

Minister of Industry,
Science and Technology and
Minister for International Trade



Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

Statement

Déclaration

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**NOTES FOR AN ADDRESS BY
THE HONOURABLE MICHAEL H. WILSON,
MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND
MINISTER FOR INTERNATIONAL TRADE,
TO THE
AEROSPACE INDUSTRIES ASSOCIATION OF CANADA**

**HALIFAX, Nova Scotia
September 30, 1991**

Thank you for your kind introduction, and thank you, ladies and gentlemen for this opportunity to add my own observations to the theme of this year's annual general meeting: "Innovation: Key to Prosperity."

I would like to speak about the role of innovation in your industry. And I would also like to enlist your support for an initiative designed to promote innovation throughout the Canadian economy, and prosperity for all Canadians.

The aerospace industry in Canada is no stranger to innovation. Your ability to develop and incorporate technology into new designs has been a key to your competitiveness. And any industry that sells \$6 billion worth of equipment every year is a significant contributor to the overall competitiveness of Canada's overall economy.

With some 70 per cent of your total sales as exports, you are more aware than any other industry that Canada is heavily reliant on trade. For this reason you are very familiar with the rigours of competition in the global marketplace.

Your product development capability is recognized around the world. It is a reputation that together we have worked very hard to achieve.

Independent product development undertaken by Canadian firms, government-supported research and development (R&D), aggressive technology-transfer programs, and the skills and expertise of Canadian engineers and managers have all contributed to an industry that employs 64,000 Canadians.

You have been among Canada's foremost exponents of advanced manufacturing technologies. Your use of modern manufacturing systems and methods to lower production costs has set an example for other sectors to follow.

We don't have to travel very far from here to see the evidence of your innovation. The Pratt and Whitney Canada plant at Aerotech Park, which I will be visiting later today, is as advanced a facility as any in the world. It has state-of-the art components for machining turbines uses CAD/CAM and other leading-edge technologies.

Application of new technology is not the only way in which companies are innovating. They are also finding innovative ways to empower their employees. It is found in the way in which the company has embraced the total quality management concepts that your organization and my department helped to promote. It is found in the creative interchange between the company and the training facilities at the Technical University of Nova Scotia.

Innovation means much more than technology. It means more than creative uses of capital.

Innovation must be applied to all elements of business:

- to human resource development;
- to marketing;
- to inventory control;
- to building partnerships, joint ventures and collaborations in research and development; and
- to finding new ways of raising investment, and leveraging that investment.

I could continue talking about the successes of the aerospace industry in Canada. Take Bell Helicopter Textron's plant in Mirabel. President Lloyd Shoppa tells the story about how he was showing the new plant to a delegation from Mitsui. A senior executive turned to him and said: "You know, we are very impressed by the factory here. We don't have anything like it in Japan."

Let's face it, we could list success stories like these all day. But we did not come here to pat one another on the back.

The industry faces some major challenges. We're here to see what can be done to address them.

I know that you're worried about the continuing climate for investment. I know you're worried about the climate of competition in the worldwide aerospace industry.

Well so am I. And later today I will have an opportunity to sit down with your Board and talk about some of your specific concerns. I am particularly looking forward to our discussion about:

- government share of contributions to the Defence Industry Productivity Program (DIPP) program;
- federal defence procurements budgets;
- scientific research and experimental development tax credit applications; and
- developing innovative financing policies.

At the outset, I can say that we agree on certain basic values and ideas when it comes to these topics. We both agree, for example, that the industry itself bears the lion's share of the

responsibility to remain economically viable. We agree that the industry is making a significant effort to remain competitive.

And none of us would deny that the international aerospace industry is characterized by high levels of government support. If Canada wishes to remain a player in the international industry, the Government of Canada must continue to play a major role.

But in addressing these your industry's specific concerns, I hope that we will also have an opportunity to talk about the challenges that the Canadian economy as a whole faces in the coming years.

These are challenges that affect your ability to compete. They have an impact on your ability to find skilled employees or negotiate research consortia. They have an impact on your ability to tap international markets or raise financing for plant expansion.

And these certain basic challenges affect the broad spectrum of Canadian industry.

Let me describe the challenges in terms of the World Competitiveness Report. Every year the Geneva-based World Economic Forum ranks the 24 Organization for Economic Co-operation and Development (OECD) nations according to their ability to compete in the global marketplace.

In 1984, we were ranked in eleventh place overall. That was before the Government's Agenda for Economic Renewal had a chance to take effect. That Agenda has been at the heart of government policy since 1984. It is still in place today.

The Agenda for Economic Renewal includes deficit reduction, deregulation and the privatization of over 20 Crown corporations. It includes modernizing and streamlining Canada's intellectual property laws. It includes bold and innovative measures to open new markets for Canada -- the Free Trade Agreement and the Going Global initiative, to name just two.

Has the Agenda for Economic Renewal been effective? Yes. We were in eleventh place in the World Competitiveness Report in 1984. In 1990, Canada's ability to compete was ranked fifth in the world.

