

ANNEX M

MRR-ACQV2

VALUE PROPOSITION

PART A: MRR-ACQ VALUE PROPOSITION BIDDERS INSTRUCTIONS

1.0 VP Objectives

- 1.1 On February 5, 2014, the Government of Canada announced the Defence Procurement Strategy (DPS). One of the DPS' objectives is to leverage purchases of defence equipment to create jobs and economic growth in Canada.
- 1.2 For the Medium Range Radar (MRR) project, Canada requires Bidders to include a Value Proposition (VP) Plan in their bid submission. The application of VP incorporates consideration of Key Industrial Capabilities (KIC) Market Segments to inform potential economic benefits.
- 1.3 The following KIC Market Segments are applicable to the VP for the MRR project as Canadian capability exists within these intelligence, surveillance and reconnaissance (ISR) market segments:
 - (a) **Electro-Optical, Radar and Sonar Systems and Components; and Fire Control, Warning and Countermeasures Systems and Components:** This category includes electro-optical systems (e.g. image intensification night-vision systems, thermal imaging systems, lasers), radars, sonar systems, fire-control systems used to aid weapons in target acquisition, tracking and engagement; warning systems (e.g. technologies that detect enemy radars, enemy laser targeting systems, and approaching threats such as missiles); and countermeasures (e.g. electronic jamming equipment, smoke screens, flares to counter heat-seeking missiles).
 - (b) **Electronics, Information Technology (including Software), Communications and Navigation Systems and Components:** This category includes military communications systems, secure cyber/information systems and other military Information Technologies (including software), avionics, navigation and guidance systems (e.g. Global Positioning System [GPS] based systems, gyroscopes, accelerometers) and other geomatics related systems and services (e.g. geographic information system (GIS) products and services for military applications, remote sensing services for military applications), display technologies, digital control systems; other technologies for the receipt, exchange, analysis and integration of multiple types of data; and other defence electronics not elsewhere specified.
- 1.4 Bidders are encouraged to engage with Canadian companies in these KIC Market Segments. This engagement could be directly on the MRR project, or on global value chains of other similar ISR products and services and can take the form of design/development, production, and In-Service Support (ISS).
- 1.5 It is intended that the implementation of the Bidder's VP Plan results in the enhancement of Canadian capability to undertake other work of a similar nature and make a positive contribution to the continuing viability, growth, innovation, export growth and overall development of the Canadian companies that will work with the Bidder after Contract award.
- 1.6 It is intended that Bidders provide significant opportunities for Canadian companies in support of the acquisition activities of the resulting contract within the KIC Market Segments.

- 1.7 It is intended that VP activities be performed in Canada as soon as practicable after contract award, in order to maximize the benefit to Canadian industry.

2.0 VP Plan Overview

- 2.1 The Value Proposition (VP) Plan should describe how the Bidder intends to meet the VP objectives of the MRR project. The VP Plan should describe the Bidder's approach to management for meeting the VP requirements.
- 2.2 The VP Plan should clearly indicate how the proposed VP activities will be implemented if awarded the MRR Acquisition Contract. The optimum VP Plan will result in long-term creation and exploitation of capabilities, knowledge, advanced technologies and markets of lasting impact on Canadian industry.
- 2.3 The Bidder should highlight the Industrial and Technological Benefits (ITB) Transactions proposed by the Bidder that will be used to satisfy the Bidder's VP requirement that will form the basis of the Bidder's contractual commitments as it relates to its VP Obligation. The Bidder should also highlight potential opportunities that may be available to Canadian industry should the Bidder be awarded the MRR Acquisition Contract.
- 2.4 Bidders should note that, although the content of the VP Plan submitted will not be fully evaluated during the solicitation process, the VP Plans will be annexed to the resulting contract awarded to the successful Bidder and will be utilized by Industry Canada to support its evaluations and assessments during the VP Achievement Period.

