

## **SME Day Ottawa**

Opening Remarks

February 17th, 2015, Ottawa Conference and Event Centre, Ottawa, Ontario

### **Check Against Delivery**

GOOD MORNING EVERYONE AND THANK YOU FOR COMING. IT IS A PLEASURE FOR ME TO KICK OFF CADSI'S ANNUAL SME INFORMATION AND NETWORKING DAY. THE PROGRAM THAT HAS BEEN PUT TOGETHER SHOULD ALLOW FOR A RICH DISCUSSION. BEFORE I BEGIN, I'D LIKE TO THANK OUR EMCEE, SUSAN, AND OUR PRESENTERS AND MODERATORS: JOHN WRIGHT, DESMOND GRAY, AND JACQUES BONAVENTURE, AND OUR MEMBERS, STAKEHOLDERS AND GOVERNMENT PARTNERS WHO MAKE UP OUR PANELS FOR TODAY.

JE VOUS DEMANDE DE ME PARDONNER, MAIS JE SUIS UN PEU « JET-LAGGED » ET LA LANGUE FRANÇAISE EST À VENIR POUR MOI UN PEU PLUS LENT QUE D'HABITUDE, ALORS JE VAIS LIVRER MES REMARQUES EN ANGLAIS. COMME TOUJOURS, POUR LES FRANCOPHONES DANS LA SALLE, JE SUIS PLUS QU'HEUREUX DE PRATIQUER MA LANGUE SECONDE AVEC VOUS DANS LA CONVERSATION, MAIS PEUT-ÊTRE VOUS DONNER UN PEU PLUS DE TEMPS QUE D'HABITUDE QUE JE SUIS « LOST IN TRANSLATION » AUJOURD'HUI.

I HAD THE OPPORTUNITY TO SUPPORT A TRADE MISSION TO SOUTH KOREA WITH MINISTER ED FAST LAST WEEK. WE WERE ABLE TO PRESENT CADSI'S MEMBER DIRECTORY TO THEIR VICE-MINISTER OF ACQUISITIONS (CALLED DAPA). WE WERE ABLE TO DRAW THE VICE-MINISTER'S ATTENTION TO THE FACT THAT KOREA, WHILE IT DOES NOT HAVE A HARD RULE IN PLACE, PAYS PARTICULAR ATTENTION TO SOURCING FROM KOREAN COMPANIES IN THEIR GLOBAL VALUE CHAINS. I EXPLAINED THAT IN CANADA WE HAVE NEW PROCUREMENT RULES THAT WILL DO THE SAME. I WAS ALSO ABLE TO MEET WITH LARGE KOREAN CONGLOMERATES - SAMSUNG, HANWHA AND DSME/DAEWOO - AND DELIVER THE SAME MESSAGES. SPECIFICALLY, I ADVISED THEM THAT SHOULD THEY WANT TO PLAY A ROLE IN OUR CANADIAN SURFACE COMBATANT PROJECT, THAT THEY "NEED TO MAKE MORE FRIENDS" IN CANADA, ESPECIALLY WITH OUR SMES AND THAT THEY ALSO NEED TO CONSIDER WHAT COMMERCIAL GLOBAL VALUE CHAIN OPPORTUNITIES COULD BE MADE AVAILABLE IN A RECIPROCAL TRADE. THE GOOD NEWS IS THAT I BELIEVE THAT THEY UNDERSTOOD EXACTLY WHAT WAS BEING SAID. THE BAD NEWS IS THAT THEY ARE VERY MUCH AHEAD OF CANADA ON THE SUBJECT OF STRATEGIC PROCUREMENT FOR INDUSTRIAL BASE GROWTH. I WAS ABLE TO POINT THIS OUT TO MINISTER FAST IN OUR ROUND TABLE WRAP-UP. NOW, MORE THAN EVER, IS THE TIME FOR US TO PUSH HARD FOR THE NEXT STEPS - A MORE REFINED STUDY OF OUR CAPABILITIES, OUR GAPS, AND TO START ARTICULATING WHERE WE WANT AND NEED TO BE AS AN INDUSTRY, AS A COUNTRY, IN THE NOT-TOO-DISTANT FUTURE.

WHILE I AM STILL RELATIVELY NEW TO CADSI, I AM NOT NEW TO THE CHALLENGES AND OPPORTUNITIES SMES FACE IN SECURING BUSINESS IN THE DYNAMIC, COMPLEX AND OFTEN FRUSTRATING DOMESTIC AND INTERNATIONAL DEFENCE MARKETPLACE. WHEN WE WERE BUILDING PRODUCT AT CAE, I WAS ABLE TO LEARN A SURPRISING AMOUNT ABOUT SMES BECAUSE THERE WAS ALWAYS DEBATE: 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 DELIVERING ON TIME AND AT VOLUMES? CAN WE FIND IT CHEAPER OFFSHORE AT THE EXPENSE OF THE EXISTING CANADIAN GLOBAL VALUE CHAIN AND OFFSET REQUIREMENTS? I WAS ON THE OTHER SIDE AND IN SOME CASES COULD BE THE EXACERBATOR OF THE MANY CHALLENGES SMES FACE IN AN INDUSTRY DOMINATED BY A FEW LARGE GLOBAL PLAYERS THAT WIELD ENORMOUS MARKET AND POLITICAL POWER, AND IN THE CONTEXT OF GOVERNMENT CUSTOMERS THAT ARE HIGHLY DEMANDING AND OFTEN UNPREDICTABLE.

