have significant positive impacts on domestic operations.

### **a) Ensuring an Appropriate Carbon Pricing Policy for Aviation**

We recognize that a federal carbon pricing mechanism is being considered as part of the Government's pan-Canadian Framework for Clean Growth and Climate Change.

## **Recommendation**

**With respect to aviation, any federal carbon pricing system should be designed to:**

- **preserve fair competition among domestic and international carriers;**
- **promote uniformity in regulations, standards, and procedures to preserve orderly and efficient functioning of today's air transport system (e.g., avoid a patchwork between provincial and federal systems where the same emissions are priced multiple times);**
- **provide access to low cost reduction opportunities (e.g., offsets);**
- **effectively support other complementary mechanisms needed to incent transition (e.g., renewable fuels and infrastructure policies, investment); and,**
- **recycle revenues towards mitigating the impact of aviation on the environment.**

### **b) The Potential of Renewable Fuels in Aviation**

While airlines have made tremendous progress reducing emissions through efficiency gains and other measures, the major opportunity to reduce GHG emissions is to remove fossil carbon from the fuels combusted. Canada is well positioned for biojet production: abundant agricultural and forestry biomass resources using globally recognized sustainable production and harvesting practices. Canada counts strong applied research capacity, a



modern petroleum refining sector with demonstrated ability to participate in (and comply with) initiatives to introduce renewable fuels.

**Recommendation:**

**Develop of a renewable aviation fuel strategy. Canada should become a world leader in producing aviation biofuel from sustainable Canadian feedstocks by fostering research and development and supporting the commercialization of alternative fuel supply chains.**

**3. Improve Security Screening**

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.

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 believe that establishing measureable performance standards would go a long way to resolve many outstanding challenges.

**Recommendation:**

**Legislate a customer service mandate and regulated performance standards. To this end, we support the targets presented to Transport Canada (85% of passengers wait 8 minutes or less and 95% of passengers wait 10 minutes or less).**

**4. Make it Easier to Fly, Visit and Do Business in Canada: Visa Processing and Electronic Travel Authorization**

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 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.

**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**



### **III. 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.

**NATIONAL AIRLINES COUNCIL OF CANADA**

A handwritten signature in black ink, appearing to read "MA O'Rourke".

Marc-André O'Rourke, Executive Director