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**Competing in the 21st Century:
Our Challenges
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Check Against Delivery

2.

Thank you, Stanley.

On behalf of Bombardier, let me begin by thanking the Canadian Club and the Empire Club for according me the honor of addressing this joint session.

I understand that these Monday speaking engagements have become de rigueur for Prime Ministers past and present. You will appreciate how ironic it is for me to be speaking during this same time slot since I never had, nor will have, any interest in active politics. However, my involvement in the last Québec referendum and the abuse that I had to endure as a result has given me a lot of sympathy for those who have decided to engage in a political career.

The last few years have not been easy for many Canadians. We have worked hard to make our economy more competitive, and there have been some painful adjustments -- by individuals, companies and governments -- along the way. But there is now enough evidence to suggest that this restructuring process has placed our economy on the right track -- that there is light at the end of the tunnel, and I hope that, this time, it is not a fire!

The question on everyone's mind is, "How can we make sure the economy keeps growing and Canada remains competitive through to the next century? How do we continue to succeed in a changing world?"

3.

As a businessman and entrepreneur, I believe that a country's economic success begins with the performance of individual companies – companies that see themselves as players on the world stage, companies such as Nortel, Magna, Barrick Gold to mention just a few, that have become truly transnational corporations. But it also includes mid-sized or even small companies that are exporting successfully around the world.

Bombardier was once such a company. From modest beginnings in Valcourt, Québec, a half century ago, we have now become a global competitor.

We are one of the top Canadian-owned exporters of manufactured goods and in the first ten for R&D spending. Three quarters of the products we manufacture here in Canada are exported, contributing strongly to the country's positive trade balance.

In the past ten years, our revenue has grown ten-fold and we have expanded internationally. We have facilities in Canada, the United States, Mexico and six countries in Europe.

While we have developed beyond Canada's borders, we have grown very fast within Canada as well. According to the Business Council on National Issues, Bombardier has done more net hiring in Canada since 1990 than any other company that responded to their recent survey. Over the last six years, we have created 7,500 new jobs in Canada within our company and several thousand more in our suppliers.

For instance, in the aerospace industry alone, we now have a total of 14,100 employees working at de Havilland and Canadair. Another 9,000 jobs depend upon our purchases of materials and services from suppliers all across Canada.

Worldwide sales of our products have had a direct impact on Ontario's manufacturing sector.

Since we purchased de Havilland in 1992, we have managed to grow there from a low of 2,740 jobs to more than 5,500 jobs. We have done this by bringing to de Havilland the manufacturing of the Learjet 45 wing, by giving it responsibility for the final assembly of the new Global Express, by increasing the sales of the Dash-8 regional turboprop, and by investing in the development of the new Dash 8-400.

In addition, we have located the Bombardier Regional Aircraft Division here in Toronto with a world-wide mandate for marketing, sales and service for all of our commercial aircraft. This division employs some 750 people.

Furthermore, our Transportation Group gives employment to more than 1,300 people in Ontario. Our Systems Division in Kingston is spear-heading our world-wide sales effort for mass transit systems. Its 450 employees are currently working on projects such as Kuala Lumpur in Malaysia and Ankara in Turkey. Our Thunder Bay operation with some 800 employees is manufacturing transit cars for the Toronto Transit Authority, for San Diego, Ankara, and other cities.

5.

All together, we now employ 7,000 people in Ontario directly, and thousands more through our suppliers.

As a Corporation, Bombardier competes in several industries and markets, each one with its unique challenges and opportunities.

Our Motorized Consumer Products Group has achieved remarkable success in the last few years in competition against Yamaha and Kawasaki and aggressive American firms such as Polaris and Arctic Cat.

We are a very strong player in the snowmobile market, a market which we practically invented almost forty years ago. We have gained some 50% of the global market for personal watercraft -- a two billion dollar industry that didn't exist a decade ago.

The Sea-Doo products have been developed here in Canada where they are manufactured and exported to 42 countries around the world. We are also early leaders in both innovation and market share in the jet boat business, and we have recently launched a unique product, the Neighborhood Electric Vehicle, for an emerging market.

In mass transit we are up against truly global competitors such as Siemens, ABB-ADTRANZ, GEC-Alsthom and Kawasaki. Nevertheless, we have managed to do pretty well. Bombardier is the only remaining manufacturer in North America and we have captured over 30% of this continental market. We have also become a major player in the European market and our presence is felt in Asia with projects in Indonesia and Malaysia.

