

# THE SME ROADMAP TO DEFENCE

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The largest recapitalization of the Canadian Armed Forces (CAF) in over a generation is underway. This means there are many opportunities for Canadian Small and Medium-sized Enterprises (SMEs) looking to expand into the Canadian defence marketplace. The road they face, however, is no prairie highway. It is a circuitous road with several potential roadblocks. Moreover, SMEs rarely have the in-house bandwidth to go searching for a not-so-obvious path fraught with regulations and rules with which they must familiarize themselves.

In travelling around Canada this past year, Canadian SMEs have asked for help to better navigate the system. We set out a “road map” that by no means is complete. Rather, it is meant to point companies in the right direction to help them successfully participate in Government of Canada defence procurements, either directly or as part of a supply chain.

Be it naval, air, space or land, if a company has a special, technology, product or service, it could be applied for military use. This may open up new business opportunities in Canada or abroad.

But what are the key milestones required to become an eligible defence contractor in Canada?

## Working directly for the Government of Canada

In order to work directly for the Government of Canada, your company must be recognized as a Canadian Government approved supplier. This means obtaining a Procurement Business Number (PBN). To receive your PBN, register your company in the Supplier Registration Information (SRI) System at <https://buyandsell.gc.ca/for-businesses/selling-to-the-government-of-canada/register-as-a-supplier>. A step-by-step guide is available: <https://buyandsell.gc.ca/for-businesses/selling-to-the-government-of-canada/register-as-a-supplier#100>. You need to know that this process can take up to two months.

There are different ways that the Government solicits work:

1. **Standing Offer:** A Standing Offer (SO) allows a company to submit a package to any branch of the Government with pricing for a specific product/service that must be valid for a period of time.
2. **Supply Arrangement – Task-Based:** A Task-Based Supply Arrangement (SA) is one where any branch of the Government has a position to fill for a period of time and is looking for a resource.
3. **Supply Arrangement – Solution-Based:** A Solution-Based Supply Arrangement (SA) is one where any branch of the Government has identified an area that requires a solution and is looking to a company to identify a solution to resolve the issue.

We've heard from SMEs who have "built a better mousetrap" that the most challenging route to take is to contract directly with the Government of Canada. Some of the obstacles that usually turn up are addressed below. One avenue to pursue is the Build in Canada Innovation Program (BCIP). Winning firms can receive orders for their goods or services up to one million dollars in funding, for pre-commercial product with a potential government customer who then tests and provides critical feedback. In 2012 a Military Component was added, which focuses on command and support, cyber-security, protecting the soldier, arctic and maritime security, in-service support, and training systems. For more information: <https://buyandsell.gc.ca/initiatives-and-programs/build-in-canada-innovation-program-bcip>.

## **Working as part of a supply chain**

In most cases, given the value, quantity and complexity of what the CAF is looking to procure, an SME will become involved as part of a supply chain, under the umbrella of a Prime Contractor or further down the supply chain under Tier 1 or 2 suppliers. For this reason, it is important that the Prime Contractor/Tier 1s and 2s understand your capabilities. You get one chance to make a first impression and sometimes that first impression takes years of work.

In making that impression, what counts most is your value proposition. Understanding what the Prime Contractor does in terms of its lines of business and what it is looking for, be it cost reduction, quality improvements, or innovation is critical. We have heard from Primes that potential suppliers have shown up to the table not even having done basic research to understand who does what and where within the organization. It is one thing to have a great pitch, but it is even better to be pitching to the right team. You'll need to have compelling answers to what your company has to offer that sets it apart from the competition. Is it a niche product or service, new processes or competitive pricing? Remember that the lowest price doesn't always win. Some winning bids will be based on "best value" with the exact criteria as set out in the Request for Proposal (RFP) documentation.

## **Security clearances for defence contractors**

Public Works and Government Services Canada's (PWGSC) Industrial Security Program (ISP) is responsible for assisting Canadian companies that want to work on Government of Canada or foreign government contracts, including NATO. It handles the security screening that contractors require before employees can have access to Protected and Classified information or assets.

There are different levels of security clearances that companies may need to obtain. The lowest level clearance required to enable you to bid on a defence contract is "Reliability Status." The Office of Small and Medium Sized Enterprises (OSME) at PWGSC can assist you in obtaining your Reliability Status.

Most defence contracts have much higher security requirements. For this reason, it is important that a company understand the requirements prior to bidding on any contract. These levels are Protected A, Protected B, and Protected C for designated or commercially sensitive information. For information that impacts the national interest, the levels are Confidential, Secret, and Top Secret. For work involving NATO, the levels are NATO Restricted, NATO Confidential, NATO Secret, and COSMIC (NATO Top Secret).

Your company must obtain a security clearance first, including the Designated Official who is responsible for guiding your company through the clearance process. Depending on what level of clearance your company requires, this process could take up to two years, so plan ahead. Generally, the higher the clearance level, the more time consuming and costly the process. A company clearance is valid for a maximum of four and a half years.

Once your company clearance is obtained, individual security checks must be completed for those employees whose contributions are pertinent to the defence contract. Each employee who will work on the bid or project must obtain a security clearance, which is valid for 10 years for all levels except Top Secret, which is valid for five years. The clearance for individuals at a Secret or Top Secret level can take over a year to process if they have spent long periods of time abroad, particularly in countries where Canada does not have intelligence sharing arrangements.

Some Prime Contractors will ask for proof of these clearances prior to providing access to your employees onto their premises.

Additional details and the required forms can be found on PWGSC's website at: <http://iss-ssi.pwgsc-tpsgc.gc.ca/index-eng.html>.