3.0 VP Mandatory Requirements

- 3.1 Bidders must meet the following mandatory requirements:
 - 3.1.1 Commit to achieve a minimum of thirty percent (30%) of the MRR-Acquisition Contract value in Committed VP Activity, measured in Canadian Content Value (CCV).
 - 3.1.2 Commit to identify, through the submission of ITB Transactions, at least fifty percent (50%) of the Bidder's proposed VP Obligation within twenty-four (24) months after Contract award.
 - 3.1.3 Commit to identify, through the submission of ITB Transactions, at least one-hundred percent (100%) of the Bidder's proposed VP Obligation within forty-eight (48) months after Contract award.
 - 3.1.4 Submission of a VP Plan in accordance with Articles 4 and 5 below.

4.0 Preparation Instructions

5.2 Section 2: Executive Summary of Value Proposition Obligation

- 5.2.1 The Executive Summary should constitute an integrated overview of the complete VP Plan.
- 5.2.2 The Executive Summary should summarize how the Bidder will address Canada's VP Objectives and how each Objective will be achieved through the proposed VP Plan and proposed VP activities in the VP Plan.
- 5.2.3 The information in the Executive Summary should only summarize and/or be drawn from content in other sections in the VP Plan.

5.3 Section 3: Value Proposition Management Plan

- 5.3.1 The purpose of the VP Management Plan is to demonstrate the Bidder's ability to develop, implement, manage and report on the proposed VP Commitment. It is also the place for the Bidder to detail and document its proposed Eligible Parties (as defined in the ITB Terms and Conditions at Annex F) in support of its VP Plan.
- 5.3.2 The VP Management Plan should provide a detailed overview of all of the VP management functions and associated organization required by the Bidder to execute a successful VP program, in a level of detail sufficient to demonstrate that the Bidder understands its VP Commitment and is prepared to respond to requirements. It should also highlight any overlap areas of responsibility between the Bidder's ITB Management Plan and the VP Management Plan.
- 5.3.3 The VP Management Plan should include a list of the Bidder's proposed Eligible Parties, with details and documentation justifying how each one meets the Eligible Party criteria outlined in the ITB Terms and Conditions at Annex F.
- 5.3.4 Bidders are strongly encouraged to demonstrate in the VP Plan that each of its proposed Eligible Parties that are Canadian Companies with less than 500 employees have the capacity to undertake VP Obligations. Capacity is assessed in areas such as company size, product offerings, market conditions, corporate ownership, VP management processes, level of Canadian content, etc.
- 5.3.5 Any proposed Eligible Party which is found not to meet the criteria will be excluded from the List of Eligible Parties in the ensuing Contract. In addition, any ITB Transaction proposed for inclusion into the VP Plan with an excluded Eligible Party as the ITB Donor will be rejected as not meeting the ITB Eligibility Criteria and, therefore, ineligible for crediting towards the VP Obligation.
- 5.3.6 The VP Management Plan should include the following information on the Bidder and each of its proposed Eligible Parties:
 - (a) the name and contact information of each company's VP official(s) assigned to the MRR project;
 - (b) job descriptions for each company's VP official(s) and biographical information about their work experience and education;
 - (c) a description of each company's corporate and project-specific resources assigned to execute the management of the VP Commitment;

- (d) a description and explanation of each company's internal processes for VP organization, advocacy and awareness, both specific to this project and in general. Bidders should include a description of how VP Objectives will be factored into the company's broader decision making processes, along with how these decisions will be documented and tracked; and
- (e) a description of the methods, processes and procedures that each company will use to identify, submit, track, record keep and report VP activities.

5.4 Section 4: Current Proposed Activities

- 5.4.1 The purpose of the Current Proposed Activities section is to provide context and a description of the ITB Transactions the Bidder has included in its ITB Proposal that the Bidder intends to use towards its VP Obligation.
- 5.4.2 Bidders should include a high level summary of the activities that have been identified to date through the ITB Transaction Sheets in its VP Plan.
- 5.4.3 This section should include a high level summary of the amount that has already been committed through the ITB Transactions and the types of technologies and how they fit within the KIC Market Segments that the Bidder has proposed to date. This section may also include any technologies that have already been transferred or any Intellectual Property that has been provided to date.
- 5.4.4 This section should also include a summary of how the VP activities proposed within the Bidder's VP Plan will impact the Canadian Recipients.