6.

In partnership with GEC-Alsthom we are introducing TGV technology to North America in Florida and will, some day perhaps, in Canada. We are also producing innovative, high-speed tilting trains for Amtrak's key North-East corridor running from Washington to New York to Boston.

In business jets, we are also leading in product innovations with our new Learjet 45, the mid-size Learjet 60, the wide-body Challenger 604 and the world-beating, ultra-long distance Global Express. I trust and hope that you have or will have the opportunity to sample some of these products. They are remarkable tools to increase the efficiency of any executive team.

In business jets, we are up against excellent high-tech companies such as Dassault of France, Textron's Cessna, Raytheon's Beechcraft, and, of course, Gulfstream Aerospace.

As you can see, we compete in many different markets, with lots of different products, against very tough competitors. I am sure that you ask yourself what do these markets have in common?

These are all markets characterized by global competitors with first class reputations and vast resources for the research and development of new products.

The businesses I have talked about so far, motorized consumer products, mass transit and business aircraft account for about 75% of our total sales and they are all businesses--this might surprise you--where there is little or no government support to industries in Canada or elsewhere.

7.

I believe this is worth mentioning as there has been a lot of media coverage of the Federal government's involvement in the commercial aerospace industry, a sector which represents about 25% of our total revenues.

I would like to focus on this part of our company for the next few minutes. I believe that some of the comments in the media may have lead to a misperception of Bombardier as well as misperception of what it takes to succeed in the global business of commercial aircraft.

First, the Canadian aerospace industry is vital to our country.

- Aerospace supports 54,000 highly paid jobs in Canada.
- Seventy percent of its sales are exports, contributing strongly to the country's positive trade balance.
- For every one thousand aerospace jobs, 500 high-salary, high-skill jobs are created in related industries.
- Finally, aerospace invests \$1.5 billion annually in R&D in Canada, or 12% of its sales.

Just 10 years ago, in 1986, major sectors of the Canadian aerospace industry were government owned. At that point, the Canadian government led other countries by moving to privatize the two main-frame manufacturers of the time, Canadair and de Havilland.

8.

Today, our very successful aerospace industry is owned by the private sector. And Bombardier is not alone in this success. Pratt & Whitney Canada is a world leader in high-performance turboprop engines, as is CAE in flight simulators. Canadian aerospace companies have grown by 50% over the past 10 years, more than the aerospace industry in any other country of the OECD. The private sector has poured billions of dollars into this sector in order to create industry leaders. And we did it with as little government involvement as possible.

Since the acquisition of Canadair, we have invested \$1.4 billion in that operation. The Canadian government's contribution for all product development there over the last ten years was \$161 million and 90 % of it is repayable. If Bombardier decides to launch the CRJ-X 70 seater jet, we will invest another \$600 million towards which the Federal government would contribute \$87 million all repayable through royalties.

Since 1986, we have become a world leader in business aircraft. We have gained a leadership position in regional turboprops, expanding and renewing the Dash 8 family of aircraft. And we have created a whole new market for 50-seat jets with the CRJ. As a result, in just ten years, Bombardier has become the world's number four civil aircraft airframe manufacturer.

The commercial aircraft industry has always been characterized by high levels of government involvement. This is much less true in Canada today, but is still very true in other parts of the world where our competitors are located.

9.

Almost all commercial plane manufacturers in other countries are funded through military aircraft programs. In the United States, \$12 billion a year in aerospace research and development is funded by the Federal Government mostly through military contracts.

Military aircraft programs are also key to the commercial aerospace sector in France, Great Britain, Italy, Brazil, and even in relatively small countries like Holland and Sweden.

In addition, our major competitors in France, Italy, and Brazil are owned in part or in whole by their national governments. As a result, our different competitors may, depending on the country, have their losses absorbed, their R&D costs written off, or their aircraft financed at subsidized rates.

The commercial aircraft market is highly price sensitive and our competitors' prices reflect their government support. It is therefore extremely unlikely that we could at this time achieve a fair rate of return on new aircraft programs without any type of government funding.

As it stands now, compared to support given by foreign governments which may reach up to 60-90%, the Canadian government's support, through the Technology Partnerships Program, is very moderate. This program is a way for the Federal government to contribute in a refundable way to large and risky development projects while ensuring that the responsibility for investment rests with the private sector.

