

HC
115
.A252623
aerospace
industry

RESPONSE OF THE FEDERAL
GOVERNMENT TO THE
RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE ON

THE CANADIAN AEROSPACE INDUSTRY



Government
of Canada

Gouvernement
du Canada

DEPT. OF INDUSTRY
TRADE & COMMERCE
LIBRARY
JUN 11 1979
BIBLIOTHÈQUE
MINISTÈRE DE L'INDUSTRIE
ET DU COMMERCE

Canada

RESPONSE OF THE FEDERAL GOVERNMENT
TO THE RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE
ON THE
CANADIAN AEROSPACE INDUSTRY

May 1979

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction	1
 <u>PART I</u>	
Government Response to Task Force Recommendations - An Overview	3
 <u>PART II</u>	
Detailed Response to Task Force Recommendations	
Defence Spending	8
Manpower	10
Technology Transfer	12
Financing	13
Modernization	15
Facilitation of Sales	16
Government Procurement	19
Productivity	21
Regional Development	22
 <u>PART III</u>	
Response to Report by Mr. M. Rygus, International Association of Machinists and Aerospace Workers	24
 <u>PART IV</u>	
Response to Supplementary Report by Mr. J. Gill, United Automobile, Aerospace and Agricultural Workers of America (UAW)	31
 <u>ANNEX I</u>	
Members of the Consultative Task Force on Aerospace	

INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial and territorial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses, a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. On February 21, 1979, the Government released its response to the forty-six recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Aerospace Industry, constitutes one of the twenty-three detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

Strategic Objectives

As a first step, the task force developed and endorsed a framework of strategic objectives for industrial and trade development of the sector, summarized as follows:

- to develop and sustain select industrial capabilities in research, design, development and production of products with good prospects for exploitation in domestic and export markets
- to provide the industrial support to meet selected needs of national defence
- to provide an internationally competitive sub-contracting base
- to provide an internationally competitive in-plant repair and overhaul activity
- to achieve a satisfactory and economically viable regional distribution of industrial activity

In recognition of the excellent growth potential for the sector, the task force recommended that the framework of strategic objectives, together with the implied commitment of long-term financial and other essential support, be accepted by the federal government as a charter for its continued support of an integrated aerospace industry in Canada.

The parties to the task force offered to continue working with the federal government to develop cooperative plans and actions within the framework of strategic objectives which can achieve stable growth in the long-term.

The offer of further consultation along these lines was accepted within the forum of the standing Sector Consultative Committee. As an interim arrangement and pending a more formal structure, the Sector Consultative Committee membership was expanded to include representation from labour and provincial governments. Several meetings have been held since the task force reported. At the second meeting the Committee, in concert with the Air Industries Association of Canada (AIAC), established four work groups to explore in detail strategies in key areas. The work of these groups is reported in the second section of this report.

Significant Issues

In its report to the Government, the task force made specific recommendations relating to the following broad subjects:

1. Stimulus from Defence Spending
2. Skilled Manpower
3. Restrictions to Technology Transfer
4. Financing
5. Facilitating Domestic and Export Sales
6. Procurement
7. Productivity

All of the recommendations have been reviewed by the Government, often in consultation with the Air Industries Association of Canada (AIAC). The current status of the action taken in response to each recommendation is detailed in the next part of this paper. The following summarizes what has been achieved to date, outlines what additional steps are being taken in those cases where a definitive response has not been provided and identifies those areas where a positive response is not possible.

1. Stimulus From Defence Spending

The task force recommended that the Government increase defence spending in Canadian industry, support R & D related to defence requirements, develop a comprehensive operational support and maintenance engineering competence, seek offsets of a long-term advanced technology nature and provide assistance toward start-up costs in support of certain offset work.

It is Government policy to seek offsets on major defence procurements, especially those of a long-term advanced technology nature as evidenced in the New Fighter Aircraft (NFA) competition. The feasibility of providing life-cycle support by Canadian industry is another subject that is being considered during the NFA contract negotiations. The question of premium start-up costs raises many complex issues which have not yet been fully reviewed.

The question of increased defence spending has been reviewed by an industry-government task force. Their report will be considered in mid-1979.

2. Skilled Manpower

The task force recommendations dealt with identifying and implementing actions that would ensure an adequate supply of trained manpower to satisfy future needs of the sector.

This matter is already receiving attention by the AIAC and by industry. The Government strongly supports the recommendation that the private sector give higher priority to manpower planning and advise it on sectoral requirements. However, this is a cooperative task, and industry and labour will need to identify their needs, and review these with federal and provincial authorities to determine what, if any, additional steps are required to ensure that their requirements are met.

3. Technology Transfer

The task force made recommendations in this area concerning the level of support to R & D, technology transfer impediments under the Defence Production Sharing Agreement (DPSA) and the encouragement of cooperative R & D between foreign governments and companies.

The Government has recently increased R & D tax incentives and has announced an increase in the funding authority under the Enterprise Development Program (EDP). Since this subject is related quite closely to that of "adequacy of defence spending on R & D" on which an industry/government report is due, it will be reviewed further once that report is available.

Various mechanisms are available (e.g. Canada/USA Defence Production Sharing Agreement) to facilitate cooperative R & D. The federal government is prepared to enter into cooperative R & D arrangements, however industry must be prepared to identify potential projects in which it is interested.

Discussions in the Multilateral Trade Negotiations (MTN) relating to aircraft and to a Government procurement code could affect the issue of technology transfer in relation to the DPSA. Consequently, further consideration of the recommendation will be delayed until the results of the MTN are known.

4. Financing

In this area the task force dealt with the issue of coordinating financial support measures provided by Government, the desirability of long-term financial commitment by Government to projects and the readiness of Canadian financial institutions to provide funds to the sector.

The Government has taken steps to improve program coordination through the establishment of a number of mechanisms including the recently formed Board of Economic Development Ministers.

Project support is given on a long-term basis through programs such as Defence Industry Productivity (DIP) and EDP.

The question of financing is being reviewed by the AIAC who will provide advice to Government on additional services that may be required to fully respond to this recommendation.

5. Facilitating Domestic and Export Sales of Civil Products

The task force made recommendations concerning a freer trading environment, assistance in the identification of growth areas, procurement policy favouring Canadian content and financing the Canadian portion of aircraft imports.

Canada is currently participating in the MTN in discussions on a free trade agreement on civil aircraft. The AIAC has been closely involved in these discussions.

The Government is working closely with the sector to identify marketing and growth opportunities through its offices in Canada and abroad. However, the industry must take the lead in this area and in so doing can use the various Government services which are available. A review of these is currently underway by an industry task force.

Financing differentials do not appear to have resulted in a significant loss of business, thus the formation of a special mechanism is not considered to be appropriate. However, a case-by-case review of assistance measures to offset financing differentials which might result in the loss of significant business by Canadian suppliers may be possible. This question is now under consideration.

