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The Honourable Bill Morneau, P.C., M.P.
Minister of Finance
90 Elgin Street
Ottawa, Ontario K1A 0G5

January 26th, 2016

Budget 2016 Submission from the Canadian Association of Defence and Security Industries (CADSI)

Dear Minister Morneau:

I am writing you on behalf of the Canadian Association of Defence and Security Industries (CADSI) and its one thousand member companies, to highlight a Budget issue that is vitally important to our sector—namely the imperative that the Department of National Defence (DND) spends year over year the funds provided to it in the Budget and through the Estimates.

Background on the Canadian Defence and Security Industries

The defence and security industry is a significant and innovative part of the Canadian economy. KPMG has estimated that our industry generates 109,000 direct and indirect full time equivalent jobs, while Industry Canada research estimates there are 26,000 direct jobs in the defence industry alone that pay 60% above the average industrial wage. Furthermore, the defence and security industry generates revenues of over \$12 billion per year (half of which are derived from exports), which translates into \$9 billion per year in GDP.

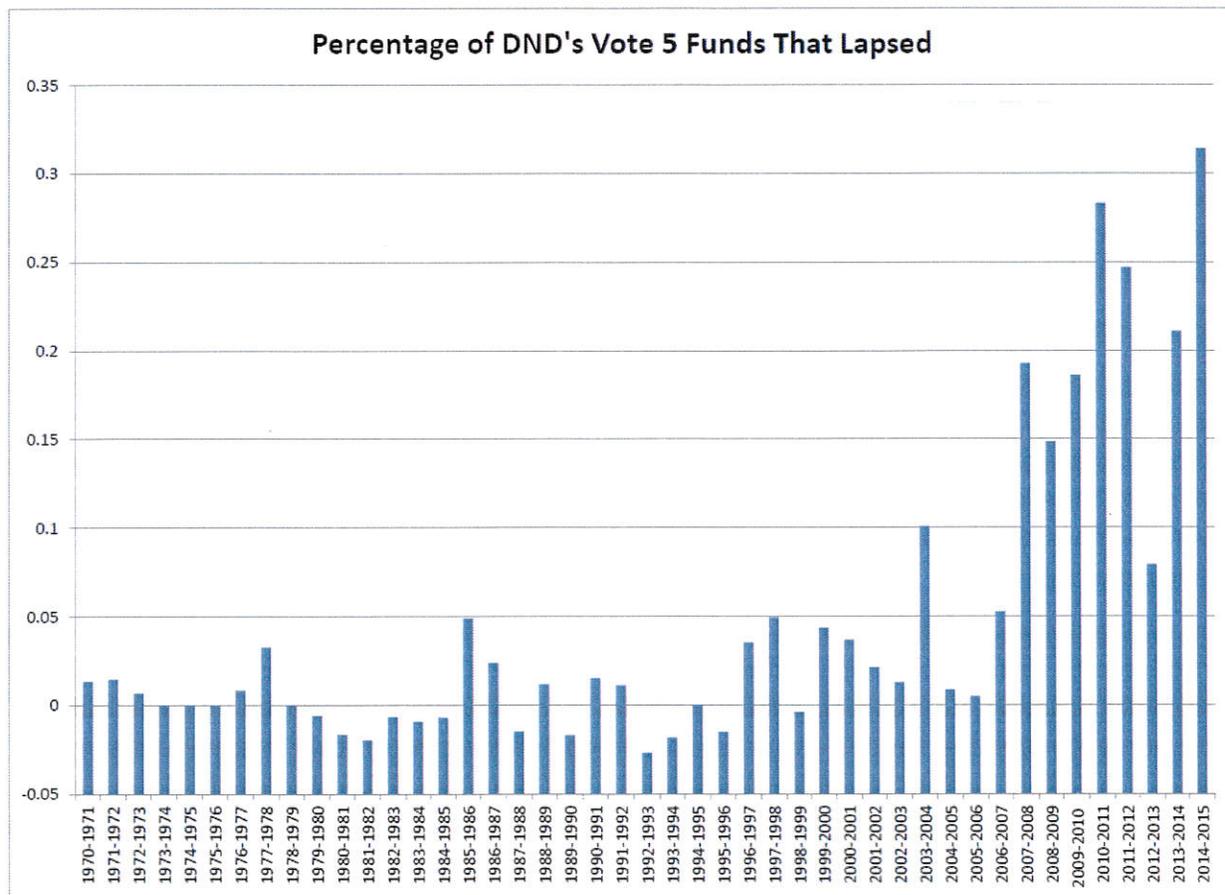
Ours is a highly diverse industry spread across Canada, with strong regional clusters, such as shipbuilding on both coasts, training, simulation and advanced electronics in Quebec and Ontario, in service support in the Atlantic and Western Canada, armored vehicles in South Western Ontario, etc. A great deal of what our sector produces has dual use or commercial applications; the spillover into the commercial economy in sectors such as sustainable development, healthcare, and information technologies cannot be underestimated and the intellectual property generated in this sector is a long-term asset for Canada. We are also SME intensive; 80% of CADSI's members are small and medium sized enterprises. In other words, the defence and security industry is a significant, innovative, pan-Canadian and highly globally competitive sector of the Canadian economy.

