

REPORT OF THE STANDING COMMITTEE ON NATIONAL DEFENCE AND VETERANS AFFAIRS – PROCUREMENT STUDY

Introduction

The Government of Canada has considered carefully the report of the Standing Committee on National Defence and Veterans Affairs' on defence procurement. The Government has taken note of the 38 recommendations contained in the Report.

The Government shares the concerns of the Committee over the need to reform the procurement process. This is important in order to ensure that the Government's requirements for goods and services are effectively met, Canadian taxpayers get value for money and Canadian economic and industrial interests are supported.

The Response

This response addresses each recommendation made by the Committee. In doing so, it provides a concise overview of the Government's position with respect to each recommendation as well as the plans and initiatives in progress, and already in place, that are intended to improve the procurement process.

Recommendation 1: That the Department of National Defence incorporate into its procurement approach the concept of performance-based specifications, including direction to defence contractors to provide precise cost information related to pre-determined levels of operational performance achievable.

Acquiring new capability for the Department of National Defence is based upon the Strategic Capability Framework, which is used to identify operational requirements. These operational requirements are then turned into performance specifications that form part of the contract. This process ensures that the capability and operational levels as defined within the Strategic Capability Framework are met. Two of the acquisition reform initiatives that are used are total package procurement and performance based specifications. PWGSC is working with DND towards the implementation of performance-based contracting where appropriate, as part of the Government's ongoing efforts to improve its approach to procurement. National Defence and PWGSC are:

- using performance-based specifications in accordance with Defence Administrative Order and Directive 3000-0 Materiel Acquisition and Support Policy. In addition, training in the use of performance-based specifications has been incorporated into courses conducted at DND's Materiel Management Training Centre;

- consulting with industry on a frequent basis before Requests for Proposal are issued in order to clarify performance requirements; and
- enhancing the use of performance specifications through the use of total package procurement. Total package procurement is procurement of the system, initial provisioning of logistics support and contracting for life cycle support by industry, all via one "Total Package" contract. By combining the delivery and the support in one contract for a fixed price it lowers overall cost and it reduces much of the government's long-term performance and support risk.

New projects such as the Materiel Acquisition and Support Information System and the Light Utility Vehicle Wheeled have already adopted the practice of using performance based specifications.

Recommendation 2: That the Department of National Defence clearly identify its estimated deficit in the area of equipment procurement and communicate this, with supporting rationale to SCONDVA and the Department of Finance for consideration in the planning of future budgets.

The Government recognizes the importance of open and transparent reporting to support effective communication with Parliament and Canadians. Through the tabling of the Estimates documents, departments and agencies provide detailed information to Parliament on their programs, services and operations, specifically through their annual Reports on Plans and Priorities and Departmental Performance Reports. This information includes acquisition priorities, current and future capital spending and the status of major projects. The Government's view is that these reports are the primary source of information on Procurement Reform management issues of interest to SCONDVA and to other Parliamentary Standing Committees.

Government Program spending, including defence, is only one of the competing priorities that have to be considered in the context of the Budget, along with tax and debt reduction. The 2000 Budget provided \$2.3 billion in new funding to DND over four years, in part to address capital requirements.

For the Department of National Defence, strengthening the capital program is a major Defence priority as noted in the Department's 2000-2001 Report on Plans and Priorities and the Departmental Performance Report. The capital portion of the defence budget will be increased to 23% over time and this will significantly redress the shortfall in the capital budget. Defence will conduct a focused, paced and innovative modernization program with a minimum of 21% of the Defence Services Program in Capital by 1 April 2004, on the way to the Strategy 2020* 23% target. Innovative procurement is key to this strategy. Options such as

financing, leasing and co-purchasing will be explored and pursued wherever possible and feasible.

Notwithstanding this increase in resources devoted to capital, Defence must focus resources on capabilities and tough choices will have to be made. This will mean reducing capabilities in some areas in order to re-invest in much more pressing ones, such as global deployability.

- ★ Shaping the Future of Canadian Defence: A Strategy for 2020 was released in June of 1999. It is a broad framework for long-term defence planning that articulated how best to meet Canada's current defence policy commitments and objectives, while adjusting to emerging defence issues.

Recommendation 3: That the Department of National Defence provide to SCONDVA and the Department of Finance a clear strategy, including a proposed timeline, for increasing the capital projects portion of its budget to a minimum of 23% within a defence budget that is adequate to accommodate such an increase. In other words, this exercise should neither affect personnel levels negatively nor occur at the expense of any other area under the defence budget.

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The Department of National Defence is conducting a focused, paced and innovative modernization program, which will increase the percentage of the Defence Services Program in capital to 21% by 1 April 2004 on the way to the Strategy 2020 target of 23%.

