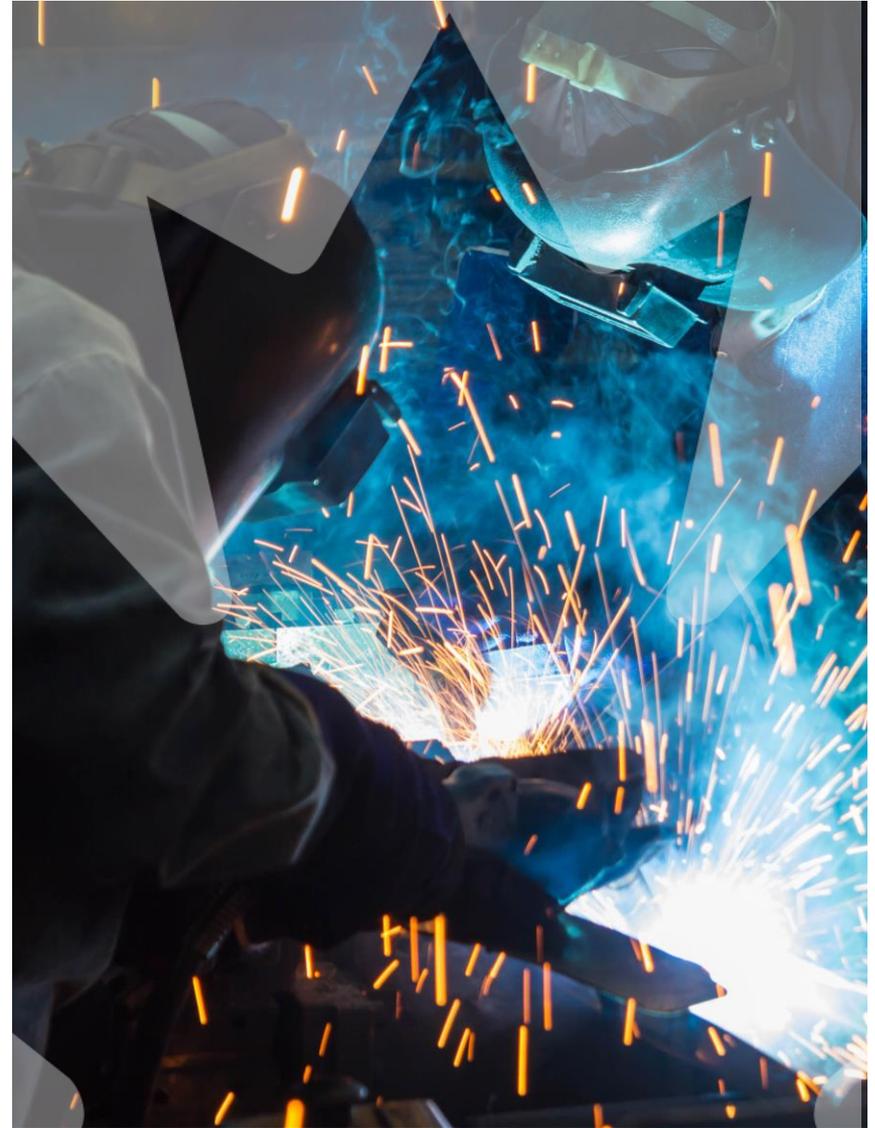




Halifax-class Combat Systems In-Service Support (HCCS ISS)

Industrial and Technological
Benefits Policy Including Value
Proposition

August 2016



Outline

- **Objective**
- **Defence Procurement Strategy**
- **Industrial and Technological Benefits Policy**
- **Value Proposition**
- **The Market for Mission Systems ISS**
- **Proposed Value Proposition approach for the HCCS ISS requirement**
- **Value Proposition Evaluation Questions for Consideration**
- **Next Steps for Industry Engagement**

Objective

- To support long-term industrial benefits, the Government of Canada is consulting with industry in the development of the Value Proposition on the Halifax-class Combat Systems In-Service Support (HCCS ISS) requirement.
- Information contained within this presentation intends to achieve the following:
 1. Provide market analysis considerations revolving around Mission Systems ISS
 2. Outline the initial proposed evaluation considerations for the Value Proposition of the HCCS ISS; and
 3. Seek industry views on both proposed Value Proposition considerations and an associated evaluation framework.
- Information obtained during the industry consultation process will inform the development of the Value Proposition.

