



Industrial and Technological Benefits Policy

MIAC October 26, 2022

- Provide an overview of ISED's role in defence procurement, specifically, the application of Canada's Industrial and Technological Benefits (ITB) Policy
- Outline key elements of the ITB Policy, including the Value Proposition and Key Industrial Capabilities (KICs)
- Provide more information on how to get involved in defence procurement

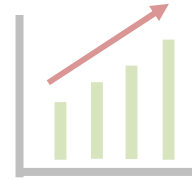
Capability



Contracting



Economic Benefits



Department of National Defence

Minister of National Defence

Defines Canada's technical requirements for the platform or service being procured

Public Services and Procurement Canada

Minister of Public Services and Procurement

Acts as the contracting authority, manages stakeholder engagement

Innovation, Science and Economic Development (ISED)

Minister of Innovation, Science and Industry

Determines Canada's requirements for economic benefits to create jobs and economic growth in Canada, through the *ITB Policy*

Description

Canada's main tool to leverage defence and Canadian Coast Guard (CCG) procurements for economic benefits

Summary

- Requires a firm awarded a defence or CCG procurement contract to undertake business activity in Canada equal to the value of the contract it has won (i.e., ITB obligation)
- A market driven approach that uses a Value Proposition framework to target business activities in specific areas that are identified through analysis and industry engagement
- Business activities resulting from an ITB obligation must meet specific eligibility criteria, including incrementality

Quick Facts

- Applies on all eligible defence and CCG procurements over \$100 million or to procurements to which the National Security Exception is invoked
- Defence procurements between \$20-100 million are reviewed for the possible application of the ITB Policy
- Supports the long-term growth and sustainability of Canada's defence industry
- Supports Canadian small and medium businesses *OR* Supports Canadian innovation
- Includes plans for regional distribution of work across Canada

Description

The detailed economic proposal that each firm submits as part of its bid, based on ISED's requirements

Summary

- Informed by evidence-based analysis and engagement; tailored to each procurement
- The Value Proposition is assigned a set number of points in a bid, and is scored along with technical and cost elements
- The Value Proposition enables ISED to target business activities across five pillars through mandatory and rated criteria

Value Proposition Pillars



Work In The Canadian Defence Industry

Support the long-term sustainability and growth of Canada's defence industry

Canadian Supplier Development

Support the growth of prime contractors and suppliers in Canada, including SMBs in all regions of the country



Research and
Development

Research And Development

Enhance innovation through R&D in Canada

Exports

Increase the export potential and international competitiveness of Canadian-based firms



Skills Development And Training

Fill skills and training gaps within the Canadian economy to support a more innovative Canada

Description

Industrial areas of emerging technology or established industrial strength in Canada that are important to the development of a globally-competitive defence industry

Summary

- Key Industrial Capabilities can be targeted by ISED as part of our Value Proposition requirements
- Each KIC has a definition which outlines eligible business activities, based on extensive analysis and engagement
- Maintaining and growing these sovereign industrial capabilities ensures that Canadian industry can provide our military with equipment and services they require

Emerging technologies

Advanced materials

Cyber Resilience

Artificial intelligence

Remotely-piloted systems and autonomous technologies



Clean Technology

Space Systems

Leading competencies & critical industrial services

Aerospace systems & components

Marine ship-borne mission and platform systems

Armour

Munitions

Defence systems integration

Shipbuilding, design and engineering services

Electro optical / infrared systems

Sonar & acoustic systems

Ground vehicle solutions

Training & simulation

In-service support

ISED determines the Value Proposition requirements for each procurement based on:

1. Evidence-based opportunity

There must be an evidence-based rationale to support our requirements (e.g., the capabilities of bidders and Canadian industry, market opportunities, etc.)