IN A KEYNOTE SPEECH I GAVE IN THE FALL TO AERO MONTREAL'S SYMPOSIUM ON THE CANADIAN DEFENCE AND SECURITY MARKET, I IDENTIFIED THREE KEY STRUCTURAL TRENDS THAT I BELIEVE ARE UNQUESTIONABLY SHAPING THE FUTURE OF THE DEFENCE INDUSTRY: TREND ONE BEING DEFENCE SPENDING RETRENCHMENT IN MANY TRADITIONAL MARKETS WHICH ESSENTIALLY HAS LED TO TREND TWO BEING INCREASED VERTICAL INTEGRATION AND CONSOLIDATION IN THE LARGE GLOBAL DEFENCE COMPANIES; AND TREND THREE BEING THE PUBLIC POLICY SHIFT WE ARE IN THE MIDST OF IN THIS COUNTRY.

THE FIRST TWO TRENDS, OF COURSE, PRESENT REAL CHALLENGES FOR SMES, AND WE WILL NO DOUBT HEAR MORE ABOUT THESE CHALLENGES IN PLENARY SESSION 1 THIS MORNING AND PLENARY SESSION 2 THIS AFTERNOON.

THE THIRD STRUCTURAL TREND--THE PUBLIC POLICY SHIFT IN CANADA, AND IN PARTICULAR THE ADVENT OF THE DEFENCE PROCUREMENT STRATEGY (DPS)--PRESENTS POTENTIAL NEW OPPORTUNITIES FOR SMES THAT WE NEED TO UNDERSTAND AND DO WHAT IS NECESSARY TO TAKE ADVANTAGE OF.

AS YOU KNOW, THE VALUE PROPOSITION INSTRUMENT IS AT THE HEART OF THE DPS AND IS THE POTENTIAL GAME CHANGER FOR OUR INDUSTRY. THE GOVERNMENT HAS A NUMBER OF KEY POLICY OBJECTIVES IT WANTS TO ACHIEVE WITH THE VALUE PROPOSITION, NOTABLY THE STIMULATION OF R&D AND INNOVATION AND EXPORT-LED GROWTH.

GOVERNMENT OFFICIALS ARE ALSO, HOWEVER, WELL AWARE THAT OUR INDUSTRY IS MADE UP LARGELY OF SMES--CADSI'S 1,000 STRONG MEMBERSHIP BASE, FOR EXAMPLE, IS OVER 80% SMES. WHILE INDUSTRY CANADA IS TRYING TO GET A MORE EMPIRICALLY SOLID UNDERSTANDING OF THE CANADIAN DEFENCE INDUSTRIAL BASE, OFFICIALS KNOW NOW THAT THIS INDUSTRY IS RICH WITH SMES.

THAT IS WHY WE HAVE HELD A POSITION DURING THE DEVELOPMENT AND IMPLEMENTATION PHASES OF THE DPS THAT INTEGRATION OF SMES INTO THE SUPPLY CHAINS OF OEMS NEEDS TO BE A VERY HIGH PRIORITY FOR THE GOVERNMENT. THE THINKING AROUND THE VALUE PROPOSITION CONCEPT HAS BEEN SHAPED AROUND THIS. THAT IS GOOD NEWS FOR SMES.

BUT, FOR CANADIAN SMES TO FULLY CAPITALIZE ON THE BENEFITS OF THE VALUE PROPOSITION CONCEPT, THE GOVERNMENT MUST HAVE A DETAILED UNDERSTANDING OF OUR SMES, THEIR CAPABILITIES, THEIR TRACK RECORDS, ETC. REGIONAL DEVELOPMENT AGENCIES--ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA), DÉVELOPPEMENT ÉCONOMIQUE CANADA POUR LA RÉGION DU QUÉBEC (CED-Q), WESTERN ECONOMIC DIVERSIFICATION CANADA (WD) AND THE FEDERAL ECONOMIC DEVELOPMENT AGENCY (FEDDEV)--PLAY A KEY ROLE HERE IN PROVIDING INDUSTRY CANADA WITH REGIONALLY SPECIFIC AND EVEN LOCAL KNOWLEDGE OF THEIR SMES IN THE DEFENCE SECTOR. INDUSTRY CANADA, WHICH IS THE LOCUS FOR THE ANALYTICAL WORK THAT INFORMS INDIVIDUAL VALUE PROPOSITION DECISIONS, RELIES HEAVILY ON THE COMPANY-SPECIFIC INFORMATION THEY GET FROM THE RDAS.

