



# Replacement of the CF-18 Fleet

## Industry Canada Report on Industrial Benefits

December 2014

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## Introduction

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As part of the Government's Seven-Point Plan, an Evaluation of Options was conducted to sustain a Canadian Armed Forces fighter capability well into the 21st century. In support of the Evaluation of Options, the National Fighter Procurement Secretariat, in collaboration with Industry Canada, sought information from four companies (Boeing, Eurofighter, Dassault and Lockheed Martin) participating in the market analysis.

Industry Canada assessed information provided by companies on their commitment to providing economic benefits to Canada; and how they propose to pursue potential industrial benefits in Canada, based on their knowledge of and experience with offset programs from international defence procurements and the Industrial and Regional Benefits Policy in Canada. For the purposes of this assessment, Industry Canada did not request specific industrial plans or investment proposals from the companies.

Typically, information on industrial benefits is requested as part of a formal Request for Proposals for a particular project and would involve a plan as to how each competing bidder would fulfill its obligations under Canada's Industrial and Regional Benefits Policy. In contrast, a market analysis, which is undertaken prior to deciding on a procurement approach, is focused on market price and availability, and would not normally involve an assessment of industrial benefits. In order to provide Ministers with the best possible information at this stage in the process, information on industrial benefits was also requested consistent with the level of detail expected as part of a market analysis. The inputs submitted by companies are understood to be notional and non-binding. Specific information regarding individual company proposals is not provided in this report in order to protect commercially-sensitive and proprietary information.

## Information Requested from Companies

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The Industrial Benefits Questionnaire requested information from the four companies in two areas. The first area was on the companies' commitment to provide economic benefits to Canada. More specifically, companies were asked to acknowledge their willingness to fulfill the requirements of the Industrial and Regional Benefits Policy as this is the Government's primary tool for ensuring economic benefits from defence and security procurements. Industry Canada recognizes that industrial benefits can be obtained either through the Industrial and Regional Benefits Policy or through the Industrial Participation approach, which is used in the Joint Strike Fighter Program but could also be adapted for the procurement of other aircraft. Companies were given flexibility to provide information on potential benefits to Canadian industry, whether through the Industrial and Regional Benefits Policy, Industrial Participation, or both, in responding to the Industrial Benefits Questionnaire.

The second area of information requested from companies was on their experience with industrial offset programs, in Canada and abroad, and, based on this experience, what approach they would take in pursuing industrial benefits in Canada.

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## **Industrial and Regional Benefits Policy**

The Industrial and Regional Benefits Policy ensures that the Government of Canada's defence and security procurements generate high value-added business activity for Canadian industry. The Industrial and Regional Benefits Policy requires that companies undertake incremental business activities in Canada valued at 100 percent of the value of the defence or security contract they have been awarded by the Government of Canada. The Industrial and Regional Benefits obligation is a contractual commitment and part of the overall government procurement contract. Typically, the Industrial and Regional Benefits Policy would apply to defence and security procurements. The Government's new Defence Procurement Strategy introduced the use of Industrial and Technological Benefits, which preserves the foundational elements of the Industrial and Regional Benefits Policy while including new elements to improve the economic outcomes of defence and major Canadian Coast Guard procurements.

### **Industrial Participation**

Canada is currently a member of the multinational F-35 Joint Strike Fighter Program which provides opportunities for Canadian companies to participate in early F-35 production, through a process called Industrial Participation. Industrial Participation provides opportunities for Canadian industry to be integrated into the global supply chain of the Joint Strike Fighter fleet, by offering competitive technologies at competitive prices. In contrast to the Industrial and Regional Benefits Policy, Industrial Participation does not provide a guaranteed level of industrial benefit, nor does it limit the opportunities available to our industry. Industrial Participation is administered through Memoranda of Understanding between the F-35 Joint Strike Fighter prime contractors and Industry Canada.

The level of industrial benefit associated with Industrial Participation will depend on the success of companies in Canada in the competitive processes to award work. As the Program is based around the concept of best value, companies will not be successful in capturing all opportunities available.

