

Canadian Science Policy Conference 2014 Panel Procurement, Value Propositions, and Industrial and Technological Benefits

Panelist Remarks

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Check Against Delivery

THE THEME OF THE PANEL IS TO DESCRIBE AND DEBATE HOW THE GOVERNMENT'S MILITARY PURCHASES CAN NOT ONLY GIVE OUR DEFENCE FORCES THE BEST EQUIPMENT BUT ALSO STIMULATE THE DEVELOPMENT OF TECHNOLOGICALLY-SOPHISTICATED INDUSTRIAL CAPABILITIES IN CANADA. IN OTHER WORDS, HOW CAN WE GET A LOT MORE "BANG FOR OUR DEFENCE BUCK".

IN LIGHT OF THE 2012 JENKINS REPORT, CANADA FIRST LEVERAGING DEFENCE PROCUREMENT THROUGH KEY INDUSTRIAL CAPABILITIES, THE FEDERAL BUDGET IN 2013 COMMITTED TO A NEW DEFENCE PROCUREMENT STRATEGY, INCLUDING A CLEAR PRIORITY TO USE THE PROCUREMENT LEVER TO FOSTER MORE INNOVATIVE AND GLOBALLY COMPETITIVE COMPANIES IN CANADA.

A CENTERPIECE OF THE STRATEGY WILL BE A REVAMP OF THE EXISTING INDUSTRIAL AND REGIONAL BENEFITS POLICY--NOW TRANSFORMED INTO "ITB" FOR INDUSTRIAL AND TECHNOLOGICAL BENEFITS. THE PRINCIPAL STRATEGIC ELEMENT IS CALLED THE VALUE PROPOSITION. THIS WILL BE REQUIRED FOR ALL SUFFICIENTLY LARGE PROCUREMENTS, THOSE OVER \$100 MILLION. THE VALUE PROPOSITION WILL BE A "RATED AND WEIGHTED" COMPONENT OF A CONTRACT BID. IT WILL REQUIRE THE WOULD-BE PRIME CONTRACTORS TO PUT FORWARD THEIR BEST PLAN--THAT IS, A VALUE PROPOSITION-- TO PARTNER WITH CANADIANS IN WAYS THAT PROMOTE DEVELOPMENT OF SOPHISTICATED CAPABILITIES IN OUR ECONOMY.

GOOD MORNING LADIES AND GENTLEMEN

A FEW YEARS AGO PETER NICHOLSON AND I SERVED ON THE APTLY NAMED JENKINS' PANEL. DURING THE PANEL WE LEARNED ABOUT THE NATIONAL SHIPBUILDING PROCUREMENT STRATEGY (NSPS) AND AS I WAS COMING INTO HALIFAX LAST NIGHT, I HAVE TO ADMIT THAT SEEING THOSE SHIPYARDS BECOME A REALITY WAS A PRETTY PHENOMENAL EXPERIENCE. I THINK THAT I'LL FRAME THESE THOUGHTS BY EXPLAINING THAT WHAT I'M GOING TO TALK ABOUT IN A FEW MINUTES IS A PREVIEW OF COMING ATTRACTIONS. THE NATIONAL SHIPBUILDING PROCUREMENT INCLUDES A FIRST GENERATION OF THESE CONCEPTS. THE IDEA IS THAT THIS SHOULD BE APPLIED IN THE

FUTURE TO THINGS LIKE THE FRIGATES THAT WILL COME OUT OF THESE SHIPYARDS.

WHAT I'M GOING TO DISCUSS TODAY IS ACTUALLY A BUSINESS AND GOVERNMENT COLLABORATION AROUND HOW TO MOVE THE NEEDLE.

THE CONCEPT OF LEVERAGING DEFENCE PURCHASES IS NOT UNIQUE TO CANADA AT ALL - EVERY BUSINESS LEADER IN THIS ROOM OPERATING IN EXPORT MARKETS HAS BEEN FACED WITH A REQUIREMENT TO DO SO.

IT CAN BE DONE IN A VARIETY OF WAYS: DIRECT GOVERNMENT OWNERSHIP STAKES IN COMPANIES; DIRECTING CONTRACTS TO NATIONAL INCUMBENTS, REQUIRING IN-COUNTRY WORKSHARES, OR THROUGH OFFSET POLICIES AND PRACTICES.

IN OTHER WORDS, DEFENCE FIRMS OPERATE IN A MANAGED AND "REGULATED" MARKET. THIS REGULATED ENVIRONMENT CAN BE USED BY US TO INCENTIVIZE COMPANIES TO COLLABORATE IN COUNTRY AND IN REGIONS, LIKE IN ATLANTIC CANADA. IF YOU ACCEPT THAT THIS MANAGED MARKET SITUATION EXISTS, THEN IN CANADA THE DECISION IS WHETHER OR NOT WE DESIGN AND APPLY OUR OWN LEVERAGING APPROACH AND TO WHAT EXTENT AND WHAT CONDITIONS CAN BE STIMULATED BY DOING SO.

