

# Military Procurement Negotiations Losing the Leverage

The awarding of procurement contracts should be an economic bonanza for Canadian companies. Unfortunately, the way these contracts are being awarded seriously limits the industrial benefits that Canadian companies had hoped to reap.

Value of current contracts, in billions of Canadian dollars:

1. Strategic Aircraft – \$3.4
2. Tactical Aircraft – \$4.9
3. Heavy-lift Helicopters – \$4.7
4. Replenishment Ships – \$2.9
5. Transport Trucks – \$1.2
6. Search and Rescue Aircraft – \$3.0

Canadian taxpayers will be footing this \$20 billion bill.

## THE CONTRACTING PROCESS

Four government departments are involved in the contracting process:

### • National Defence (DND)

The Department of National Defence is responsible for determining the technical specifications, based on the requirements of the Armed Forces.

Even at this early stage, it is possible to target a particular company or exclude others. This is done by stipulating several very specific technical requirements. In this way, the Department identifies equipment that only one company can produce. For example, in the case of the tactical aircraft, the Department's specifications clearly indicated a marked preference for the Lockheed Martin C-130J.

I want to make it clear that I am not questioning the government's choice of aircraft; rather, I am questioning the way the process was made to appear as an open invitation to tender when, in fact, the dice were obviously loaded in favour of the C-130J.

Once the specific requirements have been determined, National Defence brings the Department of Public Works and Government Services into the process.

### • Public Works and Government Services Canada (PWGSC)

PWGSC is responsible for the actual tendering process, which can be dealt with in three ways:

#### – *Invitation Open to all Suppliers*

This is the fairest, most open and most transparent process; however, it is often very time consuming. This process was not used in the recent large contracts.

#### – *Advance Contract Award Notices*

This process was used for the C-17 strategic aircraft and heavy-lift Chinook helicopters.

In my view, this procurement process is extremely risky because it compromises the government's ability to negotiate. The government is publicly stating that it firmly intends to negotiate with only one company; in this particular case, Boeing.

Furthermore, the contract stipulated only 60% of industrial benefits be linked to aerospace. Of course, I understand that it is not possible for a single Canadian company to fill all of the contracts, however, as you know, the aerospace industry in Canada is technically sophisticated and the value added is significantly important to this sector of Canadian industry.

#### – *Solicitation of Interest and Qualification*

This approach was used for the Lockheed Martin Hercules C-130J tactical aircraft. With this method, the government also compromises its ability to negotiate.

In this case, PWGSC announced its intention to purchase a type of aircraft with such specific technical requirements (chosen by DND) that everyone in the industry recognized could only be met by the Hercules C-130J platform.

The government wants it to look like it is playing fair by inviting other suppliers to attempt to demonstrate that they will be able to meet these very specific criteria.

### • Industry Canada

Once the contracting process has been determined, Industry Canada is asked to identify Canadian companies that may be able to provide the required product or service.

### • Treasury Board

Treasury Board finalizes the agreement and ensures that its policies have been respected.

## CONCLUSION

My concern is that both Canadian taxpayers and industry seem to be getting the short end of the stick as European companies, among others, are being eliminated by various means.

In the absence of a competitive environment, the preferred supplier (in this case it appears to be all U.S.-based companies, which could also be interpreted as a "political gift" to our neighbours) has the upper hand and the Government of Canada is left with zero negotiating power. The discrepancies surrounding industrial benefits from these contracts prove this point: the Boeing contract specified 60%, which is bad enough, but the Lockheed Martin contract stipulated only 50% industrial benefits to aerospace.

Conversely, a competitive environment would allow Canada to negotiate the best price and give us the advantage in related requirements such as concessions on early deliveries and industrial offsets.

Clearly, open competition that does not exclude strong contenders will satisfy taxpayers and local industry alike, while delivering the desired equipment to the Canadian Forces in the most efficient and rapid manner as all parties' interests will be addressed. **FL**



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