

Overview of Canada's Industrial and Regional Benefits (IRB) Policy

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What is an IRB?

- An IRB (Industrial and Regional Benefits) requirement is a contractual commitment by a prime contractor to place work in Canada.
- Approved by Cabinet in 1986, the IRB Policy provides the framework for using federal government procurement to lever long-term industrial and regional development.
- IRBs are mandatory for projects over \$100 million and discretionary in the \$2-100 million range.

IRB Principles and Objectives

- Principles:
 - Operational requirements (of DND, Coast Guard, CSA) must be met.
 - IRB transactions must make business sense to all parties involved.
- Objectives:
 - Long-term industrial and regional development:
 - High quality technology,
 - Lasting economic value,
 - Provide opportunities and access to export markets for Canadian industry.

IRB Eligibility Criteria

- Benefits must be brought about due to the IRB obligation to Canada (Causality).
 - The work would not have been placed in Canada otherwise.
- Benefits must be completed within the contract period (Timing).
 - Begins after release of LOI or RFP and ends with final delivery.
- Only Canadian Content of work is counted towards the IRB obligation (Canadian Content Value).
 - Only Canadian labour and Canadian materials.
- Must be new work in Canada (Incrementality).
- Benefits must be high value added and sustainable in nature.
 - Same level of technology as the platform being procured by the Government.

IRB Policy Changes of September 24, 2009

- Industry Minister Tony Clement announced seven changes, each of which appears to be well aligned:
 - with industry suggestions of the recent past; and,
 - with what appears to be an added objective of the IRB Policy.

**Increased participation of
Canadian firms in
Global Value Chains**

Is the significance marginal or is it real change and real flexibility ?

■ Practical changes

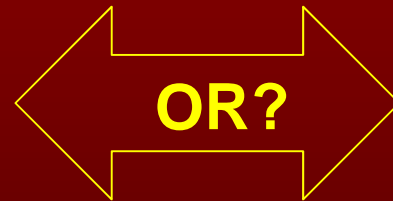
1. *Strategic Plan*
2. *Up-front Requirement*
3. *Direct IRBs*
4. *Banking of Credits*

■ Unclear changes

5. *Public-Private Consortia*
6. *Firm Level R&D and Commercialization*

■ No Real change

7. *Priority Technology List*



■ More flexible approach

■ More strategic outcomes

1. Strategic Plan:

- Bidders will be required to provide a strategic plan for achieving IRB obligations in Canada. The expectation is for considerable detail. It can be expected that evaluators will be looking for a convincing package that can reasonably be expected to achieve the Policy Objective:
 - Strategic, longer-term commercial relationships;
 - Substantive, market-leading business initiatives; and,
 - Position Canada on the world stage.

2. Up-front Requirement:



- Previous experience requiring 60% of the IRBs to be identified at signing created enormous challenges and now they have set the requirement to 30% at signing and another 30% a year later with balance over the remaining contract period.

3. Banking of Credits :

- This is a reversal of the previous policy which would only credit activity as a direct result of the government's decision to procure. The previous policy generally set the date of the RFP as the eligibility date.
 - Now, Primes may be offered a limited form of banking of credits in advance of a contract award.
 - They may be able to bank credit for going beyond the contract requirement.
 - While good news, there remains many detailed questions to be answered around what will and will not be eligible for this credit and what discount rates may apply.

4. *Direct IRBs and Global Value Chains:*

- Most RFPs will stipulate a percentage of “Direct” (Canadian value added on the specific items being procured by Canada) and “Indirect” (Canadian value added on other products) IRBs. This will likely continue.
- However “Direct” is being redefined to include the value of work on products equivalent to those procured by Canada.
- This is consistent with the new objective of increased participation in Global Value Chains and as such is a helpful change for companies making a long term commitment to Canada.
- Exactly how credits will be counted remains to be seen.

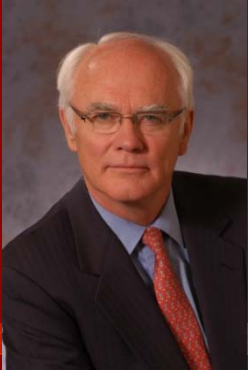
5. Public-Private Consortia:

6. Firm Level R&D and Commercialization

- The government will “encourage” and will provide “incentive” for consortia to develop technologies.
 - The announcement provided no details on what is meant by “encourage” or “incentive” or which technologies are eligible.
 - Although one expects the list of Priority Technologies to play.
- The government will “encourage” companies to invest in long term innovation in SMEs.
 - The announcement provided no details on what “encourage” may mean.

