

Fighter Aircraft Procurement

Cabinet Committee on Defense Procurement
February 18th, 2017

Meghan Edwards
Patrick Gill
Christopher Martyn
Alex Shaul



Confidential Advice to Government

Canada 

Problem Definition

Further prolonging action to replace Canada's aging fleet of CF-18 fighter aircraft will harm Canada's diplomatic, industrial, and security interests and places our Royal Canadian Air Force personnel at risk

The complexity of Canada's multi-departmental procurement process inhibits decision-making and blurs lines of accountability

Context for Action

CF-18 Decision

- F-35 procurement started 20 years ago without resolution in sight
- Aging CF-18 fleet will be obsolete by 2023
- Every day a decision is delayed costs \$1M

Procurement

- 63% of military procurements have missed their deadlines
- Long history of problems in procurement (e.g. Sea King helicopters)
- Decline in skilled procurement capacity from 1990s to present day

Safety

- Have lost 20 CF-18s in accidents resulting in 11 fatalities
- Most recent fatality from CF-18 four months ago
- In 2011 the accident rate for RCAF increased for the 3rd year in a row

Context for Action (cont'd)

Security

- Canada must protect its sovereignty
- Canada's Arctic contains \$9 trillion in untapped resources
- Russia's arctic presence now largest since dissolution of the Soviet Union
- The percentage of GDP spent on defence is at its lowest levels since the 1930s