10.

In exchange for every \$3 invested by a company in R&D, the Technology Partnerships Program may provide up to \$1. But this \$1 is not a gift, it is not even a loan: it is an investment on which the Federal government expects a royalty.

However, this program plays an essential role in making large and risky projects economically viable while ensuring that the major responsibility for funding rests, as it should, with the private sector.

Eliminating all government support in one fell swoop before our competitors' governments do the same would stall our industry's growth in Canada and channel our aerospace investments to other countries. Canadian government leadership in this area should not mean that we naively expect other countries to stop over-night supporting their aerospace industry just because Canada would have chosen to do so.

The Canadian government has shown restraint and thoughtfulness in the way it ensures Canadian aerospace is not crippled before a global ratcheting down of government support takes place.

We expect that foreign government subsidies to the aerospace industry, still high today, will come down in coming years as pressures mount on these governments to reduce their public debt, to privatize and to stop tampering with market forces.

11.

For European countries, their effort to meet the deficit and debt targets required for entry into the European Monetary Union is forcing a reconsideration of government subsidization.

Canada is at the forefront of these changes. Canada, with the full support of Bombardier and other members of the Canadian aerospace industry, is working actively in bilateral and multilateral discussions at the WTO and OECD to reduce the support provided by other governments.

We fully back these initiatives because we believe that, on a strictly commercial basis, Bombardier and the rest of the Canadian aerospace industry could take on the world.

Indeed, Canada has a number of important comparative advantages in the aerospace sector. We have a critical mass of excellent companies in Quebec, Ontario, and, increasingly, in BC, with many years of experience and global credibility.

For our part, we have played a global leadership role in consolidating the industry to a smaller number of players who can provide customers with a family of regional aircraft offering all the advantages of commonality to airlines. This is key to our long-term success.

12.

Indeed, the new President of Aero International (Regional)—a European consortium of Aerospatiale (government owned), Alenia (government owned), and British Aerospace (thankfully in the private sector), that is trying to create the Airbus of regional aircraft—recently stated that, and I quote: “Aero International (Regional) and Bombardier will be the industry leaders in regional aircraft”.

I guess if he wants to play the Airbus of regional aircraft, that means we should play Boeing, and that is all right with me! In fact, our 40% share of the regional market so far this year suggests that we are well on our way.

In the long-run, successful firms do not become internationally competitive because of government money. Indeed, as I mentioned before, three-quarters of our business already receives little or no sector-specific support. These sectors aren't subsidized in Canada or abroad. They are level playing fields, and, as I have shown before, Bombardier can be a winner under those conditions.

There are many success stories in the audience today. Canadian companies are winners in the global arena when the rules of the game are fair for all players.

But the success of Canadian companies in world markets will not ensure the prosperity of Canada if we don't keep our politics from doing permanent damage to our economy.

13.

As a Canadian from Québec, I would like to say a few words on what seems to be the never-ending debate over the future of our country.

It is quite obvious that there is a growing tension between the harsh economic and fiscal realities facing the Québec government and the «raison d'être», the overriding objective, of the party in power, the Parti Québécois.

Business people participating at the Economic Summit made sure that the Québec government understood and faced up to the problems and challenges of the Québec economy. We intend to continue doing so in the coming months and years.

But, whether pragmatic necessity carries the day may well depend on the decisions of governments outside Québec, both Federal and Provincial. These governments can, and should act, on some of the issues that have been sources of tension in Québec and elsewhere in Canada.

We must call upon our store of pragmatism, good-will, and openness to new ideas to resolve our national challenges.

A century ago, a great Canadian, Sir Wilfrid Laurier, predicted that the 20th century would belong to Canada. If he were to look upon our achievements in several areas, economic, artistic, human rights, standard of living, I believe he would say: «Job well done».

14.

But, will the 21st century belong to Canada? I am deeply convinced that if we can find our way out of our costly national unity debate, it will unleash the energy, the drive, the sense of purpose, which can truly make Canada an economic champion and one of the best countries in the world.

But to achieve this goal will require from governments, businesses and citizens a renewed determination to settle our political and constitutional differences. If we do so, Canadians will enter the next century with hope and confidence in their future.

Thank you.