Good news. Certainly an indication that we're on the right track. But when we look more closely at the report, we find causes for concern. We've gone a considerable distance in

providing a fiscal and regulatory environment for business to grow. But some enormous challenges remain.

According to the report, Canada's competitive strengths include abundant natural resources, cheap energy, and excellent highways and airports. Canada's health care system is rated the best in the world.

But our school system ranked eleventh out of 24 in terms of its responsiveness to the economy. The international orientation of our economy ranked sixteenth. We ranked seventeenth in science and technology. Our company training programs ranked twentieth - fourth from last.

What does this tell us? It shows a nation that has grown rich on its natural resources. A nation that has used its wealth to create excellent infrastructure and social services. But it has not reinvested enough of its wealth in knowledge, in science, and in technology.

The Government of Canada has targeted five areas in particular where this country must focus considerable effort in the years ahead. I would like to look at each of the five with you. I would like to raise a few questions. And I would like to ask for your advice.

Learning

First, learning.

Your industry has helped drive a demand for learning. You have helped create the "smart jobs" that require more specialized skills. You have helped create an environment in which skills become obsolete more quickly.

In the next decade, nearly two thirds of all new jobs created, will require at least a high school diploma. In that same period, fully 40 per cent of those new jobs will require more than 16 years of training. Yet about half of all workers beyond school age in 1986 had less than a high school education.

The problem is made worse every year as 3 out of 10 high school students drop out. Many of them join the 38 per cent of adult Canadians who are functionally illiterate.

Your industry requires well-trained professionals. So, your industry also depends upon Canada developing a learning culture. Here in Canada, as elsewhere among our trading partners, the

challenge is not only to educate the young but also to renew the skills of those now in the work force.

And how are you going to keep your employees abreast of new developments in the industry?

Employee training has become a key feature in the ability of companies to compete. But Canadian industry spends less than half as much on training its employees as American industry does. Our businesses spend one-fifth as much as Japan; one-eighth as much as Germany.

Availability of skilled production labour, experienced technologists and engineers still remains a concern for the Canadian aerospace industry.

In the past, the industry recruited experienced technical staff almost entirely from Europe. Most of these technical staff are approaching retirement and must be replaced.

To some extent your industry lacks the infrastructure required to train newly graduated technicians and engineers to replace soon-to-retire technical staff. There are signs that this problem is being addressed by your industry, particularly in Quebec.

What can you do to help encourage more young Canadians to pursue the technical and engineering studies that are vital for your future?

How can the many small- and medium-sized businesses in your industry do more to train their employees on the job?

These are just a few of the many questions that Canada must answer in our effort to promote continuous learning in this country.

Science and Technology

The second major area in which Canada can improve its competitiveness is in science and technology (S&T).

No one here needs to be told how S&T will drive the competitiveness of Canadian industry in years ahead.

And you are well aware that our S&T challenge is two-fold. First, how can we increase the amount of research and development performed in Canada? And equally important, how can the diffusion of new technology be improved?

Aerospace is one of the most R&D-intensive industry sectors in the world. The Canadian industry traditionally invests about 10 per cent of revenue from total sales in R&D. In fact, your industry accounts for over a fifth of the total manufacturing R&D performed in Canada.

That serves as an admirable example to other Canadian industrial sectors. But it is still lower than aerospace R&D in France and the United Kingdom, for example. Aerospace companies in the U.S. invest 17.5 per cent of revenue in R&D.

How are we going to promote more R&D by Canadian industry as a whole? How can we build bridges between the research being done in university, government, and industry labs?

Doing R&D and transforming it into new technology are key elements in a competitive strategy. Equally important is our ability to use new technology.

But here again, the rate of application of new technology to industrial processes in this country is not high enough to keep up with our competition.

How can we enable the small- and medium-sized companies in the sector to rapidly adopt new manufacturing and process technologies?

Investment

The third issue of competitiveness -- investment -- is equally important to your industry.

Lower cost of capital investment means that companies can afford a longer time horizon for payback on their investments, including investment in R&D.

What can be done to increase the availability of investment capital in Canada?

Part of the solution is to gain control over government spending. Our companies are competing in the capital markets with a federal government that must finance a \$400 billion national debt -- a debt run up by governments that thought they could spend their way to prosperity.

That is one major reason why the Government places such a high priority on deficit reduction. We're getting there. Government operations now run in the black.

This year, our operating surplus will be \$12.7 billion, compared to the \$16 billion operating deficit we inherited in 1984. That is a \$28.7 billion turnaround. Only the interest on the national debt causes our deficits. In fact, compound interest on the debt we inherited accounts for over 80 per cent of the debt incurred since 1984. Next year we will get the deficit below \$25 billion for the first time in a decade.

The Government is steadily reducing its demands on the capital markets. In the long term, this should make investment capital easier to obtain for all of you.

