



The Government of Canada unveiled its new, long-awaited Defence Procurement Strategy yesterday.

The key components – delivering (i) the right kit, (ii) on budget, (iii) with benefits to Canadian Industry, (iv) in a fair, transparent, and efficient process – correspond unmistakably to the four ministers (and their respective deputies) that will compose the new review panel tasked with overseeing defence procurement.

The Minister of National Defence, President of the Treasury Board, Industry Minister, and Minister of Public Works and Government Services Canada will make up a new Working Group – chaired by the Minister of PWGSC – that will be the key decision-making body for implementing the new strategy.

Defence procurement has always had to balance these components. Evaluating proposals has always been about the trade-off – whether implicit or explicit – between capability, costs, and domestic economic benefits. To increase any one of these necessarily has a direct impact on at least one of the other two.

Referencing these trade-offs, Minister Finley made it very clear: Ministers will have full information on all three elements, so that informed decisions can be made.

Revamping Defence Procurement: The Highlights

From DND:

- Third-party review panels will challenge high-level requirements during the options analysis phase on projects greater than \$100 million and on select projects below.
- DND will publish annually the defence acquisition guide for procurements 5-20 years out, starting June 2014.

From PWGSC:

- A Defence Procurement Secretariat will be set up in PWGSC and report to the Deputy Minister's Governance Committee with a mandate to assess and evaluate the performance of the Defence Procurement Strategy.
- Earlier and more extensive engagement with industry will be overseen by PWGSC.

From Industry Canada:

- Industrial Technical Benefits (ITBs) will replace the IRB system. ITBs will:
 - Continue to require a 100% offset on procurements above \$100 million.
 - Benefit to Canadian industry will no longer be a pass/fail, instead measured by a value proposition on all contracts over \$20 million. Value Propositions will have a default weighting of 10% of the bid, but the weighting can change project-to-project.
 - Value propositions that strengthen Key Industrial Capabilities (KICs), enhance productivity, and promote high-value and high-tech activities will be given the highest scoring. For contracts \$25,000 to \$20 million, the revised Canadian Content Policy will be used.

From International Trade:

- A defence export strategy, supported by a whole-of-government initiative will lead the Government of Canada play a more substantial role at international trade shows.

Who Owns Defence Procurement?

It was made quite clear at yesterday's announcement that this government is concerned that military requirements have been made too complex and, at times, have been fixed for predetermined outcomes. Many of the changes to the process announced yesterday are aimed at remedying this.

Third-party reviews will be used to challenge high-level requirements that have typically been set by the military. However, it is critical to note that an Internal Review Panel at DND will coordinate the third-party's challenges thus keeping this layer of challenge function inside the department.

A second layer will come from industry as engagement will become *earlier and more extensive*. Industry will be able to lend its expertise and knowledge to ensure that requirements are neither unrealistic nor predetermined.

The next layer will rest with the Defence Procurement Secretariat at PWGSC, which will use "independent advice to strengthen the integrity of the procurement process."

Finally, as mentioned at the very outset, the Ministers themselves are making it very clear that under the leadership of the Minister of PWGSC, they will be closely informed as to the capabilities, costs, and economic benefits so as to weigh trade-offs.

There can be no mistaking it: Ministers will be playing a more significant role than we have seen in the past few years. Although we can expect that there will be little public debate as to the trade-offs between these three components – as some have been adamantly pointing to – we can be assured that they are taking place among Ministers who will now be more directly tied to the process.

Things Old are New Again

There's a tension at play.

On one hand, the government is positioning its new strategy as a radical game changer to the way defence procurement is done in this country – and it is.

On the other hand, the Government is positioning its new strategy in the context of its existing priorities of a strong Canadian economy with an emphasis on jobs – and it is.

A deliberate choice was made at yesterday's announcement to tie the new Defence Procurement Strategy to its 2006-commitment of leveraging the \$240 billion that the Canada First Defence Strategy committed to equipment. A challenge being, of course, that this CFDS is expected to be updated, including substantively new costing and dollar figures, in the coming months.

But an equally deliberate choice was made to emphasize the comprehensive changes that were required. Extensive consultations went into making this new Defence Procurement Strategy. The sophistication of these changes in responding to so many of the failures that have plagued all governments over the past shows a recognition that the process was in need of a vigorous shake-up, not a cosmetic touch-up.

The return to a system where benefit to Canadian companies will play a weighted factor in bids, through a value proposition, reminds us not only that what is old is new again, but that improving defence procurement is rarely a strictly linear process.

Wait...Who Does Own Defence Procurement, Though?

This will continue to be the \$64,000 question, at the very least inside the Queensway. Defence Procurement will remain difficult to allocate responsibility primarily because it affects so many portfolios and is required to be many things to many people. It must deliver capability, at a reasonable cost, and with economic benefit to Canada.

However, even if we agree with that sentence, any number of questions remain. *How do we measure capability? How do we define 'reasonable'? What is an economic benefit?*

In decades past it has been influential Deputy Ministers, Chiefs of the Defence Staff, Associate Ministers, Ministers, and Prime Ministers who have – for combinations of reasons – been positioned to define those questions and in so doing played a dominant role in shaping defence procurement in this country.

Some will point to immediate tangibles in drawing their conclusion: the Minister of PWGSC has been given the responsibility of chairing the Ministerial Working Group, the Defence Procurement Secretariat is in her department, and when a defence critic rose in the House of Commons yesterday during Question Period, it was the Minister of PWGSC who responded.

But, time will tell as to who will be the one to define those questions.

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