Defence Procurement Strategy

- **Announced in February 2014, by the Ministers of:**
 - Public Works and Government Services Canada (now Public Services and Procurement Canada)
 - National Defence
 - Industry Canada (now Innovation, Science and Economic Development Canada)
- **Goals:**
 - Deliver the right equipment to the Canadian Armed Forces and the Canadian Coast Guard in a timely manner
 - Leverage purchases of defence equipment and services to create jobs and economic growth in Canada
 - Streamline the defence procurement process

Industrial and Technological Benefits (ITB) Policy

- **Value Proposition Guide released on December 19, 2014**
- **Four objectives:**
 - *Support the long-term sustainability and growth of Canada's defence sector*
 - *Support the growth of prime contractors and suppliers in Canada, including small and medium-sized enterprises in all regions of the country*
 - *Enhance innovation through R&D in Canada*
 - *Increase the export potential of Canadian-based firms*

The ITB Policy Will Be Broadly Applied

- **The ITB Policy will apply to procurements contracted after the launch of the Defence Procurement Strategy on February 4, 2014, including:**
 - *All eligible defence procurements over \$100 million*
 - *All eligible Canadian Coast Guard procurements over \$100 million and for which the National Security Exception applies*
 - *All eligible defence procurements with contract values between \$20 - \$100 million will be reviewed for the use of Value Propositions*

The Value Proposition (VP)

- **Winning bidders are now selected on the basis of price, technical merit *and their Value Proposition***
- **The VP includes bidder commitments to undertake work in Canada and generally accounts for 10 percent of the overall score**
- **Companies awarded procurement contracts must undertake business activity in Canada equal to the value of the contract**

Value Proposition

- Commitments/activities proposed at bid time
- Rated and weighted during bid evaluation

Outstanding Obligation

- Activities identified after contract award
- Brings identified activities up to 100 percent of contract value

The VP Guide Is A Flexible Framework

On a procurement-by-procurement basis, there is flexibility to:

- Increase/decrease the 10% weight of the VP
- Weigh individual evaluation criteria differently
- Apply all or some of the evaluation criteria
- Add additional evaluation criteria
- Apply mandatory requirements
- Develop different rating grids

Informed by:

*Industry
engagement*

*Research and
analysis*

3rd party experts

VP Framework: Evaluation Criteria Example

Defence Sector

- Work in Canada specific to the procurement
- May include work in Canada's defence sector

Canadian Supplier Development

- Work undertaken by suppliers in Canada
- Work undertaken by Small-and-Medium Business suppliers in Canada

R&D

- R&D undertaken in Canada
- R&D in Canadian post-secondary institutions

Exports

- Strategy to export the procured product from Canada
- May include incremental exports in any sector

Market Research and Analysis

- **Objective:**

- To provide Global and Canadian Military Ship 'Mission Systems' ISS markets as a reference point to identify leverage opportunities related to the HCCS ISS while also informing the initial development of the Value Proposition

- **Key Sources of information**

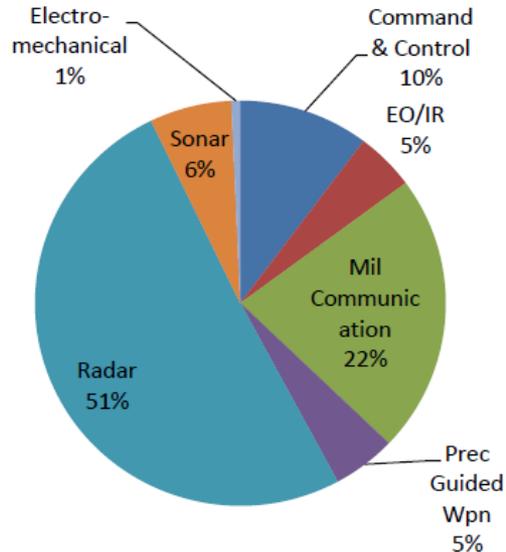
- IHS Jane's and Avascent international defence sector independent research databases
- Statistics Canada Canadian Commercial Aerospace, Defence, Commercial and Civil Marine and Industrial Security Sector Survey (2011), 2013
- Other Government Departments' industry capability analysis

