



2017 National Public Administration Case Competition

A National Political Football: The F-35 Jetfighter Procurement Program



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A Complicated Balance

“We inherited a real mess.” At least that was the assessment of Gerry Buttrago, Chief of Staff to Prime Minister Jonathan Turpel, who spoke at a morning briefing late in January 2017. “It took the previous government years of negotiation and a whole lot of money to get to this point. Why couldn’t they finish the job?”

“Canadians know full well that for 10 years, the Conservatives completely missed the boat when it came to delivering to Canadians and their armed forces the equipment they needed. They clung to an aircraft (the F-35) that does not work and is far from working.” *PM Jonathan Turpel, June 2016.*

The Prime Minister was annoyed by the current situation, which is why he called for the briefing. “No one ever comes out looking good on these major procurement deals. Every prime minister knows that, which is why when given the choice, they just kick the ball down the field for someone else to deal with it. Only this time, we are on the receiving end, with few options on where to run. And now, I have to deal with an unpredictable US president. What am I going to do about this?”

The Prime Minister turned his attention to the Defense Minister, Stan Saggett, a former Armed Forces colonel who came up the ranks the hard way. He is of Indian descent and a practicing Sikh, and learned how to get things done discreetly, while taking a lot of grief from his unit for his accent and a beard. Prime Minister Turpel likes and respects him. He is scrappy, no nonsense, but more importantly, he understands the military’s way of doing things, and knows how to relate to the “brass.”

“What do you think we should do about this F-35 business, Stan?” he asked. “We’re a year into our mandate, and we have to make some decisions. We seem stuck right now to at least include the F-35 Lightning II jetfighter in our list of choices, but the Air Force is not exactly enthusiastic about it, and we’ve sunk a lot of money in this project as it is. I am feeling a lot like Chrétien did when he cancelled the helicopter deal.”

“I know,” said Saggett. “There is an entire division of my department assigned to managing this project, not to mention all of the procurement people working on it. They tell me that if we turn back from all of our investments in this project now that this will cost us a lot of money and will worry the suppliers immensely, and the last thing we need are deals like the EH-101 maritime helicopter or naval frigate procurement projects again. These raised problems for the Chrétien government as you said, and Martin paid a high price politically for being indecisive about them. And now, we have a US president who is not going to respond well to us completely backing out of this project if we have to. Plus, there are a lot of people in Canada who are depending on this

project going through. But, to be very honest, you just put me into this job – I am an army guy, I know nothing about jetfighters, and the brass is divided on the capability and even need for this plane. Some think it's a Cadillac, others think it's completely wrong for our needs, and others think it's a complete waste of money.”

The prime minister appeared concerned. “I campaigned on evidence in policy-making, and to place trust again in the Public Service to assist with decisions like this. But, if you are telling me that your officials are divided on the project after so many years of study, especially regarding continuing discussion about making the aircraft suitable to your department, and costs continue to escalate, then where does that leave us? We cannot tie this project up any longer in the bureaucracy, and argue about it amongst ourselves in Cabinet. We have no option to kick – the clock is ticking on the current fleet of CF-18s. I authorized the purchase of 18 Boeing F/A-18 Super Hornets to fill our operational gaps, but this is not a solution. I need to know where to go from here!”

There were a lot of people in the room, mainly PMO and PCO staffers, and very few felt equipped to provide advice on what to do. “I hate to say it,” said Buttrago. “But we need more information, and a better sense of what the options and risks are. More importantly, I need to know how to proceed without taking a long time about it. The media is just waiting for a mistake.”

Bev Whimsy, Turpel's Chief of Communications, chimed in with full agreement, “Every time this issue comes up in the media your popularity takes a hit, Prime Minister. People start comparing you to Paul Martin. They want a decision, and one that does not appear to waste a lot of good money that has been spent already on this. The purchase of Super Hornets bought you some time, but that's it.”

“I agree,” said Saggett. “Canadians, and the various suppliers I might add, deserve an explanation at the very least, especially after a year in office with little information on this entire procurement project as of yet. And, I suspect that the President will be putting pressure on us soon, especially given his inaugural speech for other countries to step up on global security, and “stopping the carnage” on poor decisions. I know the US sees us as a good friend, but they also think we're a laggard on military spending. There is a lot to consider here, aside from what the brass wants and thinks.”

The Prime Minister considered the situation very carefully. “Stan, you are the point person on this file. There are others in Cabinet, who are also involved in this file, and I know that they will want to be consulted. I need information, and options. But more importantly, I need a very practical way forward. I don't want to punt this file to anyone else - the “carnage” on this file has to end here. Go to your officials, and whoever else you need to consult, and give me a full picture of where we stand, and can go from here. There are billions of dollars at stake if we get this wrong, not to mention the future of this government.”

