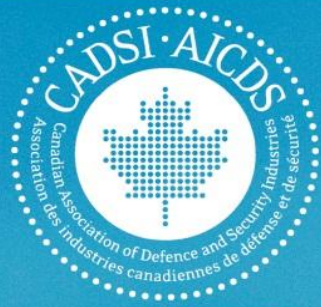


**Canadian Association of Defence and Security Industries (CADSI)  
Pre-Budget Consultation Written Submission  
House of Commons Standing Committee on Finance**

**August 12, 2011**



## Executive Summary

The Canadian Association of Defence and Security Industries (CADSI) is pleased to have the opportunity to contribute to the House of Commons Standing Committee on Finance's 2011 pre-budget process. Specifically, CADSI would like to highlight how the Government of Canada, together with our defence and security industries, can work together to capitalize on our world-class capabilities in a way that contributes to our national security, the safety of Canadians as well as strengthens our economy.

CADSI is a not-for-profit, national business association that promotes the excellence of Canada's defence and security industries and advocates on behalf of member companies who employ over 90,000 Canadians and generate \$10 billion in annual revenues.

The primary responsibility of every national government is the safety of its people and the protection of its country. Canada's success in defending its sovereign, economic and national security interests depends largely on how two important stakeholders – Canada's military and its defence and security industries – operate independently and together. Individually, each must be strong; together, their efforts must be coordinated. This makes the issues affecting defence procurement efficiency and effectiveness an important public policy issue and a matter of national security interest.

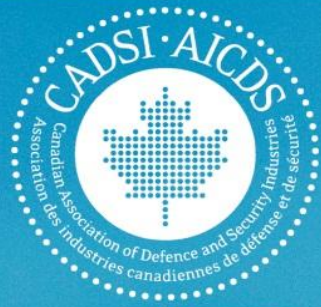
In 2009, CADSI released *Canada's Defence Industry: A Vital Partner Supporting Canada's Economic and National Interests* (the Defence Procurement Report) commissioned by the Minister of Public Works and Government Services, the Minister of National Defence and the Minister of Industry. The Report provided a road map to modernize and streamline major procurement processes with a perspective on how to best serve our military and security personnel while also leveraging knowledge-based jobs in the interest of the national and economic security of Canada.

CADSI believes the Report's specific recommendations are consistent with the Government of Canada's Budget 2011 commitment to continue efforts to modernize the Canadian Forces by developing a procurement strategy to stimulate job creation, support Canadian manufacturing capabilities and innovation, and bolster economic growth in Canada. CADSI is hopeful that the Government of Canada acts quickly to fulfill this commitment in order to maximize economic returns for the industry and Canada as a whole.

Canada has world-class capabilities in its defense and security industrial base that should be developed and nurtured and require the support of a more strategic and prescriptive approach by government.

**The Canadian Association of Defence and Security Industries (CADSI) therefore recommends the creation and implementation of an Industrial Strategy, as well as the establishment of a world-class procurement system, which contributes to the defence, sovereignty and prosperity of Canada.**

Defense spending provides Canada with a unique, direct and immediate opportunity to leverage investments to build Canada's military capacity, support industrial growth, stimulate domestic research and development, and create and sustain knowledge-based jobs in Canada.



## Defence Spending and the Economy

Canada's defence and security industries not only make a difference in the lives of Canadians who protect our sovereignty and our streets but also contribute to the prosperity and development of our country. For example, investments in defence and security support our national security, keeps Canadians safe, and contribute to the vitality of our economy with over \$10 billion in economic activity every year (roughly 50% of which comes from international sales) and approximately 90,000 well-paid, knowledge-based jobs.

A number of recent studies have found that defence spending has a significantly positive impact on real economic growth. A 2004 study by Nigel Wilkins examining 85 countries found that defence spending was positive for 39 of the countries and significantly positive for eight of these, including Canada which saw that a 1% increase in defence spending has a positive co-efficient on GDP of .47%.<sup>1</sup> Similarly, a 2007 study by Bremmer and Kesselring found that increased defence spending in Canada leads to an increase in its GDP.<sup>2</sup> The significant positive impact for Canada arises as a consequence of their having highly capital (equipment) intense militaries that can source their equipment and service needs from technologically-sophisticated, highly-skilled domestic industrial bases.

