



MOVING FORWARD WITH THE CF-18 REPLACEMENT PROGRAM

February 18, 2017

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Canada 

CONTENT OUTLINE

- Issue Statement
- Decision Context
- Goals & Key Considerations
- Options
- Risk Assessment
- Implementation & Communications Strategy

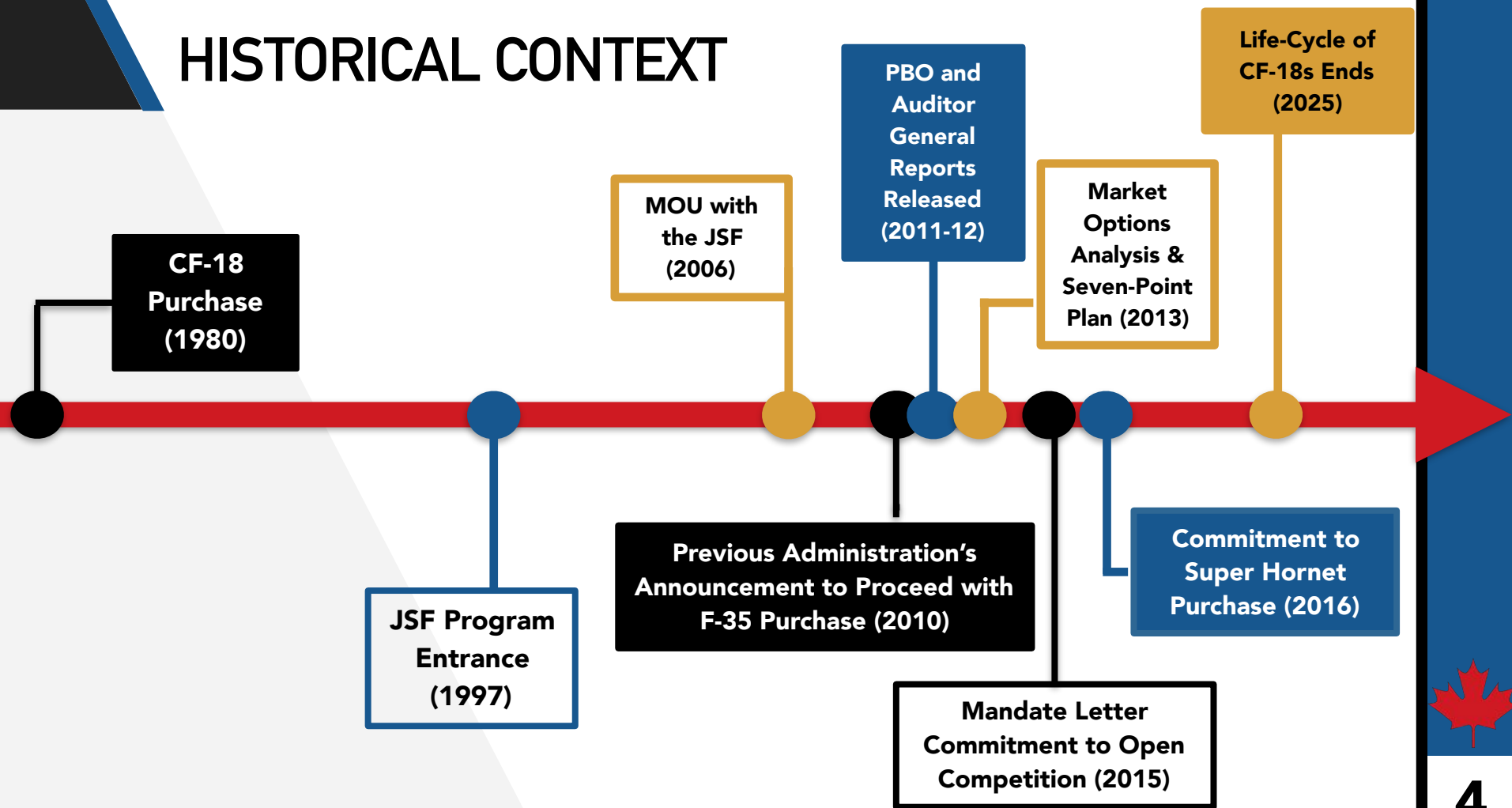


How should the federal government proceed with the CF-18 replacement program?

