

Standing Committee on Finance (FINA)

Pre-budget consultations 2012

National Airlines Council of Canada

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

There is no question that the aviation industry can contribute significantly to enhanced economic growth in Canada. To do so, however (and as recently stated by the Standing Senate Committee on Transport and Communications in its Report on the Future of Canadian Air Travel), the government must stop treating the industry as a source of public revenue and start treating the sector as a spark plug that can ignite economic growth in Canada. In our view, this requires an investment by the government that, in the short term, may mean a loss of direct revenue from the sector but that in the long term will pay off in the form of higher revenue generated by an increase in output taxes (corporate, income and consumption) and other spin-off benefits of a healthy aviation sector. Federal measures should demonstrate vision and leadership by recognizing the value of the aviation industry as a facilitator of economic growth and include the following:

- Establish a National Air Travel Strategy that reflects the realities of the aviation industry today. This new strategy must revise the concept of “user-pay” to accurately reflect who truly benefits from the aviation sector.
- Reduce and eliminate airport rent: Not only does an airport’s obligation to pay rent contribute to the high cost of flying in Canada, the amount of rent is clearly disproportionate to prior federal investment. With rent calculated as a percentage of gross revenue, the price of every service an airport provides must be marked up. This increases the amount of revenue that must be generated and leads to higher operating fees for air carriers which, unfortunately, are passed on to the passenger.
- Reduce Air Transport Security Charge (ATSC): In our view, the government funding model should reflect the reality that the threat against the aviation sector is actually a threat against the state. As such, funding aviation security should not be solely the financial responsibility of air passengers.
- Eliminate the federal excise fuel tax.
- Airport Financing: Provide government support of loans and airport improvement grants to help reduce the cost of capital incurred by Canadian airports. Allow Canadian airports to issue tax-free bonds to finance future expansions. The National Airlines Council of Canada would be pleased to discuss these issues further with the Finance Committee in the fall.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The job creation ability of a healthy air transportation industry is well known. NACC members alone directly employ over 43,000 people. The industry presently supports over 400,000 Canadian jobs - 219,000 of which are directly connected to the aviation sector. Aviation links communities across Canada to national and international markets to provide access to their goods, services and people. This enables small and large communities to compete and generate jobs. While the present economic benefits and jobs are significant, they could (and should) be much better. We believe that if federal actions include the elimination of certain impediments to improve the competitiveness of the aviation

cost structure (see measures discussed in question 1), we would see an increase in passengers and the creation of more aviation-related jobs. In fact, it is estimated that the nearly 5 million Canadians that drive to U.S. airports per year represents a loss of approximately 9,000 well-paying jobs in Canada, employment income loss of \$511 million and tax revenue loss of \$190 million. To make matters worse, this cross-border leakage is increasing (it is estimated to have increased by 15% in 2011) and could become even more devastating as U.S. border airports begin offering flights to further destinations such as the Caribbean and Europe. It is also worth noting that NACC members could experience an increase of 2.3 to 2.9 million passengers each year if airport rents, the ATSC, the excise tax on jet fuel were eliminated and NAV CANADA was reimbursed for its annual debt servicing costs. The total number of passengers handled at 14 major airports in Canada could increase by 3.2 to 4 million. Eliminating these charges could lead to an additional economic output generated by NACC members of between \$952 million and \$3.5 billion. The National Airlines Council of Canada would be pleased to discuss these issues further with the Finance Committee in the fall.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

Faced with the possibility of both a reduction in participation in the labour force and the pool of skills being supplied to the labour market, the following measures could be implemented:

