

CADSI Western SME Day

Opening Remarks

November 26th, 2014, Vancouver, British Columbia

Check Against Delivery

THANK YOU LINDA. IT'S AN ABSOLUTE PLEASURE TO BE HERE HOSTING CADSI'S FIRST EVER WESTERN SME DAY.

ON BEHALF OF MY TEAM AT CADSI, I'D LIKE TO FIRST THANK ALL OF THE PEOPLE, OUR MEMBERS, WHO HAVE SO GENEROUSLY GIVEN OF THEIR TIME TO MAKE THIS EVENT HAPPEN: MS. LINDA WOLSTENCROFT, MR. RAY CASTELLI, MR. ANTONY MCMANUS, AND MR. JOHN WRIGHT, TO OUR MEMBER COMPANIES, BABCOCK, CASCADE, AND SEASPAN, AND LOCKHEED MARTIN, AND TO ALL OF OUR GOVERNMENT PARTNERS AND STAKEHOLDERS FROM THE ONES HERE TODAY TO THE ONES WHO HAVE FACILITATED OUTREACH BEHIND THE SCENES.

I JUST CAME FROM MONTREAL AND LIKE MONTREAL, VANCOUVER IS A VIBRANT PART OF THE AEROSPACE CLUSTER HERE IN CANADA. I WAS ABLE TO SPEND SOME TIME TALKING ABOUT THE TRENDS AND STRATEGIC ISSUES THAT ARE HAPPENING IN THE DEFENCE AND SECURITY SECTOR: SPENDING TRENDS, BUSINESS TRENDS AND CANADA'S POLICY RE-ORIENTATION.

WITHOUT TORTURING YOU FOR THE 20 MINUTES THAT I TORTURED MY "HOMETOWN CROWD" IN MONTREAL, I WOULD JUST SUGGEST THAT THE SPENDING, BUSINESS AND POLICY TRENDS HAPPENING RIGHT NOW WHEN TAKEN TOGETHER SET BOTH THE CONDITIONS AND OPENING FOR TREMENDOUS OPPORTUNITY FOR A RE-SHAPING OF OUR INDUSTRY. I ALSO MENTIONED IN MONTREAL THAT I TRULY BELIEVE THAT THERE IS SOMETHING IN THE RECIPE OF WHAT IS KNOWN AS THE CLUSTER MODEL OF "BIG AERO" IN CANADA - THAT IS, WHAT HAS BEEN TRADITIONALLY UNDERTAKEN IN COMMERCIAL AEROSPACE FOR PLATFORMS AND ISS - THAT LENDS ITSELF VERY WELL TO TRANSPOSITION CROSS-DOMAIN. THE "BIG AERO" CLUSTER MODEL LENDS ITSELF NICELY TO HAVING "THE JUMP" ON THE NEW POLICY REGIME WHICH I WILL GET TO IN A MINUTE. INTERESTINGLY ENOUGH, THE SMES THAT HAVE BEEN INVOLVED IN THE "BIG AERO" COMMUNITY ARE IN AN EXCELLENT POSITION TO BE THE LEADERS IN STANDING UP NATIONAL NETWORKED CLUSTERS FOR THE SHIPBUILDING COMMUNITY IN THE WEST AND EAST AS THE "CANADIAN PRIMES", THE SHIPYARDS THEMSELVES, ARE ACTUALLY RELATIVELY NEW TO SOMETHING MANY OF YOU HAVE BEEN DOING FOR DECADES.

SO WHAT ABOUT THE PUBLIC POLICY SHIFT HAPPENING IN THIS COUNTRY AND HOW CAN WE, AS A COMMUNITY OF CANADIAN COMPANIES, MASTER ON A LARGE, NATIONAL

SCALE, CLUSTER MODEL CONNECTIVITY, BEFORE WE MISS THE OPPORTUNITY THAT IS RIGHT HERE IN FRONT OF US.

FOR FOUR OR FIVE YEARS NOW, WE HAVE BEEN SEEING AN INCREASING REALIZATION BY GOVERNMENT THAT CANADA NEEDS TO DEVELOP NEW TOOLS TO LEVERAGE DEFENCE PROCUREMENTS TO DRIVE DOMESTIC INNOVATION, JOBS AND GROWTH, IN A WAY THAT DOES NOT IMPEDE THE OPERATIONAL REQUIREMENT OF THE CANADIAN ARMED FORCES. THE EFFORT BEGAN IN A CONCERTED WAY WITH THE NATIONAL SHIPBUILDING PROCUREMENT STRATEGY (NSPS). WE CAN THINK OF NSPS AS AKIN TO A MEGA-PROJECT - \$35 BILLION OR MORE IN NAVAL AND COAST GUARD RECAPITALIZATION OVER THE NEXT TWENTY YEARS, WITH A POLICY REGIME STIPULATING THAT MOST OF THE WORK TO BUILD THESE VESSELS BE DONE IN CANADA.