With the majority of companies in the defence sector also selling to commercial markets and supporting domestic supply chains, their direct and indirect contribution to the Canadian economy is much greater than their sales to defence and security customers.

**Together, industry and government can capitalize on opportunities to strengthen our economy, improve trade relationships and protect our military and security personnel at home and abroad.**

## Government's Commitment to National Defence & the Canadian Forces

While the current economic climate has required that government balance spending priorities with austerity measures and deficit reduction, Canada has made demonstrable commitments to national defence and the Canadian Forces. In May 2008, the Government of Canada announced the *Canada First Defence Strategy (CFDS)*, which provides long-term, stable, and predictable funding to modernize the Canadian Forces.

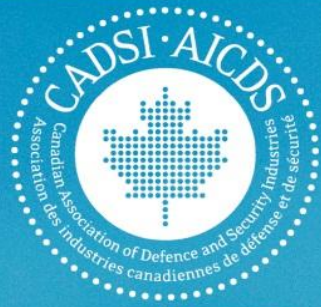
Canada has also begun to make meaningful progress in streamlining and improving military procurement processes, including through enhancements to the Industrial and Regional Benefits Policy. Most recently, the Government of Canada announced in Budget 2011 a commitment to continue efforts to modernize the Canadian Forces by developing a procurement strategy to maximize job creation, support Canadian manufacturing capabilities and innovation, and bolster economic growth in Canada.

While CADSI is encouraged by these positive steps, Canada can do more to support the defence and security companies who make a vital contribution to our Gross Domestic Product and our balance of trade, and whose

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<sup>1</sup> Nigel Wilkins, 'Defence Expenditures and Economic Growth: Evidence from a Panel of 85 Countries,' School of Finance and Economics, University of Technology, Sydney, Australia.

<sup>2</sup> Bremmer, D. and Kesselring, R., 'The Impact of Defence Spending on the Economy,' Arkansas State University, 2007.



products and services contribute to the work of those who defend our nation's interests and keep Canadians safe. In particular, CADSI is hopeful that the government will maintain its direction and move swiftly to develop and implement an industrial strategy for these sectors. This approach will help to provide made-in-Canada products and solutions that are tailored to the needs of our men and women in uniform, and will further stimulate the economy with R&D opportunities, high-value jobs, and will maximize opportunities to position Canada's defence and securities industries for global leadership.

### **Canada's Defence Industry Expertise**

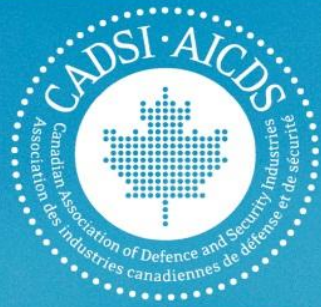
Canada's defence and security industry provides world-class equipment and technology that keep our economy moving and our land strong and free. Canada's defence industrial base includes, but is not limited to, shipbuilding and marine industries, aerospace industry, automotive sector, munitions, electronics, simulation and training, information and communications technologies, textile industry, in-service support and satellite and space technologies. This industrial base produces projects, technologies and services across the industrial spectrum that equip, enable, support and protect men and women in the Canadian Forces and security agencies as they safely and effectively perform the duties assigned to them by the federal government. For example, Canadian employees in the defence and security industry produce:

- High-technology telecommunication and information systems, that are used for a variety of applications such as the protection of our coastlines, the detection of drug smugglers and illegal immigrants, and for search and rescue;
- Clothing that protect our men and women in the military, police and security forces;
- Vehicles and equipment that are used by Canadians and Allied troops in UN and NATO missions;
- Simulators that provide realistic and yet cost-effective training to the personnel that operate our military aircrafts and vessels;
- Aircraft that carry supplies to devastated areas of the country.

The breadth and depth of Canada's defence and security industries is not well-known. This has led to misperceptions about the industry as uniquely purveyors of war rather than a leading-edge industrial base contributing to the physical safety of Canada, the economic well-being of our country and our leadership position on the world stage.

