Take Your IRBs... ...to the BANK!

It seems simple enough. The government uses major defence expenditures – where permitted by Canada's international trade obligations – to develop the Canadian economy through the Industrial and Regional Benefits (IRB) Policy. But does anyone *really* understand the Policy? Judging from the media, most people do not. After almost 15 years in federal acquisition policy, I have to wonder, is there a better way?

IRBs are required for all major defence procurement projects over $100 million, and can be required for any procurement over $2 million. When we spend that much with suppliers – Canadian or otherwise – we will make sure that as much of the money as possible remains in Canada, to strengthen our supplier base and our economy, and increase Canada's international competitiveness.

That investment in Canada should be long term, rather than a meteor flashing across the business sky. To achieve this, specific investment decisions are made by the actual supplier to the government, and not by bureaucrats or politicians.

Sounds good – so why is *FrontLine's Great Debate* on IRBs necessary? I think it is all in the timing.

Before talking about timing though, a quick aside recalls last summer's public debate about the acquisition of major military hardware. Requiring a supplier to provide industrial benefits – whether in Canada generally, or in particular regions – does NOT give any part of the government the authority to direct contracts or sub-contracts to particular suppliers. We rely on the business community to make good business decisions.

Unfortunately, in a very limited number of conversations I have had on this issue, whenever someone makes this point the reaction, all too often, is a sort of 'wink-wink, nudge-nudge' – an apparent indication that someone, somewhere is finding a way to make sure that money flows in the 'right' direction. If those 'winkers' are right, there is a flaw in the process that needs to be found and eliminated – if they are not, there is work to be done to show that there is no bias in the system.

It's All in the Timing

Back to the timing issue. We ask the supplier community to commit to long-term benefits through what is effectively a short-term reaction to an unstable government requirement. Companies wishing to bid for major contracts must develop their IRB plans before a formal call for bids is issued, but not before the government has published its procurement plans – because they receive no credit for investments made before that point.

The Industry Canada web site provides an excellent description of the IRB Policy and its application. Anyone with an interest in, or preparing to comment on, any aspect of IRBs should take the time to visit *http://strategis.ic.gc.ca/epic/internet/inad-ad.nsf/en/ad03657e.html*. The presentation of the *Detailed IRB Policy Guidelines* is very instructive, and it would have been useful last summer if a number of commentators had read it before speaking out on the various major military acquisitions.

Keep in mind that we are talking major investments here – manufacturing, parts, labour, sub-assemblies – and business relationships that need to be solid. Also, remember that there are direct and indirect IRBs. "Direct" IRBs give Canadian firms an opportunity to provide goods, services and/or long-term service support directly for the items being procured by the government. "Indirect" IRBs are transactions not directly related to the procured items. Finally, note that Canada requires an IRB package equivalent to the total value of the eventual contract.

Let's now look at three perspectives. First, there is the business community that will actually bid on a government requirement – potential prime contractors from inside and outside Canada. Their major investment decisions cannot easily be made on the spur of the moment. Perhaps it is relatively easy for a company proposing a new product not already in production – there are many well-qualified Canadian firms that could be brought into the manufacturing process. Consider, though, a potential bidder that already has its full production process in place. How easy can it be to be told, after you have rolled tens or hundreds of units off an assembly line, that you are suddenly required to find new Canadian sources of supply so as to provide "direct" IRBs? What if your existing suppliers are already contracted for the long haul? And what if you have a really successful year, with major sales to two or three countries at the same time – and they all demand IRBs?

Next, there is the Canadian supplier base looking to benefit from the IRB policy as sub-contractors, specialized parts suppliers and the like, to develop new markets and identify areas for potential innovation. Would it not be extremely frustrating to know that to a certain extent your potential for growth is linked to government buying decisions that may or may not be made, and with uncertain timing? Would it not make more sense to provide these companies with a more stable long-term picture, and encourage investments that are less directly linked to the vagaries of government buying decisions?

Also, suppliers – primes, subs or third parties – all have to keep in mind the added complication that IRB plans have to be developed before the government has issued its formal call for bids. If the government decides to not proceed, those plans may be for naught – after great expense to all concerned.

And finally, there is the government – clearly committed to using major procurements to stimulate and support Canadian industry. Once again, it seems inherently preferable to provide such an industrial development approach with the most stable base possible – and using major military procurements is inherently unstable. After all, $100 million projects do not come along every day...

Banking IRB Credits for Long-term Investment

Where does this lead? To the idea of 'banking' IRB credits. Instead of tying contracting decisions to IRB proposals made after a procurement has been announced, our government could encourage firms to invest in Canada whenever and wherever long-term business benefits will accrue. There would be an explicit commitment that whenever a major supplier wishes to bid for a government contract, it could demonstrate its past investments in Canada over some period, and take credit for them in putting its IRB proposal together.

In effect, 'banking' would say to all concerned that Canada is interested in the long term. Invest here because that investment makes good business sense – and if and when you want to bid on a major government requirement, you can use those past investments to strengthen your bid.

Make sense? Apparently not – since Canada's IRB Policy is what it is. Still, there seems to be room for debate. FL

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26 Dec 2006 – Joint Task Force Afghanistan (JTF-Afg) Deputy Commander Colonel Fred Lewis shakes the hand of a doctor at Mir Weis Hospital in Kandar City, as the hospital accepts a donation of wheelchairs from Wheelchair Foundation Canada (WFC).

A total of 550 wheelchairs were distributed to Kandahar hospitals by Canadian Forces personnel on behalf of WFC. Joint Task Force Afghanistan (JTF-Afg) is Canada's contribution to NATO's International Security Assistance Force (ISAF) in Afghanistan. The focus of this mission is to help Afghans rebuild their lives, families, communities and nation. Canadian Forces personnel in Afghanistan are working to improve the quality of life of Afghans by providing a more secure environment in which Afghan society can recover from more than 25 years of conflict.

The Canadian Forces (CF) contribution in Afghanistan comprises about 2,500 soldiers, most of whom serve in Kandahar province with a smaller number of personnel assigned to Kabul, various military headquarters, and civilian organizations.

PHOTO: MCPL YVES GEMUS

23 Nov 2006 – Kabul, Afghanistan – ASCHIANA, a Canada Fund partner NGO established in 1996, helps with street children's development issues in Afghanistan. ASCHIANA has established centers in populated parts of Kabul. The children consist of boys and girls who are undertaking formal school education, in accordance with the curriculum of the Ministry of Education. The education is implemented on an accelerated basis. At ASCHIANA centers, the street working children are also engaged in learning some professional vocations such as carpentry, tailoring and embroidery, painting, drawing, calligraphy, miniature arts, wood engraving, repair of electric and non-electric appliances, hairstyling, plumbing, music, etc.

Two years of formal education is done in one year. For achieving this goal officially, the NGO has a protocol with the Ministry of Education. The Ministry closely monitors the education process and provides essential consultations and guidance for improvement of the quality of activities.