Brief from the Government of Quebec

Presented by

Dominique Anglade, Minister of the Economy, Science and Innovation

to the

Senate Standing Committee on Transport and Communications

considering

Bill C-10,
An Act to amend the Air Canada Public Participation Act and to provide for certain other measures

June 20, 2016
Quebec’s aerospace industry: a source of pride

The aerospace industry is a source of great pride for Quebec. Its achievements and its status in Canada and internationally illustrate the expertise of Quebeckers, as well as their ability to participate in a high-technology sector.

One of the drivers of Quebec’s growth and prosperity

The aerospace sector is strategically placed in Quebec’s economy as one of the key drivers of growth and wealth creation for the province as a whole.

In 2015, the aerospace industry employed 40,160 people in Quebec, in generally qualified and well-paid jobs. The sector featured some 190 companies, with annual sales of $15.5 billion.

In 2014, more than 80% of the sector’s output was exported, and that accounted for 13.6% of all of Quebec’s manufacturing exports.

Aerospace industry is one of the most dynamic sectors of the Quebec economy. Industry stakeholders have been promoting the excellence of their achievements internationally for decades, ensuring Quebec’s position as a global aerospace leader.

Quebec accounts for the majority of Canada’s aerospace activities. Quebec companies carry out about 70% of the research and development activities conducted in the Canadian aerospace sector. In 2015, Quebec alone accounted for over 50% of Canadian aerospace sales and also generated more than 50% of the jobs.

A unique synergy among various players

The Quebec aerospace industry forms a true ecosystem, consisting of three groups of companies that have established close relationships amongst themselves:

— Four prime contractors are the industry leaders. They are Bombardier (commercial aircraft and business aircraft), Bell Helicopter Textron Canada (helicopters), CAE (aircraft simulators and flight training) and Pratt & Whitney Canada (engines). In 2015, those four prime contractors combined accounted for about 73% of total industry sales.

— About 10 Tier 1 suppliers, OEMs and major maintenance specialists. Tier 1 suppliers take care of the main components of projects undertaken by prime contractors, share with them the inherent risks of new programs—both technological and financial risks. They account for nearly 15% of industry sales.

— The third group of companies is made up of suppliers more loosely involved in project implementation—referred to as second- and third-tier suppliers. This group also includes SMEs working primarily as subcontractors for prime contractors and suppliers, directly or indirectly. This group of companies accounts for almost 12% of industry sales.
TABLE 1
Quebec’s aerospace sector in 2015
(In billions of dollars)

<table>
<thead>
<tr>
<th>Categories</th>
<th>Companies</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime contractors</td>
<td>4</td>
<td>11.3</td>
</tr>
<tr>
<td>Tier 1 suppliers, OEMs and major maintenance specialists</td>
<td>10</td>
<td>2.3</td>
</tr>
<tr>
<td>Subcontractors (including SMEs)</td>
<td>177</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>191</strong></td>
<td><strong>15.5</strong></td>
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*Source: Logistics and Transportation Directorate, Ministry of the Economy, Science and Innovation.*

Coordination networks and mechanisms

The Quebec aerospace industry is structured around coordination networks and mechanisms.

— Organizations, including Aéro Montréal and the Comité sectoriel de main-d’œuvre en aérospatiale du Québec (CAMAQ), ensure sector mobilization and coordination.

— Industry groups also ensure sector coordination. They include the Consortium for Research and Innovation in Aerospace in Quebec (CRIAQ).

Quality education system ensuring a high level of training

The Quebec aerospace industry can rely on a highly skilled workforce, benefiting from a high level of training provided by universities, colleges and trade schools. A number of academic institutions provide a variety of aerospace programs.

Organizations supporting innovation

A number of organizations support innovation within SMEs, including the Centre technologique en aérospatiale and the National Research Council of Canada’s Aerospace Manufacturing Technology Centre.

International organizations

Prestigious international aviation organizations are headquartered in Montreal. The main ones are the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA) and the International Federation of Airline Pilots Associations.

Tax incentives and favourable operating costs

The Quebec aerospace sector can rely on tax incentives and favourable operating costs to attract and encourage investment. Taxation and operating costs are deciding factors for companies choosing where to set up a new subsidiary or carry out a significant project. On those two fronts, Quebec and its metropolis have major competitive advantages.

In the latest edition of its guide *Competitive Alternatives*, KPMG ranks Quebec City and Montreal first and fourth, respectively, in terms of operating costs in the manufacturing sector, compared with a number of cities in the northeastern United States and in Canada. In the same guide, KPMG ranks Montreal third with regard to cost competitiveness, compared with major international cities. In Canada, Montreal is ahead of Toronto and Vancouver. Internationally, Montreal is ranked only behind two Mexican cities.

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1 KPMG. *Competitive Alternatives 2016*
Quebec offers attractive measures for manufacturing companies, which directly benefit the aerospace industry. The key measures include:

— tax holiday for large investment projects;
— tax credit for scientific research and experimental development;
— tax credit for private partnership pre-competitive research;
— tax breaks for foreign researchers and experts.
The Government of Quebec's strategic investment in Bombardier’s C Series program

On October 29, 2015, the Government of Quebec announced a historic partnership with Bombardier that will create a limited partnership (LP) company to bring the C Series program to fruition. The US$1-billion strategic investment will give Quebec a 49.5% stake in the new company.

With this strategic investment, the Government of Quebec will help develop a unique aircraft that has already been the focus of significant international attention. Through this partnership, Quebec hopes to earn a return that will benefit the entire community. This strategic investment will also keep C Series operations in Quebec for at least another 20 years.

The C Series aircraft are the gold standard in the 100- to 150-seat market. They offer a number of advantages with respect to fuel consumption, payload, range and airfield performance. They are also the quietest jets on the market.

