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

The Future of a Safe, Secure, Environmentally Responsible and Cost-Competitive Air Travel Sector in Canada

Submission to the House of Commons Standing Committee on Finance

2014 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 2015. We recognize and appreciate the Finance Committee's previous recommendation[1] that the federal government "continue to explore ways to make Canada's aviation cost structure more competitive." We are also encouraged by the news that the cost-competitiveness of the aviation sector will be given specific attention as part of the *Canada Transportation Act* Review. These are positive steps.

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. Collectively, our member airlines carry over 50 million passengers annually and directly employ 43,000 people.

According to a recent study by the Conference Board of Canada, the air transportation industry in Canada has an economic footprint of nearly $35 billion in GDP. The industry directly employs 141,000 people and supports over 400,000 jobs across many sectors of the economy. As the airlines that represent the underpinnings of Canada's domestic and international air services network, NACC member carriers are proud of the role they play in fuelling the economy by facilitating business, trade and tourism while serving as a major source of jobs, investment opportunities and tax revenue.

To increase the competitiveness of Canada's air transportation sector and ensure that it realizes its full job creation and economic growth potential, the NACC recommends that the government:

1. **Revisit aviation security funding to a) provide a breakdown of Air Travellers Security Charge (ATSC) revenue allocation; b) ensure a direct and transparent correlation between ATSC revenue and required CATSA funding; and c) amend the funding model to reflect the nature of aviation security threats;**

2. **Revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue from rent calculations;**

3. **Maximize the Electronic Travel Authorization program by applying it to partner economies such as Mexico, Brazil, Chile and Argentina and exempting "transiting" passengers as well as continue making investments to improve and streamline the visa process; and**

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

The NACC is also a member of the National Roundtable on Travel and Tourism, a partnership of Canadian travel and tourism organizations including the Canadian Airports Council, the Hotel Association of Canada, the International Air Transport Association and the Tourism Industry Association of Canada. We encourage the government's participation in *Connecting America*, the Tourism Industry Association of Canada's co-investment vehicle to drive visitation from the U.S. through a strategically aligned national marketing campaign.

[1] *The Future We Want: Recommendations for the 2014 Budget*, Report of the Standing Committee on Finance (December 2013) – see recommendation no. 30.

1. Aviation Security Funding: Evaluating the User-Pay Model

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 "Transport Canada regulations and oversight."

In the fiscal year 2012-2013, the federal government collected nearly $636 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 $550 million, a short fall of $86 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

	2010-11	2011-12	2012-13	2010-13
ATSC revenues[2]	600	631	635.6	**1,866.6**
Total government funding for CATSA[3]	596.2	584.4	549.9	**1,730.5**
Annual surplus for government	**3.8**	**46.6**	**85.7**	**136.1**

Since 2010, the government has accumulated a surplus of $136 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. To this end, the aviation sector should be informed of the breakdown of ATSC revenue directed to CATSA, the RCMP and Transport Canada. In addition, we believe it is inappropriate that revenue collected directly from passengers for their security screening is being used to fund general administration of Transport Canada and the RCMP.

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: **That the government revisit aviation security funding to a) provide a breakdown of Air Travellers Security Charge (ATSC) revenue allocation to CATSA, the RCMP and Transport Canada; b) ensure a direct and transparent correlation between ATSC revenue and required CATSA funding; and c) amend the funding model to reflect the nature of aviation security threats.**

[2] Public Accounts of Canada

[3] CATSA Annual Reports

2. Airport Rent

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. Most airports around the world (including U.S. airports) do not pay ground rent. Further, the amount of airport rent collected in Canada is disproportionate to prior federal investment and only a small portion of what is collected in rent is reinvested in air transportation, resulting in a large drain on the industry.

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. This would remove an important impediment to growth in Canada's aviation sector and would help recoup some of the more than five million Canadians who drive across the border to fly from U.S. airports every year.

Recommendation: **That the Government of Canada revise the airport ground rent formula to cap payments and exempt non-aeronautical revenue rent calculations**

3. Making it Easier and Faster to Visit and Do Business in Canada

Given air transportation's role in expanding markets and establishing business relationships, improvements to the visa process have significant impact on international trade and the country's economy. The NACC applauds a number of the federal government's recent efforts to modernize the visa process in Canada and help grow international travel into Canada. The introduction of CAN+, a program to expedite visa processes for certain Mexican and Indian travellers is an important step forward.

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.

Given the recent successful reforms to the refugee claim process, serious consideration should be given to replacing the burdensome visa requirement for partner economies such as Mexico, Brazil, Chile and Argentina with the upcoming eTA. Further, the issue of transiting passengers merits special and immediate 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: **That the Government of Canada maximize the Electronic Travel Authorization program by applying it to partner economies such as Mexico, Brazil, Chile and Argentina and exempting "transiting" passengers as well as continue making investments to improve and streamline the visa process.**

4. Alternative Fuels for Aviation

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. We note and are encouraged by the Finance Committee's Budget 2014 recommendation[4] to support the NextGen Biofuels Fund.

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

Conclusion

The NACC member airlines are proud of the role they play to attract visitors and help Canadian businesses compete in global markets and attract new customers, trade and investment. With the proper policy support to enhance the industry's competitiveness, the aviation sector could garner even greater economic benefits for Canada by maximizing its full job creation potential.

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 its recommendations further with the Finance Committee this fall.

[4] *The Future We Want: Recommendations for the 2014 Budget*, Report of the Standing Committee on Finance (December 2013) – see recommendation no. 27.