- **'Mission Systems' defined:**

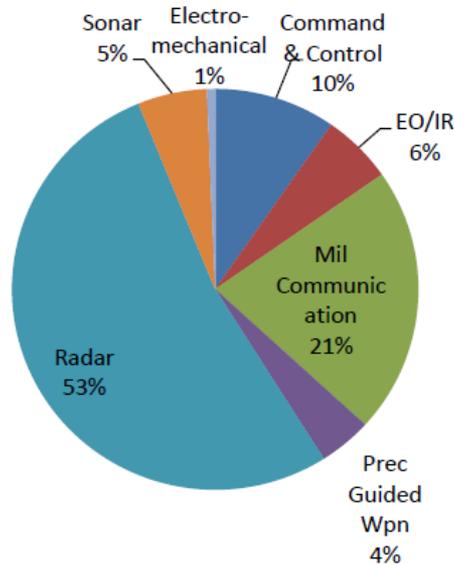
- Combining various functional markets from Jane's database, which includes:
 - Command & Control
 - Cyber Ops
 - Electro-Mechanical
 - EO/IR
 - Intel
 - Mil Communications
 - Precision Guided Weapons (excluding munitions and other expendables)
 - Radar
 - Sonar

Mission Systems ISS – The Worldwide Market

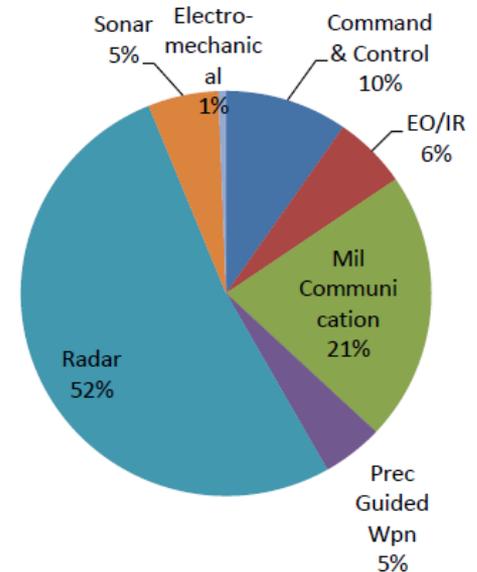
World Mission Systems ISS
Revenue by Market
(2010-2014)



World Mission Systems ISS
Revenue by Market
(2015-2019)



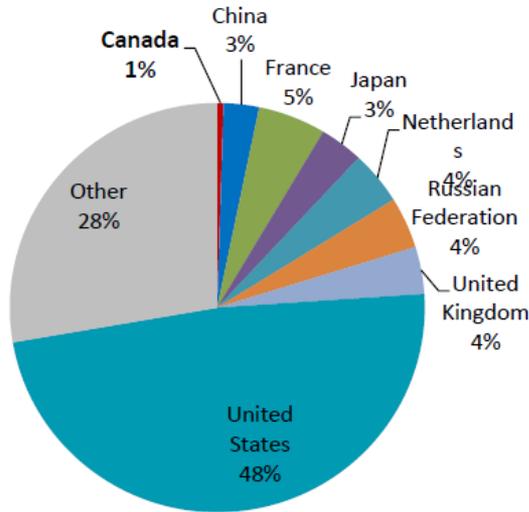
World Mission Systems
ISS Revenue by Market
(2020-2024)



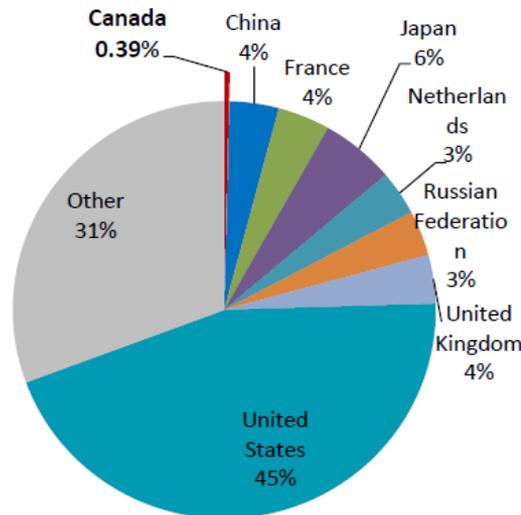
- ISS work on radars make up more than half of worldwide mission system ISS revenues
- This trend is predicted to continue for the next decade

