



CENTRE FOR INTERNATIONAL AND DEFENCE POLICY

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Military Procurement and the 2015 Election

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Election campaigns are by their nature kaleidoscopic: issues move in and out of focus in largely unpredictable ways. For much of the 2015 campaign, defence procurement was a completely invisible issue. And then, on 20 September, it was thrust into the spotlight when Justin Trudeau outlined what a Liberal government would do in the area of defence policy, including the publication of a new defence white paper and an end of what Trudeau described as the “paralysis” of defence procurement. He promised to increase investment in the Royal Canadian Navy, and to launch an “open and transparent competition” to replace Canada’s aging CF-18 *Hornet* fleet. But not entirely open: Trudeau asserted flatly that “We will not purchase the F-35 stealth fighter-bomber.” In other words, a Liberal government would not even permit Lockheed Martin to compete in the CF-18 replacement.

As Trudeau unveiled the Liberals’ defence policy, the Conservatives no doubt marveled at how *fortuna* in politics can so often work its magic. To that point in the campaign, both the Liberals and the New Democrats had given the government of Stephen Harper a complete pass on the issue of defence procurement. Neither opposition party had made an issue of the fact that many of the large number of defence procurement projects between 2006 and 2015

have been embarrassing failures. Hundreds of millions of dollars have been wasted by the Conservative government’s inability to organize defence procurement more effectively, most commonly through loss of purchasing power caused by delays.¹ Moreover, these procurement failures have had a highly negative impact on the capabilities of the Canadian Armed Forces—and will continue to do so far into the future. Given all this, one might think that, right from the outset, the opposition parties would have fixed on defence procurement as an issue that spoke to the competence of the Harper government to manage the national security file. But the opposition remained silent, and the Conservatives, not surprisingly, were not about to draw any attention to this embarrassing area of policy.

And when defence procurement was finally thrust onto the campaign agenda by Trudeau, the Conservatives were indeed lucky that instead of shining a light on the string of failed defence procurements, the Liberal leader managed in just eight words to deflect attention from the pitiful state of defence procurement in Canada, and instead focused all attention on his promise to abandon the F-35 altogether. It gave the prime minister an opportunity to wonder what planet the Liberals were on, and Tom Mulcair, the leader of the opposition, an opportunity to give Trudeau an elementary lesson in public administration on what an “open” competition is supposed to look like.

However, the furore created by Trudeau’s promise to abandon the F-35 if the Liberals formed government should not deflect our attention from the larger issue of the state of defence procurement in Canada. The pur-



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pose of this brief is to provide an update on some key Major Crown Projects—those projects that cost more than \$100 million—in the area of national defence.² I look in detail at two projects that are emblematic of the problems in defence procurement in Canada, and briefly survey six others (in all cases, the project names are those used by the Department of National Defence).

Two “Poster” Projects

Two projects epitomize the state of defence procurement in Canada. One is the aborted program to replace the aging CF-18 *Hornet* fleet that has been in service since 1982. The other is the replacement for the shipboard CH-124 *Sea King* helicopters that were acquired beginning in 1963.

Future Fighter Capability (aka the aircraft formerly known as “Next Generation Fighter”)

One of the reasons why the F-35 remains such an inviting target is because of the way that the Conservatives treated the CF-18 replacement. When the Conservatives took office in 2006, they decided not to bother running a proper replacement competition for the CF-18s. Instead, they simply embraced the F-35 Joint Strike Fighter as their first and only choice. In 2008, the government's *Canada First* Defence Strategy contained the matter-of-fact announcement that Canada would be acquiring 65 “next-generation” fighters.³ Given that there was only one “next-generation” fighter that was available for Canada to acquire, this commitment could only have been referring to the F-35. In July 2010, the Harper government made good on its 2008 commitment by announcing that it was going to commit \$9 billion to acquire a new fleet of 65 F-35s in an untendered sole-sourced contract.⁴

It should not surprise us that Trudeau pulled the plug on the F-35 in September 2015, because since 2010 the Liberals have consistently sought to politicize that pro-

curement. Even though it had been the Liberal government of Jean Chrétien that had first involved Canada in the F-35 program in the late 1990s as a “Level III” partner in the multinational consortium that is developing and building this fighter, the Liberals under Michael Ignatieff decided that the F-35 would make a fine political cudgel with which to bash the Conservatives in a vulnerable minority situation.

And it *was* a fine cudgel, since the \$9 billion price tag announced in July 2010 kept climbing. Within weeks, it was revealed that this figure did not include approximately \$16 billion in other costs. In March 2011, the Parliamentary Budget Officer, enlisted by the opposition Liberals to conduct a study of the F-35, claimed that the program would cost \$29.3 billion. In April 2012, the Auditor General found that the “real cost” would be closer to \$36 billion. The Harper government, seeking to undo some of the damage, called in KPMG to conduct an independent audit. But when KPMG reported in December 2012, its figure was \$45.8 billion.