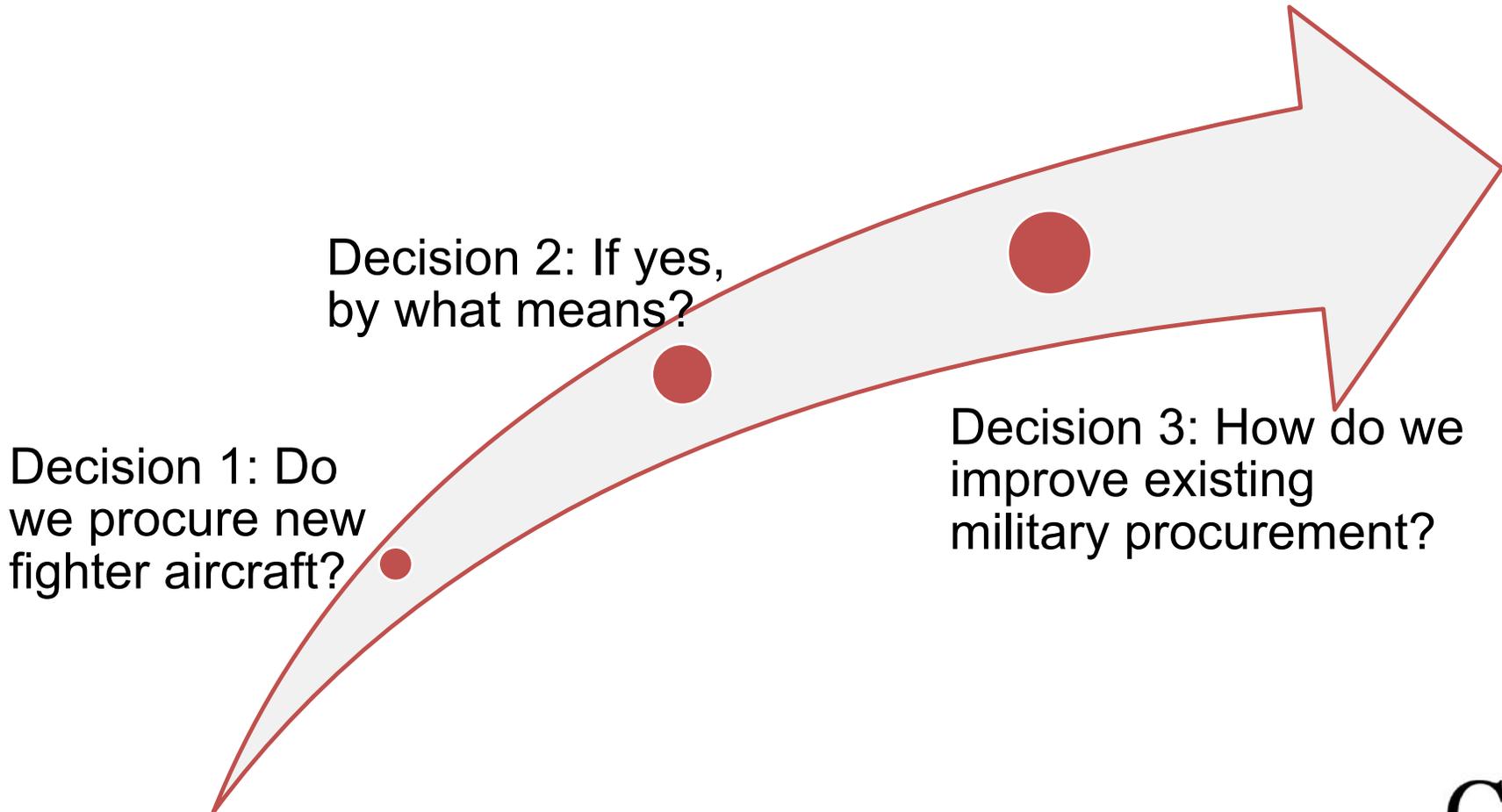
Diplomatic

- Emerging trade implications with U.S.
- U.S. has called on NATO allies to increase financial contributions
- Canada currently ranks beside Slovenia at 23rd out of 28 NATO members in defence spending by GDP
- Canada's reputation as a peacekeeping nation at stake

Industrial

- Aerospace industry creates knowledge-based jobs
- 211,000 Canadians employed in aerospace
- Aerospace and defence industries account for 30% of all R&D in Canada

Three Decisions to be Made



Confidential Advice to Government

Decision 1:

Do We Procure New Fighter Aircraft?

Option 1: Procure Fighter Aircraft

Considerations

- Promotes sovereignty
- Canada enhances its role as a reliable partner to NORAD, NATO & the UN
- Government fulfills commitment to Canadians
- Replaces an obsolete fleet
- New aircraft meets operational requirements
- Opportunity to boost jobs, innovation, economy
- A costly acquisition
- Continued media scrutiny

Option 2: Refurbish Existing CF-18

Considerations

- Short-term monetary savings
- Cannot be refurbished beyond 2023
- Would be seen as a diminishing global actor
- Does not resolve ongoing issue of replacing CF-18 Jets
- CF-18 near end of life-span (approx. 2023)
- Jeopardizes existing jobs, contracts, and supply chains
- Continued media scrutiny

RECOMMENDED OPTION

Confidential Advice to Government

Canada 

Decision 2: How do We Procure Aircraft?

Option 1: Open Competition

Considerations

- Delivers on commitment to run open, fair, transparent competition
- Opportunities to deliver regional benefits
- Ensures operational requirements outlined in RFP
- Ensures best value for money
- Promotes Canadian R&D sector
- Significant investments in F-35s since 1997
- Slower than sole source procurement
- F-35 may or may not win the competition

RECOMMENDED OPTION

Option 2: Sole Source F-35s

Considerations

- Realizes significant investments in F-35s since 1997
- Many allies committed to F-35s, U.S. commitment uncertain
- Interoperability of fighter aircraft technologies considerations
- Maintains existing supply chains (industrial spin off)
- Lacks transparency and accountability
- Lost opportunity to assess what jet fighter market can contribute
- May still be the best value for money
- May or may not meet RCAF's operational needs

Confidential Advice to Government

Canada 

Decision 3: The Case For Changing The Military Procurement Process

Current Multi-Departmental System

- Procurement must be coordinated across many departments (see Appendix 2)
- No single department or agency is in charge
- No direct line of accountability
- Canada is unique in this approach
- Does not result in timely decisions
- Requires extensive coordination
- Has led to poor decision making and delays (e.g. Sea Kings)
- Numerous complaints to the Auditor General

Decision 3: How Do We Improve Military Procurement?