6. Procurement

The task force requested that the financial terms of Government contracts be reviewed to make them commensurate with the associated risks and costs, that Government continue to purchase R & D in industry and that Canadian demonstrations of domestic products be promoted.

A study of Department of Supply and Services (DSS) profit and cost policies in relation to the Canadian aerospace industry has been completed and is being reviewed by the Government and the AIAC.

The Government has a policy of contracting out as much as possible to Canadian industry and the task force recommendation is recognized by user departments.

The Government recognizes the need for supporting Canadian developed products through purchasing policies as a means of stimulating industrial development and developing a domestic competitive supply capability. Accordingly, a series of measures have recently been announced which together constitute a "National Purchasing Policy".

7. Productivity

The task force reinforced the need to continue the Aerospace Productivity Program. The Government will continue to support and participate in this work, which is headed by the AIAC.

DISSENTING VIEWS

It should be recognized that labour representatives on the task force did not give full endorsement to the recommendations of the task force. (As per Annex B-1 and Annex B-2 in the June 30, 1978 Report of The Aerospace Manufacturing Sector Consultative Task Force.)

The Government's responses to task force recommendations and to the reports submitted by the labour representatives follow.

PART II

DETAILED RESPONSES TO TASK FORCE RECOMMENDATIONS

DEFENCE SPENDING

1. Recommendation

The federal government should institute a policy of spending a fixed minimum portion of its defence capital budget for direct procurement of Canadian designed and manufactured advanced technology products by:

- a) increasing the minimum of such procurement to at least one quarter of the total capital budget over a 10 year period;
- b) providing Canadian industry with better guidance on the nature and size of anticipated long-term defence procurements so that the selection and preparation for Canadian involvement can be made on a planned basis;
- c) reducing any hazard to the Defence Production Sharing Agreement (DPSA), inter alia, by selecting work for sourcing in Canadian industry which can meet special Canadian sovereignty needs (i.e. provision of special Canadian operational systems).

Government Response (Under review)

The Aerospace Sector Consultative Committee has appointed an industry/government working group led by industry, to further research the case for increased defence spending in Canadian industry and to bring forward recommendations in mid 1979. The suggested methods stated by the task force as supplementaries to this recommendation are to be considered by this working group.

2. Recommendation

The federal government should provide Canadian industry with funds and/or tax incentives and the opportunity to more directly perform R & D in support of future Canadian defence needs by:

- a) selecting the R & D projects on the basis of future Canadian defence equipment requirements and related potential export markets;
- b) where possible, coordinating the defence sponsored procurement with projects supported by DITC for export markets;
- c) by spending a meaningful fixed portion of its total budget on R & D in Canadian industry.

Government Response (Under review)

The Department of National Defence has undertaken to publish its long term needs in order that Canadian industry is provided with an opportunity to formulate strategies to meet these requirements.

Interdepartmental consultation on the coordination and harmonization of financial support activities for the aerospace sector has been reviewed and improved procedures have been implemented. The joint use of DND and DITC allocated funds in support of projects is under review. It should also be noted that the federal government has already improved the R & D environment through additional tax credits (e.g. doubling the basic rate of investment tax credit to 10 per cent).

3. Recommendation

The federal government and industry should take special measures to develop a comprehensive operational support and maintenance engineering competence in Canadian industry by:

- a) the federal government contracting a maximum amount of defence life cycle support in Canadian industry and in particular by maximizing the Canadian industry life cycle support on the Aurora and the New Fighter Aircraft Programs;
- b) the Department of National Defence (DND) defining and arranging Canadian based life cycle support capabilities at the start of its procurement cycle for new equipment and the Government being ready to pay the front end costs to establish the Canadian sources;
- c) creation by industry of special consortia arrangements, where necessary, to render life cycle support in a cost effective manner (e.g. to avoid uneconomic duplication in the purchase and use of integrated test equipment and to interface with foreign prime contractors for the purpose of assuring engineering cognizance).

Government Response (Agree in principle)

The recommendation is aimed, in the short term, at facilitating the industry contribution to Canadian sovereignty through the provision of life cycle support to the proposed New Fighter Aircraft (NFA) procurement. The task force recommendations will be considered during the NFA contract negotiations.

In the longer term, industry should take the lead in bringing forward proposals for special consortia procurement arrangements.

As mentioned in the response to recommendation 5 the question of front end costs is under review.

4. Recommendation

The federal government should seek special industrial benefits as offsets to the major defence equipment procurements which must be met from abroad. The industrial benefits should, where possible, be of a long-term advanced technology nature.

Government Response (Agree)

The Government already seeks such offsets. During the assessment of industrial benefit proposals associated with major defence equipment procurements weight is given to those having a long-term advanced technology nature.

5. Recommendation

Further, the federal government should provide assistance through DIP, or by special arrangements, towards premium start-up costs to capture industrial benefits for Canadian industry as offsets, where the work is clearly identified in the national interest and where the opportunity might otherwise be missed.

Government Response (Under review)

This recommendation is under active consideration.

MANPOWER

6. Recommendation

Industry and Government should increase training in industry and in vocational educational establishments, including an increase in apprenticeship training to national standards.

Government Response (Agree in principle)

The response to this recommendation specific to the aerospace sector is being handled through the mechanism of the Sector Consultative Committee. It will depend, in detail on completion of the first phase audits now underway. The AIAC has already organized a team in Quebec to develop methods by which the future human resource needs of the industry can be met. Team activity in Ontario is pending. In Manitoba it is expected that manpower studies conducted by the industry and the Government of Manitoba will be the basis for requisite action. The federal government is participating in this work.

The Government fully supports the recommendation for increased industrial training and is in the process of significantly increasing its emphasis on industrial training and apprenticeship. In 1978-79, the Canadian Employment and Immigration Commission (CEIC) provided \$83 million for apprenticeship, including training

and income support. The 1979-80 Employment Strategy calls for a \$20 million increase in funds allocated to the Canada Manpower Industrial Training Program (CMITP) together with a further \$20 million for the development of Critical Trade Skills Training, which will concentrate on increasing training in key high-level blue collar skills. The 1979-80 Employment Strategy also provides \$30 million in new funds to the Canada Manpower Training Program for institutional training and necessary trainee allowances for skill training to meet industrial needs.

The CEIC also plans to investigate means by which federal funds can be used to maintain training levels during periods of economic slack and to provide financial support to employers in the earliest years of training, when their training costs are highest. It will be prepared, furthermore, to explore with management and labour means of obtaining greater private sector participation in skill training, and will examine the scope for expanding programs for training first-line supervisors and journeymen/teachers.

