

Procurement and Industry Success



The post Cold War restructuring of the global defence industry has been characterized by two important trends. First, consolidation has yielded fewer firms but ones with a wider range of capabilities. They are moving away from being manufacturers of products and developers of stand-alone systems to become system integrators, with supply chains extending well beyond traditional national borders. Importantly, the sustainability of defence sector firms is now just as much a condition of their economic importance as is their strategic importance to national security and defence.

The second evident trend is the migration from national to multi-national defence programs, such as the Joint Strike Fighter (F-35) program which combines the most extensive international participation in the world today.

Canadian Expertise

For Canada, both its military and defence industry must fit into the restructured global defence landscape. Doing so can best be achieved through working in partnerships that benefit both parties.

While the Canadian Forces (CF) may be required to procure major systems from offshore multi-national companies, its ability to keep these systems at required states of operational readiness is best achieved through having the long term in-service support from domestic-based providers. This requires strategically leveraging its defence requirements to build on the current technological, manufacturing and service provision capabilities resident in Canada's defence industrial base. This can include inducing the prime contractor and its major sub-suppliers to provide licenses and the technology to compete for the after-market support needs – and not just in Canada, but to allow Canadian firms to carry this expertise into other markets.

Enhancing Service

Canadian industry is committed to advancing innovative service delivery approaches that will allow the Department of National

Defence (DND) to reap savings in the support and maintenance of its equipment and weapons systems while at the same time enhancing service levels. This requires both parties to exhibit a willingness to adopt commercial best practices and operate under performance based contracts that hold firms accountable for meeting agreed targets.

This scenario is best achieved through making "Value Engineering" a cornerstone of all major defence procurements, under which a certain portion of the overall procurement expenditure is allocated to assisting firms to make an investment to improve their service delivery methods and business processes.

Such a positive change is already being pursued under the *Optimized Weapons Systems Management* approach to the in-service support of the Canadian Forces various air fleets.

Better Able to Compete

To be able to make the necessary investments to support CF requirements, Canadian firms need earlier insights on the scope and timing of upcoming requirements in order to position themselves to compete – both in their own right and in terms of partnering with foreign suppliers when equipment and services are procured offshore. They also need to be provided with full insight on how individual procurements are to be undertaken, from requirements definition to bid evaluation.

The Importance of Offsets

While the output of Canada's aerospace industry is predominately commercial, the defence sector is the sole or predominant business focus of many companies. Often their market success stems from being able to take capabilities developed to meet domestic defence requirements and winning a place on foreign programs.

Traditionally, this has been levered through a Canadian Government decision to procure a system and making it a requirement that the contractor place a value of work with Canadian industry – "offsets" or what in Canada is defined as "Industrial and Regional Benefits."

The new model of international defence programs has shifted the entry point to a much earlier stage requiring participating nations and their industries to invest in the development stage.

JSF: important for industrial capabilities

Participation in programs like the JSF and the new Multi-Mission Maritime Aircraft can be levered through the Canadian Government, usually led by DND. The level of participation and investment through 'Government-to-Government' agreements can range from securing access to technical data to a decision to actually procure the equipment.

For example, while the Canadian Government's decision to invest in the JSF Program as a Level 3 International Partner was taken for defence reasons (to gain access to technology that will allow the interoperability of the CF with other allied forces), this action has been instrumental in getting getting Lockheed Martin and its Tier 1 suppliers to assess and then draw upon industrial capabilities within Canada.

Already in the System Design and Development Phase of JSF, over 80 Canadian firms have won a place on the Program with the aggregate value of the work being just over US \$200 million. As the JSF moves into production, we expect the level of Canadian participation to increase substantially including providing training, logistics management and in-service support. The indirect return to the Canadian Forces is a strong, domestic industrial base better able to meet its ongoing equipment and support needs. **FL**

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