2. Procurement domain, type & purchase method

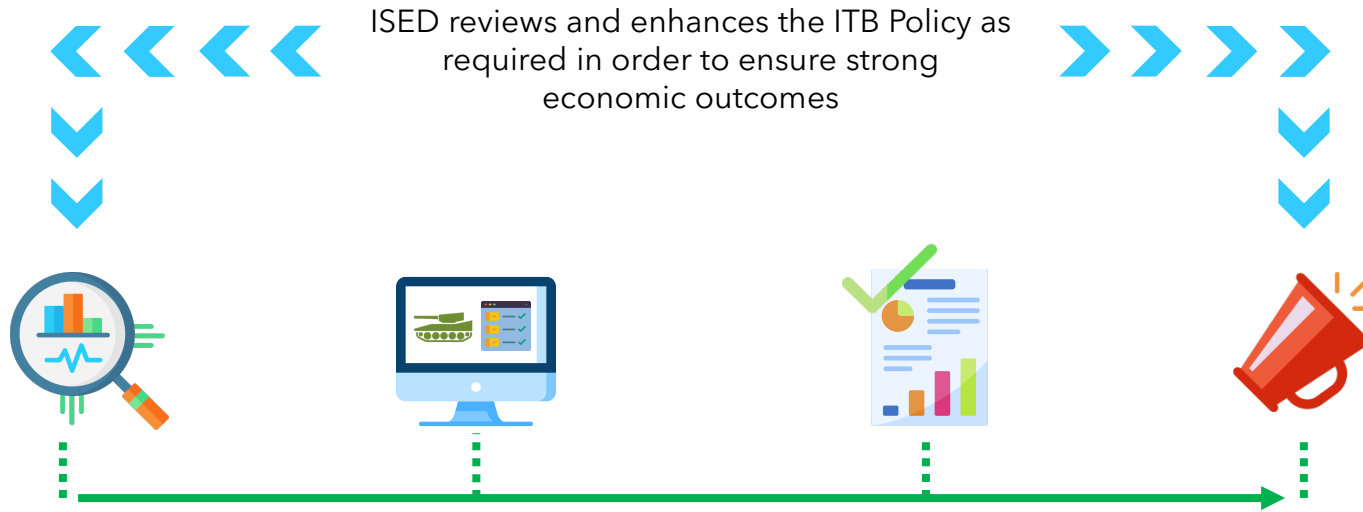
The domain (e.g., land, marine, aerospace), procurement type (e.g., sole-source, competitive), and purchase method (e.g., direct commercial sale, foreign military sale), all influence the design of the Value Proposition requirements

3. Alignment with technical requirements

Technical requirements are driven by the needs of the DND. ISED can use the Value Proposition to reinforce and support DND's desired outcomes for a given procurement

Management of the ITB Policy

UNCLASSIFIED



Developing economic benefit requirements	Evaluating bids	Verification of economic benefits	Reporting on progress
ISED develops the Value Proposition requirements on a procurement-by-procurement basis	ISED, with support from the Regional Development Agencies (RDAs), evaluates the Value Proposition proposals of bidders	A successful contractor must report annually on progress toward fulfilling its ITB obligation(s)	ISED publishes annual reports on contractor progress and the economic outcomes of the Policy

A successful contractor undertakes business activities - called transactions - to fulfill an ITB obligation; transactions are measured in Canadian Content Value (CCV)

Direct

A business activity directly related to the equipment or services being procured (e.g., in-service support)

Indirect

Strategic investments or business activities in other areas (e.g., research & development, commercial sector work)



Production of drive sprockets for Canada's new tank fleet



Engine maintenance for Canada's military transport aircraft fleet



Research in small satellite technology



Supply chain work on commercial aero platforms

CCV is measured in Canadian dollars and is the portion of the product or service (transaction) that includes Canadian costs

Includes

- Components of Canadian origin
- Wages paid to Canadians or permanent residents
- Utilities, maintenance, and rent paid in Canada
- Profit taxable in Canada

Excludes

- Parts imported into Canada
- Wages, royalty and license fees paid to non-Canadians
- Bid preparation costs
- Taxes, duties, and lobbyist fees

Example



Transaction: Drive Sprockets

CCV: 80%

Transaction Value: \$4,000,000

Credited Value (CCV): \$3,200,000

89

Active
Contracts

\$44 B

in ITB
Obligations

\$28.9 B

Completed

\$6.5 B

Activities in
Progress

Creating jobs and growth across Canada

The ITB Policy is contributing to an economic impact of close to 41,000 jobs and more than \$4.6 billion to GDP annually

