EADS Submission to the House of Commons Standing Committee on Finance

Alternate approach to important Government projects, offering significant savings to the Government of Canada

Pre-Budget Consultations

8/12/2011

The Government of Canada should consider two Alternate Service Delivery (ASD) models in the areas of military communication satellites and Canadian Coast Guard (CCG) aircrafts. Paradigm, recommends an ASD model for the Mercury Global military satellite communication system. Eurocopter recommends an accelerated procurement process or an ASD approach to the CCG fleet renewal program. The recommended models would be cost efficient, creating sustainable jobs in Canada, promoting the industry and ultimately economic growth.

EADS would like to thank you for this opportunity to submit recommendations to the committee and to present new applications of proven ideas, which will in turn assist with **achieving sustained economic recovery in Canada,** promote the **creation of quality sustainable jobs** and help the Government reduce costs to **achieve a balanced budget**. Eurocopter and Paradigm are wholly owned subsidiaries of EADS (European Aeronautic Defence and Space Company), one of the three largest aerospace groups in the world. Eurocopter and Paradigm are pleased to respond and provide feedback for consideration with regards to the Federal Government 2012 budget.

Based on our experience, exploring the potential of an alternate service delivery approach for planned projects and procurements would enable the Government of Canada to make significant savings in the long term while remaining consistent with the overarching goal of fostering a healthy growing economy. It is an approach already utilised by other friendly countries. Within our time allowed, EADS would like to brief you on two upcoming Defence procurements where EADS believes an ASD approach could help to meet your economic goals, while at the same time improving our national safety and security. These two projects are Mercury Global, currently under consideration by the Department of National Defence, and the Coast Guard Helicopters for which the Ministry of Fisheries & Oceans expects to begin the procurement process shortly.

Both of these projects, if managed through an ASD/P3 approach would:

- Save Canadian taxpayers money;
- Increase Canada's ability to act, and be seen to act, as a positive force on the world stage by enabling leadership roles in coalition operations and the newly signed international Arctic Search and Rescue Agreement; and
- Generate long term, high value jobs across Canada's Aerospace Industry sector and across Canada's North.

Mercury Global

Issue Overview

Canada has been and continues to be a leader is space technology. The Canadian Government has declared its intent to evaluate the potential use of Alternate Service Delivery for large scale federal capital projects in order to ensure substantial long-term savings. The ASD approach would be well suited to the Mercury Global project. The objective of Mercury Global is to establish the space infrastructure and services needed to serve DND's broadband communications requirements for deployed operations anywhere in the world over the next 15 years.

Paradigm Secure Communications is the world's first commercial provider of military X-band services and the only company able to offer X-band communications on hardened and protected satellites that are compliant to NATO standards. The ASD approach has been a success where implemented, most notably in the United Kingdom. The UK military's Skynet

contract has effectively and successfully outsourced the countries entire military satellite communications capability including the new satellites, ground station upgrades, service delivery, maintenance and operation for 18 years. The state of the art military satellites and associated infrastructure were built with additional capacity to serve the needs of many nations, without requiring commitment to capital outlay. Creating a unique option, wherein military communications capability is provided on a commercial basis.

How to achieve a sustained economic recovery in Canada

Paradigm's proposed ASD approach to military satellites would promote sustained economic recovery through the long-term commitment in Canada. Paradigm's Skynet constellation is already operational and will be extended in 2012 with the addition of the fully funded Skynet 5D satellites, and therefore offers a low risk solution to the requirement of military satellite communications. An ASD contract removes the responsibility from the Government of the risks associated with meeting certain standards and requirements. Instead these risks are assumed by the service provider. The service provider is responsible for satellite communication capacity, ground equipment upgrades, and the management of services to military customers. This includes meeting Canada's Baseline, Transit and Surge SATCOM capacity requirements, which could involve a mix of military and commercial satellites. This allows flexibility of provision and value for money, as customers only pay for what is used.

How to create quality sustainable jobs

The proposed Paradigm ASD approach focuses on creating quality sustainable jobs in Canada by offering significant, long-term benefits to virtually the entire Canadian space industry.