Learning the File

Saggett returned to his office, with his Chief of Staff in tow. Bernie Starlet was an experienced ministerial staffer, who came up the ranks in Ontario, and spent some time with then Premier Dalton McGuinty. Working in the defense portfolio was new to him, but he knows his way around government, and how to get things done.

He promised the minister a very preliminary briefing the next morning on what he could find out from available documents left to him by the last defense minister (a rare situation indeed to have any documents at all, but this is a file that has been around a long time and it was top of the list in the transition binder).

The minister was anxious to hear what Starlet had to say the next morning regarding his own department's information, knowing full well that this was just a general briefing. In short, this is what the minister heard.

Procurement is one of the most controversial decisions any government can make – and the size of that procurement does not matter. Military procurement is particularly complicated mainly because it is imperative to balance operational needs of the military (e.g., safety requirements, minimum planes to service existing missions/ commitments, and domestic needs for security), with the fiscal, coordinative, political and distributive realities of the government. It also raises important issues regarding regional sensitivities and industrial policy more generally.

It was a surprise to Saggett that discussions and negotiations of the replacement of the CF-18 jetfighter has extended over two decades. Even the CF-18 was shrouded in controversy in the 1960s. The hotspots in that deal were the distribution of maintenance contracts, and the extent to which the aircraft would be able to serve the needs of the Air Force at home and abroad. But these discussions pale in comparison to its replacement. The options in the 1960s were limited, and now there are many more aircraft to purchase each with their own strengths and weaknesses. Plus, Canada participated in the R&D development of the F-35 and other projects.

Then there is the purpose of the aircraft: do we want an aircraft good for offence or defense, stealth or speed? Where does this aircraft fit with larger defense policy? Who benefits and loses by the choices the government makes? How does the federal government execute a plan that clearly shows benefit to Canadians, while fulfilling operational requirements?

The Government of Canada's recent Aerospace Review suggested that public aerospace purchases should have three goals:

- Providing personnel with products that meet their operational requirements;
- Getting good value for Canadian taxpayers' money; and
- Strengthening the Canadian industrial and technological base.

“... The relationship between the government and the defense industry is not a normal free market, and the recognition of this fact is an essential first step in any possible corrective actions.”
Jacques Gansler, Us Deputy Assistant Secretary of Defense for Material Acquisition.

A cursory examination of the government's major procurements over the past twenty years reveals a common set of problems in meeting these three goals: cost overruns, delays, sub-optimal performance, lack of an ongoing procurement plan, or some combination of these. But, no program has experienced more criticism than the replacement of the CF-18 Hornet with the Joint Strike Fighter, or the F-35 Lightning II.

Saggett interrupted his chief of staff at this point. "I know what's at stake and I have a good sense of the obvious, Starlet. The questions the Prime Minister posed are the right ones, I think. So, why is this project so controversial, how did we get here, and where do we go from here?"

"For that, Sir, I need to give you a bit of background, and understand that this is only what I could get from the available files here without going down several rabbit holes. I am sure there is much more information than what I am providing now."

The Status of the Project at the Bureaucratic Level is Bogged Down

Starlet began with a status report on the various jetfighter procurement projects.

Canada's current military fighter aircraft fleet of 138 "CF-18s" were delivered between 1982-1988, but accidents and retirements have reduced the fleet to about 103, with only 79 upgraded F/A-18 AM/BM Hornets still operational. The CF-18s are slated to be phased out between 2017 and 2023. Maintenance and upgrades will remain necessary until then, and possibly beyond. But it is only a matter of time before parts and upgrades are no longer available. The CF-18 has already exceeded its lifecycle, and Canada remains one of the few developed countries left that depends on this jetfighter to fulfill its main operational needs.

The favoured option for some time was the F-35, but there are many detractors in the Department of National Defense. Canada has been an active partner in the F-35 Joint Strike Fighter program since 1997, participating in both the Concept Demonstration Phase (\$10 million) and the System Development and Demonstration Phase (\$150 million). This USD \$160 million has included funding from both the Department of National Defense, and Technology Partnerships Canada (TPC) housed at what was then Industry Canada. In the Production, Sustainment and Follow-on Development Phase of the F-35 program, it is estimated that Canada's contribution would exceed CDN\$550 million (about the same in USD) over 44 years. As of September 2011, the government had disbursed approximately CDN\$335 million toward participation in the Joint Strike Fighter Program (JSF), and related support to Canadian industry. At that point, 65 new CF-35As were Canada's official choice to replace its Hornets – and estimates of the cost ranged from CDN\$17 billion to \$45.8 billion.

