

June 1, 2020

The Right Honourable Justin Trudeau, P.C., M.P.
Prime Minister of Canada
Government of Canada
Langevin Block,
Ottawa, ON
K1A 0A2

The Honourable Navdeep Bains
Minister of Innovation, Science and Industry
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Prime Minister Trudeau and Minister Bains:

On behalf of the Aerospace Industries Association of Canada, we would like to extend our appreciation to the Government of Canada, both at the political and official level, for the work being done to protect the health and safety of Canadians during the ongoing COVID-19 global pandemic.

This has been an unprecedented situation with devastating consequences across our nation. Canada's aerospace industry is vital to our country's economy and it requires immediate attention and a long-term vision to ensure its continued international leadership.

Canada has won a coveted place among aerospace nations as a result of hard work by industry members, constant innovation, and political foresight and leadership. Today, our aerospace industry is the fifth-largest in the world and ranks top three in multiple production categories: civil flight simulators, turboprop and helicopter engines, business jets and regional aircraft.

The COVID-19 pandemic is severely impacting Canada's aerospace sector and seriously jeopardizing our standing in the globally competitive aerospace market.

Protecting our position, and our industry's \$25 billion annual GDP contribution, requires the same political leadership and corporate foresight of the postwar years when Canada first started to build its aerospace capabilities. The commitment we made as a nation then to be a leader is needed again today.

Aerospace is a unique and strategic sector in that most **Canadian firms don't compete against each other: they compete collectively against other countries.** And those countries are making aerospace a key part of their economic recovery plans. Canada needs to take similar steps — not only to retain our current position but also to be ready for the market opportunities that will emerge when the industry recovers.

This document outlines actions the Government of Canada can take immediately to help ensure best possible outcomes and long-term stability — and **repeats our call for the creation of a Canadian aerospace sector strategy** to guide the way forward.

AIAC has been calling for this strategic sector strategy for over a year and a recent report from the Institute du Quebec reiterated the need for aerospace in Canada to be designated a strategic industry. We know that long-term success depends on our industry's continued ability to innovate, compete and attract investment to Canada. Focused government support combined with a forward-looking sector strategy for R&D and innovation will equip us to face the toughest competitors internationally and contribute to Canada's future economic sustainability.

The Cost of the COVID-19 Crisis

COVID-19 has affected all Canadians and every industry. The impacts on aerospace have been especially sharp and severe. **International air travel fell by 74%** between January and April 2020¹ and the International Air Transport Association (IATA) predicts global air passenger **revenue could fall by US\$113 billion** over the course of the year.² General aviation is also being dramatically affected by this crisis. Planes have been grounded. Aircraft orders have been cancelled. Down-the-road defence spending could be affected because countries have had to direct so many resources to COVID-19.³

According to Export Development Canada (EDC), **airlines and aerospace have been the second hardest-hit industries on the Canadian stock market** since the start of 2020.⁴ Even after local COVID-19 infections taper off, travel is likely to remain well below the previous year's levels — as seen in China, where the market after rebounding remains roughly 70% down from 2019.⁵

A recent survey found that **more than 95% of AIAC member companies are running at partial capacity or have shut down. More than half (60%) have laid off workers**, and 76% expect to do so in the next six months. Overall, our members say they expect to see their **revenues decline by 40% in 2020** as a result of the crisis.⁶

Swift action now will help ensure these impacts are temporary — and that we are ready to move into the future with a strengthened Canadian industry and a committed Canadian government.

There are many compelling reasons to take that action. Canada's aerospace industry has a proven record of investing in local economies across every region of the country, providing more than 215,000 skilled, good-paying jobs and supporting more than 500 small businesses. Aerospace is 29% more export-intensive than manufacturing on the whole and is a key driver of innovation, accounting for 35% of Canada's total manufacturing R&D investment in 2018.⁷ These important economic contributions can be protected.

¹ EDC. AIAC Economic Briefing Webinar. May 2020.

² Sourced online: <https://www.canadianshipper.com/transportation-and-logistics/covid-19-threatens-canadian-aerospace-companies-as-global-air-travel-plummets/1003382932/>.

³ Sourced online: <https://www.accenture.com/ca-en/insights/aerospace-defense/coronavirus-build-aerospace-and-defense-resilience>.

⁴ EDC. AIAC Economic Briefing Webinar. May 2020.

⁵ Roland Berger for AIAC. Global Aerospace and Defense Outlook Webinar. April 2020.

⁶ Avascent for AIAC. COVID-19 Industrial Impacts: Data Collection and Analysis. May 2020.

⁷ DRAFT E&Y Briefing Note.

