

# **INDUSTRIAL AND REGIONAL BENEFITS (IRB) POLICY**

**INDUSTRY CANADA**

October 8, 1996

## **Introduction**

Many industrialized nations use a combination of subsidies and preferential procurement practices to support domestic industries of strategic importance. Strategic sectors include: defence, aerospace, transportation, communications, information technologies, research and development.

Federal government efforts to develop Canadian industry through Canadian procurement

policy date back to the second world war. However, initial attempts to leverage procurement to achieve industrial benefits objectives began in 1974 with the Department of National Defence (DND) procurement of the Aurora Patrol Aircraft. This was followed by the procurement of the CF-18s. These early efforts resulted in contracts with limited direct Canadian industrial participation; the majority of the benefits were indirect.

## **Industrial and Regional Benefits Policy**

The Industrial and Regional Benefits (IRB) Policy, as approved by Cabinet in 1986, provides direction for using federal procurement as a lever to promote industrial and regional development objectives by focusing on long-term industrial development and de-emphasizing short-term benefits. Long-term benefits include but are not limited to:

- technology transfers;
- joint ventures or strategic alliances;
- investments;
- product mandates, licences, marketing agreements;
- regional and small business development; and
- access to new international markets.

Significant emphasis is also placed on increasing direct Canadian industrial participation leading to the creation of sustainable jobs. However, it should be acknowledged that there are procurement areas and some projects that do not lend themselves to direct project participation. In these cases, high quality, indirect activities in other fields would be more appropriate.

The IRB policy is implemented within a framework of government priorities in relation to federal procurement. As approved by Cabinet in the 1988 Canadian Annual Procurement Strategy (CAPS), and reconfirmed in the 1989 CAPS, federal government procurement objectives, in descending order are:

- operational requirements, competition, fairness and accessibility;
- long-term industrial and regional development; and
- other national objectives

The IRB policy has evolved in response to trade liberalization efforts and the need for more strategic application in high-technology sectors such as aerospace, defence electronics and space. The IRB policy is also used to counter the array of policy instruments used by foreign nations to promote these sectors. These instruments include state ownership, state funding of research and development, cost reimbursable contracting, export financing and preferential procurement practices.

In addition to ensuring high levels of Canadian participation, either directly or indirectly, technology enhancement and skills development, the IRB policy is used as a means to promote Canadian industrial capabilities to foreign companies. It helps develop new business relationships by giving foreign firms a vested interest in identifying and undertaking new business ventures in Canada.

## **Regional Development**

Cabinet approved the IRB policy with the understanding that special provisions may be necessary for developing regional economies and the defence industrial base. Specifically,

where difficult economic circumstances exist in a particular region, effort may be made to maximize benefits to that area from large procurements. In this regard, Ministers may establish objectives for a minimum share of industrial benefits for a particular region or regions. In recent practice, Ministers have only specified shares for specific regions in exceptional cases.

## **Implementation of the IRB Policy**

The IRB policy is applied to select procurements that are valued greater than \$2 million and not subject to NAFTA or World Trade Organization (WTO) procurement agreements. Sectors excluded from coverage under the NAFTA and the WTO are:

- Defence (specific products and services related to national security)
- Shipbuilding and repair;
- Urban transportation equipment;
- Canadian Space Agency procurement;
- Communications;
- Information technologies; and
- Research and development.

## **Major Crown Projects**

For procurement within Major Crown Projects (MCP), usually over \$100 million or as designated by Cabinet, formal interdepartmental project management offices (PMOs) and Senior Project Advisory Committees (SPACs) are established in accordance with Treasury Board's policy and management guidelines for MCPs. The operational department sponsoring the procurement project (usually DND) is the lead department with responsibility for overall project management and for seeking the required project approvals and reporting on progress to Treasury Board. Public Works and Government Services Canada (PWGSC) is the project contracting authority. Industry Canada has lead responsibility for the IRB program, however, ACOA, WD and FORD-Q, each have equal representation on the SPAC.

## **Development of the IRB Strategy**

The initial step in the IRB process is the identification of a procurement opportunity with significant size and lead time that provides a lever for industrial and regional development. Industry Canada in cooperation with the regional agencies develops an IRB strategy to reflect the opportunity to promote both strategic sector and regional development objectives. One or more Cabinet Committees may be required to approve the project at both the project approval-in-principle and the project implementation stage depending on the nature and/or size of the MCP. It is usually at the project approval-in-principle phase that Cabinet may direct that a particular objective is to be incorporated as one of the IRB and/or procurement strategy objectives.

## **IRB Strategy and the Request for Proposal (RFP)**

Once the procurement and IRB strategies have been approved, industry is informed via the Request For Proposal (RFP) to qualified bidders of the broad IRB objectives and advised what types of business activities are eligible for consideration as industrial benefits, and how the proposed transactions will be evaluated. The IRB provisions of the RFP are not usually

prescriptive, but rather seek to enunciate specific objectives within the context of a broad strategic framework. This flexibility allows companies to match their proposed IRB transactions with their business development strategies. Only on an exceptional basis does Cabinet give specific direction to source in a particular region or from a preferred supplier.

## **Evaluation of IRB Proposals**

In a competition, bids are evaluated on a overall "value for money" basis which includes consideration of technical merit, risk, cost, and industrial and regional benefits. The winning bidder does not necessarily have to present the best IRB proposal. Once the bid evaluation is complete and the results integrated, the evaluation team first briefs on the evaluation results to the SPAC, then to Cabinet committees as appropriate. Ultimately, based on the evaluation results and the project team's recommendations, Ministers make the final decision and announce the winning bidder. Approval to proceed into contract is sought from the Treasury Board.

## **IRB Contract Commitments**

The winning bidder's IRB proposal forms the basis for negotiations with Industry Canada. Once agreed to, industrial and regional benefit commitments are embodied within the procurement contract and become legally enforceable obligations of the prime contractor. Generally, the prime contractor flows-down the IRB commitments to the major sub-contractors.

## **Procurement Review Cases**

Procurements outside of MCPs and over \$2 million are reviewed by the Procurement Strategy Committee (PSC), which screens all short-term procurement opportunities as submitted by operating departments in the Short-Range Acquisition Plan (SRAP). The PSC, chaired by PWGSC, is comprised of operating departments such as National Defence and Transport Canada, and industry and policy departments: Industry Canada, WD, ACOA, FORD-Q, Indian and Northern Affairs, Environment, Human Resources Development, National Research Council, Finance, Foreign Affairs and International Trade and Treasury Board Secretariat.

Cases of strategic value to Canadian industry (exempt from the GATT and NAFTA) are identified for review by the PSC, and targeted for application of the IRB policy or other national objectives. Procurement strategies for these cases are jointly developed by PWGSC and the operating departments. Procurement strategies are then reviewed by the PSC. After reviewing these cases, the PSC may recommend changes to the procurement strategy. Often changes to the procurement strategy entail limiting the procurement to Canadian suppliers or directing the procurement to a specific Canadian supplier. In exceptional cases of strategic value or size, formal IRB programs are requested in the procurement strategy.

Aside from repair and overhaul, shipbuilding and select military and national security procurements, PWGSC publishes almost all procurements on the Open Bidding System (OBS), including those procurements which may not be subject to the provisions of the GATT and NAFTA.