

# Jet Fighters And Canadian Military Procurement

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POLICY OPTIONS AND RECOMMENDATIONS

**Cabinet Committee on Defence Procurement – February 2017**



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# POLICY TEAM

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## ACUTE

Canada's aging fleet of CF-18 jets must be replaced to maintain Canada's military capability and sovereignty.

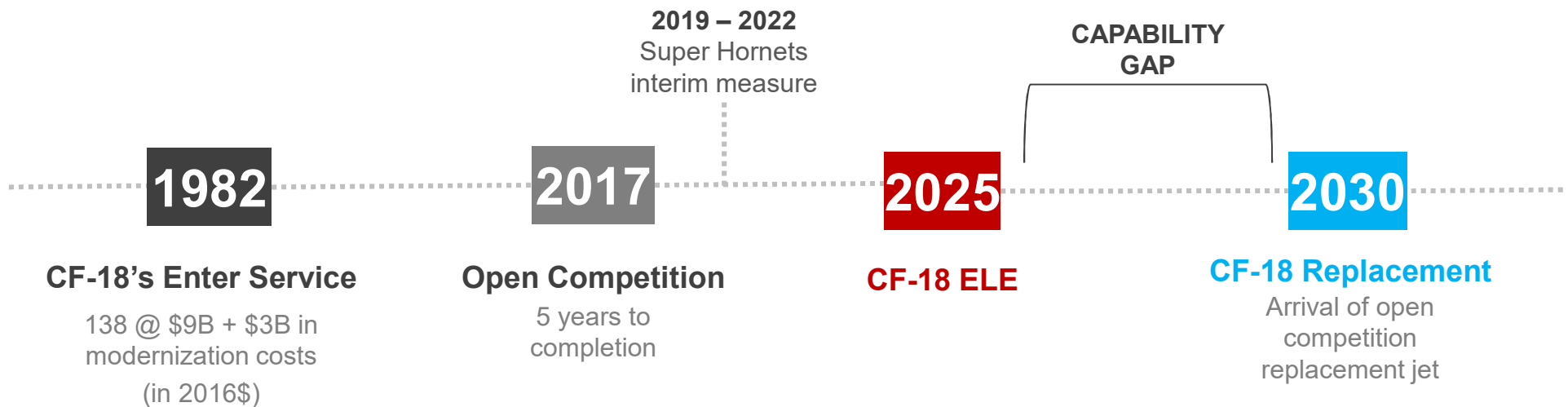
## CHRONIC

The Canadian military procurement process has suffered from a loss of legitimacy and persistent ineffectiveness.



# The Challenge

- Canada's CF-18 fighter jets will be 40+ years old at estimated life expectancy (ELE) in 2025
- Evolving political positions have created uncertainty



# Key External Factors



## NATO Commitments

2% of GDP member commitment



## Changing Allied Priorities

New leadership in US and UK



## Evolving Threats

Aggression from Russia/China



## Technological Advancements

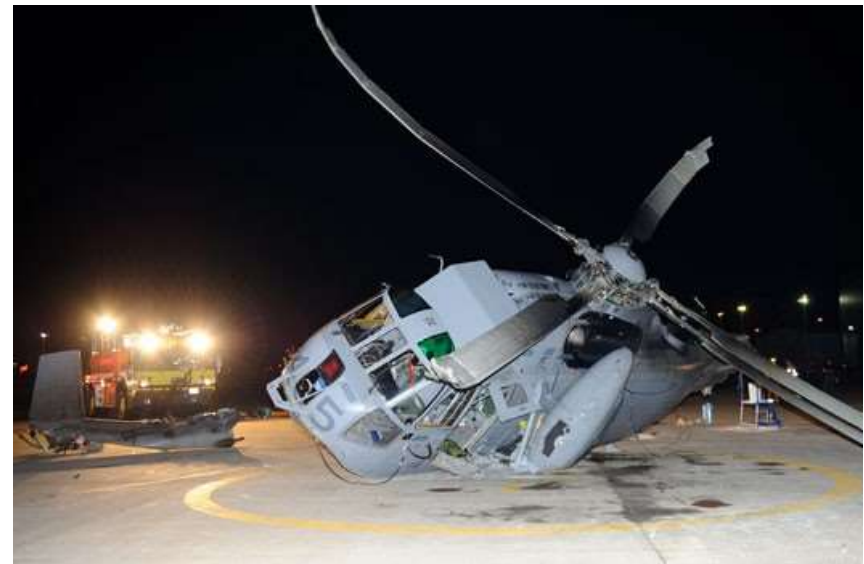
Advancements made in UAV capabilities, satellites



