

**Written Submission for the Pre-Budget  
Consultations in Advance of the Upcoming  
Federal Budget**

**By: The Canadian Association of Defence and  
Security Industries (CADSI)**

## **List of Recommendations**

- **Recommendation 1:** That the Government of Canada honour existing defence spending commitments over the next two years, as described in *Strong, Secure, Engaged* (SSE) and DND's *Capabilities Blueprint*.
  - **Recommendation 1a:** That the government reprioritize SSE projects based on their impact on the Canadian economy and the Canadian Defence Industrial Base (DIB), as determined by ISED and DND.
  - **Recommendation 1b:** That the government eliminate inefficiencies in existing procurement processes to accelerate project approvals, in consultation with industry.
- **Recommendation 2:** That the government favour Canadian SMEs and supply chains to ensure that as much defence spending as possible is driven into the Canadian DIB, to the benefit of the Canadian economy and Canadian workers, and that it does so as follows:
  - **Recommendation 2a:** That the government use the National Security Exception to procure capability where it exists in Canada.
  - **Recommendation 2b:** That the government assertively use PSPC's procurement authorities to favour Canadian industry, especially from an SME and supply chain perspective.
  - **Recommendation 2c:** That the government aggressively apply ISED's Industrial Technological Benefits/Value Proposition (ITB/VP) policy to all projects valued between \$20-100m.
  - **Recommendation 2d:** That the government contract as much national procurement (i.e. in-service support, maintenance, repair, and overhaul to existing DND fleets) as possible, as more of this investment is likely to remain in Canada.
- **Recommendation 3:** That the government improve the export control process to eliminate existing and avoid future backlogs. We estimate this could unlock as much as \$2 billion worth of business for Canadian firms in the short term as the economy is recovering.
- **Recommendation 4:** That the government favour Canadian cyber firms as it moves to a more flexible and remote work posture. Identify and match the government's short-term demand requirements with Canadian cyber industrial capacity.



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To Members of the Standing Committee on Finance:

As part of your Pre-Budget Consultations, I submit the following proposal outlining how Canada's defence and cyber industries can be a key partner of the Government of Canada in supporting national economic recovery from the recession induced by COVID-19. By working together, we can drive significant growth, investment, and employment into the Canadian economy in the short-term.

The Canadian Association of Defence and Security Industries (CADSI)—the industry voice representing over 900 Canadian defence and cyber companies—sets out proposed elements of a cost-effective recovery agenda focused on optimizing spending that is already booked in the government's fiscal framework, and thus has no impact on the federal deficit. The broad elements of our proposal, *Partners in a Restart Agenda*, are:

1. Honour existing defence spending commitments over the next two years, as committed to in *Strong, Secure, Engaged* (SSE) and the Department of National Defence's (DND) *Capabilities Blueprint*. These projects should be reprioritized based on their impact on the Canadian economy and the Defence Industrial Base (DIB), as determined by the Department of Innovation, Science and Economic Development (ISED) and DND.
2. Favour Canadian SMEs and Canadian supply chains to ensure that as much defence spending as possible is driven into the Canadian DIB, to the benefit of the Canadian economy and Canadian workers by: (i) using National Security Exceptions to procure capability where it exists in Canada; (ii) assertively using Public Services and Procurement Canada's (PSPC) procurement authorities to favour Canadian industry, especially from an SME and supply chain perspective; and (iii) aggressively applying ISED's Industrial and Technological Benefits (ITB) and Value Proposition (VP) policy to all defence capital procurements valued between \$20-100m, which is currently optional. This will maximize the degree to which defence capital spending benefits the Canadian economy.
3. Quickly eliminate the large backlog of defence export permit applications, which are awaiting approval at Global Affairs Canada, and improve these processes to avoid future backlogs. We estimate this could unlock as much as \$2 billion worth of business for Canadian firms during the recovery phase.
4. Make greater use of Canadian cyber firms as the government procures solutions needed for its transition to a more flexible and remote work posture.

According to the Government of Canada's own *State of Canada's Defence Industry Report*, Canada's DIB has strong characteristics that show potential for accelerated innovation and export-led growth. The sector is characterized by high R&D and export intensity; the potential for technological spin-offs; strong SME participation; a cross-Canada presence; and a well-paid, STEM-focused labour force.

Our recommendations are fiscally neutral on the government and administratively doable, without any policy change required. Thank you for considering these recommendations and for your commitment to getting Canadians back to work by restarting the Canadian economy.

Sincerely,

**Christyn Cianfarani**  
President & CEO



# Partners in Economic Restart

## A Cost-Effective Agenda Supported by Canada's Defence Industry

The Government of Canada can drive significant growth, investment and employment into the Canadian economy by honouring existing defence capital spending commitments over the next two years; utilizing to the fullest its existing policy and program instruments to drive as much of that spending as possible into Canada's Defence Industrial Base (DIB); by improving the export control process to eliminate existing and avoid future backlogs; and by favouring Canadian cyber firms as the government moves to a more flexible and remote work posture. This spending is booked in the government's fiscal framework and thus has no impact on the Budget deficit. Canada's DIB is a high-wage, R&D intensive, high-skilled sector that has demonstrated resilience through the COVID-19 pandemic.

