

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



**NACC Opening Statement to the Senate Standing Committee  
on Transport and Communications**

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Laura Logan, Chair, NACC Security and Facilitation Subcommittee  
Lorne Mackenzie, Chair, NACC Service and Accessibility Subcommittee

**MR. CHAIRMAN, HONOURABLE MEMBERS OF THE COMMITTEE:**

- Thank you for the invitation to appear before you today to discuss the future role of air transport in Canada. This is of course an area of key interest and importance to the National Airlines Council of Canada and its members. I am accompanied today by Laura Logan and Lorne Mackenzie, respectively chairs of our Security/Facilitation and Service/Accessibility Committees. Together, we look forward to addressing your questions and providing you with some insight into key challenges and possible opportunities for our industry sector, which strives at all times to provide Canadians with the safest, most convenient and affordable air travel services possible.
- A quick background on our group: the *National Airlines Council of Canada* (NACC) is the trade association representing Canada's largest national and international passenger air carriers, namely Air Canada, WestJet, Air Transat and Jazz Air. The NACC promotes safe, environmentally responsible and cost-competitive air travel for Canadians. Collectively, our member airlines carried more than 48 million passengers and directly employed almost 40,000 people in 2009. Total revenues of the four airlines exceeded \$14 billion and their estimated total economic output impact was \$19.6 billion. When externalities and secondary impacts are factored in, we estimate that the activities of our members provide gainful employment to over 85,000 Canadians from coast to coast. Furthermore, as the airlines which represent the underpinnings of Canada's domestic and international air services network, we are major facilitators of national

economic activity and commerce, and are key components of Canada's multi-billion dollar travel and tourism industry.

- I would like to touch briefly on four key challenges and issues facing our industry, as well as underline what we believe to be the necessary way forward in terms of potential solutions.

## **1. TAX POLICY FRAMEWORK**

- The first long-standing challenge is the current tax policy framework applicable to the industry. For many years, we have advocated for a comprehensive review of direct and indirect taxes, fees and charges imposed by various levels of government on our operations, and most notably on our passengers. These include airport ground rents, excise taxes on aviation fuel and the Air Travelers Security Charge. At this point I would like to refer you to the analysis of this issue prepared for the NACC by Prof. Fred Lazar, a well-known and respected economist at York University. A copy of this report has been provided to the committee. While I won't go through the findings in detail, I invite you to review this comprehensive study at your convenience, and will take a few moments now to emphasize some of its key points:

- 1) The Federal Government alone has pulled out almost \$7 billion in the form of the aforementioned taxes and charges from our industry and our passengers over the

last decade, yet unlike most other modes of transport, we pay completely for our infrastructure i.e. airports, air traffic control services, security pre-screening, etc. The question here is why do we have this form of double taxation on a sector that pays its own way without taxpayer money and actively supports and helps create economic growth and tens of thousands of jobs? Established economic theory is clear: Where you have a sector producing such externalities or catalytic effects, taxation is the wrong policy and simply exacerbates the structural cost burden for industry. Moreover, the government's user-pay policy applicable to critical aviation infrastructure is almost two decades old and has never been actively reviewed with respect to its impact on our sector's competitiveness and its continued ability to support overall economic growth. As we've demonstrated, the air transport system creates enormous value not only for its direct users, but for the economy and our society as a whole. Consequently, let's start talking about recovering costs from all those who benefit from such added value, and not just from a specific subset in this regard, namely the user. Such a policy review is long overdue.

- 2) While we are certainly mindful of the fiscal challenges currently facing this country, the question must be asked as to whether the short-term gains for government revenues in terms of the input taxes mentioned earlier come at a broader cost in the form of lost opportunities for enhanced long-term economic growth and global competitiveness? Prof. Lazar calculates that cutting these costs may result in

anywhere between \$869 million to \$3.3 billion in additional economic output from our industry, as well as an additional 2.1 to 2.7 million passengers annually. Indeed, he is unequivocal when he states “changing the policy course from the current one where the air transport industry is viewed strictly from a fiscal position, to one where it is recognized as a key contributor to productivity growth requires cutting the costs faced by this industry”.

