

## **Best Defence Conference 2017**

Opening Remarks

November 2nd, 2017 08:10, London, ON

### **Check Against Delivery**

Good morning and thank you Heather for inviting me to speak today.

I always enjoy coming to Best Defence, a great event that has grown over its short history into a must attend for our community. Heather and the other organizers deserve a lot of credit for building this into something of real importance for the Canadian defence industry and our partners in government. The Best Defence program is always rich and informative. The networking opportunities superb. And it's always great to come to London, admittedly not the easiest place to get to for those of you not from the Southern Ontario region, but worth the effort when you get here.

This city has a lot to celebrate and be proud of when it comes to its defence industry. While we all can appreciate the impact of General Dynamics Land Systems to this region, I'd like to point out that companies such as Armatec Survivability Corp, IMT Defence, 3M Canada and Canadian Centre for Product Validation as world leading firms that anchor our sector in this community, and bolster our industry's reputation nationally and around the world. Congratulations, Armatec on celebrating 20 years in business.

The London defence cluster exists and persists for a variety of reasons, including the innovative and entrepreneurial spirit of the companies that are resident here; the foresight of the local government in nurturing and promoting the industry; and some wise decisions taken decades ago in Ottawa that catalyzed the armored vehicle business in this community.

In other words, it didn't happen by accident--no successful cluster does. The London defence cluster has a history and a story that needs to be told more by those of us representing the industry as we try to get governments and others to understand how our sector works, and what it takes to be successful in it.

Today, I want to give you my sense of the federal landscape for our industry. A lot has changed since I last addressed this conference two years ago.

The upshot is we've made some important gains on the federal policy front in the past year, though a lot more work is needed to consolidate them into real business opportunities for our industry. That is what CADSI has turned its attention to.

As you know, this past spring the government released its long awaited defence policy, titled Strong, Secure, Engaged, or SSE as it has come to be known in Ottawa. CADSI and some of our member companies provided input into the consultation process for this review. All of us in our own way were trying to make the rather obvious, yet often overlooked point, that the success and impact of an advanced country's defence and national security policy is linked to some degree to the health and vibrancy of its

defence industrial base.

In other words, the Canadian defence industry needs to be thought of as part of Canada's defence and national security architecture. This means our sector's issues need to be part of the broader defence policy conversation. Every other NATO country places their industry in that broader context, and we need to do likewise in this country. It's long overdue.

It is pretty easy to be jaded about government defence reviews, especially if you work in the defence industry and have seen these documents come and go over the years. Pretty much every government that comes to office puts out a paper outlining a "new" defence policy. They are invariably touted by the government of the day as being a significant departure from that of their predecessors, a big improvement on the past. We can have a vigorous debate whether that has in fact been the case over the years.

However, in my own view, Strong, Secure, Engaged does have a legitimate claim to be different than its predecessors in at least one sense. Specifically, its emphasis on the importance of the domestic defence industry to the National Defence enterprise overall. The government seems to have heard our message through the consultations. For my part, I had personal conversations with the Minister of National Defence throughout last year that certainly led me to believe he understood and appreciated our basic point.

So, for the first time in at least thirty years, we have in SSE an official government document that identifies an innovative defence sector as one of the Department of National Defence's five domestic priorities, alongside the conventional priorities of the defence of Canada; disaster response; search and rescue; and enhanced presence in the Arctic. This is important.

I want to read one quote from Strong, Secure, Engaged that we need to take seriously:

"Canada has a world-leading, highly innovative, high-technology defence sector that can contribute significantly to Canada's defence and security. We will work in closer partnerships with Canadian companies and universities to ensure the Canadian Armed Forces has the advanced capabilities it requires to meet emerging challenges. This closer partnership will also benefit the Canadian economy in the form of high-value jobs and greater export opportunities for Canadian companies." (Strong, Secure, Engaged, p. 60)

At a conceptual level, a commitment to an enhanced partnership between the domestic defence industry and the federal government, aimed at bolstering Canada's defence and security and driving growth in the Canadian economy, is an important signal to our industry. Arguably, it's the first and necessary step toward a defence industrial strategy, and something CADSI and our members called for during the government's consultations.

SSE makes one concrete down payment on the government's commitments to an innovative defence sector, which is the establishment of the Innovation for Defence Excellence and Security program--or IDEaS.

The basic philosophy of IDEaS is to challenge industry to come up with innovative solutions to near term operational challenges of the CAF, allowing companies to bring their creativity, innovative ideas and business acumen to help solve real world problems in real time. IDEaS is also supposed to have a less burdensome administrative process and use more flexible procurement methods to acquire the end product. At that level, it sounds like an improvement over the status quo and could transform the way DRDC and ADM (S&T) interact with our industry.

