



Aerospace Industries  
Association of Canada

L'Association des industries  
aérospatiales du Canada



## **Submission to the Government of Canada Consultation on Military Procurement**

**AEROSPACE PERSPECTIVES ON DEFENCE  
PROCUREMENT RENEWAL: MAKING THE RIGHT  
DECISIONS NOW TO ENSURE A CANADIAN  
DEFENCE INDUSTRIAL BASE FOR THE LONG TERM.**

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[www.aiac.ca](http://www.aiac.ca)

## Introduction

The AIAC represents the interests of more than 400 Canadian companies whose business is primarily conducted in the aviation/aerospace sector. The Canadian aerospace industry is a world leader in regional aircraft, small gas turbine engines, commercial flight simulators, aerostructures, landing gear systems, commercial helicopters, business, commercial and specialized aircraft, niche space products and MRO (Maintenance, Repair and Overhaul). It provides value-added employment to more than 80,000 Canadians, contributes \$2 billion in R&D, and exports 82 % of its production. This industry is also a large contributor to Canada's GDP. In 2008, it generated revenues of \$23.6 billion, of which more than 35% came from defence.

The linkages between aerospace and defence in terms of dual-use products and R&D flow-through make it difficult to arbitrarily draw a line between civil and defence aerospace companies. As such, the Government's procurement process impacts the entire aerospace industry.

The interests of the aviation/aerospace industry, in the overall context of defence procurement, are substantially different from those of other defence industry segments. The marine industry's Shipbuilding Policy, for example, addresses the key characteristics of that industry and its shipyards. Land Systems have different characteristics in terms of procurement – namely, the cycle time for procurement – and the Land Systems industry has a major Original Equipment Manufacturer (OEM) in Canada (General Dynamics Canada).

**In developing a new procurement policy for government, it is critical to recognize the differences between the various industry sectors and segments. A "One Size Fits All" approach is not adequate. What works for the marine industry will likely not work for the aerospace industry.**

The aviation/aerospace industry, for its part, has few OEMs. As a result, Canadian Forces often have little choice but to buy foreign aircraft to meet their requirements. In aerospace, the lead times for procurement are generally long, and the demands for In-Service Support (ISS) are usually worth more over a long period than the actual value of the procurement. In addition, some key national defence industrial capabilities and technology niches of Canadian aerospace global market leadership are under threat.

Canada's aerospace industry has the capacity and capabilities to participate substantially in Government procurements through its key players. Doing so would contribute concrete economic and technological benefits to the Department of National Defence (DND) and to the Canadian economy. In addition, the existence of a robust Canadian aerospace sector will ensure that a strong industrial defence base is available in Canada, able to respond to the needs of the Canadian Forces and maintain Canadian sovereignty.

**AIAC seeks a clearer and more focused Government of Canada (GoC) military procurement system that can effectively support the development and sustainment of key industrial and technology capabilities important to Canada's defence and national security within the domestic supplier base.**

**Canada should not rely on foreign suppliers in times of conflict. Meeting Canada's defence and national security needs requires capable domestic companies that can design, manufacture, deliver, support and upgrade equipment through its life-cycle.**

## Key AIAC Recommendations

The following recommendations are necessary to establish the right framework and base for modernizing and enhancing the efficiency of the Canadian military procurement system.