Bombardier’s contribution for 50.5% of the shares will include the transfer to the new limited partnership of 1,700 employees, vendor contracts and clients, along with the assets and intellectual property required to continue the design, manufacturing and marketing of the twin-engine CS100 and CS300 aircraft and their derivatives.

Aéro Montréal, which represents Quebec’s aerospace cluster, responded enthusiastically to the announcement of a partnership with Bombardier.

“This announcement demonstrates the importance the government attaches to the C Series and its significance to the development of Quebec’s aerospace industry. Bombardier is the flagship company for the aerospace industry in Quebec and Canada. Supporting it is necessary to maintain quality jobs in Quebec,” said Suzanne Benoît, President and Chief Executive Officer of Aéro Montréal. “The government’s investment comes at a strategic time in the development of the C Series program and will reassure all stakeholders in Quebec’s aerospace supply chain. Among others, maintaining manufacturing activities and Bombardier’s engineering services in Quebec will help spark renewed optimism among the industry, as well as among all the employees and students who are working or want to work in this sector.”

Research and development (R & D) is critical for the Quebec aerospace industry to remain an international leader. This sector accounts for 70% of Canadian investment in R & D and one quarter of the aerospace workforce in the Montreal area. Therefore, Quebec’s investment is part of a long-term approach to ensure sustained economic growth for the region.

Heavy overhaul and maintenance operations for Air Canada C Series airframes in Quebec

On February 17, 2016, Air Canada announced that, in addition to having signed a letter of intent with Bombardier Inc. to acquire up to 75 C Series 300 aircraft from the company, it had agreed to have heavy overhaul and maintenance work done on those aircraft in Quebec by a recognized maintenance service provider, for a period of at least 20 years starting from the
first delivery in 2019. Air Canada’s commitment is expected to help establish a centre of excellence for the maintenance of C Series aircraft in the province. In return, the Government of Quebec has agreed to drop its lawsuit in relation to Air Canada’s obligations to have an overhaul and maintenance centre.

It is estimated that manufacturing the 75 C Series 300 aircraft ordered by Air Canada will create 300 new jobs at Bombardier, while the opening of a new centre of excellence for maintaining this type of aircraft could generate about 1,000 term jobs over 15 years.

**Amendment of the Air Canada Public Participation Act**

Air Canada is one of the largest corporations with a head office in Quebec and is an international company. With its subsidiaries and regional carriers, it employs close to 7,500 people in Quebec, including 800 in its maintenance division.

As stated by the Parliamentary Secretary to the Minister of Transport, Kate Young, at the second reading of Bill C-10, the Government of Quebec understands that the federal government wants to give Air Canada the flexibility it needs to organize its activities effectively and to enable it to adapt to the changing conditions in the airline industry, both in Canada and internationally. Moreover, the federal government wants the Act to continue ensure that Air Canada carries out its airplane maintenance activities in certain provinces in Canada.

The proposed amendments in order to include Manitoba, Ontario and Quebec will give Air Canada the flexibility it needs to extend its maintenance activities to the regions surrounding the designated cities, rather than remaining strictly within the city limits of Winnipeg, Mississauga and the Montreal Urban Community.

On February 17, 2016, Air Canada and Bombardier reached an agreement whereby Air Canada would purchase 45 CSeries aircraft from Bombardier, with an option to buy an additional 30 aircraft. This order, with a list value of $8.6 billion ($6.3 billion U.S.), will have major economic benefits for the aerospace industry in Quebec. It is crucial to the success of the CSeries program, which Quebec has invested in and will keep 2,500 direct jobs in the province.

At the same time, the Government of Quebec secured a firm commitment from Air Canada to have its CSeries airframe heavy maintenance performed in Quebec for twenty years, thereby contributing to the creation of a world-class centre of excellence. This agreement is very important to the Government of Quebec. It will help create up to 1,000 highly specialized aircraft maintenance jobs in the province.

In exchange for these agreements, and for the resulting jobs and major economic benefits, the Government of Quebec has agreed to drop its lawsuit against Air Canada with regard to keeping maintenance centres in the Montreal Urban Community.

In this context, the Government of Quebec subscribes to the modernization objectives set out in paragraph 6 (1) d) of the Air Canada Public Participation Act, which allow Air Canada
greater flexibility in the conduct of its operating activities in order to enable it to remain competitive and to continue to invest in and create quality jobs in Quebec’s aerospace sector.

The Government of Quebec has requested that Bill C-10 come into force as soon as possible, that is, by the end of the parliamentary session at the end of June 2016 and before the July deadline the Supreme Court of Canada gave for suspension of court proceedings.

**Expected federal investment**

In closing, the Government of Quebec would like to point out that, as in the case of the automotive industry in Ontario, it would be perfectly normal for the federal government to provide financial support for the development of CSeries aircraft.

The CSeries is the product of several years of research and development. The aircraft are the top performers of their category. They are more cost-effective and more energy efficient than their competitors. They have the potential to take away significant market shares from Boeing, Embraer and Airbus.

The April 27, 2016 announcement by Delta Air Lines of a firm order of 75 CSeries jets from Bombardier increased the number of orders to more than 300 aircraft. Taking into account all the options, the number of orders for the new program would be 800 aircraft.

The CEO of Delta Air Lines, Ed Bastian, was quick to point out the importance of the government’s financial support for the CSeries, seeing it as a sign of confidence in the future. “It gave us a lot of confidence to be able to step forward and make the decision,” said Mr. Bastian.

For the Government of Quebec, the federal government’s support will provide all the financial flexibility needed for the development of the CSeries program, will undeniably reassure other potential buyers and will keep thousands of jobs in Canada.