

## **Growing an Innovative and Sustainable Canadian Defence Manufacturing Base**

### **CADSI President Before the House of Commons Standing Committee on Industry, Science and Technology**

Remarks

May 19th, 2016 15:45, Ottawa, Ontario

#### **Check Against Delivery**

Introduction: Setting the Context

Thank you for inviting me to speak to you today to give you a Canadian defence industry perspective on manufacturing.

The basic message I want to leave you with is that the Canadian defence industry is a vital, innovative part of Canadian manufacturing that the federal government should be paying more attention to, especially at this point in time.

In the context of a Canadian manufacturing sector that has lost at least 400,000 jobs in the past decade due to fierce offshore competition, the size of Canada's defence industry has remained relatively stable.

Cela laisse croire à une résilience de l'industrie, ce qui est plutôt rare dans le secteur manufacturier. Mais plus important encore, cela montre que l'industrie de défense peut croître considérablement en une génération si le gouvernement fédéral fait les bons choix et travaille en partenariat avec l'industrie.

By this, I mean the growth potential for defence manufacturing is highly sensitive to federal government actions... or inaction. Federal government policies, programs, but especially procurement decisions, influence heavily, if not determine outright, our sector's growth path. I don't think you can say that about any other part of Canadian manufacturing.

#### **The Canadian Defence Industry by the Numbers**

To begin, I want to give you a few numbers from a recent Innovation, Science and Economic Development and Statistics Canada survey of the defence sector to provide a high level picture of what our industry looks like. Of particular relevance to your committee's work is the fact that over 60 per cent of the Canadian defence industry is manufacturing focused. The Canadian defence sector overall accounts for about 63,000 direct, indirect and induced jobs, and generates 6.7 billion dollars in gross domestic product annually.

The sector is export intensive, with sixty percent of industry revenues coming from foreign sales. I hasten to

add this strong export performance takes place in the context of a highly protected and regulated international marketplace for defence goods and services.

This is one reason why defence goods and services are exempt from the provisions of the WTO and NAFTA and other international trade agreements. Almost all countries protect, promote, develop, subsidize and favour their domestic defence industries for a combination of national security, sovereignty and economic reasons. That is just a reality we all have to understand.

As a result, when Canadian defence firms compete abroad we are up against some formidable and often unpredictable forces. And yet those export numbers tell us our companies do very well. I would suggest to you that our export success is a measure of our industry's innovative nature, the value for money it provides, and a barometer of the high quality goods that Canadian defence firms sell into global markets.

Une autre caractéristique particulière du marché de la défense est qu'à l'échelle nationale, il n'y a en réalité qu'un seul client : le gouvernement du Canada en général, et le ministère de la Défense et les Forces armées canadiennes en particulier. Et encore, ce n'est pas spécifique à l'idéal du marché libre de l'Économie cent un, où il y a une multitude d'acheteurs et de vendeurs.

The ISED-Stats Canada survey found that companies in our sector pay 60 per cent above the average manufacturing industry wage. This is explained in part because our industry is innovative. Truly innovative firms have highly qualified and well paid people working in them. Over 30 per cent of the occupations in our industry consist of engineers, scientists, researchers, technicians and technologists. Another 40 per cent of our workforce are well paid production workers.

So that gives you a high level picture of our industry.

Now let me give you a little more ground truth on the sector. The Canadian defence sector comprises about 650 small, medium and large firms. Some Canadian, some foreign. It is truly a pan Canadian industry with pockets of industrial strength in every region of Canada.

Shipbuilding and the associated marine industry are located on both coasts. Military aircraft maintenance, repair and overhaul services and aircraft fabrication and structures are based in Nova Scotia, Quebec and Western Canada. In Ontario, there are combat vehicles and related maintenance repair and overhaul, and airborne communications, navigation, information systems, software and electronics.

It is also worth pointing out that two-thirds of Canadian defence firms have significant commercial, non-defence business operations. Furthermore, a lot of defence products and services end up generating important commercial and civil technologies with spill-overs into the broader economy.

## The Opportunity

So that is the essence of the sector. And today the opportunity of a generation stares our industry and the Government of Canada in the face.

Over the next 20 years the Canadian defence manufacturing base has the potential to grow significantly due to the planned recapitalization of the Canadian Armed Forces. Shipbuilding and the fighter jet replacement program are the two largest pieces of this puzzle financially speaking, accounting for at least 35 billion dollars in capital equipment.

Le Guide d'acquisition de la Défense, un plan sur 20 ans des Forces armées canadiennes, dresse une liste de plus de 200 principaux projets. Il s'agit d'une occasion immense, et honnêtement sans précédent, d'exercer un levier sur les immobilisations en défense afin de permettre à la base manufacturière de la défense de prendre de l'expansion au pays. C'est un des éléments clés du rapport du groupe d'experts de Jenkins, dont j'ai fait partie, sur le recours aux leviers dans les approvisionnements en défense.

## Realizing the Opportunity

But how do we execute on this opportunity? I would suggest to you there are two key ingredients needed to grow defence manufacturing in this country.

First, we need to recognize that Canadian prime contractors, of which there are not that many, must be considered more strategically by the government in procurement strategies for these major capital projects. Domestically based primes are the firms that do the bulk of the manufacturing in our sector. They own intellectual property, which is essential to getting the kind of innovative, sustainable manufacturing activity and high wage employment we all want.

The kind of advanced manufacturing we are talking about here is founded on intellectual property, research and development activities, design, and testing. It also includes complex systems integration of both hardware and software.

Second, we need to find ways to incentivize intellectual property transfer from foreign primes into Canadian firms, so that those Canadian companies will also be able to engage in the kind of innovative manufacturing that comes with owning and exploiting intellectual property. Procurement strategies need to do more than just drive Canadian firms into supply chains. And the value of those supply chains need to be better defined up front. We need to recognize that because the Canadian Armed Forces buys equipment so infrequently, and purchases so few units, that supply chain activity limited to the domestic buy won't sustain the industry, let alone grow it. At a minimum, when foreign primes win Canadian contracts, Canadian firms need to be driven into the global supply chains of those primes.

But we need to think bigger and more strategically than the existing suite of fragmented programs scattered among two or three departments, with little coherent direction. What we really need is to develop a Made in Canada Defence Industrial Policy, tailored to our unique national security requirements and domestic industrial capabilities. Virtually all of our allies have something called or resembling a defence industrial policy. Canada needs alignment at the political level to drive strategic thinking into defence procurement projects using the tools we have to achieve the outcomes we want.

The moment to fix this policy gap and grow defence manufacturing is now with the government simultaneously launching both a Defence Review and an Innovation Agenda. These two major policy reviews need to be joined up to develop a Canadian defence industrial policy to build a stronger, larger and even more innovative Canadian defence manufacturing base.

This vision is ambitious yet achievable. The time to act is now. Industry stands ready to work with the government. The Canadian defence industry recommends that this committee, in its report to government on the manufacturing sector, echo our call to develop a Made in Canada Defence Industrial Policy, tailored to Canada's unique security challenges and economic opportunities.

Thank you for the opportunity to appear before your committee today.