- Education and training programs need to have access to information on the demand for skills and the drivers of changes in skills demand. Universities, colleges and other training institutions should be able to adapt and offer the courses and training required to meet the new skills requirements.
- Federal measures should also promote university and college programs that enable students to fill the positions of the future and that add value to knowledge-based competitiveness. It is important for Canada to maintain a long-term perspective on skills development and help young people gain a foothold in the labour market.
- Provide incentives to employers to offer updated skills training to their existing work force. Consider encouraging older workers to continue working and to delay their retirement. It is important to note that Canada's aviation and aerospace industries offer a wide range of opportunities including many positions that require scientific, engineering and technical skills. Aviation offers many meaningful and rewarding career options in aircraft design, aircraft maintenance engineering, search and rescue, piloting, air traffic control, jet mechanics, electrical engineering, computer systems and management. Canada must ensure that it implements forward-looking policies to ensure that the labour market has the skills to meet this demand. The National Airlines Council of Canada would be pleased to discuss these issues further with the Finance Committee in the fall.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

With respect to the aviation industry, we believe that the sector's productivity would be significantly increased if the government implemented the initiatives discussed in question 1 and started treating the sector as an economic engine that can drive economic growth and productivity in Canada. In our view, this requires an investment by the government that, in the short term, may mean a loss of direct revenue from the sector but that in the long term will pay off in the form of higher revenue generated by an increase in output taxes (corporate, income and consumption) and other spin-off benefits of a healthy aviation sector. The aviation industry expands markets for Canadian companies, enabling them to enhance their productivity and competitiveness through economies of scale and scope.

Increased Canadian participation in the high-tech aerospace value chain, from manufacturing to a range of air transportation related services, would also enhance productivity. Other jurisdictions have identified air transportation as a leader of economic revival. For example, Hong Kong, with only 20% of Canada's population, nevertheless supports nearly half as many jobs as Canada's industry. When comparing "catalytic" benefits of the sector, in Canada they represent 2.8% of GDP while in Australia they rise to 6.1% of GDP, a far greater influence on the overall national economic well-being. Also, despite the fact that Canada has a population approximately 50% larger than Australia and a landmass that is 20% greater, Australia has more air travel – 78 million passengers compared to 71 million for Canada. As the airlines that represent the underpinnings of Canada's domestic and international air services network, NACC airlines are major facilitators of national economic activity and commerce, and are key components of Canada's multi-billion dollar travel and tourism industry. As such, if we can operate in a competitive environment, our industry is well positioned to increase productivity in Canada. The National Airlines Council of Canada would be pleased to discuss these issues further with the Finance Committee in the fall.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

While we appreciate that many sectors are facing challenges, there is no question that the Canadian air transportation is ailing and not fulfilling its true potential. We don't need to look much further than the dollars that are lost because of the decrease in international tourists and the millions of Canadians crossing the border to fly out of U.S. airports. In fact, Canada's user-pay approach and downloading of high government taxes, fees and other charges on airfares has resulted in Canada having the dubious distinction of being one of the least competitive jurisdictions in the world (Canada ranked 125th out of 139 countries because of its high ticket taxes and airport charges in 2011 – World Economic Forum, Travel and Tourism Competitiveness Report 2011). The present level of taxes, fees and charges is choking the ability of Canadian air carriers to compete in global markets and support economic growth in Canada. This policy of continuously adding taxes and charges is illustrated again by recent reports that the Canadian Tourism Commission (CTC) would like to add a new \$15.00 tax on airfares to make up the shortfall to its operating budget. Such a tax is completely counter to the recommendations of the recent Senate Committee report and to studies undertaken by organizations such as the CD Howe Institute and the Montreal Economic Institute concerning the high tax and fee burden placed on the aviation industry. We recognize the CTC's budget has been reduced and they are seeking solutions. We are dismayed, however, that one of the options that is contemplated may again be a proposal to simply impose a new tax on airfares to fill the gap. It is important to note that we support a national lead on tourism marketing. In our view, however, a more appropriate step may be to undertake a comprehensive review of the CTC's mandate and of the role the government and stakeholders should play. In accordance with the Federal Tourism Strategy, this review should include performance benchmarking with other national tourism authorities to determine best practices for tourism growth and to ensure we get the best value for money. The NACC would be pleased to participate in such a review. The specific federal actions needed to address these challenges are set out in question 1. In short, the government must stop treating the industry as a source of public revenue and start treating the sector as a spark plug that can ignite economic growth in Canada. The National Airlines Council of Canada would be pleased to discuss these issues further with the Finance Committee in the fall.