



Canada: Aerospace and Defense Industry

Lucy Latka
Erica Reynolds
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Summary

Canada offers one of the most open, accessible and transparent market for U.S. goods and services outside of the United States. As the sixth highest military spending economy in NATO, the Government of Canada (GoC) is a significant purchaser of aerospace, defense and security products. U.S. organizations account for the largest share of military contract awards by the GoC. In fact, Canada trades US\$3.5 billion of defense and security products and technologies annually.

Canada's 2008 defense budget reached its highest level since WWII with an estimated defense budget of US\$18 billion. The GoC's [Canada First Defence](#)¹ Strategy will bring the annual defense budget to \$30 billion by 2027-2028.

U.S. companies should note that for GoC aerospace and defense procurement contracts valued at over CDN\$100 million, suppliers required to fulfill the requirements of the Industrial Regional Benefits (IRB) policy. In the United States, IRBs are commonly referred to as "offsets." A thorough understanding of Canada's IRB policy will assist U.S. companies in preparing a well-informed response to a Request for Proposal (RFP).

Market Demand

I. Canadian Defense Industry

The GoC implemented the Canada First Defence Strategy May 12, 2008, an action plan that will dedicate itself and its budget to the Canadian Forces and the Department of National Defence (DND) over the next twenty years. This plan allows the GoC to finalize procurements faster, and obtain defense equipment fairly and at the right price. Canada's defense budget for 2008 was \$18.2 billion, with a planned increase of spending of \$19.1 billion in 2009. Budget 2009 has awarded an automatic annual increase of 2 percent, to defense spending that will assist in the implementation of the Canada First Defence Strategy. This increase from the previous 1.5 per cent will provide the Canadian forces and additional CDN\$12 billion. Budget 2009 has also allocated an additional CDN\$100 million for the reconstruction and development in Afghanistan and CDN\$89 million over the next two years for adding new embassies and missions overseas. The additional defense spending through the Canada First Defence Strategy will generate millions of dollars in procurement opportunities, with the GoC purchasing equipment for the Canadian Forces. IRBs are mandatory on all defense projects over CDN\$100 million, and are discretionary on defense projects between \$2-100 million, allowing the GoC to lever long-term industrial and regional development from defense investments¹.

The market demand for defense products is continuing to grow with the Canada First Defence Strategy. The large amount of additional funds provided in the Canada First Defence Strategy will have IRB provisions on procured goods from U.S. contractors. Over the next 12-14 years, procurement that will have IRB requirements is estimated at CDN\$40-60 billion in acquisition figures.

II. Canadian Aerospace Industry

The robust and dynamic Canadian aerospace industry consists of approximately 400 firms across Canada with Canadian aerospace industry sales reaching CDN\$23.6 billion in 2008. In 2007, the Canadian market demand for

¹ In Canada, the word defense is spelled "defence".

aircraft and aircraft parts market was valued at \$15.4 billion, a 25 percent increase over the previous year. Canada is the world's fifth largest importer of aircraft and aircraft parts. Industry estimates Canadian demand for aircraft and aircraft parts to grow very modestly in the next year. During the first three quarters of 2008, Canadian aerospace companies received record breaking orders, which will fuel production until at least 2010 and help the industry weather the global economic slowdown.

The GoC's, Canada First Defence Strategy has a dedicated portion of the defense budget to aerospace procurement. The Canada First Defence Strategy has previously announced aerospace equipment purchases including; C-17 Globemasters, C-130J Hercules, and CH-47F Chinook Helicopters, totaling approximately \$15 billion. In addition, new major fleet replacements will cost \$20 billion for fixed-wing search and rescue aircraft, destroyers and frigates, maritime patrol aircraft, and fighter aircrafts. The equipment and fleet replacement figures reflect spending over the next 20 years, 2008-2009 to 2027-2028.

The Readiness budget component of the Canada First Defence Strategy spending will reach \$140 billion, 29 percent of the total \$490 billion budget. Approximately \$140 million will be spent each year on spare parts, maintenance and training. This element of the budget will contribute to the overall allocated funds for aerospace procurement.

III. U.S. Aerospace Trade with Canada

The United States is the largest exporter of aircraft and aircraft parts to Canada. In 2008, more than half of all Canadian aircraft and aircraft parts imports were from the United States (61 percent). The United States' share of imports rose over the past few years, and more importantly, Canada's imports from the United States are rising faster than Canada's total worldwide imports. It is estimated that the U.S. share of total imports will be approximately 62 percent in 2009.

