



INDUSTRIAL AND TECHNOLOGICAL BENEFITS POLICY

ACADA ITB 101 – February 19, 2020

PURPOSE

- Provide an overview of ISED's role in defence procurement, specifically, the application of Canada's **Industrial and Technological Benefits (ITB) Policy**
- Outline Canada's Key Industrial Capabilities (KICs) and how they are applied under the ITB Policy
- Provide detail on some of the tools under the Policy designed to motivate investments into Canadian Small and Medium Businesses (SMBs)

DEFENCE PROCUREMENT IN CANADA

THE DEPARTMENTS

CAPABILITY



Department of National Defence

Defines Canada's technical requirements and specifications for the platform or service being procured, including cost estimates

ECONOMIC BENEFITS



Innovation, Science and Economic Development (ISED)

Determines Canada's requirements for economic benefits to create jobs and economic growth in Canada, through the **ITB Policy**

CONTRACTING



Public Services and Procurement Canada

Acts as the contracting authority, manages stakeholder engagement and manages cost and technical evaluation

DEFENCE PROCUREMENT IN CANADA

ISED'S ROLE & THE ITB POLICY

- ISED is responsible for administering the ITB Policy at every step of the defence procurement process, in coordination with our federal partners. I.e.:
 - I. Market analysis
 - II. Engaging with industry
 - III. Evaluating bids
 - IV. Verifying and monitoring the progress of contracts
 - V. Serving as the federal centre of expertise in defence analytics

- Under ISED's portfolio, the Regional Development Agencies are also active:
 - I. Assisting with engagement activities
 - II. Evaluating bids
 - III. Assisting Canadian companies in making connections with potential prime contractors

- Our role is to leverage economic benefits from defence and Canadian Coast Guard procurements to create jobs and growth for Canadians

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

General Aspects of the Policy

- **Market driven**
- **Targets work in industrial areas** identified through analysis and industry engagement
- Includes plans for regional distribution of **work across Canada**
- Investments in **small and medium-sized businesses (SMBs)** from across Canada
- Recognizes **incremental** business activity

When Does it Apply?

- The ITB Policy applies on all eligible defence and Canadian Coast Guard procurements over \$100 million or to procurements to which the National Security Exception is invoked
- Eligible defence procurements valued between \$20-100 million are reviewed for the possible application of the ITB Policy

THE ITB POLICY

TRANSACTIONS

The successful contractor undertakes **business activities (called transactions)** to fulfill an ITB Obligation; Measured in **Canadian Content Value (CCV)**

TRANSACTION TYPES

DIRECT

A business activity directly related to the equipment or services being procured, e.g. platform components, and sustainment activities



Transaction:

Production of tank drive sprockets for Canada's new fleet



Transaction:

Engine maintenance for Canada's military transport aircraft fleet



Transaction:

Research investment in small satellite technology



Transaction:

Supply chain work on commercial aero platforms

THE ITB POLICY

CANADIAN CONTENT VALUE

CCV is **measured in Canadian dollars** and is the portion of the product or service (transaction) that includes **Canadian costs**

INCLUDES ✓

EXCLUDES ✗

EXAMPLE

Components of Canadian origin

Wages paid to Canadians or permanent residents

Utilities, maintenance, and rent paid in Canada

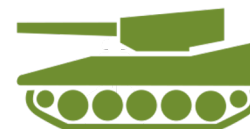
Profit taxable in Canada

Parts imported into Canada

Wages, royalty and license fees paid to non-Canadians

Bid preparation costs

Taxes, duties, and lobbyist fees



Transaction: Tank Drive Sprockets
CCV: 67%
Transaction Value: \$3,700,000
Credited Value (CCV): \$2,479,000

*For full definition, see the **ITB Model Terms & Conditions***

THE VALUE PROPOSITION

OVERVIEW

Under the ITB Policy, contractors bidding on major defence contracts must submit an economic proposal to Canada called a **Value Proposition (VP)**

KEY DETAILS

- **Flexible:** VP requirements are developed by ISED on a procurement by procurement basis and are based on potential economic opportunities
- **Evidence-based:** ISED designs VP requirements through market analysis, industry engagement and third party defence analytics
- **Bid Evaluation:** The VP is assigned a set number of points in a bid, and is scored along with technical and cost elements.