Efforts to keep existing CF-18s fit for service, while seeking a replacement have over time become more interdependent, and recently the F-35's selection is less of a certainty especially given the current Prime Minister's announcement in December 2016. There are three key aspects to this sort of procurement effort that have to be considered: operational, industrial, and

political. Starlet indicated that Cabinet uncertainty on this file has stalled the project as much as the other considerations, if not more.

The tiered partnership model created initial commitments by member governments, and a sub-contracting model that would spread industrial benefits among committed partners was designed to create constituencies that would lobby for the F-35's selection and production. That approach has generally worked. It is no coincidence that these industrial benefits have been the main defense used by Canadian governments in the past whenever the F-35 purchase has been questioned, even though any other winner would also have to commit to a similar sort of arrangement. Existing recipients of public money will always fight harder, because the beneficiaries of any switch are only potential winners, who have not made significant commitments that would be difficult to undo. This political engineering approach saved the Dutch F-35 purchase in the face of determined political opposition, even though the fighter's cost was forcing them to cut their planned fighter fleet by almost two-thirds. Canada seems headed for a similar fate, and their industrial participants include a long list of companies, mainly located in Ontario and Quebec.

The main driver of Canada's early involvement in the JSF program was the opportunities made available to the defense industry. The JSF offered occasions for Canadian companies to conduct advanced research and development, enhance relationships with U.S. defense companies, and provide bidding opportunities for a substantial number of contracts over a forty-year period.



THE F-35 OFFERS CANADA THE BEST STEALTH, THE MOST ADVANCED ARRAY OF ON-BOARD SENSORS, AND THE BEST "USER INTERFACE" FOR PRESENTING ALL THAT INFORMATION TO ITS PILOTS. STRATEGY HAS BEEN ABSENT FROM ALL CANADIAN DISCUSSIONS, SO IF CANADA IS FORCED AWAY FROM ITS COMMITMENT TO THE F-35, IT'S GOING TO BE A DECISION DRIVEN BY COSTS. HANDICAPPING FOR ANY PROSPECTIVE REPLACEMENT NEEDS TO REFLECT THAT.

The Industrial Benefits cannot be Ignored

Starlet went on to explain that Canada's defense industry has gained significantly from its involvement in the JSF. Between 2002-2014, Canadian companies have gained USD\$637 million in contracts due to Canada's participation in the program. Future production contracts amount to US\$9.62 billion and sustainment contracts worth USD\$556 million. Thus far, the value of contracts gained and the amount spent by Canadian governments on the JSF is largely zero-sum in terms of explicit gains and expenditures. Formal program spending by the government is an estimated USD\$711.6 million through to 2051 – USD\$288.7 million as of 2015. This will likely be offset as Canadian companies gain further contracts during the development, production, and sustainment phases of the F-35. Additionally, if Canada does decide on the F-35 as the CF-18's replacement, then companies will have better opportunities to gain further contracts.

By participating in the program, Canadian companies were provided opportunities to research, compete for, and develop high-end technological and manufacturing capabilities, such as advanced composite manufacturing, high-speed machining, and mission systems development. These benefits provide the defense industry with technological advantages with long-term relevance for defense manufacturing and development throughout the 21st century. The fulfilment of contracts also makes Canadian companies attractive subcontractors for global defense corporations such as Lockheed Martin and major procurement programs in the U.S. Moreover, a thriving industrial base leads to more jobs, lucrative exports, higher tax revenues, and a more stable economy. Canadian involvement in the JSF program has been seen not just for its military importance, but an industrial and economic imperative as well. Indeed, there are spin-off benefits, including advances in technology that lead to new products that have market implications for consumers.

Ethics Concerns are being Raised Increasingly

Starlet then raised some important issues at this point. He indicated that the F-35 project had many detractors, and that, “our department receives many complaints, Minister, regarding our ethical handling of this

project.” Several suppliers have filed complaints with the Procurement Ombudsman, whose office reports to the Minister of Public Services and Procurement. Suppliers are concerned about a number of issues, most notably that the entire project has been shrouded in secrecy, the criteria used to select manufacturers has not be made available, and contracts that have been signed are not being honoured and there is no transparency on either the decisions or recourse. Most importantly, the bids are rigged to benefit particular “preferred bidders.”

