

Canada's Defence Procurement Crisis: Why Failure is the Norm

by

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Dedicated to my parents

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## **ABSTRACT**

This thesis explores the manner in which the current method of defence procurement in Canada, a process which is fraught with cancellations, delays, and cost over-runs, is not likely to be altered in the foreseeable future. The implementation of Industrial Regional Benefits (IRBs) and Key Industrial Capabilities (KICs), an initiative that ensures defence procurement contracts are given to Canadian companies located throughout the country, is too beneficial politically and domestically for the Government of Canada (GoC) to abolish. These two programs ensure that Canadians across the country will benefit from the employment and domestic advantages that having a Canadian procurement policy enable. While these programs provide labour and economic opportunities throughout the country, there are a number of critics who question the current model of defence procurement and offer solutions on how to remedy the current system. These people have many valid suggestions on how to create a Canadian defence procurement policy that provides the Canadian Armed Forces with modern equipment in a timely and cost-efficient fashion. While these recommendations would most likely ensure that Canadian defence procurement would improve, the majority of these solutions are in contradiction to IRBs and KICs. Since these suggestions do not include these two factors, these policies are not likely to be implemented by the GoC.

## **LIST OF ABBREVIATIONS USED**

Arctic Offshore Patrol Ships (AOPS)

Anti-Submarine Warfare (ASW)

Canada First Defence Strategy (CFDS)

Canadian Forces (CF)

Canadian Surface Combatants (CSS)

Department of National Defence (DND)

Defence Procurement Strategy (DPS)

Defence Structure Review (DSR)

Federal Aviation Administration (FAA)

Gross Domestic Product (GDP)

Government of Canada (GoC)

Goods and Services Tax (GST)

Industrial Regional Benefits (IRBs)

Joint Strike Fighter (JSF)

Key Industrial Capabilities (KIC)

Lockheed Martin (LM)

National Shipbuilding Procurement Strategy (NSPS)

Naval Secret Staff (NSS)

Neoclassical Realism (NCR)

New Democratic Party (NDP)

North Atlantic Treaty Organization (NATO)

North American Aerospace Defence Command (NORAD)

Parliamentary Budget Officer (PBO)

Public Works and Government Services Canada (PWGSC)

Royal Canadian Air Force (RCAF)

Royal Canadian Navy (RCN)

Rough Order of Magnitude Costs (ROM)

Sea King Replacement Program (SKR)

Sea King Improvement Program (SKIP)

Statement of Requirement (SOR)

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## **Chapter I: Introduction**

### **Thesis Statement and Research Objectives**

This proposed thesis addresses the ongoing and very serious challenges tied to defence procurement in Canada. Although the Government of Canada (GoC), through coordination among the Departments of National Defence (DND), Public Works and Government Services (PWGSC) and Industry Canada, is juggling several new capital equipment projects to modernize the Canadian Armed Forces, these recent procurement projects have encountered significant delays that have hindered the military's ability to modernize. Despite these setbacks and their effects on Canada's ability to remain interoperable with allies in multilateral missions, there appears to be no significant pressure on the Canadian government to solve the procurement crisis. The status quo for defence procurement will continue to operate in Canada for several structural, social, institutional and political reasons to be addressed in this thesis.

Academics, industry officials, journalists, and many others have argued that the manner in which Canada procures military equipment is uninspiring at best. Various credible solutions have been offered over decades to remedy the current procurement quandary in Canada without any compelling evidence of significant modification to the procurement process. Why have consecutive administrations refused to embrace serious reforms? This thesis will argue that despite the best efforts of various individuals and organizations to revolutionize defence procurement in Canada, the probability is very low that these recommendations will ever come to fruition, Canadians, for the most part, feel safe from conventional military attacks.

There are several structural realities in Canada that further perpetuate this feeling of safety for Canadians, including domestic, political, international, and geographical factors. In regards to domestic factors, Canadian citizens have, for the most part, neither been critical of the amount of money spent on procurement, nor of the various delays in the procurement process. Jack Granatstein (2004) argued that due to this complacency by the Canadian electorate, they are to blame for the current state of the Canadian Forces.<sup>1</sup> Other domestic factors include Industrial and Regional Benefits (IRB), which promote the growth of military industry in Canada, often at the expense of timely procurement decisions. The political structure of Canadian foreign and defence policy is that no elections in Canada since 1945 have featured Canadian foreign and defence policy as a major campaign issue.<sup>2</sup> Due to this political structure, various federal governments have not been voted out of office due to their positions on various procurement projects. The geographic structural component is that due to Canada's unique geographical position, there are a limited number of threats that Canadians face from foreign nations and non-state actors. Canada is in a unique position. Three oceans separate the country from the rest of the world, and it shares a border with the US, its most important ally and trading partner and the largest military power on the planet. There are few direct threats to North America, and foreign and defence policy are rarely identified by Canadians as the most pressing issues the country is facing. The international structure of Canadian foreign and defence policy is that Canada reacts to events that occur in the international sphere. For example, the hype behind the peace dividend at the conclusion of the Cold War allowed

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<sup>1</sup> J.L. Granatstein, *Who Killed the Canadian Military*. (Toronto: Harper Collins, 2004), 201-204.

<sup>2</sup> Brian Bow, "Parties and Partisanship in Canadian Defence Policy," *International Journal*, 64:1 (2008), 71-72.

Canada and many other countries around the world to shed monetary commitments towards the military and redirect these funds to other public spending initiatives.

The current defence procurement strategy promotes Industrial and Regional Benefits (IRBs), which has been the norm for decades. The IRB has the potential to be controversial since the Government of Canada is adamant about propping up areas of the country with military spending at the expense of speedier defence procurement. Elinor Sloan (2014) argues that “buying equipment off the shelf is always easier, faster, and almost certainly cheaper, but the government has made it clear that Canadian industry should receive some share of benefit from investing their tax dollars on defence.”<sup>3</sup> Furthermore, IRBs allow Canada to develop a domestic industry at home and to have a permanent base of trained personnel to develop and build new military equipment. These political benefits are linked to IRBs’ support to industry in various regions of Canada, but the cost is usually delayed procurement decisions.

Several realities of defence procurement in Canada makes this process unique compared to other states. First and foremost, Canada does not face considerable direct threats from foreign actors, unlike for example Australia. As discussed earlier in this chapter, geography plays an important role in how Canada and Canadians view defence priorities. If geography allows a certain level of safety from external threats there are no risks for Canadian officials to address, so Ottawa has the luxury of letting procurement delays play out. Moreover, there are important features of Canadian federalism and regionalism that are unique compared to other states. These pressures combine in ways that ensure all areas of the country get their piece of the procurement pie through

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<sup>3</sup> Elinor Sloan, “Something has to Give: Why Delays are the New Reality of Canada’s Defence Procurement Strategy,” University of Calgary: The School of Public Policy, October, 2014, p. summary

contracts that promise to prop up large and medium sized industries throughout the country.

There are two major procurement projects currently being proposed: the F-35 Fighter Replacement Program and the National Shipbuilding Procurement Strategy. These projects require large amounts of capital not currently in the DND budget. In the absence of a clear threat, these programs will continue to inch forward at a glacial pace, even with a new Defence Procurement Strategy (DPS). The forces that sustain the status quo are far greater than any pressure to fix it.

### **Budgetary Constraints**

One of the main challenges affecting the DND's ability to procure new equipment is a lack of capital. The DND's current budget is 1.1 percent of Canada's Gross Domestic Product (GDP), or roughly 21.5 billion dollars. Jean-Denis Frechette, the Parliamentary Budget Officer, argues that "in order to sustain the existing number of troops, bases, tanks, planes, and ships... the Conservatives will have to spend about 1.6 percent of GDP, which would be an increase of at least \$3 billion annually."<sup>4</sup> As this illustrates, DND currently does not have the capital to properly sustain the existing equipment and military personnel. This budgetary shortfall will make it difficult for Canada to procure equipment and sustain the military it already has.

The Canadian government's implementation of the Defence Procurement Strategy (DPS) is designed to use defence expenditures in Canada to create economic opportunities for Canadian companies and ensure that defence procurement is conducted

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<sup>4</sup> David Pugliese. 2015. Canadian Forces Unaffordable in its Current Form, says Parliamentary Budget Office. March 26, 2015. <http://ottawacitizen.com/news/national/defence-watch/canadian-forces-unaffordable-in-its-current-form-says-parliamentary-budget-office> (accessed May 1, 2015).

in a timely manner.<sup>5</sup> This economic policy is similar to Industrial Regional Benefits (IRB) policies adopted by previous federal governments.<sup>6</sup> The government adopted the policy to exploit the economic advantages of developing and procuring military equipment in Canada. Despite ambitious procurement plans associated with IRB policies and the new DPS, they appear unable to resolve the serious delays in procurement.

### **Research Question**

The purpose of this study is to explore how various policy alternatives for a more practical and sustainable approach to defence procurement, proposed by a large number of defence policy experts, are destined to fail. This thesis is devoted to unpacking the many compelling structural reasons why the status quo of an unending procurement crisis will prevail. These structural impediments include domestic, political, institutional, organizational, social and geographical factors that combine to pre-empt any significant changes.

The geography of Canada has provided the country with the benefit of being isolated from the rest of the world, with only a few countries sharing a border with Canada. Despite the globalization of violence that has occurred in recent decades, the geography of Canada has protected the country from direct threats from traditional state actors. Geography is a constant which will not change. This ensures that there will be few, if any, direct threats to Canadian territory by traditional foreign actors. This has afforded Canada the luxury to allow domestic concerns to supersede those of military-security. As long as this is the norm in Canada, defence spending will never rival that of various low politics causes. This scenario does have the potential to change. The most

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<sup>5</sup> Sloan, "Give," 4.

<sup>6</sup> Dave Perry, *Putting the 'Armed' Back into the Canadian Armed Forces: Improving Defence Procurement in Canada*. (Ottawa: Conference of Defence Association Institutes, 2015), 3.

likely cause of change to this norm would be a direct threat to Canadian security, like what occurred during both World Wars, where defence spending increased significantly in a short period.

Due to the notion that Canada's sovereignty is relatively safe from a foreign incursion, the impetus for the Canadian government to remedy the current ills of the defence procurement is not pertinent. It should be noted that Canada is relatively safe from conventional attacks; however, Canada does have to contend with the possibility of a terrorist attack at any time. This fear of terrorism is one of the reasons why Canada has engaged in multilateral military operations in Libya, Syria, and Iraq in recent years. A major pillar of Canadian support in these instances is the Royal Canadian Air Force. Missions like these, and our commitments to NORAD, are examples as to why Canada needs next generation fighter aircraft. Canada will always face a threat from other states, even though these threats are not likely to be imminent. Due to this, there will never be substantial cuts to any of the three main branches of the Canadian Armed Forces. Canada will always have a multi-purpose, combat-capable army. In addition, it is highly unlikely that there will be a direct threat to Canadian security which would force the DND to renew and update the equipment Canada already possesses in a short period of time, due to the fact that the dated equipment Canada currently has can satisfy and perform the basic needs of security and defence. Examples of this will be given in Chapter Three of this thesis, when case studies of the Sea King Replacement Program (SKR), the F-35 Fighter Replacement Program, and the National Shipbuilding Procurement Strategy are investigated.

