



Leveraging Defence Procurement: Opportunities for Innovation and Growth

Northern Ontario's Road to Defence
North Bay – March 20, 2018



Defence offsets in Canada

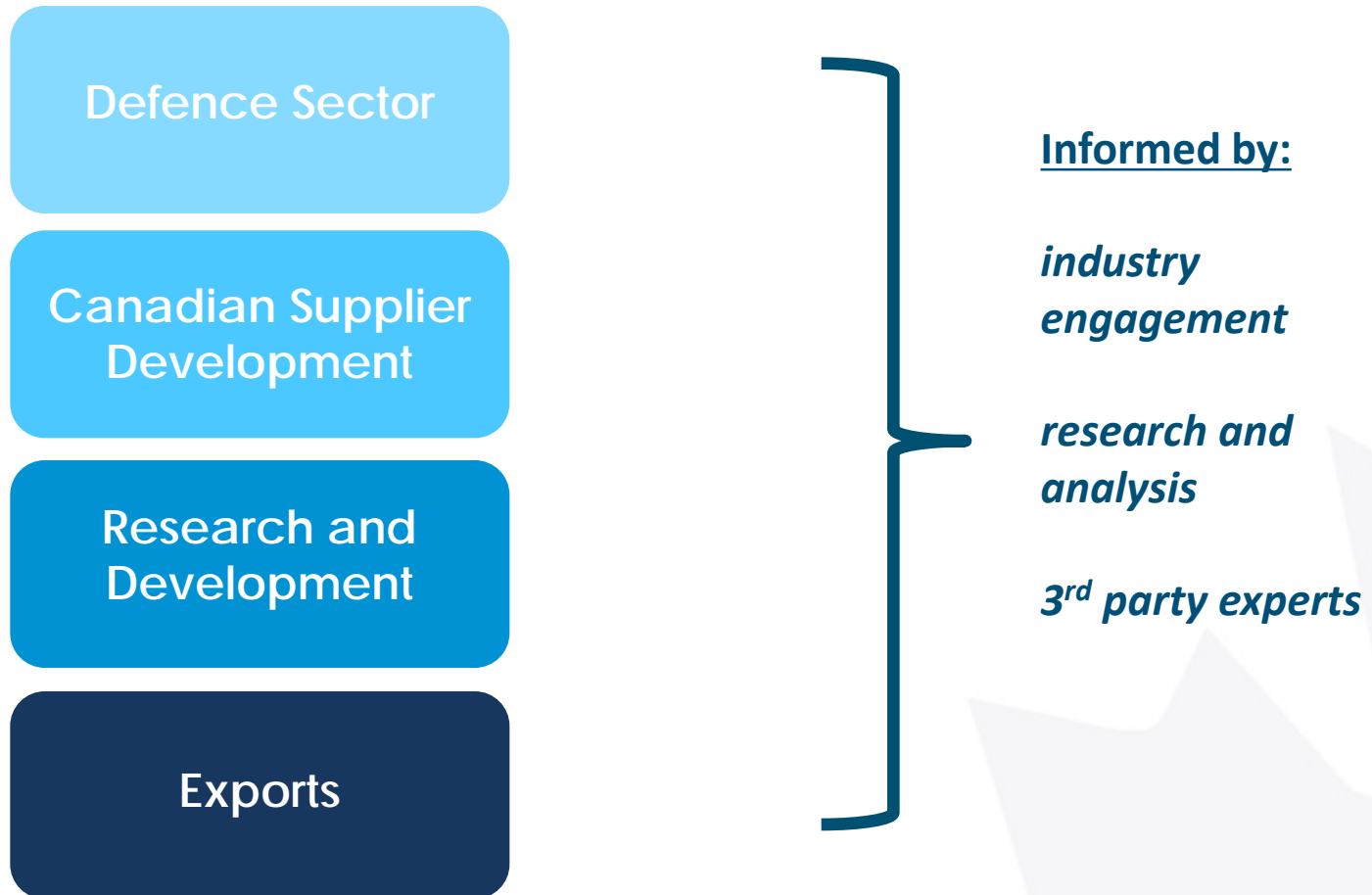
- Canada among many countries that derive economic benefits from defence procurement
- Industrial and Regional Benefits (IRB) Policy formalized in 1986
 - Contractors undertake work in Canada at a value equal to the contract
- Results have included defence sector growth and major spill-over benefits to broader economy