Concerning the recommendation's reference to national standards, it should be noted that apprenticeship is under provincial jurisdiction and that national apprenticeship standards, per se, do not exist. However, through the interprovincial "Red Seal" program, there is coordination of provincial certification standards in some trades.

7. Recommendation

Industry should maintain an inventory of its short-term and future human resource needs with a view to identifying the complete actions to be taken in concert by provincial and federal governments, industry, organized labour and educational establishments to ensure that the industry's human resource needs can be met primarily from Canadian sources. (This matter is already receiving attention in the Montreal and Toronto areas as an activity of the Air Industry Association of Canada (AIAC) Productivity Program and in the Winnipeg area by the industry, with provincial government participation.)

Government Response (Agree)

The Government fully recognizes that the availability of labour skills matched to current and future industrial requirements is essential for increased productivity and competitiveness.

As stated in the recommendation, arrangements are already in place in the sector to address the problem of shortages in human resources. The sector arrangements involve industry, labour, educational establishments and the provincial and federal governments. While the work is well advanced in Montreal and Winnipeg, it is just starting in Toronto.

On a more general footing, the federal government is already responding to recommendations from several sectors in the development of labour market policies for the 1980's, in tailoring training schemes, mobility assistance etc. These actions are detailed in the Government report, Action for Industrial Growth - A First Response, November 1978 (pages 12 and 13). For example, specific to the Aerospace Task Force recommendation, the Canadian Employment and Immigration Commission is adopting a computerized clearance system at Canada Employment Centres to help match supply with demand for labour among the major centres (National Job Bank).

TECHNOLOGY TRANSFER

8. Recommendation

The federal government should seek a renegotiation of the DPSA to remove impediments to technology transfer which have developed in recent years and which are against the spirit of the original understandings.

Government Response (Agree in principle)

Further consideration will be given to this recommendation after the conclusion of the MTN in mid 1979 as the aspects of the negotiations relating to aircraft and to a code respecting government procurement practices could affect the issue of technology transfer in relation to the DPSA. In the meantime, an industry-government working group has been set up to address this issue.

9. Recommendation

Industry and Government should act together to maintain an adequate Canadian technology base which can sustain international technology exchange arrangements, particularly in specialized areas of a long-term evolutionary nature where Canada can expect marketing success.

Government Response (Agree)

Applications from industry for assistance towards establishment of base technology R & D, (i.e. that are not specifically product related) can be submitted under the DIP program. In practice, the necessary long-term investment has been possible only by the larger companies. Consequently, the proposals received and accepted are relatively few.

The Government has recently announced a number of measures which respond to industry's concern that Government funding in this area may be insufficient for the long-term health of the industry. It is expected that improved tax incentives associated with R & D expenditures announced in the 1978 budgets will stimulate growth in industrial base technology activity. Additional stimulus may be gained from securing innovation grants under the Enterprise Development Program (EDP). The funding authority for grants for this program is being increased from \$25 to \$60 million.

10. Recommendation

The federal government and/or industry should stand ready to enter into cooperative research and development arrangements between foreign governments and companies where this is in the mutual economic interest of the partners.

Government Response (Agree)

The Government already enters into cooperative R & D agreements with industry. Agreements with NATO partner countries, such as the Canada/U.S. Defence Production Sharing Agreement, provide the main mechanism to accomplish this recommendation. Cooperative arrangements are also sought as offsets in major procurements such as the NFA.

FINANCING

11. Recommendation

The federal government and industry must finance high cost/high risk aerospace programs to at least current levels, by a long-term commitment of federal government support (e.g. through DIP and EDP) to maintain Canadian integrated design, development, manufacturing and marketing capabilities in key evolutionary programs.

Government Response (Agree in part)

The Government recently announced an expansion of federal financial programs to help Canadian industry meet the world trading competition of the 1980's. Included were a number of changes designed to encourage R & D by industry. In the November 1978 budget, additional incentives were provided through income tax legislation changes. These changes included the doubling of the basic rate of investment tax credit for R & D from five per cent to 10 per cent (20% in the Atlantic provinces and the Gaspé). Additionally, small businesses qualifying for the low rate of corporation tax will get an investment tax credit of 25 per cent on all their R & D expenditures irrespective of their location in Canada.

The Government agrees with the need for long-term support for R & D. For example, the November budget proposed to extend tax credits indefinitely. EDP and DIP normally support long-term projects, for example the Trident and the DASH 7 respectively.

12. Recommendation

Industry and Government should seek to improve attitudes and arrangements relative to the readiness of Canadian financial institutions to provide both short and long-term funds to this industry sector, e.g. the Export Development Corporation to liberalize funding for exports for aerospace products to third world markets.

Government Response (Agree in part)

In practice, the Canadian financial institutions appear ready to provide short and long-term debt funds to major companies. With regard to the example quoted, the Government will address the issue of non-comparability of EDC terms and conditions. In addition, this recommendation will be reviewed by the recently established Export Programs and Services Review Committee.

Medium and small size companies face greater difficulties in borrowing for relatively high risk aerospace ventures. The Federal Business Development Bank seeks to provide funds to new or existing businesses of almost every type in Canada which do not have other sources of financing available to them on reasonable terms and conditions. The Enterprise Development Program can also provide guarantees for loans on occasion. The Export Development Corporation has modified its threshold criteria to permit small businesses to more readily qualify for use of its services in cases where the businesses have the potential to expand through exports.

The AIAC Financing Committee has undertaken a further study of the underlying problems in funding aerospace manufacturing operations. The Government has provided observers and assisted in the study as required. This study will provide advice to government on additional services that may be required.

13. Recommendation

Industry and Government should optimize the benefits from the application of available funds by:

- a) better coordination of financial support measures provided by different departments and agencies of the federal government and where applicable with provincial governments;
- b) where appropriate, seeking a sharing of costs through arranging joint ventures between Canadian companies/or between Canadian companies and companies abroad.

Government Response (Agree in principle)

The Department of Industry, Trade and Commerce (DITC) has reorganized a number of consultative mechanisms to better coordinate these types of activities. Examples of these are:

- a) The Aerospace Sector Consultative Committee, in place before the start of the special task force activity, has met since the task force reported. The Consultative Committee includes the majority of industry members on the task force. Representatives of the Quebec, Ontario and Manitoba governments and a labour representative attended as observers. It is planned to broaden and formalize this arrangement. A priority action endorsed by the Committee concerns a review of financial support measures (centred in the AIAC finance committee).
- b) An interdepartmental Aeronautics Advisory Group is charged with improving coordination and harmonization of R & D assistance provided by Government to the aerospace sector.

On a broader scale the new Board of Economic Development Ministers will integrate federal economic development policies supporting growth. It will review and coordinate economic proposals made by departments before these proposals go to Cabinet or Treasury Board.