Despite the evidence of Canada lacking the capital commitments to fund both the NSPS and F-35 fighter replacement program, there are several arguments originating from the Canadian government as to why these projects are affordable and a benefit to Canadian interests as a whole. The Canada First Defence Strategy (2008), a document released by the federal government shortly after Conservative Stephen Harper became Prime Minister. In this document, the government outlined its desire to “produce a first-class, modern military that is well trained, well equipped and ready to take on the challenges of the twenty-first century.”<sup>7</sup> This document argues that if defence funding is increased annually over a 20-year period, then Canada will meet its defence and procurement needs. The document goes on to state that by 2015, Canada will have 15 ships to replace existing destroyers and frigates, and 17 fixed-wing search and rescue planes.<sup>8</sup> As with most procurement projects in Canada, these new acquisitions have not occurred as planned. The Canadian government has recently slashed military spending by 2.7 billion,<sup>9</sup> and neither the frigates and destroyers nor the fixed-wing search and rescue planes will be ready for delivery to DND in 2015.

In Emerson’s (2012) government issued report for the Minister of Industry, *Beyond the Horizon: Canada’s Interests and Future in Aerospace*, he argues that the industrial benefits of Canada procuring aircraft will allow Canada to improve its domestic industry, technological, and aerospace sectors.<sup>10</sup> Emerson argues that the domestic

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<sup>7</sup> National Defence and the Canadian Armed Forces, “Canada First Defence Strategy – Complete Document,” Government of Canada, [http://www.forces.gc.ca/en/about/canada-first-defence-strategy\\_page](http://www.forces.gc.ca/en/about/canada-first-defence-strategy_page) (accessed July 12, 2015).

<sup>8</sup> Canada First Defence Strategy

<sup>9</sup> Murray Brewster, “Ottawa to Slash National Defence Budget by \$2.7 Billion in 2015,” *The Star*, Douglas Bland, “A Summary of Major Findings,” in *Canada Without Armed Forces?*, ed. Douglas L. Bland, (Kingston: McGill-Queen’s University Press), 107-109.(accessed June 01, 2015).

<sup>10</sup> David Emerson, *Beyond the Horizon: Canada’s Interests and Future in Aerospace*, (Ottawa: Public Works and Government Services Canada, 2012), 49-55.

benefits of aerospace procurement outweigh the cons, like lack of capital, which currently hinders defence procurement. Tom Jenkins (2013), in his report to the Minister of Public Work and Government Services, *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*, makes a similar argument as Emerson, stating the benefits of defence procurement on various industries. Emerson argues that defence procurement in Canada promotes industry long-term in Canada, and most of Canada's premier defence-related companies owe their success to contracts from the Canadian government. Emerson concludes that key industrial capabilities (KIC) will permit Canada to successfully offer defence products to global markets, and to promote industry domestically.<sup>11</sup> The problems with these reports is that they do not adequately address where the additional funds needed to fund KIC will originate from. Commodore (Retired) Lerhe (2010) argues that without a substantive increase in the amount of capital, Canada cannot build or maintain a military. Lerhe in this article focuses on the Navy, and he states that Canada cannot acquire the modern navy it desires unless capital expenditures are boosted to the 23 to 27 percent range. Lerhe, through multiple tables and graphs, illustrates that Canada, in recent history, has not reached this plateau.<sup>12</sup> This article articulates that Canada does not currently have enough funds devoted to capital to pursue a modern navy. Couple this with the F-35 Fighter Replacement Program, and it becomes clear that Canada does not have enough allocated to capital to pursue both major projects. Unless the structure of Canadian defence and foreign policy is altered through a

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<sup>11</sup> Tom Jenkins, *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*, (Ottawa: Public Works and Government Services Canada, 2013), IX-XIV.

<sup>12</sup> Eric Lerhe, "Getting the Capital and Personnel Mix Right: Implications for the Future of the Canadian Navy," in *Naval Gazing: The Canadian Navy Contemplates its Future*, ed. Ann Griffiths and Eric Lerhe, (Halifax: Centre for Foreign Policy Studies, Dalhousie University, 2010), 55-57.

change in public opinion from feeling safe to feeling fearful, the capital required to pursue these objectives will not be available in a prudent fashion.

### **Research Objectives**

The arguments will build on important contributions by Perry (2014), Sloan (2014) and Bow (2008). Bow's work on the effects of structural constraints and the absence of any clear and immediate threat to Canada will be particularly central to the thesis. There is always the potential for a threat to arise; however, it is very unlikely that a threat which could threaten Canadian sovereignty will occur in the foreseeable future. For example, the threat by extremist groups is a real concern for Canadians. These groups possess the capacity to strike Canada and inflict damage. These types of threats are not likely to force the government to treat the procurement process more seriously. The framework I will develop will illustrate the causes and factors as to why the status quo of defence procurement will remain the same. Furthermore, Bow explains why the party in power makes no difference - it will not materially change the amount of capital allocated or the military.<sup>13</sup> This will be outlined throughout the chapters of this thesis.

The current formula for procurement is not one that makes sense militarily for Canada long term. This formula, does, however, make sense politically for the Government of Canada and Canadian industry. As long as the current method of procurement is the norm, the Canadian government can continue to benefit from not getting procurement right. IRBs and their importance to the national economy, regional development, trade, and developing sophisticated technology in Canada ensures that the status quo will remain.

### **Policy Implications**

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<sup>13</sup> Bow, "Parties and Partisanship," 68-69.

My thesis will contend that despite all the evidence of defence procurement being flawed in Canada, there is no impetus for the country to remedy this problem. Since Canada is currently content with the status quo, the recommendations made by Stone, Lerhe, Perry, and numerous other critics will be very difficult to implement. Despite this, there is a marginal chance that their recommendations will be implemented.

It is highly unlikely that Industry Canada and PWGSC are interested in removing the powers they possess in the procurement process. This results in the status quo remaining, so any recommendations given to the DND on how to reduce the number of actors in procurement decisions will never come to fruition since the structure of Canadian defence and security does not have any imminent threats.

### **Summary**

This project is important for several reasons. First, Canada is currently in the midst of its largest procurement acquisition process in decades. The manner in which procurement progresses in the next two-to-three years will decide the capabilities of the Canadian military for decades to come. The need for an effective procurement policy which reflects the structural restraints that determine Canadian defence and foreign policy will be integral for the procurement process. Second, until the safety of Canadians becomes jeopardized, defence procurement in Canada will remain a secondary thought for Canadian citizens and policymakers. The status quo will prevail in the absence of any real political motivation to change how Ottawa handles this file. Third, there are no penalties to politicians if procurement continues to be inadequate. As long as there are political gains to maintaining the status quo, delays and shrinking capital will continue to be standard in the Canadian Forces.

### **Comparative Case Studies**

This thesis will develop three case studies to highlight the central arguments that the current model of Canadian defence procurement cannot provide the CF with modern equipment in a timely fashion. The case studies include replacement programs for the Sea King, the F-35 fighter jet, and the more recent National Shipbuilding Procurement Strategy. Furthermore, these three case studies serve as excellent illustrations of how a number of standard recommendations from Canadian defence scholars are unlikely to resolve the procurement crisis.

### **Theoretical Framework**

Neoclassical realism (NCR) is the most appropriate theoretical framework to guide the explanation of the current procurement crisis, because it combines structural and domestic factors and provides a more well-rounded account of the many pressures that combine to reinforce the status quo. NCR helps to highlight how and why strategic imperatives privilege and preclude certain options for Canada – e.g., Canada's place in the international system, its somewhat limited economic capabilities to invest much more than 1% GDP on defence, and its fortunate location next to a superpower that essentially guarantees many aspects of its security and safety places no urgent need for the country to remedy the current problems in Canadian defence procurement. In addition, NCR allows domestic factors to figure prominently in decisions of national interest. As will become evident, domestic politics and regional economic development priorities account for many of the impediments to significant change in the practice of Canadian defence procurement.

Furthermore, Hans Morgenthau's *Politics Among Nations* and various other works by notable realists will illustrate how state centrism, interests, power, and security are primary factors, among others, and will be the origins of much of this realist theory. Morgenthau discusses the elements of power, which are geography, industry, population, and resources.<sup>14</sup> This theory, particularly in regards to geography and industry, will help illustrate why defence procurement in Canada is conducted in the manner it currently is. Several current Canadian scholars have recently written about realism and Canadian defence policy. As mentioned in the literature review, Perry and Lagasse have both written articles on realism in contemporary Canadian defence policy. Realism illustrates, according to Lagasse and Robinson, that "Canadian officials adopted a wise and realistic approach to Canadian defence policy."<sup>15</sup> Furthermore, Sokolosky, in his article, "Realism Canadian Style," argues that Canada uses a rationalist cost-benefit analysis in order to decide the amount of money Canada needs to spend to ensure a minimal level of defence, and yet never spends beyond this level.<sup>16</sup> All of these points also illustrate that strategic imperatives drive defence procurement in Canada. Since it is not necessary at this moment to improve this process, there is no impetus for Canada to move forward with a new procurement strategy. Until strategic imperatives are altered, like a tangible direct threat to Canadian sovereignty, it is highly unlikely that defence procurement will change in the foreseeable future.

### **Independent Variables**

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<sup>14</sup> Hans Morgenthau, *Politics Among Nations: The Struggle for Peace and Power*, (Montreal: McGraw Hill, 1993).

<sup>15</sup> Lagasse and Robinson, "Revising," 1-43.

<sup>16</sup> Joel J. Sokolosky, "Realism Canadian Style," *Policy Matters*, 5:2 (June 2004), 1-43.

All of the causal factors (domestic, economic, political, societal, interest based, realist, international, security, etc.) that explain the status quo.

### **Dependent Variables**

Canadian defence procurement priorities, strategies and related delays that constitute the status quo of Canada's defence policy and practices (i.e., the behaviour to be explained).

### **Chapter Outline**

Chapter 1 will introduce the topic and central theory (structure framework).

Chapter 2 includes a literature review.

Chapter 3 will focus on the history of defence procurement challenges

Chapter 4 will analyze the reasons why common recommendations for revising defence procurement have failed and will likely continue to fail.

