



# House of Commons Standing Committee on Finance

## Pre-budget consultations in advance of the 2017 Budget

Remarks

October 25th, 2016 15:30, Ottawa, Ontario

### Check Against Delivery

Good afternoon Mr. Chairman and honourable members. Merci de m'avoir invitée à vous rencontrer aujourd'hui. My name is Christyn Cianfarani, President of the Canadian Association of Defence and Security Industries, or CADSI. CADSI represents over 800 Canadian-based defence and security companies. Our industry:

- o Accounts for some 63,000 jobs;
- o Contributes \$6.7 billion to GDP;
- o Generates 60 per cent of its revenue from exports;
- o Employs 30 per cent of its workforce as engineers, scientists, researchers, technicians and technologists;
- o Provides employee compensation that is 60 per cent above the manufacturing sector average and;
- o Is diverse, with significant industrial presence in every region of Canada.

Ces statistiques sont importantes dans le contexte du Programme d'innovation du gouvernement et de l'Examen de la défense, deux mesures qui aboutiront aux alentours du Budget de 2017. CADSI has been urging the government to consider the Defence Review, the Innovation Agenda, and the ongoing recapitalization of the Canadian Armed Forces as an important opportunity to drive innovation-led growth in Canada. This is my essential message to you today.

This requires the development of a defence industrial policy tailored to Canada's unique security challenges and industrial base capabilities, which most of our allies already have.

Mais que voulons-nous dire par politique sur l'industrie de la défense? Laissez-moi vous donner quelques observations.

A defence industrial policy does not necessarily require additional funding or even new programming. It does require, however, the government to set goals and priorities for defence-sector growth in areas of key industrial capabilities.

These capabilities could be ones at which Canada already excels, or that confer major economic returns to the country. Or, they could be ones that are important to Canada's sovereign defence and security interests. They would, of course, need to be derivative of the planned acquisitions of the Canadian Armed Forces, which some estimates put at over \$200 billion over the next 15-20 years. This is the starting point for a defence industrial policy.

Once these goals have been established, we would need a governance regime to better coordinate and connect the existing policies, programs and instruments scattered across the government, notably Industrial and Technological Benefits/Value Propositions, the Canadian Content Policy, the Build in Canada Innovation Program, National Security Exceptions, the Strategic Aerospace and Defence Initiative, as well as export supports like the Canadian Commercial Corporation. Also, defence procurement is largely exempt from trade agreements.

The aim would be to align and apply these various elements in a more coherent fashion along the R&D, technological development, commercialization and ultimately procurement phases, to achieve better outcomes with respect to innovation, manufacturing, supply-chain growth and the scaling-up of firms.

One implication here is that Canadian prime contractors would be considered more strategically in procurements for major capital projects. Primes do the bulk of the manufacturing in the defence industry and own intellectual property, which is essential to getting innovative and sustainable manufacturing activity and high wage employment. When Canada has not done so, these strategically important assets have been hollowed out through sales, transfers or mergers.

Incentivizing intellectual property transfer from foreign primes into Canada is also important. This allows Canadian companies to engage in innovative production and manufacturing that comes with owning and exploiting intellectual property. This has the potential to create synergies with Canada's commercial markets, as well as opening opportunities for exports.

When supply-chain growth is the primary objective, the government would need to ensure that when foreign primes win contracts in Canada, Canadian firms are driven into the global supply chains of those primes.

When strong connections between procurements and R&D programs exist, this approach can foster new or strengthen existing clusters. It can also advance mission-driven research beyond defence, such as in the service of maintaining Canada's leadership in quantum computing.

Ce ne sont en fait que quelques-uns des éléments essentiels nécessaires à une politique industrielle de défense au Canada.

In closing, Mr. Chairman and honourable members, I want to reiterate that there is an important and rare opportunity now to drive innovation-led growth in the Canadian economy through planned defence acquisitions, the value of which is large by historical standards. I urge the committee to highlight this growth opportunity in your report and recommend the government commit to working with industry to develop a Made in Canada defence industrial policy. The potential to leverage defence procurement to realize innovation and growth in every region of Canada is real and achievable.

Merci de m'avoir permis de m'adresser à vous aujourd'hui. Thank you.