With respect to joint ventures, the Department of Industry, Trade and Commerce seeks to arrange joint ventures between Canadian companies and companies abroad where this is cost effective and complements a satisfactory development of Canadian capabilities.

The international arrangements are facilitated in the defence area by several research, development and production agreements with NATO countries.

MODERNIZATION

14. Recommendation

The task force recommends that the federal government give consideration to increasing the allocation of funds for modernization assistance and exceptionally to extend DIP/IMDE to routine equipment where more advanced equipment is inappropriate.

Government Response (Agree in principle)

The Government is willing to receive additional applications for modernization assistance under DIP and will respond within the constraints of the DIP budget. It is already policy to apply the modernization funds to routine equipment especially where a sound market case exists and where more advanced equipment is inappropriate.

It should be further noted that the budget of November 16, 1978 responded to general sector task force recommendations seeking additional capital investment incentives. The investment tax credit has now been extended indefinitely and the rates of credit are increased, most notably for investments in designated areas. The coverage of the credit is broadened to include transportation. The extension and enrichment of the investment tax credit and the two year write-off for manufacturing and processing, which has been permanent since 1975, provide a very attractive environment for modernization and expansion.

FACILITATION OF SALES

15. Recommendation

The federal government should review and reduce restrictions to the export of Canadian aerospace products and services by:

- a) seeking to eliminate through MTN foreign tariffs on aerospace products and services (particularly the U.S. five per cent import duty) and, as a quid pro quo to permanently eliminate the Canadian import duties which are effectively waived on an annual basis;
- b) minimizing the impact of regulatory and export licensing policies on industry and trade development.

Government Response (Agree in principle)

The Canadian delegation to the MTN has been thoroughly briefed on this recommendation. Since the task force reported, the U.S.A. has proposed a free trade agreement in the MTN on civil aircraft including fabricated components, sub-assemblies, and parts thereof. The proposed agreement would bind tariffs at zero as recommended by the task force, while at the same time setting out provisions limiting the use of non-tariff measures. Canada has been participating in these discussions and the scope of the tariff coverage and non-tariff measure provisions are being closely examined to ensure that Canadian interests are adequately served.

With respect to the second part of this recommendation, the Government is actively seeking to reduce the adverse impact of regulations on industrial activity. The recommendation regarding export licensing, will be considered by the Government.

16. Recommendation

Industry and Government should identify evolutionary growth areas for Canadian industry in relation to world aerospace markets by:

- a) conducting and coordinating joint industry/government development of marketing strategies which can maximize the comparative advantage of Canadian industry in selected specialist areas;

- b) maintaining a continuing industry/government intelligence base of market opportunities, trends and capabilities by area and sub-sector (including a continuation of the special statistical collection and analysis service provided by DITC for AIAC member companies).

Government Response (Agree)

The Government is seeking to do this in conjunction with Aerospace Sector Consultative Committee, the AIAC and industry. Intelligence on market opportunities obtained from Trade Commissioners abroad are channeled to industry. Special groups have been established to facilitate the marketing of complete systems, such as airports, sales to special geographical areas and sales of foreign governments.

Arrangements are being made in DITC to improve its data bases on Canadian industrial capabilities in order to provide a fast and more efficient communication of market opportunities to industry. The special statistical service will be retained.

17. Recommendation

Industry and Government should give a high priority to facilitating the industry participation in major new civil international aerospace programs by:

- a) tailoring and, where necessary, establishing industry/government mechanisms to secure Canadian industry participation in civil international aerospace programs (e.g. industry to generate special consortia arrangements, in partnership with government where necessary), but avoiding a proliferation of marketing assistance agencies;
- b) Government to be responsive in a timely fashion to assist industry in reducing the financial risk of entry to major international aerospace programs and where this is identified to be in the long-term national economic interest.

Government Response (Agree in principle)

The Government considers that the industry must take the lead in searching out opportunities for participation in major civil international aerospace programs. It is prepared to assist industry in this process, particularly through its trade counsellor services and its Program for Export Marketing Assistance.

The Government is undertaking a comprehensive review of its policies bearing on export promotion with an emphasis on information systems, use of public agency expertise, export incentives, consultant promotion of Canadian equipment and services, export consortium formation, use of free consulting

services as an export tool and federal/provincial coordination in export marketing. The recently established Export Programs and Services Review Committee has been given the task of assessing the adequacy, accessibility and relevance of export promotion services and of examining the interface between these and other related government programs.

The Government also facilitates international contacts which can generate business by sponsoring with the AIAC, Canadian participation in international trade shows such as the Paris Air Show and by organizing trade missions.

In special cases, which demonstrate a high potential economic benefit to Canada, the Government will consider proposals for financial assistance to reduce the entry costs to major international aerospace programs.

18. Recommendation

The federal government should seek to encourage economic domestic purchases of civil aerospace products having a high ratio of Canadian content, for example, by ensuring that the data on potential economic benefit to Canada is fully known by prospective purchasers.

Government Response (Agree)

The Government already encourages Canadian users of aerospace products to consider Canadian content and the associated economic benefit to Canada. Data on these aspects of a purchase is provided to prospective purchasers. A computerized domestic sourcing system is being developed to facilitate the identification of Canadian suppliers for potential foreign and Canadian buyers.

19. Recommendation

Federal government should implement mechanisms for financing the Canadian sourced portions of products from abroad to Canadian air operators on terms equally favourable to those applicable to financing from foreign sources for foreign sourced products.

Government Response (Agree in part)

Few cases of business being lost by Canadian suppliers, due to financing cost differentials, have been brought to the attention of the Government. Foreign financing terms, however, can sometimes be more attractive than those available in Canada as a result of differences in national capital market structures and monetary and foreign exchange policies. When foreign commercial financing is made available on terms more favourable than domestic terms but in line with rates in the exporting country, Canadian suppliers do

have an option to arrange through financial intermediaries, commercial financing on comparable terms although exchange rate considerations would need to be weighed. In certain very limited cases, however, the more favourable financial terms offered by foreign suppliers may arise from the provision of official Government export credit, which is made available at below the commercial rate of the country, and might therefore be considered a form of export subsidy. Canada is endeavouring in the MTN to achieve a satisfactory subsidy/countervail arrangement to deal with the use by foreign exporters of subsidized official financing, to the detriment of domestic suppliers.

A general direct response, such as the formation of a public sector financial institution, is not considered appropriate, given the limited number of reported cases of business lost due to financing differentials. However, case by case consideration will be given to measures to offset any financing differentials which might result in the loss of significant business by Canadian suppliers.

GOVERNMENT PROCUREMENT

20. Recommendation

The federal government should promote the sale of Canadian products to domestic government users plus domestic air operators so as to provide a shop window for sales abroad, i.e. to seek a closer coordination of policies between domestic procurement of aerospace products and international trade development.