### The Canadian Defence Industry Through the Pandemic

Canada's DIB has fared better through the pandemic than other sectors of the economy. There have been no significant layoffs over the last few months, and most firms have been able to continue operations and production. Government contracts, chiefly from the Department of National Defence (DND), are the main source of domestic business for the industry and have been honoured. The ongoing process of defence procurement for new projects have continued.

Foreign sales, which account for 60% of defence industry revenue, do not yet appear to be adversely affected by the pandemic and the associated global recession. That said, Canadian defence firms face major obstacles in obtaining export permits from the Canadian government, which puts these sales at risk.

### The Canadian Defence Industry and the Government's Economic Recovery Agenda

The Canadian defence industry can play an important role in the government's economic recovery agenda. The industry can retain and expand both production and high wage employment across Canada if the government sticks to DND's capital plan as articulated in both *Strong, Secure, Engaged* (SSE) and the *Capabilities Blueprint*. This is a cost-effective way for the government to deliver economic "stimulus", as all projects outlined in the capital plans are fully costed, accrual based, and fully funded within the government's pre-COVID-19 fiscal framework.

Based upon the funding committed in SSE, David Perry, Vice President and Senior Analyst at the Canadian Global Affairs Institute, estimates that roughly \$17.5 billion in Fiscal Year (FY) 2021-2022 and a similar amount for FY 2022-2023 should be available to DND from the government for capital equipment and national procurement (e.g. in-service support, maintenance, repair, and overhaul).

We encourage the government to honour this SSE financial commitment. In conjunction, DND and other implicated government departments (e.g. PSPC, TBS) should take the necessary steps to ensure these capital funds are spent during the two upcoming fiscal years. We recognize meeting these spending commitments is a challenge given inefficient existing procurement processes. The government will need to accelerate these processes during this crisis period, as they have done to procure vital goods during the pandemic, to stimulate the economy and create jobs.

### **Restart Agenda Recommendations**

Elements of a cost-effective recovery agenda:

1. Spend as much of the funds committed and allocated in SSE as possible by:
  - Reprioritizing SSE projects based on their impact on the Canadian economy and DIB, as determined by ISED and DND.
  - Eliminate procurement processes inefficiencies to accelerate project approvals, in consultation with industry.
2. Favour Canadian SMEs and supply chains to ensure that as much defence spending as possible is driven into the Canadian DIB, to the benefit of Canadians, and that it does so as follows:
  - Use National Security Exceptions to procure capability where it exists in Canada.
  - Assertively use PSPC's procurement authorities to favour Canadian industry, especially from an SME and supply chain perspective.
  - Aggressively apply ITBs to all projects valued between \$20-100m.
  - Contract as much national procurement as possible, as this spending is more likely to remain in Canada.
3. Improve the export control process to eliminate existing and avoid future backlogs. We estimate this could unlock as much as \$2 billion worth of business for Canadian firms in the short term as the economy is recovering.
4. Favour Canadian cyber firms as the government moves to a more flexible and remote work posture. Identify and match short-term demand with Canadian cyber industrial capacity.

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While a significant fraction of planned capital spending would go to foreign firms in other countries, the government can take steps to ensure that as much of this spending as possible is driven into the Canadian DIB to the benefit of the Canadian economy and Canadian workers. This requires an aggressive application of ISIED's Industrial and Technological Benefits (ITB) and Value Proposition (VP) policy, and more assertive use of PSPC's procurement authorities to favour Canadian industry, especially from an SME and supply chain perspective. National procurement spending should also be emphasized, as it is likely to be more domestically focused.

## Role of Defence Exports in Economic Recovery

CASDI estimates that as much as \$2 billion worth of defence industry foreign sales contracts are currently backlogged for approval at Global Affairs Canada (GAC). This backlog problem has been building for at least a year and is now at a critical point.

Canadian firms are competing against foreign companies that submit bids with letters of support from their own government, while Canada's export regime—which is less timely and predictable than that of competing jurisdictions like the U.S., UK or Australia—is preventing Canadian firms from committing to a delivery date. Consequently, hundreds of millions of dollars in defence export sales are being lost or are at risk and hundreds of millions more worth of successfully secured contracts are stalled in a permit backlog. Eliminating this backlog quickly and ensuring a more efficient and transparent process going forward will unlock billions of dollars in the short-term without any cost to the government's fiscal bottom line.

