

Aéro Montréal Global Supply Chain Summit 2015

The Defence Procurement Strategy and Global Supply Chains: Seizing the Opportunities

Opening Remarks

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Check Against Delivery

GOOD MORNING LADIES AND GENTLEMEN, CADSI AND AÉRO MONTRÉAL MEMBERS, GOVERNMENT PARTNERS AND INTERNATIONAL DELEGATES. BON MATIN, MESDAMES ET MONSIEURS. I WOULD LIKE TO THANK SUZANNE BENOIT AND HER COLLEAGUES AT AÉRO MONTRÉAL FOR INVITING ME TO HELP OPEN AND SET THE STAGE FOR TODAY'S TIMELY AND IMPORTANT CONFERENCE. I AM PLEASED TO SEE THAT AÉRO MONTRÉAL IS DEALING WITH SOME OF THESE CRITICAL DEFENCE INDUSTRY RELATED ISSUES. CADSI LOOKS FORWARD TO WORKING WITH AÉRO MONTRÉAL TO ESTABLISH STRONGER TIES AND CO-OPERATION BETWEEN US.

J'AI NOTÉ QUE LA CONFÉRENCE EST EN ANGLAIS. MES AMIS LES FRANCOPHONES SONT TOUJOURS INVITÉS À M'ENGAGER OU ME POSER DES QUESTIONS EN FRANÇAIS.

TO GET THE BALL ROLLING FOR WHAT LOOKS LIKE A STIMULATING DAY, I WANT TO SAY A FEW WORDS ON THE CHALLENGES AND OPPORTUNITIES FACING THE DEFENCE SECTOR DIMENSION OF THE GLOBAL SUPPLY CHAIN.

AS WE SIT HERE TODAY IN THE HEART OF CANADA'S AEROSPACE INDUSTRY, IT IS WORTH REFLECTING ON HOW UNIQUE THIS INDUSTRIAL CLUSTER IS IN THE CANADIAN ECONOMIC LANDSCAPE. THE AEROSPACE COMMUNITY HAS DONE A PHENOMENAL JOB OVER MANY YEARS IN BUILDING SOMETHING HERE THAT IS UNIQUE AMONG SECTORS OF THE CANADIAN ECONOMY AND THAT HAS THE FEATURES OF A TRUE INDUSTRIAL CLUSTER IN THE RENOWNED HARVARD PROFESSOR MICHAEL PORTER'S SENSE OF THE TERM. THIS, OF COURSE, INCLUDES STRONG INNOVATION AND PRODUCTIVITY, WHICH IS A FUNCTION OF THE AEROSPACE ECOSYSTEM WITH WHICH YOU ARE ALL WELL ACQUAINTED--SMALL, MEDIUM AND LARGE COMPANIES, SUPPLIERS AND INSTITUTIONS, INCLUDING AÉRO MONTRÉAL, THE FEDERAL AND PROVINCIAL GOVERNMENTS, AND UNIVERSITIES--THAT IS THE HALLMARK OF A SUCCESSFUL INDUSTRIAL CLUSTER. THIS IS AN ADVANTAGE AEROSPACE HAS THAT IS LARGELY LACKING IN MOST SECTORS OF OUR ECONOMY, INCLUDING THE DEFENCE INDUSTRY.

BY CONTRAST, DEFENCE COMPANIES AND THE DEFENCE SECTOR ARE MUCH HARDER TO DEFINE THAN THEIR AEROSPACE COUNTERPARTS. THE CANADIAN DEFENCE INDUSTRY,

UNLIKE AEROSPACE, IS GEOGRAPHICALLY DISPERSED THROUGHOUT THE COUNTRY AND IS COMPRISED OF MANY DIVERSE SUB-SECTORS OR MARKET SEGMENTS. THAT MAKES THE INDUSTRY LESS VISIBLE AND LESS CONCENTRATED THAN AEROSPACE, WHICH HAS THIS WELL-DEVELOPED CLUSTER OF ANCHOR FIRMS AND SUPPLIERS HERE.

NEVERTHELESS, BOTH INDUSTRIES HAVE CHALLENGES ON THE GLOBAL SUPPLY CHAIN FRONT. WHEN I WAS AT CAE, STRATEGIC ELEMENTS LIKE SUPPLY CHAIN ISSUES WERE OFTEN FRONT AND CENTRE.

WE ASKED OURSELVES QUESTIONS LIKE "DO WE BUILD IT OURSELVES SO THAT WE CAN BOOK REVENUE OR DO WE SOURCE IT LOCALLY AND TRY TO INCREASE MARGINS? ARE THE SUPPLIERS CAPABLE OF EXECUTING ON CANADIAN GLOBAL VALUE CHAIN AND OFFSET REQUIREMENTS? IF WE CHOOSE NEW SUPPLIERS, CAN WE GET OFFSET VALUE AT THE EXPENSE OF EXISTING LONG-TERM RELATIONSHIPS? DO WE USE THIS COMPANY THAT WANTS TO RETAIN ITS INTELLECTUAL PROPERTY OVER ONE THAT WILL ALLOW US TO OWN IT?"

