

## Overview of the New Defence Procurement Strategy

On February 5, 2014, the Government of Canada announced the new Defence Procurement Strategy (DPS). The implementation of the Defence Procurement Strategy (DPS) began immediately with an initial engagement and information sharing with industry. The Government of Canada has committed to ensuring that purchases of military equipment create greater economic opportunities by promoting a sustainable, innovative and globally competitive Canadian defence industry.

**Under the DPS, Industrial and Regional Benefits (IRBs) will be transformed into Industrial and Technological Benefits (ITBs). This is a significant change which will give the Government more flexibility to improve Canada's economic outcomes from defence procurement projects.**

A core element of the new approach is *rated and weighted* Value Propositions (VP) for defence and major Canadian Coast Guard procurement projects. Bidders must put forward their best industrial plan for Canada, as these plans will be scored on the quality of their Value Propositions. In other words, industrial considerations will factor into determining which bidding firm wins the contract. When applied, the default weighting of the Value Propositions in the **overall evaluation will be 10%**. The actual percentage will be determined on a procurement-by-procurement basis. In addition, where the GoC chooses to specify a targeted, desired industrial outcome, Mandatory Requirements will be used, as appropriate.

**Key Industrial Capabilities**, or KICs, as originally identified by Tom Jenkins in his report [Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities](#), will be a significant factor in the rating and weighting of Value Propositions. The KIC criteria will serve as a framework for analyzing Canadian defence industrial capabilities and their potential for growth. This analysis will continue to be refined and be informed by consultation with stakeholders. The GoC will continue to engage with defence experts and stakeholders to identify how best to apply KICs and improve economic outcomes from defence procurement. These KICs include the purchases of tanks, helicopters and transport aircraft, and recommended developing KICs in six areas, namely:

1. arctic and maritime security
2. soldier protection
3. command and support
4. cybersecurity
5. training systems
6. in-service support.

The [Aerospace Review](#) by David Emerson also provided important input and helped form the Government's approach to developing the DPS. This report highlights Canada's current aerospace programs and policies, and identifies deficiencies and competitiveness in the aerospace and space sectors.

Value Proposition ratings will favor actions that lead to improved economic outcomes through:

- investments that strengthen Canadian KICs;
- investments that support enhanced productivity in Canadian firms; and
- broader industrial and technological high-value activities, such as a "technology transfer."

The timing of fulfilling Value Proposition commitments will also be a consideration in the evaluation.

The use and composition of Value Propositions will be identified on a procurement-by-procurement basis:

- procurements valued between \$25,000 and \$20 million will be assessed for their economic potential, and the revised Canadian Content Policy will be applied to realize this potential;
- procurements valued at \$20 million and above will be reviewed for the application of a Value Proposition; and
- procurements valued at \$100 million or more will require a Value Proposition as part of a comprehensive ITB plan.

Bidders will still be required to submit regional plans to ensure efforts are made to balance benefits across all regions of Canada. As well, the requirement remains to reinvest work into Canada equivalent to 100% of the contract value. Given that a company's ITB plan could contribute to the success of its overall bid, enhanced reporting requirements will be included in contracts to ensure that the GoC can monitor the delivery of benefits to Canada.

Early and extensive industry engagement, along with analytics and knowledge of the defence sector and its capabilities, will allow the GoC to provide clearer direction on the objectives and benefits being sought from a procurement project. In turn, this will support the long-term sustainability and growth of Canada's defence and security industrial sectors.

The GoC states that the DPS fulfils the Government's commitment to ensure that purchases of defence equipment create economic opportunities for Canadians and that defence procurement outcomes are improved. The DPS is a fundamental change in the approach to defence procurement.