- ▶ Is changing course feasible?
- ▶ How can costs be further controlled?
- ▶ How should the government maximize economic development benefits?
- ▶ What is the best way to rebuild public and supplier confidence?



HISTORICAL CONTEXT



KEY FINANCIAL INFORMATION

JSF PROGRAM

TOTAL COMMITMENT (until 2051)

→ \$710 million CAD

CURRENT INVESTMENTS

→ \$450 million CAD

RECOVERED INVESTMENT

→ \$843 million CAD

F-35 COST

FLYAWAY COSTS

→ \$125 million CAD

LIFECYCLE COSTS

→ \$44 billion for 65 planes
or \$700 million per plane



DECISION CONTEXT - WHY ACT NOW?

DOMESTIC

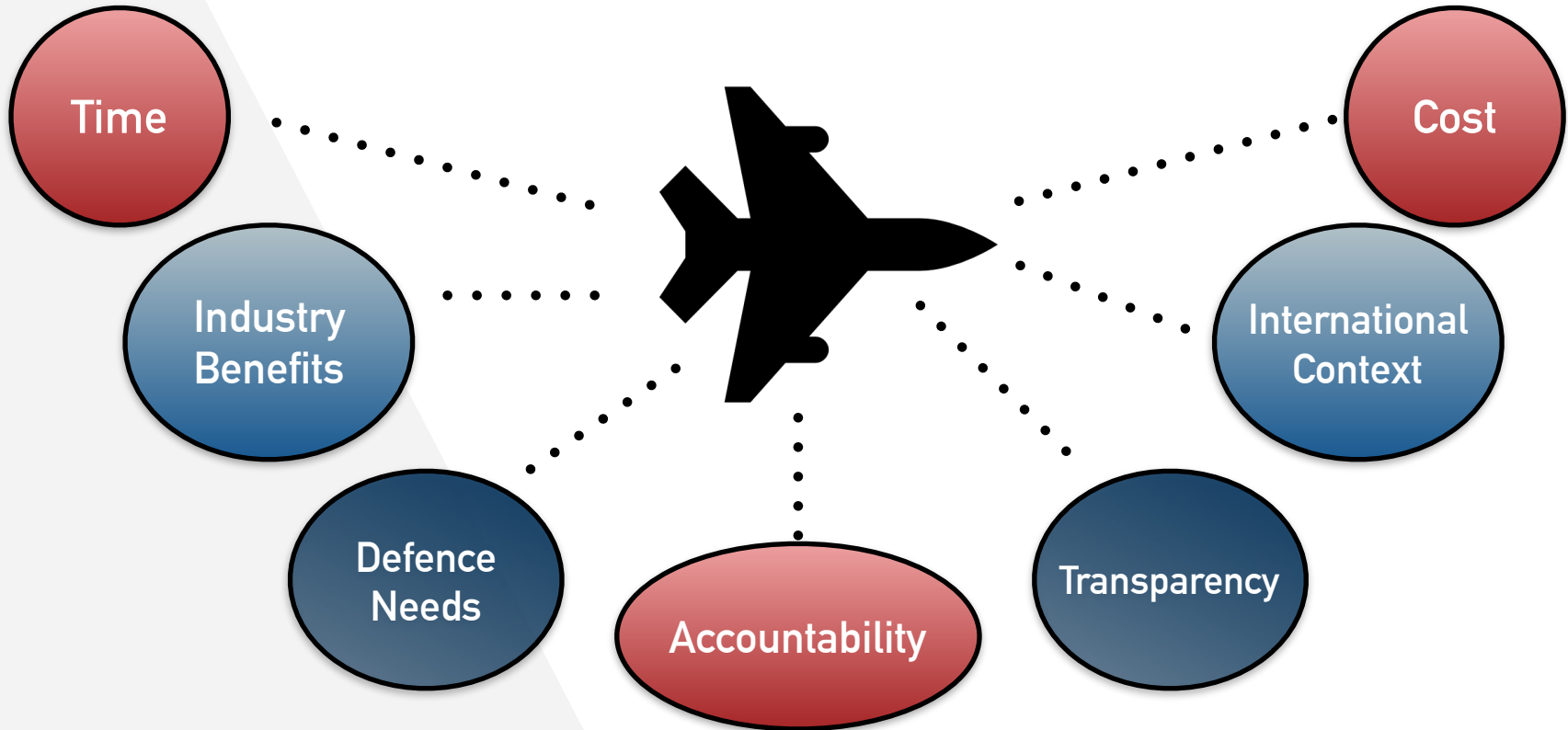
- National Innovation Agenda
- Defence Policy Review
- Defence procurement improvements
- 2017-18 Budget