### **Conclusion**

This introductory chapter illustrates the manner in which the conclusions of this thesis will be found. There are a number of factors that contribute to the current model of defence procurement in Canada. To fully comprehend these influences it is necessary to examine what the various critics of defence procurement have written about the topic. The next chapter will include a literature review to illustrate the recommendations that are most often put forward to remedy defence procurement crisis. The case studies in subsequent chapters will illustrate why these recommendations are likely to fail.

## Chapter II: Literature Review

Dave Perry (2015) has done extensive research on the new DPS and argues that persistent issues will continue to plague the procurement process in Canada; delays are inherent in Canada due to a shortage of funds, too many procurement projects with a limited workforce, and a lack of trust between the DND, the federal government, industry, and the bureaucracy.<sup>17</sup> The issue that Perry addresses which will figure prominently throughout this thesis will be the shortage of funds that procurement in Canada consistently faces. Perry's research illustrates several problems with the current method of Canadian defence procurement and explains why significant reforms are likely to fail. Among the problems that plague defence procurement, Perry discusses procurement workload, procurement capacity, monetary concerns, and a lack of trust amongst government agencies. These concerns will be addressed in this thesis; however, monetary concerns will receive more attention than the others.

In Perry's article, less emphasis is placed on the structural conditions (geographical, political, and domestic) that have allowed the status quo of defence procurement in Canada to become the norm, and on how to successfully 'break the wheel' of the current manner in which Canada procures military equipment.

Perry (2013) offers three scenarios, capability cuts, efficiency reforms, and readiness reductions, for how Canada can reduce their defence budget during times of austerity. Capability cuts have historically been the easiest means in reducing defence expenditures. This is often achieved by removing funds from the capital equipment program. Efficiency reforms would see Canada maintain current capability; however, the DND would be forced to be more efficient with what currently exists. An historic

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<sup>17</sup> Perry, "Putting," 3-13.

example would be the unification of the army, navy and air force in the 1960s. Readiness reductions would require the DND “to curb spending on operations and maintenance, over and above any efficiency improvements.”<sup>18</sup> Perry concludes: “the days of sustained growth in Canadian defence spending are clearly over and the government has reprioritized fiscal balance as its most pressing concern. In many respects, this represents a return to a realistic approach to Canadian defence policy.”<sup>19</sup> Several of Perry’s core arguments will inform the current thesis: capability cuts to curb and/or maintain defence spending will be an integral aspect of the thesis; the federal government’s preoccupation with balancing the budget is one of the main drivers which affects Canadian defence spending.

Richter (2013) argues that military spending in Canada does not drastically differ across parties. He examines defence spending trends under Conservative Prime Ministers Brian Mulroney and Stephen Harper and notes that both made election promises to drastically increase the budget of the DND. However, once elected, both federal leaders quickly rescinded these electoral pledges. The renegeing on electoral promises regarding defence spending carries no domestic political costs. In fact, despite backing away from a commitment to increase military spending, Harper continued to promise many new and costly procurement projects, including the F35 and frigate replacements.<sup>20</sup>

Jones and Lagasse (2012) discuss the manner in which the DND should operate in a time of austerity. They make two relevant points. First, NATO does not oppose member countries developing niche forces in the alliance due to austerity concerns which

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<sup>18</sup> Dave Perry, “A Return to Realism: Canadian Defence Policy After the Great Recession,” Defence Studies, 13:3 (2013), 344-349.

<sup>19</sup> Perry, “Return,” 356.

<sup>20</sup> Andrew Richter, “A Defence Renaissance? The Canadian Conservative Government and the Military,” American Review of Canadian Studies, 43:3 (2013), 424-428.

were prevalent during this time. This would entail the possibility of abandoning the traditional three force army which is prevalent amongst member nations of NATO.<sup>21</sup> I believe this approach offers Canada a unique opportunity to re-evaluate how the Canadian military can be structured moving forward, and this approach should be given serious consideration by policymakers in Ottawa. Despite this contention, due to the geographical, political, and domestic structure of Canadian defence policy, this outcome is unlikely to come to fruition since there is no pressure on the federal government to adopt a different policy. Second, the authors discuss that Canada has two options in regards to how the government should structure the military: they can significantly increase military spending to modernize the institution, or Canada could focus on specializing the military. Although Jones and Lagasse desire the former to occur, they believe the latter is a more realistic proposition moving forward.<sup>22</sup> This is one of the few articles to mention the possibility of creating specialized forces and abandoning the traditional approach to structuring the Canadian Armed Forces. However, the authors have missed the following important points. First, it is highly unlikely that the Canadian Armed Forces would permit a dramatic reshuffling of either the army, navy, or air force. The main reason why this will not happen is because it would most likely be an expensive venture, and, more importantly, the current combination of forces in Canada is an example of efficiency reforms in Canadian defence. This point will be discussed in the fourth chapter. Second, industry responsible for military procurement would lobby against this type of policy from becoming a reality. Industry currently benefits from the IRB program and from procuring equipment for all three branches of the Canadian

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<sup>21</sup> Peter Jones and Philippe Lagasse, "Rhetoric Versus Reality: Canadian Defence Planning in a Time of Austerity," *Defence & Security Analysis*, 28:2 (2012), 140-141.

<sup>22</sup> Jones and Lagasse, "Rhetoric," 141.

Forces. If one or more branches were to be abolished, this would limit the amount of contracts industry could acquire. Finally, the political party who enacts such a policy could experience backlash in crucial ridings in future elections. As an example, if a political party decided to abolish the Navy, the federal ridings in the Halifax region would be adverse from voting for this particular party since this type of decision would result in negative economic consequences in these ridings. These issues will also be addressed in Chapter Four. Despite the potential monetary benefits of investing in niche forces, it is highly unlikely that this policy will be adopted by policymakers in Ottawa.

Lagasse and Robinson (2008) adopt a realist analysis to discuss Canadian defence policy from 1945 to 2003. They contend that a country's military is only one aspect of national power, and states should balance investments in the defence sector with promoting economic prosperity. Furthermore, middle powers, like Canada, need to use their scarce military resources as efficiently as possible. The authors conclude that Canada developed a policy to spend only what was absolutely necessary on defence from 1945 to 2003.<sup>23</sup> Despite the fact that their research ends in 2003, it is the opinion of this author that Canada continues to this day to only spend what is required on defence. This article will factor into my structural argument in Chapter Four.

Bezglasny and Ross (2011) are opposed to the procurement of the F-35 because they consider it a wasteful project. The F-35 serves as an excellent case study of the quandaries that Canadian defence procurement faces, and how procurement will likely be addressed in the future. There are several other authors who have written about the F-35, and these articles will be addressed throughout the thesis. Bezglasny and Ross argue

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<sup>23</sup> Phillippe Lagasse and Paul Robinson, "Reviving Realism in the Canadian Defence Debate," (Kingston: Centre for International Relations, (2008), 87-107.

that the F-35 purchase was rushed, had significant problems with the design, and will require extensive maintenance, so a large portion of the DND budget will continually be devoted towards repair costs.<sup>24</sup> Despite these well-articulated arguments from Bezglasny and Ross, the cancellation of the F-35 is not a likely proposition. With industrial offsets which will benefit industry and manufacturing in Canada, it is unlikely that the federal government would want to abandon this purchase. Furthermore, many of Canada's allies are also purchasing F-35s, and this could potentially create a rift between Canada and its allies. The purchase of these fighter aircraft would allow the Canadian Forces to possess interoperability with its allies.

Elinor Sloan (2014) discusses how delays have become an inevitable aspect of Canadian defence procurement. Sloan offers several reasons why procurement in Canada suffers setbacks. First, Canada has ambitious procurement projects without realistic capabilities (money, technology, etc) to achieve these goals. Second, most procurement projects do not have an open bidding process; instead, contracts are allocated to in-house preferences. Third, procurement realities change due to battlefield experiences, which are often expensive and affect other procurement designs. Fourth, rough order of magnitude costs (ROM) are static. Once the ROM is approved by the Treasury Board, this figure becomes permanent and does not adjust over time for project cost increases and inflation. Fifth, accountability in procurement processes has been divided amongst three federal departments. A procurement project can be cancelled without any accountability for the initiative ending. Sloan argues that having a single point of

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<sup>24</sup> Anton Bezglasny and Douglas Alan Ross, "Strategically Superfluous, Unacceptably Overpriced: The Case Against Canada's F-35A Lightning II Acquisition." *Canadian Foreign Policy Journal*, 17:3 (2011). 245.

responsibility would ensure that procurement stays on a steady timeline.<sup>25</sup> Sloan then goes on to question whether or not the DPS, enacted in February 2014, is a solution to the ills that currently cause procurement delays in Canada. The DPS is designed to promote industry throughout all regions of Canada, and to improve procurement to ensure that the persistent delays that have historically plagued procurement in Canada. Sloan argues that these two objectives of the DPS are in conflict with one another. She believes that the industrial and regional benefits policy is a major factor in delays of procurement projects in Canada due to their use of large teams and local suppliers.

However, the DPS does fall short in accountability and remedying the problem of rough-order magnitude costs. In addition, Sloan argues that the DPS does not hold one single individual or organization responsible for delays in the procurement process.<sup>26</sup> For these reasons above, the DPS cannot fix all that ails Canadian defence procurement. Sloan's research is important because it highlights reasons why the only solution the government is working with (DPS) still has significant problems hindering defence procurement. Moreover, it further illustrates that the structure of Canadian foreign and defence policy has not forced Canada to drastically reorganize its procurement policies. Sloan also illustrates how Industry Canada and Public Works Government Services Canada (PWGSC) have full veto powers on Canadian procurement projects. These organizations have strict requirements and can reject a procurement bid if one of these criteria are not met.<sup>27</sup>

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<sup>25</sup> Sloan, "Something," 3-4.

<sup>26</sup> Sloan, "Something," 4-7.

<sup>27</sup> Elinor Sloan, "Canadian Defence Commitments: Overview and Status of Selected Acquisition and Initiatives," The School of Public Policy: SPP Research Papers, 6:36, (Dec. 2013), 7.

Lerhe (2010) argues that in order for Canada to procure a new modern navy, it must alter how the DND allocates money to personnel and equipment. The National Shipbuilding Procurement Strategy will be a case study of the current quandaries that procurement in Canada is facing. This case study, like that of the F-35, will include several articles written about naval procurement. Lerhe argues that defence capital spending must rise to anywhere between 23 to 27 percent of the DND's budget in order to build a modern navy. Lerhe prescribes that Canada close or sell many of the military bases, and cap personnel hires to ensure that Canada achieves this goal.<sup>28</sup> Lerhe makes a credible attempt to illustrate how Canada can remedy defence spending in Canada by just reallocating where existing funds are spent. However, closing military bases would potentially anger prospective voters in places where these bases are located. Furthermore, these bases are often in remote places where KICs and RIBs are used to encourage regional economic development as part of the current DPS. In addition, there are no government issued documents that cite closing military bases as an approach to managing defence spending.