OBJECTIVES OF THE VALUE PROPOSITION

- 1 Support long-term sustainability and growth of Canada's aerospace and defence sectors
- 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

VP PILLARS



DIRECT DEFENCE
SECTOR WORK

Support the long-term sustainability and growth of Canada's aerospace and defence sectors



CANADIAN SUPPLIER
DEVELOPMENT

Support the growth of prime contractors and suppliers in Canada, including small and medium business (SMBs) in all regions of the country



RESEARCH AND
DEVELOPMENT

Enhance innovation through R&D in Canada



EXPORTS

Increase the export potential and international competitiveness of Canadian-based firms



SKILLS DEVELOPMENT
AND TRAINING






Fill skills and training gaps within the Canadian economy to support a more innovative Canada

KEY INDUSTRIAL CAPABILITIES (KICs)

WHAT ARE KICs?

- KICs are designed to help target priority areas of investment under the VP in areas of **emerging technology** and **established industrial strength** in Canada
- KICs were developed through analysis and expert input, and validated through extensive industry engagement
- KICs align with Government priorities and focus on defence technologies, but also include commercial and dual-use sectors

EMERGING TECHNOLOGIES

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

LEADING COMPETENCIES & CRITICAL INDUSTRIAL SERVICES

-  Aerospace Systems & Components
-  Armour
-  Defence Systems Integration
-  Electro Optical / Infrared Systems
-  Ground Vehicle Solutions
-  In-Service Support
-  Marine Ship-Borne Mission and Platform Systems
-  Munitions
-  Shipbuilding, Design and Engineering Services
-  Sonar & Acoustic Systems
-  Training & Simulation

KEY INDUSTRIAL CAPABILITIES CONSIDERATIONS

- ISED determines which KICs to apply to a given VP based on the following considerations:
 - 1. PROCUREMENT DOMAIN & TYPE**

The domain (E.g. Marine, land, space), procurement type (E.g. Sole-source, competitive), and purchase method (E.g. Direct commercial sale, Foreign Military Sale), all influence which KICs are applied
 - 2. MARKET OPPORTUNITY**

The VP is market-driven; There must be an evidence-based rationale to apply specific KICs. This includes the capabilities of bidders, and capacity of Canadian industry
 - 3. ALIGNMENT WITH TECHNICAL REQUIREMENTS**

Technical requirements are driven by the needs of the DND. ISED can apply KICs to reinforce and support DND's desired outcomes for a given procurement

THE ITB PORTFOLIO 1986-2018

161

Contracts

\$46.8 B

in Obligations

\$36.1 B

Completed

\$7.1 B

Activities in
Progress

\$3,700,000,000⁺

In work opportunities to be identified

+ With more projects to come including:

- Canadian Surface Combatant (est. \$50 billion)
- Future Fighter Capability Project (est. \$15 billion)
- Future Aircrew Training (est. \$10 billion)

SUPPORT FOR SMALL AND MEDIUM BUSINESSES

OVERVIEW

A key objective of the ITB Policy is to **motivate investments in Canadian SMBs**; SMBs represent **more than 90% of firms** in the Canadian defence industry

KEY DETAILS

- Under the ITB Policy, an “SMB” means a Canadian Company with fewer than two hundred and fifty (250) full-time personnel as of the date of entering into a transaction*
- The ITB Policy and Value Proposition has a number of tools designed to motivate investments in SMBs
- To date, investments as a result of the ITB Policy have scaled up close to 450 SMBs in all regions of Canada

TOOLS UNDER THE ITB POLICY

- 1 Requirement for 15% of Contract Value in SMBs**
Bidders must carry out work activities with SMBs equal to a minimum of 15% of the contract value; Points in the VP can incentivize additional work
- 2 Canadian Content Value ‘Boost’**
Transactions with SMBs valued at \$1 million or below with CCV of at least 70% will be deemed to have 100% CCV for crediting and reporting purposes
- 3 Investment Framework**
Crediting tool designed to encourage long-term R&D investments with Canadian SMBs

*Subsidiaries of the Prime Contractor or subsidiaries of an Eligible Donor on any contract with an ITB obligation do not qualify as an SMB. An agent or a distributor of foreign goods and services does not qualify as an SMB.