GLOBAL

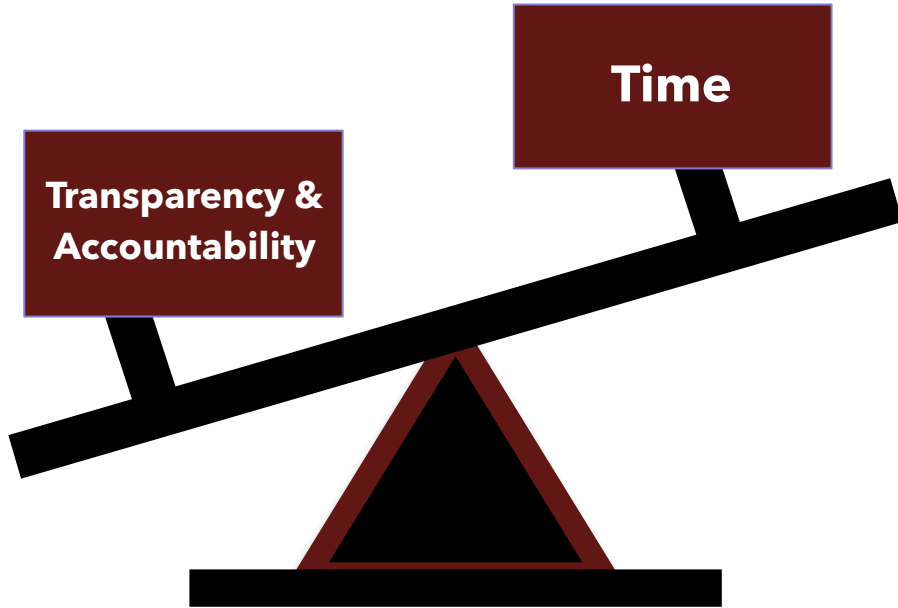
- Commitments under NATO & NORAD (budgetary and mission)
- JSF program participation



KEY CONSIDERATIONS - OVERVIEW



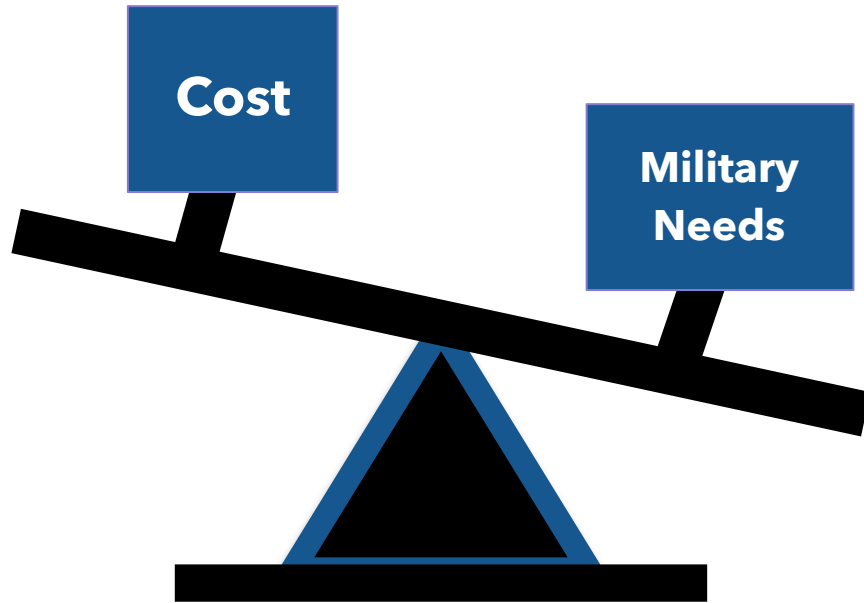
GOAL 1: BALANCING FAIR PROCESS WITH TIME