Building partnerships with SMBs

Active ITB projects are supporting more than 450 SMBs across the country

Supporting innovation and skills development

Over 70 academic and research organizations are benefitting from innovation and skills commitments

Gender and Diversity Plan

There are 8 currently active projects with Gender and Diversity plans describing how they will achieve gender balance and increase diversity within their Canadian corporate structures and broader supply chains in Canada

1

Understand the ITB Policy and Defence Procurement

See the annexes for links to further background on the ITB Policy, defence procurement in Canada, and the Regional Development Agencies

2

Identify Prime Contractors in Your Target Domain

Identify major prime contractors involved in defence procurement, and where your organization could fit in terms of supply chain, business lines, and research priorities

3

Determine the Canadian Content Value of Your Product or Service

Determine the CCV of your product or service; this is your competitive advantage! Instructions on how to do this can be found in the ITB Model Terms & Conditions: https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00011.html#art9

4

Engage your Regional Development Agency

The RDAs have a mandate to advance and diversify our regional economies, and can help connect companies with prime contractors.

- The ITB Policy is an essential tool to support the long-term sustainability and growth of Canada's sovereign defence industrial base. The Policy is:
 - Encouraging prime contractors to establish or grow their presence in Canada;
 - Supporting Canadian suppliers, including SMBs, in all regions of the country;
 - Enhancing innovation through R&D in Canada;
 - Increasing the export potential of Canadian-based firms; and
 - Promoting skills development and training for Canada's workforce.
- Please reach out to the ITB Branch if you require additional information on the Policy or are interested in other resources available at ISED

Annexes



The ITB Policy seeks to motivate innovative R&D and skills development; this includes through the use of ITB credit multipliers below

x5 R&D activities with a **Post-Secondary Institution or Public Research Institution.**

Consortium - must involve:

- x5 • Contractor with an ITB obligation
- Canadian-based company
- Post-Secondary Institution or Public Research Institution

Investment Framework, which provides multiplied credits for R&D investments into SMBs:

x9 Cash for R&D activities, or License for IP

x7 Cash to purchase, or in-kind transfer of, Equipment

x4 In-kind transfer of Knowledge and/or Marketing/Sales Support

x5 Contribution to **Skills Development and Training for Indigenous Peoples** or majority Indigenous-controlled educational training facilities

x5 Cash contribution to a **Venture Capital Fund** to assist the growth of Canadian SMBs

Causality

The ITB obligation must be a factor in the decision to undertake business activities in Canada

Incrementality

Activities must represent new work

Timing

Business activities must occur within the ITB achievement period

Eligible Donor

Transactions must involve Eligible Donors that meet the definition specified in the contract

Recipient

Transactions must have one Recipient, unless it is a Grouped Transaction. Government organizations cannot be Recipients, unless it is a Public Research Institution

Minimum CCV* (Applies only to indirect)

Must have a minimum CCV of 30%

Minimum Technology Level* (Applies only to indirect)

Must a similar or higher level of technology than the project

Alignment with Other Policy Features

Transactions must comply with other criteria and valuation features outlined within the ITB Terms & Conditions for a given project

Banking is a feature of the ITB Policy that allows **potential contractors and Tier 1 sub-contractors** to undertake business activities in Canada before the timeframe of a procurement and bank eligible activities for credit to fulfill future ITB obligations

- It provides increased flexibility and risk reduction in ITB planning
- Key features include:
 - A banked activity may remain in the bank for up to 10 years
 - Banked activities can help meet up to 50% of an ITB obligation
 - A company may apply to bank eligible overachievements resulting from completed ITB obligations
- For more details, visit the Introduction to ITB Banking:
<https://www.ic.gc.ca/eic/site/086.nsf/eng/00044.html>

