



2016 Top Markets Report **Aircraft Parts** Country Case Study

Canada

Canada consistently has been a prime destination for U.S. aerospace exports; in fact, Canada was among the top five markets in five of the last six years (2010-2015). Moreover, Canada has the world's fifth largest aerospace industry, with production in almost every aerospace subsector. According to Boeing, Canada's two largest airlines (Air Canada and West Jet) have outpaced U.S. airline traffic and capacity growth since 2009.

Overall Rank

5

Canada ranks high in terms of overall U.S. aerospace exports, U.S. aircraft parts, and the overall size of its domestic aviation and aerospace industry. U.S. exporters to Canada face virtually no barriers to market entry due to various bilateral agreements between Canada and the United States. The robustness of the Canadian aerospace market creates a high level of competition for new entrants from local Canadian, European and other U.S. companies.

Overview of the Aviation and Aerospace Manufacturing Market

Canada's diverse and mature aerospace industry is dominated by four subsectors: aircraft and aircraft components (42 percent), MRO (31 percent), engines and engine parts (11 percent), and avionics and electrical systems (7 percent).¹ The top 19 Canadian aerospace companies account for 87 percent of Canada's aerospace production and include companies such as Bombardier, Pratt & Whitney Canada, Bell Helicopter Textron, and Vector Aerospace.

The Canadian aerospace industry focuses primarily on civil aircraft manufacturing and invests more in research and development than any other Canadian industry (approximately US\$1.5 billion per year). The industry of late has focused on implementing lean manufacturing and supply chain principles, with OEMs increasingly working with fewer suppliers and larger system integrators in order to offset risk, hedge against business cycle volatility, and better manage the costs of large aircraft platforms. Canadian aerospace R&D supports the development of new technologies such as new materials (*e.g.*, composites), improved de-icing, noise reduction, enhanced fuel efficiency and engines more capable of operating in extreme weather. Canada also has experienced increased demand for unmanned aircraft systems (UAS) for tasks such as mapping and land surveys. Transport Canada has authorized the use of UAS for multiple law enforcement and commercial applications.

In 2015, Canada was the fourth largest overall export destination for U.S. aerospace products at approximately US\$8.9 billion. Furthermore, over the past 10 years, on average, approximately 61 percent of U.S. aerospace exports to Canada were aircraft

parts. In addition, about 57 percent, on average, of the aircraft parts imported into Canada from 2005 to 2014 were from the United States. The U.S. share of Canadian aircraft parts imports is larger (by percentage) than the U.S. share of total Canadian imports of all goods (which is more than 40 percent, larger than any other country).

Canada's commercial aviation fleet is quite significant with 279 Boeing aircraft, 116 Airbus aircraft, 106 Bombardier aircraft and 66 Embraer aircraft (567 total aircraft) in service through 2014. This large fleet creates demand for a high level of parts for MRO activity. While the 183 large civil aircraft that Canadian airlines have on order places Canada 16th in that metric (behind Japan and Brazil), Air Canada and West Jet (Canada's two largest airlines) have increased their airline traffic and capacity growth by 5 percent and 4 percent, respectively, since 2009.ⁱⁱ By comparison, U.S. passenger traffic grew an average of 2 percent, and U.S. capacity grew between 1 and 2 percent since 2009.ⁱⁱⁱ

Challenges and Barriers to Aircraft Parts Exports

As a result of a number of bilateral agreements between the United States and Canada, there are virtually no barriers of entry for U.S. companies exporting aerospace goods to Canada. These agreements include: the North American Free Trade Agreement (NAFTA), the North American Defense Production Sharing Agreement, Canada's ITAR Exemption (Section 126) and a U.S.-Canada Bilateral Aviation Safety Agreement that streamlines regulatory requirements, such as Canadian airworthiness approval for U.S. aircraft parts. Moreover, Canada is a signatory to the WTO Agreement on Trade in Civil Aircraft and is thus committed to free trade principles for civil aircraft and aircraft parts.

Canada's current market environment does pose a few challenges to would be exporters. New entrants from the U.S. most likely would face competition from current U.S. exporters to Canada, as well as from European and local Canadian companies. As well, exporters from China, Mexico and other countries are attempting to capture opportunities in Canada. Per best practices established by U.S. companies already integrated into the Canadian aerospace market, U.S. exporters, especially those

seeking to participate in Canada's aerospace supply chain, have often succeeded when they were willing and able to:

- commit to long term partnerships with Canadian customers,
- take on risk,
- continuously improve and innovate,
- price competitively, and
- demonstrate financial soundness.

The maturity of the Canadian aerospace market also presents a challenge. New entrants will need to adhere to lean supply chain and manufacturing principles in order to compete and, most likely, will have to integrate into the supply chains of Canada's larger systems integrators. While these systems integrators will work with OEMs to support and manage the supply chain, business cycle variations will have greater effect on suppliers.

Moreover, U.S. suppliers will have to uncover who the various system integrators are that have been selected by Bombardier and present their business cases to them. Many of these integrators are U.S.-based, and therefore, it is highly likely that a company wanting to export to Bombardier will do so indirectly. Another important note is that in many cases, suppliers at lower levels of the supply chain need to be Bombardier approved. Bombardier does not approve suppliers unless they are either doing business directly with the company or have been referred to them by a risk-sharing partner, such as a system integrator.

Another challenge to consider is the existence and effects of Canadian subsidies to Bombardier. The Canadian federal and Quebec provincial governments provided funds to Bombardier to help it develop the CSeries. The federal funding, C\$350 million, appears similar to the "launch aid" provided by EU countries to Airbus that the United States has challenged as being WTO-inconsistent.

Bombardier has stated that the CSeries aircraft will contain approximately 53 percent U.S. content. It is not clear, however, whether the U.S. content will generate new U.S. jobs or merely shift the supply of U.S. manufactured components away from Boeing. Boeing's aircraft have higher U.S. content than the

CSeries, are not improperly subsidized, and could fill airlines' demand for aircraft in the CSeries class.

Opportunities for U.S. Exporters

While the maturity of the Canadian aerospace market and the heavy competition within it present some challenges to U.S. exporters, ITA considers Canada to be a priority market for aircraft parts export promotion. The favorable conditions for U.S. aerospace companies in Canada and the extent of integration between the aerospace supply chains of the U.S. and Canada suggest that large scale ITA efforts to create market openings or remove barriers

are not necessary. Rather, ITA should find ways to support individual opportunities to serve specific subsectors or supply chain needs in Canada.

The recent growth in airline traffic and capacity in Canada suggests that U.S. aircraft parts suppliers should target sales to Canadian airlines and MRO facilities in Canada as these services experience a corresponding uptick.

ⁱ This and other data regarding the Canadian aerospace market is drawn from the *2014-2015 U.S. Commercial Service Aerospace Resource Guide*

ⁱⁱ Boeing Current Market Outlook 2014-2033

ⁱⁱⁱ *Ibid.*