Mission Systems ISS – The Worldwide Market

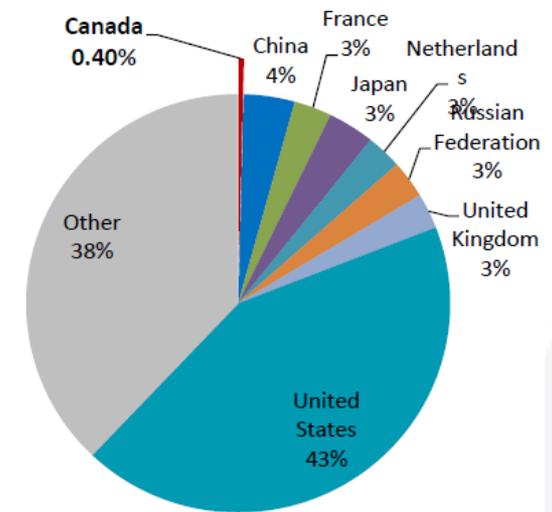
World Mission Systems ISS
Revenue by COFA
(2010-2014)



World Mission Systems
ISS Revenue by COFA
(2015-2019)



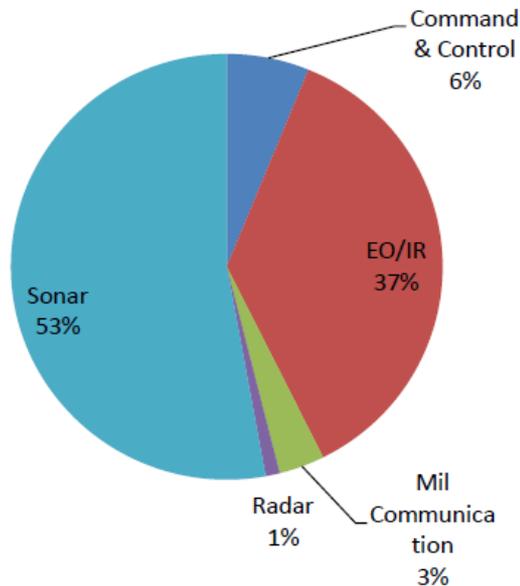
World Mission Systems ISS
Revenue by COFA
(2020-2024)



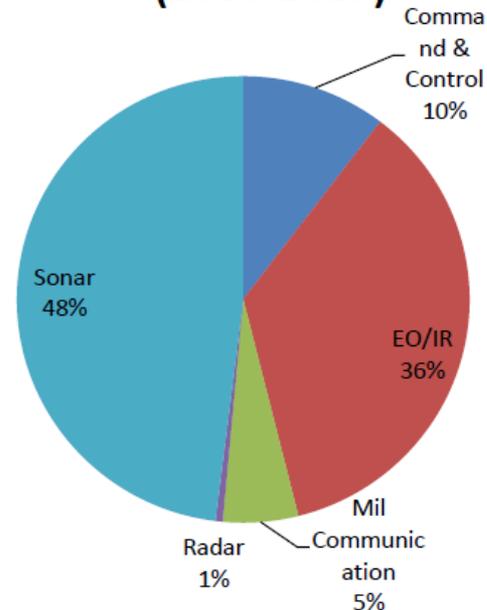
- In terms of the Country of Final Assembly (COFA) (i.e. country of final source of supply), the United States is the worlds largest source of revenue generation
- Canada is, proportionally to the rest of the world, a smaller source of supply of mission systems ISS