## GC Fiscal Constraints

Projected budget deficits of \$30B over the next five years

# Commitment to Operations



Projecting Canadian influence abroad  
and protecting those who serve



# Impact of Industrial Benefits



Boeing Globemaster  
Acquisition  
~\$1B



LAV III (General  
Dynamics) Upgrades  
~\$942M



Joint Strike Fighter  
(JSF) Program  
~\$950M



National Shipbuilding  
Strategy  
~\$4B

- Industrial benefits add to the country's manufacturing, engineering and technical base
- Canada's fighter jet replacements will provide \$millions in contracts to Canada's Defence industry



# Political Legitimacy

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- Past procurement has eroded public trust and legitimacy in the process
- Complaints to the Procurement Ombudsperson, Access to Information Commissioner, and Lobbying Commissioner
- Intense media and opposition criticism



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# Key Areas of Consideration

## Operational

Find equipment that best meets the needs of the Canadian military at the best price using a fair process.

## Industrial

Maximize economic benefits for Canadian industry and increase R&D investment.

## Political

Restore trust in government to spend taxpayer dollars wisely in an open and accountable process.



# Acute Problem | Replacing the Fleet

Short-Term Issue



# F-35 v. Super Hornet

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## F-35

- 5<sup>th</sup> generation jet
- “Swiss Army knife” of jets
- Interoperability
- Guaranteed future production
- Expanding into high tech aerospace sector

Flyaway Cost: USD \$94.6M



## Super Hornet

- 4<sup>th</sup> generation jet
- Built for the Navy
- Phased out by key allies
- Future production uncertain
- Offers industrial benefits for civilian aerospace

Flyaway Cost: USD \$98.3M



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# Strategic Options

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**01** CONTINUE WITH CURRENT POLICY

**02** COMPETITION TO REPLACE FLEET

**03** TRANSPARENTLY SOLE SOURCE F-35s



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## 01 Continue with existing policy

- Purchase Super Hornets
- Open competition to replace entire fleet to begin in 2017

### **ADVANTAGES:**

1. Address short-term capability demands
2. Respects “open competition” commitment

### **DISADVANTAGES:**

1. Delays decision
2. Contrived open competition
3. Interoperability issues with international allies
4. Break political commitment not to buy F-35
5. High cost



## 02 Open competition to replace fleet

- Cancel purchase of Super Hornets

### **ADVANTAGES:**

1. Respects political commitments for “open competition”
2. Perception that it’s the “gold standard”

### **DISADVANTAGES:**

1. Capability gap
2. Redundant process
3. Contrived competition not held in good faith
4. Break political commitment not to buy F-35
5. High cost



## 03 Transparently sole source F-35s

- Cancel purchase of Super Hornets

### **ADVANTAGES:**

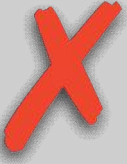





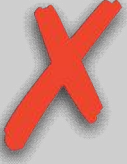
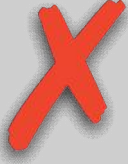

1. Prevents capability gap
2. Low cost of procurement

### **DISADVANTAGES:**

1. Breaks political commitments
2. Negative perception of sole sourcing



# Evaluation Matrix

	<b>Option 1</b> Continue with Existing Policy	<b>Option 2</b> Open Competition to Replace Fleet	<b>Option 3</b> Sole source F-35s
<b>Operational</b> Meets military's needs			
<b>Industrial</b> Maximizes the economic benefits for Canada			
<b>Political</b> Viewed by public as legitimate			



# Short Term Implementation Strategy

1-2 years

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- Suspend procurement of Super Hornets
- Announce transparent procurement which includes:  
Regular reports to Parliament and defence committee as well as through media channels
- Implement communications strategy
- Value-for-money guarantee



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# Risk Management

RISK	PROBABILITY	IMPACT	MITIGATION STRATEGY
Exact costs of the F-35 are unknown	Medium	Medium	The US administration is forcing costs down and for Lockheed Martin to be more concrete with those numbers
Boeing may take action	Medium	Low	If there is only one product that meets SOR, legal exemption in AIT to sole-source
Media/Opposition will be critical	High	High	Communications strategy that emphasizes transparency of process and evidentiary basis supporting optimal solution; implementation of long term governance plan for defence procurement.