SUPPORT FOR SMALL AND MEDIUM BUSINESSES

INVESTMENT FRAMEWORK TRANSACTION

The **Investment Framework** is a crediting tool to encourage contractors to make long-term investments in Canadian SMBs, in innovation-related areas involving R&D and commercialization activities



CC-130J Super Hercules Tactical Airlift

- Lockheed Martin agreement with MANNARINO Systems
- Cash for R&D activities and commercialization
- 9x multiplier

Initial Investment:	\$10,000,000
CCV:	100%
Credited Value:	<u>\$90,000,000</u>

HOW TO GET INVOLVED



Be patient! It can take years to build relationships



Determine what industry domain(s) you want to focus on – air, land, marine, cyber



Know who the top bidders and contractors are in your target market



Register your company online with your target vendors for upcoming tenders



Investigate whether your company needs specific credentials or certifications (i.e. controlled goods)



Determine the Canadian Content Value of your product or service. This will be your competitive advantage!



Visit [BuyandSell.gc.ca](https://buyandsell.gc.ca) regularly to keep current of upcoming tenders and industry engagements and visit **the [ITB Website](#) to better understand the ITB Policy**



Talk to your **Regional Development Agency (RDA) representative** and engage with **Global Affairs Canada's Trade Commissioner Service**



Visit the [DND Defence Capabilities Blueprint webpage](#) and browse by Key Industrial Capability (KICs) in order to identify projects that fall within your industry domain and that match your firm's capabilities

CONCLUSIONS

- The ITB Policy and VP is **market-driven** based on analysis, engagement with bidders, and consultation with Canadian stakeholders
- The **application of KICs** in a VP depends on the procurement type, the market opportunity, and alignment with technical requirements
- A key objective of the ITB Policy is to motivate strong investments in **Canadian SMBs**

ANNEX A

HELPFUL LINKS

THE ITB POLICY	<p>The ITB Policy is Canada's main tool to leverage long-lasting economic outcomes from defence procurement. To learn more about the ITB Policy, please visit:</p>	<ul style="list-style-type: none">▪ ITB Policy – How to Get Involved - ISED https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00113.html▪ ITB Policy – Model Terms & Conditions https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00011.html▪ ITB Policy – Key Industrial Capabilities - ISED https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00175.html
VALUE PROPOSITION	<p>The Value Proposition outlines Canada's economic benefit requirements for a given project. To learn more about the Value Proposition, please visit:</p>	<ul style="list-style-type: none">▪ The Value Proposition – ISED https://www.ic.gc.ca/eic/site/086.nsf/eng/00006.html#Intro
THE RDAs	<p>Canada's RDAs work closely with businesses and innovators in their regions to fuel economic growth that creates more well-paying middle-class jobs for Canadians. To learn more, please visit:</p>	<ul style="list-style-type: none">▪ Atlantic Canada Opportunities Agency http://www.acoa-apeco.gc.ca▪ Canada Economic Development for the Quebec Region http://www.dec-ced.gc.ca▪ Federal Economic Development Agency for Southern Ontario http://www.feddevontario.gc.ca▪ Federal Economic Development Agency for Northern Ontario http://fednor.gc.ca▪ Western Economic Diversification Canada http://www.wd-deo.gc.ca

For general questions related to the
ITB Policy and Value Proposition,
please contact:

ic.itb-ised.info.rit-ised.ic@canada.ca

BETWEEN 2013 – 2017, THE ITB POLICY:

GDP & JOBS

Contributed to an economic impact of close to 46,000 jobs and more than \$4.7B to GDP annually

SMALL AND MEDIUM BUSINESSES

Supported the scaling up of close to 450 SMBs across Canada

INNOVATION & SKILLS

Motivated close to \$250M in collaborative R&D and skills development, with close to 50 academic and research organizations benefiting from these investments

EXPORTS

Resulted in over \$2B of export opportunities



Canada

UNCLASSIFIED