I WAS ON THE OTHER SIDE OF THE TABLE AND IN SOME CASES COULD BE ONE OF THE PEOPLE MAKING LIFE HARD FOR SUPPLIERS, ESPECIALLY SMES.

I WOULD ADD THAT THE UNIQUE GLOBAL MARKET CHARACTERISTICS OF DEFENCE MAKE IT AN ESPECIALLY DIFFICULT INDUSTRY FOR CANADIAN COMPANIES TO BREAK INTO OEM SUPPLY CHAINS. GLOBALLY, DEFENCE IS COMPRISED OF A FEW BIG OEMS THAT HAVE BEEN CONSOLIDATING OVER THE PAST TWO DECADES. MOREOVER, DEFENCE FIRMS HISTORICALLY HAVE TENDED TO BE VERTICALLY INTEGRATED, ALTHOUGH IN RECENT YEARS THERE HAS BEEN AN OBSERVABLE TREND AWAY FROM VERTICAL INTEGRATION AND THIS HAS OPENED UP NEW SUPPLY CHAIN OPPORTUNITIES. IN THE UK DEFENCE AEROSPACE INDUSTRY, FOR EXAMPLE, ANALYSTS HAVE NOTED THAT FIRMS ARE OUTSOURCING MORE MANUFACTURING WHILE MAINTAINING CORE COMPETENCIES SUCH AS DESIGN SYSTEMS INTEGRATION. OF COURSE, THE CHALLENGE WITH THIS FROM A CANADIAN PERSPECTIVE IS WHETHER OR NOT WE ARE COMPETITIVE WHEN COMPARED WITH OTHER COUNTRIES ON THE MANUFACTURING FRONT.

I DO BELIEVE THAT THERE IS A SENSITIVITY TO THIS IN GOVERNMENT AND IT IS IN PART OUR JOB TO HELP RELAY THE CONDITIONS WHICH WILL HELP MAKE CANADIAN COMPANIES MOST SUCCESSFUL. INDUSTRY CANADA HAS NOTED THAT IT REMAINS PARTICULARLY CHALLENGING FOR SMES TO PARTICIPATE IN DEFENCE GLOBAL VALUE CHAINS BECAUSE PRIMES ARE INCREASINGLY SEEKING TO WORK WITH LARGER TIER-ONE COMPANIES THAT HAVE THE CAPACITY TO UNDERTAKE R&D AND SHARE IN RISKS.

THIS IS WHERE PUBLIC POLICY CAN AND MUST MAKE A DIFFERENCE.

THE FEDERAL GOVERNMENT'S NEW INDUSTRIAL AND TECHNOLOGICAL BENEFITS POLICY, ANNOUNCED ABOUT A YEAR AGO AS A CORE PART OF ITS DEFENCE PROCUREMENT STRATEGY, PLACES A SIGNIFICANT EMPHASIS ON SUPPLY CHAIN DEVELOPMENT FOR CANADIAN COMPANIES. UNDER THIS PROGRAM, FIRMS COMPETING FOR LARGE DEFENCE PROCUREMENTS WILL NEED TO BRING FORWARD TO THE GOVERNMENT THEIR "VALUE PROPOSITIONS" FOR CANADA. THESE ECONOMIC VALUE PROPOSITIONS WILL FORM PART OF THE CRITERIA IN BID EVALUATION, ALONG WITH

PRICE AND TECHNICAL CONSIDERATIONS.

MAKE NO MISTAKE, THIS REPRESENTS A BIG CHANGE IN CANADA'S APPROACH TO DEFENCE PROCUREMENT. IN FACT, GIVEN HOW CLOSE THE OEM COMPETITORS OFTEN ARE ON PRICE AND TECHNICAL CAPABILITIES, A 10% VALUE PROPOSITION THAT EMPHASIZES ECONOMIC RETURNS TO CANADA COULD WELL BE THE DISCRIMINATOR IN MAJOR DEFENCE CROWN PROJECTS. WE ARE ALREADY SEEING ANECDOTAL EVIDENCE OF BEHAVIORAL CHANGE ON THE PART OF PRIMES AS A RESULT OF THIS NEW APPROACH TO THE EVALUATION OF DEFENCE PROCUREMENT BIDS.