# Chronic Problem

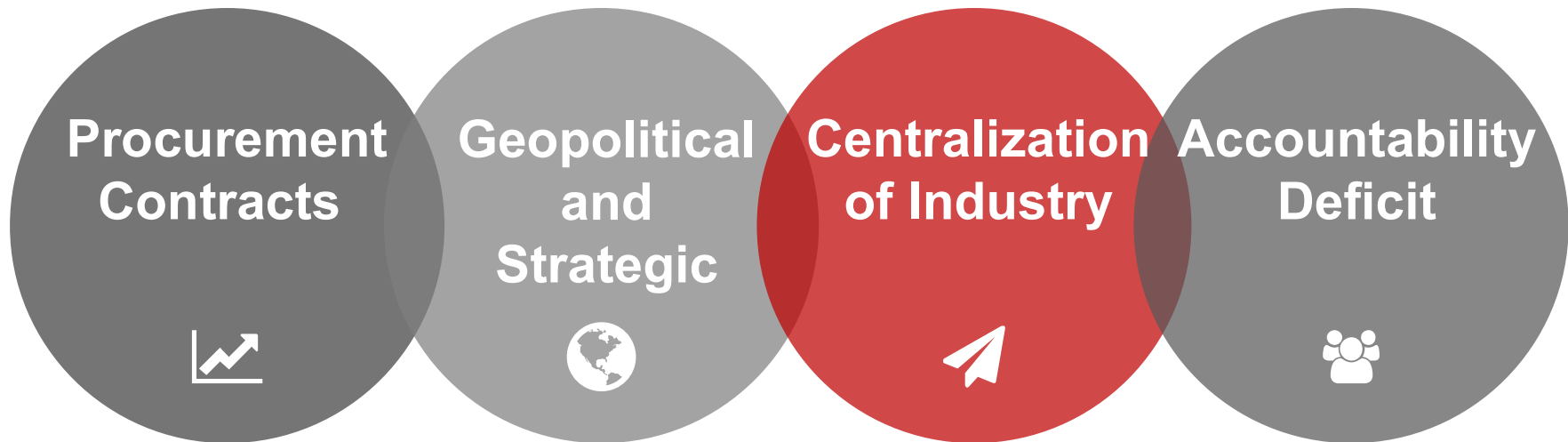
Long-Term Strategic Issue

# Fixing Defence Procurement



# Why is this issue chronic?

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**International Best Practices  
Operational Efficiency  
Early Stakeholder Engagement**



# Recommendations

## Four-Pronged Strategy



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### **Political Accountability**

- Restructuring defence procurement under the Minister of Defence
- Performance measurement

### **Addressing Capacity**

- Invest in permanent professionalized procurement staff

### **Early Engagement with Industry**

- Early engagement can substantially shorten the procurement process

### **Consolidation of Industry**

- Continued participation in JSF
- Educate on and build capacity for transparent sole sourcing



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# Internal Communications Plan

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## **Audience:**

Department of Defence, PSPC, Industry Canada, Cabinet

## **Key Objectives:**

- Inform staff of changes that have been made
- What is required from staff
- Rationale for changes

## **Key Messages:**

- Evidence-based policy
- Procurement process will be clearer and faster with new changes
- Transparency and openness with the public are paramount

## **Channels:**

Internal emails, briefing sessions



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# External Communications Plan

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## **Audience:**

General public, parliament, industry, media

## **Key Objectives:**

- Explain rationale of sole sourcing decision
- How transparency will be incorporated into the process
- Future reforms to military procurement

## **Key Messages:**

- Evidence-based policy
- A decision must be made now
- Sole source contracts can be conducted openly and transparently
- Reforms mean this will not happen again

## **Communications Channels:**

Media availability by Minister of Defence and top military personnel, press releases, technical briefings, website updates



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# Summary

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**Operational** ✓

**Industrial** ✓

**Political** ✓



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# Thank You - Merci

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Questions?