1. *GoC to work in partnership with industry to articulate, adopt and implement a cohesive and visionary **Defence Industrial Base Framework (legislation, regulations, policies and strategies)** by September 2010. This strategy framework should align Canada's defence industrial capability and Canada's military requirements; maintain other benefits to Canada and the defence sector in terms of competitiveness, advanced technology, skills development, employment, exports and intellectual property assets; and ensure economic growth and long-term prosperity.*
2. *GoC to **consolidate PWGSC and DND procurement responsibilities** under a separate procurement agency, reporting to the Minister of National Defence, with a strengthened Industry Canada IRB responsibility in the procurement process and a resulting modernized military procurement process that aligns legislation, policies and procedures. Due to the complexity and the time required to achieve this objective, the proposed consolidation should be a long-term objective. **In no way should it delay current procurements.** In the meantime, AIAC proposes to work with the 3 Ministers (IC, DND and PWGSC) to put together an alternative mechanism (an integrated product team with oversight from a Blue Ribbon Panel) working within the current Federal Government departmental structure to achieve the same end.*
3. *GoC to adopt an **Efficient and Modern Procurement and Contracting Process** by updating procurement legislations, regulations, policies and practices and exploring models in other countries; adopting performance-based contracting; improving assessment of risk and reward, **adopting an outcome-based approach** rather than an equipment-based approach, and increasing use of Canada's International Trade Obligation mechanisms.*
4. *GoC to **promulgate a Long Term Military Acquisition Plan** that outlines its needs and intentions. This plan should be updated and communicated yearly to ensure sustainability and avoid roller-coaster variation in procurement and associated requisite financial resources. This mechanism is needed to re-establish the mutually beneficial partnership and trust that should exist between DND and the Canadian Defense Industry, to allow industry and DND to reinforce the required domestic capabilities, and to allow companies to undertake long-term planning and operate more competitively in a new international world market.*
5. *GoC to urgently modify and update its **policy of In-Service Support (ISS)** with respect to Single Point of Accountability (with respect to future procurements beyond C130J) with a view to:*
  - *Ensuring sovereign control over fleet;*
  - *Having up-front access to the requisite IP;*
  - *Supporting domestic ISS providers who create long-term, high value jobs which, in turn, create opportunities to garner significant international exports;*
  - *Making sure the long-term cost of ISS support is competitive and providing value for money to Canadian taxpayers;*
  - *Supporting and developing Centres of Excellence in Canada in ISS.*
6. *GoC should **adopt a Single Innovation Gateway for Military Procurement** and promulgate a **list of technologies/industries deemed strategic** for Canada. The GoC should ensure that these sectors are favoured against foreign competitors (even when the cost is higher) **and purchase the associated IP** from the OEMs.*
7. *GoC to create a **Government/SME Consultation Group** to ensure that the needs of small companies are fully reflected in changes to procurement policies, approaches and processes.*

## 1. DEFENCE INDUSTRIAL BASE FRAMEWORK (legislation, regulations, policies and strategies)

Canada's defence industrial base is capable of meeting some – but not all – of its defence and national security needs. As a consequence, the government will continue to source required defence products, systems and services not only from Canada, but from international providers as well. Achieving the right balance between domestic and foreign sources of supply is a critical and complex undertaking. A clear articulation is needed of those domestic industrial capabilities that are essential to Canada's national security and competitiveness. With this articulation in hand, industry will be better able to re-shape and position itself to make the investments required to ensure an alignment between Canada's evolving defence requirements and its ability to meet them.

**A domestic Defence Industrial Base Framework, leveraged with aligned, horizontal (multi-departmental) public policies would become the cornerstone of all defence industrial activities and developments, and this, in support of the men and women in uniform.**

AIAC members believe that the absence of a domestic Defence Industrial Base Strategy has weakened our industry's competitiveness and ability to respond to the needs of the Canadian Forces (CF). Because Canada has not identified the technologies that are important for the Defence Department and the international competitiveness of the Canadian industry, the business case to buy associated Intellectual Property in procurement decisions is weak. Moreover, Industrial and Regional Benefits offerings in procurements are not focused. As a result, Government and Industry do not necessarily benefit fully from the leveraging of the new industrial activities. This lack of focus makes approval by Industry Canada a cumbersome, resource intensive and lengthy process. Finally, by knowing which technologies are considered important to Canada and its Industry, Governments can allocate scarce

financial R&D resources to firms that have the most to offer and the best chance of success. In addition, these activities could help to create new niche markets and help Canada re-emerge as a global aerospace leader.