- Efforts at improving transparency and accountability in the procurement process will need to be balanced with time and cost
- Adding additional checks and balances lengthens our decision making processes



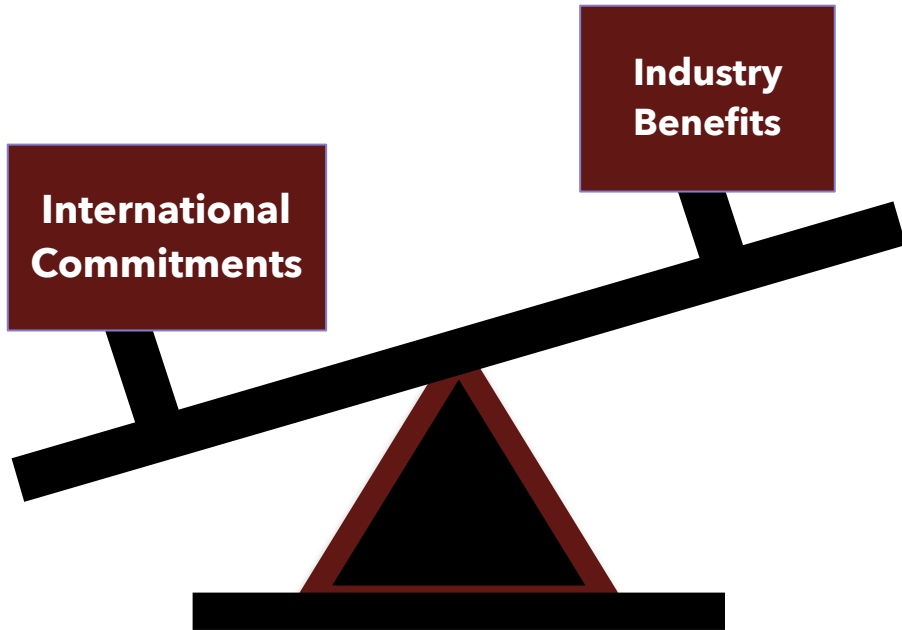
GOAL 2: BALANCING MILITARY NEEDS WITH COST



- Additional features of planes must be balanced with their respective costs
- Military needs will be informed by Defence Policy Review



GOAL 3: BALANCING INTERNATIONAL COMMITMENTS WITH INDUSTRY BENEFITS



- Majority of our allies partnered through NATO have procured F-35 planes
- More explicit commitments to buying F-35 planes leads to less negotiating power for industry benefits
- Utilize National Innovation Agenda to maximize industry benefits



STRATEGIC OPTIONS

Option 2:
Step back and
re-evaluate

OPTION 1:
OPEN COMPETITION
(RECOMMENDED)

Option 3:
Direct purchase
of F-35



RECOMMENDED: OPEN COMPETITION

Key Features

Open Competition

*Prime contractors compete to
replace CF-18s*

Better Procurement Process

*Streamline approvals & increase
staff capacity*

Re-confirm Operational Needs

*Defence Policy Review & re-assessment
by Independent Review Panel*

Improve Economic Development

*Utilize competition to negotiate
benefits & link to National Innovation
Agenda*



RECOMMENDED: IMPLEMENTATION STRATEGY

PHASE 1 (1-4 Months)

- Internal discussions with MOF
- Hire staff and streamline procurement process
- Re-assess selection criteria for plane
- Launch communications strategy

PHASE 2 (4-8 Months)