A transformed approach

- **Industrial and Technological Benefits (ITB) Policy**, including **Value Proposition**, launched in 2014
- Applies to all defence procurements **over \$100M**
- Leverage high value investments
 - Weighted factor in winner selection
 - Applied more frequently to projects
 - Criteria tailored to each project
 - Streamlined Policy features and processes
- Clear objectives
 - Defence sector growth
 - Supplier development, including SMEs
 - Research and technological development
 - Exports from Canada


Value Proposition Framework




SME and regional development

- The ITB Policy also supports SMEs and regional distribution:
- **Minimum of 15%** of overall ITB obligation through work with SMEs


- SME defined as a Canadian Company with fewer than 250 employees.*





< 250 employees




• Measured at start of activity



Defence contractor
Subsidiaries





Distributors
of foreign goods/services



HOW THE POLICY BENEFITS CANADIAN INDUSTRY

15% of the work is placed with **SMEs** in Canada

from **all regions**



SMEs are **accessing** **global market leaders**

- No mandated regional distribution, but prime contractor must fulfill the dollar value of work proposed in region(s) of choice.

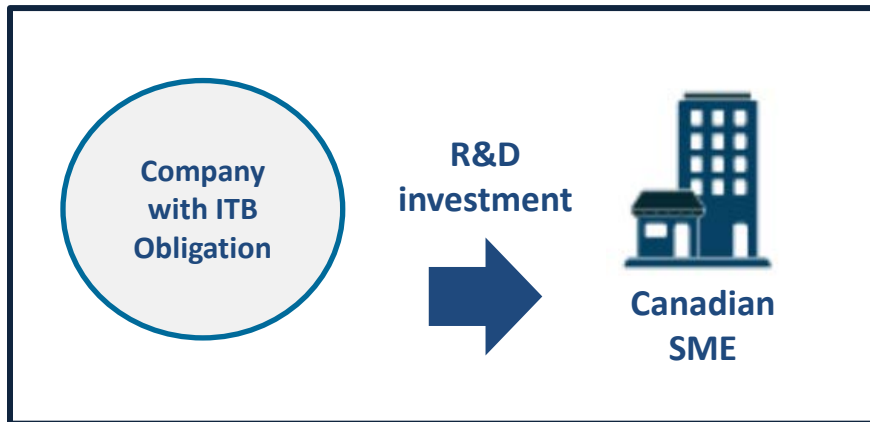
*For detailed definition see canada.ca/itb