Recommendation 4: That the Department of National Defence be allowed to use the funds generated by the sale or long-term leasing of departmental lands and facilities and that the Department continue to pursue its interest to profit from the divestiture of its assets, including property, with the Treasury Board Secretariat.

The government policy is for all departments to receive the net proceeds for property sales subject to the following conditions:

- departments have a strategic investment framework (long-term capital plan) that is acceptable to the Treasury Board Secretariat;
- the proceeds be reinvested into real property consistent with the strategic investment framework; and
- reporting requirements to the Directory of Federal Real Property be satisfied.

Recommendation 5: That the Treasury Board Secretariat examine options to increase approval authority levels (to allow greater departmental control over budgets and create a streamlined approval process) and that the government make the necessary modifications to the *Financial Administration Act* and Treasury Board guidelines to accomplish this.

As part of its ongoing work with departments and agencies, the Treasury Board Secretariat routinely examines the issue of approval authorities to identify possible improvements. The Government's current process of delegation of management authorities from Treasury Board to departments is determined by Departmental business requirements and capacities to manage specific authorities. There is no need to modify the Financial Administration Act to accommodate changes to departmental delegations.

In the case of National Defence, the Treasury Board has tailored authorities to meet the unique requirements of Canada's military. For example, specific higher dollar value authorities are provided to meet the military's special purchasing needs that may be required during urgent deployments of the Canadian Forces.

The Government is unaware of any cases where approval levels have caused any problems as it relates to prudence, probity, efficiency and fairness in the Government's procurement process. But as noted above, through Procurement Reform and the ongoing work of the Treasury Board Secretariat, improvements can be and will be considered on a regular basis.

Recommendation 6: That all major crown projects (valued at more than \$100 million) proposed by the Department of National Defence be brought before SCNDVA for public scrutiny.

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Recommendation 7: That all federal government departments and agencies involved in defence procurement – Treasury Board, Public Works and Government Services Canada (PWGSC), Industry Canada, Department of Foreign Affairs and International Trade (DFAIT) and others:

- **facilitate the reforms necessary to increase the efficiency and effectiveness of defence procurement by addressing policies and procedures needing reform within their own areas of responsibility, which inhibit the regular government procurement process; and**
- **continue to improve coordination between departments to eliminate redundancy in the procurement process.**

The Government has embarked on a major procurement reform initiative with the purpose of increasing the efficiency and effectiveness of government procurement. Under the guidance and direction of Treasury Board Ministers, this reform initiative centres on strengthening the government's policy framework, renewing our human resources in the procurement and materiel management community and modernizing our procurement practices and processes. The process of review is guided by the modern comptrollership initiative and founded in Results for Canadians, a framework for renewing government management. Co-ordination of procurement reforms across government is a key element of government-wide reform. Inter-departmental groups responsible for priority initiatives are led by an ADM Steering Committee co-chaired by the Treasury Board Secretariat and Public Works and Government Services Canada. Departments and agencies are supportive of, and involved in, this initiative. DND is making a substantial contribution to this work. In particular, it has instituted a framework to increase the efficiency and effectiveness of defence procurement called "Getting It Right". The framework is designed to harness, build upon and communicate the many innovative reforms being introduced within DND.

Another example of interdepartmental cooperation and reform that has resulted in increased efficiencies in areas that inhibit regular government procurement is DFAIT's work with PWGSC and DND on defence procurement issues within North America, specifically relating to the U.S. International Traffic in Arms Regulations (ITARs). On April 30, 2001, legislation came into effect which allows PWGSC to implement an expanded industrial security regime for export-controlled goods and technologies. It is anticipated that the new security regime will ease the flow of defence material between Canada and the United States.

Recommendation 8: That the Government of Canada, in consultation with SCONDVA, examine the defence procurement practices of NATO and Allied nations with a view to examine the feasibility and desirability of developing and implementing specific rules tailored to the needs of defence procurement, including consideration of the increased efficiencies that might result from the integration of Public Works and Government Services Canada (PWGSC) contracting functions directly into the Department of National Defence.

The Government has embarked on a major procurement reform initiative with the purpose of increasing the efficiency and effectiveness of government procurement. This reform initiative centres on strengthening the Government's procurement policy framework, renewing our human resources in the procurement and material management community and modernizing our procurement practices and processes. Departments and agencies across government are involved in this initiative. Co-ordination of procurement reforms across government is a key element of government-wide procurement reform.

The government's procurement process achieves value-added support to government departments through the work of PWGSC. This value-added includes: efficiencies gained through economies of scale; objectivity, important to ensuring integrity in the Government's contracting process; and, the application of commodity and industry knowledge, expertise and experience in the procurement process. These benefits are recognized by SCONDVA itself. The report noted that "defence projects tend to come in on time and within budgets ...(and) Canadian defence procurement (is given) a very high grade relative to its U.S. and U.K. Counterparts." DND and PWGSC have studied the procurement reforms and best practices of Canada's major allies and are continuing to improve the performance and efficiency of defence and other areas of government acquisitions. Canada has access to the procurement processes, rules and organizations of the entire NATO community and many reforms have been introduced within Canada.