Taking Action on the Current Challenges

The following steps will help deliver relief to the aerospace industry today and set the stage for a thriving future coming out of the COVID-19 crisis:

1. Develop a pragmatic and proportional plan to allow people to begin flying again.

Airlines drive demand for the manufacturing output that makes up 69% of Canada's aerospace and defence activity. They are also significant buyers of the maintenance, repair and overhaul (MRO) services that make up the remaining 31% of our sector's business.⁸ Without question, our industry needs planes in the skies and support for the airlines needs to include support for the industry that keeps those planes in the skies.

At the same time, our members have been clear that they only want to see the economy reopen gradually and sustainably.⁹ The Government of Canada can play a powerful role in supporting the survival of Canada's airlines by communicating and ensuring travel by flight is reinstated in safe, socially acceptable ways. AIAC recommends that the government work with AIAC to establish a task force of likeminded associations on how to reinstate safe, socially acceptable travel, that includes the adoption of new technology.

2. Adapt Canada's job retention program and liquidity measures to support employees in industries that will take longer to recover.

Our industry is aware that the full impacts of the current crisis have yet to be felt. Due to the long lead times of MRO activities and manufacturing supply chains, many aerospace companies expect greater difficulties in summer and fall 2020 than they are experiencing today.

Extending the Canada Emergency Wage Subsidy (CEWS) would provide crucial support to aerospace companies.¹⁰ That extension is needed in terms of both duration, as "competitor" nations such as Germany and France have committed to multi-year wage support programs,¹¹ and also applicability — because currently many firms do not qualify due to the way they are structured.

3. Rapidly expand government support for green technologies to enable the decarbonization of key sectors, particularly transportation and aviation.

Climate change is a global concern that requires government and industry to act decisively and in cooperation. Aerospace has made great strides "cleaning and greening" in recent years — developing technologies and design approaches that reduce fuel consumption, helping bring down aviation-related emissions even as traffic has skyrocketed. Making aerospace and its operations more sustainable will make our industry more competitive, and will open up massive opportunities for Canadian SMEs.

⁸ DRAFT E&Y Briefing Note.

⁹ Avascent for AIAC. COVID-19 Industrial Impacts: Data Collection and Analysis. May 2020.

¹⁰ Avascent for AIAC. COVID-19 Industrial Impacts: Data Collection and Analysis. May 2020.

¹¹ Roland Berger for AIAC. Global Aerospace and Defense Outlook Webinar. April 2020.

Canada has the potential to be a world leader in this arena as a pioneering developer of electric air vehicles and carbon-neutral and autonomous flight capabilities. In the near term, coming out of the COVID-19 crisis, being green will help improve the economics of the industry. Going forward, it stands to lead us into new realms of prosperity and mobility.

4. Establish a new long-term investment bank to support and foster essential manufacturing supply chains through the market transformation ahead.

Because Canadian aerospace is 80% export-oriented, it has a pivotal role to play in the country's overall economic recovery post-COVID. Other countries are investing in their sectors. Since aerospace is almost uniquely integrated — comprising a truly global ecosystem — we need to keep pace. That means investing in next-generation technologies, growing future-facing markets, strengthening our supply chains and developing a critical mass of innovative companies. Establishing a mechanism to facilitate that investment will be a valuable instrument in both the short and long terms.

5. Advance public procurement projects, particularly in defence and space projects, to help stimulate and sustain high-tech supply chains through the difficult months ahead.

The defence and space sides of the aerospace industry have generated many decades' worth of innovations and contribute strongly to the Canadian economy. Public procurement of platforms, products, systems and services will help sustain companies in those domains through the COVID-19 period and provide opportunities to keep civil aviation workers employed as that side of the industry waits to rebound. The act of procurement is important but more so will be ensuring that contracts advance and cash flows into the system to keep companies operating. Predictable, stable defence funding is key — on par with where other countries are focusing their projects and funding, so that Canada keeps up.

6. Establish a Canadian sector strategy for aerospace that includes civil, defence and space.

The extreme circumstances brought by the COVID-19 pandemic and the responses of other countries have underscored the need for a Canadian aerospace sector strategy that clearly identifies the specific areas where we want Canada to be a recognized aerospace leader.

We have a strategy through Vision 2025 that ensures Canada is focusing on our strengths and differentiators and greatest opportunities to grow - from green technology and MRO, to accelerated digital transformation and workforce development.¹² We need a strategy because it will require the concerted and coordinated effort of government, industry and even ecosystems outside of our sector to work together and convert the COVID-19 crisis into a transformational opportunity.¹³ Our association has a plan and industry members are currently working on policy options. We need the partnership of the Government of Canada to make that plan a reality.

¹² Avascent for AIAC. COVID-19 Industrial Impacts: Data Collection and Analysis. May 2020.