Option 1: Centralization of Military Procurement Into New Division in DND

Considerations

- Increased accountability
- Increased efficiency (streamline decision making process)
- Proven effectiveness in other jurisdictions (i.e. U.K, Australia, France, Denmark, Germany etc.)
- Streamlines access for industry partners
- Requires complex restructuring

RECOMMENDED OPTION

Option 2: Individual Armed Services Each Conduct Own Military Procurement

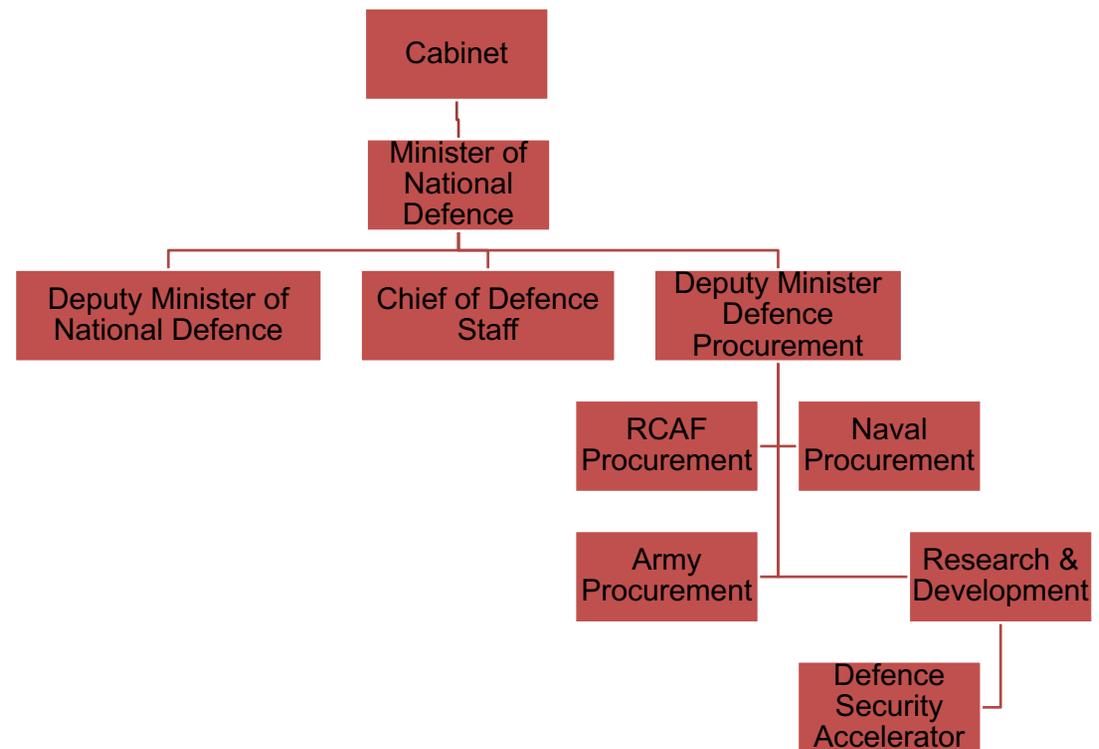
Considerations

- Utilized in the United States, where each armed services branch has extensive procurement capacities and large financial resources
- Requires close coordination between all U.S. armed forces' branches and Department of Defence agencies who act as purchasing agents
- Requires complex restructuring

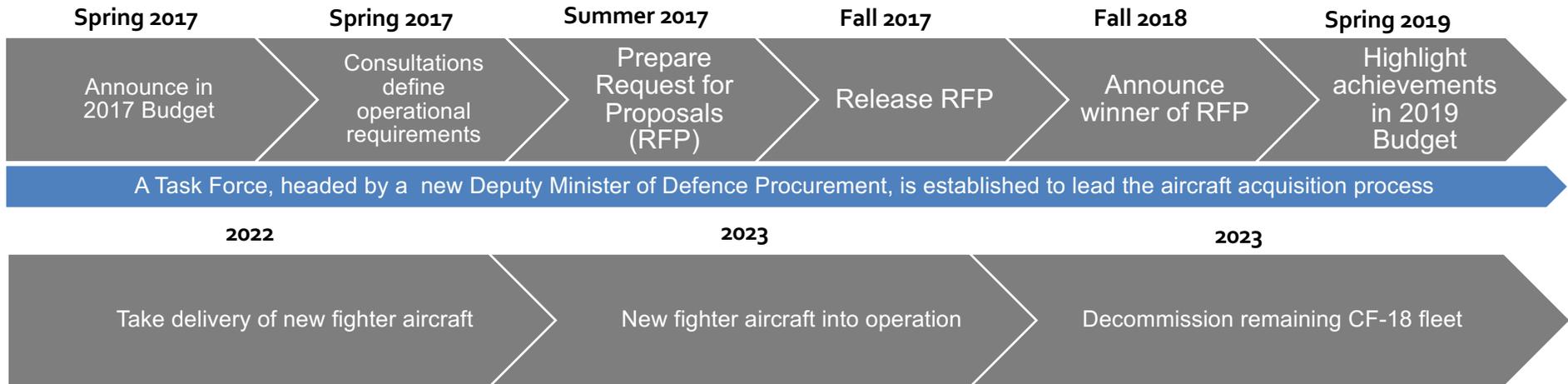
Recommended Option: New Division of Defence Procurement