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# Appendices

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# A - Relevant Reports

## Office of the Auditor General of Canada

- 2012 Spring Report of the Auditor General of Canada: Chapter 2 – Replacing Canada’s Fighter Jets (Office of the Auditor General of Canada)

## Office of the Parliamentary Budget Officer

- 2011 Comparing PBO and DND Cost Estimates on Canada’s Proposed Acquisition of the F-35 Joint Strike Fighter: Some Preliminary Questions and Answers on Key Issues (Office of the Parliamentary Budget Officer)
- 2011 – An Estimate of the Fiscal Impact of Canada’s Proposed Acquisition of the F-35 Lightning II Joint Strike Fighter (Office of the Parliamentary Budget Officer)

## National Fighter Procurement Secretariat

- Summary Report – The Evaluation of Options for the Replacement of the DF-18 Fighter Fleet
- Industry Canada Report on the Industrial Benefits
- Fighter Threat Capability Assessment
- Mission Needs Report
- Report on the Estimated Life Expectancy of the CF-18 Fleet
- Mixed Fleet Analysis
- Review of the Acquisition Process to Replace Canada’s CF-18 Fleet
- Response to the Review of the Acquisition Process to Replace Canada’s CF-18 Fleet
- Next Generation Fighter Capability – 2014 Annual Update
- Independent Review: Next Generation Fighter Capability – 2014 Annual Update
- Canadian Industrial Participation in the F-35 Joint Strike Fighter Program – Fall 2014

## National Defence, Canada Armed Forces, & Independent Review Panel on Defence Acquisition

- 2013 – Canada First Defence Strategy (National Defence and the Canadian Armed Forces)
- 2014 – CF-18 Hornet Estimated Life Expectancy Cost (National Defence and the Canadian Armed Forces)
- 2014 – Threat Capability Assessment for Canada’s Fighter Aircraft Capability (National Defence and the Canadian Armed Forces)
- Independent Review Panel for Defence Acquisition 2015-2016 Annual Report



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# B - Legal Authority for Sole Sourcing

## **Agreement on Internal Trade (AIT)**

### *Article 506.12(b):*

The government can sole-source procure “where there is an absence of competition for technical reasons and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists.”