## **How to obtain a security clearance**

The following steps are offered as a guideline to obtaining security clearances:

- Your company must be sponsored by making a Request for a Private Sector Organization Screening (DSOS). Only one of the following can make that request on behalf of your company, regardless of the level of the security clearance:
  - Government procurement official, security officer or project manager involved in a project that you wish to bid on;
  - Prime contractors already registered with PWGSC's ISP with which your company is an approved subcontractor;
  - National and Designated Security Authorities, on behalf of a foreign government or company who has a contract with your company.
- A few key individuals in your organization could be cleared in tandem with your company clearance. Typically this would be the President or owner of the company, the senior executive within the organization with overall responsibility for security and a few other key senior members of the management team.
- A Document Safeguarding Capability (DSC) is required for companies with a valid Designated Organization Screening (DOS) or Facility Security Clearance (FSC) for when cleared employees need to work on Protected or Classified information at their facilities. This may result in additional costs for the company.

Once your company and employees are cleared, remember the relevant expiry dates and plan ahead for a smoother renewal. Retain and properly store a photocopy of relevant forms to expedite renewal as some of the historical information will need to be resubmitted.

## Canadian Controlled Goods Clearances

If you are looking to bid or work on technology that has either military or national security significance, it is likely subject to PWGSC's Controlled Goods Program (CGP). This program regulates access to certain controlled goods through a system of registration and compliance. This requires not only your company but also your employees to be cleared as specified by the Canadian Controlled Goods Directorate.

Be aware that the company clearance is usually a lengthy process. Depending on information supplied, the completeness of application, your security plan and the Directorate's backlog of application, it could take months to process. More information on the CGP is available at: <http://ssi-iss.tpsgc-pwgsc.gc.ca/dmc-cgd/nouvelle-new-eng.html>.

## Industry Canada's Industrial Technology Benefits (ITB)

There have been new and exciting policy changes of the ITB program. In the past, the vast majority of Canadian content was identified after contract award. Recently, in defence contracts over 100 million dollars, the Government has moved to include Canadian Content as a part of the bid evaluation criteria. This is what is known as the Value Proposition. For SMEs, this means that Prime Contractors will be looking for Canadian Content during the proposal phase and that what you bring to the table could increase the likelihood the Prime Contractor wins. This means that being out there and actively signaling what you bring to the table is critical.

In addition, when the Government of Canada awards a defence contract to a foreign company, the exact dollar value of that contract must be reinvested back into the Canadian economy. This is done in one of three ways: through commercial activity directly related to what was procured (direct); activity not directly related to the procurement (indirect); or through an investment agreement.

It is worthwhile spending some time understanding the ITB model and Value Proposition, which requires bidders to make specific commitments or propose activities at bid time. These follow-on contractual commitments are scored as part of their bid evaluation, for their ability to provide economic benefits to Canada. In familiarizing yourself with the ITB policy:

1. Understand what would be expected of your company in fulfilling obligations to the Prime Contractor.
2. Keep lines of communication with the Prime Contractor open at all times – it's all about relationships.
3. In the case of an investment agreement, the Prime Contractor will conduct a due diligence of your books. Provide financial forecasts that are solid and realistic. Only commit to what you can do. Do not overcommit. This will strengthen the relationship, which is based on trust.
4. Be precise, timely and accurate in your yearly reporting to the Prime Contractor.

Understand and follow the specific rules as it takes 9 to 12 months before ITB reports are submitted to the Prime, approved by Industry Canada and monies received, if applicable and depending on the investment agreement scenario. That being said, CADSI has been working with Industry Canada to streamline this process and should see the timeframes improve over the next year. Remember that the Prime Contractor will require approval by Industry Canada for any ITB transactions it proposes. The

Prime Contractor usually requires reports for the previous calendar year by mid-January. The Prime Contractor then compiles all the reports from ITB beneficiaries and submits them to Industry Canada in March or April. Once approved by Industry Canada in early fall, ITB beneficiaries are notified. If a milestone payment is due and invoicing is required, then the Prime Contractor will advise the company and request an invoice.

For more information and contact numbers of Industry Canada's ITB managers:

<http://www.ic.gc.ca/eic/site/086.nsf/eng/home>

For more information on the Industrial and Technological Benefits Program and Value Propositions, consult Industry Canada's Value Proposition Guide:

<http://www.ic.gc.ca/eic/site/086.nsf/eng/00006.html>

## **Working with U.S. Defence Contractors**

If your company is doing work with a U.S. defence company, you will likely require a Technical Assistance Agreement (TAA). A TAA is defined by the U.S. International Traffic in Arms Regulations (ITAR) as what controlled information can be discussed or communicated, how and with whom.

Your U.S. defence partner company must apply for a TAA to the U.S. Department of State on your behalf before you can do business with them. A TAA can be a multi-party document that can cover a variety of companies working on the same project. It can take several months, on average, to complete this stage.

For more information on the U.S. ITAR program, visit:

[https://www.pmdtc.state.gov/regulations\\_laws/itar.html](https://www.pmdtc.state.gov/regulations_laws/itar.html) and

<http://www.international.gc.ca/sell2usgov-vendreaugouvusa/procurement-marches/export-cont-export.aspx?lang=eng>.

## **Conclusion**

While we've tried to gather the salient information in one single place for you, defence contracting can still appear daunting. With some of the largest defence procurements on the horizon, there are more opportunities than ever for SMEs. It is important to understand the various processes and to be aware of the opportunities that are available to your company, which in turn will allow your company to be well-positioned to benefit from the returns the Canadian defence sector has to offer. Good luck!