Diamond isn’t just about jobs

*by **Peter Maurer**, Diamond Aircraft president*

Canada is an aerospace world leader.

The Canadian aerospace industry comprises more than 400 firms located in every region of the country. Collectively, these companies employ more than 80,000 Canadians. In the 1970s, Canadian aerospace sales averaged $1.7 billion annually and made up less than 0.5% of Canada's gross national product (GNP). Today, Canadian aerospace industry sales exceed $24 billion, make up more than 2% of Canada's GNP and with well over 80% of its output being exported, it is the country's leading advanced technology exporter.

What is the single dominant factor that has made the growth of Canada's aerospace industry and its invaluable spinoff effects possible? Government- supported research and development. Without the foresight of the federal and provincial governments and their financial support of companies such as deHavilland and Canadair, there would be no Bombardier Aerospace today. Without risk-sharing research and development funding and military procurement programs it is doubtful companies such as Pratt and Whitney and Bell Helicopter would have the Canadian presence that they do.

Diamond Aircraft is a small company, self-funded and privately owned. It pales in significance against these established and very large companies. What, then is so remarkable about Diamond Aircraft that merits government support? Of the more than 400 aerospace companies in Canada, only Bombardier, Bell Helicopter and Diamond Aircraft are actively designing, certifying and volume-producing complete aircraft.

In the aviation business, a new aircraft program is the biggest game in town. The airplane is at the top of the food chain, enabling suppliers and subcontractors to bring their products to market. Launching such a program from scratch is a business risk without peer. There are few businesses where the upfront investment is as high and the lead times as long as in aircraft design and production. Yet these aircraft programs drive the demand for suppliers and development of new technologies to help keep industrialized nations competitive. That's why the United States, Britain, France, Germany, Spain, Italy, Japan, Canada and many others have helped bear the heavy financial burden of aircraft developments in their respective countries and why emerging markets such as Brazil, China, India, Korea and Russia invest heavily in their aerospace industries. Conventional lenders are simply not an option for new aircraft developments.

The capability to design an aircraft from scratch, to certify it, to bring it into production and to successfully sell it for many years is something very few companies have mastered. In its 18-year history in London, Diamond has demonstrated successful market leadership in each category it competes in.

Diamond's all-composite airframe airplanes are praised for their safety, fuel efficiency, low environmental impact and incorporation of innovative. leading edge technologies.

Diamond does not compete with any existing Canadian aerospace company -- it complements them -- and is a valuable member of our aerospace industry, with much potential for future growth.

Diamond is one of only five companies that delivered more than 95% of the world's piston-powered aircraft last year. Of the other four, Cessna, Piper and Beechcraft produce piston airplanes based on decades-old technology. Diamond's only competitor -- that has also successfully introduced new composite airframe technology to piston-powered airplanes -- is Minnesota-based Cirrus Design. It is being sold to Chinese government-owned CAIGA (Chinese Aircraft Industry General Aircraft Co.). Simply put, Diamond has no equal, certainly not in Canada.

THE D-JET

The D-JET is Diamond's most ambitious project to date. What is not obvious to the casual observer is that the D-JET is a game-changer. It is the first of its kind, a jet-powered airplane that smashes through the cost barriers to conventional business jet ownership and operation. The D-JET is unique in its use of an all carbon-composite airframe, integrating a new technology single-engine turbofan engine and modern, low-cost glass

cockpit avionics. The D-JET creates a new airplane category and replaces airplanes that traditionally have been propeller-driven. The concept has been validated not only by industry and government experts, by suppliers and by the competitors that have followed, but by the customers that created a secured order book of nearly $400 million US.

Why then does Diamond need government assistance? The London-based D-JET program has grown in scope and complexity from the original concept -- this is not uncommon with leading-edge technology programs. The work remaining to complete is very well defined and technical risks have been minimized through targeted early stage component testing.

The total program cost, from concept to initial delivery, is $250 million. Of this, $160 million has been spent, with $120 million having been provided by the shareholders. The increased program costs and economic crisis of 2008 precluded the shareholders from completing the program without third party financial support and a request to the federal and provincial governments for support was made in early 2009.

Not wishing to rely on public funds, private equity investments were sought in parallel and an agreement was achieved in April 2010. By October 2010, the agreement had not transacted and with Diamond in a real pinch, it again turned to the federal government for support, to complement the conditional loan offer made by the Ontario government.

DIAMOND'S ASK

Completion of the D-JET will cost $90 million -- $35 million and $20 million have been pledged by the Ontario government and private investors respectively, both conditional on completion of the entire funding package. That's what makes the final $35-million loan from the federal government so critical. The loan disbursements would be spread over the next 18 months.

THE CASE FOR SUPPORT

Diamond is a unique opportunity for Canadian taxpayers. The same infrastructure and expertise assembled in London to enable the D-JET will be leveraged for derivative future developments, much as the original Canadair Challenger business jet evolved into the most successful business and regional jet family in history.

The federal government made its initial loan of $17.64 million in 2008 on the basis of a comprehensive due diligence. The province of Ontario made its offer of support, only after completing its own detailed technical and financial due diligence of the D-JET program.

The requested financial support is a fully repayable loan, not a grant, and is secured by Diamond's entire London operation, including the propeller airplane and D-JET programs. The conditions of the loan would ensure the technical know-how and hundreds of jobs would be secure in London.

Diamond has a very good track record and the shareholders are demonstrating their full commitment by risking all.

URGENCY FOR SUPPORT

Diamond held out as long as possible, awaiting a positive decision on its loan request from the federal government, well before the current election. Without any answer, Diamond was forced to cut its expenses by laying off the majority of the D-JET engineering workforce.

This team, which enables complete aircraft development, took a significant investment in time and money to assemble. With other aerospace companies recognizing the value of Diamond's employees, workforce attrition is an immediate threat to Diamond's London operation. With the loss of this team, the building of a replacement team would add cost and time that the program and company may not survive.

The solution to preventing the brain-drain is to recall the laid-off workforce now, with financial support from the government.

BOTTOM LINE

With over one-quarter billion dollars in paid wages since 1993, Diamond has been a terrific deal for Canada and a major economic driver in London. While the D-JET program is a very big risk to the shareholders, it is a very small financial risk to the government and taxpayers who have security for loaned funds. The protracted federal government decision process puts the entire London operation at risk.

All party leaders and candidates are vying for votes based on their ability to lead. Real leadership means recognizing opportunities, making decisions and accepting reasonable risks. We need our government to demonstrate such leadership and not use bureaucratic process as an excuse for inaction.

Protection of taxpayers' interests is best served by making the decision to support Diamond Aircraft at a time when it is most needed and, most importantly, before that opportunity is lost