Government Response (Agree in principle)

The federal government encourages the sale of Canadian products in the domestic market. Demonstration projects, such as the Ottawa-Montreal STOL system, have been funded in the past and will be considered in the future.

The federal government recently announced a series of measures which together constitute a "National Purchasing Policy". The steps include a new Source Development Fund of \$25 million for its first year of operation. The Fund will provide the extra money needed to help Canadian firms develop products, particularly high technology items, not currently manufactured in Canada. Because of "best-value-for-money" requirements in the Government's purchasing, it has been difficult to pay the extra costs involved in developing Canadian products as sources of supply. The Source Development Fund addresses this problem.

Tied to the Fund is a new "Purchase Review System" which provides for early consultation with industry and increased coordination within the federal government with respect to planning of the Government's larger purchases. Other measures in the Policy include increased profit rates for Government suppliers who contribute to industrial development goals such as increased

employment, investment, and regional growth. The Government will also increase the value of contracts let in high unemployment areas; the membership of the Canadian Government Specifications Board, now an internal Government body, will be broadened to include representatives from all levels of Government, business, labour and consumer groups; a continued drive to involve Canadian firms in Government sub-contracting, especially small business and firms in high technology areas; and a determined effort to coordinate the purchasing policies of the federal and provincial governments to maximize the impact of governmental purchases on the Canadian economy.

At the federal/provincial level, the whole question of procurement is being examined by a joint working group which will explore means of ensuring that procurement is used as a tool for industrial development where possible.

21. Recommendation

The federal government should improve the financial terms of Government procurement contracts to be commensurate with the risks and cost of providing aerospace related services to Government.

Government Response (Under review)

In September 1977, the Deputy Minister, Supply Administration, (DSS) was invited to participate in discussions on productivity and competitiveness in the aerospace sector at the AIAC Annual General Meeting held at Jasper, Alberta. In his presentation he invited the AIAC to cooperate with DSS to study factors of profitability including whether or not the financial terms and conditions of Government procurement contracts are commensurate with the risks and costs of providing aerospace services to Government.

The invitation was accepted by the AIAC and a steering group comprising DSS, DITC and AIAC was established to draw up terms of reference for a study and to monitor its progress. As a result, a consultant group was hired early in 1978 by DSS to conduct "A Study of DSS Profit and Cost Policies in Relation to the Canadian Aerospace Industry". The study involved the collection and analysis of data from representative companies, DSS and DITC.

The consultants' report has been completed and its findings are being taken into account by DSS during a current review of its relevant policies. In view of Commercial Confidentiality undertakings given to the industry participants, the report of the consultant has not been published, but a copy has been furnished to the AIAC Finance Committee, and is available to the companies which participated in the study.

22. Recommendation

The federal government should continue its policy of buying its aerospace related research and development services and repair and overhaul services in Canadian industry to the greatest extent practicable. Considerations should be given to locating centralized test and research services in industry for general rental where possible.

Government Response (Agree/Under review)

It is federal government policy to ensure that Canadian content is used effectively to promote industrial development as well as other socio-economic objectives consistent with Canada's international obligations.

The latter part of the recommendation is under review.

PRODUCTIVITY

23. Recommendation

Industry, with Government assistance and participation by organized labour, continue to give a high priority to its productivity improvement measures (Productivity Aerospace Program).

Government Response (Agree)

The AIAC Productivity Aerospace Program has been endorsed and assisted by several government departments. The first phase, designed to promote productivity audits and to stimulate beneficial change across the whole span of business functions and the industry/government interface, is now completed.

Residual long-term measures now underway with Government participation are:

- a) Auditing future human resource requirements, in order to put in place measures at the company, provincial and federal levels, to assure an adequate supply of skilled manpower.
- b) DITC has under active consideration an application to fund the development of improved deburring methods. This is a second phase of a pilot project to stimulate better production processes having wide application in the aerospace and other metal working sectors.
- c) Continuing discussions to improve the effectiveness of the industry/government interfaces, particularly to improve the response time in government to processing DIP applications.

24. Recommendation

Industry and Government, with assistance from universities where appropriate, take special measures to increase the use of the computer in design and manufacturing.

Government Response (Agree)

The aerospace sector (with the related electronics industry) is already in a lead position in the application of the computer in design and manufacturing. During 1978, the AIAC stimulated the sharing of the industry's computerized management information capabilities, which are largely resident in larger companies, by holding a series of open seminars on specific topics. The seminars were well attended and have influenced the systems being newly adopted.

In the longer term, the Government will seek to encourage:

- a) the further development of the use of the computer to integrate the design, manufacturing and administrative functions;
- b) the extension of computer aided services to smaller companies, perhaps acting in a consortium;
- c) the adoption of numerically controlled machine tools.

DITC has established a CAD/CAM Technology Advancement Council to promote the use of CAD/CAM technology by Canadian industry. The aerospace sector is represented on this Council.

REGIONAL DEVELOPMENT

25. Recommendation

Governments should not attempt a dispersal of the core of the industry from the present centres if this requires subsidization to obviate the introduction of uneconomic factors of marketing and production, or if it merely transfers or dilutes the share of available work.

Government Response (Agree in principle)

The Government does not attempt to disperse the core of this industry from the present centres if, in addition to a requirement for subsidization to obviate uneconomic factors of marketing and production, a dispersal would merely transfer or dilute the share of available work. The Government's approach to industrial development is incremental rather than redistributive.

26. Recommendation

Governments should seek a more balanced regional spread of the industry by supporting the generation of new third tier aerospace companies against new additional work opportunities by:

- a) identifying, with a lead by the larger companies, new market areas, e.g. by substitution of imports of fastenings, cutting tools and short-run materials;
- b) assisting in the upgrading of existing small businesses in the areas of quality control, training, acquisition of capital equipment and more efficient regionalization of federal government financial assistance services.

Government Response (Agree)

The companies represented on the task force agreed to take a lead in exploring opportunities for import substitution that would be appropriate to smaller companies. The Government will assist in furthering arrangements for such business opportunities.

The Government has given increased emphasis to the decentralization of its services so that the type of assistance recommended can, in conjunction with provincial governments, be more readily provided across Canada.

Provision of new work and the element of facilities upgrading normally associated with the advent of new programs is central to the negotiation of offset agreements.

27. Recommendation

The task force recommends that the in-depth process of consultation between industry, Governments, organized labour and the academic community be continued to:

- delineate areas of individual and collective interests and responsibilities
- develop and quantify the recommended action areas and to monitor and assist in the implementation process.

Government Response (Agree)

As noted in a number of previous responses the consultation process is continuing in a number of key areas. The Government plans to continue this process in the future.

PART III

RESPONSE TO REPORT BY MR. M. RYGUS, INTERNATIONAL
ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Mr. Rygus of the International Association of Machinists and Aerospace Workers (IAMAW) submitted a report to the task force on the Canadian Aerospace Industry.