Faced with this figure, the Harper government simply gave up. It did not even try to explain that the reason for the seemingly huge increases in costs was that the life-cycle figure being used kept changing: the original figure used a 20-year life-cycle; the PBO used 30 years; the Auditor General used a 36-year life-cycle; KPMG used 42 years. Instead, the Harper government stopped the acquisition and, in the words of the minister of public works, pressed the “reset” button, opening the competition to all Western jet fighters. The “Next Generation Fighter” project was symbolically renamed the “Future Fighter” project.⁵

But by 2015, little progress has been made on Canada's “future fighter capability.” The Department of National Defence reports that Treasury Board approval will not be expected until 2018-20, with delivery of a replace-



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ment for the CF-18 fleet simply listed as “TBD.” Instead, the government announced in September 2014 that it would upgrade the existing CF-18 fleet to extend its life to 2025. What it will cost to acquire a fleet of 65 “future fighters” is not known, but given the rate of inflation in the defence sector, and the weakened Canadian dollar compared to 2009–2010, it is likely to be substantially more than was originally committed.

Maritime Helicopter

The *Sea King* replacement is Canada's longest-running military procurement.⁶ The Progressive Conservative government of Brian Mulroney approved a replacement process in the mid-1980s, and in 1992 signed a \$5.8 billion contract for the EH101, a joint venture between Agusta S.p.A. of Italy and Westland Helicopters of the United Kingdom. However, in a scene eerily similar to Justin Trudeau's September 2015 announcement about the F-35, the Liberals under Jean Chrétien promised during the 1993 campaign that if elected, they would immediately cancel the EH101 contract, on the grounds that this helicopter was too expensive. And when they won the election, the new government was as good as its word: one of Chrétien's first official acts as prime minister was to immediately cancel the contract, not worrying about the \$478 million in cancellation fees that had to be paid.

But because the *Sea Kings* needed to be replaced, the Liberals restarted the acquisition process in 1995, with the EH101 as a contender. However, because it would have been too embarrassing to have selected the EH101, the Liberal government selected a Sikorsky helicopter instead. The CH-148 *Cyclone* was based on a Sikorsky civilian helicopter, the S-92, but a military version had not yet been developed. Undeterred by the risk of purchasing an aircraft that was in essence still in development, the Liberal government contracted with Sikorsky in 2004 for the delivery of 28 CH-148.

Cyclones.

While the first deliveries were supposed to begin in 2008—with all 28 helicopters due to be delivered by 2011—a series of glitches kept delaying the deliveries. Peter MacKay, the Conservative minister of national defence, who inherited this file, became so frustrated that he openly declared in 2012 that the Sikorsky acquisition was “the worst procurement in the history of Canada.”⁷ Indeed, in 2013, the Harper government threatened to look at other options, which prompted a third renegotiation of the contract with Sikorsky. Finally, in June 2015, six *Cyclones* were delivered to Halifax to begin the process of phasing out the aging *Sea Kings*; the final delivery will not occur until 2021, many years behind schedule and at least \$200 million over budget. And even while ministers were busy having their pictures taken with the new *Cyclones* in Halifax, leaked documents from the Maritime Helicopter Project office in DND revealed that the RCAF was worrying that the *Cyclone* engines “will not deliver the power required to meet all critical performance requirements.”⁸

While the Harper government not unreasonably claims that it inherited the maritime helicopter dossier from the Liberal government in 2006,⁹ the fact remains that the Conservatives were in power for nine years before the first six *Cyclones* were delivered. They could have chosen to deal with “the worst procurement in the history of Canada” on their own terms instead of just staying the course originally set by the Liberals. For example, they could have demanded \$89 million in late delivery penalties; they could have refused to keep offering Sikorsky sweeter deals and new softer delivery deadlines. Or they could simply have walked away from the *Cyclone* and purchased an alternative off the shelf.



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Six Other Projects

Other projects, involving procurements for the Royal Canadian Navy, the Royal Canadian Air Force, and the Canadian Army, all demonstrate similar characteristics: long delays, with the resulting waste and loss of purchasing power, often affecting Canadian military capabilities into the 2020s.

Fixed-Wing Search and Rescue Replacement Aircraft

This program is designed to replace the present fixed-wing search and rescue (SAR) capability provided by CC-115 Buffalos that entered service in 1967 and CC-103H Hercules that entered service in the 1990s. While this program was announced as a “priority” in 2003, little progress was made on this procurement in the last twelve years. At time of writing, final project approval is not expected until 2016. This means that, even if the prime contractor delivers on time, the CAF will not have a renewed fixed-wing SAR capability until 2023.

Joint Support Ship

Beginning in 1969 and 1970, two auxiliary oiler replenishment vessels, HMCS *Protecteur* and HMCS *Preserver*, provided supply to the navy. Plans to replace these ships were first introduced in 2004, calling for a contract in 2009 and delivery of new ships by 2012. However, the Joint Support Ship Project kept being delayed, with the result that it was not until 2010 that a request for proposals was issued, and not until 2013 that a design was awarded to ThyssenKrupp Marine, with deliveries not expected until 2020.

