



NACC
National Airlines
Council of Canada



11 May 2020

The Honourable Rod Phillips, MPP
Minister of Finance
Frost Building South, 7th Floor
7 Queen's Park Cres.
Toronto, Ontario M7A 1Y7

BY EMAIL: Minister.fin@ontario.ca

Dear Minister Philips,

Request to suspend the application of the Provincial Aviation Fuel Tax due to COVID-19

On behalf of the airline community, many of whom operate to and from the Province of Ontario, we are writing to you regarding the COVID-19 pandemic.

As industry associations we support many areas of aviation activity and help formulate industry policy on critical aviation issues. Many of our mutual member airlines operate services to Toronto Pearson International Airport and Ottawa International Airport and thus play a pivotal role in the vitality of the local economy.

We note the positive steps that the Government of Ontario has taken to date with respect to providing businesses with tax payment relief, including a five-month deferral of eligible taxes (including gasoline and fuel taxes) without interest or penalties due to the COVID-19 pandemic. Recognizing the severe and negative impact the pandemic has had on the air transport sector, and in order to minimize this impact and to preserve its viability, we respectfully call upon the Provincial Government of Ontario to fully suspend the application of the Provincial Aviation Fuel Tax (AFT) to aviation for the duration of the current crisis.

Financial impact of COVID-19

The spread of COVID-19 around the world has led to a severe and unprecedented decline in the demand for air travel. The financial condition of all our member airlines is rapidly deteriorating as a consequence of ongoing travel restrictions levied across the globe by Governments. This has affected the viability of air transport and in turn the economies it supports and the citizens it serves.

On March 24th, 2020 IATA estimated \$252 billion in lost revenues (-44% vs. 2019) in a scenario with severe travel restrictions lasting three months. By contrast, a subsequent scenario released on April 18th, 2020 depicted that the COVID-19 crisis will see airline passenger revenues drop by \$314 billion in 2020, a 55% decline compared to 2019. And the financial situation continues to deteriorate.

In order to help mitigate some of the impact on the industry, we continue to appeal to the Governments at both the national and sub-national levels (including in Canada) for economic relief.

Summary of impact to airlines and passengers

Under the Gasoline Tax Act, the Ontario AFT is currently levied at a rate of 6.7 cents per litre of aviation fuel on all international and domestic flights from the Province of Ontario, including Canada's major hub, Toronto Pearson International Airport. In a normal year, airlines uplift nearly 3 billion litres in Ontario, 75% of which is used for International

flights – subject to international aviation regulations. IATA estimates that airlines pay over \$200 million annually in AFT to the Government of Ontario.

The following table presents a breakdown of the tax revenues generated from the Ontario AFT by type of airline and journey for the most recent period (2019 calendar year).

AFT collected [in million CAD / year]			
	From international flights	From domestic flights	Total
Canadian carriers	96	52	148
All other carriers	68	-	68
Total	164	52	216

Rationale for suspending the AFT

IATA, NACC and ATAC request that the AFT on both domestic and international flights be suspended for the following reasons:

- Aviation supports numerous jobs in Ontario. The COVID-19 pandemic has put those jobs and their contribution to the local economy in jeopardy. A suspension of the AFT would aid in reducing airline costs, which would not only assist with preserving jobs in the industry, but also with facilitating the economic recovery and an increase in air transport capacity once the crisis subsides.
- The economic benefits of repealing the AFT will assist the Government of Ontario in addressing the current fiscal burden by supporting two of the Government's five stated core commitments: 1.) to put more money in people's pockets and 2.) to make Ontario open for business by creating and protecting jobs – both particularly critical in the current crisis.
- Based on the *2019 Ontario Economic Outlook and Fiscal Review*, total provincial tax revenues from gasoline and fuel taxes amounted to \$3.5 billion for the 2018-19 period, or 2.3% of total provincial revenues. As the tax revenues from the AFT represent a small portion of this total amount, a suspension of the AFT for a limited time period during the COVID-19 pandemic would not have a material impact of the Ontario provincial budget, but would in turn provide needed relief to the aviation sector.
- The AFT hampers the competitiveness of airports in Ontario, the only Canadian province to apply such a fuel excise tax to both domestic and international air services. Not suspending its application to aviation risks slowing the restart of the economy once the recovery commences.
- The application of the AFT on international aviation contravenes the International Civil Aviation Organization's (ICAO) (a specialized agency of the United Nations) policies on taxation, which state that fuel taken onboard for international flights shall be exempt from customs or other duties on a reciprocal basis¹.

Conclusion

The COVID-19 crisis has brought the global aviation industry to a virtual standstill. Increasingly, Governments have locked down economic activity to control the spread and mitigate the impact of the virus. Over 180 countries, representing more than 95% of global air traffic, have imposed restrictions on travel, of which the majority comprise either partial or total bans on international travel.

Given the current crisis, and in order to support the recovery effort which will be an unprecedented challenge that will require collaboration with Governments and the value chain, we respectfully request that the AFT be suspended with immediate effect. Alternatively, and should such a suspension not be deemed feasible, then at a minimum, the current tax payment relief period without interest and penalties (in effect for a five-month period starting April 1, 2020) should be extended until March 31, 2021.

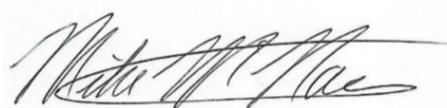
¹ ICAO Doc 8632 (third edition), paragraph 1 of Council Resolves refer

On behalf of the airline industry we thank you for your consideration and remain available to discuss our request at your convenience.

Yours sincerely,



Douglas Lavin
Vice President, North America
International Air Transport Association



Mike McNaney
President & CEO
National Airlines Council of Canada



John McKenna
President & CEO
Air Transport Association of Canada

- cc. Hon. Caroline Mulroney, Minister of Transportation (Government of Ontario)
Hon. Vic Fedeli, Minister of Economic Development, Job Creation and Trade (Government of Ontario)
Hon. Lisa MacLeod, Minister of Tourism, Culture and Sport (Government of Ontario)
Ms. Nicola Colville, Area Manager, Canada and Bermuda (IATA)