- Canada's defence industry is innovative, export-driven, and pan-Canadian. It contributes close to 78,000 jobs and \$9.2B in GDP to the Canadian economy in 2020
 - Over \$6.5B in exports, with close to 55% accounted for by exports to Canada's Five Eyes partners
 - The defence industry's R&D intensity was over 3X greater than the Canadian manufacturing sector average in 2020
 - Firms with fewer than 250 employees represented close to 90% of firms in the industry in 2020
- In 2020, Canada's defence industry outperformed the broader manufacturing sector across industrial indicators between 2018-2020
- More information can be found in the State of Canada's Defence Industry 2022, available here: https://www.ic.gc.ca/eic/site/ad-ad.nsf/eng/h_ad03978.html

- Canada has leveraged defence procurements for economic benefits since the late 1970s, and formalized this process in 1986 with the introduction of the Industrial and Regional Benefits (IRB) Policy
- In 2014, the IRB Policy was transformed into the Industrial and Technological Benefits (ITB) Policy, which included the addition of the Value Proposition and other tools
- Several countries (e.g., Australia, Finland, Italy, Japan), leverage defence procurements for economic benefits through similar offset policies and tools
- Others (e.g., United States, France), do not have official offset policies, but support industry through other means (e.g., domestic sourcing of defence platforms and systems)

Details

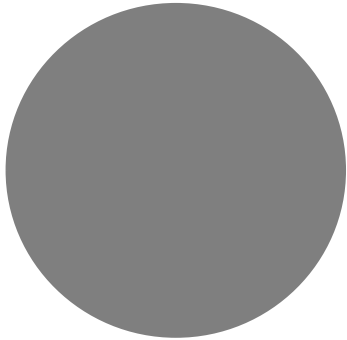
- Under the ITB Policy, an “SMB” means a Canadian Company with fewer than two hundred and fifty (250) full-time personnel as of the date of entering into a transaction*
- The ITB Policy has a number of tools designed to motivate business activities in SMBs

ITB Policy Tools

- 1 Requirement for 15% of Contract Value in SMBs**
Bidders must carry out work activities with SMBs equal to a minimum of 15% of the contract value; Points in the Value Proposition can incentivize additional work
- 2 Canadian Content Value ‘Boost’**
Transactions with SMBs valued at \$1 million or below with CCV of at least 70% will be deemed to have 100% CCV for crediting and reporting purposes
- 3 Investment Framework**
Crediting tool designed to encourage long-term R&D investments with Canadian SMBs

*Subsidiaries of the Prime Contractor or subsidiaries of an Eligible Donor on any contract with an ITB obligation do not qualify as an SMB. An agent or a distributor of foreign goods and services does not qualify as an SMB.

The **Investment Framework** is a tool to encourage contractors to make long-term investments in Canadian SMBs involving R&D and commercialization activities



CC-130J Super Hercules Tactical Airlift

- Lockheed Martin agreement with MANNARINO Systems
- Cash for R&D activities and commercialization
- 9x multiplier

Initial Investment:	\$10,000,000
CCV:	100%
Credited Value:	<u>\$90,000,000</u>

The **Consortium transaction** is a crediting tool to encourage contractors to make collaborative partnerships with Canadian firms and post-secondary institutions

- Contractors that invest in a consortium may claim the contributions of the members they bring in, up to a matching value of their own contribution
- Contributions from Government, Post-Secondary Institution and Public Research Institutions are excluded
- Cash contributions receive a 5x Multiplier

Partners	Cash Contribution
Contractor	\$10,000
Partner A	\$5,000
Partner B	\$6,000 (\$5,000 Eligible)
University C	\$3,000 (Excluded)
TOTAL	$10,000+5,000+5,000 = 20,000$ $20,000*5 = \mathbf{\$100,000 Credit}$



Work In The Canadian Defence Industry

Objective: Support the long-term sustainability and growth of Canada's defence industry

Example: *Direct* - In-service support of radar systems for a Royal Canadian Air Force aircraft fleet

Canadian Supplier Development

Objective: Support the growth of prime contractors and suppliers in Canada, including SMBs, in all regions of the country

Example: *Indirect* - Purchase of aerospace parts from a Canadian supplier for a commercial aerospace platform



Research and Development

Research And Development

Objective: Enhance innovation through R&D in Canada

Example: *Direct* - Vessel construction design & engineering services for a Royal Canadian Navy platform

