

Federal Budget 2023: Recommendations from the Canadian aerospace industry to the Standing Committee on Finance

October 7, 2022



Federal Budget 2023:

Recommendations from the Canadian aerospace industry

Introduction

The global challenges and technological opportunities of the coming decades will demand the very best of Canadian aerospace innovation — to face the climate crisis and meet net-zero goals, to reimagine mobility and safeguard our national interests. Yet today Canada is not keeping pace with our international competitors, as other countries have clear aerospace strategies that are supporting their domestic industries. Canada requires the same, especially as the industry struggles with the economic impacts of the COVID-19 pandemic, supply chain disruptions, a severe labour shortage, and inflationary pressures not seen in more than three decades.

The aerospace sector is a major engine of the Canadian economy. In 2021, the industry contributed more than \$24B in GDP and close to 200,000 jobs. These numbers are significant, even though they are greatly reduced from pre-pandemic figures. (Overall, between 2019 and 2021, the aerospace industry's contribution to the Canadian economy declined by \$9.4B in GDP and 35,200 jobs.)

As the Government of Canada prepares for Budget 2023, following are recommended actions to drive the recovery and growth of the industry, and set us on a path to achieving sustainability targets and re-establishing Canada as a global leader in civil aviation, defence and space. These recommendations are presented on behalf of the members of the Aerospace Industries Association of Canada — companies that are responsible for more than 90 percent of aerospace activity in our country.

ASK #1: Develop a long-term national aerospace industrial strategy that includes clear plans for defence and a dedicated strategy for space.

Canada needs a comprehensive, forward-looking aerospace plan for civil aviation, defence and space that re-establishes a collaborative partnership between industry and the federal government, leverages our country's competitive advantages over other nations, and positions Canada to lead in the aerospace sustainability revolution.

Countries such as the UK, Germany, France and the United States have implemented comprehensive national strategies for aerospace, defence and space — with clear goals, measurable targets, and hard commitments of increased funding to guide and energize their industries in a rapidly changing marketplace and position them to thrive. To meet the demands of the future and capitalize on opportunities, Canada needs to make a similar commitment and lay the groundwork for success with a forward-looking, whole-of-nation strategy for the aviation and space sectors.

Support for the creation of a national strategy is widespread. It has been called for by the Standing Committee on Transport, Infrastructure and Communities¹, by the industry in its Vision 2025 document², by the Canadian Chapter of the International Association of Machinists and Aerospace Workers (IAMAW)³, and by Canadians themselves⁴. Most recently, it was called for by companies from coast to coast to coast that took part in national consultations on Canada's aerospace innovation ecosystem.

Such a strategy would address key challenges in the areas of small business scale-up, skilled labour shortages, innovation, sustainability and certification. It would include a clear plan to use defence procurement to promote domestic innovation, address the implications of climate change, ensure the Canadian military has the equipment and capabilities it will need in the years to come, and drive international export activity for the benefit of Canadian aerospace companies and the economy. It would also include a complete, dedicated strategy for space – with national objectives, policies and plans to drive research and innovation, enable Canada to retain and build upon its hard-won position of leadership, and ensure we have the capabilities to protect the country's critical infrastructure and national sovereignty.

ASK #2: Exclude aircraft from the Luxury Items Tax Act.

Canada is a world leader in the manufacture and final assembly of business aircraft, helicopters, turboprops and jets, and in the related supply chains for parts, systems and services as well as maintenance, repair and operation (MRO). While designed with the goal of taxing Canada's wealthiest citizens, the Luxury Items Tax Act introduced as part of Bill C-19 is harming one of Canada's most important industrial sectors — penalizing aircraft operators, distributors, pilots and suppliers. The industry estimates this legislation will result in \$1 billion in lost revenue, with significant repercussions across the supply chain, in MRO industries and throughout the entire aviation ecosystem. It could eliminate more than 1,000 Canadian manufacturing jobs, at a time when aerospace is trying to recover from the loss of 35,000 positions during the pandemic.

Other jurisdictions know measures like the Luxury Items Tax Act don't work: a similar tax was introduced in 1990 in the United States but was cancelled three years later due to its negative effects on American manufacturers. Using existing methods to tax personal usage of aircraft is much more effective than this approach.

We acknowledge amendments were made in August 2022 to introduce exemptions, however the threshold for exemptions is a major deterrent to private aircraft operators looking to convert to newer aircraft with lower operating costs and carbon footprints — effectively working against Canada's sustainability goals while also jeopardizing Canada's attractiveness for business investment from abroad.

ASK #3: Inject resources to enhance Transport Canada's aeronautical certification capacity and use CAR-104 revenues for service enhancements.

The emergence of new technologies and the demands associated with Canada's commitment to net-zero greenhouse gas emissions by 2050 have brought the aerospace industry to a turning point. It is essential that the certification environment be able to support truly novel innovation. Transport Canada needs the expertise, resources and regulatory framework to sustain its international reputation for excellence and safeguard Canada's global competitiveness.