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## **Assessment Methodology**

Industry Canada focussed its assessment on the companies' commitments to provide economic benefits and the approaches to identifying capabilities in Canada's aerospace and defence sector. Specific investment proposals were assessed in the context of the company's plan to engage with Canadian industry.

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For the first question, Industry Canada assessed whether companies were committed to providing economic benefits to companies in Canada while acknowledging and accepting the requirements of Canada's Industrial and Regional Benefits Policy, should this policy be applied to the aircraft acquisition.

For the second question, Industry Canada assessed whether the companies' proposed approach to pursuing industrial benefits in Canada was acceptably comprehensive, complete and credible. Industry Canada reviewed companies' experiences providing industrial benefits through offset policies (such as Canada's IRB Policy) in Canada and internationally. The companies drew on these experiences in outlining their broad approaches to pursue industrial benefits. Industry Canada assessed the completeness of the companies' approach by examining whether they were able to identify the appropriate key vehicles for engaging with Canadian industry.

This includes:

- Industry days or supplier conferences;
- Consultations with Canada's Regional Development Agencies, and national and regional industry associations;
- Proposals for enhancing partnerships with existing Canadian-based suppliers or affiliates; and
- Proposals for establishing new capacity in Canada related to fighter jets or other aerospace and/or defence platforms.

## Assessment of Responses

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### *Commitment to provide economic benefits to Canada*

All companies indicated that they would provide economic benefits to Canada through Industrial Participation or the Industrial and Regional Benefits Policy. Some companies indicated that they would commit to providing economic benefits to Canada only through an Industrial Participation approach or the Industrial and Regional Benefits Policy, while other companies indicated that they could commit through both.

### *Proposed approaches to pursuing industrial benefits in Canada*

All companies provided extensive information on their experience working with offset programs in Canada and abroad. With regard to international offsets, all four companies provided clear evidence that they had significant experience delivering offset packages in numerous countries around the world. In some cases this experience related to both the fighter jets they manufacture as well as on other defence programs. Furthermore, all companies provided information about their varying degrees of experience delivering Industrial and Regional Benefits programs in Canada across a number of defence platforms.

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All companies demonstrated in their submissions that their previous experience working with offset programs in Canada and abroad, would allow them to successfully provide industrial benefits to Canada. More specifically, companies provided broad information on how they would engage with Canadian industry to identify key capabilities. Some indicated their intent to conduct company facility visits and industry days, and to attend Canadian conferences/seminars and air shows to engage with Canadian industry. Some companies also indicated that they would work with Industry Canada, Canada's Regional Development Agencies, and industry associations to identify capabilities and aspirations.

All companies provided details of their current industrial presence in Canada, and outlined how they would leverage this presence to undertake direct production work on the fighter aircraft they produce. In addition, all companies highlighted that they would engage with Canadian industry and government to identify opportunities for in-service support/sustainment of a Canadian fleet.

As a requirement of the Industrial and Regional Benefits Policy, several companies also outlined how their industrial presence in Canada could be leveraged to identify opportunities on other defence and commercial aerospace platforms, as indirect industrial benefits. Undertaking research and development projects in collaboration with Canadian industry, research institutes, and universities was also included as an approach to providing indirect industrial benefits in some cases.

In general, companies demonstrated a good understanding of the breadth of Canadian aerospace and defence industrial capabilities, and aspirations. Many companies identified sub-sectors in which Canadian companies have particular strengths, and also noted areas for research and development that are important to Canada. The companies acknowledged the Government's commitment to enhance industrial benefits from military procurement and indicated a willingness to develop an approach that is consistent with the policy.

## Conclusion

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All companies that participated in the Industry Engagement Request submitted information that indicates that Canada would receive high value industrial benefits, either through Canada's Industrial and Regional Benefits Policy, Industrial Participation or both.

Furthermore, all companies outlined approaches for engaging Canadian industry to pursue potential industrial benefits that were informed by significant experience in delivering offset programs in Canada or internationally.

Industry Canada assessed all the responses to the industrial benefits questionnaire as being complete, comprehensive and credible. Companies provided information that was broad in scope, included appropriate stakeholders and activities, and proposed engagement strategies that were realistic and achievable.