Support for innovation

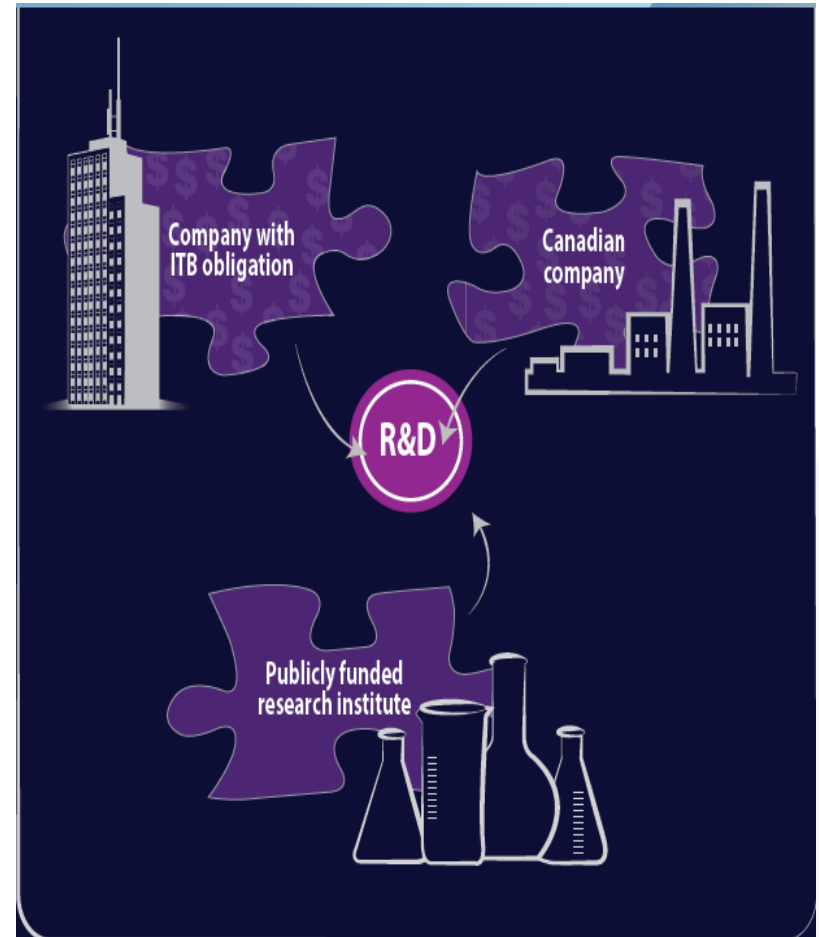
The ITB Policy encourages investments in innovation by providing **multipliers** for:

- the creation and support of public/private research consortia
- R&D investments in a post-secondary institution **or** in a Canadian SME

"Investment Framework"



"Public/private Consortia"



Direct versus Indirect Transactions

- A “transaction” is a business activity undertaken for ITB purposes, between two entities
- Transactions can be **direct** (directly related to the equipment or services being purchased), or **indirect** (strategic investments or work in other business areas)
- **Example Scenario:** Canada is procuring a cyber security platform
 - **Direct Transaction:** Canadian supplier does work for the prime contractor directly related to delivering the cyber security platform
 - **Indirect Transaction:** Canadian supplier does work with the prime contractor **un**related to the cyber security platform for Canada (but prime contractor’s rationale for this work must be due, in part, to it’s ITB Obligation)

Canadian Content Value (CCV)

- CCV is measured in Canadian dollars and is the portion of the transaction that includes **Canadian costs**

INCLUDES ✓

Components of Canadian origin

Wages paid to Canadians or permanent residents

Utilities, maintenance, and rent paid in Canada

Profit taxable in Canada

EXCLUDES ✗

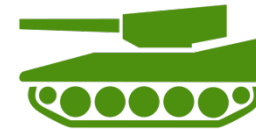
Parts imported into Canada

Wages, royalty and license fees paid to non-Canadians

Bid preparation costs

Taxes, duties, and lobbyist fees

EXAMPLE



Transaction: Tank Drive Sprockets
CCV: 67%

Contract Value: \$3,700,000
Credited Value (CCV): \$2,479,000

Growing the economy and attracting investment

- Between 1986 and 2016, \$31.4 billion of credited IRB/ITB investments contributed almost \$39.7 billion to Canada's GDP
- Over the same period, IRB/ITB investments helped maintain or create 39,000 jobs annually across Canadian regions
- More than 80% of those investments were from foreign multinational corporations

ITB PORTFOLIO
at a glance
1986 – 2016

137
Contracts

\$41 B
in Obligations

\$9.3 B
Activities in
Progress

\$3.8 B
Future work
opportunities

Scaling up SMEs

- Over the same five-year period, contractors partnered with more than 340 Canadian small and medium sized enterprises, to undertake \$1.3 billion of work in Canada
 - This represents almost 10% of total investments over that period
 - Such investments help embed SMEs into supply chains with long-term growth opportunities

“Engaging in the [IRB Policy] for Mil-Aero has taken our company from a small company to a mid-sized company.”