## **Government Contract Regulations (GCR)**

### *Article 6(b):*

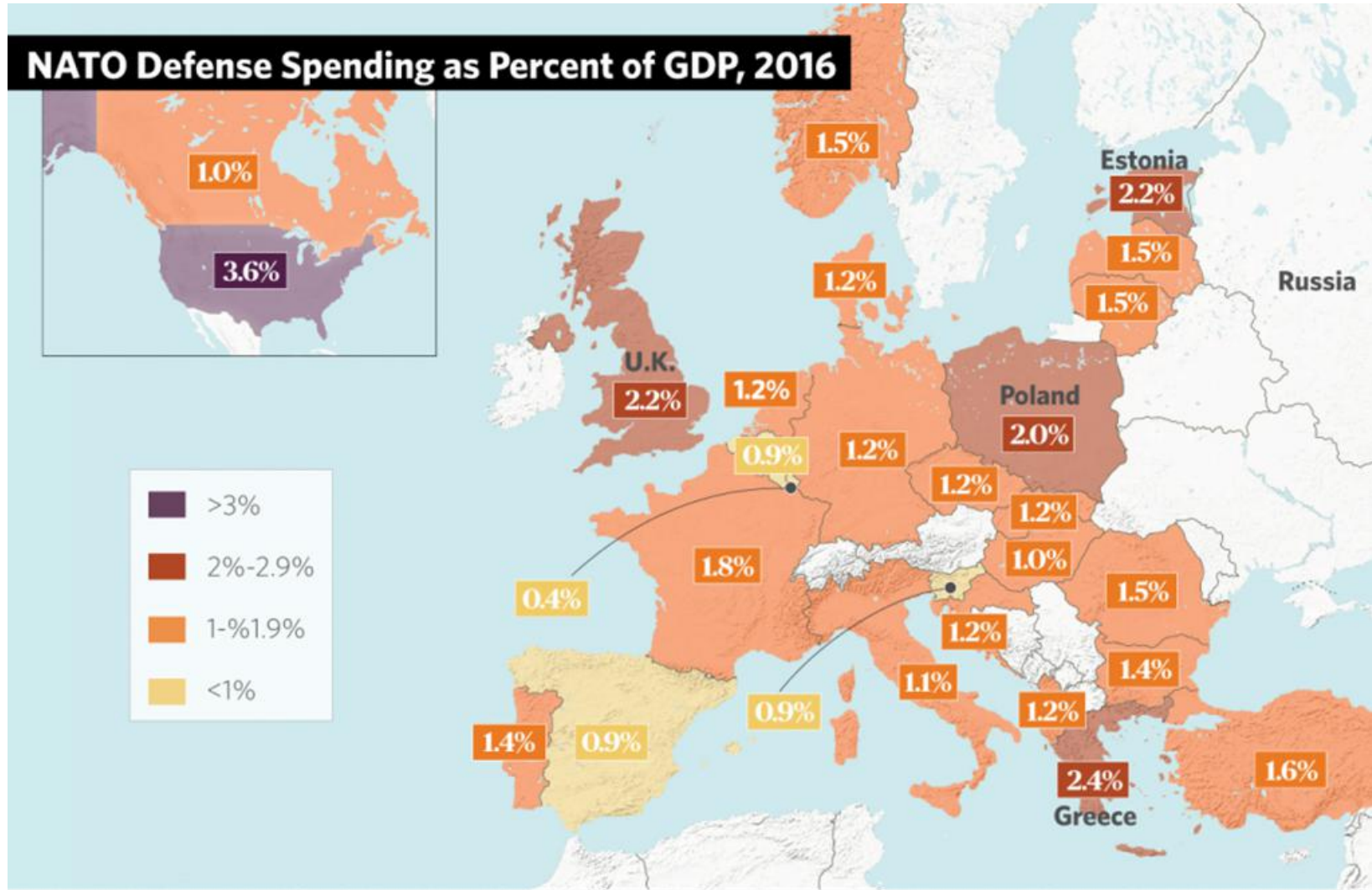
A contracting authority may enter into contract without soliciting bids when “only one person is capable of performing the contract.”

### *Article 6(c):*

“the nature of the work is such that it would not be in the public interest to solicit bids”.



# C - NATO Spending



Note: Although a member of NATO, Iceland has no standing army and does not contribute to defense spending

Source: NATO Copyright Stratfor 2017 esri

# D - Performance Evaluation for DND Procurement

- Horizontal, mixed-method
- Active review by departmental leadership
- Adheres to Treasury Board's *Policy on Results*

## Metrics

- Life cycle pricing estimates
- Time for procurement process
- Engagement with industry

## Internal Evaluation

- 1 project /year (under \$100 million)
- 1 project /three years (over \$100 million)

# **E - Procurement Process for Projects over \$100 million**

## **Department's Involved**

1. Department of National Defence
2. Canadian Armed Forces
3. Public Works and Government Services Canada
4. Innovation, Science and Economic Development Canada
5. Treasury Board Secretariat
6. Privy Council Office

## **Examples**

1. Maritime Helicopter
2. Fixed Wing Search and Rescue (FWSAR)



## F - Defence Procurement Delays

**2/3 of all defence procurement projects are behind schedule, some by decades**

**Reporting requirement for these projects has increased by 50% compared with 1990s**

### **Number of Staff**

- In 1990s, there were 9,000 staff dedicated to procurement
- In 2004, there were only 4,200 staff
- Strategic Review and the Deficit Reduction Plan (DRAP) cut another 400 positions in 2014/2015

### **Projects**

- 63% of 59 procurement projects have fallen behind schedule
- 34% on schedule
- 3% early

# G - Best Practices: Industry Engagement Frameworks

## **NATO**

- NATO Industry Forum
- NATO ACT – Framework for Collaborative Interaction
- NATO Industrial Advisory Group

## **Accord Governance Model**

- Independent third party review of DND's analytical capability and engagement with industry

## **International Comparisons**


- United Kingdom's Nitework model
- Rapid Prototyping, Development and Evaluation Program (RPDE) in Australia

