



Aerospace Industries
Association of Canada

L'Association des industries
aérospatiales du Canada

Federal Budget 2024: Recommendations from the aerospace industry to the Standing Committee on Finance

August 4, 2023

Introduction

The global challenges and technological opportunities of the coming decades will demand the best of Canadian aerospace innovation — to face the climate crisis and meet net-zero goals, to reimagine mobility and safeguard our national interests. Unfortunately, Canada is not keeping pace with our international competitors, as other countries have clear aerospace strategies. Canada requires the same, especially as the industry is still recovering from 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 2022, the industry contributed more than \$27B in GDP and close to 212,000 jobs. These numbers are significant, even though they are still reduced from pre-pandemic figures.

AIAC is recommending actions to drive the 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.

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 leverages our country's competitive advantages over other nations, and positions Canada to lead in the aerospace sustainability revolution.

Our competitor countries 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 and the emerging and disruptive technologies enabling the country to become a world leader.

Support for the creation of a national strategy is widespread. It has been called for by both the Standing Committee on Transport, Infrastructure and Communities¹ and Standing Committee on Industry and Technology² by the industry in its Vision 2025 document³, by the Canadian Chapter of the International Association of Machinists and Aerospace

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://www.ourcommons.ca/DocumentViewer/en/44-1/INDU/report-5/>

³ <https://aiac.ca/vision2025/>

Workers (IAMAW)⁴, UNIFOR⁵, and by Canadians themselves⁶. Most recently, it was strongly 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, procurement efficiency, skilled labour shortages, innovation, sustainability and certification. It would address the implications of climate change 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, assist companies in their path to commercialization for the benefit of Canadians, 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.

It important to include a clear plan to use defence procurement to promote domestic innovation and to ensure the Canadian military has the equipment and capabilities it will need in the years to come though an efficient procurement and sustainment process including working with our industrial base to leveraging defense procurement to benefit Canadian industry.

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 overhaul (MRO) operations. While designed with the goal of taxing Canada’s wealthiest citizens, the Luxury Items Tax Act that came into effect on September 1st 2022 is harming one of Canada’s most important industrial sectors — penalizing aircraft operators, distributors, pilots and suppliers. A study conducted by Professor Jacques Roy from HEC Montréal in May 2023 found that the luxury tax has resulted in the loss of \$1.1 billion in revenues for the aerospace industry in Canada.

Without the luxury tax, these revenues would have been retained and the federal government would have gained \$55 million in GST revenues, more than what it hopes to gain with the luxury tax over a five-year period. The luxury tax will result in the loss of at least 3,800 direct jobs in the Canadian aerospace industry for the first two years after its introduction, representing \$274 million in lost salaries contributing to \$54.8 million in income tax revenues for the federal government, which far exceeds the \$9 million a year in expected revenue by the government.

This tax has significant repercussions across the supply chain, in MRO industries and throughout the entire aviation ecosystem. A change in the business usage threshold is a major deterrent to private aircraft operators looking to convert to newer aircraft with

⁴ <https://www.iamaw.ca/canada-needs-a-national-aerospace-strategy-now-iam-report/>

⁵ https://www.unifor.org/sites/default/files/legacy/documents/document/aerospace_sector_strategy_20180410_eng.pdf

⁶ [Nanos poll](#) commissioned by AIAC in 2021.

lower operating costs and carbon footprints — effectively working against Canada’s sustainability goals while deterring business customers to by Canadian products. Lowering the business threshold to 50% + would be seen as a step in the right direction to mitigate the serious negative consequences that is being realized, in addition to be aligned with the principles and thresholds we find in the other Canadian tax laws.

Provide resources to enhance Transport Canada’s aeronautical certification capacity

The emergence of new technologies has brought the aerospace industry to a turning point. It is essential that the certification environment be able to support truly novel innovation like sustainable technology and Advanced Air Mobility. Transport Canada needs the expertise, resources and regulatory framework to sustain its international reputation for excellence and safeguard Canada’s global competitiveness.

This requires additional resourcing and long-term budget to fund Transport Canada, with specific emphasis on the need to accelerate the regulatory development process, increase the capacity of the National Aircraft Certification Branch and Standards Branch to 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.

Invest in and develop an aerospace workforce development plan which includes skilled labour programs, streamlined immigration processes, and youth engagement initiatives.

Canada’s aerospace industry maintains one of the most skilled workforces anywhere in the world, to which the aerospace sector is a significant contributor. 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. Current projections predict 58,000 vacant aerospace jobs in a few short years in 2028 if no action is taken to address the skills gap.

Canada does not have the domestic capacity to provide the skills that are needed in the aerospace industry and must make appropriate considerations to supplement available domestic skills with foreign talent. Programs such as the Temporary Foreign Worker and Labour Market Impact Assessment deserve additional attention and support for aviation and aerospace related skilled positions. A clear plan is required to properly address the skills gap, and the industry is committed to working collaboratively with the government to develop, realize, and support a comprehensive strategy and taking into consideration the

adoption of new technologies including automatization and AI to support workforce development.

Actively take a leadership role on NORAD modernization and increase defence budgets to both meet NATO commitments and to propel R&D activity.

Threats to continental security are more complex than ever. For that reason, AIAC continues to urge Canada to increase its defense budget and meet our commitments to NATO allies and the 2% of GDP in defence spending mandate. Defence spending needs a long term and focused R&D to be competitive and to better develop our industrial base. In addition, growing concerns over protectionist policies affecting Canada-U.S. supply chains and procurement demand that our country more wholly engage that includes ensuring Canadian based in-service support solutions for both national sovereignty and industrial capability reasons.

Modernizing NORAD's capabilities is 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.

Make needed changes to the Strategic Innovation Fund (SIF) to increase access to funding support.

AIAC is proposing several modifications to the Strategic Innovation Fund (SIF) — adjustments that will allow more Canadian aerospace companies to access the support they need to prosper. The proposed amendments include requests 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.

Ease processes for export permits and export controls and harmonize them with those of our allies.

The aerospace industry understands the importance of an export permit and export control process for certain jurisdictions and for certain goods. Recognizing this, the current process is cumbersome for some destinations and the Government of Canada must do a better job of providing prompt service and transparency 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.

Provide actionable plan for Sustainable Aviation Fuel industry in Canada

AIAC is one of the co-signatories of the climate aviation action plan published in 2022. The aerospace industry has made a commitment to net-zero by 2050 and is serious in its approach. To achieve this in the short and medium term, sustainable aviation fuel (SAF) must be a priority for the government as Canada's climate aviation action plan's target of 10% SAF use by 2030 is ambitious. To meet this target, the government will need to work with industry to ensure adequate supply and production for Canada, otherwise the targets will not be met. A collective effort between the various ministries involved and the aviation industry is needed to achieve convincing results, while awaiting the new technologies that will enable us to deploy new technologies.

Conclusion

AIAC would like to thank the Finance Committee for taking our recommendations into consideration for its Budget 2024 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.