Bland (2004) argues that if defence budgets continue to shrink, Canada will have to make some difficult decisions on whether or not to abolish the RCN or RCAF. Bland makes a similar argument as Lerhe (2010) as to how 23 to 27 percent of the defence budget should be allocated for defence spending: however, he adds the stipulation that this amount has not been met for generations. Due to this neglect on capital spending, Canadian capabilities are lacklustre at best. To modernize the Canadian military, Bland argues that roughly \$50 billion in capital is required to replace obsolete equipment. He contends that Canada currently only has \$20 billion available for this task. If this \$30

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<sup>28</sup> Lerhe, "Mix," 55-71.

billion dollar shortfall continues, he advocates that Canada abolish either the RCN or, his preference, the RCAF.<sup>29</sup> It is highly improbable that capital spending will increase to the 23-27 percent range for the same reasons as with Lerhe. Furthermore, despite Bland's calls to abolish one or both of the RCN or the RCAF, these propositions are also unlikely.

Plamondon's (2010) book titled *Politics of Procurement*, with a focus on the Sea King Helicopter debacle, is another important case study that illustrates the central thesis. He makes several important arguments regarding the difficulties of equipping the Canadian military throughout its history. This is the result of relying on other countries for procurements designs and approval, and the limited experience Canadian industry has in procuring equipment. Some examples given by Plamondon of these difficulties in Canada procuring equipment includes the Avro *Arrow*, which was cancelled due to lengthy production cycles, the increasing costs of the project, and the Soviet Union developing intercontinental ballistic missiles. Another example offered is the all-weather jet fighter, CF-100, which was built in the late 1940s and 1950s. Avro, the company building these fighter aircraft, was receiving orders for their product from foreign states. However, the company was unable to provide these new aircraft to customers in a timely fashion. The principle problem was that Avro did not have enough individuals with expertise to build these aircraft.<sup>30</sup> A lack of skilled individuals to build and develop military equipment is a problem that Canada still faces. Another problem that KIC and IRBs encounter is that the equipment procured is produced to meet industrial requirements, and not based on the military capabilities that the Canadian Forces required

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<sup>29</sup> Douglas Bland, "A Summary of Major Findings," in *Canada Without Armed Forces?*, ed. Douglas L. Bland, (Kingston: McGill-Queen's University Press), 107-109.

<sup>30</sup> Aaron Plamondon, *The Politics of Procurement: Military Acquisition in Canada and the Sea King Helicopter*, (Toronto: UBC Press, 2010), 15-29.

to safely do their job. Furthermore, before a contract can be awarded to industry, it must be approved by multiple bureaucratic organization within Canada. If one of these organizations has a problem with an issue of procurement, the process can be delayed.<sup>31</sup> The remaining chapters of this book are an in-depth examination of the Sea King Replacement Project (SKR). This will provide a basis for the SKR case study in chapter three.

### **Conclusion**

This literature review illustrates the various dilemmas that defence procurement in Canada faces, and the suggestions that various critics have offered to alleviate this crisis. While these contributions on how defence procurement can be altered in Canada are relevant, it is highly unlikely that any of these policies will be adopted in their entirety. To prove this point, Chapter Three will describe the current structure of Canadian defence policy since the conclusion of the Second World War, and explain how these decisions have affected Canadian defence procurement. The second section of Chapter Three will develop three case studies of current Canadian procurement projects to illustrate the nature of the crisis and the inevitability of the status quo.

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<sup>31</sup> Plamondon, *Politics*, 9-12.

## **Chapter III: The History of Defence Procurement Challenges in Canada**

### **Introduction**

The following chapter will examine the history of defence procurement challenges. This chapter will begin with an in-depth overview of the various geographical, political, and domestic structures which have determined the path that Canada has chosen in regards to defence procurement. This will be followed by an overview of Industrial Regional Benefits (IRB) and Key Industrial Capabilities in Canadian defence procurement. The chapter will conclude with a case study of three procurement projects in Canada: the Sea King Replacement Program, the National Shipbuilding Procurement Strategy (NSPS), and the F-35 Fighter Replacement Program. These three case studies will illustrate how despite the best intentions of all those involved, the structures of Canadian foreign and defence policy ensures that acquiring new military equipment is never as simple as initially believed.

### **The Structure of Canadian Foreign and Defence Policy**

A factor that has traditionally determined Canada's defence policy is the unique geographical position of the country. This physical attribute has traditionally provided Canada with a natural defence against potential enemies. Canada is geographically protected from other nations due to the Atlantic Ocean providing a barrier between Canada and the historical great power rivalries of Europe, the Pacific Ocean separating the west coast of the country from Asia, and the Arctic Ocean creating a barrier between Canada and Russia that was nearly impenetrable for numerous decades after Confederation. Hans Morgenthau argues that the unique geographical position of the United States, a condition that Canada also shares, isolates the country from the rest of

the world. He states that oceans can no longer protect North America from attacks due to innovations in transportation, communication, and warfare; however, the oceans do provide a wide expanse of water instead of having numerous neighbours share land borders with the country. Morgenthau believes that “the geographical location of the United States remains a fundamental factor of permanent importance which the foreign policies of all nations must take into account.”<sup>32</sup> Furthermore, since Confederation and the conclusion of the United States Civil War, there has been little threat of a conflict with the United States, Canada’s geographic neighbour to the south.<sup>33</sup>

The geographical position of Canada has affected how Canadians view politics domestically. According to Brian Bow (2008), the unique geographical position of Canada ensures that there are relatively few traditional state actor threats to the safety of Canadians. Due to this, Canadians have been much more supportive of “low politics” issues like healthcare, education, and the economy over “high politics” concerns like defence spending. Bow argues that since the general public is disinterested in “high politics,” there is no impetus for politicians to politicize defence and security issues.<sup>34</sup> Domestically, the citizens of Canada are more concerned about the “low politics” since, for the most part, they feel safe from conventional military attacks.

“Low politics” issues began to supersede those of “high politics” in the 1960s. Competition for federal money in the 1960s led to the first instances of where the Department of National Defence’s budget started to steadily decline. This decrease originated during the term of Lester B. Pearson as Prime Minister of Canada. This

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<sup>32</sup> Hans Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, (Alfred A. Knopf: New York, 1978), 117.

<sup>33</sup> R.A. MacKay and E.B. Rogers, *Canada Looks Abroad*, (Oxford University Press: Toronto, 1938), 124.

<sup>34</sup> Brian Bow, “Parties and Partisanship in Canadian Defence Policy,” *International Journal*, 64:1 (Winter 2008/2009), 70-71.

competition for capital from the federal government originated with the creation of a formula funding program where various departments within cabinet all attempted to garner funds from the Canadian Government.<sup>35</sup> This competition for departmental funding becomes apparent when examining the public-policy groups that were founded during this decade. Paul Pross states that this era saw the birth of universal healthcare and access to education competing for federal funding; furthermore, regional economic policies, women's movements, and nature and environmental projects were all seeking money from the Canadian Government to achieve their needs.<sup>36</sup> In addition to this competition for funding, due to Canada's unique geography, a majority of Canadians do not see the need to invest large amounts of money into defence since there is not an immediate threat to our borders; hence, Canadians prefer to fund "low politics" initiatives like healthcare and education over the military.<sup>37</sup> The 1960s were a decade of considerable social movements that began to shift federal funding away from institutions like the military and closer to the public goods that the citizenry desired. With the beginnings of a decrease in defence spending, military officials began to question what the future of the Canadian Forces would be.

Canada, due to a number of factors, does not possess the capabilities to create and sustain a major army. Hans Morgenthau argued that a country's military strength could be analyzed by observing its natural resources (food, raw materials, and oil), industrial capability, military preparedness, and population.<sup>38</sup> Canada does possess vast natural

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<sup>35</sup> Andrew Richter, "Forty Years of Neglect, Indifference, and Apathy: The Relentless Decline of Canada's Armed Forces," in *Handbook of Canadian Foreign Policy*, ed. Patrick James, Nelson Michaud, and Marc J. O'Reilly, (Toronto: Lexington Books, 2006), 55.

<sup>36</sup> Paul Pross, *Group Politics and Public Policy, 2<sup>nd</sup> Edition*, (Toronto: Oxford University Press, 1992), 66.

<sup>37</sup> Brian Bow, "Parties and Partisanship in Canadian Defence Policy," *International Journal*, 64:1 (Winter 2008/2009), 70-71.

<sup>38</sup> Morgenthau, *Politics*, 124-142.

resources, including substantial amounts of food, raw materials, and oil; however, its population has always been significantly smaller than traditional great powers like the United States or Russia, and Canada's industrial capacity is also marginal compared to these types of states.<sup>39</sup> James Fergusson (2011) reiterates this point when he states, "lesser powers like Canada have never been able to maintain the full range of military capabilities, and thus influence opportunities, in comparison to the Great Powers."<sup>40</sup>

Canada does not possess the capabilities to become a major power in global affairs. Due to this, Canada only spends what it absolutely has to in order to maintain a multi-purpose, combat capable army. Canada spends just enough to ensure this capacity exists for the Canadian Forces.

A term arose in 1940s that would describe Canada's place in the world: middle power. A middle power is not a great power, like the United States or the Soviet Union, nor is it a minor power, like Granada or Cuba. A middle power is somewhere between these two types of powers. The nation's industry, population, development, diplomacy, and military make Canada neither a great nor minor power. A noteworthy example of another middle power nation besides Canada would be Australia. According to Kim Richard Nossal (1997), Canadian Prime Ministers like Lester B. Pearson have been proponents of being a middle power; meanwhile, others like Pierre Trudeau, Joe Clark, and Brian Mulroney did not necessarily promote Canada as a middle power, but all continued the role of the state as a middle power.<sup>41</sup> Canada as a middle power would come to define policies taken by Canada throughout this era. One of the instances of this

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<sup>39</sup> Kim Richard Nossal, *The Politics of Canadian Foreign Policy*, 3<sup>rd</sup> ed., (Prentice-Hall Canada Inc: Scarborough, 1997), 43.

<sup>40</sup> James Fergusson, "The Right Debate: Airpower, the Future of War, Canadian Strategic Interests, and the JSF Decision," *Canadian Foreign Policy Journal*, 17:3 (2011), 213.

<sup>41</sup> Nossal, "Foreign Policy," 55-59.

new role for Canada would come to fruition in the years following the conclusion of the Second World War.

