

Standing Committee on Finance (FINA)

Pre-budget consultations 2012

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Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The 2011 Federal Budget committed to “a defence procurement strategy, in consultation with industry, to maximize job creation, support Canadian manufacturing capabilities and innovation, and bolster economic growth in Canada”. To move this forward, sustain the recovery and promote growth, the Canadian Association of Defence and Security Industries (CADSI) recommends that the Government implement a formal Defence Industrial Strategy (DIS) with a corresponding Defence Investment Plan (DIP), supported by an effective cash-management process in DND. The defence and security sector is unique in its engagement with government: as primary customer; as market regulator; and, as export facilitator. The government-industry relationship serves Canada’s defence, sovereign and economic interests, but its economic potential remains to be optimized. With a DIS/DIP, the government will make the most of what is its largest discretionary expenditure. A DIS/DIP, based on Key Industrial Capabilities, will maximize domestic job growth, innovation and economic activity in Canada by directing the synergies of: a whole of government approach to exports; federal R&D; clusters of industrial capability; and, targeted defence and security procurement strategies. The predictability of a DIS/DIP will encourage companies to invest in Canada and see Canada as a place to grow global ties; promoting domestic jobs and economic growth in Canada. CADSI’s 2012 KPMG report on Canada’s security and defence industries shows that, within the \$12.6B in domestic economic activity generated by security and defence industries, \$6.4B (51%) came from foreign revenues. CADSI has set the goal of doubling exports over the next five years, facilitating the creation of an \$18B industrial base, with \$6B in domestic activity and \$12B in export sales. A program of export support under a DIS would integrate the resources of Industry Canada, DFAIT, EDC, DND and the Canada Commercial Corporation. CADSI’s Report on Military Procurement has more background: https://www.defenceandsecurity.ca/UserFiles/File/IE/Military_Procurement_Main_Report_March_09_2010.pdf A DIS/DIP will define industrial capabilities that are essential to Canada’s strategic defence and economic interests – developed and exported from Canada. It will provide a roadmap for industry to make R&D investments, build new capabilities, and initiate a formal framework for Government/Industry interactions – including metrics to measure success and policy implementation progress.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The close relationship between the government and domestic security and defence industries offers significant opportunities for job creation. In times of economic contraction and uncertainty, it is imperative that government encourage foreign direct investment, promote exports, exploit and develop domestic capabilities, help sustain employment competencies, and enhance physical infrastructure.

The defence and security market is unique in that it is driven by public sector demand and the priorities of national governments. This “managed market” both restricts and provides a framework for domestic industrial development and sustainment. To this end, the identification of Key Industrial Capabilities (KIC) in the context of a Defence Industrial Strategy (DIS) and Defence Investment Plan (DIP) is a crucial first step in providing industry a framework for cooperation and growth into the future. CADSI’s 2012 KPMG report, “The Economic Impact of the Defence and Security Sector in Canada” highlights our industry’s ability to deliver skilled jobs and exports. Figures contained in this report indicate that every \$1 million in industry revenue, the defence and security industry is able to generate 8.68 FTE jobs. CADSI would contend that a formal DIS/DIP would more efficiently utilize government resources already applied to the defence and security sector. Thus, freeing industry invest in economic inputs like labour. Only a defined DIS/DIP can effectively leverage federal R&D, defence and security procurement strategies, and defence and security exports so that the industrial base is strengthened and domestic jobs, innovation and economic activity are maximized. As CADSI recommended to the Jenkins Panel on Innovation, the strategic purchasing power of government cannot be overlooked as a prime mover for domestic industrial capabilities, innovation, productivity and skilled labour – a copy of this report is available from CADSI. Also, and as an example, in its Marine Industries Report CADSI identified how jobs could be created in that sector (<http://www.defenceandsecurity.ca/UserFiles/File/pubs/cadsi-mir.pdf>) CADSI believes that, for sovereignty, security and economic reasons (including job creation and sustainment reasons), Canada maintain what it flies, drives and sails, domestically. Accordingly, CADSI promotes domestic industry as the lead provider of in service support (ISS) for defence and security related assets.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