TWO INFLUENTIAL REPORTS, AUTHORED BY MR. TOM JENKINS AND THE HONORABLE DAVID EMERSON SET THE STAGE FOR A CHANGE IN THE MANNER IN WHICH DEFENCE PROCUREMENT GENERALLY IS CONCEIVED AND EXECUTED IN THIS COUNTRY FROM AN ECONOMIC PERSPECTIVE. THE JENKINS REPORT, IN PARTICULAR, FOCUSED ON THE NEED TO OVERHAUL THE PROCUREMENT SYSTEM IN THE HOPES OF FINDING BALANCE IN THE FACE OF BUSINESS TRENDS, IN PARTICULAR, THE CONSOLIDATION AND VERTICAL INTEGRATION THAT WE SEE OCCURRING WITH PRIME CONTRACTORS PARTICULARLY IN THE UNITED STATES. WITHOUT GOING INTO THIS IN TOO MUCH DETAIL, IN THE US, THE NUMBER OF LARGE DEFENCE FIRMS HAS BEEN CONSOLIDATED FROM OVER TWENTY MAJOR COMPANIES TWO DECADES AGO TO FOUR TODAY. THE COMBINED EFFECT IS DRIVING MORE VERTICAL INTEGRATION IN ORDER TO INCREASE MARKET SHARE. THIS PUTS PRESSURE ON SUPPLY CHAINS TO REDUCE COST IN ORDER TO INCREASE MARGINS. WE SEE THIS MANIFEST IN CANADA AS THE ISS COMMUNITY FIGHTS TO RETAIN ITS UNIQUE CANADIAN CAPABILITY IN THE FACE OF PRIME CONTRACTORS OFFERING TURN-KEY SOLUTIONS AT REDUCED PRICES IF DATA PACKAGES (OR GOVERNMENT RIGHTS TO IP) ARE NOT INCLUDED IN THE DEAL. CANADIANS ARE LED TO BELIEVE THAT THE LOWER INITIAL ACQUISITION COSTS WILL SAVE TAXPAYER MONEY, BUT WE ALL KNOW THAT COST RECOVERY IS TYPICALLY DONE OVER THE LONG TERM THROUGH BURDENED LABOUR RATES AND MARGINS ON PARTS AND SERVICES, NOT TO MENTION HIGH COSTS FOR SOFTWARE UPGRADES. IN ADDITION, BECAUSE THE PRIME CONTRACTOR "HOLDS ALL OF THE CARDS" FOR PLATFORM EVOLUTION, IT'S NOT UNLIKE WHAT CAN HAPPEN WHEN YOU GO BACK TO YOUR CAR DEALER FOR MAINTENANCE. THERE ARE, HOWEVER, CONCEPTS WITHIN THE DEFENCE PROCUREMENT STRATEGY THAT ARE DESIGNED IN PART TO FACILITATE CANADIAN BUSINESS ACCESS TO INCREASINGLY CONSTRAINED FOREIGN OEM SUPPLY CHAINS.

AT THE HEART OF THE DPS IS THE CONCEPT OF LEVERAGING DEFENCE PROCUREMENT TO INCENTIVIZE COMPANIES TO INCREASE CANADIAN CONTENT IN A SUSTAINED WAY. IT IS NOT A NEW IDEA INTERNATIONALLY, BUT IT IS NOVEL IN THIS COUNTRY. THE GOAL HERE IS TO LEVERAGE DOMESTIC DEFENCE SPENDING TO ENSURE WE RETAIN EXISTING CANADIAN CAPABILITY; ELEVATE CANADIAN COMPANIES INTO HIGHER TIERS AND CREATE MORE "CANADIAN PRIMES;" GROW NEW CAPABILITY BY INCORPORATING SMES AND, IN PARTICULAR, INNOVATION INTO OUR VALUE CHAINS; AND FOCUS EFFORTS ON DEVELOPING KEY INDUSTRIAL CAPABILITIES--KICS THAT ARE KEY TO BOTH SOVEREIGNTY AND THE ECONOMY.

FOR WELL OVER A YEAR NOW, IN COLLABORATION WITH INDUSTRY, THE GOVERNMENT

OF CANADA HAS BEEN DESIGNING A NEW INSTRUMENT TO ACHIEVE THESE GOALS. THIS NEW INSTRUMENT IS CALLED A VALUE PROPOSITION, WHICH STANDS TO BE A GAME CHANGER FOR OUR INDUSTRY. THE VALUE PROPOSITION, WILL NOMINALLY REPRESENT 10% OF BID EVALUATION CRITERIA, ALONGSIDE THE NORMAL COST AND TECHNICAL REQUIREMENTS.