IN THE JENKINS REPORT WE PROPOSED A CONSTRUCT CALLED A VALUE PROPOSITION (VP). THIS VALUE PROPOSITION IS A KEY TOOL/LEVER APPLIED IN BOTH A COMPETITIVE AND NON-COMPETITIVE BIDDING SITUATION TO INCENT COMPANIES, IN PARTICULAR FOREIGN OEMS, TO PUT THEIR BEST OFFERS ON THE TABLE. IT FALLS WITHIN A POLICY CALLED THE INDUSTRIAL AND TECHNICAL BENEFITS. THIS POLICY IS THE SINGLE LARGEST SET OF CHANGES TO DEFENCE PROCUREMENT IN THE LAST 30YEARS.

I'D LIKE TO FOCUS ON THE VALUE PROPOSITION BECAUSE IT IS AT THE HEART OF THE ITB POLICY; IT'S THE "GAME CHANGER".

THE PREMISE BEHIND THE VP IS THAT IT IS WEIGHTED AND RATED ALONGSIDE COST AND REQUIREMENTS PRIOR TO THE SELECTION OF A WINNING BIDDER, AND NOMINALLY SET AT 10%. IN OTHER WORDS, YOU ARE NOW REALLY DRIVING BEHAVIOR UP-FRONT IN THE BID PROCESS. FOR THOSE LIKING GAME THEORY AN OVERALL EVALUATION SCHEME MIGHT LOOK LIKE COST 30%, REQUIREMENTS 60% AND VP AT 10%.

THE VP SHOULD BE FLEXIBLE IN DESIGN - REPRESENTING ANYWHERE FROM 30% OF CONTRACT VALUE TO 100% - FOR THOSE WITH A FREE-MARKET VIEW, THE TOOL STANDS TO TRIGGER COMPETITIVE BEHAVIOUR IN COMPANIES TRYING TO "ONE-UP" EACH OTHER.

THE VP WOULD THEN BE A NEW VARIABLE IN THE OVERALL EQUATION, AND GIVEN THE ENORMOUS POSSIBILITIES THAT EACH COMPANY CAN SET ON THE TABLE, THE ANTE CAN ESCALATE QUICKLY. BIDDERS COULD OFFER:

- TO SUBCONTRACT MANUFACTURING LABOUR IN CANADA USING SMALL/MEDIUM SIZED ENTERPRISES (SMES);
- TO OPEN A FULL MANUFACTURING LINE IN CANADA;
- TO TRANSFER OR EXECUTE A PORTION (OR ALL) R&D IN CANADA COLLABORATING WITH

SMES AND UNIVERSITIES;

TO INCORPORATE MORE CANADIAN SMES INTO GLOBAL OEM SUPPLY CHAINS

TO LICENSE INTELLECTUAL PROPERTY TO A SUPPLIER WHO THEN CAN EXPORT OUT OF CANADA;

TO FULLY TRANSFER INTELLECTUAL PROPERTY INTO CANADA TO ESTABLISH A CANADIAN FOOTPRINT AND A WORLD MANDATE FROM WHICH TO EXPORT.

THE QUESTION THAT MIGHT BE POSED IN THIS FORUM IS WHETHER OR NOT THE BEHAVIOR STIMULATED BY THE VP WILL, AMONG OTHER THINGS, DEVELOP A BROADER AND RICHER INVESTMENT BASE BY WHICH TO STIMULATE OR GENERATE INNOVATION. I WOULD SUGGEST THAT IT WILL. THE MORE DIRECTIVE AND STRATEGIC THE GOVERNMENT CHOOSES TO BE, THE MORE COMPANIES MIGHT ALIGN THEIR INVESTMENTS WITH OUR STRATEGIC PRIORITIES.

AND I WILL CONCLUDE MY PART OF OUR CONVERSATION BY SAYING THAT FOR THOSE IN THE AUDIENCE WHO MIGHT THINK THIS IS "UNNATURAL BUSINESS BEHAVIOR" OR THAT IT IS AN "UNFAIR PRACTICE" I WOULD SUGGEST THREE THINGS:

IT IS DONE ALL THE TIME IN OTHER COUNTRIES THROUGH A VARIETY OF WAYS AND MEANS;

THERE IS NOTHING IN SUCH A POLICY THAT FORCES A COMPANY TO OFFER TRANSFERRING IP INTO CANADA IF THEY DON'T WANT TO;

THERE WOULD BE ENOUGH LATITUDE IN THE POLICY TO ALLOW FOR COMPANIES TO BE EXTREMELY CREATIVE ABOUT WHAT THEY OFFER AND WHO THEY PARTNER WITH TO ACHIEVE THE BEST "RECIPE" TO MAXIMIZE THE POINT SCORES WHILE PROVIDING "MEATIER" OFFERINGS FOR CANADIAN CONTENT.

THANK-YOU.