Mission Systems ISS – The Canadian Market

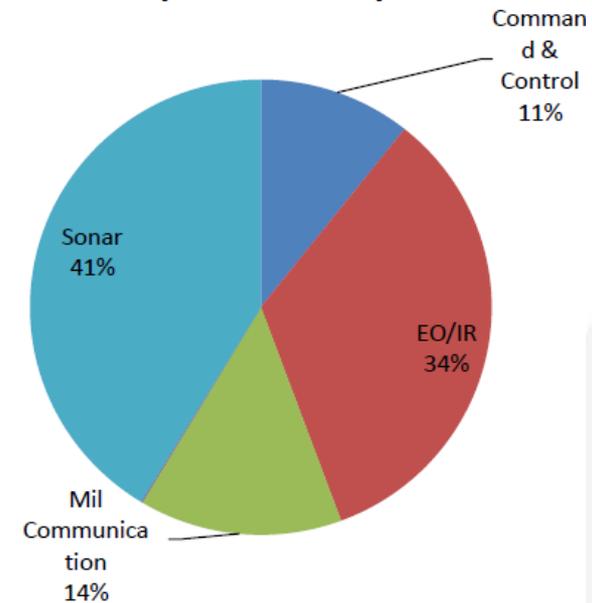
Canadian Mission Systems
ISS Revenue by Market
(2010-2014)



Canadian Mission Systems
ISS Revenue by Market
(2015-2019)



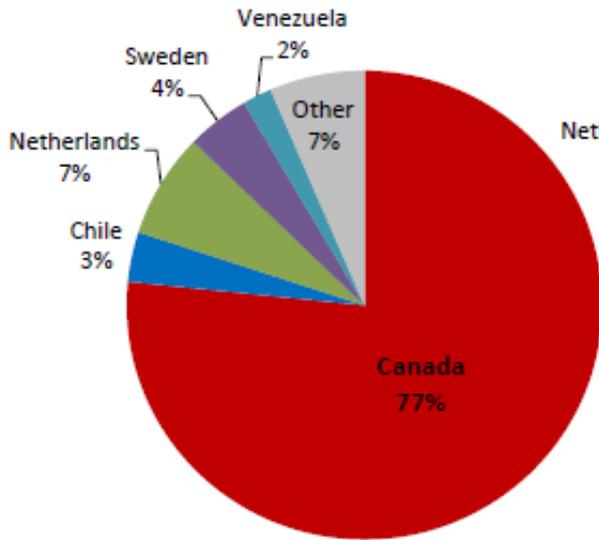
Canadian Mission Systems
ISS Revenue by Market
(2020-2024)



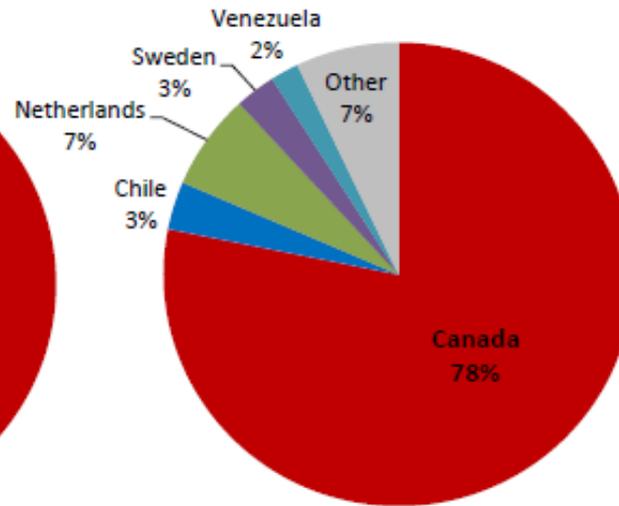
- Within Canada, revenue generated by ISS on radars accounts for ~1% over overall mission systems ISS revenue
- Canada maintains strong capabilities in Sonar and EO/IR

Mission Systems ISS – The Canadian Market

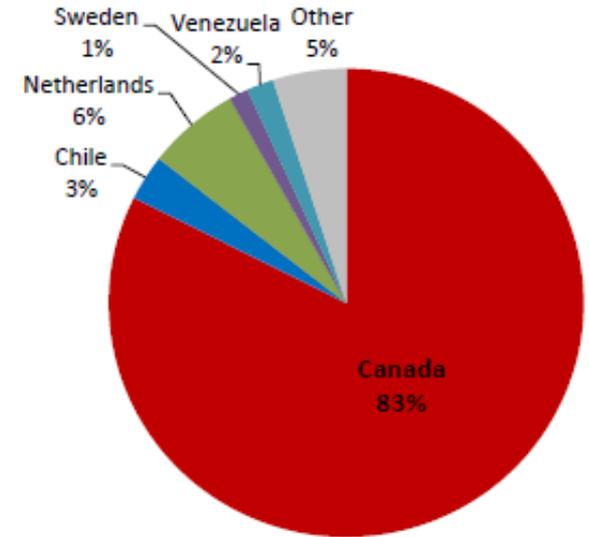
Canadian Mission Systems ISS
Revenue by End-User Country
(2010-2014)