The essential concerns expressed by the labour representative, and the areas of disagreement in relation to the recommendations contained in the task force report are summarized below followed by the Government response.

I - INDUSTRY STRUCTURE

1) Comment

The task force report fails to deal adequately with the major issues of industry structure.

Government Response (Agree in part)

The Government views the consultative task force exercise now reaching its conclusion as simply the first phase of an ongoing consultative process with both industry and labour which is expected to deal with major issues facing the aerospace industry. In this regard the Government believes continuing consultation with business, labour and the provinces is needed to develop cooperative plans and actions within a framework of strategic objectives for the industry. Such a framework was developed and endorsed by the task force.

II - FISCAL INCENTIVES

2) Comment

Several of the task force recommendations represent a request for Government financing which would simply add to the after tax profits of corporations and would not result in significant benefit to Canada. The question of the level of corporate versus individual tax rates was also raised.

Government Response (Noted)

The Government believes that fiscal incentives can be used as one of a number of instruments designed to improve the environment for private sector investment. In this regard it should be noted, for example, that the Government's recent tax incentives can only be utilized by companies if they invest in new plant and equipment or additional R & D activity. Such investment should result in more competitive industries better able to take advantage of new or existing opportunities both in the domestic and export markets, and should create employment.

However, as noted in the material accompanying the November budget and in the federal government's response to the Overview Committee, the use of special incentives must be balanced against other functions of the tax system (such as its contribution to social policy and the need for adequate revenues to undertake functions essential to Canada's economic growth and social well-being), and against the possibility that the desired results can be achieved through other means.

The response to the Overview Committee also indicated the federal government's belief that particular investment incentives can be effective tools of economic management and that there is also a role for broad-based monetary and fiscal policies in order to maintain a growth in aggregate demand consistent with adequate real growth and satisfactory cost and price performance. The recent federal budget contained both types of measures.

III - RESEARCH AND DEVELOPMENT

3) Comment

There is a need for expanded and more effective research and development activities in this industry, however, the Government must be assured that public funds are used to bring significant industrial benefits to Canada.

Government Response (Agree in principle)

The task force endorsed this recommendation from the labour representative.

The Government has moved a long way in recognition of the need for more industrial R & D in Canada. This issue was also identified in other industry task force reports.

A 100 per cent write-off of R & D expenditures of taxpayers has been in place for many years. The March 1977 budget introduced measures to extend the investment tax credit to both current and capital expenditures on R & D. In the April 1978 budget, a new 50 per cent additional deduction was provided for firms increasing their R & D activity. Because of the availability of the investment tax credit for R & D, such activities will benefit fully from the enrichment of the investment tax credit proposed by the Minister of Finance in the November 1978 budget. At the same time, the Minister proposed a special R & D tax credit of 25 per cent available for small business corporations in all parts of the country. In addition, direct support under the Enterprise Development Program, for grants to encourage high risk research, design and development will increase from \$25 million to \$60 million annually.

More specifically, a task force has been established by the industry to review this question in detail. A report has been prepared and will be reviewed by the Government in mid 1979.

The question of significant industrial benefit to Canada is an important consideration whenever public funds are used to support R & D activities.

IV - SKILLED MANPOWER

Introduction

The labour representative provided the task force with a number of specific recommendations aimed at correcting many of the basic institutional and industrial problems currently affecting skilled manpower availability. In this regard the Government believes that it is appropriate to point out that both the representatives of industry and labour shared a substantial commonality of views in regard to this issue. In fact the majority of the final recommendations to emerge in the task force report dealing with manpower policies were based directly on the very substantial contribution made by labour.

The individual recommendations together with the Government responses follow:

Recommendation

1. Secondary Schools

- a) Guidance counselling should be upgraded. Students should be encouraged to choose a career based on their talents rather than the social or financial status of the job. Students should be given the clear picture of the job opportunities and the requirements, wages and employment conditions in the various jobs.
- b) Job training programs should be offered in the first year of the secondary school.
- c) High standards should be maintained for technical teachers and their skills should be upgraded from time to time to keep up with new technology.
- d) Students should be given a broad-based training so that they can adapt to changing technology in future years. They should be taught maths, sciences and drafting as well as the basic bench, machine and equipment work that is related to the trade.

- e) Apprenticeship training should be recognized as part of our educational system.
- g) Shops in secondary schools should be equipped with basic modern machinery and technology.

2. Community Colleges

- a) A two or three-year, broad-based, work-simulated training program consisting of machine and equipment shops, bench work, drafting and design, and science subjects.
- b) Community colleges should be staffed with competent instructors and equipment with modern machines and technology.

3. On-the-Job Training

- a) Graduates of Secondary Schools (technical trades training) and 2-3 years related training in a Community College would be given up to 2 years of credit towards a 4-year apprenticeship program.
- b) At least 2 years of on-the-job training would be necessary to qualify for such trades as tool and die maker, general machinist fitter, maintenance trades (electrician, millwright, pipefitter, etc.), instrument mechanic, electronic technician, and so forth.
- c) Successful graduates would receive a Certificate of Competency in the trade.
- d) A special fund should be established for skilled trades training into which manufacturing companies would contribute a payroll tax. Apprenticeship training costs should be paid from this fund to employers who establish and operate a recognized apprenticeship training program as well as for a recognized retraining and upgrading program when new technology is introduced in the plant.

Government Response (Agree in principle)

These recommendations, for the most part, pertain to areas in which the prime responsibility rests with provincial governments (i.e. issues related to secondary school education, community colleges, and trades certification).

However, the federal government views as extremely important the development of domestic training for high-level blue-collar skilled trades. To this end, the 1979-80 Employment Strategy has allocated \$20 million for Critical Trade Skills Training, aimed at stimulating training in certain "key" blue-collar

skills. Further funding increases for this initiative are proposed for the 1980's. In addition, the federal government's funding of institutional training includes the classroom portion of apprenticeship, which will amount to over \$100 million in the 1979-80 fiscal year.

Regarding the establishment of a training fund for high-skilled trades, the CEIC is prepared to explore with management and labour means of obtaining greater private sector participation in skill training through concepts such as "levy-grant" training financing, on the understanding that such an approach would be voluntarily sought by the industry and not imposed by the Government.

Recommendation

4. General

- a) We need a coordinated national manpower training investment policy that will train Canadian youth and adults and produce an adequate supply of skilled tradesmen.
- b) This program should involve federal and provincial governments, the education institutions, labour and management.

Government Response (Agree)

As noted in the recommendation, development of a coordinated approach to manpower training will involve the cooperation of governments and the private sector.