¹³ Avascent for AIAC. COVID-19 Industrial Impacts: Data Collection and Analysis. May 2020.

A Vision for Canadian Aerospace

Beyond the actions outlined above, the COVID-19 crisis reinforces the need to focus on the six priorities set out in AIAC's *Vision 2025*, which we released in spring 2019.¹⁴ *Vision 2025* called on industry and government to work together to:

1. Increase our support for the world's most skilled workforce
2. Ensure small and medium-sized aerospace businesses thrive and grow
3. Use innovation to capture new opportunities, including carbon-neutral flight and unmanned vehicles
4. Invest to maintain Transport Canada's internationally recognized status for aircraft certification and regulation
5. Maximize Canada's leadership at the forefront of space
6. Maximize defence procurement and government partnerships to drive new industrial growth

We stand by those goals, in particular the need for greater resources to retrain employees in order to position the industry for success coming out of COVID19. The Vision 2025 goals are critically important to the long-term vitality of Canada's innovative aerospace industry. It is our hope that the Government of Canada stands with our industry.

We have heard much in the way of general government support for the *Vision 2025* document, but little in the way of solid long-term thinking to achieve our mutual goals. We need to move from agreement into action.

Relief Today – And a Platform for Future Prosperity

Canada has a strong reputation in aerospace to protect — and a longstanding position of strength to build on. **We can do so if we act now.**

While we understand there are challenges in all industries and sectors, a strengthened and supported aerospace industry can play a significant role in Canada's overall recovery. Aerospace touches all aspects of the economy — moving people and goods, enabling emergency responses, facilitating commerce and tourism.

Small and mid-sized companies throughout our sector are calling out to government for help so they can survive this crisis and reap the benefits when the global industry rebounds. The biggest players are seeking signs that the Government of Canada is committed to aerospace for the long term.

¹⁴ Roland Berger for AIAC. Global Aerospace and Defense Outlook Webinar. April 2020.

If we can get this right together, Canada will emerge from the era of COVID with an aerospace industry that is even stronger and better equipped to contribute economically, socially and environmentally for decades to come.

Taking the right actions today is the opportunity to set that in motion.

Sincerely,



Jim Quick
President and CEO
Aerospace Industries Association of Canada

cc: The Honourable Marc Garneau, Minister of Transport
cc: The Honourable Bill Morneau, Minister of Finance
cc: The Honourable François-Philippe Champagne, Minister of Foreign Affairs
cc: The Honourable Harjit Sajjan, Minister of National Defence
cc: The Honourable Mary Ng, Minister of Small Business, Export Promotion and International Trade
cc: The Honourable Anita Anand, Minister of Public Services and Procurement
cc: The Honourable Carla Qualtrough, Minister of Employment, Workforce Development and Disability Inclusion
cc: The Honourable Mélanie Joly, Minister of Economic Development and Official Languages
cc: The Honourable Andrew Scheer, Leader of the Conservative Party
cc: Jagmeet Singh, Leader of the New Democratic Party
cc: Yves-François Blanchet, Leader of the Bloc Québécois
cc: Yvan Baker, Liberal Member of Parliament – AIAC Parliamentary Aerospace Caucus
cc: Matt Jeneroux, Conservative Member of Parliament – AIAC Parliamentary Aerospace Caucus
cc: Alexandre Boulerice, New Democratic Party Member of Parliament – AIAC Parliamentary Aerospace Caucus
cc: Simon-Pierre Savard-Tremblay, Bloc Québécois Member of Parliament - AIAC Parliamentary Aerospace Caucus
cc: The Honourable Michelle Rempel Garner, Shadow Cabinet Minister for Industry and Economic Development
cc: Brian Masse, Shadow Cabinet Minister for Innovation
cc: Louise Charbonneau, Shadow Cabinet Minister for Science and Innovation
cc: James Cumming, Shadow Cabinet Minister for Small Business and Export Promotion
cc: Tracy Gray, Shadow Cabinet Minister for Interprovincial Trade
cc: Bernard Généreux, Shadow Cabinet Minister for Rural Economic Development and Economic Development Agency of Canada for Regions of Quebec
cc: Scott Duvall, Critic, Federal Economic Development Agency for Southern Ontario
cc: Charlie Angus, Critic, Federal Economic Development Initiative for Northern Ontario
cc: Lindsay Mathyssen, Deputy Critic for Small Businesses
cc: Simon Kennedy, Deputy Minister, Innovation Science and Industry
cc: Michael Keenan, Deputy Minister, Transport Canada
cc: Paul Halucha, Assistant Secretary to Cabinet, Privy Council
cc: Provincial Government's
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