The Gray Lecture by Louis St. Laurent signaled a drastic change of foreign policy for Canada from isolationism, which had historically been Canada's approach to international affairs, to internationalism. This speech was given by the future Prime Minister of Canada when he was the Secretary of State for International Affairs at the University of Toronto, and it would become the framework for Canadian foreign policy to the present day. The main points of this lecture were that Canada would become increasingly involved in international affairs in the post-World War Two years and that it would become "an active contributor to the western alliance during the Cold War."<sup>42</sup> This would entail Canada becoming one of the twelve founding members of the North Atlantic Treaty Organization (NATO) in 1949.<sup>43</sup> This alliance was created as a means of collective defence to deter the Soviet Union from engaging in warfare with any member state, and would require a significant amount of military and financial commitment from Canada to ensure the state was meeting its obligations as a member. Despite the dissolution of the Soviet Union in the 1990s, Canada has remained an active contributor in allied missions, and active in foreign affairs throughout the world. According to the Foreign Affairs, Trade and Development Canada webpage, "Canada is proud to have contributed to every NATO operation since the founding of the Alliance more than six decades ago. Canada's participation in NATO operations around the world is a tangible

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<sup>42</sup> Adam Chapnick, "The Gray Lecture and Canadian Citizenship in History," American Review of Canadian Studies, 37:4 (2007), 443.

<sup>43</sup> NATO/OTAN, "Member Countries," NATO/OTAN, [http://www.nato.int/cps/en/natolive/topics\\_52044.htm](http://www.nato.int/cps/en/natolive/topics_52044.htm) (accessed December 01, 2014).

signal of our commitment to the trans-Atlantic Alliance.”<sup>44</sup> According to Petrolekas and Perry (2015), in 2014, while discussing the current state of the CF, they declare, “notwithstanding the financial pressures on the Armed Forces, the military was still able to meet the government’s requirements for overseas missions.”<sup>45</sup> Canada, since, 1949, has been a committed player in international relations.

There have been attempts by politicians in Canada to remove the state from international obligations. Despite these attempts, the structure of domestic and international politics ensured that Canada maintained an internationalist foreign policy. One of the most well-known examples is the direction Pierre Trudeau attempted to take Canadian foreign policy when he became Prime Minister in 1968. Trudeau promised vast changes to the manner in which Canadian foreign policy would be practiced. The practices of Canadian foreign policy that had been in place since the Gray Lecture were in jeopardy. Trudeau attempted to revolutionize this policy, even though he was considered a foreign and defence policy novice when he became Prime Minister since he had little knowledge of the intricacies of these two fields; furthermore, he rejected any advice that came from experts in external affairs and the members of the defence community.<sup>46</sup> Trudeau believed that “Canada’s foreign policy had been dictated too long by its defence policy and its defence policy had been determined primarily by its

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<sup>44</sup>Foreign Affairs, Trade and Development Canada, “North Atlantic Treaty Organization (NATO),” Government of Canada, <http://www.international.gc.ca/nato-otan/index.aspx?lang=eng>, (accessed June 28, 2015).

<sup>45</sup> David Perry and George Petrolekas, “Petrolekas & Perry: The Canadian Forces’ Good (and Bad and Ugly) Year Ahead,” *NationalPost.com*, <http://news.nationalpost.com/full-comment/petrolekas-perry-the-canadian-forces-good-and-bad-and-ugly-year-ahead> (accessed July 9, 2015).

<sup>46</sup> Joel J. Sokolosky, “Trends in United States Strategy and the 1987 White Paper on Defence,” *International Journal*, 42:4 (Autumn, 1987), 549.

commitment to the North Atlantic alliances.”<sup>47</sup> Despite Trudeau’s desire to be an innovator of Canadian defence and foreign policy, he would eventually display the traits of his predecessors and successors.

Trudeau was unaware of the functioning and structural restraints of international relations when he assumed office, and the 1974 Defence Structure Review (DSR) was the beginning of Trudeau’s change of opinion towards NATO and Canada’s internationalist foreign policy role. For the first six years of his tenure as Prime Minister, Trudeau had attempted to mold Canadian foreign policy into an institution that was not dependent on the United States and NATO. By 1974, collective security would once again become paramount in Canadian foreign policy. The DSR proposed new procurement packages that would be implemented to compliment collective security in Europe. The DSR was successful in promoting this package of new procurement projects since it declared that these new ventures were transferable to sovereignty protection, which had been of significant importance in the 1971 White Paper.<sup>48</sup> Domestic factors were not the only reason why procurement and defence spending was about to rise. One of the main reasons why the DSR was initiated was due to external influences. NATO was pressuring member nations to increase their level of defence spending by three percent of GDP annually. Canada, naturally, had trouble reaching this goal; however, the country did succeed in increasing capital expenditures by twelve percent, which led to the procurement projects of F-18 fighter aircraft and next generation patrol frigates.<sup>49</sup> It should be noted that both the F-18 and patrol frigates are still in use in 2015. This

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<sup>47</sup> Edna Keeble, “Rethinking the 1971 White Paper and Trudeau’s Impact on Canadian Defence Policy,” *American Review of Canadian Studies*, 27:4 (1997), 549.

<sup>48</sup> Keeble, “Rethink,” 554-555.

<sup>49</sup> Richter, “Forty,” 57-60.

increase in defence spending may have to do with Trudeau finally believing in the merits of collective security, but it is more likely that the international structure of politics and the impetus put on all NATO nations by the institution to increase defence spending was more of a factor for the increase. In addition, the final four years of Trudeau's tenure as Prime Minister from 1980-1984, a time when the Cold War was heating up since the Soviet Union was increasing defence funding and invading Afghanistan. Furthermore, there was pressure from United States President Ronald Reagan for Canada to increase their defence spending.<sup>50</sup> Defence spending during this time rose to 2.05 percent of GDP.<sup>51</sup> As these examples illustrate, defence spending raised due to changes in the international sphere.

### **The Beginnings of Industrial Regional Benefits (IRBs) and Key Industrial Capabilities (KIC)**

Pierre Trudeau initiated the IRBs, which would prop up industry in various regions of the country with defence spending. Prior to IRBs, economic benefits of defence spending were normally tied to large industrial centres. Moving forward, Canadian procurement spending will "assist in the attainment of the Government's objective of regional economic equality, [and] further decentralization of defence procurement into all regions of Canada will be encouraged."<sup>52</sup> Defence procurement will now act as a vehicle for economic growth in regions of the country that have not normally been attuned to this type of government spending. This new policy would also be prevalent in all procurement and defence strategies to the current day. Edna Keeble calls this new method of procurement as "dictated by a 'defence-as-economic' model,

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<sup>50</sup> Bow, "Parties," 78.

<sup>51</sup> Middlemiss and Sokolosky, "Determinants," 44.

<sup>52</sup> Canada, "1971," 14.

which means that the Canadian government does not buy equipment based on how best it can ensure national security, but on how it can produce economic development in Canada.”<sup>53</sup> While this policy has created domestic political support for the GoC since it has promoted the unity of the country and provided jobs and industry to non-traditional military communities, this has been at the expense of a sound and reliable procurement platform for Canada to acquire new military equipment without delays and shortages of funds. An iteration of the IRB procurement process continues to this day.

The report to the GoC entitled *Beyond the Horizon: Canada's Interests and Future in Aerospace*, also known as the Emerson Report, was released in 2012. This report focuses on how Canada could procure aerospace equipment moving forward. There was concern for Canada, since the country has to regularly purchase military aircraft from other countries. Due to this, the report declared that Canada should use procurement to develop and construct a domestic aerospace sector. The report states three goals for public aerospace purchases: “providing men and women in uniform with products that meet their operational requirements, getting good value for the Canadian taxpayers’ money, and strengthening the Canadian industrial and technological base.”<sup>54</sup> The report believes that the final goal of the report can be achieved by having the foreign producer of aircraft create offsets by spending money in the country that is purchasing the equipment. This policy of offsets was first created with the IRB policy in the 1970s and “requires firms that win government defence contracts to spend sums equal to the value

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<sup>53</sup> Edna Keeble, “Rethinking the 1971 White Paper and Trudeau’s Impact on Canadian Defense Policy,” *American Review of Canadian Studies*, 27:4 (1997), 559.

<sup>54</sup> David Emerson, *Beyond the Horizon: Canada's Interests and Future in Aerospace*, (Ottawa: Public Works and Government Services Canada, Nov 2012), 49.

of the contract on Canadian goods and services.<sup>55</sup> Elinor Sloan states that the GoC will always support initiatives like the Emerson Report since it promotes domestic industry in Canada.<sup>56</sup> This was not the only report recently issued by the GoC which deals with promoting Canadian industry through procurement.

The *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities* report released in 2013, also known as the Jenkins Report, discusses how KICs will be an integral aspect of defence procurement moving forward. Similar to the previous report, *Beyond the Horizon: Canada's Interests and Future in Aerospace*, this report authored by Tom Jenkins discusses how defence procurement can meet the requirements for use by CF personnel, and also create sustainable economic growth throughout the country. It is the belief of Jenkins that KICs will enable Canada to create “high growth companies created over the long term.”<sup>57</sup> In addition to the IRBs, which have been in place for decades, this report advocates for the creation of KICs. This would allow Canada to serve short-term military needs while producing goods for sale on global markets. Procurement selections would be based on three criteria. First, procurement needs to fulfill the specific needs of the CF. Second, it should be able to be sold on foreign markets. Third, the potential for Canadian industry to create innovative products.<sup>58</sup> While these policies do create economic and political benefits for the GoC and industry throughout the nation, there are critics of this policy. Elinor Sloan (2014) argues that these types of policies are one of the main drivers as to why defence procurement in Canada is usually delayed. She argues that the most “cost-effective and

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<sup>55</sup> Emerson, *Horizon*, 50.

<sup>56</sup> Elinor Sloan, “Something has to Give: Why Delays are the New Reality of Canada’s Defence Procurement Strategy,” *University of Calgary: The School of Public Policy*, October, 2014, 6.

<sup>57</sup> Tom Jenkins, *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*, (Ottawa: Public Works and Governments Services Canada, 2013), ix-x.

<sup>58</sup> Jenkins. *Canada First*, xiv.

time-efficient means of equipping the CAF is to purchase a pre-existing platform off the shelf from another country.”<sup>59</sup> IRBs and KICs, even though they possess flaws, will continue to be the norm in Canadian defence procurement decisions since they benefit the GoC politically in multiple areas of the country.

## **Case Study Number One: The Sea King Maritime Helicopter Replacement Program**

### **Introduction**

The following is a case study of the Sea King Replacement Program (SKR). The specific events that have taken place between the unveiling of the Sea King maritime helicopter in 1963 and the current status of the SKR, a period of over fifty years, will be analyzed to provide context to the structural restraints which define procurement in Canada. The SKR is an excellent example of how the structure of Canadian defence procurement has allowed this project to encounter extraordinarily long delays.