5.5 Section 5: Future Potential Activities

- 5.5.1 The purpose of this section is for the Bidder to provide additional context on potential opportunities that it may plan to pursue with Canadian Companies that would satisfy its VP Obligation.
- 5.5.2 Bidders should highlight the types of opportunities that would be available for Canadian industry, should the Bidder be awarded the MRR Acquisition Contract. It should note the breadth and depth of programs that the Bidder currently manages that present strong potential for Canadian participation.
- 5.5.3 The activities presented in this section should be illustrative of the types of opportunities Canada can expect from the Bidder should it be awarded the MRR Acquisition Contract. It should include an overview of what the Bidder will do to ensure Canadian Companies can access its supply chain.

5.6 Section 6: Summary Chart of VP Activities

Bidders must include a summary chart of VP Activities (with a link to the associated ITB Transaction Number, if available) that can be updated after contract award as the Bidder identifies VP Activities. A template roll-up sheet is provided. If the Bidder has no VP Activities at time of bid, a Summary Chart must still be provided so that it can be updated after contract award.

PART B: MRR-ACQ VALUE PROPOSITION EVALUATION PLAN

1.0 Introduction

- 1.1 The Value Proposition (VP) Evaluation Plan describes the methodology that will be used to evaluate the VP Plan submitted by the Bidder.
- 1.2 Bidders are strongly encouraged to closely review the VP Bidder Instructions provided in Part A of this Annex.
- 1.3 The results of the VP Evaluation will be provided to the Contracting Authority. The results will then be integrated into the overall bid evaluation results as outlined in the MRR Project Evaluation Plan.

2.0 Value Proposition Mandatory Requirements

2.1 Bidders must meet the following mandatory requirements:

- 2.1.1 Commit to achieve a minimum of thirty percent (30%) of the MRR-Acquisition Contract value in Committed VP Activity, measured in Canadian Content Value (CCV).
- 2.1.2 Commit to identify, through the submission of ITB Transactions, at least fifty percent (50%) of the Bidder's proposed VP Obligation within twenty-four (24) months after Contract award.
- 2.1.3 Commit to identify, through the submission of ITB Transactions, at least one-hundred percent (100%) of the Bidder's proposed VP Obligation within forty-eight (48) months after Contract award.
- 2.1.4 Submission of a VP Plan in accordance with Articles 4 and 5 of Part A of this Annex.

3.0 Value Proposition Plan

The Bidder's VP Plan will be assessed as responsive or non-responsive. To be considered responsive, all mandatory requirements must be met. **No prices must be indicated in the VP Plan.**

4.0 Value Proposition Points (VPPs)

4.1 Bids containing Value Propositions in excess of the minimum Value Proposition for each of the MRR – ACQ Contract **and** the MRR –ISS Contract may be eligible to receive up to a maximum of ten (10) Value Proposition Points (VPPs) which will be applied to the Bidder's total bid evaluation score for the MRR project.

4.2 VPPs may be earned as follows:

- (i) 0.12 of 1 VPP for each percentage point above the minimum VP commitment for the MRR - Acquisition Contract; and

- (ii) 0.03 of 1 VPP for each percentage point above the minimum VP commitment for the MRR - ISS Contract.

5.0 VP Evaluation Process

5.1 The VP evaluation will take place within the context of the overall bid evaluation process and will be conducted by Industry Canada.

5.2 Participant Roles and Responsibilities.

5.2.1 The VP evaluation is led by Industry Canada, with participation from representatives of the Regional Development Agencies (RDAs), PWGSC and DND.

5.2.2 Industry Canada will lead the VP evaluation and hold overall responsibility for ensuring that the members of the VP evaluation team carry out their responsibilities with regard to the VP evaluation process. Industry Canada will act as the liaison between the VP evaluation team and other members of the evaluation team.

Allocation of Value Proposition Points (VPPs) for Medium Range Radar Procurement

	Acquisition Contract	ISS Contract	VPPs	Comment
<u>Minimum</u> required Value Proposition (VP) as percentages of the Contract value:	30%	50%		Requirement prescribed in RFP.
Proposed VP Activities as percentages of the Contract value:	65%	85%		Must meet minimums to receive further consideration.
Proposed VP Activities in excess of minimum mandatory requirement :	35%	35%		Difference between proposed and minimums required
Total VPPs awarded for VP commitment:			5.30	.12 of a VPP is assigned for each percentage point above the minimum VP commitment for the Acquisition Contract and .03 of a VPP is assigned for each percentage point above the minimum VP commitment for the ISS Contract. Maximum number of allowable VPPs for VP commitments is 10.
Total VPPs awarded:			5.30	Total VPP available for award is 10.