The newly created Deputy Minister for Defence Procurement will lead the new Division of Defence Procurement and report directly to the Minister of Defence.

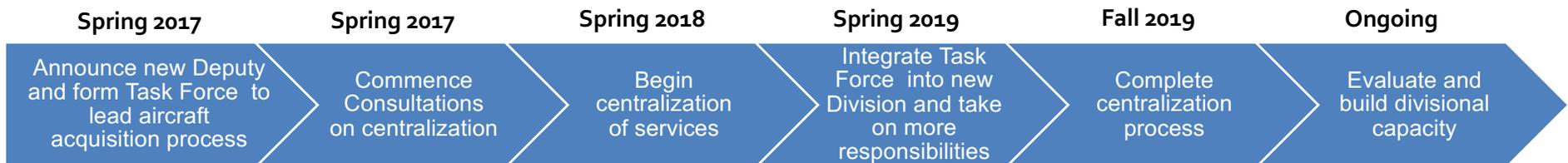
New Defence Security Accelerator will promote innovation and growth across Canada.



Implementation Plan: Aircraft Acquisition Timeline



Implementation Plan: Defence Procurement Centralization Timeline



Ensuring Military Procurement Success

RFP Approval Criteria

- Value for Money
- Operational Requirements
- Industrial Benefits

Measuring Procurement Outcomes

- Ensure That Defence Procurements Are:
 - Timely
 - Fair
 - Transparent
 - Within Budget
- Program Reviews and Independent Audits to Ensure Outcomes are Met

Key Risks and Mitigations for Procurement of New Fighter Aircraft

Risk	Mitigation Techniques
Budgetary Uncertainty regarding the cost of new fighter aircraft in tight fiscal situation	<ul style="list-style-type: none"> Budget on basis of worst cost scenario (F-35) Consider price threshold for bids in RFP Amortized lifecycle costs Fiscal plan anticipates spending on capital projects
Economic Potential for uneven regional benefits	<ul style="list-style-type: none"> New Defence Security Accelerator will seek to create spinoff jobs across Canada
Government Commitments Government has publicly rejected F-35	<ul style="list-style-type: none"> Rely on an open, fair, and transparent process May or may not end up with F-35 Best value for money
International Moving away from F-35s could jeopardize diplomatic relations and affect interoperability	<ul style="list-style-type: none"> Reinforce commitment to diplomatic partnerships. Increased NATO spending Ensure interoperability in the RFP
Procedural Aggressive timelines for procurement may not be met	<ul style="list-style-type: none"> Rely on expert assessment of readiness of marketplace New Division of Defence Procurement will streamline process

Stakeholder Engagement

Stakeholder Groups	Anticipated Stakeholder Position	Recommended Response
Canadians	The majority of Canadians are unaware of the defence procurement process, but are supportive of the Canadian Armed Forces	We are supporting our Armed Forces with the equipment they need, when they need it.
Canadian Armed Forces	Seeking clarity on its defence capabilities	We are purchasing new fighter aircraft and are modernizing to ensure you have equipment that meets your operational needs
Aerospace Industry	Seeking a level playing field and one point of contact within the Government	We are launching an open, fair, and transparent procurement process and streamlining military procurements
International Security Partners	Seeking a greater contribution from Canada and have concerns with Canada potentially moving away from the F-35	We are purchasing new fighter aircraft and are committed to increasing our NATO contributions
Provinces and Territories	Concerned about the regional distribution of industrial benefits	Through our military procurements and Defence Security Accelerator will promote distribution of industrial benefits across Canada