- Make payment to Joint Strike Fighter program
- Begin outreach with defence contractors
- Industry engagement
- Issue Request for Proposals

PHASE 3 (8-24 Months)

- Evaluate proposals
- Identify preferred option
- Independent Review Panel verifies process and choice
- Negotiate contract with supplier



RECOMMENDED: OUTCOME COMPARISON

Outcome 1: F-35

Outcome 2: Alternative Plane

- Companies bid for contracts
 - ▶ Potential identified benefits up to \$10 billion CAD
 - ▶ Benefits less secure but greater value
- Existing access to advanced technology

- Offset model
 - ▶ Industry benefits in procurement agreement
 - ▶ Benefits of less value but more secure
- Negotiate high-tech R&D benefits

Link to National Innovation Agenda



Restores Public Faith



OPTIONS COMPARISON

Transparency Time International Cost Industry

**Step Back and
Re-evaluate**

**Direct Purchase of
F-35**

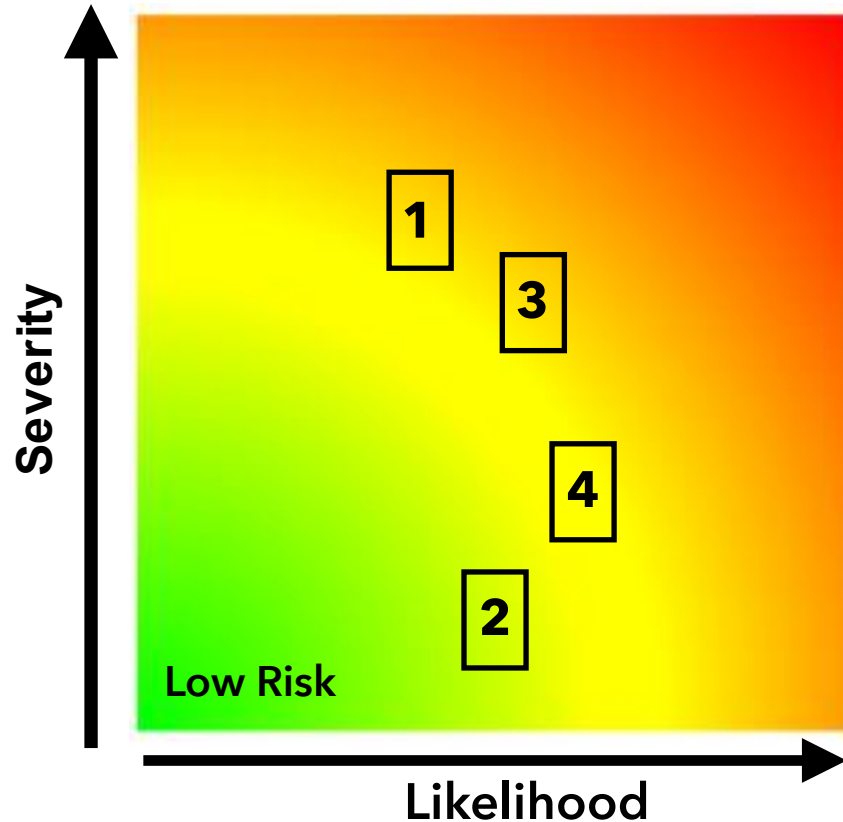
**Pursue an Open
Competition**

✓	✗	✗	✓	—
✗	✓	✓	—	—
✓	—	—	✓	✓



FEASIBILITY AND RISK ASSESSMENT

	Risks	Mitigation
1	Delayed delivery	Interim planes
2	Uncertainty for industry	Align with National Innovation Agenda
3	Cost overruns	Contract design
4	Public skepticism	Robust communications strategy



COMMUNICATIONS STRATEGY

PHASE 1 (1-4 Months)

LAUNCH OF COMMUNICATIONS CAMPAIGN

- Press releases
- Digital media release
- Social media campaign
- High profile ministers' statements
- Op-eds by high-profile DND staff

PHASE 2 (4-8 Months)