Unfortunately for the Royal Canadian Navy, neither of the ships lasted long enough to make the transition. HMCS *Preserver* was withdrawn from service in 2014 because of persistent electrical problems and irreparable corrosion. HMCS *Protecteur* suffered a major fire in February 2014 that did so much damage that the ship had to be decommissioned in May 2015. To provide its

other naval ships with supply capacity, Ottawa has had to resort to renting the *Almirante Montt* from the Chilean navy.

Arctic/Offshore Patrol Ships

When they were in opposition, the Conservatives promised that they would acquire a fleet of three armed heavy icebreakers and would create deep-water docking facilities for these vessels on Baffin Island as part of their push for enhanced protection of the Canadian Arctic. While this extravagant promise was quickly abandoned once the Harper government took power, in July 2007 the government announced that the navy would be acquiring a new fleet of armed naval icebreakers that would also perform offshore patrols in the Pacific and Atlantic. Irving Shipyards was awarded the contract to build the AOPS in 2013, with the prime contractor role awarded in January 2015. By 2015, the number of ships anticipated to be delivered had fallen to five from the 6-8 originally anticipated. On September 1, 2015, steel was finally cut on the first ship, HMCS *Harry DeWolf*, after whom the class of ships will be named.¹⁰ However, that first ship is not expected to be delivered until 2018, with the other four ships not fully operational until 2023.

Canadian Surface Combatant (aka warships)

The “surface combatant” is the Royal Canadian Navy’s nomenclature for a plan that seeks to replace the twelve *Halifax*-class frigates, launched between 1988 and 1996, and Canada’s sole remaining *Iroquois*-class destroyer, HMCS *Athabaskan*, commissioned in 1972, with one common hull that could be adapted to provide the capacities of either destroyers or frigates. Although the CSC was proposed in 2007, with a destroyer promised for 2015, progress was so slow that by 2015 the project is still in “definition phase.” Project approval is not anticipated until 2020, with the first delivery not until 2025, and full operational capability not until



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2042. Documents leaked to CTV News during the 2015 election campaign revealed that this procurement is so behind schedule that there is a “very high risk” that the program “may be unable to deliver the optimal number of ships with the capabilities necessary to meet operational requirements.”¹¹

Close Combat Vehicle

In 2009, the Conservative government announced that the Army would acquire 108 close combat vehicles—armoured and highly mobile. In 2010, all the firms that bid on the project were disqualified; in 2012, after contending firms had delivered prototype vehicles to be tested, the bidders were again all rejected. Finally, the government cancelled the program in December 2013, asserting that the upgrades that had been performed on some of the light armoured vehicle (LAV) fleet would be sufficient.

Medium Support Vehicle System (aka trucks)

In June 2006, an acquisition program for new medium-weight trucks for the Army was announced by the new Conservative government. Two types of truck were procured: a “militarized commercial off-the-shelf” (MilCOTS) version for use by the reserves, for training and administration, and “standard military pattern” (SMP) trucks in five variations for front-line use. The 1,300 off-the-shelf MilCOTS were delivered beginning in 2009, with all deliveries completed by March 2011.

The SMP part of the truck procurement program, by contrast, was mired in delay and controversy. The final request for proposals was not issued by the Department of National Defence until December 2011, fully five and a half years after the initial announcement. However, officials in DND kept adding more desired capabilities to the truck, adding approximately \$300 million to the cost of the procurement, but did not go back to Treasury Board for approval to cover these additional

funds.¹² In July 2013, the RFP was reissued. On 16 July 2015, just before the election was called, a contract to Mack Defense LLC of Allentown, Pennsylvania, for the delivery of 1,500 trucks was announced, with delivery to begin in the summer of 2017.

Conclusion

This brief survey both reflects and confirms the widespread view that defence procurement in Canada is deeply dysfunctional.¹³ It is thus ironic that the Liberals, who contributed so much to the failure of the maritime helicopter and the CF-18 fighter replacement programs, would choose to shine a light on a policy issue that makes them look as bad as the Conservatives.

But it is equally ironic that the Liberals have not raised the issue in a way that draws attention to the embarrassing record of the last nine years. Indeed, none of the opposition parties has wondered aloud why the Harper government—which constantly proclaims that it is “standing up for hard-working Canadian families”—has wasted hundreds of millions of dollars in defence procurement projects between 2006 and 2015. Or why a government that prides itself on its supposedly strong commitment to the armed forces has organized itself so poorly that, for many years into the future, the CAF will have to make do with a great deal of military equipment that is not only outdated, but will also limit the CAF’s ability to “fight alongside the best, against the best”—the traditional standard for Canada’s armed forces.

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- ⁵ Kim Richard Nossal, "Late Learners: The F-35 and Lessons from the New Fighter Aircraft Program," *International Journal* 68:1 (Winter 2012-13), 167-84.
- ⁶ The best examination of this procurement down to 2010 is Aaron Plamondon, *The Politics of Procurement: Military Acquisition in Canada and the Sea King Helicopter* (Vancouver: UBC Press, 2010).
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