

Seminar on Defence and RCAF Projects

General Trends of the Defence Industry: Balancing opportunity and risk

Remarks

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Check Against Delivery

Good morning. It is a pleasure to be speaking once again at an Aero Montreal International Aerospace Week event and an honour to share the stage following the esteemed Ministers.

I extend a warm thank you to Aero Montreal for inviting me to speak with you today. Our strong partnership has been built over many years.

Je tiens également à profiter de l'occasion pour remercier l'Agence de développement économique du Canada pour les régions du Québec pour son soutien en faveur de notre industrie, particulièrement pour le programme international de l'AICDS.

Le Québec est le deuxième plus grand contributeur en matière d'emploi dans le secteur de la défense au Canada, comptant au total 24 % des emplois du secteur. Le soutien de l'Agence et une approche collaborative qui intègre des organismes comme l'AICDD et Aéro Montréal sont essentiels à la force de cette province au sein de l'industrie.

Assurer la force et la durabilité de l'industrie de la défense au Québec et dans l'ensemble du Canada, c'est en partie reconnaître le paysage émergeant au pays et à l'étranger. Au cours de la dernière année, il y a eu d'importants changements dans ce paysage. Je suis un optimiste et je vois des possibilités dans le changement. Je suis aussi un réaliste et je vois donc aussi des risques associés à ces changements. Notre industrie doit évaluer les deux côtés de cette médaille si nous voulons naviguer efficacement dans cet environnement émergeant.

And that is why I want to share with you today the opportunities and risks I see across the defence industry environment.

Let us start south of the border with Canada's closest ally and largest defence trading partner. Our close and privileged defence industrial relationship with the U.S. has benefited both countries for more than half a century. The Canadian defence industry is highly integrated and interdependent with that of the U.S.

Chaque année, la Corporation commerciale canadienne gère en moyenne 1 milliard de dollars en contrats réalisés par les entreprises canadiennes pour le Département de la Défense des États-Unis et la NASA. De plus, l'industrie canadienne de la défense génère annuellement quelque 6 milliards de dollars en revenu d'exportation, et Affaires mondiales Canada estime que plus de la moitié des exportations annuelles du

Canada en matière de produits et technologies militaires se font vers les États-Unis.

These are signs of an integrated and interdependent industrial base.

Looking ahead, the Trump administration has proposed a major increase in defence spending--\$54 billion or nearly 10 per cent of DoD's current appropriations. The results of Congress' deliberations will have a significant impact on how this money will be spent. If we can maintain and strengthen the Canada-U.S relationship, Canadian exports have the potential to increase.

But that could be a "big if" because protectionism is alive and well in Washington today in a way we have not seen in three generations. Talk of "border adjustment taxes" and other measures designed to price foreign manufactured goods out of U.S. markets would certainly be bad for our industry--and theirs. Fortunately, at this juncture, we do not see this trade protectionism seeping into the bi-lateral defence relationship, but we are keeping our eyes on it.

À l'AICDS, nous sommes prêts à travailler avec le gouvernement du Canada pour aider à convaincre nos amis américains au pouvoir, au Congrès et dans les capitales que la relation commerciale unique qui lie le Canada et les États-Unis depuis des dizaines d'années est avantageuse pour les deux pays.

En dehors de l'Amérique du Nord, des changements considérables se sont produits relativement à notre industrie. De nouvelles politiques industrielles de défense, par exemple, sont mises en oeuvre chez nos principaux alliés.

In the UK, Prime Minister Theresa May's government has embraced enthusiastically the virtues of industrial policy generally. They see a vital role for the British government in bolstering flagging productivity growth and industrial competitiveness through a variety of active programs and policies. In Britain, defence is rightly seen as a strategic industry that offers among the biggest payoffs to the UK economy and ultimately the British national security posture. The Defence Growth Partnership, which commits the British government to work with the domestic defence industry on increasing research and innovation, skills development, trade competitiveness, and small business growth is the cornerstone of the British approach. The Australians, too, have recently unveiled a new, formal defence industrial policy that recognises the defence industry as a fundamental input to the capability of the Australian Defence Force. That is an important principle we need to adopt in Canada. The Australians are aiming to develop a new Defence Industrial Capabilities Plan that identifies sovereign industrial capabilities that should be maintained and supported by the Australian government for both economic and national security reasons.

Le message de certains de nos plus proches alliés est clair : soutenir et faciliter la croissance de nos industries nationales de défense mène à l'innovation technologique et rejaillit sur toute l'économie. Le résultat : des emplois durables de haute qualité et, en fin de compte, une croissance économique accrue. Et cela accroît la souveraineté et la sécurité nationale.

En tant qu'optimiste, je vois une occasion spéciale au Canada dans ce domaine. Bon nombre d'examens des politiques fédérales viennent à la conclusion que cela pourrait faire un bien considérable à notre industrie.