The defence industry is unique relative to other sectors in that it operates within a managed, regulated and protected global market place in which governments are the primary and often sole customers. The defence business is, therefore, highly sensitive to shifts in government defence procurement spending patterns and yet also highly controllable. For this reason we were encouraged to read in the Liberal election platform your party's commitment: ***“we will not lapse military spending from year to year”*** (Liberal Party of Canada, *Real Change: A New Plan for a Strong Middle Class*, p. 69).

The Problem of Department of National Defence Unspent Funds

In recent years, DND has been unable to spend historically large and increasing amounts of its budget. Analysis conducted by Dr. David Perry of the Canadian Global Affairs Institute estimates that since 2007-08 the DND has left unspent a cumulative total of \$7.2 billion in vote 5 capital alone. These are budgets that have been authorized by Parliament yet have gone unspent at the end of the fiscal year.

The inability to spend such large sums of money earmarked for defence acquisitions priorities for the Canadian Armed Forces has significant negative implications for the Canadian defence industry's business. Jobs and economic activity associated with these transactions are foregone or delayed. The costs of these projects are also ultimately higher when they are delayed due to inflation, which DND estimates to be at least 7% in the defence domain.



(Source: David Perry, "Putting the 'Armed' Back into the Canadian Armed Forces". Ottawa: CDA Institute, 2015, p.6—figures updated by the author).

Moreover, in a time of weak domestic growth, a case can be made that it is even more important now to Canada's economic performance to ensure DND spends the funds allocated to it for both capital (vote 5) and operations and maintenance (vote 1). This is not a plea to increase the defence budget, but rather to spend the resources the government has already provided DND and that Parliament has approved.

I have noted with interest comments you have made recently indicating the need for short-run stimulus through government spending to spur weak domestic growth. In this context, I would suggest that the DND capital and operations and maintenance envelopes, if fully spent year over year, are significant enough in size to materially contribute to your government's economic stimulus objectives. DND's total unspent funds for 2014/15 alone, for example, was on the order of \$2 billion—that is \$2 billion in direct spending on capital, personnel, operations and maintenance that did not go into the Canadian economy in 2014-15, even though it was budgeted for and approved by Parliament. Many of the projects and contracts earmarked for these funds can be executed quickly, such that they would have the desired short-run stimulative effect you desire. Utilizing recent policy changes to better leverage defence spending to Canada's economic benefit would make the domestic economic impact even greater.

Conclusion

Canada's defence and security industry supports the broad agenda your government has outlined in its election platform, in Ministerial mandate letters and the Speech from the Throne, specifically on streamlining the process of defence procurement and ensuring defence acquisitions benefit the Canadian economy. We look forward to working with your colleagues on these issues over the coming months. However, our industry's immediate concern is to ensure funds provided to DND for important capital acquisitions and operations and maintenance are actually spent during the year in which they are provided. This is vitally important for the operational capability of the Canadian Armed Forces; for the integrity of Parliament (which approves these funds annually through the Estimates); for the health of the Canadian defence industry; and for the overall performance of the Canadian economy, especially during a period of weak economic growth. We appreciate your government's campaign platform commitment in this regard and we look forward to Budget 2016.

Sincerely,



Christyn Cianfarani
CADSI President

cc:

The Honourable Harjit Sajjan, Minister of National Defence
The Honourable Scott Brison, President of the Treasury Board
The Honourable Judy Foote, Minister of Public Services and Procurement
Mr. Mike McNair, Director of Policy, Office of the Prime Minister