Canadian Mission Systems ISS
Revenue by End-User Country
(2015-2019)



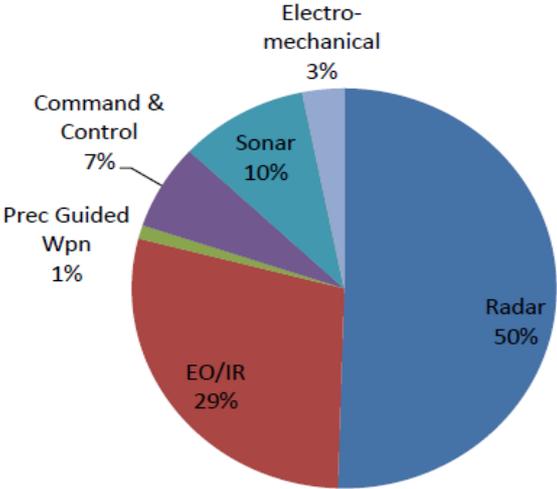
Canadian Mission Systems ISS
Revenue by End-User Country
(2020-2024)



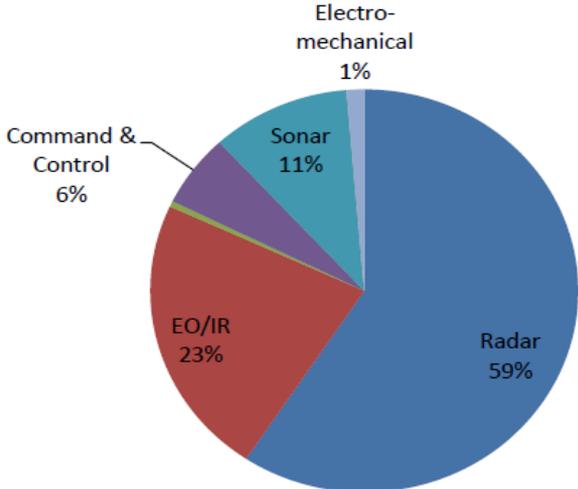
- Mission Systems ISS revenue in Canada is overwhelmingly derived from domestic requirements (>75%)
- Canada's dependence on domestic clients is expected to remain high in coming years

Mission Systems ISS – Halifax-class Frigate

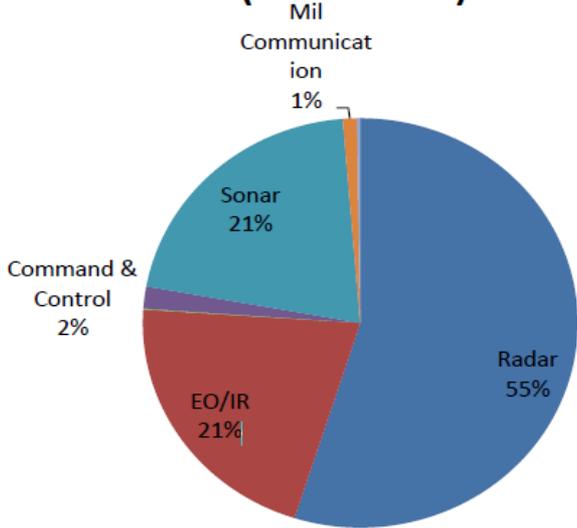
**Halifax Mission Systems ISS
Revenue by Market
(2010-2014)**



**Halifax Mission Systems ISS
Revenue by Market
(2015-2019)**



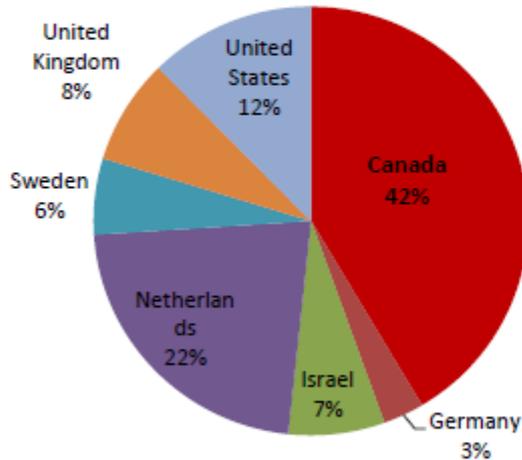
**Halifax Mission Systems ISS
Revenue by Market
(2020-2024)**