ANNOUNCE CALL FOR PROPOSALS

- Launch of interactive website
- Commercials/paid ads
- Photo-ops with aerospace/R&D firms
- Social media refresh

PHASE 3 (8-24 Months)

ANNOUNCE WINNING CONTRACT

- Announcement in parliament
- Press release/ conference
- Print media release
- Photo-ops
- Echo opportunities





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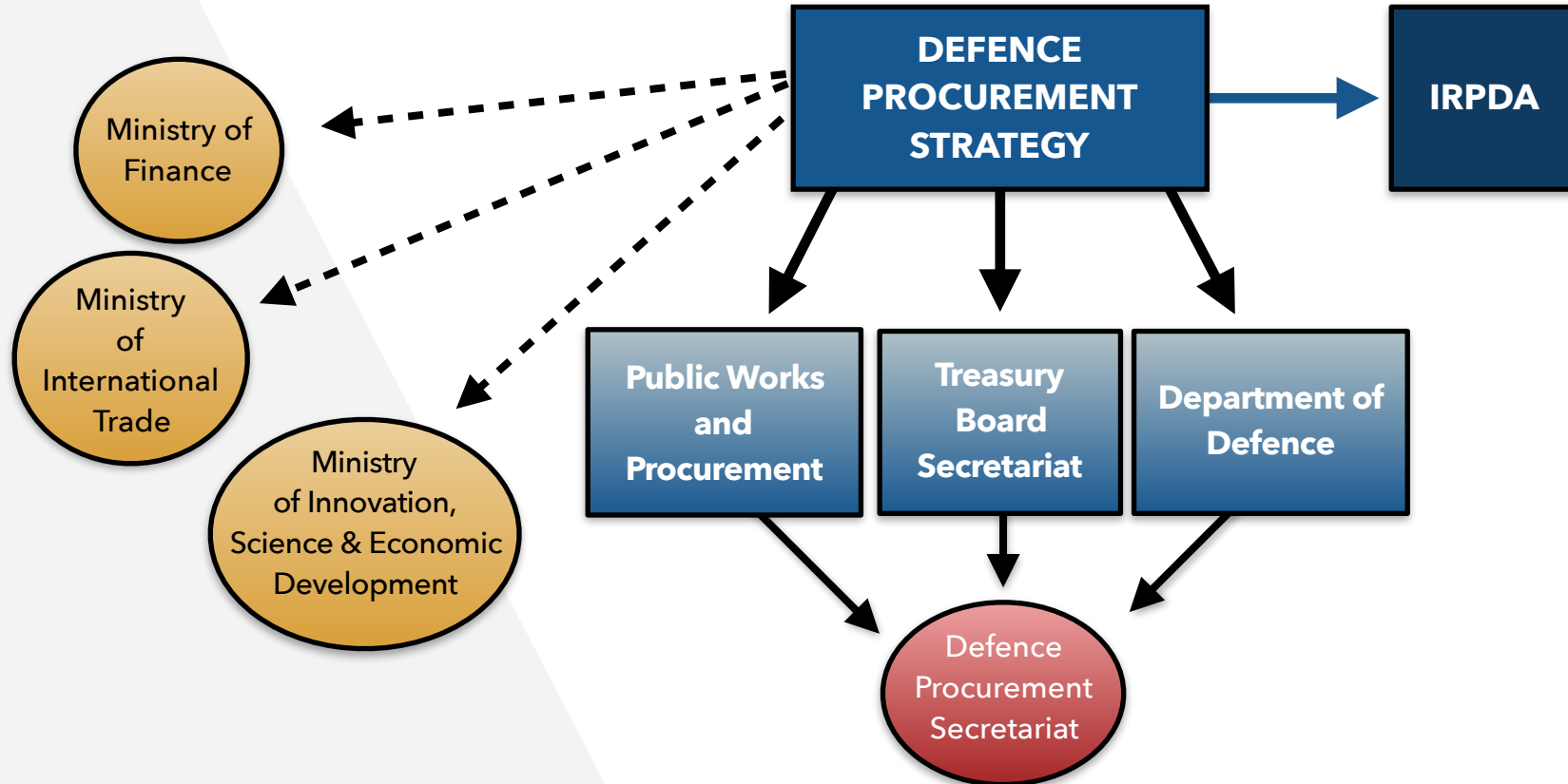
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APPENDIX I: EXISTING PROCUREMENT STRUCTURE