¹ [Report of the Standing Committee on Transport, Infrastructure and Communities on the impacts of COVID-19 on Canada's air transport sector.](#)

² <https://aiac.ca/vision2025/>

³ <https://www.iamaw.ca/canada-needs-a-national-aerospace-strategy-now-iam-report/>

⁴ [Nanos poll](#) commissioned by AIAC in 2021.

This requires more resources to increase the capacity of the National Aircraft Certification Branch and Standards Branch so it can keep pace with the industry, accelerate the timeline for approvals and enable aerospace companies to innovate and thrive. Resources are also needed for recruiting specialized technical personnel to offset current attrition rates, and to develop and enhance the bilateral airworthiness and maintenance agreements that facilitate trade with foreign markets by recognizing Canadian certifications.

In addition, any revenue collected through the fee increases proposed to Canadian Aviation Regulations Part I-104, Aeronautical Product Approvals (CAR-104) should be fully allocated to aeronautical product certification activity. This is critical for companies in our sector already struggling to recover from the financial impacts of the pandemic; otherwise, CAR-104 fee increases will simply become another tax on our industry and another obstacle to gaining momentum with product development, commercialization and export.

ASK #4: Invest in and develop a workforce development plan for aerospace including skilled labour programs and a streamlined immigration process.

Canada's aerospace industry has one of the most skilled workforces anywhere in the world. We need to support them to retain and grow our talent base for high-paying, value-added jobs — through skilled labour programs, immigration, partnerships with post-secondary institutions, greater industry-government collaboration, as well as closer cooperation with Employment and Social Development Canada, Immigration and Citizenship and across government.

This is particularly important to meet both the sustainability imperative for aerospace and, simultaneously, its Industry 4.0 requirements, which will require new skills and training, the inclusion of new industries and players and new approaches.

In its 2021 study of Canada's aerospace industry, the House of Commons Standing Committee on Industry and Technology called out the need for the federal government to collaborate with provinces and territories to fund post-secondary training across all aerospace sectors (accessible in every region) and accelerate planned procurements of goods, services and real property in the sector. A clear plan is needed, and the industry is fully committed to working collaboratively with government to develop and realize one.

The government needs also to prioritize the entry of foreign skilled workers into the aerospace sector and accelerate the process of admitting them to Canada. The industry is competing with other countries to attract the best talent; the Canadian immigration process makes it laborious for employers to attract the workers they need.

ASK #5: Consult with industry on NORAD modernization to propel R&D activity.

Threats to continental security are more complex and multi-faceted than ever. Historically, Canada has relied heavily on the United States to carry much of the continental defence burden. And while it will undoubtedly continue, given their own geo-strategic interests in the area, those same shifts and growing concerns over protectionist policies affecting Canada-U.S. supply chains and procurement demand that our country more fully engage to ensure its sovereignty and interests are protected.

The August 2022 announcement of \$4.9 billion over the next six years to modernize NORAD's capabilities was encouraging, yet there is much to be clarified as plans unfold. Canadian industry must be afforded fair and early access to programs and opportunities and is standing by to provide input as needed to inform this effort and support the federal government as it moves to develop new capabilities in threat detection, technology-enabled decision-making, defence, and infrastructure and support.

The timing of this development is critical as the aerospace industry looks to transform its national innovation ecosystem and increase the development and protection of domestic IP.

ASK #6: Make needed changes to SIF and ARRI to increase access to funding support.

AIAC is proposing modifications to both the Aerospace Regional Recovery Initiative (ARRI) and the Strategic Innovation Fund (SIF) — adjustments that will allow more Canadian aerospace companies to access the support they need to recover from COVID-19 and pursue important innovations in key technological areas.

Chief among the suggested amendments to ARRI are requests to make some portion of issued funds non-repayable (grant); streamline and accelerate the application process; standardize the qualification criteria across all regions of Canada; and extend the fund's deadline beyond March 2024.

Where SIF is concerned, some recommendation would be to re-establish an aerospace-specific funding stream; improve the level of technical knowledge of the industry among proposal evaluators; develop a national strategy to guide proposal evaluation/project selection; adjust repayment rules and timelines to better reflect aerospace R&D project realities and timelines; adjust project-cost minimums to open up funding access for smaller innovation initiatives; streamline the application/evaluation process to get on pace with business; and support more large-scale demonstration projects — with allowance for non-repayable funding amounts for low technology readiness level (TRL) projects, in keeping with the approach of the U.S. and European countries.

ASK #7: Accelerate the development of export control measures and harmonize them with those of our allies.

The aerospace industry understands the importance of an export control process for certain jurisdictions. The current licensing system is cumbersome for some destinations and the Government of Canada must do a better job of providing faster service to Canadian companies. In addition, Canadian restrictions need to be aligned with those of our allies, most notably the U.S. and the European Union. Some markets are open to our competitors; Canada is slow to follow its allies, resulting in a loss of competitiveness for the industry.

Conclusion

AIAC would like to thank the Finance Committee for taking our recommendations into consideration for its Budget 2023 report. This is a critical moment for Canadian aerospace. These proposed actions are intended to help ensure we position the industry to recover, to innovate as needed to meet the challenges of these times, to compete internationally and ensure we remain a global leader for the next 30 years.

We remain at the disposal of the committee should further information be needed.