**Recommendation 1: GoC to work in partnership with industry to articulate, adopt and implement a cohesive and visionary Defence Industrial Base Framework (legislation, policies and strategies) by September 2010.** *This strategy framework should align Canada's defence industrial capability and Canada's military requirements; maintain other benefits to Canada and the defence sector in terms of competitiveness, advanced technology, skills development, employment, exports and intellectual property assets; and ensure economic growth and long-term prosperity.*

## 2. CONSOLIDATE PWGSC AND DND PROCUREMENT RESPONSIBILITIES

The current procurement responsibilities are dispersed among three government departments and agencies – resulting in inefficiencies and disconnects between the various players.

**Recommendation 2: GoC, to consolidate PWGSC and DND procurement responsibilities** *under a separate procurement agency reporting to the Minister of National Defence, with a strengthened Industry Canada IRB responsibility in the procurement process and a resulting modernized military procurement process that aligns legislation, policies and procedures. Recognizing the complexity and the time-consuming aspect of achieving this objective, the proposed consolidation should be a long term objective. In no way should it delay current procurements. In the meantime, AIAC proposes to work with the 3 Ministers (IC, DND and PWGSC) to put together an alternative mechanism (an integrated product team with oversight from a Blue Ribbon Panel) working within the current Federal Government departmental structure to achieve the same end.*

### 3. AN EFFICIENT AND MODERN PROCUREMENT AND CONTRACTING PROCESS

Canada needs to modernize its contracting process and adopt more innovative procurement approaches to enhance Customer/Supplier Relationships. This would allow the GoC to better take advantage of the aerospace industry's full potential and ensure efficiencies in its access to competitive and technologically advanced sources of supply. In doing so, Canada must take into account several tools, which are available.

There is general acceptance of the principles of the GoC's procurement policy. No one is calling for industrial development to take precedence over meeting the requirement to provide departments with the goods and services they need to carry out their mandates and program delivery. Nor is anyone, and in particular the aerospace industry, calling for the enactment of protectionist measures such as a broad, mandatory "Buy Canada Policy" (notwithstanding that many competitor nations continue to employ such measures).

Open and fair competition is generally seen as the most effective and efficient way of achieving value for taxpayer money and for developing an innovative and competitive aerospace industry. It is understood, though, that the bias towards competition can often be carried beyond the point where it produces maximum "value for money" in its widest definition – competition without regard to cost (both tied to the cost of equipment or system and indirect such as those associated from terminating one supplier relationship and building another).

**In the setting of procurement strategies and in the tendering or supplier selection processes, there must be a more reasoned and demonstrable balance between "price" and "best value" to the Canadian taxpayer.**

**It is important to recognize that "value for money" is a broad and long-term concept and should not be simply defined as "lowest cost compliant" and applied discretely to each individual procurement project. It should be applied from the setting of procurement strategies through to selection decisions.**

#### Procurement Practices and Policies

The Procurement Review Policy (PRP) calls for all major federal procurements (over \$2M) to be reviewed for industrial and regional development opportunities. It also recognizes that, in certain instances, special provisions to develop the Canadian industrial base may be necessary. It specifically states that procurement options be assessed "*in terms of their potential to enhance the growth of, or strengthen, an industrial sector*" and "*the development or maintenance of the defence industrial base*". Allowance is also made in giving preferential treatment to firms to further *their international competitiveness*.

**In assessing how major procurements are to be used to attain the government's broad policy objectives, the PRP stresses that decision makers (Ministers) need to be provided adequate information on the financial and socio-economic implications of procurement strategies.**

The PRP sets out a detailed process that involves a number of interdepartmental committees with mandates to review both the long range capital spending plans of departments as well as individual procurements at established value thresholds.

Industry Canada, in concert with the regional development agencies, is assigned responsibility for bringing the information and analyses on the potential of procurements to achieve industrial development objectives to the attention of Ministers.