The existing partnership between Defence and PWGSC supports the government-wide objectives relating to accessibility, prudence, probity and to meeting Canada's national and international obligations as well as promoting efficiencies in procurement. It is only through the related process of checks and balances that the Government can promote integrity, transparency and fairness in the procurement process. At the same time, DND and PWGSC will continue to tailor their approach to project management and contracting to achieve additional efficiencies and realize opportunities to improve effectiveness.

In light of the above, the Government does not plan to examine the integration of DND and PWGSC contracting functions.

Recommendation 9: That the Department of National Defence finish and make public combat scenarios, which will provide an objective means of evaluating both the procurement objectives for and the operational readiness of the Canadian Forces, as soon as possible.

The Department of National Defence has completed Force Planning Scenarios. Concise descriptions ('snapshots') of the Scenarios are available on the VCDS Inter-net site. Expanded Scenario descriptions are available on request. Scenarios provide the content for considering assumptions and exploring force structure options. The Force Planning Scenarios, along with the other elements of the capability planning process have been briefed in academic and public fora and included in reports to Parliament. Public involvement, comments and feedback are encouraged and welcomed.

Recommendation 10: That the Department of National Defence review its combat scenarios on an annual basis to ensure they remain relevant to current geostrategic realities.

Force Planning Scenarios are a key element of day-to-day force development activity. As a result, they are reviewed on an ongoing basis and adjusted as necessary.

Recommendation 11: That the Department of National Defence assess whether the Directorate of Defence Analysis (DDA) and the Director General of Operational Research (DGOR) personnel levels are adequate to complete the important operational research that serves the entire Canadian Forces, including the completion and ongoing review of combat scenarios.

Effective operational analysis requires that operational research personnel be paired with military operators/planners. Personnel levels are examined as part of the annual business planning process. Based on this review, changes in resource levels are recommended to balance supply and demand for operational research. Defence science support to strategic planning in the Department of National Defence's Directorate of Defence Analysis was increased 33% during the calendar year 2000

Recommendation 12: That the government consider initiating a review of Canadian defence and security policy with a view to update the 1994 *Defence White Paper*. This review should incorporate the new combat scenarios developed by the Department of National Defence and clearly detail the government's expectations of and intentions for its armed forces.

As noted in the government's response to the first report of the Standing Committee on National Defence and Veterans Affairs: *Revitalization and Modernization of the Canadian Forces*, resources will remain limited despite

recent budget increases. Therefore, DND will continue to have to make tough choices and adjust its force structure as required.

The existing defence policy framework continues, by and large, to provide appropriate guidance for the Department of National Defence and the Canadian Forces.

That said, within this framework, the Department and the Forces have the defence program under continuous review. This ongoing activity is the basis of any sensible long-term defence planning. It becomes even more important when circumstances change – as they have with significant increases to the defence budget and the fact that all 4 of the major capital projects listed in the 1994 White Paper have been launched.

Defence planners are always considering a variety of options for the future. That is why they published Strategy 2020 in 1999. The aim is to strike the right balance between meeting current operational needs, and making the necessary long-term strategic investments that will enable the Canadian Forces to remain a modern and relevant military in the years to come.

As a result of this ongoing process significant progress has been made since the 1994 Defence White Paper in making the CF more combat capable. For example, the CF have taken delivery of over 200 Coyote Light Armoured Vehicles, and the first of our new Armoured Personnel Carriers entered service earlier this year. The Canadian Forces are also moving ahead with procuring search-and-rescue helicopters and have launched a major upgrade of both the CF-18 and Maritime Patrol Aircraft to incorporate leading-edge military technologies into both fleets. The purchase of the Upholder submarines is going to maintain an important capability within our navy at a very affordable price. Finally, the Government has announced its intention to acquire 28 new maritime helicopters to replace the ageing Sea King fleet. With this new equipment, the Canadian Forces will continue to have the ability to deploy capable forces to missions around the world.

Recommendation 13: That the Department of National Defence determine and make public the Canadian Forces' long-term equipment requirements for goods and services along a clear timeline, and provide SCONDVA with updates of this requirements' plan on a regular basis.

The Government regularly publishes reports and documents which provide this type of information. With respect to DND specifically, this information is available on the Department's web sites and includes:

- the annual Defence Planning Guidance document which identifies capital initiatives for developing business plans;

- the annual Report on Plans and Priorities which identifies capital priorities and project status;
- the Annual CDS Report which identifies achievement and ongoing activity to provide equipment capability for the Forces; and
- the annual Departmental Performance Report which provides a forecast and reporting on the status of capital projects.