7. Priority Technology List:

- The government will continue to require a percentage of the IRBs be in support of specific technologies. They have announced they will expand this priority technology list. The list was always intended to evolve over time and as a result this is not a policy change per se:
 - I. Advanced Manufacturing And Emerging Materials
 - II. Avionics And Mission Systems
 - III. Communication And Control
 - IV. Propulsion And Power Management
 - V. Security And Protection
 - VI. Sensors
 - VII. Simulation, Training And Synthetic Environment
 - VIII. Space
 - IX. Unmanned Vehicle Systems



TOM WRIGHT

Vice President

- Tom Wright's 35 years as a senior executive, policy maker and problem solver with the Government of Canada brings a unique mix of experience and expertise to the challenges of working effectively with government.
- Mr. Wright began his government career in 1972 as Special Assistant to the Hon. Herb Gray and subsequently served as his Executive Assistant at Industry, Trade and Commerce. He then joined the Public Service which culminated with his appointment as Assistant Deputy Minister, Industry Sector at Industry Canada in 2006.
- A problem solver and trouble shooter throughout his career in government, Mr. Wright was sought out to lead a wide array of key federal government files through periods of change. In Industry Canada, he led organizations that addressed competitiveness challenges in a range of sectors including aerospace and defence, automotive, transportation, resource and environmental industries. Tom also served as Deputy Director of the Competition Bureau responsible for Fair Business Practices and he was Executive Director of the Technology Partnerships Canada program prior to assuming the duties of Assistant Deputy Minister at Industry Canada.
- Mr. Wright holds degrees from the University of Windsor (Political Science) and the University of Toronto (MBA) and is a graduate of the National Defence College of Canada.

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KEN PENNIE

Senior Associate

- Ken Pennie brings several years as a senior military leader, a professor of business strategy and as a defence consultant to bear on government relations. Having served in all three services, he intimately understands global defence and aerospace operations, at both the operational and strategic levels. He served as an Air Force pilot, rising to become Chief of the Air Staff, head of Canada's Air Force.
- From serving as a requirements director for the Army and for the Air Force on separate occasions and as Director General Strategic Planning for National Defence, Ken has an excellent understanding of DND and the procurement process. In the latter capacity he oversaw the development, prioritization and programming of DND major procurement requirements. This included the acceptance of all major DND projects, both internally through to DND approvals and externally through to government approval in Cabinet.
- Mr. Pennie commanded Army Aviation 10 Tactical Air Group and has significant experience in military simulation. In addition, he was Deputy Commander of NORAD during the 9/11 attacks. Since retiring from the Canadian Forces, Ken has taught business strategy at Carleton University and providing strategic advice to international firms seeking to do business with the Government of Canada.
- Mr. Pennie is a graduate of the Royal Military College and a graduate of the Norman Patterson School of International Affairs at Carleton University with degrees in international relations. His PhD is from the London School of Economics. He is also a graduate of several Canadian Forces colleges as well as the Royal College of Defence Studies in UK.

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HOWARD MAINS Co-President

- Howard Mains has more than 25 years of combined public service, business and consulting experience, affording him the distinctive ability to implement highly effective government relations strategies for private sector clients.
- Mr. Mains has offered strategic counsel to a diversity of Canadian and international companies on all facets of health and environment issues as well as the complex field of government procurement. He has provided hands-on assistance to financial service firms, property developers, information technology management and defence technology companies competing for government contracts ranging from the Canadian Forces Supply System Upgrade to most recently the Public Service Health Care Plan.
- Before joining TACTIX in 1998, Mr. Mains was a member of the environmental and public affairs practice groups of Burson-Marsteller and National Public Relations. From 1985 to 1989, he served on the staff of the Minister of Public Works and Government Services. In addition to earning an MBA from the Richard Ivey School of Business, Mr. Mains holds a B.Sc. from Cornell University and is a graduate of Kemptville College of Agricultural Technology.

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