**Strategies for procurements with significant potential are being decided on without an appropriate level of Minister and senior official engagement. Cases have arisen in which procurement strategies have been well advanced within the procuring department before they are surfaced to Ministers collectively. Often, urgency is cited for the strategy being endorsed. This then leads to these procurements being “suspended” until Ministers have time to review the strategy and have their questions addressed.**

On the whole, the PRP as written – both the accountabilities it assigns and the processes it establishes – appears, at first glance, to be an effective enabler in leveraging procurements to attain the GoC’s industrial development objectives. However, many of the PRP review processes have, over time, fallen into limited use (the Canadian Annual Procurement Strategy and Procurement Strategy Committees exemplify this limited use). When procurements do get reviewed for their industrial development potential, this review usually occurs at a low level in the hierarchy and is conducted “administratively”.

The AIAC is concerned that the departments and agencies mandated by the PRP to assess the economic and industrial leverage offered by procurements (and to bring this information forward to Ministers, individually and in aggregate) have lowered their engagement. It is likely that this is primarily a response to resource reductions resulting from successive “program reviews” and, more subtly, a bias in the last decade away from setting formal industrial policies for specific sectors.

This latter consequence fails to take into account that the defence marketplace, due to the role of government, operates under conditions (i.e.: market access restrictions and domestic procurement preferences) that do not influence the commercial sector.

Early engagement by Ministers would allow them to “step out of the way” and let procurement unfold under the strategy adopted. A major benefit of this would be to reduce the degree of “lobbying” of Ministers (who are not aware of, nor involved in, the procurement strategy) by companies that have an interest in a specific procurement. This lobbying often plays a major role in procurements being “frozen”.

### **Performance-Based Contracting**

Canadian aerospace companies are committed to bringing forward innovative service delivery approaches that meet the GoC’s (DND) defence and national security needs. Their ability to do so, however, is impacted heavily by the form of the contractual relationship, and this affects both parties’ relations from the negotiation to the delivery of the services and beyond.

The traditional transactional contract environment has a crucial, and often negative effect upon both the service quality and the economic outcome of the project. For example, a firm’s margins, and, by extension, its capacity to offer innovative long term service solutions, are restricted if the scale of investment in infrastructure and people is too high to undertake without the confidence of a return.

### **Determining and Assigning “Risk” and “Reward”**

Increasingly, the GoC is moving to performance-based, firm fixed price contracts, which is shifting the risk to industry. There is a trade off between certainty of outcome and the amount of risk that can be transferred from the GoC to industry. It is a generally accepted principle that a contract should allocate every risk to the party best able to manage it. On complex defence procurements that often span decades, there are limits to what can be known up-front and on the extent to which risk can be apportioned between customer and supplier. There will always be a need to take into account the risks associated with technological, political and economic changes. It is perhaps better to assign the risk to the party that has the greatest incentive to manage it. It must be recognized that in assessing risk, industry will determine its associated cost and such cost will likely be passed on to the GoC in order to ensure reasonable financial benefits accrue to the firm.

## **Increased use of Canada's International Trade Obligations**

GoC procurement must accord to the rights and obligations set out in the World Trade Organization's (WTO) Agreement on Government Procurement, the Procurement Chapter of the North American Free Trade Agreement (NAFTA), and the domestic Agreement on Internal Trade (AIT) to which the GoC is a signatory. These agreements set out obligations of signatories to not discriminate against the suppliers of the other parties. Procurements for defence and national security are, however, given special reference in these agreements.

Ministers in these countries have discretionary authority and fully exercise it to the benefit of their indigenous industries, particularly in such strategic sectors as aerospace. These ministers interpret "national security" in the broadest sense (beyond simple defence requirements) and this has economic and social stability implications. These include surveillance of land masses and waters, airport and aviation security, and protecting the personal privacy of their citizens with respect to information housed in databases managed by the private sector.