“A SUSPICIOUS NUMBER OF FEDERAL CONTRACTS FOR GOODS AND SERVICES APPEAR RIGGED TO FAVOUR ONE BIDDER,” SUGGESTS A SURVEY FROM THE PROCUREMENT OMBUDSMAN. 2012.

Several agents of parliament have been swamped with complaint letters as well, not the least of whom have been the Access to Information Commissioner, Lobbying Commissioner, and the Conflict of Interest and Ethics Commissioner. Although the nature of some of the complaints to the agents has been made public, some such as the Conflict of Interest and Ethics Commissioner and Lobbying Commissioner are not able to divulge any information on active investigations. Such processes have only served to frustrate the major suppliers. However, smaller manufacturers with a stake in parts manufacture are also worried about the sustainability of their businesses, and have tried to make the case to whomever would listen.

Starlet indicated to the Minister that there were specific complaints levelled at his department, including that information from bids were being used to enhance the department’s profile on the F-35 project in various media venues. Even more disconcerting was the discovery by one supplier that their proprietary information was being shared with “preferred” bidders to enhance their attractiveness by taking the best ideas from non-preferred bidders. Starlet said that when there is big money involved, the manner in which confidential information is handled is often tested.

The Media has not been Kind

Starlet then turned his attention to something he knew about very well: the reaction to government decisions in the media. “Minister, no Prime Minister has done well on this issue in any media story,” he said. “Let me share just a few examples of what I mean.”

Starlet began by demonstrating that the previous Conservative government was under constant attack on this procurement for its lack of transparency. For example, Andrew Coyne wrote in 2012 that the issue is not so much about the, “culpable incompetence, mixed with deliberate misrepresentation. But the whole way in which the issue of the F-35 has damaged the institutions of Parliamentary government, and damaged public trust.”

Also in 2012, Coyne opined that “virtually every safeguard that was supposed to protect the public purse and the public interest was subverted, evaded, or rolled over. Ministers failed to exercise oversight over their departments; Parliament was prevented from exercising oversight over ministers; the public was kept in the dark throughout. You could have backed a truck up to the Defense Department and loaded it up with \$40-billion, for all our traditional checks and balances were concerned.”

Others in the media, Starlet said, railed against the government on the cost issue of the F-35, and the misleading information given about the maintenance and other costs. “Do you remember the infamous picture of Minister McKay sitting in the cockpit, and then spinning a tale on the costs of the project?” asked Starlet. Both the auditor general and the Parliamentary Budget office eventually reported on the true costs, which were confirmed in a KPMG special report commissioned by the Conservative government all of which put the costs at \$46 billion in 2012. But for several years, the costs were misrepresented and stated to be as low as \$9 billion. “No one trusted anything the government had to say on the cost issue,” Starlet offered.

“That brings us to our own government’s policy on the F-35,” Starlet segued. “As you know, the PM said he would not buy the F-35 right now, and called for a transparent process to replace the CF-18.” “We thought this was a reasonable process, until Chris Hall from the CBC reported that one of our own former officials, Alan Williams (Head of Procurement), said it was both “absurd” and “unnecessary,” and that he wasn’t sure whether government even understood the business of government procurement. I have to tell you, Minister, we took a big hit on that story,” Starlet said as meekly as he could muster.

“What else did Williams have to say? Surely, he offered a solution at the time?” asked Saggett. “Yes, he did, Minister. Let me read to you exactly what he said. Where is that quote? I have it here somewhere. Oh yes..... here it is highlighted in blue in my file.

“EVERYBODY'S BEEN ON THIS FILE FOR AT LEAST SIX OR SEVEN YEARS, IF NOT LONGER. THERE ARE FIVE BIG COMPANIES OUT THERE. THIS IS NOT COMPLICATED. THEY ALL HAVE BEEN PREPARING FOR THIS FOR YEARS AND YEARS AND YEARS. EVERYTHING COULD GO OUT WITHIN A VERY SHORT PERIOD OF TIME. TO HEAR THE MINISTERS SAY TO THE WORLD THAT WE NEED FIVE YEARS, WHEN THE PEOPLE INSIDE KNOW THAT THEY CAN DO IT SO MUCH FASTER, IS VERY DEMORALIZING.”

He then said that the entire competition could be completed within a year,” said Starlet.