The results of the Defence Policy Review, which consisted of exhaustive consultations that included industry, will be published in the coming months. Through those consultations we echoed the messages coming out of London and Canberra--namely that now is the time for Canada to recognize the strategic importance of our defence industry to both economic growth and national security, and develop a Made in Canada Defence Industrial Policy.

We re-iterated this message during the Government of Canada's Inclusive Innovation Agenda consultations,

which sought to find new ways for the government to support and drive innovation in key sectors and technologies.

Le lien entre l'Examen de la politique de défense et le Programme d'innovation est évident pour nous. Mais ce lien doit être exposé explicitement par le gouvernement afin de mettre en place le genre d'architecture politique dont nous avons besoin pour que notre industrie atteigne son plein potentiel.

One de facto endorsement of our basic approach came through the recently released reports of the Finance Minister's Council on Economic Growth. These reports made two key points relevant to our industry.

First, that government should use their buying power, what the Council calls "strategic procurement", to drive innovation. This idea is new to Canada but not to other countries. The Council emphasized the importance of government as first buyer in certain sectors of the economy. It also championed the notion of a Canadian version of the US Small Business Innovation and Research Program. These are messages CADSI has been delivering in Ottawa for years.

Deuxièmement, le Conseil a recommandé que le gouvernement adopte une approche de développement économique et d'innovation basée sur le secteur. Dans ce contexte, le Conseil a ciblé la fabrication de pointe comme étant l'un des quatre secteurs sur lesquels il faudrait se concentrer. Au sein de ce secteur, la défense et l'aérospatiale sont considérées comme étant deux industries ayant un potentiel robuste.

Ces rapports sont importants pour l'industrie de la défense. Ils présentent une philosophie sur la politique publique en harmonie avec les intérêts et la nature uniques de notre industrie. Leur orientation converge avec celui de nos alliés, avec qui nous sommes en compétition chaque jour.

And the reports have already had a big impact on the Government.

The federal Budget announced a new program called Innovative Solutions Canada, which is modelled on the SBIR.

The Budget also identified six strategic sectors that the Government will focus on over the coming years to grow Canada's innovative companies, one of which is Advanced Manufacturing. Economic Sector Tables will be established for each of these sectors. We are told these tables will set ambitious growth targets, identify sector specific challenges and bottlenecks, as well as barriers to greater participation across gender lines, and lay out specific strategies to help innovative companies achieve their targets.

This is an important development--the foundation for a Canadian industrial policy if you will. For our part, CADSI looks forward to participating actively in the Advanced Manufacturing Economic Sector Table over the coming months. We will bring to that table a greater awareness of the innovations that characterize our industry, its potential for innovation-based growth, and ideas about how to realize our sector's full potential, including ideas for reducing the bottlenecks that adversely affect our companies. Here I am alluding chiefly to Canada's rather sclerotic and risk averse defence procurement process, with which I know you can all relate.

Finally, a report by the Washington-based defence consultancy, Avascent, on the criteria to select key industrial capabilities in the defence industry is now under consideration in government. Some of you may have been consulted by Avascent or briefed on their report. This work on key industrial capabilities, which started with the Jenkins panel report five years ago now, is foundational in moving forward a defence industrial policy for Canada.

I am optimistic that the confluence of these international forces, federal Budget commitments, domestic policy reviews, and expert advice bodes well for our industry in the short-term. But again, I am also realistic enough to know that we face risks. This includes the risk of inaction by government despite what seems like an auspicious environment in Canada today.

We all know nothing can be taken for granted and little happens without hard work. So for our part, CADSI continues to engage the government on the opportunities that exist to drive growth and innovation in Canada through defence exports and defence acquisitions at home. Over the coming years, these domestic acquisitions are projected to be historically large.

It is true that the focus of this seminar is directed more at the aerospace side of defence. However, I would be remiss if I didn't point out that we are presently in the middle of a procurement on fighter aircraft for which CADSI has urged the government to maximize economic benefits to Canada throughout the lifecycle of this major procurement. We are also in the middle of the bidding phase for the warship design for the Canadian Surface Combatant, one of the largest procurements in Canadian history. This procurement has a substantial Value Proposition component to it that requires bidders to officially commit to which activities they will be bringing to the Canadian economy. This must happen up-front, prior to the awarding of the contract.

It is your time to be actively engaged on these files so as to be included in the supply chain, providing engineering services and labour force.

Convertir ces possibilités que j'ai exposée en véritables gains, et cibler et atténuer les vrais risques, voilà ce qui doit être au coeur de notre défi à court et à moyen terme. Et j'ai bien hâte de relever ce défi avec vous.

Merci de votre temps aujourd'hui. Thank you for your time today.