

Military Procurement for a Purpose Symposium Panel

How Should a New Defence Policy Tie into Canada's Manufacturing Base panel

Moderator Remarks

December 1st, 2015 14:45, Westin Hotel, Governor General Ballroom, Ottawa, Ontario

Check Against Delivery

The 2012 Defence Procurement Strategy attempted to leverage more value by changing the old industrial Regional Benefits and requiring that companies instead meet "value propositions". How are the new value propositions coming along? What are the costs and benefits of adopting an industrial policy tied to defence procurement, rather than saving tax dollars by buying off the shelf?

It is a pleasure for me to be here today to moderate this session. I want to thank the University of Calgary, School of Public Policy, and the Canadian Global Affairs Institute for hosting this event and for inviting me to participate again. We have a distinguished panel here for you today to address the topic "How should a new Defence Policy tie into Canada's manufacturing base?"

Our panelists are Mr. Mike Halms, KPMG Australia; Mr. Jacques Greffe, Vice-President, Canadian Commercial Corporation; and Mr. Peter Gartenburg, L-3, each of whose bios are in your program for your reference.

I will ask each panelist to make some brief introductory remarks, followed by a Q&A so we can have a good discussion. But before I turn to the panelists I want to make three points to set some context for that discussion.

First off, apropos the question at hand, it is now clear that sometime in the next year or so Canada will indeed have a new/refreshed defence policy. Prime Minister Trudeau has mandated Defence Minister Sajjan to "conduct an open and transparent review process to create a new defence strategy for Canada". For our part, the Canadian defence industry looks forward to participating in that review. And in particular we look forward to offering the view that having a healthy defence industrial base is not just good for the Canadian economy, but should be considered an important dimension of national security and sovereignty, as it is in most developed countries. In fact, that because defence is a managed market, it is one of the most controllable and strategic levers we have as a nation to use to our advantage and I might fan the flames a little by observing that Canada seems to be playing a game of checkers while the rest of the world, particularly our allies to the south, are playing chess. We actually do hold some of the power to change this and Mike Halms may no doubt have something to say about this in the Australian context.

The second point I want to make is that while this panel has been asked to focus on manufacturing--and we all know how important manufacturing is to Canada and what a big issue it was in the recent federal

election--we also need to consider that when we think about the Canadian defence industry we cannot ignore the services side of the equation. Because there is a significant amount of product on platforms that comes from other countries, Defence services--things like complex systems integration, in-service support and maintenance, repair and overhaul--are also very important features of the Canadian defence industry that need to factor into any defence industrial policy, not to mention the fact that more and more, embedded systems and software are where the "crown jewels" of technology and innovation are hiding on these platforms.

Finally, I can't resist the temptation to stir things up a bit and challenge this all too common notion that defence industrial strategies are net costs to government. This mindset is reflected to a degree in the set-up for this session, which asks us to consider the question: What are the costs and benefits of adopting an industrial policy tied to defence procurement, rather than saving tax dollars by buying off the shelf?

It is intuitively appealing to assume that defence industrial policies cost more than they return to government and taxpayers. That tends to be the conventional view of economists. But if that is the case we have to ask ourselves why just about every government on the face of the earth is economically illiterate, because almost all of them have some formal or informal defence industrial policy, and they typically go well beyond anything we have in this country. Or is it more likely that these governments recognize that there is in fact little cost premium associated with a well-designed defence industrial policy, and any premium that might exist is more than compensated for in net economic activity and net tax revenue generated from the policy? It's an important question. We also know, by the way, from considerable experience, that buying so-called "off the shelf" is not always cheap, because it often results in sole sourcing, which usually means government has paid a premium over what they would in a competition and that, in fact, if the entire life cycle is procured at the same time as the equipment acquisition, that what we choose to forego in terms of long term economic benefits and stability to the defence industrial base, sometimes over 25-40 year periods may not be well understood and how far down the path of becoming a branch economy are we willing to go, if we haven't gone there already.

All this to say, I think we should challenge some of these conventional wisdoms and theories about defence industrial policies and their effects, and bear in mind Edmund Burke's wise dictum "there is nothing more dangerous than governing in the name of a theory."

I hope that isn't too provocative for you, and I am sure our panelists will have strong views on these and other issues. So with that I turn it over to Mike Halms to make the first remarks.