In addition, the Canadian aerospace industry is the country's leading advanced technology exporter. In 2008 Canada's total export revenue totaled \$19.3 billion. Canada exports more than 82 percent of its aerospace output to foreign markets. The United States contributes 58 percent to the total export revenue, which amounted to \$11.8 billion in sales in 2008.

Industrial Regional Benefit (IRB) Policy

The IRB Policy was established in 1986, to ensure Canadian organizations benefit from procurement contracts in Canadian aerospace and defense industries. The policy provides guidelines for using Canadian federal defense procurement to sustain and benefit from long-term industrial and regional development in Canada. The IRB procurement strategy was developed by the Department of National Defence (DND), Public Works and Government Services Canada (PWGSC) and Industry Canada to be applied to major defense procurements.

The IRB Policy requires winning contractors to make investments towards the Canadian economy in an amount usually equal to the defense procurement contract awarded. The IRB program is a requirement for all large defense procurements. The investment can either be directly or indirectly associated to the procured itemⁱⁱ. Direct IRB investments go directly to the item being procured by the government. Indirect IRB investments are not specifically related to the procured item, and the funds are provided to high technology sectors for future development of new technologies.

How does the IRB Policy Work?

1. Development of procurement project. This is set out by the DND, PWGSC, Industry Canada, Treasury Board, Regional Development Agency and other departments when required.
2. Search for Canadian capabilities. Discussions are encouraged between Canadian government representatives and bidders regarding the potential procurement opportunities. Current and potential

procurement projects can be found on the Industry Canada website: <http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03662.html>.

3. Release of Request for Proposal (RFP). Procurement contract becomes available and bidders have three months to complete their response, including how they will involve Canadian companies.
4. Bid evaluation. For procurement projects with IRB requirements, there will be a technical, financial and IRB evaluation. PWGSC will evaluate proposals based on the quality, quantity and likelihood that the planned IRB transactions will be accomplished.
5. Contract awarded. Once the contract has been awarded to the selected bidder, the corresponding IRB plans, and commitments to the Canadian economy, will be included in the signed contract between the GoC and contractor. Please note that performance guarantees are part of the agreement.

For more information on the RFP process, bid proposals and IRB Policy please contact: Industrial and Regional Benefits (IRB) Directorate, Industry Canada, 235 Queen Street, 7th Floor, East Tower, Ottawa, Ontario Canada, K1A 0H5, Email: IRB/RIR@ic.gc.ca Website: www.ic.gc.ca/irb.

Responsibilities of the participating bidder

1. Record Keeping. It is the responsibility of the contractor to maintain complete records, as they are required to provide IRB officials with progress reports.
2. Calculation of Canadian Content Value (CCV). IRB projects will be evaluated on the amount of CCV contributed to the project. The CCV is a portion of the selling price of a product or service related to the work being performed in Canada. This does not include parts of the product imported into Canadaⁱⁱⁱ. Please note this is in Canadian dollars. A thorough explanation of how to calculate the CCV will be included in the released RFP.
3. Verifications. IRB officials will review progress reports to ensure that the CCV being claimed is being achieved, and to confirm report status.

Best Prospects

Industry Canada has identified the following as key technologies for government procurement in aerospace and defense:

1. Advanced Manufacturing and Emerging Materials
2. Avionics and Mission Systems
3. Communication and Control
4. Propulsion and Power Management
5. Security and Protection
6. Sensors
7. Simulation, Training and Synthetic Environment
8. Space
9. Unmanned Vehicle Systems

Examples of each of these sectors are listed in Industry Canada's Strategic Aerospace and Defence Technology List. Website: <http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03902.html>.

Key Suppliers

- Pratt & Whitney Canada (P&WC)
- Bombardier Aerospace
- GE Canada
- General Dynamics Canada
- Héroux-Devtek
- Lockheed Martin
- Boeing
- Airbus
- Raytheon

Prospective Buyers

- Department of National Defence (DND)
- Public Works and Government Services Canada (PWGSC)
- Canadian Coast Guard

Market Entry

Defense and aerospace for procurement opportunities which have IRB requirements are listed on Industry Canada's website. [Current Major Government Projects](#) that have IRB requirements, [Potential Major Government Projects](#) that will have IRB requirements and [Non-Major Government Projects](#) that have, or will have, IRB requirements.