Recommendation 14: That the Department of National Defence determine the value of adopting a ‘rolling’ approach to major capital projects and develop its strategy accordingly.

Over the past twelve months the Department has conducted extensive work on developing a long-term view of the capabilities the Department will require to deliver Government policy. This work is linked to the strategy published as *Shaping the Future of Canadian Defence: A Strategy for 2020*. This recently adopted process is called capability-based planning. A key feature of this new process is the sequencing of capability acquisition to achieve the approved long-term strategy, while sustaining essential current capabilities.

Recommendation 15: That the Department detail its plan to strengthen analysis *prior* to decision-making, particularly in the area of testing and evaluation, and provide the Committee with a clear timeline for implementing these plans.

Improved analysis prior to decision-making is critical to improving the department’s overall risk management performance. Test and evaluation, while important, is but one of a wide range of risk management instruments and decision-making tools. Concept Development and Experimentation (CDE) and Modeling and Simulation (M&S) for conceptualizing and analyzing new systems and methods prior to decision making are some of the tools that are currently being examined. A departmental symposium was held in April 2000 to develop a way ahead for implementing CDE/M&S to help in the creation of the Canadian Forces of 2020. The outcome of the symposium will form the basis of a departmental approach to CDE/M&S. A Technology Demonstration Program to assess new technology concepts before going to full development of new systems or products is already in place.

A new R&D activity has also been initiated on the use of Simulation and Modeling for Acquisition, Rehearsal and Training (SMART). The methods addressed by this activity such as Simulation Based Acquisition will be used when they become available, and when appropriate, to provide further analytical input to procurement decision-making. DND's officials are supported by PWGSC's procurement process so that a balance can be achieved between

expediting the procurement processes and the need for options analysis and front-end tactical requirements.

Recommendation 16: That Treasury Board establish a clear policy on the testing and evaluation of commercial-off-the-shelf products, with a view to gain every benefit possible from this interesting alternative to developmental procurement.

As part of the Procurement Reform Initiative, the Government's procurement policies are being reviewed to optimize procurement results. Current Government procurement practices include purchasing off-the-shelf products. With respect to testing and evaluation, the Government, including both DND and PWGSC have processes in place to test and evaluate various products relative to recognized commercial standards, e.g., Canada Government Standards Board standards and qualified products lists, International Standards Organization standards and computer bench marking.

Recommendation 17: That the Department of National Defence use the Treasury Board Secretariat's 'make-or-buy' analysis guide as a means to evaluate and justify its decisions to use commercial-off-the-shelf products or resort to Alternative Service Delivery rather than pursue development projects or utilize in-house services.

The Government has a new draft Treasury Board policy on Alternate Service Delivery (ASD) that updates and modernizes the existing ASD Framework. DND is working in collaboration with TBS to ensure that DND processes and procedures regarding ASD and large procurement projects follow the government-wide principles established by TBS. PWGSC will also continue to support DND by providing expert advice on procurement and program management

On 11 May 00, the Deputy Minister and the Chief of Defence Staff issued a strategic direction letter for ASD. It emphasized to all managers the compulsory application of all the components identified in the Department's ASD management framework, which includes the requirement for full-fledged Business Case Analyses prior to taking a decision to pursue a particular option. In DND ASD Methodology, the decision to proceed with an ASD review is done at the outset and is based upon determining if, "the service and its major components are needed by DND operations; and, the service is non-core".

In addition, DND's major procurement decisions are supported within an overall framework consisting of a statement of operational requirements derived from the Strategic Capability Planning Framework. In considering the use of Alternate Service Delivery, DND has well-established ASD policies and uses a methodology called Most Efficient Organization (MEO). MEO is used to

determine the optimal solution to meet the requirement while meeting the department's operational objectives.

The Treasury Board Make-or-Buy analysis guide is very similar in content and approach to the existing Alternate Service Delivery Costing Guidelines produced by DND. This latter document is slightly more DND specific, however both focus on services as opposed to goods. Given that commercial off-the-shelf purchasing is done for goods, neither the Treasury Board Make-or-Buy analysis, nor DNDs Alternate Service Delivery Costing Guidelines, deal with off-the-shelf procurement.

Recommendation 18: That Treasury Board (1) clarify what actions it has taken to improve implementation of its Advance Contract Award Notices (ACANs) policy and (2) reconsider its rejection of the Auditor General's recommendation to require independent senior review of sole-source decisions within departments.

The government has strengthened the ACAN process so that it will continue to be an effective and efficient instrument in the delivery of programs and services to Canadians. As part of the Procurement Reform initiative adjustments to the policy have been made and are communicated in a new guide that provides:

- principles to guide the review of a supplier's statement of capabilities;
- clear language in the notices that improve suppliers understanding of the process and how they may proceed;
- guidance to improve the quality of information received from suppliers;
and
- clear timelines for posting these notices.