SO, WITH THAT IN MIND, I ENCOURAGE ALL OF YOU TO REACH OUT TO YOUR REGIONAL DEVELOPMENT AGENCIES (RDAS), IF YOU HAVEN'T ALREADY DONE SO, AND MAKE CLEAR TO THEM WHO YOU ARE, WHAT YOU DO, AND WHAT PROCUREMENTS YOU SEE ON THE HORIZON WITHIN WHICH YOUR CAPABILITIES MESH. THIS INFORMATION SHOULD THEN FEED BACK INTO OTTAWA, INTO THE NEW GOVERNMENT DECISION-MAKING PROCESSES THAT ARE CENTRAL TO THE DPS.

ON A RECENT ROLL-OUT TRIP TO MONTREAL FOR THE VALUE PROPOSITION GUIDE, DÉVELOPPEMENT ÉCONOMIQUE CANADA POUR LA RÉGION DU QUÉBEC (CED-Q), UNDERSTOOD THE NEED FOR A PROACTIVE "PUSH" APPROACH; 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. IN ORDER TO FACILITATE THIS TYPE OF CONVERSATION, WE HAVE INVITED AND CONFIRMED ALL OF THE RDAS - FROM WEST TO EAST, ONTARIO AND QUEBEC - AT A ROUNDTABLE AT THE INDUSTRIAL PARTICIPATION SYMPOSIUM BEING HELD MARCH 26. IF YOU HAVEN'T PRESENTED YOUR CAPABILITIES ALREADY, THE B2G MIGHT BE A GREAT PLACE TO START.

AS THE OLD ADAGE GOES, INFORMATION IS POWER. IT IS POWER IN THE HANDS OF COMPANIES AND IT IS POWER IN THE HANDS OF GOVERNMENT. AND THE WRONG INFORMATION, OR INADEQUATE INFORMATION, CAN LEAD THE POWERFUL TO MAKE POOR DECISIONS, BOTH IN COMPANIES AND IN GOVERNMENT. YOU ALL KNOW THAT BECAUSE YOU RUN BUSINESSES IN WHICH INFORMATION IS ONE OF YOUR KEY CURRENCIES. ABSENT INFORMATION ABOUT WHICH SMES EXIST, WHERE THEY ARE LOCATED, WHAT THEY PRODUCE AND WHAT THEIR CAPABILITIES ARE, THE PROCUREMENT PROCESS CAN GET OFF ON WRONG FOOT FROM THE OUTSET. THIS IS SOMETHING BOTH SMES AND GOVERNMENT WANT TO AVOID. AND WHILE MY COMMENTS HERE ARE INTENDED TO HAVE GENERAL APPLICATION FOR ANY DEFENCE PROCUREMENTS WHERE THE DPS APPLIES, WHAT I AM TELLING YOU IS PARTICULARLY PERTINENT TODAY AS THE GOVERNMENT WORKS THROUGH ITS PROCUREMENT STRATEGY FOR THE CANADIAN SURFACE COMBATANT PROJECT, THE LARGEST DEFENCE PROCUREMENT IN CANADIAN HISTORY.

FINALLY, TO FURTHER HIGHLIGHT THE CURRENCY OF INFORMATION TO SME SUCCESS UNDER THE DPS, I WANT TO POINT OUT THAT IN THE SPRING AND SUMMER OF THIS YEAR, INDUSTRY CANADA, WORKING WITH STATISTICS CANADA, WILL BE CONDUCTING THEIR THIRD MAJOR SURVEY OF THE CANADIAN DEFENCE INDUSTRIAL BASE. THIS WILL BE A

MORE COMPREHENSIVE AND GRANULAR SURVEY OF DEFENCE FIRMS THAN THE PREVIOUS ITERATIONS. AND IT IS BEING TAKEN VERY SERIOUSLY INSIDE GOVERNMENT. CADSI HAS BEEN CONSULTED ON THE DESIGN OF THAT SURVEY TO ENSURE IT GETS THE RIGHT INFORMATION FROM FIRMS AND PRODUCES A HIGH RESPONSE RATE. THE RESULTS OF THIS RESEARCH WILL BE A VITAL SOURCE OF EMPIRICAL INFORMATION TO ASSIST THE GOVERNMENT IN THINKING ABOUT AND DESIGNING VALUE PROPOSITIONS ON INDIVIDUAL PROCUREMENTS, AND THEREBY SUPPLEMENTING THE MORE ANECDOTAL INFORMATION THEY ARE GETTING FROM THE RDAS. I URGE YOU TO ENSURE THAT YOU RESPOND TO THIS SURVEY IN AS COMPLETE AND DETAILED WAY AS POSSIBLE.

SO WITH THESE REMARKS AS SOME CONTEXT, I WANT TO FORMALLY KICK OFF THE PROGRAM FOR TODAY. I HOPE YOU FIND THIS TO BE A USEFUL EVENT SUBSTANTIVELY, AS WELL AS A GOOD NETWORKING OPPORTUNITY--WHICH I THINK ARE THE HALLMARKS OF CADSI EVENTS--AND, AS ALWAYS, I WELCOME ANY FEEDBACK YOU HAVE ON THE DAY.