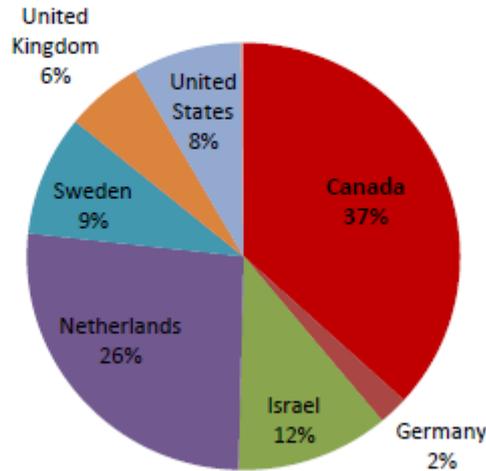
- In terms of Mission Systems ISS related to the Halifax-Class Frigates, approximately half the revenue is associated with radars
- The share of revenues associated with radars are expected to remain above 50% in coming years

Mission Systems ISS – Halifax-class Frigate

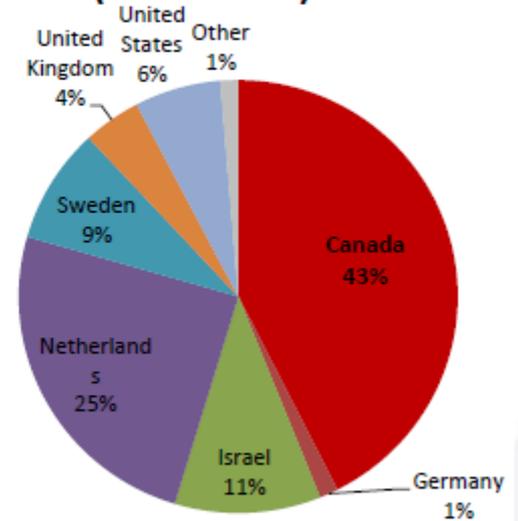
Halifax Mission Systems
ISS Revenue by COFA
(2010-2014)



Halifax Mission Systems ISS
Revenue by COFA
(2015-2019)



Halifax Mission Systems ISS
Revenue by COFA
(2020-2019)



- Canadian industry generates a large share of ISS revenue from the Halifax-class frigate
- ~60% of Halifax-Class mission systems ISS revenue is associated with foreign countries (i.e. source of supply)

Market Research and Analysis – Key Observations

- In general, Mission Systems ISS revenue is heavily derived off of radar systems activity
- Canada as a country provides only a small share of global ISS revenues
 - Domestic revenue is predominantly generated from domestic clients (e.g. navy requirements)
- Canada generates the overwhelming majority of Mission Systems ISS revenue from Sonar and EO/IR – areas in which Canadian industrial capabilities/capacity are more present
- Half of overall Mission Systems ISS revenue generated by the Halifax-class frigate are radar related where Canada has limited capacity
- The majority of Mission Systems ISS revenues are associated with foreign sources of supply

VP for HCCS ISS – Strategic Implications

- An opportunity to motivate labour-centric activities in the value chain in direct support the HCCS ISS requirement
- Canadian labour/industrial capacity/capability can also be leveraged for the benefit of other naval ISS requirements.
- There exists some opportunity to motivate R&D investments for the benefit of the defence/non-defence sectors of the Canadian economy.
- Exploring of economic opportunities through generating export value by attracting foreign-operated mission systems for labour-centric ISS work may occur.

HCCS ISSC - Proposed VP Direction

Objective(s):

- Maximizing the amount of Direct Canadian Content Value related to the HCCS ISS requirement.
- Incentivizing participation with the Canadian supply chain, including Small-and-Medium Business.
- Supporting innovation by encouraging investment(s) into R&D activities in support of Canada's economy.
- Encouraging the use of Canadian 3rd level Naval ISS/R&O services in support of international customers.