In the event that a statement of capabilities is rejected, the decision to reject will be impartial and independent in that it will not be made by the same officials who originally decided to proceed through the ACAN process.

With respect to the issue of sole-source decisions, it should be acknowledged that in certain defined cases, this is a legitimate process where permissible under the limited tendering provisions in the various trade agreements and is consistent with the Government's contracting policy, regulations and authorities.

The government's contracting policy encourages contract review mechanisms for all contract proposals, including sole-source decisions. Government-wide policy provides for oversight, tailored to the specific circumstances of individual departments and agencies. The Government does not believe that an

independent appeal mechanism for contractors that deals with contracts lying outside the purview of the Canadian International Trade Tribunal is necessary.

Recommendation 19: That the Department of National Defence consider creating a process that requires senior officials to take or concur in the decision to sole-source and to be accountable for it, for example, through the Auditor General.

The Department of National Defence has taken steps to strengthen the process to reduce sole-source contracting and ensure that there is an appropriate level of scrutiny by senior management within the department. This has included changes in organization, regulation and governance. Since 1997, DND's Materiel Group Contracting Policy has acted as DND's independent contracting authority for services and has reviewed requests for sole-source contracts for professional services greater than \$25K. The new Defence Administrative Orders, promulgated in April 2000, strengthened this role by making the contracting authority (as distinct from the client or technical authority) the final arbiter of whether suppliers statements of capability to Advanced Contract Award Notices (ACANS) are valid or not. DND has further strengthened its contract management with respect to governance through the establishment of a Contracting Advisory Committee of senior officials. The Committee is responsible for disseminating information on policies and procedures, reviewing contracts for lessons learned, and, at the discretion of members and the Chair, reviewing proposed contracts for compliance. Overseeing the use of ACANS is part of this mandate.

Recommendation 20: That Treasury Board report back to the Committee an implementation timeline and plans for monitoring the results (for example, baseline data, performance indicators, evaluation schedules, etc.) of its program to standardize professional development across the Government of Canada through training and certification for acquisitions and procurement staff.

As part of Procurement Reform strategy for human resource renewal, the Government is proceeding with a public service-wide Professional Development Program for Procurement, Materiel and Supply Managers that will include a program management framework. Information on implementation will be accessible to the public. The Government recognizes the importance of open and transparent reporting to support effective communication with Parliament and Canadians. Through the tabling of the Estimates documents, detailed information is provided by departments and agencies to Parliament on their programs, services and operations, specifically through their annual Reports on Plans and Priorities and Departmental Performance Reports. The Government's view is that these reports are the primary source of information to SCONDVA and to other Parliamentary Standing Committees.

Recommendation 21: That the Department of National Defence ensure that all of its material and supply managers are well-informed about the purchasing procedures currently in place and, where necessary, certified in project management as soon as possible.

The Government recognizes that the enhanced professional development of its material acquisition and support staff is vital to successfully implementing its acquisition reforms and improving its overall procurement performance. The Department of National Defence is an active player in the Government-wide initiative to formalize professional development through the certification of Materiel and Supply Managers. In the interim, DND has developed and implemented many new or revised procurement courses, including Capital Procurement & Finance, and Operations & Maintenance at the National Inventory Control Point.

The Project Management Institute's (PMI) globally recognized standard has been adopted as the Department of National Defence's project management standard. This includes a rigorous Project Management certification program. In addition, DND has developed and implemented numerous project management related courses, many of which explicitly address the PMI standard; these include the Basic Project Manager's Course, Intermediate Project Manager's Course, Integrated Logistics Support, Reliability and Maintainability, Systems Engineering, Life Cycle Materiel Management, and Configuration Management.

The Department is integrating acquisition reform modules into many of the Department of National Defence Materiel Management Training Centre (MMTC) courses and is now offering project management training at Royal Military College in Kingston. Finally, the DND Materiel Acquisition and Support Desktop, which outlines the policy, procedures, guidance and training requirements, is becoming the prime management tool and reference guide for materiel acquisition and support staff.

Recommendation 22: That the Department of National Defence evaluate the Canadian Defence Industries Association (CDIA) request to establish a 'defence industry advisory board' at the level of the Defence Management Committee and expand this concept to include stakeholders representing other industrial sectors in the process.

The Government recognizes the importance of Industry's contribution and has sought input from various industry groups. Specifically National Defence in formulating the "Getting it Right" framework considers industry input as critical to various aspects of its implementation. The Department of National Defence supports, at the appropriate level, the establishment of formal and informal senior level Department of National Defence-Industry consultation to improve dialogue and allow both parties to exchange views on current and planned initiatives and on best practices. To this end, a Defence Industry Advisory Committee has been

formed and two meetings have been held. The involvement of industry with key Government Departments and Agencies in the early stages of procurement planning will have a positive effect on the process.