CADSI and some of our members have been engaged by Dr. Marc Fortin and his team on the design of IDEaS. We are optimistic about the potential for this program to have a positive impact on the Canadian

defence industry. But the devil is in the details, particularly around things like the treatment of intellectual property and how the government will procure the end product. So we look forward to road testing how IDEaS will work in practice, while acknowledging that it is a piece of the puzzle to grow an innovative defence industry.

SSE also commits the government to publish DND's costed and funded Investment Plan. The Investment Plan will identify major capital equipment and infrastructure investments over \$20 million over a five year period. The added information and transparency on DND's project priorities, estimated costs and schedules that the Investment Plan will provide should be of significant benefit to us. Keep in mind here that SSE has also committed the government to a substantial increase in defence funding, from \$17.1 billion per in 2016-17 to \$24.6 b in ten years- time. Which implies a major increase in defence procurement output--perhaps as much as a three or four fold increase over the next decade. The Investment Plan will be absolutely critical to understanding where this money is going and when.

In addition, the government tells us that the projects in the Investment Plan have been more rigorously costed than ever before--including subjected to cost validations by private sector accounting firms. A rigorously costed, published Investment Plan, therefore, should help our companies make more informed decisions, based on more reliable information, around research and development and other investments in Canada.

While not mentioned in SSE, we also know the ongoing job of defining Key Industrial Capabilities or KICs--a legacy of the Jenkins panel work of a few years ago, of which I was a member--continues inside government and offers promise for our industry. We encourage the government to continue exploring a KICs strategy for Canada, in close partnership with industry. A properly designed and executed KICs strategy can significantly bolster growth in the defence industry while at the same time enhancing sovereign capabilities essential to Canada's national defence and security. We have not forgotten that within the Defence Procurement Strategy of which KICS was an integral part, were growth targets set for our sector: a 40% increase in economic indicators and a 40% increase in exports over a 10-year period.

So I think it is fair to say we have made some good progress with the government, at least directionally. What we need to do next, it seems to me, is take the government at its word and operationalize their intent to have a closer partnership with us. A more institutionalized partnership, if you will, in which the public and private sectors work together toward the common goal of growing and sustaining an innovative Canadian defence sector, which I remind you is one of the objectives of SSE.

This should not be seen as a radical idea or beyond Canada's ingenuity. In recent years some of our closest allies have adopted formalized partnerships between their governments and their defence industries.

The British Government's Defence Growth Partnership (DGP), established in 2012, is an institutionalized partnership between the British government and the British defence industry. The DGP is led by the Department of Business, Energy, and Industrial Strategy (BEIS) and the defence industry, with the support of the Ministry of Defence (MOD), and working closely with the UK's Department of International Trade - Defence and Security Organisation, as well as academia. The aim of this government-industry partnership is to secure a truly competitive, sustainable and globally successful UK defence sector that provides "affordable leading-edge capability and through-life support for the Armed Forces and international customers, as well as bringing wider economic benefits to the UK."

Similarly, in 2015, the Australians put in place a formal government--defence industry partnership, the cornerstone of which is the Centre for Defence Industry Capability, which is co-led by industry and the Australian government. The aim of CDIC is to help build the capability and capacity of Australian industry

to support the Australian Defence Force. And to drive the strategic vision for the defence industry sector, building on the capability needs in Australia's Integrated Investment Program, in so doing transforming the defence-industry relationship.

Both the British and Australian approaches are based on a recognition that achieving an innovative, competitive defence sector that supports the capability needs of their Armed Forces requires a formal, institutionalized industry-government partnership.

We need to learn in this country from our British and Australian friends and colleagues on this front. Obviously, each jurisdiction must tailor its institutional arrangements to its own unique defence and industrial realities and contexts. But the essential point is that an institutionalized arrangement of some description is essential to forge the kind of closer partnership between industry and government required to achieve the ambitious goal of an innovative Canadian defence sector.

I don't think our industry needs to be wedded to a specific institutional design for a Canadian defence industry-government partnership at this point. But I do think we need to take SSE as our point of departure and begin the conversation with the government on a partnership design aimed at meeting the growth and innovation goals for industry that are embedded in SSE.

In the coming year, we, at CADSI will be working with the government and you--our member companies--to forge that closer partnership. A partnership for success that will benefit our industry, the Canadian Armed Forces and the Government of Canada.

Thank you for inviting me to speak to you today and I hope you enjoy today's conference program.