But with or without the competition from the Government for capital, aerospace companies have a tough time finding institutional financing. New product development means risk. You need adequate capital to cover front-end risks.

But profit margins, especially in the civil aerospace industry, are razor thin. Companies within the industry often have difficulty generating adequate internal funds or private capital to finance high-cost product development activities.

What can be done to make the financial community as familiar with the strengths and opportunities of your sector as they are with the risks?

Private investors are not lining up. The high risk and the relatively lengthy investment/return cycle means that they can find more profitable opportunities elsewhere.

Most of the companies in the world's aerospace industry rely on government support in one form or another.

How can we use government investment in your industry as a lever to encourage more investment from other quarters?

Domestic Markets

The fourth area where Canada's competitiveness must improve is in its domestic market.

A market in which our consumers demand the best. A market in which our suppliers can provide the best. A market in which neither consumer nor suppliers are hamstrung by outmoded intellectual property laws or regulations that no longer serve a public policy purpose. A market that is not fragmented by internal barriers to trade.

What can be done to help create an efficient market for your companies?

By one estimate, there are approximately 500 barriers to interprovincial trade in Canada. We must bring these barriers down. They are costing Canadians individually -- nearly \$1,000 annually -- and are preventing our industries from achieving the economies of scale they need to take on the world.

I am working with my provincial colleagues on measures to make Canada a single, integrated market by 1995 -- a market that could save Canadians as much as \$6 billion a year.

Trade

And finally, the fifth area where Canada can improve its ability to compete is in opening opportunities for trade.

With 70 per cent of its sales in export markets, your industry is a good example that many firms in Canada should follow.

Despite the proximity to the enormous markets in the U.S. and the Pacific Rim, many Canadian firms find it difficult to establish a presence abroad. Fully two-thirds of Canada's 40,000 manufacturing companies do not export at all.

Successful companies are realizing that simply trade promotion alone is insufficient in today's global economy. They are realizing that long-term success will be built on strategic partnering that embraces not only trade, but investment and technology transfers.

How can more companies in all sectors learn from the experience of these companies?

What can the federal government do to help your companies sell to foreign buyers? How can we provide better market intelligence and cultural awareness about specific markets? How can business make better use of global marketing channels? And is there more that the Government can do?

I'm looking for your advice.

Canada is a great trading nation. But we are going to have to get much better at tapping market opportunities if we expect to stay a great trading nation.

These, then, are five areas in which Canada can improve in order to increase our ability to compete in the global marketplace.

Each of these five -- learning, science and technology, investment, domestic markets, and trade -- is important. None is revolutionary.

What is revolutionary is the change in attitude required to build a more productive and prosperous Canada. We have to think in terms of co-operation, consultation and partnership. We have to think of the long-term.

There are no miracle solutions in these five areas. But we must work together to find lasting solutions. And that is why the Government of Canada will soon launch the Prosperity Initiative: to provide a forum in which Canadians can plan together and work together to prepare for the challenge of the global economy.

We want and need Canadians to participate in the Prosperity Initiative on many different levels.

Later today I will meet with your Board of Directors. As I said before, I look forward to an informative session with them.

Aerospace Industries Association of Canada (AIAC) members have long been involved in technology and exporting. What lessons have you learned?

But your individual companies can contribute as well. Don't leave it up to that AIAC to make your case for you. Support the points that the Directors will make today. Make sure that your companies become involved in the Prosperity Initiative.

We also want to hear from you as citizens. We want to hear from anyone who has a stake in the future prosperity of Canada -- and that includes us all.

In order to focus the discussion on how to enhance Canada's prosperity, the Government will release two papers.

The first, *Learning Well ... Living Well*, outlines some of the challenges we face in promoting continuous learning in Canada.

The second, *Prosperity Through Competitiveness*, outlines Canada's challenge in terms of five areas I have just outlined: learning, science and technology, investment, domestic markets, and trade.

Each of these areas is important to the information technology industry as a whole, and your sector in particular. Each raises questions. I want you to help me find the answer to those questions. I want you to raise more questions that concern you.

I want you to buy into the Prosperity Initiative. What are we asking you to invest? Your talent, your brains, and your concern about the future of Canada.

What is really under consideration here is not just the prosperity of an economy. At heart, what is at stake is the survival of a nation.

Some say that we have been preoccupied for too long on the constitutional issue and it is time to get back to work. I say that the constitutional and the prosperity issue are inseparable.

Canadians have a great stake in our continued prosperity. Improving our competitiveness means a higher standard of living. This, in turn, will provide us the means to be a caring society. A society that can secure the social programs we see as essential to our being Canadian. A society that can continue to support the arts and culture which helps us to understand ourselves. A society with the means, and the will, to make our education and technologies second to none in the world.

Some of you will know that a recent United Nations study ranked Canada as the second best place to call home. I think in our hearts we all know that it is second to none. The Prosperity and Unity Agendas are aimed at making that a reality.

Thank you.