**Foreign aerospace industries that compete fiercely with Canada benefit from the conditions that their national governments impose on the procurement process to protect, nurture and foster the growth and development of indigenous industrial and technology capabilities.**

Recognizing the unintended consequences of placing defence procurement under coverage of the AIT (which would open requirements to foreign bids), AIAC has identified rectifying actions that range from removing it from coverage entirely (requiring the consent of all signatories), to providing more recourse for the GoC to "limit tendering" on defence procurements that have high potential for leveraging economic and industrial benefits, short of invoking a *National Security Exception*.

**Recommendation 3:** *GoC to adopt an **Efficient and Modern Procurement and Contracting Process** by updating procurement legislations, regulations, policies and practices and exploring models in other countries; adopting performance-based contracting; improving assessment of risk and reward, **adopting an outcome-based approach** rather than an equipment-based approach, and increasing use of Canada's International Trade Obligation mechanisms.*

*3.1 The GoC to establish a mechanism whereby there is full consideration of the impact of individual procurement decisions on attaining "value for money" (e.g.: developing an aerospace industrial and technology base that contributes to Canada's economic and social prosperity and its national defence and security). In the determination of procurement strategies, sufficient flexibility must exist to manage the "competitive" environment to achieve best long term value from government spending.*

*3.2. The GoC to implement new and stronger mechanisms to engage Ministers early in the determination of procurement strategies governing high value defence procurements.*

*3.3 The GoC to establish more regular and comprehensive assessment and reporting to Ministers and their senior officials and industry on how effectively procurements – individually, and in aggregate – have been leveraged to attain the industrial development goals of the GoC and to match outcomes with policy intents and objectives.*

*3.4 The GoC to establish a multi-stakeholder group to develop business model(s) for guiding the conduct of defence procurements and, in particular, the contractual relationship between the GoC and contractors. This work to include the consideration of issues related to: risk/reward sharing; industry teaming arrangements; criteria for assessing bids under a "best value" procurement methodology that more fully recognize "value for money" from a government-wide perspective; SME participation e.g.: Small Business Plans, prime/sub arrangements; and intellectual property.*

3.5 The GoC to implement a reform of current contracting practices to accelerate the adoption of “performance-based” contracting that holds contractors accountable for meeting performance targets in areas in which the contractor controls the risk.

3.6 DND to adopt “outcome-based” requirements rather than “equipment-based” to allow for more innovative input in the resolution of CF challenges.

3.7 For technologies that fall within the defined Defence Industrial Base Framework, the GoC is to make “value engineering” a corner stone of all major defence procurements, allocating a certain portion of the overall procurement expenditure to help contractors make investments that improve their production facilities and enhance their delivery methods and business process.

3.8 The GoC to engage both customer and potential bidders early in the process to better manage the uncertainty and complexity of defence procurements at the stage in which requirements are still being defined.

3.9 The GoC to more fully use Canada’s right to exempt high value defence and national security requirements from Canada’s international trade obligations so that they can be used to attain industrial and technology development objectives. This should be done by promulgating clear “across government” guidelines or determining when (covered) defence and national security procurements should be exempted.

3.10 The GoC to address the limitations imposed by the AIT on its ability to use its defence and national security procurement spending to develop Canada’s industrial base (including the aerospace sector) by creating a federal/provincial working group to develop various options for providing more scope and flexibility under the AIT in using defence and national security procurements for industrial development.

#### 4. LONG TERM MILITARY ACQUISITION PLAN

The current GoC practices are unpredictable. As a result, Canadian industries make long-term plans and decide on investments/R&D on the basis of foreign market projections. The Canadian military market is relatively small and, moreover, Canadian suppliers have no visibility on national long-term intentions. Long-term government procurement plans, such as the proposed Maritime Industry Strategy with a renewed Ship Building Policy, should ensure sustainability and avoid roller-coaster variations. The lack of predictability is costly to both the industry and to government.