## Cyber Security/Defence and Economic Recovery

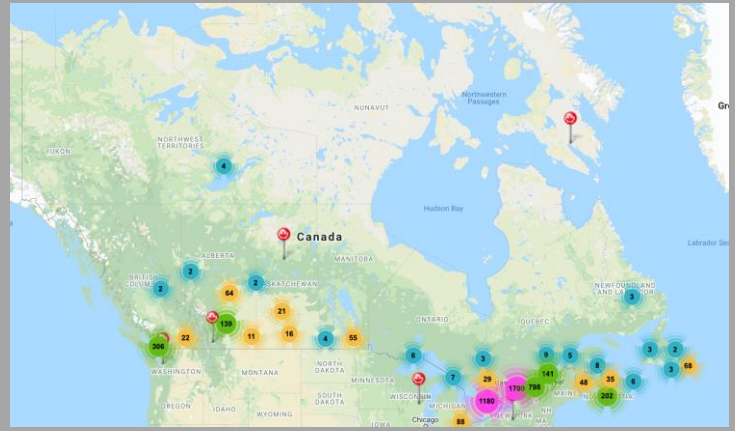
The COVID-19 pandemic exposed new cybersecurity risks in the context of a vastly expanded remote work force. This is an especially acute problem for the federal government and its work force.

Research by CADSI, ISIED and Statistics Canada indicates that a robust, specialized and world-leading cybersecurity industry exists in Canada, concentrated in SMEs. However, these firms derive little business from the Canadian government. Most of their business comes from the Canadian private sector and foreign customers, including foreign governments. Consequently, as the federal government comes to grips with its remote workforce's cybersecurity gaps, every effort should be made to favour Canada's domestic cyber industry in procurements designed to close those gaps.

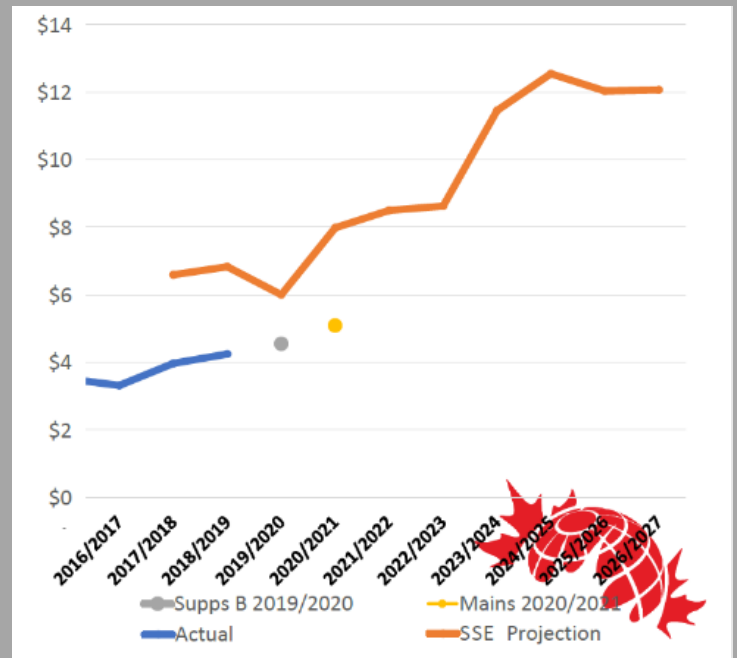
## Commitment, Co-operation, and Co-ordination

Stimulating significant innovation-led economic activity, creating jobs, and promoting Canadian competitiveness will require significant commitment, co-operation, and co-ordination among the several government departments and ministers involved in defence procurement and defence exports. It may also require a new partnership between government and Canadian industry. With this effort, major short-run stimulus can be driven into the Canadian economy with no impact on Ottawa's Budget deficit.

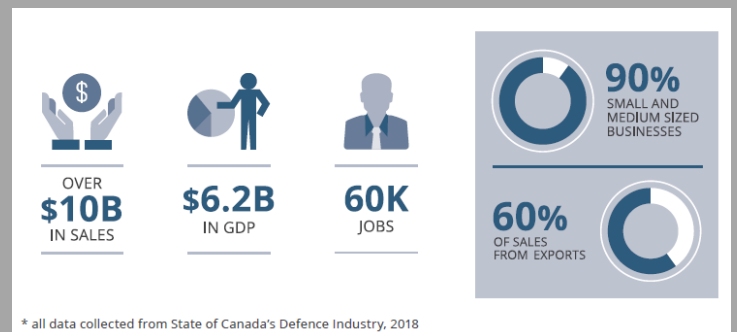
## National Reach of the Canadian DIB



## DND Capital Funding Commitments



## Canada's Defence Industrial Base



## About CADSI

The Canadian Association of Defence and Security Industries (CADSI) is the national industry voice of more than 900 Canadian defence and security companies that produce world-class goods, services and technologies made across Canada and sought the world over. The industry contributes to the employment of more than 60,000 Canadians and generates \$10 billion in annual revenues, roughly 60% of which come from exports.

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