HCCS ISS - Proposed VP Evaluation Criteria

Defence Sector

- Commitment to undertake Direct Work in Canada specific to the procurement

Canadian Supplier Development

- Commitment to Work undertaken by Small and Medium Business suppliers in Canada
- Commitment to Work undertaken by Non Small and Medium Business suppliers in Canada

R&D

- Commitment to undertake R&D in Canada

Exports

- Commitment to use of Canadian 3rd level R&O/ISS services within the Naval Mission Systems segment in support of international markets/clients

VP Evaluation Questions - Defence Sector and Supplier Development

Questions for Consideration:

In addition to direct work, Canada is interested in leveraging work to Canadian suppliers

1. How much direct work, as a percentage of bid price, related to the HCCS ISS requirement could you undertake in Canada, and in what areas?
2. To what extent can you submit, at bid time, identified direct work transactions as a percentage of bid price?
3. What percentage of overall work do you foresee for Canadian suppliers (i.e. work not conducted in-house) in relation to direct work on the HCCS ISS?
4. What percentage of overall work do you foresee for Canadian Small-and-Medium-Business in relation to direct work on the HCCS ISS?

VP Evaluation Questions - Research and Development

Questions for Consideration:

To promote innovation and research and development involving industry and publically funded research institutions

1. How much R&D activity and in what areas are you currently undertaking yearly: a) in Canada, and b) Worldwide?
2. Do you plan on making future R&D investments in Canada in relation to this procurement? If so, in which areas?
3. Are there specific R&D areas which you believe should be incentivized through the Value Proposition? Please explain your answer.
4. How would you suggest R&D be measured and scored for VP? For example, commitment to a dollar expenditure on an annual basis, or as an overall percentage commitment of the contract value?

VP Evaluation Questions - Exports

Questions for Consideration:

1. Canada is considering as part of its evaluation of the export component of the VP, the award of points to bidders in their ability to provide 3rd level R&O/ISS in Canada in support of other work packages in the Naval Mission Systems Market. Do you believe this scope is feasible? Please explain your answer.
2. Within the scope of HCCS ISS, what other export opportunities could you bring to Canada?
3. Outside of the scope of the HCCS ISS, what other incremental export opportunities could you bring to Canada?
4. Based on your response to questions #1, #2 and #3 how should export activities be measured as part of Value Proposition evaluation?

VP Evaluation Questions - Other

Question for Consideration:

1. Are there other high-value business opportunities not captured under the criteria outlined on pg. 20 (Proposed VP Eval Criteria) which you feel would provide long-term economic benefits to Canada (as examples: Cyber Security, Skills Development, Intellectual Property/Tech Transfers, Cleantech)? Please explain your answer, while also indicating under which Value Proposition pillar (existing or new) that these activities should be captured under.
2. The Value Proposition for HCCS ISS may account for greater than 10% of the total evaluation score. To maximize long-term economic benefits and a solution that meets technical requirements, please provide a numerical percentage that you would recommend for overall HCCS ISS weighting, as well as a supporting rationale.
3. Based on your answers to questions #1 and #2, please provide your weighting recommendations for the pillars below.
 1. Defence Sector
 2. Supplier Development
 3. Research and Development
 4. Export
 5. Other Suggested Pillar(s) (if applicable)

Next Steps for Industry Engagement

- **Request for Information (August 2016)**
 - Outline proposed Value Proposition approach and questions for consideration
- **Receive initial feedback (November 2016)**
 - Receive industry feedback on proposed Value Proposition approach and questions for consideration
- **Review and Refine Requirements (December 2016 - August 2017)**
 - Present any refinements to the proposed Value Proposition approach as well present a proposed Value Proposition evaluation framework; and
 - If required, propose additional questions for consideration
- **Request for Proposal (December 2017)**
 - Bidder submission of a formal Value Proposition along with any other requested documentation

More Information

For more information on Industrial and Technological Benefits as well as the Value Proposition Guide, please visit: <http://www.ic.gc.ca/itb>

To provide time in responding to the Questions for Consideration, please provide your written feedback on the draft Value Proposition approach by no later than 4 November 2016.

Questions regarding clarification, as well as the scheduling of one-on-one meetings following the Request for Responses and Evaluation must be exclusively sent to the Contracting Authority:

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