Recommendation 23: That Industry Canada ensure that operational considerations remain the first priority of procurement and that Industrial and Regional Benefits (IRB) policies, which contribute to enhanced Canadian industrial capability, (1) ensure that companies already located in Canada have equal access to procurement opportunities and (2) are implemented in an efficient cost-effective and timely manner.

It is Government policy, as found in the Treasury Board Policy on Contracting, that Government contracting shall be conducted in a manner that:

- stands the test of public scrutiny, facilitates access, encourages competition, and reflects fairness in the spending of public funds;
- ensures the pre-eminence of operational requirements;
- supports long-term industrial and regional development and other appropriate national objectives; and
- complies with the government's obligations under the North American Free Trade Agreement, the World Trade Organization, Agreement on Government Procurement and the Agreement on Internal Trade.

A recent determination by the CITT raised an issue in the procurement chapter of the Agreement on Internal Trade (AIT) that allows Canadian registered companies to export government contract work offshore for completion. The sourcing policy prescribed in the AIT is focussed on the location of the bidder, not where the bidder will do the work. In its determination, the Tribunal found that the company in question was within its right to have the work done in its U.S. plant, although the contract was awarded to its Canadian branch office.

This case illustrates the concern that the AIT may lack the flexibility to permit the federal government to favour bids where the work is to be carried out in Canada. The issue is whether the AIT may hinder the development of a domestic industrial capability, especially for defence-related goods and services.

In addition, some federal government departments are concerned that an increasing number of trade agreements, both international and domestic, have led to a proliferation of rules and inconsistent language that may unduly impair their ability to procure goods, services and construction. Other matters include the effect of decisions by the Tribunal, the burden of statistical reporting required under these agreements, and the minimum bid periods imposed by some trade agreements. To address these issues in a systematic fashion, the Department of

Foreign Affairs and International Trade and Industry Canada have established a working group that will, in consultation with federal departments and agencies, identify problems related to procurement in these agreements and develop a work plan by the fall on how to deal with the procedural and/or policy changes required to resolve them.

Recommendation 24: That the Department of Foreign Affairs and International Trade aggressively pursue the maintenance of privileged Canadian access to the United States market and information-sharing in keeping with our desires to ensure North American security through an integrated technological and industrial base.

On June 16, 2000 Foreign Affairs Minister Lloyd Axworthy and US Secretary of State Madeleine Albright announced an agreement on a coordinated package of national regulatory and legislative measures to strengthen defence trade controls of both Canada and the United States. A key objective of this agreement for Canada is to ensure that the Canadian defence and aerospace industries regain the benefits of the Canadian Exemptions provision in the US International Traffic in Arms Regulations (ITAR). In April 1999, the US State Department amended the ITAR and removed many of the preferential elements in the Canadian Exemptions. The text of the Canada/US Joint Statement on Defence Export Controls issued on June 16, 2000 is available on the web site of the Department of Foreign Affairs and International Trade.

Canada and the US recently amended their respective regulations in order to strengthen defence export controls and facilitate trade within the North American perimeter. Canada has undertaken to harmonize its Export Control List with the US Munitions List, effective April 30, 2001, and strengthen our controls over re-export from Canada of US originated goods and technology by requiring exporters to obtain US export authorization before a Canadian export permit is issued. This will take effect June 01, 2001. In addition, Canada will implement, effective April 30, 2001, a comprehensive registration program within Canada to ensure that the recipients of controlled goods and technology are registered with the Canadian Government and have been through a security review. The US has amended the Canadian ITAR Exemptions reinstating most elements of the exemption and permitting the licence-free transfer of many US-origin defence goods and technology to Canadian federal or provincial government officials and Canadian-registered persons. Canadian-registered persons will include Canadian citizens, dual nationals and permanent residents. This amendment will take effect May 30, 2001. Certain ITAR-related issues remain outstanding and Canada will take this up with the new US administration.

Recommendation 25: That the Department of National Defence focus its Statements of Requirement on performance and capability and that it develop policies to ensure that defence requests for proposals are lean, clear and manageable.

The Department has put in place a Strategic Capability Planning Framework to determine what capability is required for the Armed Forces. The performance and capability required is determined from this framework and is included in the Request for Proposal.

Industry is consulted early in the process to determine industry capability and to allow industry input into the final Request for Proposal. This ensures that the Request for Proposal is lean, clear and manageable. The Department is also exploring other acquisition reforms to further improve on this process.

There is an increasing emphasis – through new policies, the Acquisition Reform Guide and the Desktop modules – on describing operational requirements in performance rather than technical terms. That is, the focus is now on what performance is required instead of how a requirement should be met.

