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Evolution of Canadian Defence Procurement

U.S. – UK – Canada
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Canada

Outline



- The *Canada First* Defence Strategy
- Role and Responsibilities: Canadian Defence Procurement
- Major Acquisition Timelines (Past, Present and Future)
- Improving Military Procurement
 - Projects, Requirements & Technology Management (Department of National Defence - DND)
 - Procurement Processes (Public Works and Government Services Canada - PWGSC)
 - Industrial Regional Benefits (Industry Canada - IC)
 - Industry Engagement
- Concluding Remarks

Canada First Defence Strategy



- The Canada First Defence Strategy (CFDS) is a detailed road map for the modernization of the Canadian Forces
- The CFDS is backed up with a comprehensive 20-year investment plan
- Automatic annual increase on defence spending to 2 percent (from the current 1.5 percent) beginning in 2011-12
- Additional \$12 billion over the next 20 years, bringing its budget to \$30 billion in 2027-28

Roles & Responsibilities: Canadian Defence Procurement



PWGSC

- Design/build an efficient outcomes driven procurement process to acquire military equipment
- Work with DND and Canadian industry to ensure processes and demands are jointly fair and reasonable
- Deliver contract services and authority

DND

- Establish priorities, commit funds and resources
- Determine mission-critical requirements
- Implement a clear & consistent plan
- Manage materiel from initiation to disposal

INDUSTRY CANADA

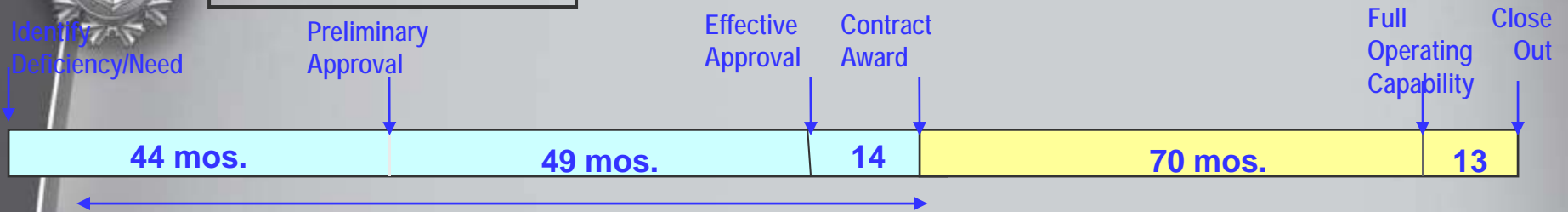
- Determine and manage IRB and other socio-economic policies at system level to maximize benefits to Canadians

MAJOR ACQUISITION TIMELINES

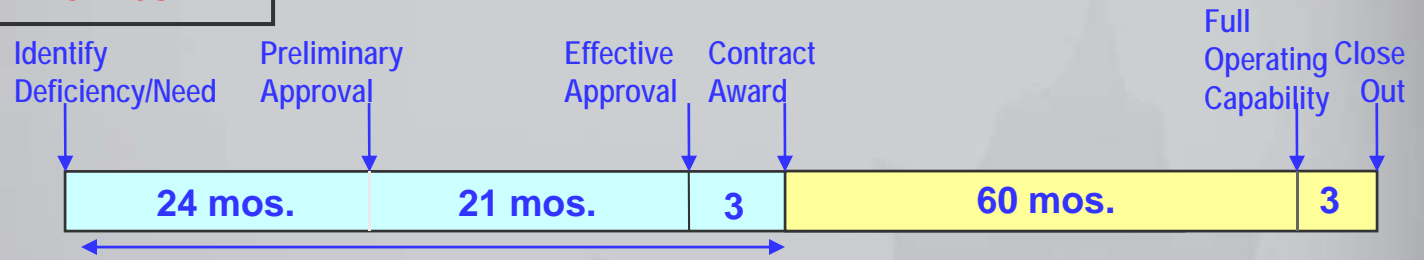
From 107 Months to 48 Months to Contract Award



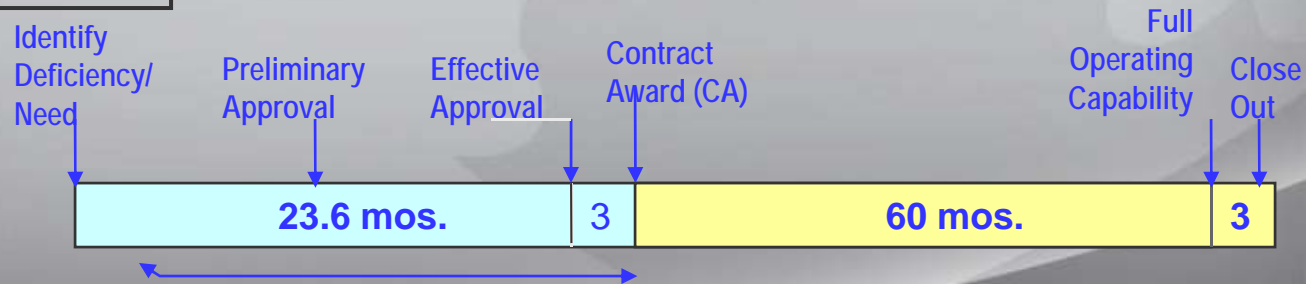
Past



2006 Timelines



Current Timelines



Improving Military Procurement





Department of National Defence

Requirements



Building on Achievements:

- ❖ High-level, performance based specifications, minimizing prescriptive detail to only where necessary to contain risk
- ❖ Outcome-based, clear statements of work
- ❖ Defence-specific terms and conditions that are balanced and kept to a minimum
- ❖ Open architectures/ systems standards to reduce in-service support and capability upgrade risk

Project Management



Building on Achievements:

- ❖ Long-term, performance-based platform/systems-level in-service support, sourced domestically where practical and economical
- ❖ Improved, adaptive cost forecasts for project estimates

Technology Management: Optimize Benefits of R&D Spending



- Conduct strategic procurements that permit competitive selection of our partners during the R&D phase
- When entering into developmental projects, ensure the Canadian supply base is considered and establish the necessary conditions which will permit the GoC funded, technology development to be pulled-through into procurement, without re-competition
- Use open-system architecture solutions to facilitate future technological and system upgrades (Continuous Technology Insertion vice mid-life upgrades)
- Refine approach to Intellectual Property to ensure Government-funded technology developments can be applied to acquisition needs, while enabling industry to pursue commercial or international defence market opportunities



Public Works and Government Services Canada



Procurement Processes

Gov't - Industry Risk Rebalancing:

- ❖ Placement of risk where it is best managed
- ❖ Rebalancing of risk to respond to industry concerns
- ❖ Develop risk rebalancing framework
- ❖ Implement interim measures

Modernizing Procurement:

- ❖ Reducing Barriers to doing Business
- ❖ Improving e- access and Tools
- ❖ Enhancing Accountability and Transparency
- ❖ Increasing Outreach and Support



Industry Canada

Background and Rationale



Existing framework established in 1986

- ✦ Increasing volume of Defence procurement arising from the Government's Canada First Defence Strategy
 - Important opportunity to secure more strategic IRB investment opportunities in Canada
- ✦ Global value chains (GVC) dominates the way business is done for the Aerospace and Defence sector production
 - Opportunities for Canadian firms to better position themselves in these GVC
- ✦ Expected benefits from policy enhancements, include:
 - More strategic opportunities to discharge offset obligations
 - Diversified offset portfolio will increase strategic, innovation-driven sustainable business activities in Canada

Implementation Phase 1: Fall 2009



1. Strategic Plans from Prime Contractors with Major IRB Obligations: **Strategic plans from prime contractors with major corporate obligations to Canada will be required. The prime will be required to identify & meet a portion of its obligations through the plan.**
2. Phase in 60% up-front requirement: **30% of obligations will need to be identified at time of contract signing, 30% one year later, and the remaining 40% over the remainder of the contract.**
3. Enhance the Priority Technology List: **The Strategic Aerospace and Defence Technology List will be enhanced by expanding the content to target transformational technologies and services anticipated for future military and commercial needs.**
4. Incentive for the creation of Public-Private Consortia: **Encourage Industry-Government-Academia Consortia to develop next-generation technologies & services in aerospace, defence and related sectors.**

Implementation Phase 2: Winter 2010



5. Improve recognition of the value of Canadian firms participation in GVC: **Encourage original equipment manufacturers (OEM) to add Canadian suppliers to their GVC by crediting Canadian work done on similar strategic international platforms against Direct IRB requirements.**
6. Banking of Industrial and Regional Benefit Credits: **Prime contractors will be offered a limited form of banking of credits both in advance of award, and in the event of over-commitment of IRB credits for high value activities.**
7. Firm-Level R&D and Commercialization: **Encourage primes, through enhanced application of multipliers and a more sophisticated valuation of offset credits, to invest in long term, innovation-focused activities in Canadian SMEs.**



Industry Engagement

Industry Engagement



Major Events:

- **Fixed-Wing Search and Rescue (FWSAR) Industry Day (14 July)**
 - Creating an understanding of Canadian FWSAR needs and soliciting input into how this capability could be met
- **Shipbuilding Forum (27-28 July)**
 - Obtaining a broad range of stakeholders input needed to develop comprehensive and viable options that could lead to the establishment of a long-term, sustainable shipbuilding strategy
- **Consultation on Military Procurement (currently underway)**
 - The Government of Canada and the Canadian Association of Defence and Security Industries will undertake a series of consultations on military procurement with the defence and security industries on factors that affect the procurement process



Concluding Remarks

Our Approach is Changing...

Current Approach

- Individual procurements...
- Case-by-case implementation of Industrial and Regional Benefits...
- Complex and onerous process...
- Highly legalistic/overly cautious approach to risk...
- Overlapping oversight...
- Procurement carried out in isolation...



Proposed Approach

Comprehensive, program-based roadmap

Long-term comprehensive approach focused on sustainable, high value-added work for Canadian firms

Simplified, streamlined and transparent process

Better balance among risk, speed, responsiveness, and economic benefits

More efficient governance

Systematic, ongoing engagement of industry/other stakeholders

A Unique Window of Opportunity



- ✿ **A systematic, multi-departmental effort to improve defence procurement while, at the same time, carrying out several major procurements**
- ✿ **Three Departments Working Together to achieve success:**
 - i) National Defence continues to focus on approaches to requirements/project management that target operational outcomes (not specific equipment) and address industry concerns
 - ii) Public Works and Government Services Canada continues to modernize procurement processes and reduce timelines for major procurements
 - iii) Industry Canada is moving beyond a case-by-case approach to economic benefits toward a more comprehensive, multi-year, opportunities-based approach leveraged to maximize economic benefits of major Government of Canada defence procurements
- ✿ **Industry Engagement**

A series of initiatives to enhance our engagement with industry toward earlier and program-level engagement