Communications Plan

Audience	Message
Canadian Public	<ul style="list-style-type: none"> • Canada is keeping its armed forces safe with new equipment • Canada is playing its part on the world stage • Government is committed to value for money • Supporting our military creates jobs from coast to coast to coast
Industry	<ul style="list-style-type: none"> • Competition will be open, fair and transparent • Investing in cutting edge technologies • Canada is open for business
Canadian Armed Forces	<ul style="list-style-type: none"> • We are committed to getting you the equipment you need when you need it, to keep you safe • The Air Force is getting the fighter aircraft fleet it needs
International Partners	<ul style="list-style-type: none"> • Canada will increase its contributions to NATO • Canada is committed to its role in NATO and around the world • We take our international security responsibilities seriously

Key Messages

Providing Canada's military personnel with the equipment they need when they need it

Investing in research and development and creating highly skilled jobs

Increasing our support for international partners and playing our part on the world stage

Defending Canada's borders today and tomorrow

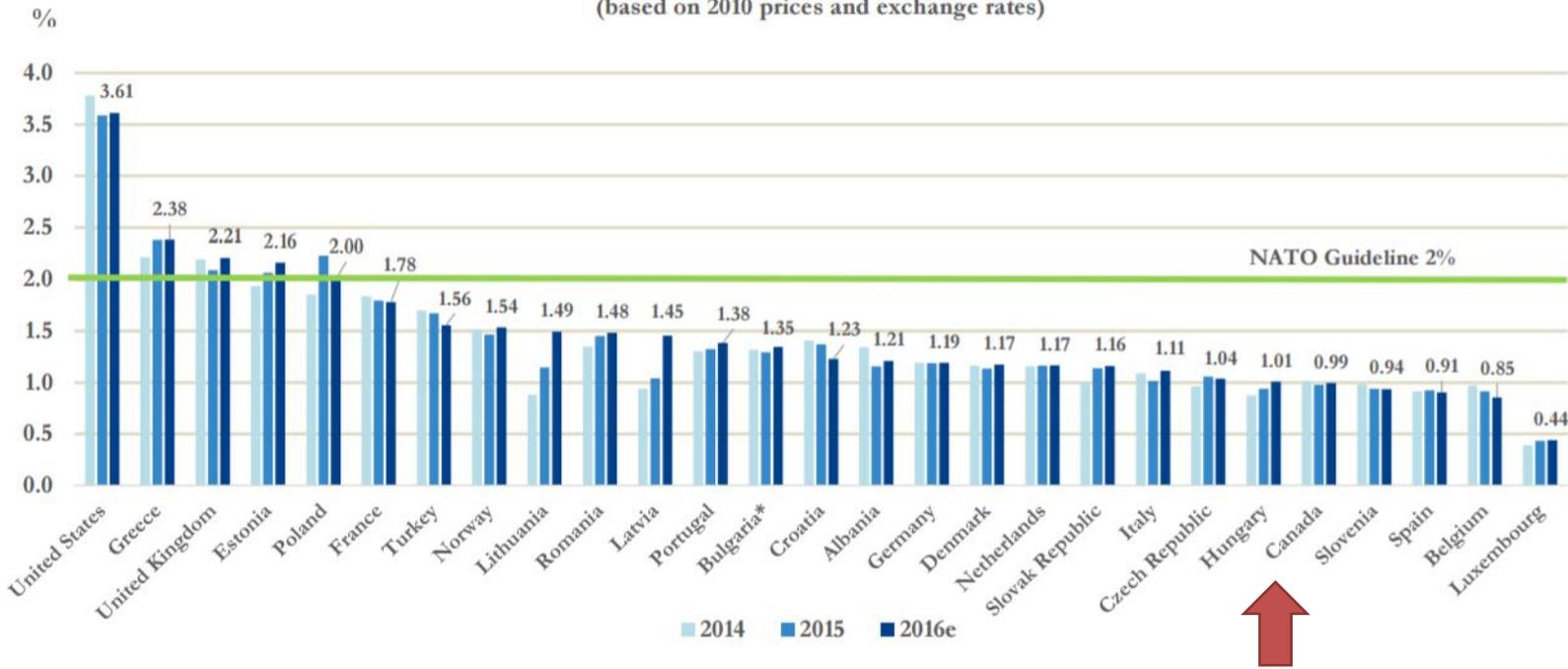


Confidential Advice to Government

Canada 

Appendix 1: Defence Expenditure as a share of GDP

Graph 2 : Defence Expenditure as a share of Gross Domestic Product
(based on 2010 prices and exchange rates)