WHAT COMPANIES PUT ON THE TABLE IN THEIR VALUE PROPOSITIONS WILL BE WEIGHTED AND RATED BEFORE A WINNING BIDDER IS SELECTED, MEANING, IN ADDITION TO TECHNICAL AND PRICE CONSIDERATIONS, A BIDDER'S CANADIAN CONTENT OFFERING WILL ALSO BE EVALUATED. GIVEN HOW CLOSE COMPETITORS OFTEN ARE ON TECHNICAL AND PRICE, YOU CAN SEE HOW THE VALUE PROPOSITION COULD BE AN IMPORTANT DIFFERENTIATOR THAT WILL BE TAKEN SERIOUSLY BY PRIMES. PRIME CONTRACTORS WILL QUICKLY REALIZE THAT THEY ARE FACED WITH THE ENORMOUS POSSIBILITIES OF ADDING IN CANADIAN CONTENT AND THAT RICHER CONTENT = HIGHER POINTS, OR SO THE THEORY GOES. THEY MIGHT DO ANYTHING FROM MOVE MANUFACTURING LABOUR INTO CANADA THROUGH SUBCONTRACTS TO SMES OR TRANSFER INTELLECTUAL PROPERTY INTO CANADA, ESTABLISHING A CANADIAN FOOTPRINT AND A WORLD PRODUCT MANDATE FROM WHICH TO EXPORT. CANADIAN PRIMES MIGHT BE LOOKING TO INCREASE WORK SHARE WITH THEIR SME PARTNERS. THE POSSIBILITIES IN A COMPETITIVE BIDDING SITUATION ARE ENDLESS.

THIS BRINGS ME TO A QUESTION I HAVE BEEN HEARING REPEATEDLY AS I'VE BEEN TRAVELLING THE COUNTRY. NAMELY "HOW DO I, AS A SMALL BUSINESS, TAKE ADVANTAGE OF THIS OPPORTUNITY THAT IS HAPPENING IN DEFENCE" "HOW DO I GET MY INNOVATION NOTICED ON THE WORLD STAGE"; "HOW DO I GET MY COMPANY CONNECTED INTO THIS PROCUREMENT SYSTEM AND THESE VALUE CHAINS."

WELL TODAY IS ABOUT DOING JUST THAT: WE ARE GOING TO SPEND SOME TIME WORKING TO KEEP BUILDING THIS COMMUNITY. WE'LL LOOK AT HOW TO SUCCEED ON THE WORLD STAGE AS AN SME IN YOUR OWN RIGHT AND WE'LL HEAR ABOUT HOW TO WORK MOST EFFECTIVELY WITH PWGSC. IN THE LATE MORNING WE'LL HAVE AN UPDATE ON THE DEFENCE PROCUREMENT STRATEGY AND HOW THE NEW POLICY CHANGES SHOULD INCENTIVIZE LARGE BUSINESS THROUGH NEW LEVERS TO SEEK OUT OPPORTUNITIES WITH SMALL AND MEDIUM-SIZED BUSINESSES EARLIER IN THE PROCUREMENT PROCESS. IN THE AFTERNOON LARGE LOCAL BUSINESS WILL BE HERE TO PRESENT THEIR OPPORTUNITIES TO YOU AND PLEASE DON'T BE SHY ABOUT TALKING TO THEM ABOUT THE INNOVATIVE SOLUTIONS YOU HAVE AVAILABLE. AS I MENTIONED, MANY OF YOU ARE ALREADY AHEAD IN THE GAME.

IT'S OUR HOPE THAT AT THE END OF THE DAY, A BETTER UNDERSTANDING OF THE WAY FORWARD WILL EXIST FOR EVERYONE AND THAT BY TAKING ADVANTAGE OF THE NETWORKING SESSIONS THAT YOU CAN STRENGTHEN YOUR CONNECTIONS.

SO WITHOUT FURTHER ADO, I'LL INTRODUCE OUR FIRST SPEAKER WHO IS A VERITABLE "ROCKSTAR" IN THIS COMMUNITY AND WITH WHOM I HAVE HAD THE PLEASURE OF WORKING WITH OVER THE LAST 2 YEARS ON THE DEFENCE PROCUREMENT FILE. PLEASE JOIN ME IN WELCOMING MR. RAY CASTELLI, PRESIDENT/CEO OF WEATHERHAVEN.