



Aerospace Industries Association of Canada (AIAC)

2018 Federal Budget Submission

FINA Committee

House of Commons

August 4, 2017

Executive Summary

An adequately resourced Transport Canada Civil Aviation (TCCA) branch is critical for the continued ability of Canada's civil aviation sector to develop, manufacture and export its products and services worldwide, and to thus remain a key source of productivity within Canada's economy and a competitive and respected player in international markets. TCCA's certification or approval, with its worldwide recognition in civil aviation, is the final and essential step in the innovation value stream for Canadian civil aviation products and services,

AIAC's Budget 2017 recommendations (submitted to the Minister of Finance in August 2016) called for increased funding for TCCA. No new funding was provided in the spring 2017 budget. AIAC is however very encouraged that Transport Canada senior management and other Government Departments have recognized our 2016 recommendations and initiated various temporary/interim measures to address the TCCA funding situation.

Nevertheless, AIAC recommends that the Government of Canada put in place additional, predictable and stable funding for TCCA. **Based on the best information available to the AIAC, we recommend that the budget of TCCA be increased by approximately \$30 million over 5 years.**

This budget increase should be used to support:

1. The hiring of much needed, highly specialized Certification and Standards staff;
2. An increased focus on effectively negotiating international airworthiness and maintenance bilateral agreements;
3. The updating and modernization of TCCA's regulatory framework.

Additional funding for TCCA would also provide an opportunity to explore more efficient ways to collaborate with the industry stakeholders on: 1) workload management; 2) recruitment and training, and 3) development of standards, tools, documentation and processes. Through even closer collaboration with industry stakeholders, TCCA could maximize the positive outcomes of implementing its mission.

Given the importance of the civil aviation manufacturing sector to the Canadian economy, and the critical role that TCCA certifications or approvals play in the sector's continued ability to operate productively and competitively, both in domestic and international markets, AIAC encourages the Standing Committee on Finance to review, in detail, the current budget situation at TCCA.

Background

Budget 2017 ***Building a Stronger Middle Class*** clearly recognized the importance of Transport Canada's activities to the Canadian economy in general and to the civil aviation sector in particular:

“Travel and transportation is evolving. From self-driving cars on our roads to drones in our skies to ever-changing patterns in trade, the Government must stay on top of changing trends by updating regulations, certifications and standards.”

*“Transport Canada provides a range of services to the transportation sector on a cost recovery basis. This applies to all modes of transport, **including the licensing and certification of aircraft, a service that is essential to the economic success of Canada's aerospace industry.**”*

*“To support the long-term growth of this and other transportation-related industries, the Government will introduce legislation to enter into service-level agreements with industry. These new authorities will allow for more effective cost recovery for regulatory and certification services, **so that new products and services can be brought to market faster, and enhance the industry's competitiveness.**”*

Budget 2017 did not provide any additional funding to Transport Canada, beyond amounts specifically designated for drones and autonomous vehicles. While this new funding is welcomed to address certain emerging transportation segments, it does not help TCCA to address the needs of Canada's existing industrial capability in civil aviation manufacturing.

The efforts that the Government of Canada is undertaking to support innovation through programs such as the Innovation Supercluster Initiative (ISI), the Strategic Innovation Fund (SIF) and the Accelerated Growth Service (AGS) are highly welcomed by industry. Numerous aerospace firms will benefit from these important initiatives.

However, the implementation of the innovation agenda for aerospace will not be optimized unless TCCA is capable of providing timely and internationally recognized certifications and approvals. Resource shortfalls at TCCA have a direct, adverse impact on the aerospace sector's ability to market its innovations.

Additional funding is required to permit the training and hiring of key technical staff in the Certification and Standards departments of TCCA. The Certification and Standards departments employ highly specialized engineers and other technical staff to certify/approve the innovative products and services developed by Canadian industry. Many staff will retire soon, leaving significant skills gaps and thereby impacting TCCA's ability to certify/approve innovative Canadian products and services in a timely manner.

TCCA has been recognized as a premiere civil aviation regulatory authority. Alongside the Federal Aviation Administration (FAA) and the European Aviation Safety Agency (EASA), the regulatory agencies for the United States and the European Union respectively, certification and regulatory approvals from Transport Canada are globally recognized as being the gold standard

for civil aviation products and services. TCCA's reputation has given Canada's civil aviation manufacturing industry a critical competitive advantage since it facilitates Canadian trade and export opportunities around the world, opening doors for Canadian products and services into new markets and making it easier for Canadian manufacturers and service providers to do business in foreign jurisdictions.

Additional funding is required for TCCA to engage more effectively with international partners in maintaining existing, and developing new airworthiness and maintenance agreements ("bilaterals"). Since approximately 80% of the aerospace sector's products and services are exported, bilaterals with foreign regulatory authorities are very important facilitators for this trade. Bilaterals assist Canadian aircraft manufacturers and service providers to export aircraft and equipment to foreign jurisdictions. Without bilaterals, Canadian exporters incur additional operational and financial costs when exporting to foreign jurisdictions. Bilaterals facilitate Canadian companies' access to foreign markets and improve their competitiveness.

Inadequate funding of TCCA is not only limiting its ability to provide services to Canadian industry and to develop bilateral agreements, but is also restricting TCCA's ability to improve its regulatory frameworks in a timely manner. As aviation technology improves, regulations and standards must keep pace. Additional funding is urgently needed to make improvements to domestic civil aviation standards and policies, of which many have been delayed due to TCCA budget constraints. Many aviation standards are developed in coordination with the FAA, EASA and other international partners. Additional funding is required to allow TCCA to be engaged in these international regulatory efforts.

The 2017 "State of Canada's Aerospace Industry Report", prepared by Innovation, Science and Economic Development Canada and AIAC, details the significant contribution of the sector to Canada's economic wellbeing (https://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/h_ad03964.html). In 2016, the industry contributed \$27.7B to Canada's GDP and supported 207,600 jobs. Canadian aerospace manufacturing spent \$1.68B on research and development.

Canadian operations of foreign owned firms account for roughly 40% of the sector's exports and 40% of its R&D activity (2015 data). This level of foreign investment and activity is facilitated, at least in part, by a globally respected TCCA. AIAC is concerned that TCCA's current funding levels will discourage new foreign investment in the sector and could, in the medium to longer term, lead to disinvestment by foreign entities in the Canadian aerospace sector, stunting the sector's capacity for continued growth and innovation.

Over 2004-2014, Canada's aerospace industry grew substantially, increasing its economic impact by 31% (GDP), its productivity by 39%, and its R&D spending by 64%. The growth trend for the aerospace sector is expected to continue, with global demand for civil aircraft estimated at a value of over \$5.9 trillion over the next 20 years.

Recognizing the importance of aerospace manufacturing to the Canadian economy and its growth potential, federal agencies, provincial agencies and municipalities have invested significantly in the sector. However, these government investments are sub-optimal unless TCCA's Certification

and Standards departments are adequately funded to provide the support that is the backbone of the Canadian civil aviation sector's continued success.

In closing, an adequately resourced TCCA is critical for the continued productivity and competitiveness of the Canadian aerospace industry. The support of TCCA is indispensable to the sector's ability to develop innovative products and services, to export these products and services and to attract much needed foreign investment. Furthermore, the Government of Canada's innovation strategies and provincial/municipal support programs are not optimized unless these are complimented with adequate funding for TCCA.