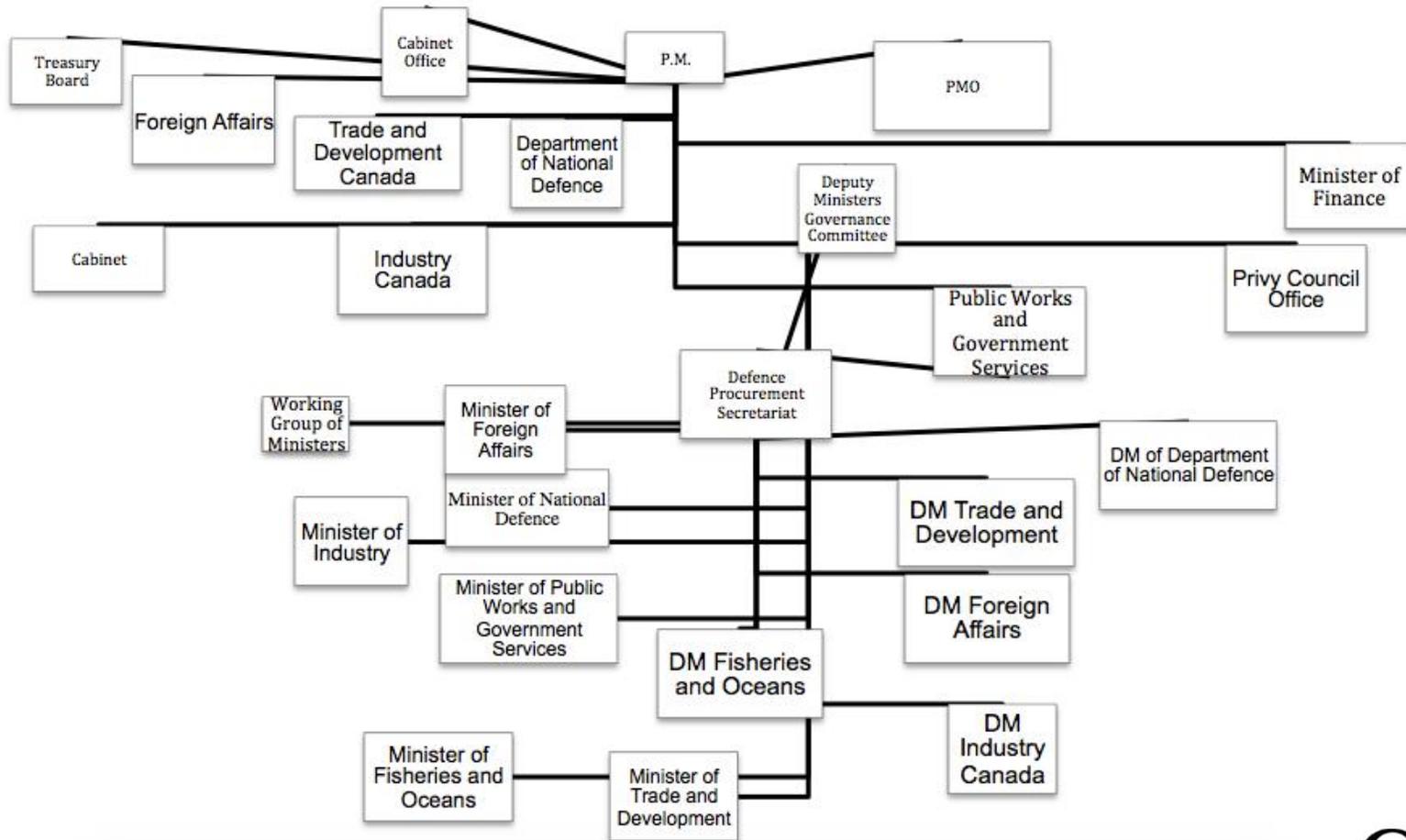


Source: http://www.nato.int/nato_static_fi2014/assets/pdf/pdf_2016_07/20160704_160704-pr2016-116.pdf