- ***Telesat*** is already a key partner for Paradigm which has demonstrated its continuing commitment to both the military satellite communications markets and to Canada with the leasing of the X-band hosted payload on Telesat's Anik G1 satellite
- ***COM DEV Ltd*****.** of Cambridge Ontario is the world's leading supplier of commercial SATCOM components. Their business is driven by growth in the international commercial SATCOM business and supplied components to Astrium satellites fused in building the Skynet 5 satellites
- ***MDA*****,** builder of Radarsat II and the Canadarm family, is also entering the business of building commercial communications satellite

How to ensure relatively low rates of taxation

The ASD approach offers significant cost savings for the Government of Canada. Military demands for bandwidth are now so high and variable, based on changes to operational temp, that augmentation of dedicated military networks with less expensive commercial capacity is the norm. There is today a robust and growing commercial satellite services industry that serves military needs and actively anticipates changing requirements. The commercial satellite communications market has supported military and defence applications for many years, and can provide coverage extension, capacity augmentation or even a reduction in procurement costs when compared to government owned and operated military satellites.

How to achieve a balanced budget

A scalable Paradigm ASD approach will provide a more cost effective solution than a traditional capital infrastructure purchase approach. By expanding capability, the cost is driven directly by the expansion of the Canadian military's ability to access more satellite capacity. Importantly an ASD contract does not require any initial asset investment, which is in the interests of the Government at a time when CAN$4billion of saving is to be found in the present fiscal year and more in the years to come. Paradigm's experience is extensive, as the largest supplier of satellite capability to NATO; Paradigm has experienced national and coalition deployments in Iraq and Afghanistan in addition to a strong understanding of the current and growing capacities of the Canadian military. EADS believes the entire expanded operating needs, such as real time data and video and active C4ISR and UAVs, can be delivered for between CAN$225 million and $370 million over 15 years, the fee for which would be paid accordingly over that period of time.

Recommendations

Paradigm recommends that the Department of National Defence considers an alternate service delivery (ASD) approach for the Mercury Global project. The Paradigm ASD approach offers a number of benefits to the Government of Canada including the simplicity of engaging with an already existing and flying constellation. From a contractual standpoint, the ASD process provides Canada with the option to lease a contract service for the next 15 years with an already existing solution.

Through an ASD approach, Canada could outsource satellite communications infrastructure and operations to a satellite service provider, who in turn provides and guarantees the service to the Canadian Forces on an as-required basis. Canada would not be required to procure, operate, or maintain the satellite network, providing Canada with the freedom to use it as required to support the mission. As the needs of the Canadian military expand, with increased use of data, network services and emerging technologies, Paradigm is able to offer Canada an ASD solution that will provide access to bandwidth when and where it is needed at a range of frequencies and orbital locations to suit mission parameters. The proposed solution primarily uses Paradigm's Skynet military satellite constellation plus Telesat satellites to provide the core bandwidth, augmented by a large and growing inventory of third party commercial capacity to support surge requirements. This approach allows the network to evolve to meet future developments and forecast needs. It has the built-in flexibility to enable the solution through the 15 year service term.

Canadian Coast Guard Fleet Renewal

Issue Overview

Eurocopter Canada recommends that the Government of Canada considers implementing an accelerated procurement process for Canadian Coast Guard (CCG) fleet renewal or alternatively considers an alternate service delivery approach to meet this goal. Today the CCG operates a fleet of 16 BO105 helicopters created by MBB Helicopters which were delivered between 1985 and 1987, making the fleet over 25 years old. Currently there are 14 BO105's that remain in service complemented by a mix of Bell 212's and 407s. These helicopters

continue to require repair and will soon need to be replaced. In reaction to this requirement, Eurocopter recommends that the Government of Canada considers the impending need for fleet renewal.

The Canadian Coast Guard's aircrafts have been strategically located across eleven bases within five regions: Newfoundland and Labrador, Maritimes, Québec, Central, and Arctic and Pacific Canada. Within these regions, the CCG carries out the four main missions outlined as ice breaking missions, rescue, safety and environmental response missions, marine navigation missions, and communication and traffic service missions. The changing and expanding role of the CCG and the priority placed on Arctic Sovereignty by the Canadian government has further amplified the need for a renewed fleet of search and rescue aircrafts. The expanding responsibilities accumulated by the CCG further demonstrate the need for action in addressing aging CCG helicopters.

