THE INDUSTRIAL AND TECHNOLOGICAL BENEFITS POLICY

Western Innovation Forum 2019
What is the ITB Policy?
The Value Proposition
Recent Enhancements
Case Study: FWSAR
Next Steps
## OVERVIEW OF DEFENCE PROCUREMENT IN CANADA

### CAPABILITY

<table>
<thead>
<tr>
<th>Department of National Defence</th>
<th>Innovation, Science and Economic Development</th>
<th>Public Services and Procurement Canada</th>
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<tr>
<td>Determines Canada’s technical requirements and specifications for the platform or service being procured</td>
<td>Determines Canada’s requirements for economic benefits to create jobs and economic growth in Canada, through the <em>Industrial and Technological Benefits Policy</em></td>
<td>Acts as the contracting authority and handles the costing, development, and payment of contracts and agreements</td>
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INDUSTRIAL AND TECHNOLOGICAL BENEFITS POLICY

Requires companies awarded defence procurement contracts to undertake business activity in Canada equal to the value of the contracts

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<tr>
<th>General Aspects of the Policy</th>
<th>When Does it Apply?</th>
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<tr>
<td>• Market driven</td>
<td>• All eligible defence and Canadian Coast Guard procurements <strong>over $100 million</strong> or to procurements to which the National Security Exception is invoked</td>
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<tr>
<td>• Work in <strong>target industrial areas</strong> identified through analysis and industry engagement</td>
<td>• All eligible defence procurements with contract values between <strong>$20-100 million</strong> will be reviewed for the application of the ITB Policy</td>
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<td>• Includes plans for regional distribution of <strong>work across Canada</strong></td>
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<td>• Investments in <strong>small and medium-sized businesses</strong> from across Canada</td>
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<td>• Recognizes <strong>incremental</strong> business activity</td>
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HOW DOES THE ITB POLICY BENEFIT CANADA?

Leverages High Value Investments
• Criteria tailored to each project
• Weighted and rated factor in evaluation
• Streamlined policy features and processes
• Supports leading Canadian industrial capabilities and emerging technology areas

Results have included marine and defence sector growth and major spill-over benefits to the broader economy

Reinforces Government Policies
• Reinforces government policies such as Canada’s Innovation and Skills Plan, and Strong, Secure, Engaged: Canada’s Defence Policy

ITB PORTFOLIO at a glance
1986 – 2017

144 Contracts
$43.8 B in Obligations
$31.8 Completed
$8.8 B Activities in Progress
$3.2 B Future work opportunities
THE VALUE PROPOSITION

WHAT IS THE VP?

• A bidder’s **economic proposal to Canada**

• The **weighted and rated element** of contractor selection along with technical and cost elements

• Designed through internal **market analysis, industry engagement** and **third party defence analytics**

OBJECTIVES OF THE VALUE PROPOSITION

1. Support long-term sustainability
2. Support the growth of prime contractors and suppliers in Canada
3. Enhance innovation
4. Increase export potential
5. Leverage opportunities in skills development and training
The Value Proposition bid proposal is prepared by the contractor, and typically consists of:

### MANDATORY REQUIREMENTS
- Commitment to achieve the total contract value in ITB activities
- A commitment of 15% of bid price to work with Small and Medium Businesses (SMBs)
- Commitment to achieve transactions according to the performance schedule
- Acceptance of the ITB Terms and Conditions
- Signed Mandatory Requirements Certificate
- Detailed ITB Plans, e.g. SMB plan, Regional plan, Gender & Diversity Plan
- Could include other requirements

### RATED CRITERIA
Commitments under Value Proposition Pillars (note: pillars may change based on project):

- Defence Sector Work
- Research and Development
- Canadian Supplier Development
- Exports
- Skills Development & Training