With its commitment to strategies like the Canada First Defence Strategy (CFDS) and the National Shipbuilding Procurement Strategy (NSPS), government has shown a capacity to address both labour availability and skills issues in the defence sector. These strategies allow industry, government and academic institutions to work with defined national priorities with respect to labour market planning, R&D, and plant and equipment investments. Defence and security businesses have greater assurance to make investments that allow them to compete for skilled workers and invest in greater productivity. However, there is room to reinforce and expand that success. The CFDS and NSPS point to the need for, and value of, a Defence Industrial Strategy (DIS). The identification of Key Industrial Capabilities (KIC) in the defence and security sector would allow government to direct federal R&D to KIC areas, to prefer Canadian KIC suppliers in defence procurements when they meet operational requirements, and to grow Canadian KIC suppliers through a whole-of-Government export strategy. As risk is central to industry’s decision making processes, firms must be confident that government has mitigated this risk through a robust and independent challenge function within the options analysis and project definition phases of the procurement process. Companies act on clear signals. When the global economy improves, and/or proven measures of risk mitigation within the procurement process are adopted, firms will invest cash reserves based on governmental leadership communicating industrial and economic priorities. Today, Canadian defence and security businesses export half their output. CADSI believes we can retain that domestic market, and double our exports, through a more creative and collaborative relationships with government, creating an \$18B industrial base, with \$6B of domestic activity and \$12B of exports. A sustained and programmed commitment to enhanced productivity depends on, and creates the conditions for, two policy areas where Canada can overcome its aging and skills challenges - immigration and education. As a DIS helps to maximize, sustain and promote Canadian industrial

champions and growth, the attraction of skilled workers will result. Furthermore, industry success stories will give Canadians hope that their personal investments in skills development will lead to meaningful employment.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

A central component of increasing productivity in the defence and security industry is a policy framework that supports investment. CADSI views a formal Defence Industrial Strategy, with a corresponding Defence Investment Plan updated annually, as key to this endeavour. Internationally, governments are competing for a limited number of foreign direct investment dollars. Canada will be better positioned to receive such funds when it articulates priority areas for the domestic defence industrial base. Business invests when it believes that the market will respond. In the defence and security sector, the market is largely government driven with defence representing its largest discretionary expenditure. Government would be well served to identify Key Industrial Capabilities (KIC) relevant to Canada's national security, economic and sovereign interests ensuring that federal R&D, IRBs and export and defence procurement resources are maximized. Once formally identified, government can more effectively use its "demand-pull" in defence and security related procurement, and its "research-push" in partnership with post-secondary institutions and the private sector to manage innovation, productivity and economic activity in Canada. (See CADSI's Report on IRBs for more ideas: <https://www.defenceandsecurity.ca/UserFiles/File/IE/CADSI%20IRB%20Report%20Final%20July%2024%202012.pdf>) Since strategic use of defence and security procurement drives innovation and productivity, public sector procurement and related programming should encourage innovation in Requests for Proposals. DND's Project ACCORD unites the brightest minds and ideas of industry, academia and government from around the globe to address critical defence capability issues and this is evolving into a Capabilities Analysis Centre. When industry has confidence the market will respond, it can be a willing partner in promoting R&D investment. The identification of KICs sets a foundation for increasingly focused actions in the productivity sphere. CADSI urges government to reinforce incentives for industry to invest in Canadian educational institutions. The security and defence industries have proven their capacity to support the development of clusters of industrial capability and "centers of excellence" which promote skills development and the commercialization of products leading to increased productivity. Canada's capacity to foster productivity is directly proportional to its ability to innovate. As such, the security and defence industries are willing partners in the pursuit of this endeavour.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Exporting businesses are vulnerable in periods of economic contraction. Given the economic implications of inaction, the security and defence industries should be of particular concern for this government. Key to export success in the defence and security sector is the Canadian government's commitment as shown by government acting as a first buyer – driving domestic SME growth, and the recently expanded (Budget 2012) Canadian Innovation Commercialization Program (CICP). CADSI's 2012 KPMG report on the domestic security and defence industries shows that, of the \$12.6B in domestic economic activity generated by the security and defence industries, \$6.4B, or 51%, was derived from foreign revenues. CADSI believes Canadian industry can maintain that domestic activity; however CADSI

has set the objective of doubling exports over the next 5 years. To accomplish this, Government support will be essential. In a global marketplace industrial agility is important in securing “first market” opportunities. Canadian industry has the capacity to deliver products and services; however, as many of these businesses are SMEs, they require government support in reaching foreign markets. An example of support often cited by industry is when domestically produced technology is adopted by the Canadian government. This vote of confidence works wonders on an international stage. Policies and programs must not only focus on promoting Canadian industrial champions, they must also create an environment that induces foreign companies to invest, and/or establish businesses in Canada to meet international demand. Within this framework, Canada requires a strategic vision as outlined by a formal Defence Industrial Strategy to guide government decisions. CADSI suggested ways for the government to improve industry’s export position in its review of the Controlled Goods Program:

<http://www.defenceandsecurity.ca/UserFiles/File/eNews/2012/July/CGP.pdf> An update to Canada’s national security policy would reinvigorate the national security and public safety discussion, particularly if it included a role for industry in support of Canada’s security priorities. Government’s the 2004 report “Securing an Open Society: Canada’s National Security Policy”, did not define a role for the security industry. An overarching national security policy would help guide technological and operational investments of industry –to benefit both Canadian security and the domestic economy.