PART D: MRR- ACQ VALUE PROPOSITION TERMS AND CONDITIONS

The Industrial and Technological Benefits (ITB) Terms and Conditions in Annex F (“Annex F”) apply to and form part of the Contractor’s Value Proposition obligations, in addition to these Annex M terms and conditions.

1.0 Definitions

Capitalized words used in this Annex M which are not defined in this Annex M shall have the same meaning ascribed in Annex F, unless the context requires otherwise.

- 1.1 “Committed VP Activity” means an ITB Transaction, which has been submitted to the ITB Authority and approved as a Committed VP Activity.
- 1.2 “KIC Market Segments” means those classes of defence industry products or services defined in Section 6.3.
- 1.3 “Shortfall” means the amount by which the Contractor’s VP Credits are less than the VP Obligation at the end of the VP Achievement Period.
- 1.4 “Value Proposition (VP) Achievement Period” means that period of time equivalent to the ITB Achievement Period in Annex F.
- 1.5 “Value Proposition” (VP) is one method being utilized by Canada for this Contract to ensure purchases of defence equipment are being leveraged to create jobs and economic growth in Canada.
- 1.6 “Value Proposition (VP) Activity” means work identified through the submission of an ITB Transaction sheet describing either Direct work for the Medium Range Radar project (as defined in the ITB Terms and Conditions) or work being done in the eligible KIC Market Segments.
- 1.7 “VP Credit” means the written notice by the VP Authority that an Accepted ITB Transaction has been achieved in whole or in part. All Accepted ITB Transactions are subject to annual reporting, verification and approval before a VP Credit is awarded.
- 1.8 “VP Obligation” or “VP Commitment” means the Contractor’s contractual obligation to achieve the CCV for Committed VP Activity and to complete the identification requirements as set forth in Article 2.1 (Value Proposition - Statement of Work).
- 1.9 “VP Plan” means the Contractor’s VP Plan appended to this Annex or as may be amended by the parties from time to time.

2.0 Value Proposition - Statement of Work (SOW)

2.1 Through the implementation of the VP Plan the Contractor shall:

- 2.1.1 By the end of the Value Proposition Achievement Period, achieve XX% (to be inserted from Contractor’s VP proposal) in Canadian Content Value (CCV) of the Contract value in Committed VP Activities;

- 2.1.2 Identify through Committed VP Activity, fifty percent (50%) of the Contractor's VP Obligation as part of its second Annual ITB Report; and
- 2.1.3 Identify through Committed VP Activity, one hundred percent (100%) of the Contractor's VP Obligation as part of the fourth Annual ITB Report.
- 2.2 In the event that the Contract value is increased or decreased, the Contractor's VP Obligation shall be correspondingly increased or decreased.
- 2.3 Committed VP Activities will be credited against the Contractor's VP Obligation of this Annex M and the 100% ITB Obligation of Annex F, such that the total of VP and ITB Obligations shall not exceed 100% of the Contract Value.

3.0 Reporting of Value Proposition

- 3.1 In addition to the reporting obligations in Article 6, the Contractor shall report on their VP achievements through the ITB Annual Report requirement (see Article 3 of Annex F). The ITB Authority will verify and monitor VP achievements.

4.0 Performance Guarantees

- 4.1 If the Contractor has failed to achieve the obligations in Articles 2.1.2 or 2.1.3 of this Annex M, the Contractor agrees that Canada shall be entitled to withhold Milestone 13 until such time as the obligations are met to the satisfaction of Canada.
- 4.2 Subject to Article 4.3, should there be a Shortfall at the end of the VP Achievement Period, liquidated damages shall be due and payable by the Contractor to Canada in accordance with Article 19 of Annex F.
- 4.3 If the Milestone 13 payment has not been released at the end of the VP Achievement Period as a result of the Contractor failing to meet its Article 4.1 obligations and liquidated damages are also due and payable as a result of a Shortfall, the Contractor acknowledges and agrees that the amounts otherwise due and payable for Milestone 13 shall be applied by Canada to off-set the liquidated damages otherwise payable by the Contractor and:
 - (a) If the liquidated damages owing are less than the Milestone 13 amount withheld, the difference shall be paid to the Contractor in full and final satisfaction of Canada's obligation of payment for Milestone 13; or
 - (b) If the liquidated damages owing are greater than the Milestone 13 amount withheld, then the difference shall become immediately due and payable to Canada by the Contractor and Canada shall have no obligation to pay any amounts for Milestone 13.