## **Background**

The DPS has three key objectives that are listed below along with the components that support these objectives:

- 1. Delivering the right equipment to the Canadian Armed Forces (CAF) and the Canadian Coast Guard in a timely manner;**
  - Ensuring early and continuous industry and client engagement in the procurement process;
  - Starting in June 2014, publishing an annual Defence Acquisitions Guide (DAG) that outlines National Defence (DND) procurement priorities; and
  - Establishing within DND an independent, third-party challenge function for military requirements.
- 2. Leveraging GoC purchases of defence equipment to create jobs and economic growth in Canada;**
  - Using a weighted and rated value proposition, called "Industrial and Technological Benefits" to assess bids for defence and major Canadian Coast Guard procurements. The previous system called "Industrial Regional Benefits" used a simple pass/fail process.
  - Implementing an export strategy to support international sales opportunities and participation in global value chains;
  - Identifying and applying Key Industrial Capabilities (KICs) to inform potential economic benefits of individual procurements so that they meet the CAF's needs and increase the competitiveness of Canadian firms in the global marketplace; and

- Establishing an independent, third-party Defence Analytics Institute that will provide expert analysis to support the objectives of the Defence Procurement Strategy (DPS) and its evaluation.

### **3. And, streamlining the defence procurement processes.**

- Adopting a new regime to ensure streamlined and coordinated decision-making for defence and major Canadian Coast Guard procurements;
- Establishing a Defence Procurement Secretariat within PWGSC; and
- Reviewing the current National Defence delegated authority to purchase goods with a view to increasing the level from the current \$25,000 to achieve more efficient procurement practices.

The government's DPS initiative closely follows a report from the Canadian government's special

## **Next Steps in the Process**

### **Next Steps for the U.S. Commercial Service**

The U.S. Commercial Service is following the progress of the Defence Procurement Strategy. We are organizing an AmCham/U.S. Embassy roundtable to discuss the DPS with GoC officials and industry representatives from PWGSC, Industry Canada DND, Lockheed Martin, Boeing and Raytheon. The event will take place on April 23 at the Rideau Club.

The U.S. Commercial Service also plans to set up a series of webinars for U.S. defense companies that will explain the DPS.

### **Next steps for the GoC include:**

The DPS will be implemented based on a whole-of-government approach to defence procurement and the application of early and continuous engagement, use of independent advice, and timely and effective decision-making to guide and coordinate defence and major Canadian Coast Guard procurements.

- engaging industry with scheduled industry information sharing sessions
- reviewing the current National Defence delegated authority to purchase goods with a view to increasing the procurement level from the current C\$25,000
- The GoC plans to provide more information to industry about military procurements, including informing companies early on about projects and publishing an annual Defence Acquisition Guide (DAG) to outline its priority programs. The first DAG is expected to be published in June 2014.
- The GoC will develop an export strategy to support international sales of Canadian defense products according to the KICs.
- Decision making under the new DPS will take place under a new Defense Procurement Secretariat within Public Works and Government Services Canada (PWGSC) with engagement from the Department of National Defence, Industry Canada (IC), Department of Foreign Affairs and Trade Development (DFATD), and Treasury Board. The secretariat will use the principles of early and frequent engagement, independent advice and efficient decision-making to streamline defense procurement processes.
- The Defense Procurement Secretariat has established an independent, third-party challenge for military requirements led by DND, and an independent [third-party Defence Analytics Institute](#) (DAI) to support the objectives of the DPS. Members of the DAI include:

- Tom Jenkins, Chairman for OpenText Corporation, as the Chair of the interim Defence Analytics Institute
- Tim Page, President of the Canadian Association of Defence and Security Industries (CADSI)
- Christyn Cianfarani, Director, Government Programs, Research and Development and Intellectual Property, CAE Inc.
- Iain Christie, Executive Vice-President of the Aerospace Industries Association of Canada (AIAC)
- Peter Gartenburg, Vice-President, Ottawa Operations, L-3 Communications
- Dr. Craig Stone, Director of Academics and Associate Dean of Arts, Canadian Forces College
- Dr. David Bercuson, Director of the University of Calgary's Centre for Military and Strategic Studies
- Dr. Janice Stein, Director of the Munk School of Global Affairs at the University of Toronto
- Dr. Louis Bélanger, Professor of Political Science at Université Laval and Director of the Quebec Institute for Advanced International Studies