Strong federal-provincial coordination of manpower training is already present through the existence of Federal-Provincial Training Agreements, which are regularly negotiated between the federal government and each province. These Agreements establish the basis for federal-provincial cooperation in the training process. In addition, the two levels of government cooperate in manpower planning on an ongoing basis through federal-provincial bodies in each province (called "Manpower Needs Committees" in most provinces).

The federal government strongly supports an increased private sector role in the determination of manpower policy and in the advising on training and educational requirements. It believes that the most effective approach to greater government/private sector cooperation will be to develop improved sectoral consultations and greater government/private sector cooperation at the provincial and area levels. It is the federal government's intention to recommend strongly that business and labour have direct inputs into the Federal Provincial Manpower Needs Committees.

The Government is also introducing direct measures to strengthen private sector involvement in the training process, and to provide additional support to provincial apprenticeship programs. In the development of its employment strategy for the 1980's, the CEIC will explore means of placing greater emphasis on on-site industrial training and continue to give increased priority to high skill training programs. In addition to the \$83 million in support of provincial apprenticeship training and the \$20 million for critical trades skill training provided by CEIC in 1979/80, a \$20 million increase will be allocated to the Canada Manpower Industrial Training (CMITP) and \$30 million in new funds will be provided to the Canada Manpower Training Program for institutional training and trainee allowances for skill training to meet industrial needs.

Finally, at the level of national consultation, the federal government has established the Employment and Immigration Advisory Council, outlined in response to the previous recommendations, to advise the Minister of Employment and Immigration on the formulation of policies and programs pertaining to the labour market.

4. Recommendation

- c) All manufacturing industry trades, such as tool and die makers, machinists, fitters, maintenance trades, instrument mechanics, electronic technicians, etc., should be designated as apprenticed trades. The standards for each trade should be uniform in each province so that a journeyman in one province is recognized as such throughout Canada.

Government Response (Agree in principle)

While trade certification is a provincial responsibility, there is already coordination of provincial certification standards in many trades through the interprovincial "Red Seal" program. In addition, federal and provincial ministers of Industry have urged First Ministers to address the need for greater harmonization of labour legislation and trade practices across Canada and to direct that specific initiatives be undertaken to this end.

4. Recommendation

- d) The Government should maintain an inventory of employees in the skilled trades - the number in each trade by age groups. Industry should provide five-year manpower forecasts so there can be better planning of our manpower training programs.

Government Response (Agree in part)

The CEIC strongly supports the need to improve manpower planning. It regards an increased private sector role in the manpower planning and training process as critical to the development of adequate supplies of domestically-trained workers, and is prepared to discuss specific joint management/labour proposals regarding instruments to improve manpower planning. The CEIC notes, however, that the establishment and maintenance of a detailed national inventory of skilled manpower would be beyond Commission resources.

To facilitate the filling of more immediate manpower needs, the CEIC is giving a high priority to the development and installation of a computerized National Job Bank to help match supply and demand for labour on a geographical basis. It is also noted that following deliberations of the task force, the AIAC has started work in this area in a number of provinces (see response to task force recommendation No. 6).

4. Recommendation

- e) The Government should pay for moving allowances and short-term rental allowances to encourage moving to suitable jobs.

Government Response (Under review)

Federal government grants to encourage moving to suitable jobs have in fact been in place for a number of years. Such grants are currently available to cover both relocation costs and the costs of travel to seek work, while federal tax regulations allow relocation costs as a deduction from taxable income. Furthermore, the program of mobility grants (the Canada Manpower Mobility Program) is being reviewed with the aim of increasing its flexibility and adaptability to the expected needs of the 1980's.

PART IV

RESPONSE TO SUPPLEMENTARY REPORT BY MR. J. GILL, UNITED
AUTOMOBILE, AEROSPACE AND AGRICULTURAL WORKERS OF AMERICA (UAW)

Mr. Gill submitted comments on a number of issues. Each of these is summarized below and is followed by a Government response.

1) State of the Industry

Recommendation

With the anticipation of continued Government financial contributions to the aerospace sector, closer attention must be given to direct Government interventions in day-to-day operations and long-range planning, whether by public ownership or other means.

Government Response (Agree in part)

The Government currently owns two aircraft companies - Canadair and de Havilland and is represented on the respective boards of directors. However, it does not seek to usurp the direct responsibilities of the board and company management for operating the companies as successful business enterprises. The Government does not seek to enlarge the ownership and regards its membership of Canadair and de Havilland as temporary stewardships until they can be sold to responsible Canadian private interests.

As detailed in the overview and in a number of responses to the task force, the Government attempts to ensure that long-term benefits to the Canadian economy are maximized whenever financial assistance is provided to the industry. It is also Government policy to seek offsets of a long-term nature from major procurements.

In the overall consultative process, various labour representatives expressed the view that increased tax advantages provided to companies should be tied to equity participation in those companies. However, mandatory equity participation by Government can be a deterrent to private investment. Recent tax advantages accorded industry are directed to the encouragement of additional investment which should result in greater productivity and ultimate benefits from increased jobs. The Government sees in this greater investment more advantages for the economy than would be obtained by exchanging tax advantages for an equity position for Government.

2) Rationalization of Industry

a) Recommendation

If we are to ever achieve any degree of stability in the aerospace industry then it must come about by measures designed to achieve that purpose over the long run and not short term profit making steps. This may require:

Consolidation by mergers or cooperative ventures as we now see in Europe, and earlier consolidation proposals in Canada. This would allow for integration of expensive R & D, engineering, marketing operations, etc., instead of duplication, the rationalization of production facilities.

Government Response (Under review)

The main aircraft companies, de Havilland and Canadair were purchased from their foreign owners by the Canadian government in 1974 and 1976 respectively to ensure their long-term operation in Canada. A sale of the companies to the private sector is planned when feasible. An assessment of the options open to the Government in connection with its ownership of these two companies, and their advantages and disadvantages, was completed by Mr. D. Golden, President, Telesat in 1978. These together with other factors are currently under review.

Cooperative ventures in marketing and other areas are encouraged whenever conditions warrant such an approach.

b) Ownership

Recommendation

With the Government controlling two large facilities, Canadair and de Havilland, and with it being the largest purchaser, not to mention the generous grants given from time to time from the public purse, it makes eminent sense for the Government to ensure that the public's interest is protected by an even larger degree of public ownership or control.

Government Response (Disagree)

The Government does not purchase the largest share of the output of the Canadian aerospace industry as evidenced by the fact that over 70 per cent of industry sales are destined for the export market.

As discussed in the response to the first recommendation, the Government does ensure that the "public's interest" is protected before providing assistance to the industry. As a result, it is the Government's view that the objective can be met without increasing public ownership or control of the industry.