APPENDIX II: DETAILS FOR RECOMMENDED OPTION

Member of Secretariat to serve as “champion of change”

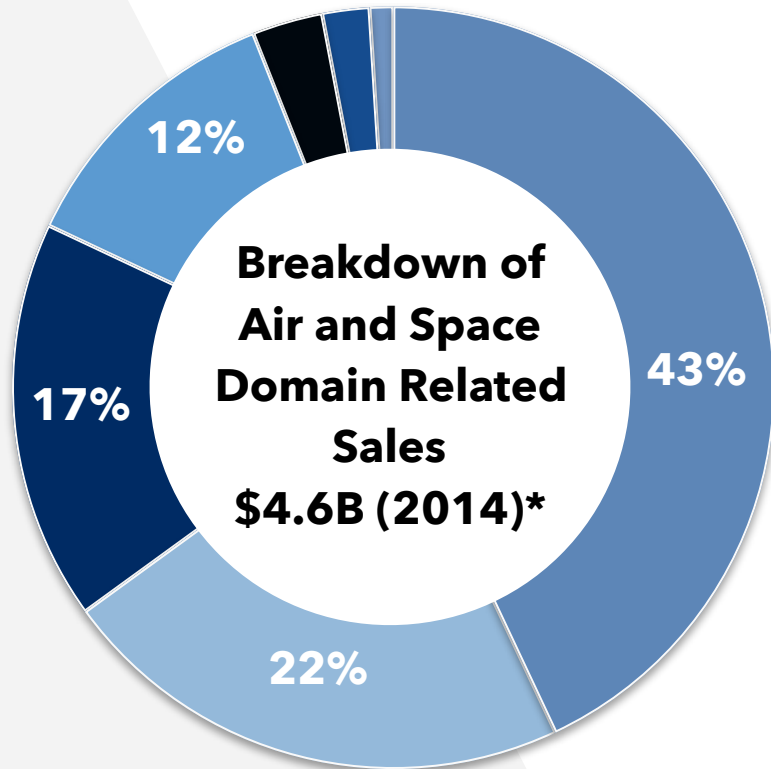
- ▶ Identify gaps in staff capacity to suggest areas in need of more staff
- ▶ Propose training sessions required to increase experience of staff
- ▶ Streamline decision making by delegating specific approval points to individual ministers

Create strict standards in reporting

- ▶ Require reporting of lifecycle costs in addition to flyaway costs
- ▶ Require reporting of timeline trajectories and progress up to date



APPENDIX III: CANADIAN AEROSPACE DEFENCE INDUSTRY



- Military Aircraft Maintenance, Repair and Overhaul
- Aircraft Fabrication, Structures and Components
- Airborne Communications, Navigation, and Other Information Systems
- Airborne Sensor/Information Collection
- Simulation Systems for Aircraft
- Military Space Systems
- Unmanned Aerial Systems/Vehicles

Source: Ministry of Innovation, Science and Economic Development



APPENDIX IV: STEP BACK AND RE-EVALUATE OPTION

Hold off on CF-18 replacement decision

- Dismantle existing procurement structure
- Improve accountability: centralize procurement accountability in Treasury Board Secretariat
- Industry benefits, handle on expenses: unknown
- Reassess Canada's military role and needs
- Opportunity to ensure Canada has the right plane for its needs



APPENDIX V: DIRECT PURCHASE OF F-35 OPTION

Pursue no-bid contract for the procurement of F-35 jets

- Improve transparency: create expert task-force to confirm Seven Point Plan option analysis
- Use existing structures to meet acquisition timelines
- Industry benefits under JSF continue
- Some expense management through negotiations with F-35 prime contractor
- Less opportunity to ensure Canada has the right plane for its needs
- Strong commitment to international allies