### **Timeline of Events in the SKR**

The Sea King Maritime Helicopter began its lengthy tenure as Canada’s maritime helicopter in 1963. The Sea King was one of the last major procurement projects conducted before the introduction of IRBs in the early 1970s. Due to this, the list of requirements for the Sea King is much smaller than it would be today if the procurement project were to go forward. The Sea King was initially procured to give the Royal Canadian Navy (RCN) the capability to conduct anti-submarine warfare (ASW). This purchase made Canada a world leader in ASW technology and gave the country the

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<sup>59</sup> Sloan, “Something,” 5.

capability to protect Canadian sovereignty from Soviet submarines.<sup>60</sup> Between 1963 and 1969, there were 43 Sea Kings ordered from Sikorsky.<sup>61</sup>

The Sea King has been in service for over fifty years, but this lengthy tenure was not initially planned. As early as 1964, there were discussions about the need for a Sea King Replacement. The Naval Secret Staff (NSS) in May of 1964 initiated discussions pertaining to the lifespan of the Sea King. Their estimates were that the 43 Sea Kings would be able to fulfil the needs of the RCN until 1975, and at this time it was believed that the Sea King would be obsolete.<sup>62</sup> The soon-to-be antiquated Sea King and projects aimed at its replacement would become the focal point of defence procurement for decades to come.

The first formal attempts by the GoC to procure the SKR began in the mid-1970s. In 1975, the Sea King Improvement Program (SKIP) was initiated. SKIP was not a procurement project, but was a measure to ensure that the Sea Kings already in service would be able to provide for the needs of the RCN.<sup>63</sup> Upgrades to the Sea King in lieu of a replacement helicopter would become the norm for the next few decades. With the designs of the Sea King created in the 1950s, discussions about the SKR intensified in 1975, with the SKR program being announced in the Ship Replacement Program in 1977. The RCN needed a helicopter which was bigger and faster, with additional range to

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<sup>60</sup> Kelsey Berg, “‘The Sea Hath No King’: The Sea King Replacement and Lessons in Military Procurement – Part I,” NATO Association of Canada, <http://natocouncil.ca/the-sea-hath-no-king-the-sea-king-replacement-and-lessons-in-military-procurement-part-i/>, (accessed July 13, 2015).

<sup>61</sup> Aaron Plamondon, “Amnesia in Acquisition: The Parallels of the F-35 Procurement and the Sea King Replacement Project,” *Canadian Foreign Policy Journal*, 17:3 (Sept 2011), 268.

<sup>62</sup> Aaron Plamondon, *The Politics of Procurement: Military Acquisition in Canada and the Sea King Helicopter*, (Toronto: UBC Press, 2010), 65.

<sup>63</sup> Plamondon, *Politics*, 83.

counter modern submarines.<sup>64</sup> Despite this declaration of the need for a SKR, the decision to procure more helicopters would not be made until the next decade.

The creation of IRBs in the 1970s created a unique bidding proposal for procurement in Canada. There was no precedent on how procurement would be undertaken with IRBs being a focus of the GoC. In 1985, the DND officially announced their desire to replace the Sea King. There were numerous criteria that the DND was looking for in a defence contractor. They required that the helicopter should have a crew of four to five and ASW capabilities. Furthermore, the helicopters were required to perform non-military roles such as medical evacuation, search and rescue, and a litany of other responsibilities. To fulfill IRBs, the DND was searching for a Canadian prime contractor who could produce, manufacture, and assemble the new helicopters in Canada. The goal was for these helicopters to come off the assembly line beginning in 1994.<sup>65</sup>

The ability to find a contractor who could fulfil all the requirements of the SKR and find producers in Canada to build the helicopter illustrates the domestic structures of Canadian defence procurement which lead to delays. The first example of the extensive delays that IRBs caused was with project management. There was a complete lack of communication between the GoC and Canadian industry. Furthermore, there were disagreements on the terms “plan,” “develop,” “implement,” and “define.” In addition, defence companies with existing capable helicopters were unable to meet the IRB requirements needed to acquire the contract. These companies were forced to redesign their existing helicopters, which was believed to cost roughly \$500 million.<sup>66</sup> These

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<sup>64</sup> Plamondon, *Politics*, 84-85.

<sup>65</sup> Plamondon, *Politics*, 89-90.

<sup>66</sup> Plamondon, *Politics*, 93-95.

obstacles to entry into the race for the SKR contract led to delays in the selection of a new maritime helicopter.

Nearly two decades after preliminary discussions of the SKR commenced, a new contract was to be awarded to a company that could fulfil the requirements of IRB and the GoC. In 1987, the DND announced that the AgustaWestland's EH-101 had won the SKR contract. The EH-101 won this competition because they would manufacture a third of their assembly line in Canada and promised Canada seven percent value in the production of all future EH-101's.<sup>67</sup> While this seems like a step forward in the eventual replacement of the antiquated Sea King, there were still quandaries which hindered the ability for the CF to receive their new equipment. The first major delay was locating hundreds of companies in Canada that could meet the requirements of IRBs. There were only a handful of companies at the time that could provide everything required to fulfil IRBs.<sup>68</sup> In addition, finding manufactures who could produce a mission system in Canada and then install said mission system was particularly troublesome. Negotiating and finalizing contracts for this mission system created a lengthy delay in the production of the EH-101. If Canada had agreed to purchase these helicopters "off-the-shelf," these delays would have never occurred. This is yet another example of how the domestic structure of Canadian politics ensures that economic development of industry supersedes the CF's ability to acquire equipment that fulfils capabilities in a timely fashion.

When Canada decided to procure the EH-101, there were no other countries who had procured this helicopter. The EH-101 was a prototype helicopter when Canada was looking to sign a contract. Canada did not want to be the first nation to procure the EH-

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<sup>67</sup> Plamondon, *Politics*, 95-96.

<sup>68</sup> Plamondon, *Politics*, 104.

101. Canada was aware that the British were considering signing a contract. Canada did not want to be the first country to create a production line. This desire to not sign first delayed the signing of the contract.<sup>69</sup> Politically, this can be viewed as a wise move since it removed the possibility of embarrassment early in this procurement process.

The finances of Canada were yet another domestic reason in the 1980s for the delay in the procurement of EH-101. During the 1984 federal election, Conservative candidate Brian Mulroney argued for substantial money to be dedicated to procurement in order to modernize the CF. Specifically, Canada was to begin discussions on acquiring the SKR, ASW helicopters, and submarines. The structure of Canadian defence and foreign policy ensured Mulroney would not be the first politician who was unable to keep an electoral pledge. According to D.W. Middlemiss and J.J. Sokolsky (1989), “faced with a large federal deficit ... and continuing public demand for social services and other government support for individuals, businesses, and regions, the Mulroney government was unable to increase the defence budget constraints.”<sup>70</sup> With a defence budget that was to remain static at best for the foreseeable future in the 1980s, attempting to use financial capital to remedy the SKR and other defence procurements would be futile. There would be no “new” money for procurement initiatives. This lack of capital would give opposing political parties an opportunity to critique the Mulroney government’s record on procurement.

IRBs did provide political clout for the Conservative party prior to the 1993 federal election. Kim Campbell, the Minister of National Defence and future candidate for the Conservative Party in the upcoming federal election, stated that the EH 101 would

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<sup>69</sup> Plamondon, *Politics*, 108.

<sup>70</sup> D.W. Middlemiss and J.J. Sokolsky, *Canadian Defence: Decisions and Determinants*, (Toronto: Harcourt Brace, 1989), 45-47.

create 45,000 jobs in the next decade, Canadian manufacturers would assist with the production of the airframe and electronics systems, and there would be technology transfers with Canadian companies.<sup>71</sup> While these benefits of the IRBs would bring about political benefits to the Conservative Party, the SKR was an opportunity for the other political parties to question and ridicule the SKR project.

The structure of domestic and international politics in Canada afforded the Liberal Party and New Democratic Party (NDP) an opportunity to criticize the SKR ahead of the 1993 federal election. Domestically, Canada was facing a recession and the introduction of a new Goods and Services Tax (GST). Internationally, the Cold War had concluded and the threat from Soviet submarines drastically diminished. Jean Chretien began openly questioning whether Canada needed helicopters capable of ASW with no Cold War; furthermore, he raised the question as to whether the country could afford new military helicopters when the country's principal adversary since the end of the Second World War was considerably weakened by domestic events. Chretien was adamant that Canada could not afford the "Cadillac" of helicopters due to the expensive price tag of the project.<sup>72</sup> The international and domestic structure had altered since the announcement of the SKR, and Chretien realized the political benefits criticizing this project. Fred Crickard of Dalhousie University claimed that Chretien was "just trying to score cheap political points."<sup>73</sup> This alteration in the domestic and international structure opened a window to re-evaluate the EH-101 purchase.

Changes in the international and domestic structure of Canadian politics had given the previous federal government an opportunity to cancel a proposed procurement

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<sup>71</sup> Plamondon, *Politics*, 107.

<sup>72</sup> Plamondon, *Politics*, 116-122.

<sup>73</sup> Plamondon, *Politics*, 118

project. The Conservative Government of Brian Mulroney had ambitions of modernizing the CF to face the threats of a bipolar world. The 1987 White Paper on Defence declared that Canada would procure nuclear submarines since relations between the United States and the Soviet Union were deteriorating, and nuclear submarines would ensure that Canada could protect its sovereignty in the Arctic without assistance from the United States. However, the potential for international conflict quickly subsided with the collapse of the Soviet Union, and Canada was facing a recession. Due to these international and domestic structures, the nuclear submarine procurement was abandoned.<sup>74</sup>

The main issues in the 1993 election did not include the procurement of helicopters. Going to the polls, Canadians were more concerned about free trade, the GST, and the place of Quebec within Canada. Despite this, Chretien saw the political value in opposing the SKR and promised to cancel the project after being elected. Canada had never broken a signed procurement contract before, and it was well-known that there would have to be a new maritime procurement process in the case of a cancellation. This threat of cancellation occurred even though the EH-101 was the only helicopter that could meet all the requirements of the DND. Roughly six hours after Chretien had won the 1993 election, he cancelled the EH-101 contract.<sup>75</sup> Despite the obvious need for a new maritime helicopter to replace the antiquated thirty-year-old helicopters currently in use, Chretien and the Liberals saw the political value of this cancellation and acted. This was done despite the fact that the EH-101 was nearly ready

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<sup>74</sup> Jack Granatstein, *Canada's Army: Waging War and Keeping the Peace*, (Toronto: University of Toronto Press, 2002), 377-379.

<sup>75</sup> Plamondon, *Politics*, 126-136.

to be put into service.<sup>76</sup> If Canadians were more concerned with “high politics” than with “low politics,” this decision potentially could have been avoided.