More generally, the federal government believes that the principal actors in the process of economic development and growth must be the individual firm and its labour force. Accordingly, the thrust of Government policy directed at growth must be to contribute to conditions that enable Canadian business and labour to excel in the provision of goods and services competitively to Canadians and to the markets of the world.

c) Diversification

Recommendation

Now is the time to plan for rapid conversion of facilities to meet other public needs such as rapid transit vehicle production to allow for not only a cushion during downturns in aerospace production, but also to assist in developing a sound and sensible transportation policy to serve the real needs of the Canadian people.

Government Response (Agree in part)

A number of aerospace companies are attempting to diversify and some, like SPAR and Canadair, are developing technology and products for the urban transportation market.

The Government is prepared to consider any requests for innovation or adjustment assistance from companies who are planning to diversify their operations. However, the initiative for diversification must be left with the private sector.

3) Material Costs

Recommendation

It is recommended that immediate attention be given to discovering:

- a) the extent of out-of-country purchasing of parts and components for use in Canadian manufacturing;
- b) if this is a result of parent company policy;
- c) the potential for the production of these parts and components in Canada.

Government Response (Agree in part)

The Canadian aerospace industry, because of its structure, is closely integrated with the U.S. industry. As a result, there is a substantial flow of components and end products between these two countries. As detailed in the sector profile there has been a net industrial trade balance, in favour of Canada, of \$428 million in 1976 and \$378 in 1975.

Since the industry is export oriented, it is fully exposed to the competitive forces of the international aerospace market. Government strategy is thus to provide financial support and services to assist the industry in sustaining a viable share of the following independent market sectors:

- systems and components for United States commercial and defence aerospace products;
- proprietary Canadian end products and services, such as STOL aircraft, small aero-engines and factory repair and overhaul services, which can satisfy both export and domestic aerospace requirements in commercial and defence areas;
- derivatives of aerospace products, capabilities and services for other transportation markets (such as Canadair's role as systems manager and prime contractor for the Ontario Intermediate Capacity Transit System, and gas turbine powered pumping stations for oil and gas pipelines).

The Government is also concerned with the maintenance of the industry's capabilities to undertake industrial benefit opportunities associated with major national defence and commercial carrier procurements.

Increasing domestic content is an important consideration in all these areas.

4) Skilled Manpower

Recommendation

Industry should assist in the financing of skills training through a vastly enlarged apprentice program in relation to their use of skilled trades.

Government Response (Agree in part)

While noting that this recommendation is addressed to industry, the federal government strongly endorses an increased private sector role in manpower planning and training programs, and is taking further action to support high-skill training and apprenticeship programs. In its 1979-80 Employment Strategy, for example, the Government has announced a new policy of direct support to Critical Trades Skills Training in "key" high-level trades. \$20 million is allotted for such training in 1979-80, with a proposed expansion to \$40 million per annum in the 1980's. In addition, the federal government's funding of institutional training includes the classroom portion of apprenticeship, which will amount to over \$100 million in the 1979-80 fiscal year. The Government is also prepared to

explore with specific industry sectors the concept of "levy-grant" training financing on the understanding that such an approach would be voluntarily sought by the sector itself and not imposed by the Government (as is the case in other countries).

The federal government is taking steps to provide greater incentives to both firms and individuals to participate in industrial training. As part of its support for critical trade skills training, for example, the Government is exploring means of increasing its overall support for such training and of concentrating this support in the critical early years of training when firms' costs and trainee dropouts are highest. The Government is also examining means of streamlining its delivery of industrial training, in the expectation that reduced administrative burden for participating firms will be a further training incentive for them. More generally, the Government is giving consideration to extending the duration of its financial support for industrial training past the present maximum of 52 weeks.

5) World Markets

Recommendation

Attention must be given to enhancing the possibilities of expanded sales throughout the world consistent with existing Government policies, so as not to continually depend on U.S. needs which leave the Canadian aerospace sector at the mercy of the fluctuations of a single market.

Government Response (Agree in principle)

As described in the overview, the task force made a number of recommendations concerning the need to facilitate domestic and export sales of civil products.

Please refer to the Overview and the Detailed Responses to Task Force Recommendations for the Government response to this subject.

6) Military vs. Civil Requirements

Recommendation

Greater emphasis on civilian aircraft production is recommended for the future.

Government Response (Agree in principle)

As detailed in the sector profile, the percentage of commercial and civil sales as a percentage of total sales of the sector has been increasing. In 1977, over 60 per cent of total sales were non-defence.

This trend is continuing with the production of the Challenger and DASH 7 aircraft and with recent orders for components for the next generation of commercial aircraft.

The Government already seeks to assist the industry in penetrating world markets through the mechanism of its trade representatives worldwide, sponsorship of worldwide trade missions and sponsorship of representation at major trade shows such as the Paris Air Show.

ANNEX I

MEMBERS OF THE CONSULTATIVE TASK FORCE ON AEROSPACE

CHAIRMAN D.C. Lowe, President
Pratt & Whitney Aircraft of Canada Limited

MEMBERS

W. M. Auld
President
Bristol Aerospace Ltd.

R. Bannock
President
The de Havilland Aircraft
of Canada Ltd.

P.E. Beattie
President
Menasco Canada Ltd.

C.L. Bernier
Province of Quebec
Ministry of Commerce

M. Brennan (Secretary)
Department of Industry,
Trade and Commerce
Government of Canada

E.L. Bunnell
Chairman
Northwest Industries Ltd.

D.C. Cameron
President
Canadian Aircraft Products Ltd.

Prof. R. Chant
Director of Office of Industrial Research
University of Manitoba

L. Dyke
President
Boeing of Canada Ltd.

K.F. Gibson
General Manager
Leigh Instruments Limited

J. Gill
United Automobile Workers

C.R. Gollihar
Vice-President
McDonnell Douglas Canada

H.W. Grant
President
Standard Aero Ltd.

D. Harvey
Province of British Columbia

R.R.B. Hoodspith
Industrial Enterprises Inc.
Prince Edward Island

F.R. Kearns
President
Canadair Ltd.

André Le Brun
Chief Executive
UDT Industries Inc.

K.C. Rowe
President
IMP Aerospace Ltd.

M. Rygus
International Association of
Machinists & Aerospace Workers

W.J. Schabereiter
Ministry of Industry & Tourism
Province of Ontario

M.T. Stringer
Executive Vice-President
Heroux Limited

L.H. Tough
Department of Industry & Commerce
Province of Manitoba

E. Wall
President
Aviation Electric Limited

ADDITIONAL COPIES AVAILABLE FROM:
OFFICE OF INFORMATION AND PUBLIC RELATIONS
PRINTING AND DISTRIBUTION UNIT (2E)
DEPARTMENT OF INDUSTRY TRADE AND COMMERCE
OTTAWA, CANADA, K1A 0H5

AUSSI PUBLIÉ EN FRANÇAIS