# H – Accountability in Procurement

- Multiple layers cause time delays and accountability issues

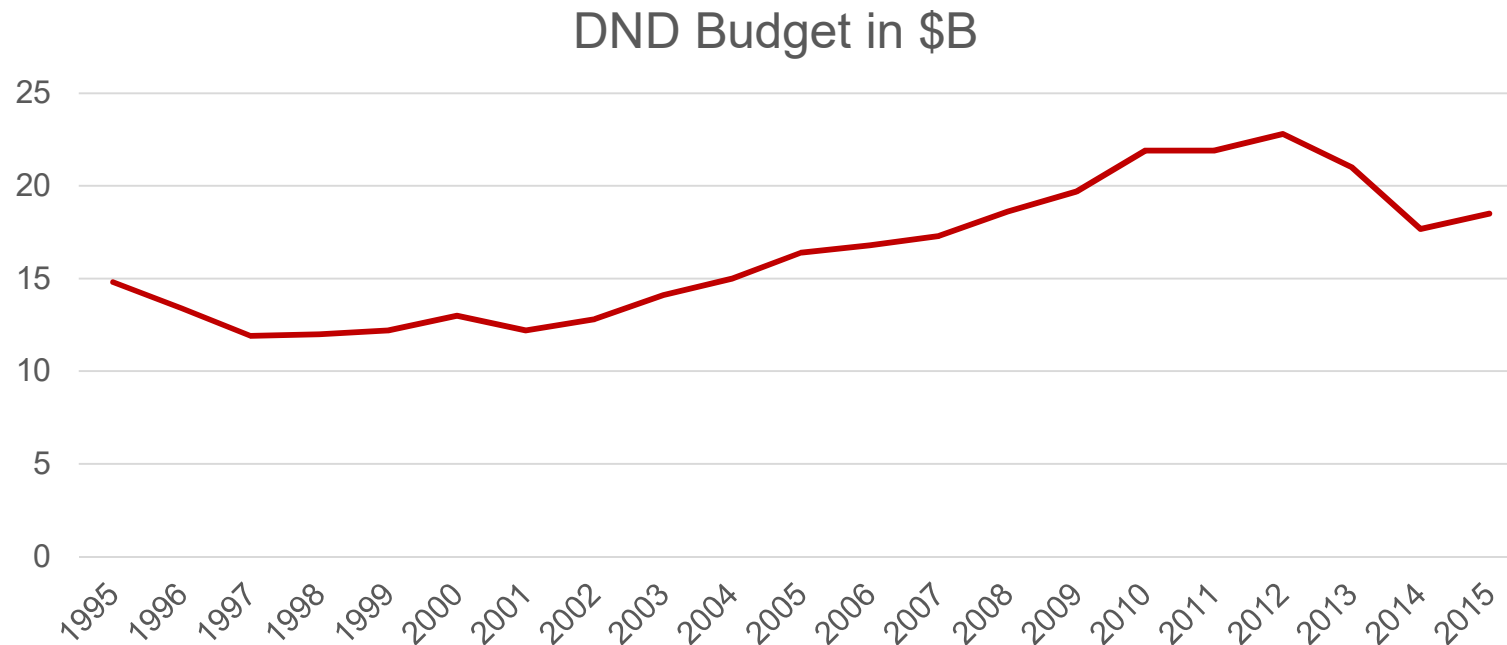


# I - Fighter Jets Available

	<b>Super Hornet</b> Origin: USA Generation: 4 <sup>th</sup> First Test Flight: 1995 Primary Users: US Flyaway Cost: \$98.3		<b>SAAB Gripen</b> Origin: Sweden Generation: 4 <sup>th</sup> First Test Flight: 1988 Primary Users: Sweden, South Africa, Czech Republic Flyaway Cost: \$60M	
<b>F-35</b> Origin: USA Generation: 5 <sup>th</sup> First Test Flight: 2006 Primary Users: US, Denmark, UK, Australia Flyaway Cost: \$94.6M		<b>Eurofighter Typhoon</b> Origin: Europe Generation: 4 <sup>th</sup> First Test Flight: 1994 Primary Users: UK, Germany, Italy, Spain Flyaway Cost: \$114M		<b>Dassault Rafale</b> Origin: France Generation: 4 <sup>th</sup> First Test Flight: 1986 Primary Users: France, Egypt, Qatar Flyaway Cost: \$93.8M



## J – DND Budget Constraints



- DND's budget = ~\$18.5B or 13% of GC spending
- Defence spending is discretionary
- Total capital spending in RPP of \$2.4B.