Exports

Objective: Increase the export potential and international competitiveness of Canadian-based firms

Example: *Indirect* - Export of Canadian parts for a commercial aerospace platform



Skills Development and Training

Objective: Fill skills and training gaps within the Canadian economy to support a more innovative Canada

Example: *Indirect* -The purchase of equipment for a Canadian training program related to skilled trades

The ITB Policy

To learn more about the ITB Policy, including the Value Proposition and KICs, please visit:

- ISED - ITB Policy - How to Get Involved
https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00113.html
- ISED - ITB Policy - Value Proposition Guide
<https://www.ic.gc.ca/eic/site/086.nsf/eng/00006.html>
- ISED - ITB Policy - Model Terms & Conditions
https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00011.html
- ISED - ITB Policy - Key Industrial Capabilities
https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00175.html
- ISED - ITB Policy - Success Stories
https://www.ic.gc.ca/eic/site/086.nsf/eng/h_00196.html
- ISED - ITB Policy - Projects and Obligations
<https://www.ic.gc.ca/eic/site/086.nsf/eng/00070.html>

ISED Policies and Programs

To learn more about other ISED policies and programs that may be of interest, please visit:

- ISED - Business Benefits Finder
https://innovation.ised-isde.canada.ca/s/?language=en_CA&lang=eng
- ISED - CyberSecure Canada
<https://ised-isde.canada.ca/site/cybersecure-canada/en>
- ISED - Global Innovation Clusters
<https://ised-isde.canada.ca/site/global-innovation-clusters/en>
- ISED - Safeguarding Your Research
https://www.ic.gc.ca/eic/site/063.nsf/eng/h_97955.html
- ISED - Strategic Innovation Fund
<https://www.ic.gc.ca/eic/site/125.nsf/eng/home>

Other Government of Canada Policies and Programs

To learn more about other Government of Canada policies and programs that may be of interest, please visit:

- DND - Innovation for Defence Excellence and Security
<https://www.canada.ca/en/department-national-defence/programs/defence-ideas.html>
- PSPC - Procurement Assistance Canada
<https://buyandsell.gc.ca/procurement-support-for-businesses>
- PSPC - Procurement Strategy for Indigenous Businesses
<https://www.sac-isc.gc.ca/eng/1100100032802/1610723869356>
- Global Affairs Canada (GAC) - Trade Commissioner Service
<https://www.tradecommissioner.gc.ca/index.aspx?lang=eng>
- GAC - CanExport
<https://www.tradecommissioner.gc.ca/funding-financement/canexport/index.aspx?lang=eng>
- GAC - Export Permits and Controls
<https://www.international.gc.ca/controls-controles/military-militaires/handbook-manuel.aspx?lang=eng>

Defence Procurement in Canada

To find out more about Canada's Defence Procurement Strategy, details on current procurements, and upcoming Government of Canada tenders, please visit:

- PSPC - Defence Procurement Strategy
<https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/index-eng.html>
- DND - Defence Capabilities Blueprint
<http://dgpaapp.forces.gc.ca/en/defence-capabilities-blueprint/index.asp>
- PSPC - Buy and Sell
<https://buyandsell.gc.ca/>

The Regional Development Agencies

Canada's RDAs help advance and diversify our regional economies, and support thriving local communities. There are seven RDAs across Canada:

- Atlantic Canada Opportunities Agency
<http://www.acoa-apeca.gc.ca>
- Canadian Northern Economic Development Agency
<https://www.cannor.gc.ca>
- Canada Economic Development for the Quebec Region
<http://www.dec-ced.gc.ca>
- Federal Economic Development Agency for Southern Ontario
<http://www.feddevontario.gc.ca>
- Federal Economic Development Agency for Northern Ontario
<http://fednor.gc.ca>
- Prairies Economic Development Canada
<https://www.canada.ca/en/prairies-economic-development.html>
- Pacific Economic Development Canada
<https://www.canada.ca/en/pacific-economic-development.html>

For general questions related to the
ITB Policy and Value Proposition,
please contact:

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