Commitments become part of the contract signed with the winning bidder

### IDENTIFIED TRANSACTIONS
- Transactions equal to no less than 30% of bid price
- Each transaction should correspond to a targeted Value Proposition Pillar
RECENT POLICY ENHANCEMENTS

- KEY INDUSTRIAL CAPABILITIES (KICs)
- SKILLS DEVELOPMENT AND TRAINING VP PILLAR
- GENDER AND DIVERSITY PLANS
KEY INDUSTRIAL CAPABILITIES

EMERGING TECHNOLOGIES
- Advanced Materials
- Cyber Resilience
- Remotely-piloted Systems and Autonomous Technologies
- Artificial Intelligence
- Space Systems

LEADING COMPETENCIES & CRITICAL INDUSTRIAL SERVICES
- Aerospace Systems & Components
- Defence Systems Integration
- Ground Vehicle Solutions
- Marine Ship-Borne Mission and Platform Systems
- Shipbuilding, Design and Engineering Services
- Armour
- Electro Optical / Infrared Systems
- In- Service Support
- Munitions
- Sonar & Acoustic Systems
- Training & Simulation
SKILLS DEVELOPMENT AND TRAINING VALUE PROPOSITION PILLAR

• Tailored to target skills gaps based on market research and industry engagement

• Bidders will be encouraged to identify initiatives to develop skills and training through:
  o Work integrated learning programs (e.g., co-operative education; work placements)
  o Apprenticeship programs
  o A new or existing skill development program at or through a post-secondary institution
  o Other activities that align with the ITB objectives for skills development and training
Our goal is to gain a better understanding of:

- gender and diversity within the defence sector
- the approaches different firms take to promoting gender and diversity
- the elements of a good gender and diversity plan

• Canada is a country where diversity is recognized as a source of strength – part of our unique Canadian identity

• Prime contractors to be asked to provide a gender and diversity plan describing their approach to increasing gender and diversity in their corporate structures and broader supply chains in Canada

• A mandatory element; however, will not receive an evaluated score at this time
**The Value Proposition is Working**

**Accountability and transparency** are encouraging effective participation by Canadian firms and early achievement by contractors.

**Earlier supply chain partnerships** are being formed in advance of procurements as a result of VP and firms are making early investments to capitalize on the banking feature of the Policy.

**Supporting Canadian jobs** with 46,000 jobs created or maintained annually from 2012-2016.

**Scaling up SMBs with** commitments of 15 percent of contract value (up from 12 percent from 2011-2015)

**Commitments of $1.9B in export sales**, expanding opportunities for Canadian firms to be embedded in global supply chains.

Canada is attracting **early commitments to R&D investment** partnerships with post-secondary institutions and SMBs.

**Defence contracts in 2017 resulted in...**

- $1.8 B Additional ITB Obligations
- $300 M Potential Opportunities for SMBs
- $88 M Innovation Activities in Progress
- ITBs Incorporated into several contract extensions
The FWSAR Value Proposition sought to leverage Canada’s strong defence and commercial aerospace industrial capability related to the procurement:

**Acquisition Contract:** Motivate commercial and defence aerospace-related activities focused on Supplier Development, Research and Development, and providing access to Intellectual Property

**ISS of aircraft:** Partner with a Canadian ISS Integrator; enable global ISS opportunities through access rights to Intellectual Property
The Canadian aerospace and defence industries will have greater access to global supply chain opportunities. For example:

- Pratt & Whitney to develop a new engine variant that will be used on FWSAR & other international orders

CAE will design and develop a turn-key training solution, including manufacture of all simulation products

- Significant opportunity for CAE to develop new products/services for international markets, both commercial and defence

Airbus and Provincial Aerospace have created a joint venture in Canada to manage ISS program

- AirPro will perform program management activity; engineering services; airworthiness authority; and, obsolescence management
NEXT STEPS: CONTINUOUS IMPROVEMENT

Strengthen internal service standards to verify and validate investments

Annual public reporting on ITB obligations with increased focus on communicating results