Confidential Advice to Government



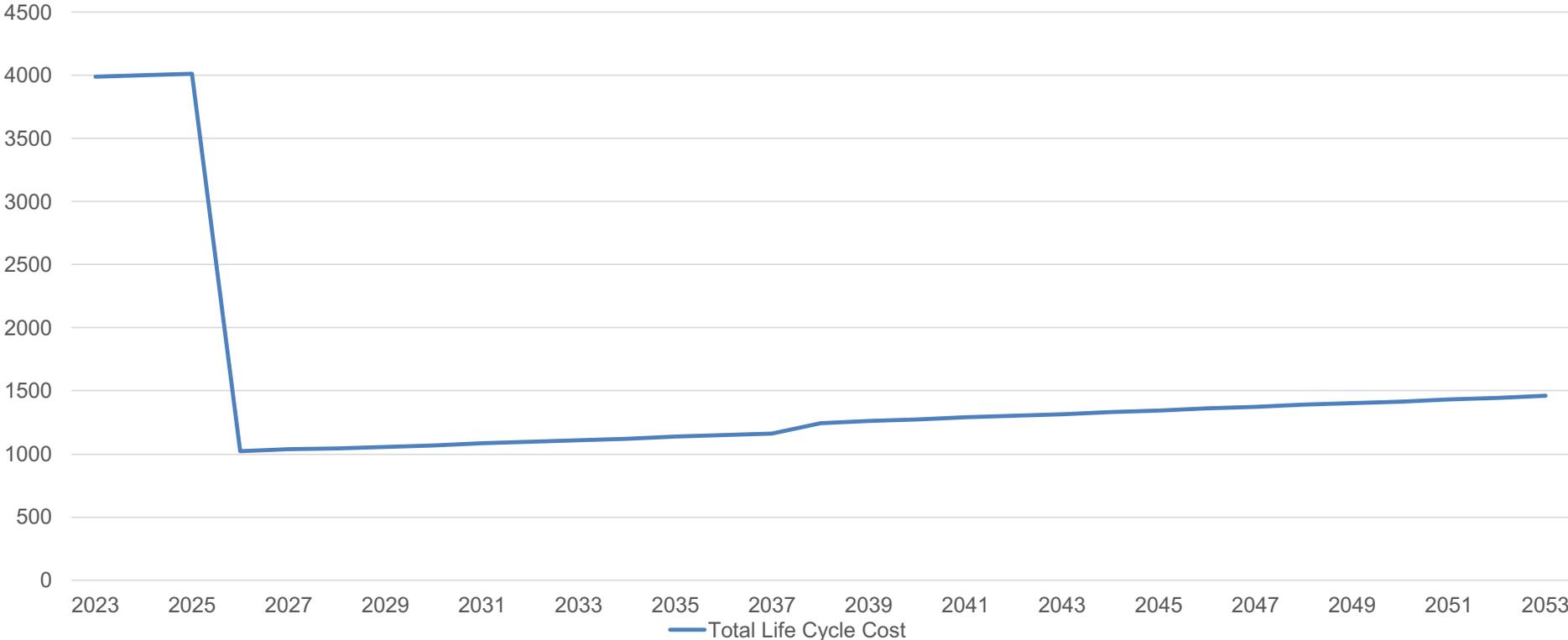
Appendix 2: Current Procurement Process



Confidential Advice to Government

Appendix 3: Estimated Life Cycle Costs

Retrieved from: Next Generation Fighter Capability Annual Update 2014 (DND), in \$ millions



Confidential Advice to Government



Appendix 4: Financial Considerations

Investments to Date

- \$309 (USD) million spent by 2015
- \$10.6M (USD) on the concept demonstration phase
- \$94.4M (USD) to the system development and demonstration phase
- \$204.3M (USD) for the production, sustainment, and follow-on development phase
- Further contributions have been made as recently as Fall 2016