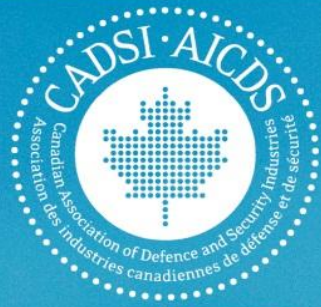
Canada has penalized itself as few other nations do by delaying essential military materials, adding non-value-added costs to itself and to industry, and inhibiting its industrial champions from winning business at home and abroad. Instead, these key domestic industrial capabilities with economic value should be supported, if not leveraged, by the federal government.

As a market heavily influenced by technology-based solutions, Canada's defence industrial base sees R&D as a key driver of its competitiveness. However, the industry believes its technology edge is slipping and that government can and must play a greater funding role in private sector-led defence R&D.



CADSI therefore encourages the creation of a defence industrial strategy that is built on the following building blocks:

- **Establishing procurement strategies and improvements to existing processes that reward and encourage direct Canadian industrial participation at both the acquisition and sustainment phases of defence projects.** Only if industrial objectives are set at the start of the procurement process will the government be able to achieve an optimal economic return on taxpayers' investment in defence spending for the acquisition and maintenance of military equipment. Additionally, the government can promote the maintenance and creation of highly skilled jobs by developing new government procurement and contracting processes that:
  - Recognize the importance of Canadian companies in the defence and security sector that can provide products and services that are competitively priced and meet the requirements of our military and security forces;
  - Increase the percentage of IRB's dedicated to the defence and security sectors, and the strategic use of IRBs in initiatives such as targeted R&D and centres of excellences;
  - Select domestic industry to undertake the maintenance, repair and overhaul of military equipment acquired from foreign equipment manufacturers;
  - Provide a balanced risk framework for acquisitions.
- **Promoting the competitiveness of Canada's defence and security industrial base through export market development support.** Export market access and success is critical to the long-term competitiveness of Canada's defence and security industrial base. The federal government can assist by committing to be a 'first buyer' of Canadian defence and security products, technologies and services to facilitate export sales.
- **Enabling the establishment of capability clusters and centres of excellence.** The federal government can play a key role the identification, development and sustainment of key industrial capabilities that contribute to the national and economic security of Canada. This can be done through the development of "centres of excellence" and/or key 'industrial capability clusters' made up of university, industry, government and non-governmental partners in areas of strategic national interest. The strength of this network and expertise can then contribute to the development of the industry and stimulation of our economy by using them as preferred suppliers and/or promoting them through R&D, IRBs and export strategies into OEM global supply chains.
- **Recognizing the importance of the defence and security industrial base as a priority for federal R&D funding programs.** The federal government should create and support an environment at the federal level that promotes synergistic, innovative and leading-edge R&D activities within the private sector producing market-ready technologies of strategic value to the defence and security of Canada.



Canada has world-class defence industrial capabilities with defence and economic value to the country which can be nurtured and developed for success through Government policies, procurement strategies and processes. Investing in the future of our defence and security industry will create innovative and leading-edge R&D, helping our companies and our forces to succeed at home and abroad.

### **Our Recommendation**

CADSI recognizes that defence procurement is complex – that there is no ‘silver bullet’ to address all issues, and that Canada is not the only country seeking to maximize the economic returns of its military expenditures. However, Canada’s defence industry is convinced that conditions for a more positive environment which supports effective and efficient military procurements, and which builds industrial capability in the Canadian economy can be established.

**The Canadian Association of Defence and Security Industries (CADSI) therefore recommends the creation and implementation of an Industrial Strategy, as well as the establishment of a world-class procurement system, which contribute to the defence, sovereignty and prosperity of Canada and which would be composed of the following key elements:**

- **Procurement strategies and processes that reward and encourage direct Canadian industrial participation at the acquisition and sustainment phases of defence projects.**
- **Export market development support mechanisms that contribute to the competitiveness of Canada’s defence and security industrial base.**
- **The establishment of capability clusters and centres of excellence.**
- **Targeted federal initiatives that capitalize of the innovative capabilities of Canadians to produce leading-edge R&D activities which lead to the production of market-ready technologies of strategic value to the defence and security of Canada.**

In an era marked by fiscal restraint, the adoption of policies and practices which promote the growth and competitiveness of Canada’s defence and security industries will ensure that Canada is able to maximize the economic return on investment from defence spending by stimulating job growth and increasing business investment. This action will ensure shared prosperity and a high standard of living for all Canadians.