Measure impact of Value Propositions over time

Align Value Proposition with Government priorities

Balance tailored Value Propositions with predictability

Over 70 projects being monitored for potential application of the ITB Policy
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<tr>
<th><strong>TIPS FOR CANADIAN COMPANIES</strong></th>
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<tr>
<td><strong>Be patient!</strong> It can take years to build relationships</td>
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<tr>
<td><strong>Determine what industry domain(s) you want to focus on</strong> – air, land, marine, cyber</td>
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<td><strong>Know who the top bidders and contractors are</strong> in your target market</td>
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<td><strong>Register your company</strong> online with your target vendors for upcoming tenders</td>
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<tr>
<td><strong>Investigate</strong> whether your company needs specific credentials or certifications (i.e. controlled goods)</td>
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<tr>
<td><strong>Determine the Canadian Content Value</strong> of your product or service. This will be your competitive advantage!</td>
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<tr>
<td><strong>Visit BuyandSell.gc.ca</strong> regularly to keep current of upcoming tenders and industry engagements and visit the ITB Website to better understand the ITB Policy</td>
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<tr>
<td><strong>Talk to your Regional Development Agency (RDA) representative and engage with Global Affairs Canada’s Trade Commissioner Service</strong></td>
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ITB QUESTIONS?

Visit our website:

https://www.canada.ca/itb
Western Economic Diversification (WD)

WD promotes the development and diversification of the economy in western Canada.

1. WD is a delivery agent
2. WD is a champion and advocate for the western provinces
3. WD is a convener
4. WD provides services to firms and stakeholders
WD funding to help grow your business

Regional Economic Growth through Innovation (REGI) is a national program delivered by Regional Development Agencies (RDAs) across Canada. It comprises two streams to fuel economic growth through innovation and create more well-paying jobs for Canadians.

1. The overall objective of **Business Scale-up and Productivity** is to assist firms with high-growth potential to scale up and expand.

2. **Regional Innovation Ecosystems (REI)** provides funding for western Canadian not-for-profit organizations to increase the innovation capacity of the region by helping create, grow and nurture inclusive regional ecosystems that support business needs and foster an entrepreneurial environment.

For more information see the WD REGI web page ([https://www.wd-deo.gc.ca/eng/19774.asp](https://www.wd-deo.gc.ca/eng/19774.asp)), contact WD staff at one our regional offices, or call 1-888-338-9378.
WD plays a key role in promoting western participation in the defence procurement process by:

• Raising the profile of western Canada nationally and internationally
• Connecting companies that have ITB obligations with western Canadian capabilities and technologies, including research institutions
• Organizing events, supplier development tours, and B2B meetings to facilitate western engagement with defence contractors
• Providing advice and support to western Canadian companies who are interested in exporting into foreign defence and aerospace market
• Participating in the review and evaluation of the ITB and VP proposals with Innovation, Science, and Economic Development Canada (ISED)
WD is part of a strategic network of partners in defence procurement

The network includes:

• Key federal government departments and agencies, including Regional Development Agencies (RDAs) such as WD
• Industry and academic associations
• Western Canadian industry
• Provincial governments
• Prime contractors

Constant engagement and dialogue keeps WD informed of defence interests, needs and requirements, as well as regional industrial, research and skills development capabilities.
What can you do to help WD better promote western Canadian capabilities?

• Help us understand your capabilities, technologies, or research so we can better promote you to defence contractors.

• Keep us up-to-date on new capabilities, areas of research and development or new skills development and training initiatives.

• Let us know which procurement projects you are interested in and why, and tell us your success stories.

• We will share this information with interested defence contractors and our federal network to let them know what you have to offer.
Western Economic Diversification ITB contacts:

**Ottawa:** Peter Hoek (Land Systems) – peter.hoek@canada.ca
Jennifer Leng (Ships and Naval Systems) – jennifer.leng@canada.ca
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