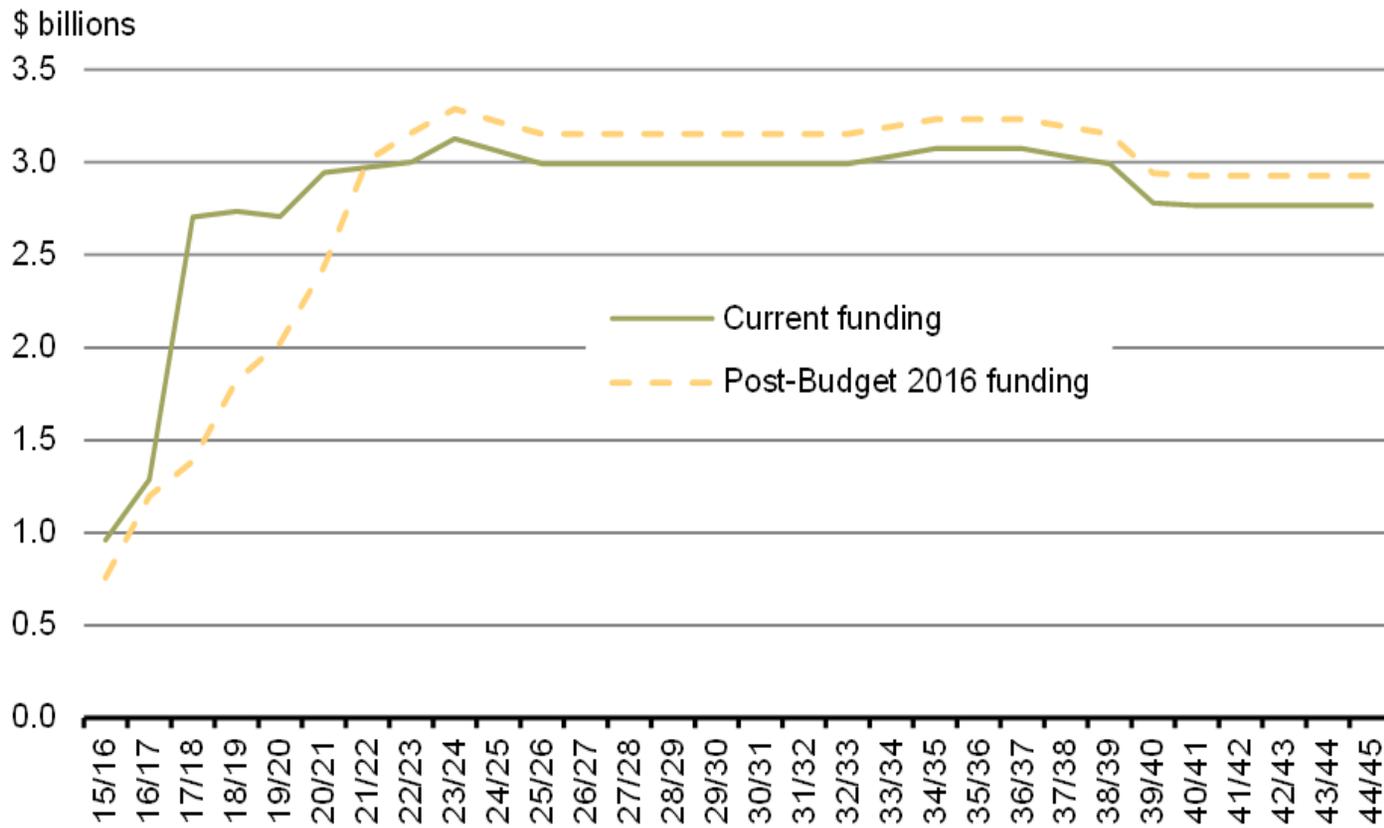
Confidential Advice to Government

Industrial Benefits

- 2012 KPMG report indicates total LCC of \$45.8 billion over 42 years.
- Best outcome from industrial offsets projected to be \$9.8 billion (Canada can bid for these contracts while less than \$1 billion have been realized)
- Projections made when CAD USD was roughly equal

Canada 

Appendix 5: Funding for National Defence Large-Scale Capital Projects (DOF 2016)



Confidential Advice to Government