Eurocopter proposes that the Canadian Government take measures to accelerate the procurement process for its CCG aircrafts. Many issues arise in regards to long term support of an ageing fleet. The BO105 is no longer in production and the aircrafts currently in operation are corroded and cracked due to harsh environmental conditions. The escalating maintenance costs and lack of availability of spare parts threatens to have a potentially negative impact on operational services. Additionally, new technological advancements have surpassed the BO105's capabilities raising concerns in regards to safety standards and a lack of technology to support the expanding role of the CCG.

While Eurocopter would prefer an accelerated procurement process, an alternative solution would be an ASD approach to aircraft services. This approach would promote a stronger focus on the primary mission while removing the risk and responsibility for aircraft safety and ongoing updates and maintenance from the Government. The Government of Canada would no longer be required to invest in asset accumulation and could focus their efforts on carrying out their missions. Canada's past experiences with alternate service delivery and P3 programs has proven to be both successful and cost effective. Projects such as the Contracted Airborne Training Services (CATS) won by Top Aces to provide the Canadian Forces airborne training have saved the government and taxpayers over CAD$35 million. Another successful ASD model is the Canadian Base Operators Inc. joint venture which manages, operates, and maintains DND facilities.

How to achieve a sustained economic recovery while creating quality sustainable jobs

The CCG's fleet is in need of renewal due to the age of the aircrafts, safety concerns which arise as a result of operational wear and tear, technological advancements, and new equipment standards. Eurocopter supports the acceleration of the CCG fleet renewal whether it is through an accelerated procurement process or an ASD partnership. Either process would serve to promote a sustained economic recovery while creating quality sustainable jobs. An accelerated procurement process will create competition which will stimulate the economy while creating new jobs in this sector. An ASD model greatly reduces the program costs, maintenance costs, and acquisition costs of aircraft services to the Government. This approach would help boost

the economy by creating sustainable jobs in Canada with a secured contract for 15-20 years. This long term commitment creates an opportunity to expand the industry by supporting innovative companies who will prepare future platforms for ageing fleet replacement and who will continue to develop technologically advanced helicopters. The ASD model creates quality jobs in Canada as it reduces the requirement for public servant jobs and creates employment within industry. The demand created due to the technological advances will encourage innovation in Canadian industries while bringing valuable jobs to different regions in the country.

How to achieve a balanced budget while ensuring relatively low rates of taxation

Accelerated procurement of the CCG fleet renewal will aid in achieving a balance budget particularly in the long-term. Replacement of the BO105 aircrafts today will save the Government money in the future. Maintenance costs will drastically rise as the cost of finding spare parts for the helicopters steadily increases. Eurocopter's alternate approach would assist in balancing the budget through reduction in overall program costs, savings would be found in the reduction of operating and maintenance costs, due to early replacement plans. The fixed cost price reduces program costs more efficiently, controlling the financial impact of the program over the years. The ASD model ensures that the new aircrafts are introduced earlier, greatly reducing maintenance and associated costs in addition to removing spare part price escalation. Whether it is an accelerated procurement process or an ASD approach, money can be saved through early replacement programs, higher safety standards and technological advancements.

Recommendations

Eurocopter recommends that the Government of Canada considers implementing an accelerated procurement process for Canadian Coast Guard fleet renewal or alternatively considers an alternate service delivery approach to meet this goal.

The Canadian Coast Guard is in desperate need of fleet renewal as the aircrafts are rapidly aging beyond repair. With the cost of maintenance rising it will no longer be sustainable to repair the BO105s. Accelerating the procurement process would enable the Government of Canada to save money both short and long term. In addition to the problems posed by an aging fleet, safety standards and new technology have left these aircrafts in need of service and review. Eurocopter proposes an accelerated procurement process or an alternate service delivery model to meet the needs of the CCG fleet. Replacing the existing fleet will stimulate the economy, create jobs in the industry, and bring long-term growth to the sector while ensuring that the CCG can successfully complete their new missions within their expanding role in Canada.