The need for the SKR was beginning to become a concern for the pilots and crew of the Sea Kings. The Sea King was quickly becoming unreliable and a burden to the RCN. In 1994, for every hour a Sea King was in the air, it required roughly 25 hours of maintenance. In addition, there were 118 non-fatal emergency landings in the past decade.<sup>77</sup> These helicopters were clearly putting the lives of RCN personnel in jeopardy. There was a need for a new procurement project and Statement of Requirement (SOR) to replace the increasingly dangerous and costly Sea King.

The 1994 White Paper on Defence articulated the future of Canadian defence spending, and discussed the need to replace the Sea King. The first sentence of the first chapter of the 1994 White Paper on Defence illustrates the new international structure Canada faces, where it states; “The Cold War is over.”<sup>78</sup> This document also discusses the \$750 billion national debt Canada has in 1994. In an attempt to alleviate this debt, the White Paper calls for a reduction on defence expenditures by \$7 billion dollars over a half-decade.<sup>79</sup> With the expected “peace dividend,” which was assumed to occur when the Soviet Union collapsed, Canada believed they were in a position where they could further focus on “low politics” over “high politics.” Furthermore, the DND often sees budget slashes in periods of deficit or when attempting to balance the federal budget. Despite this reduction in funding to the CF, there was still a need for a replacement maritime helicopter. The document states, “There is an urgent need for robust and

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<sup>76</sup> Plamondon, “Amnesia,” 266.

<sup>77</sup> Plamondon, *Politics*, 141-142.

<sup>78</sup> National Defence, *1994 Defence White Paper*, (Ottawa: Minister of Supply and Services Canada, 1994), 3.

<sup>79</sup> National. *White*, 9-11.

capable new shipborne helicopters. The Sea Kings are rapidly approaching the end of their operational life. Work will, therefore, begin immediately to identify options and plans to put into service new affordable replacement helicopters by the end of the decade.”<sup>80</sup> The poor finances of Canada and the change of the structure of international politics also led to discussions of an early retirement of the CF-18 fighter aircraft at this time.<sup>81</sup> This is perhaps the greatest delay in the whole procurement process. For decades, Canada had been working towards a new maritime helicopter. All the effort that had been put into that project were now abandoned, yet the country was now going to have to begin the procurement process anew. Furthermore, this new helicopter would require a new SOR since the helicopter would now need to perform more functions than the EH-101. The new helicopter would need to be able to protect fisheries, combat drug smuggling, protect the environment, and provide disaster and humanitarian relief.<sup>82</sup> Meanwhile, the Sea King, which was initially procured for ASW, would be needed to remain in service until the new maritime helicopters could be procured.

The termination of the EH 101 contract would become a “black eye” for Canadian defence procurement that would last to the current day. When the contract was officially cancelled, Canada had to pay \$478.3 million dollars to EH Industries. Despite this significant sum of money to cancel the project, Canada received no finished product for the roughly half-billion dollars spent to cancel the project. If there was any consolation for this large sum of money to be paid with nothing received in return, it was that the GoC had earmarked an extra \$250 million dollars for the project. Fortunately for

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<sup>80</sup> National, *White*, 46-47.

<sup>81</sup> Srdjan Vucetic, “Canada and the F-35: What’s at Stake?” *Canadian Foreign Policy Journal*, 17:13 (Sept 2011), 201.

<sup>82</sup> Plamondon, *Politics*, 144-145.

Canada, EH Industries agreed to a reduced cancellation fee since they wanted to be part of the process for the next procurement project.<sup>83</sup>

The DND, once again, needed to conduct a competitive process to find a new contractor to procure maritime helicopters. There was the potential for the new Liberal government to face embarrassment if the EH 101 were to win the contract. The government's worst fears were realized when it was determined that, once again, the EH 101 was the best helicopter that could fulfill the requirements of the SOR. In order to avoid embarrassment, the Cabinet was attempting to make sure that they could find a way to not procure the EH-101.<sup>84</sup> Politically, it would have been detrimental to the new government if they were to procure this new helicopter since they had just cancelled a contract for the same helicopter. The political structure of Canadian foreign and defence policy allowed the new Liberal government the luxury of delaying this purchase. The Sea Kings may have been an unsafe vehicle for their pilots and crew; however, the safety of Canada as a whole was not being challenged by another delay in the SKR. Due to this, there were no significant penalties for the Canadian federal government for yet another delay in the procurement process. Despite these delays, the need for a replacement helicopter intensified.

The new SOR for the SKR would take the rest of the decade to finally be approved. In 1995, the first SOR was released, yet it would not be until 1999 that an SOR would finally be approved.<sup>85</sup> Similar to the previous SKR SOR, prospective contractors were having difficulties finding Canadian companies who could comply with the IRBs required to win the contract. A number of European countries claimed that they

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<sup>83</sup> Plamondon, *Politics*, 150.

<sup>84</sup> Plamondon, *Politics*, 153.

<sup>85</sup> Plamondon, *Politics*, 156-157.

could not find any Canadian companies that could produce the work being done in their home countries. Due to this, the delivery date desired by the GoC was extended from 2005 to 2008.<sup>86</sup> If Canada was not insistent on IRBs and was willing to purchase “off-the-shelf,” Canada could have potentially had the SKR in a few short years after the EH 101 contract was cancelled. Instead, Canadian politicians were insistent on the regional political benefits that IRBs provide. Due to this, it took four years to finalize an SOR. This is a four-year delay in the replacement of the Sea King, which was supposed to be obsolete in 1975. Senior members of the CF were becoming alarmed with the timeline of events in the procurement of the SKR

Military officials were becoming concerned with the lack of input they had in the procurement process. The military felt as though they had no influence in the procurement process. In 2003, Colonel Brian Akitt, when discussing the SKR, stated, “Canadian ministers ignored their military advisers to ensure that the procurement would have a politically acceptable outcome.”<sup>87</sup> Akitt is not the only individual whose criticisms of the manner in which procurement is conducted falls on deaf ears. Many academics, industry officials, journalists, and a litany of others have all criticized the manner in which Canada conducts procurement. Yet, all these actors attempting to influence Canadian procurement inevitably fail since the GoC can politically benefit from the current model of procurement. This topic will be covered in more detail in the next chapter.

In 2003, nine years after the initial SKR SOR was released, companies bidding on the contract were still having difficulties complying with the requirements. All three

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<sup>86</sup> Plamondon, *Politics*, 163-166.

<sup>87</sup> Plamondon, *Politics*, 167-168.

companies attempting to acquire the contract were having difficulties fulfilling the SOR, especially Sikorsky. Because of this, instead of the initial 1,400 technical requirements for the SOR, companies now only had to 475. Each prospective bidder would have to promise that eventually they could comply with all the other requirements of the SOR.<sup>88</sup> In this instance, the DND realized that having companies comply with the entire SOR was creating further delays with the SKR. This amended requirement list does quicken the procurement process; however, if they had realized at the initial SOR that it would be nearly impossible for any company to fully comply with all the requirements, the actual awarding of the contract could have been concluded years earlier. It is worthy to note that this, and many other delays, could have been the result of political maneuvering to avoid potential political embarrassment.

After nearly a decade of waiting, the decision to procure and sign the contract for the SKR finally came to fruition in 2004. This decision, like so many others in the SKR, was the result of the political structure of foreign and defence policy in Canada. Jean Chretien, who cancelled the EH 101 hours after winning a majority government in 1993, had resigned as Prime Minister and was officially out of Canadian politics. This decision was intentionally made after Chretien left office since the potential embarrassment of selecting the same helicopter he cancelled a decade earlier would have been the source of embarrassment to his term as Prime Minister and legacy.<sup>89</sup> This is potentially the greatest example of the political structure hindering an effective procurement strategy in Canada. Chretien was more concerned with protecting his own legacy than locating and procuring a maritime helicopter to assist the RCN with a plethora of duties. Chretien was Prime

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<sup>88</sup> Plamondon, *Politics*, 169-170.

<sup>89</sup> Plamondon, *Politics*, 170.

Minister for three terms, and the SKR was never a large enough concern for him and his party to quicken the procurement process. There was no large outcry from the Canadian citizenry, and did not affect Chretien's ability to win three consecutive majority governments. If anything, procuring the EH 101 after cancelling the project would have done more damage to Chretien's political career than ensuring that the next procurement decision came after he was finished in office. Furthermore, in the end, the political embarrassment of choosing the EH-101 once again to be the SKR was avoided.

Sikorsky, the producer of the Sea King, had won the SKR replacement contract in 2004. The lengthy process to find a new maritime helicopter was finally complete. The H-93 Cyclone had won the contract, and Sikorsky promised that these new maritime helicopters would be available to the RCN by 2008. The contract was worth four billion dollars to provide 28 maritime helicopters, with twenty years of in-service support. Canada is the only country in the world to have purchased it.<sup>90</sup> This new helicopter was not a military helicopter, but a civilian helicopter to be converted for the RCN. In addition, the H-92 Cyclone was still in its design phases and did not have a finished product. . The Comorant and EH-101, the other helicopters in the competition for the SKR contract, were much closer to being fully operational.<sup>91</sup> The selection of an unfinished, non-military helicopter nearly a decade after the first SOR to become the new maritime helicopter was opposed by numerous actors. Initially, there were accusations of political favouritism to avoid the embarrassment of awarding the new contract for the SOR. In addition, the third-party actor who was hired to ensure that all bids were

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<sup>90</sup> Plamondon, "Amnesia," 270.

<sup>91</sup> Plamondon, *Politics*, 170-174.

considered with fairness was actually a lobbyist with ties to the Sikorsky bid.<sup>92</sup> The circumstances surrounding the selection of Sikorsky's bid would become a point of contention for the entire procurement process. There was only one question remaining: could Sikorsky provide the new helicopter by their self-imposed deadline?

The H-92 Cyclone would not be available to the RCN by 2008. The structures of Canadian defence and foreign policy would ensure that the delays that have become inherent in previous procurement projects would exist in the SKR. Only a few short months after the GoC awarded the contract to Sikorsky, they began renegotiating the contract. Canada needed the H-92 Cyclone to have tactical transport capability. This would be of considerable cost to the Canadian taxpayer, and it forced Sikorsky to alter its project schedule and the date when the RCN could expect finished products.<sup>93</sup> This would become the first delay of many for the acquisition of maritime helicopters from Sikorsky. In February 2006, a labour dispute at Sikorsky over worker's benefits led to a four month strike. Due to this, the GoC gave Sikorsky a six-week extension on the delivery of a final product.<sup>94</sup> While these delays are outside the structural constraints of Canadian foreign and defence policy, they led to the first delays in a product expected to be delivered in 2008; however, future delays would be caused by this structure.