5.0 Changes to the VP Plan

- 5.1 The Contractor may propose revisions to the VP Plan. Any proposed revisions must be agreed to by the ITB Authority in writing. Revisions will be incorporated into this Agreement by administrative amendment, executed by the Contracting Authority.
- 5.2 Changes to the VP Plan will be considered in order to update information in the Plan that has changed and also to revise the summary table of ITB Transactions that will be used to meet the Contractor's VP Obligations.

6.0 VP Activities

- 6.1 Committed VP Activities will be reported and credited through the ITB Annual Report process.
- 6.2 VP Activity can be submitted to the VP Authority as:
 - 6.2.1 Direct Transactions: achieved through the provision of the goods and services required to deliver the MRR project; or
 - 6.2.2 KIC Market Segments Transactions: achieved through work performed in the eligible KIC Market Segments.
- 6.3 The following KIC Market Segments are eligible for the VP Activities under this Contract:
 - 6.3.1 **Electro-Optical, Radar and Sonar Systems and Components and Fire Control, Warning and Countermeasures Systems and Components.** This category includes electro-optical systems (e.g. image intensification night-vision systems, thermal imaging systems, lasers), radars, sonar systems, fire-control systems used to aid weapons in target acquisition, tracking and engagement; warning systems (e.g. technologies that detect enemy radars, enemy laser targeting systems, and approaching threats such as missiles); and countermeasures (e.g. electronic jamming equipment, smoke screens, flares to counter heat-seeking missiles).
 - 6.3.2 **Electronics, Information Technology (including Software), Communications and Navigation Systems and Components.** This category includes military communications systems, secure cyber/information systems and other military Information Technologies (including software), avionics, navigation and guidance systems (e.g. Global Positioning System [GPS] based systems, gyroscopes, accelerometers) and other geomatics related systems and services (e.g. geographic information system (GIS) products and services for military applications, remote sensing services for military applications), display technologies, digital control systems; other technologies for the receipt, exchange, analysis and integration of multiple types of data; and other defence electronics not elsewhere specified.

- 6.4 VP Activities which fall outside of the purchase of goods and services (including Consortium, Investments and Technology and Skills Cooperation) will be defined and calculated in the same manner as they are under the ITB Terms and Conditions at Annex F (see: Articles 8.5 to 8.10).

7.0 Public Communications

- 7.1 The Contractor and/or VP Recipients are encouraged to be as transparent as possible regarding its VP plans, obligations and specific VP activities, making them publicly available whenever possible.
- 7.2 In the above efforts at transparency, the Contractor and the VP Authority will jointly coordinate public communications related to the VP activities associated with the Medium Range Radar Project. The parties will also collaborate to identify VP impact and success stories associated with VP activities.
- 7.3 The Contractor consents to public announcements regarding the MRR project, made by or on behalf of the Minister of Industry, that are related to i) VP Obligations and ii) those ITB Transactions which involve business activities with a signed contract or Memorandum of Understanding between the VP Donor and the VP Recipient. These announcements would include company names, general descriptions of the work being proposed and approximations of CCV. In these cases, the VP Authority will make all reasonable efforts to ensure that the Contractor has the opportunity to participate in the announcement and/or the preparation of any related materials.
- 7.4 For all other public communications regarding the VP activities on the Medium Range Radar Project, drafts of announcements and their publication schedule will be delivered by either party to the other as soon as is reasonably possible, but in any event prior to the proposed release date. Each party will make every effort to inform the other, and seek resolution of, any objections to the content or timing of the proposed announcement.
- 7.5 Nothing in this Article 7 shall be interpreted as preventing the fulfillment by any company involved in a VP Obligation or activity of its reporting obligations under applicable Securities laws.