While DND fully supports the recommendation that Requests for Proposal be “lean, clear, and manageable”, they must also meet all of the basic requirements of Government policy.

DND and PWGSC have already reduced the complexity of Requests for Proposal. Examples are the on-going Materiel Acquisition and Support Information System (MASIS) project and the multi-million dollar Supply Chain Project. The Supply Chain Request for Proposal is approximately 30 to 40 pages and is based solely on performance requirements.

The draft Request for Proposal process that involves Industry in the early stages of its development is producing tangible benefits to the Department in terms of time, money and better relations with Industry.

Finally PWGSC and DND are working to develop clearer Statements of Requirement that, in turn, will lead to leaner, clearer and more manageable Requests for Proposal. The Major Project Service Line, PWGSC, is currently providing these types of management services. The use of integrated DND/PWGSC procurement teams helps to achieve this.

Recommendation 26: That Treasury Board examine current Government of Canada profit policy and other procurement policies, make the necessary changes to ensure that results, not time, are rewarded, and develop appropriate incentives to reduce the cost of procurement.

As part of the Procurement Reform Initiative, the Government’s policies and practices are being reviewed with respect to their efficiency and effectiveness, including incentives-based practices in contracting.

Recommendation 27: That the Department of National Defence incorporate such incentives into its procurement initiatives and provide SCONDVA with plans as to how this is being implemented.

As part of the Government wide Procurement Reform Initiative, all policies and practices are being reviewed with respect to their efficiency and effectiveness, including incentives-based practices in contracting. Performance based incentives are particularly relevant for large contracts for services. DND is taking a proactive role in this area. This has included the establishment of a new DND organization whose mandate is the management of all major service contracts and establishment and implementation of appropriate policies and procedures to ensure probity and efficiency. Furthermore, this new organization is also using new tools to develop incentive-based contracts. The department is also working with PWGSC to ensure that profit structures include incentives to contractors who exceed pre-established performance standards. Some of the reforms and tools the Government is currently using to reduce the cost of procurement include:

- early consultation with industry in developing the Request for Proposal;
- use of Benefits Driven Procurement which allows both the Government and Industry to share in benefits derived from development projects; and
- the use of Tabular Formatting which is a formalized approach to developing a statement of work.

Recommendation 28: That the government, in particular Industry Canada, examine this option to improve funding to research and development as part of its efforts to develop a defence industrial policy in a manner that promotes equitable industrial development and benefits across all regions of the country.

The Government has initiated a number of programs to encourage research and development. A sample of these include the following:

- Regional Agency programs across the country support the R&D of small business through a number of specific business development programs or via co-funded cooperative agreements with the provinces. For instance, the Government announced in 2000 that the Atlantic economy will receive a \$700 million Atlantic Investment Partnership that will be administered by the Atlantic Canada Opportunities Agency which is aimed at encouraging knowledge-based industries. Included in the \$700 million announcement is \$110 million for five National Research Council regional technology centres and \$300 million to universities and private companies for technologies related research and development;

- Technology Partnerships Canada (TPC) is a technology investment fund established to contribute to the achievement of Canada's objectives of increasing economic growth, creating jobs and wealth and supporting sustainable development. TPC advances and supports government initiatives by investing strategically in research, development and innovation in order to encourage private sector investment, thereby maintaining and growing the technology base and technological capabilities of Canadian industry. One of the "eligible areas" of TPC is aerospace and defence;
- the National Research Council's Industrial Research Assistance Program (IRAP) is Canada's unique technology network that combines technical advice with access to financial assistance. IRAP supports technology innovation through research, development and adaptation of products, processes and intellectual property. IRAP is available to companies across Canada.

The Government believes that commercial exploitation of Intellectual Property (IP) generated under Crown procurement contracts contributes to economic growth and job creation. Last year the government revised the federal policy governing the treatment of IP rights association with Crown contracts. Wherever possible, on a government contract, IP rights are to be vested with the private sector so companies can capitalize on research and development investments made by the federal government.

Insofar as the Department of National Defence does not have any grant or contribution programs related to research and development (R&D), the Department relies on three components to promote industrial development and benefits across Canada. These include:

- R&D contracts awarded by the Department to Canadian industry (approximately 50% of the annual Defence R&D Program budget of \$180 million is contracted to Canadian industry);
- linkages with other science based departments, particularly grant and contribution programs such as IRAP, TPC, NSEC, etc; and,
- the transfer of Crown owned Intellectual Property (developed in-house or under contract) to Canadian industry for commercial exploitation.

Recommendation 29: That the Government of Canada convene a national roundtable on shipbuilding in Canada with a view to establish a national shipbuilding policy.