**Recommendation 4:** GoC to **promulgate a Long Term Military Acquisition Plan** that outlines its needs and intentions. This plan should be updated and communicated yearly to ensure sustainability and avoid roller-coaster variation in procurement and associated requisite financial resources. This mechanism is essential to re-establish the mutually beneficial partnership and trust that should exist between DND and the Canadian Defense Industry, to allow industry and DND to reinforce the required domestic capabilities, and to allow companies to undertake long-term planning and operate more competitively in a new international world market. GoC must ensure that DND provide a well-defined set of priorities and an associated timeline (including specific milestones) for the procurement of defence capabilities (equipment and support). To be developed by the new Defence Procurement Agency, this document should be available to the public, and a report should be published each year describing how the specific goals were met. This would provide insight into how the system is working and would provide the industry with guidelines around which investments in technology could be made to more effectively meet the future needs of the Canadian Forces. Reliable planning will result in increased investments and an industry ready to respond.

## 5. IN-SERVICE SUPPORT (ISS) POLICY

The GoC largely acquires its aircraft defence fleets from other nations. It has little choice in the matter, due to a lack of domestic manufacturing capability, and industry recognizes and accepts this fact. That said, Canada needs to determine how to provide long-term in-service support (“ISS”) to its air fleets in the future.

Canadian firms are well-positioned to provide long-term in-service life cycle support for Canada’s air fleets and, in fact, have done so successfully for more than 50 years. With Canadian industry increasingly involved in providing more comprehensive, long-term in-service support – DND has sought to outsource ISS in recent years – there is a need to more clearly understand the full implications of current practices and policies regarding ISS.

At one time, there were processes in place for Major Capital Acquisition Projects in which strategic thought was given to sparing (initial provisioning) and maintenance, repair and overhaul (“MRO”) services. These processes were designed to ensure that Canada could operate anywhere in theatre, on short notice, and for a specified period of time, utilizing assets under its direct sovereign control.

With the recent government approach of letting long-term ISS contracts with the OEM through the Defence Department practice of Single Point of Accountability (typically a foreign OEM), these strategic and economic considerations have been totally ignored. As a result, the Canadian Defence ISS Industry will no longer be a real partner in Canada’s national defence capability in the future. While the Single Point of Accountability model may be deemed to be advantageous in terms of reducing departmental resources to administer numerous contracts, it has significantly impaired domestic ISS firms and other OEMs (avionics, power plants etc.) in their ability to maintain the fleets domestically. It has thus relegated them to a subordinate role – affecting their international competitiveness.

**The strategic approach of partnering with Canadian industry not only achieved essential National Defence goals, but it also fostered a vibrant and economically viable In-Service Support industry that was able to leverage the strategic investments by National Defence to create new business and international exports. In times of conflict, Canada had sovereign control over its military assets and was able to modify aircraft on short notice to complete the intended mission.**

The theory that there is no conflict between the provision of new aircraft and the long-term maintenance and support if one party is accountable is proving to be false. Consequently, this model has significant drawbacks. These include:

- **Loss of sovereign control & access to IP** - Canada will lose sovereign control over its assets if the requisite access to IP is not purchased up front. In times of conflict, any changes or modification to the aircraft to achieve the intended mission will become more difficult as the ability to modify the aircraft will be dependant on the responsiveness of the foreign OEM to provide the necessary IP & data to accomplish the modification.
- **Loss of skills, knowledge, and high value work** - Canadian ISS firms will rely solely on IRB policy to ensure that foreign OEMs place ISS work into Canada. ISS contracts will be held between Canadian ISS firms and the foreign OEM instead of directly with Canada. In other words, the likely long-term implication of this approach is that the higher quality ISS work (i.e., engineering, fleet planning) will be accomplished by the foreign OEM while the lower quality work (i.e., wrench turning) will be done by Canadian ISS providers. Over time, Canadian ISS firms will lose significant skills and knowledge in the ability to maintain and modify their air fleets which, in turn, will hamper the ability to garner high quality international work.