*Paul Greedy, President, Mil-Aero Electronics,
Dartmouth, Nova Scotia*

Increasing transparency and demonstrating results

- Contractors' progress report
- Model ITB terms and conditions

www.canada.ca/itb

The screenshot shows the Government of Canada website interface. The page title is 'Industrial and Technological Benefits'. Below the navigation menu, there is a section titled 'Breakdown of current obligations by contractor' which contains a table with the following data:

Breakdown of current obligations by contractor						
Contractor	Project	Obligation	Completed to date	In progress	Not identified	Estimated End Date
Adga Group Consultants	Land Command Support System—Weapon System Management	\$131,895,094	\$78,939,247	\$47,976,650	\$4,979,697	Oct 05, 2018
Airbus Defence and Space	Area Surveillance Radar /Secondary Surveillance Radar	\$67,363,642	\$31,872,051	\$35,491,581	—	Mar 21, 2021
Babcock Canada	Victoria In-Service Support Contract	\$816,824,111	\$507,332,256	\$139,162,688	\$170,329,167	Jun 29, 2018
BAE Systems Bofors	Halifax Class Ship Modernization—57mm Gun	\$76,937,330	\$25,710,490	\$36,373,217	\$14,853,623	Dec 31, 2018
Bell Helicopter Textron Canada	Canadian Coast Guard Helicopters—Light	\$131,384,863	—	\$120,501,000	\$10,883,863	May 09, 2021
Bell Helicopter Textron Canada	Canadian Coast Guard Helicopters—Medium	\$102,341,743	—	\$61,428,000	\$40,913,743	Dec 18, 2021
Bell Helicopter Textron Canada	CH149 Utility Tactical Transport Helicopter—Optimized Weapons System Support	\$364,019,708	\$168,644,584	\$195,375,024	—	Mar 31, 2020
Boeing Defence Space and Security	C-17 Strategic Airlift—Acquisition	\$749,200,000	\$710,184,700	\$39,015,300	—	Feb 01, 2017
Boeing Defence Space and Security	C17 Strategic Airlift—5th Aircraft	\$264,500,000	—	\$80,114,759	\$184,385,241	Dec 22, 2020
Boeing Defence Space and Security	C-17 Strategic Airlift—Maintenance	\$746,000,000	\$290,368,777	\$135,944,759	\$319,686,464	Feb 01, 2035
Boeing Defence Space and Security	Medium to Heavy Lift Helicopter—Acquisition	\$1,256,244,839	\$428,018,019	\$828,226,820	—	Jun 30, 2022
Boeing Defence Space and Security	Medium to Heavy Lift Helicopter—Maintenance	\$1,660,345,941	\$36,389,742	\$1,596,215,417	\$27,740,782	Jun 21, 2038
Boeing Defence Space and Security	Mercury Global Space Segment—Wideband Global Satellite	\$240,000,000	\$123,550,269	\$106,083,517	\$10,366,214	Apr 04, 2021
Boeing Defence Space and Security	Small Unmanned Aerial Vehicle	\$106,965,876	\$106,965,876	—	—	Apr 03, 2019
CAE	Operational Training Systems Provider—C-130J	\$346,230,013	\$148,068,244	\$112,676,032	\$87,485,737	Jan 25, 2028
CAE	Operational Training Systems Provider—CH-147	\$235,341,454	\$59,955,031	\$145,644,250	\$29,722,173	Dec 31, 2033
Cascade Aerospace	CC-130 Hercules Avionics—Maintenance	\$33,055,342	\$2,280,000	\$24,229,000	\$6,546,342	Mar 31, 2018

Action items for YOU!

- 1) Connect with your Regional Development Agency:
 - **Federal Economic Development Agency for Northern Ontario (FedNor)**
- 2) Network with prime contractors
 - Consider attending defence sector **trade shows**
 - Examine need for **security certifications**
- 3) Monitor **BuyandSell.gc.ca** for Government of Canada solicitation notices and tenders
- 4) Defence Acquisition Guide (DAG)

Contact information

Nathaniel Pitt

Industrial and Technological Benefits (ITB)

Email: nathaniel.pitt@canada.ca

Phone: 613-851-6351

- More information on the ITB Policy is found at:

www.canada.ca/itb

Canada 