The Minister looked bewildered. “Is that true, Starlet? Can this thing be put to bed in a year? Did we get this completely wrong, because my calculation is that the year has been put to use on other parts of this project. I was under the impression that this could not

be done quickly. No wonder Lockheed Martin is constantly calling to yell in my ear. Their CEO is always telling me about transparent processes, and to let them put the facts out there as they know them, and that they can demonstrate value-for-money of their products. He emphasizes over and over that these two basic conditions of the current procurement process are absent, and that we need to get our collective act together. This is all beginning to make sense to me now, but it beats me what to do about it,” Saggett said with increasing exasperation.

Starlet continued, “You are right about that, Minister. But I have to add that people like David Olive, a good friend of mine by the way, has written on several occasions in the *Toronto Star* that even when a competition is held, the criteria are as often political as military. Industrial benefits matter, he always says. He also says we have to do better on ethics. The media are indeed watching this file, Minister.”

Bringing Us Back to the Issues at Hand

The Defense Minister thanked Bernie Starlet, and then returned to the task at hand.

Saggett considered the information he heard, and tried to summarize. “So, if I understand you correctly, there are a number of points we need to keep in mind in order to move forward. First, we have to consider the industrial benefits of any contract decision. This is standard fare in any deal on the public dime, but it is worth repeating. Second, Canada and the US have very large and nationally integrated manufacturers, including Boeing and Lockheed-Martin, who are fighting hard for this deal. This could create some political problems for us, especially in the US, but they are going to want to sweeten their deals rather than create more problems. Given preferences for “America First,” this could create some regional problems. Third, we have some commitment from the brass on the F-35 choice, but given recent shake-ups in the command chain, I am not sure what the preferences are anymore. Fourth, there are obviously problems with the procurement process itself. Fifth, this department has no procurement plan, and that is the source of my sleepless nights right now. Sixth, any decision we make is going to be expensive. Finally, the media are going to be all over us no matter what we do.”

Starlet agreed, “I think you captured the essence of this very well, Minister. But, if I might be so bold, the bureaucracy has seen many ministers come and go on this file, and have so far been insulated from any responsibility for the mess we currently find ourselves. Don’t you think it’s time that they were called to tell us about their part in all of this, and to suggest a way forward? After all, officials have access to a lot of information that I am sure I have not seen yet.”

“You are right, of course, Bernie. Let’s do this all again tomorrow with Alan Knowlton (DM, National Defense). It will be up to him to put a team together on this, and get the PM and me some answers to our questions,” said Saggett. “I want this handled before we commit to the next budget. That does not give us much time. But I want to be clear here: the PM does not want us to propose a punt on this issue, unless a very strong case can be made to do so. He wants a viable decision.”

The Case Challenge

The issue of the procurement of the replacement for the CF-18 has gone on for many years, but has now reached a point where a plan is needed. The Minister of National Defense has authorized the creation of an interdepartmental working group of senior level ADMs, comprising National Defense, Finance, Global Affairs, and Public Works and Procurement. As those ADMs, you are expected to brief the Cabinet Committee on Defense Procurement, which includes the Minister of National Defense, and the ministers to whom you directly report.

You are expected to develop recommendations, and an implementation plan of those recommendations to this committee. Your plan should balance the operational needs of the military, the industrial spinoffs associated with any major procurement decision, while being aware of the politics and precarious financial situation of the Government.

You will have 20 minutes to make your presentation, as the committee is only meeting one more time before final decisions are made on the budget coming out near the end of March. The committee chair, Mr. Jamie Cardinal, has indicated that they will likely only have about 10 minutes to carry out follow up questions. The chair has also provided a sense of what they would like you to cover in your slide presentation:

1. Problem Definition
2. The Government's Commitment
3. Your Recommendations
4. Your Rationale for these Recommendations
5. Available Options
6. Implementation Plan
7. Policy Considerations
8. Assessment and Mitigation of Risks
 - a. Budgetary
 - b. Economic
 - c. Political
 - d. International
 - e. Procedural
9. Communications Strategy (Internal and External)

Annex: Additional Media Headlines

"F-35 a case study in deficient decision-making" David Olive, *Toronto Star*, December 28th, 2012.

"From helicopters to fighter jets, problem facing Canada's Defense procurement are systemic." John Ivison, *National Post* May 28th 2015.

"The F-35 is now unaffordable thanks to the low Canadian Dollar." Michael Byers, *National Post* September 15, 2015.

"Canada to stay in program of F-35 jet buyers despite a pledge to withdraw." Steven Chase, *Globe and Mail*, Feb 24th, 2016.

"Are the Liberals planning a "stealth" F-35 purchase?" Brett Boudreau, *iPolitics*, July 20th, 2016.

"Canada will consider Lockheed's F-35 jet despite criticism about cost: Trudeau." *Globe and Mail*, December 12, 2016.