- **Increase in long-term ISS costs** - Under the Single Point of Accountability model, Canada is requiring firm fixed pricing for 20 years in an attempt to shift risk to the foreign OEM. The pricing of 20-year support will therefore have a significant risk premium built in. However, past experience has taught us that mission profiles change over time and not all maintenance and modifications can be anticipated up front. As a result, as mission profiles change, Canada will be subject to the increased IP and engineering costs for any modification not anticipated prior to the initial purchase of the fleet. In short, Canada will become hostage to the foreign OEMs and overall costs will rise. Clear past procurement examples can be provided to prove this point. DGAEPM Weapon System Managers are most knowledgeable in this area.

**The long-term implications of the Single Point of Accountability model have not been properly assessed. While providing some limited benefit, this model may result in the loss of sovereign control over our air fleets, an inability to access the required IP, the loss of skills, knowledge and high value work, and an increase in the long term cost of ISS. The contracts for ISS with foreign OEMs are for 20 year terms, but, in reality, they will be for the life of the aircraft (i.e., 30-40 years).**

The Single Point of Accountability Model has clearly resulted in a significant weakening Canada's defence companies and must be urgently modified. However, this review should not delay current procurements now under way. Note that the Single Point of Accountability to the OEM may be acceptable in the event that Canada decides to purchase IP, thus directing the OEM to assign high quality work to appropriate firms, but only after IP has been obtained.

Significant long-term ISS procurements are still to come, namely, those for the Chinook Helicopters, Fixed Wing Search & Rescue aircraft, the Multi-Mission aircraft, and the new Fighter Aircraft. The combined value of the ISS portion of these procurements is several billion dollars over the life of these aircraft. The shape and form of the ISS policy will thus have a lasting and permanent effect on our sovereign control and future ISS capability.

The time for reviewing and modifying the Single Point of Accountability model is now. This model has not been articulated as Government of Canada policy but, rather, it has been adopted as a new practice by DND for the procurement of air fleets only (i.e., it is not the practice for the procurements of ships or army vehicles).

**Recommendation 5:** *The GoC to urgently modify its policy of In-Service Support (ISS) with respect to Single Point of Accountability (with respect to future procurements beyond C130J) with a view to:*

- *Ensuring sovereign control over fleet;*
- *Having access up front to the requisite IP;*
- *Supporting domestic ISS providers who create long-term, high value jobs which, in turn, create opportunities to garner significant international exports;*
- *Making sure the long-term cost of ISS support is competitive and providing value for money for Canadian taxpayers;*
- *Supporting and developing Centres of Excellence in Canada in ISS.*

## 6. TECHNOLOGY INVESTMENT AND PROCUREMENT DECISIONS

Investment in research and technology is crucial to the future capabilities of the CF and to the global competitiveness of Canadian aerospace firms. The CF will bear the operational risk of equipment and systems not being delivered by industry on time, at an agreed cost and at the required performance level. The risk, however, can be reduced by the GoC investing early with Canadian companies to develop the capabilities needed to meet its defence and national security needs.

Government and industry can do a better job at targeting their mutual investments into those areas of defence capability in which Canadian firms can be global leaders. Government and industry also need to avoid tendency to “Canadianize” solutions when there is not a valid requirement, as the net effect can impair both the interoperability of the CF with other militaries and the export potential of Canadian firms.

Better mechanisms are needed to “pull” the technology investments of both Government and industry through procurement decisions that lead to the technology being fielded. The implementation of a Domestic Defence Industrial Base framework would allow for a managed transition to a comprehensive set of public policies that would dovetail into a single focused direction.