ONE OF THE FOUR VALUE PROPOSITION CRITERIA THAT WILL BE REWARDED POINTS BY THE GOVERNMENT IS "CANADIAN SUPPLIER DEVELOPMENT"--IN OTHER WORDS, THE EXTENT TO WHICH OEMS ARE INTEGRATING CANADIAN COMPANIES INTO THEIR SUPPLY CHAINS. AS INDUSTRY CANADA STATES IN THEIR VALUE PROPOSITION GUIDE, "THIS APPROACH WILL INCENT PRIME CONTRACTORS, OFTEN WITH MULTIPLE LINES OF BUSINESS, TO PROVIDE MEANINGFUL GROWTH OPPORTUNITIES TO SUPPLIERS IN CANADA, THEREBY SUPPORTING THE LONG-TERM SUSTAINABILITY AND GROWTH OF CANADA'S DEFENCE SECTOR...". IN ADDITION, THE NEW POLICY REQUIRES PRIMES TO INVOLVE CANADIAN SMES IN CARRYING OUT 15% OF THEIR INDUSTRIAL AND TECHNOLOGICAL BENEFITS OBLIGATIONS. AND, TO INCENT BIDDERS TO WORK WITH SMES, ADDITIONAL POINTS MAY BE AWARDED FOR WORK INVOLVING SME SUPPLIERS.

THIS IS A POTENTIAL GAME CHANGER FOR GLOBAL SUPPLY CHAIN OPPORTUNITIES FOR CANADIAN DEFENCE FIRMS. AND, THERE IS A LOT AT STAKE HERE FINANCIALLY WHEN YOU CONSIDER THE NEW POLICY WILL APPLY TO MORE THAN 200 MAJOR DEFENCE ACQUISITIONS OVER THE NEXT TWENTY YEARS, AS OUTLINED IN DND'S DEFENCE ACQUISITION GUIDE.

FOR CANADIAN COMPANIES TO FULLY REALIZE THESE OPPORTUNITIES, THE GOVERNMENT NEEDS DETAILED INFORMATION AND UNDERSTANDING OF THE DEFENCE SUPPLIER BASE IN TERMS OF CAPABILITIES AND THE TRACK RECORDS OF FIRMS THE FEDERAL REGIONAL DEVELOPMENT AGENCIES OR RDAS--THE ATLANTIC CANADA OPPORTUNITIES AGENCY, DÉVELOPPEMENT ÉCONOMIQUE CANADA POUR LA RÉGION DU QUÉBEC (CED-Q), WESTERN ECONOMIC DIVERSIFICATION CANADA (WD) AND THE FEDERAL ECONOMIC DEVELOPMENT AGENCY (FEDDEV)--PLAY AN IMPORTANT ROLE HERE IN PROVIDING INDUSTRY CANADA WITH REGIONALLY SPECIFIC AND LOCAL KNOWLEDGE OF DEFENCE FIRMS AND SUPPLIERS. THIS INFORMATION THEN FEEDS INTO INDUSTRY CANADA AND INFORMS THE DEVELOPMENT AND STRUCTURE OF INDIVIDUAL VALUE PROPOSITIONS FOR SPECIFIC PROCUREMENTS. THIS IS WHY COMPANIES THAT SEE SUPPLY CHAIN OPPORTUNITIES ON UPCOMING DEFENCE PROCUREMENTS NEED TO REACH OUT TO THEIR RDAS NOW AND MAKE CLEAR TO THEM WHO YOU ARE, WHAT YOU DO, AND WHAT PROCUREMENTS YOU SEE ON THE HORIZON WITHIN WHICH YOUR CAPABILITIES MESH. I URGE YOU ALL TO DO THAT.

ON A RECENT ROLL-OUT TRIP TO MONTREAL FOR THE VALUE PROPOSITION GUIDE, CED--Q TOOK A PROACTIVE "PUSH" APPROACH TO HELP SECURE THIS TYPE OF INFORMATION; THEY WERE OPEN ABOUT THE NEED TO CHANGE TACK, COLLECTING AND OFFERING UP DATA TO OTTAWA. ULTIMATELY, THE TERMS AND OBJECTIVES OF INDIVIDUAL VALUE PROPOSITIONS CAN BE INFLUENCED BY THIS BEHAVIOR.

FOR OUR PART, THE INCLUSION OF COMPANIES WITHIN THE CADSI MEMBER DIRECTORY AND THE DEGREE TO WHICH MEMBER COMPANIES SHOWCASE THEIR CAPABILITIES WITHIN OUR CAPABILITIES DATABASE ALLOWS US TO BRING TO THE CONVERSATIONAL TABLE THE TYPE OF CAPABILITY WE HAVE RESIDENT HERE IN CANADA - A STARTING POINT FOR US ALL.

SO, TO CONCLUDE, WHILE DEFENCE FIRMS HAVE SOME REAL AND UNIQUE CHALLENGES IN PENETRATING GLOBAL SUPPLY CHAINS, WE ALSO SEE SOME SIGNIFICANT OPPORTUNITIES ON THE HORIZON FOR CANADIAN COMPANIES.

I HOPE YOU FIND TODAY'S CONFERENCE USEFUL FROM BOTH AN INFORMATION SHARING AND NETWORKING PERSPECTIVE. THANK YOU FOR YOUR TIME THIS MORNING.