On October 20, 2001, the Minister of Industry announced the creation of a National Shipbuilding and Industrial Marine Partnership Project, and named four

industry/ labour representatives as co-chairs. The mandate of the Partnership Project was to consult nationally with shipbuilding and industrial marine sector stakeholders, and report to the Minister with practical and workable recommendations on policies to assist in revitalizing this industrial sector. The project co-chairs also were asked to provide recommendations on complementary measures which should be adopted by the industry, labour, associations and provincial and municipal governments. On April 5, 2001, the Partnership Project released its Report to the Minister, entitled "Breaking Through: The Canadian Shipbuilding Industry". The Minister acknowledged receipt of the Report and the co-chairs and stakeholders' contributions, and indicated that he would review the Report's 36 recommendations with provincial and federal colleagues over the next few months prior to responding to the recommendations.

Recommendation 30: That the Department of National Defence establish a procurement plan for Canadian ship construction (as per recommendation 14 above) and move quickly to acquire new Canadian-built supply vessels to replace the aging ships currently in inventory.

The Government recognizes the important role that the Canadian shipbuilding sector plays in support of our Navy. As part of National Defence's Strategic Capabilities plan the department has identified Strategic Lift Capability as an important element of its Defence requirements, one component of which is an Afloat Logistics and Sea-lift Capability. This capability is currently being studied by National Defence and is in the options analysis phase with a view to eventual acquisition. The Department of National Defence supports, to the degree practical, all future efforts to help the shipbuilding sector, recognizing that the Department, alone, cannot provide sufficient work to ensure the sector's viability.

Recommendation 31: That the government examine ways in which to strengthen the grievance process to ensure that challenges of merit may be assessed and the rules of procurement respected.

The Government is satisfied that the existing challenge mechanism provides for an independent and thorough review of challenges of merit and that the rules of procurement are respected.

Recommendation 32: That the Government of Canada establish an independent dispute resolution mechanism to deal with contracts that lie outside the purview of the Canadian International Trade Tribunal.

The Government considers that existing dispute resolution mechanisms are independent and adequate for those procurements that are not within the purview of the CITT, for example, the Federal Court and other mechanisms.

Recommendation 33: That the Department of National Defence include in its Annual Performance Report, the procurement reform results of its pilot projects and, therein, identify baseline expectations and indicators, final outcomes, areas for further improvement and plans for future action.

DND strongly supports Government wide procurement reform. This is reflected in its "Getting It Right" framework which emphasizes the use of "Best Practices" within Industry and Government. Although DND initially followed the approach of testing procurement reforms through the use of pilot projects, this process was found to be inefficient, labour intensive, slow and costly. The department, therefore, has incorporated the use of procurement reforms into its new projects. These reforms are then assessed as part of the performance measurement framework for Capital projects, which includes monthly reporting and an annual assessment. During this process, Best Practices are identified, analyzed and incorporated into the Department's procurement procedures and processes. The information flowing from the performance measurement framework for capital projects will be included in the Annual Performance Report and is also an input to DND's Integrated Defence Management Framework.

Recommendation 34: That the Assistant Deputy Ministers' Committee report to Parliament on regular basis, including through SCONDVA, beginning with a report that includes measurable plans for accomplishing the defence procurement reforms already identified.

The Government recognizes the importance of open and transparent reporting to support effective communication with Parliament and Canadians. Through the tabling of the Estimates documents, departments and agencies provide detailed information to Parliament on their programs, services and operations, specifically through their annual Reports on Plans and Priorities and Departmental Performance Reports. This information includes acquisition priorities, current and future capital spending and the status of major projects. The Government's view is that these reports are the primary source of information on Procurement Reform management issues of interest to SCONDVA and to other Parliamentary Standing Committees.

Recommendation 35: That all government departments involved in the reform of procurement processes continue to monitor and make public the results of those reforms.

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is that these reports are the primary source of information on Procurement Reform management issues of interest to SCONDVA and to other Parliamentary Standing Committees.

Recommendation 36: That the government co-ordinate these reforms through a multi-department monitoring committee including, as a minimum, the Treasury Board Secretariat, Public Works and Government Services Canada, Industry Canada and any line departments implicated in the process.

The Government supports this recommendation through the work of the ADM Steering Committee on Procurement Reform, co-chaired by PWGSC and TBS and including a wide cross section of interested departments and agencies.

Recommendation 37: That the Auditor General of Canada continue to monitor the Department of National Defence and other Departments' progress (1) in implementing proper analyses (options, risk management, testing and evaluation, etc.) within a streamlined acquisition process and (2) in monitoring reforms to this end.

The Auditor General reports to Parliament and can address this recommendation directly.

Recommendation 38: That the government finalize its procurement strategy and proceed immediately to tender a contract for the replacement of the Sea King helicopters.

On August 17, 2000, the Government announced the strategy for the procurement of a replacement for the Sea King helicopter.