**Recommendation 6:** *GoC to establish a Single R&D Innovation Gateway for all of aerospace and defence related research.*

- *GoC to promulgate a list of technologies/industries deemed strategic for Canada and ensure that these sectors are favored against foreign competitors (even when the cost is higher) and purchase the associated IP from the OEMs.*
- *GoC to allocate a certain percentage of a procurement project's value to investing with Canadian contractors in developing the new technologies that are essential for fielding an enhanced defence or national security capability.*
- *GoC to ensure greater co-ordination between Industry Canada, DND, Public Works and Governments Services Canada (PWGSC) and other entities during the evaluation phases of technology investment proposals submitted by industry;*
- *GoC to define better ways of recognizing, in procurement strategies and outcomes, the economic return to the taxpayer from exploiting such investments; and*
- *GoC to adopt a modern approach to risk in the incubation and use of Canadian developed technology.*

## 7. **SMEs AS AN INTEGRAL PART OF THE CANADIAN DEFENCE INDUSTRIAL BASE**

Canadian SMEs are an integral part of the Canadian Industrial Defence Base. Often, the technologies and ability to find solutions quickly reside in SMEs. They need to be an integral part of the solution within the overall Military Procurement Process.

AIAC recognizes the unique needs of SMEs in accessing domestic defence and national security procurement opportunities. The AIAC envisions a more pronounced role by both the GoC and large firms to support the ability of SMEs to participate. This could be done, for example, by requiring Small Business Plans as part of RFPs, or by making changes to the prime-sub relationship such as a “partnering code of practice” to set up a basic set of values and behaviours.

Current procurement practices do not take advantage of the strong contributions that Canadian SMEs can bring to resolving some of the industry's current challenges. SMEs, through their flexibility, are often in a strong position to respond quickly to meet the needs of DND or Systems Integrators. As such, special attention must be paid to their role as full participants in the procurement model.

**Recommendation 7:** *GoC to create a Government/SME Consultation Group within the new Defence Acquisition entity to ensure that the needs of small companies are fully reflected in changes to procurement policies, approaches and processes and that their added value is recognized as part of the overall procurement process.*

- *Ensure SME “Set asides” are used in Canada as they are in the U.S. (A percentage of money could be set aside, for example, at an early date to help an SME to get moving and*

*develop its IP and product lines. SMEs have little or no financial resources up front and can have serious difficulties getting off the mark).*

- *Improve communications and develop a closer relationship between the GoC and Canada's aerospace industry so that companies – including SMEs – can be more fully aware of the government's national defence and national security needs and its overall “value for money” imperative.*

## Conclusion

In conclusion, the AIAC recognizes that there is a fine balance to be achieved in attaining the broad spectrum of procurement goals outlined in this paper. These procurement processes need to ensure that the Canadian Forces have the right equipment to deliver on their mandate and reflect the importance of having a strong Canadian Industrial Base that the Forces can count on in times of crisis.

The Industry Engagement Initiative is a welcome mechanism that will allow the GoC to understand the multiple, complex and often conflicting perspectives of the multiple industry players. The consultations have brought out a degree of granularity that may muddy the waters in making decisions. In this context, it is critical that the GoC determines the broad objectives to be achieved and establish the right principles, adopt the right delivery mechanisms and implement appropriate evaluation metrics to determine the level of success achieved.

**AIAC and the Canadian aerospace industry are looking to the Canadian Government to adopt fair, open, transparent and predictable procurement practices that support a competitive industry in Canada while fulfilling Canadian Forces requirements for quality products and services and ensuring the Government of Canada's sovereignty needs.**

AIAC hopes that the recommended actions in this report will assist in better aligning the GoC's defence procurement policies with its broader national interests and, in particular, in strengthening the domestic defence industrial base and key supporting (and performing) sectors such as the aerospace industry. Failure to move ahead on these changes will lead to a weakening of Canada's industrial and technology base, the loss of high skilled and high paying jobs, and an increased reliance on foreign sources to meet Canada's defence and security needs.



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