- 3) It’s all about competitiveness. We don’t want handouts, we don’t want subsidies. We just want to be able to compete on a global basis within a fiscal policy framework that supports our efforts at innovation and growth. The same goes for our airport colleagues who in many cases must deal with U.S. competitors that are highly subsidized by local governments and operate from a far more advantageous input tax policy platform.

## **2. AVIATION SECURITY**

- The second theme I would like to address is security. As we all know, the world has changed since 9/11 and we are all well aware that without leading-edge security systems and procedures, we will not be able to stay one step ahead of threats to national security and maintain the most secure travel network possible. While we at the NACC continue to work actively with government in this regard, it is important to recall that we are businesses and that we are serving customers. Consequently, it is

essential that frontline stakeholders such as the government, CATSA, airlines and airports are able to communicate and meaningfully consult with each other on the challenges facing the effective and efficient delivery of screening services. Airlines that operate around the world such as the NACC's member carriers know a few things about best practices in this field, and it is important that the government and CATSA work with us to add value to our efforts in Canada. Moreover, we are eager to engage on, and support initiatives involving trusted travellers, advanced technologies and behavioral threat assessment.

### **3. PASSENGER RIGHTS**

- Thirdly – passenger rights: There has been considerable legislative activity on this issue in the EU and the US, as well as an attempt through a private member's bill earlier this year to establish a similar framework in Canada. Bill C-310 was defeated not because it attempted to establish a compensation framework for passengers when travel does not always go as planned, but rather because it fundamentally misunderstood how the air transport system worked, sought to blame airlines for circumstances under third party control and imposed financial penalties indiscriminately, even when the carrier was simply trying to ensure the safe operation of the flight. While we would rather spend our time discussing how to improve the system in order to enhance the overall customer experience, we nevertheless understand that this issue may remain part of

public policy debate going forward, in which case the NACC will be a full and willing partner for discussion provided that three important principles are respected:

- 1) efforts at ensuring maximum safety must not be subject to penalty;
- 2) compensation amounts must be proportional to price paid, and 3) airlines must not be held responsible for the acts of others or for situations that are clearly beyond their control, commonly known as acts of God or *force majeure*.

#### 4. THE ENVIRONMENT

- Last but certainly not least, the environment. The ability to grow and develop in a manner over the long-term that is consistent with the global objective of ensuring the continued well-being of our environment is perhaps the greatest single challenge facing our industry. Climate change in particular and the role played by airlines in the emission of greenhouse gasses has been the focus of much popular debate and, in some cases, active policy-making by governments. I will not go through all the issues but would like simply to highlight a few thoughts.

- 1) Aviation environmental policy-making must be fact-based. This is because misinformed, misguided or unrealistic policy or target-setting may have disastrous implications over the long-term for the viability of our industry. Indeed, there has been a plethora of misinformation circulated about aviation's contribution to global warming, and the industry is the first to recognize that it can make improvements in

countering these efforts. When you cut through the rhetoric, one fact stands out – further to the resolutions of the recent ICAO General Assembly which took place in Montreal, aviation is now the *first and only* global sector thus far to agree to specific targets for the leveling off and eventual reduction of CO<sub>2</sub> gasses it produces.

- 2) The NACC's member airlines have been world leaders in their proactive efforts to reduce their GHG emissions and are committed to working actively to mitigate the overall impacts of air travel on the environment through fuel efficiency improvements, emissions reduction and noise abatement. We took the initiative in 2005 through our former association to conclude the world's first voluntary agreement with government to reduce the growth of GHG emissions both domestically and internationally. The NACC's member airlines have consistently exceeded their reduction targets under this agreement by a wide margin and have realized an overall improvement of 28.6% from the established baseline of 1990 GHG levels for the industry. We are not asleep at the switch.
- 3) Finally, while we support Canada's efforts for a global sectoral approach towards the establishment of a policy framework for international aviation, we would point out that any domestic framework needs to consider the absolutely critical role that Canada's air transport system plays in ensuring that all parts and regions of this vast

nation stay connected. Furthermore, any potential approach based on harmonization with the U.S. must bear in mind the considerable investments in fleet renewal and resulting improvement in operating efficiencies made by Canadian industry thus far vis-à-vis their U.S. counterparts.

- Thank you for your kind attention and we would now be pleased to take your questions.