As a party to the Government Procurement Agreement (GPA), Canada allows U.S. suppliers to compete on a nondiscriminatory basis for its federal government contracts covered in the GPA. However, Canada has not yet opened "sub-central" government procurement markets (i.e., procurement by provincial governments).

The federal GoC buys approximately US\$12 billion worth of goods, and services every year from thousand's of suppliers. There are over 85 departments, agencies and Crown Corporations and Special Operating Agencies. Public Works and Services Canada (PWGSC) is the government's largest purchasing organization, averaging 60,000 contracts totaling US\$8.5 billion annually.

The Canadian government's official Internet-based electronic tendering service [MERX](#) gives subscribers access to more than 1,500 open tenders from the federal government, provincial governments, and municipal governments. Approximately 200 new tenders are posted daily.

The MERX system provides easy access and excellent opportunities to sell a wide range of products and services to Canada's federal government. The Basic Subscriber package is free of charge providing access to Federal Government procurement opportunities.

Canadian Aerospace and Defence Events

DEFSEC Atlantic 2009

Halifax, Nova Scotia, Canada

September 9-11, 2009

Website: <http://www.defsecatlantic.ca/>

Defence Security Innovation (DSI) 2009

Québec City Québec

October 26-29, 2009

Website: <http://www.defenceinnovation.org/themeEn.aspx>

CANSEC 2010

June 2-3, 2010

Website: <http://www.defenceandsecurity.ca>

Exhibitors must be members of the Canadian Association of Defence and Security Industries [CADSI](#) members only. Membership is restricted to registered, legal, private-sector companies that have operations in Canada and whose business interests include defence and/or security. Visitors are

Resources & Contacts

GoC Resources:

Industry Canada:

Canada's Industrial and Regional Benefits (IRB) Policy, Info Kit for SMEs

Website: [http://www.ic.gc.ca/eic/site/ad-ad.nsf/vwapj/Info_Kit-Trousse_d'info_eng.pdf/\\$file/Info_Kit-Trousse_d'info_eng.pdf](http://www.ic.gc.ca/eic/site/ad-ad.nsf/vwapj/Info_Kit-Trousse_d'info_eng.pdf/$file/Info_Kit-Trousse_d'info_eng.pdf)

IRB Policy <http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03665.html#policy>

List of Current and Potential Defense Procurements

<http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03662.html>

List of Procurements and their IRB Managers

<http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03886.html>

Strategic Aerospace and Defence Technology List

<http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03902.html>

List Aerospace and Defence Company websites on Industry Canada's website:

<http://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/ad03261.html>

Department of National Defence

Department of National Defence, Vice Chief of Defence Staff

www.vcds-vcemd.forces.gc.ca

National Defence and the Canadian Forces, Equipment Procurement

<http://www.forces.gc.ca/site/pri/2/index-eng.asp>

"Canada First" Defence Strategy

http://www.forces.gc.ca/site/focus/first-premier/June18_0910_CFDS_english_low-res.pdf

Public Works and Government Services Canada (PWGSC)

Controlled Goods Directorate (PWGSC)

<http://ssi-iss.tpsgc-pwgsc.gc.ca/dmc-cgd/>

Industry Resources:

Canadian Association of Defence and Security Industries (CADSI)

www.defenceandsecurity.ca

Aerospace Industry Association of Canada

"Guide to Canada's Aerospace Industry"

For More Information

The U.S. Commercial Service in Ottawa, Canada can be contacted via e-mail at: lucy.latka@mail.doc.gov; Phone: 613 688-5219; Fax: 613 238-5999; or visit our website: www.buyusa.gov/canada. Lucy Latka is the Sr. Commercial Specialist covering the Government Procurement and the Defense Sector.

For additional information on aerospace sector, please contact Ms. Gina Bento, Commercial Specialist at the U.S. Consulate General in Montreal at gina.bento@mail.doc.gov; Phone: (514) 908-3660; Fax: (514) 398-0711. Ms. Bento is the National Aerospace Industry Specialist for Canada.

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Comments and Suggestions: We welcome your comments and suggestions regarding this market research. You can e-mail us your comments/suggestions to: Customer.Care@mail.doc.gov. Please include the name of the applicable market research in your e-mail. We greatly appreciate your feedback.

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