In 2008, Sikorsky informed the GoC that the maritime helicopters would not be delivered on time. Sikorsky was experiencing financial and technical difficulties which resulted in a further delay. In May 2008, Sikorsky asked to re-negotiate the contract. They were going to require more money from the GoC to ensure that they could produce the product. They also pushed back the delivery date to 2010 or 2011 since they needed

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<sup>92</sup> Plamondon, *Politics*, 174-177.

<sup>93</sup> Plamondon, *Politics*, 117.

<sup>94</sup> Plamondon, *Politics*, 177-178.

to improve engineering specifications on the helicopter, and new technical advances would need to be implemented into the project. A new contract was reached in December of 2008, with a new delivery date of 2010. Sikorsky attributed all these delays to the fact that H-92 Cyclone was required to perform duties it was not initially meant to do.<sup>95</sup> The selection of a non-military helicopter to perform military duties was another cause for delay in the SKR. If the political pressures of choosing a replacement which was not the nearly ready EH-101 were absent, Canada would have avoided another prolonged delay in the replacement of the antiquated Sea King. The H-92 Cyclone civilian tragedy would further delay the acquisition of new maritime helicopters.

A crash off the coast of Newfoundland would further delay the delivery of the H-92 Cyclone. The civilian version of the helicopter was flying to an oil refinery rig and crashed, killing 15 passengers and the two crew personnel. After an investigation into the causes of the crash, it was determined that “Sikorsky was not technically compliant with the advanced standards of the United States Federal Aviation Administration.”<sup>96</sup> This tragedy would have profound impacts on the acquisition of the military helicopter for the RCN. It was determined that the H-92 Cyclone could not “run-dry,” which means operate for a half-hour in the air with no oil. The FAA ordered Sikorsky to modify several components of the helicopter after the Newfoundland crash which were determined to have caused the accident, and to update its operating manual for the helicopter to explain the perils of losing oil. In an interesting side note, the EH-101 was fully capable of operating with no oil for thirty minutes.<sup>97</sup> While the Newfoundland tragedy was not the result of the procurement strategies of the GoC, it would result in yet

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<sup>95</sup> Plamondon, *Politics*, 180-183.

<sup>96</sup> Plamondon, *Politics*, 184.

<sup>97</sup> Plamondon, *Politics*, 186.

another lengthy delay in the procurement process in Canada. If the EH-101 had been put into service, this accident would have had no bearing on the replacement of the Sea Kings.

The costs of the H-92 Cyclone were rising exponentially from their initial estimates when the contract was signed. The reason for the cancellation of the EH-101 was to save the Canadian public money on a helicopter that was deemed to be too expensive to fulfil the needs of the Canadian military in the post-Cold War era. In 2012, the H-92 Cyclones were already five years late and roughly \$300 million over budget. The Minister of Public Works, Rene Ambrose, could not even estimate when the new helicopters would be delivered. In total, the expected cost of the new helicopter was roughly \$6.2 billion; meanwhile, the canceled EH-101 contract would have only cost \$4.8 billion of public money.<sup>98</sup> In defence of the GoC, when they cancelled the contract, the structure of Canadian defence and foreign policy was significantly different. In 1993, the international structure threat of war with Russia had drastically been reduced, and domestically, the finances of the country were in dire straits. While these factors made structural sense for Canada to cancel the EH-101 in 1993, the quandaries with the procurement process in Canada ensured that the new maritime helicopter would become more costly than the cancelled EH-101.

In 2014, Sikorsky and the GoC once again had to amend the H-92 Cyclone contract. The need for renegotiation was due to continuing delays and Sikorsky's need for additional time to meet the many specifications and requirements needed of the H-92 Cyclone by the CF. The negotiation concluded with the agreement that Sikorsky would

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<sup>98</sup> Greg Weston, "New Military Helicopters may not be Ready for 5 Years," CBC.ca <http://www.cbc.ca/news/politics/new-military-helicopters-may-not-be-ready-for-5-years-1.1137760> (accessed July 02, 2015).

provide helicopters to the GoC the following year; however, these helicopters would not be capable of fulfilling all the military requirements initially agreed upon. Sikorsky was granted extra time to meet these capabilities and would be required to eventually modernize the helicopters to be delivered in the next year.<sup>99</sup> The politically acceptable H-92 Cyclone contract was once again hindering the timeline of when the replacement helicopters would finally be delivered. A positive development of this renegotiation was the expected delivery of the new helicopter in 2015, even though these helicopters would not meet the full military capabilities that were expected when the contract was initially signed.

In 2015, nearly fifty years after the Sea Kings were acquired and forty years after replacement options were being discussed, Canada finally received six new maritime helicopters. Unfortunately, this delivery was not the finished product. These helicopters will have reduced capabilities and requires substantial upgrades between 2018 and 2021 to fulfil all the military roles required.<sup>100</sup> It will be interesting to see if by 2021 the H-92 Cyclones will be able to accomplish all the roles and requirements required by the GoC. If the structure of Canadian foreign and defence history continues, it is safe to say that Sikorsky and future governments will be announcing delays and contract amendments on the 2021 delivery date. A pertinent question to ask about defence procurement in Canada is: who is to blame for the lengthy SKR process?

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<sup>99</sup> Tim Callanan, "New Cyclone Maritime Helicopters Accepted After Years of Delay," *Huffington Post.ca*, [http://www.huffingtonpost.ca/2015/06/19/six-new-cyclone-maritime-n\\_7620634.html](http://www.huffingtonpost.ca/2015/06/19/six-new-cyclone-maritime-n_7620634.html) (accessed June 30, 2015).

<sup>100</sup> David Pugliese, "Canada Finally gets Replacements for Sea King Helicopter. One Problem ... they may not be Powerful Enough," *NationalPost.com*, <http://news.nationalpost.com/news/canada/canadian-politics/canada-finally-gets-replacements-for-sea-king-copters-one-problem-they-may-not-be-powerful-enough> (accessed June 28, 2015).

Both the Conservative Party and the Liberal Party benefit and suffer politically from the lengthy SKR. Each party blames the other for procurement delays, and by the time action is taken against individuals for delays in the process, they often do not hold the positions they held when contracts were signed. The Conservatives blame the delay of the H-92 Cyclone on the Liberals since they were in power when Sikorsky was awarded the contract in 2004. Liberals counter with the argument that the Conservatives were the ones who kept re-opening and amending contract discussions with Sikorsky.<sup>101</sup> These quarrels between the last two parties to hold federal office cancel out the negative aspects of this procurement process. Since both parties blame the other, and the majority of Canadians are not experts in defence procurement, this creates confusion about who is actually responsible for delays and cost overruns. In actuality, the culprit of defence procurement inadequacies is the political, domestic, and international structure of Canadian defence and foreign policy. This structure has also allowed politicians and bureaucratic employees who agreed to these procurement policies to not face discipline for errors in the process. Since procurement in Canada is a lengthy process, and there is a high amount of turnover in Canadian politics, the decision-makers on procurement do not hold their jobs when the procurement process goes awry. Due to this, they do not face the political consequences since those responsible when a defence contract is signed are rarely still in office when the product is finally delivered. The political structure of Canadian foreign and defence policy allows whichever party holds power to blame the previous administration for delays in procurement. This is a cyclical problem which will repeat itself until this structure changes.

### **Case Study Number Two: F-35 Fighter Replacement Program**

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<sup>101</sup> Pugliese, "Finally."

## **Introduction**

The following section of this chapter is a case study of the F-35 Fighter Replacement Program. The specific events that have taken place since the announcement of the project in 2010. This case study will analyze the effects of domestic, political, and international structures of Canadian defence and foreign policy on this procurement project. In addition, several factors that are unique to the F-35 procurement in Canada will be analyzed. These include the lessons learned from the failed EH-101 contract, whether or not Canada ever intended to actually purchase the equipment, and how a lack of defined IRBs for the F-35 project has not hindered Canada's ability to acquire production and development contracts for the project.

## **Timeline of Events for the F-35 Fighter Replacement Program**

The F-35 Fighter Replacement Program is intended to provide Canada with a state-of-the-art fighter aircraft. The CF-18 Hornet, which has been in use by the CF since 1982, was in need of replacement.<sup>102</sup> The decision for Canada to partner in the development of a new fighter aircraft occurred in 1997 when Jean Chretien committed Canada as a "Level 3" partner in the "multinational Joint Strike Fighter (JSF) program."<sup>103</sup> In July 2010, Defence Minister Peter McKay announced the GoC's decision to purchase 65 F-35 fighter aircraft to replace the CF-18s by 2017.<sup>104</sup> This ambitious project, which was unlike any other in recent Canadian defence procurement history, would encounter many of the same obstacles that the previous SKR encountered

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<sup>102</sup> National Post Staff, "Dogfight: Comparing the F-35 and CF-18 Fighter Jets," *NationalPost.com*, <http://news.nationalpost.com/news/canada/dogfight-comparing-the-f-35-and-cf-18-fighter-jets> (accessed July 5, 2015).

<sup>103</sup> Kim Richard Nossal, "Late Learners: Canada, the F-35, and Lesons from the New Fighter Aircraft Program," *International Journal*, 68 (2012-2013), 173.

<sup>104</sup> Michael Byers and Stewart Webb, "Canada's F-35 is a Costly Mistake," *Canadian Foreign Policy Journal*, 17:3 (2011), 217.

in addition to a few scenarios that are entirely unique to the F-35 Fighter Replacement Project. The first distinctive aspect of this procurement process was the manner in which the GoC chose Lockheed Martin's F-35 to be Canada's next fighter aircraft.

One of the factors contributing to delays in the SKR were companies having to meet the vast requirements of the SOR, and the open contract bidding process. It was difficult for competing companies and industry to comply with the lengthy SOR. The F-35 fighter project would negate these two features of Canadian defence procurement policy. In theory, this would help result in a quicker procurement process. The GoC determined that the F-35 was the only fighter aircraft that could meet its SOR even though the DND never released its SOR to the public, and only the Harper Government and Parliamentary Budget Officer (PBO) have seen these requirements.<sup>105</sup> According to Bezglasnyy and Ross (2011), this lack of an open competition for the F-35 is detrimental to Canada. They argue that the CF-18 contract, which was an open competition, resulted in optimal benefits for Canada. Canada spent 2.369 billion dollars for 138 CF-18 fighter aircrafts. This bidding process resulted in IRBs totalling 2.453 billion dollars by 1995.<sup>106</sup> Other writers of procurement in Canada have argued that having a closed competition would result in delays in the acquisition of a fifth-generation fighter aircraft. Tim Dunne argues that if there were an open competition for new fighter aircraft, "Canada would lose its place in the F-35 queue, adding years to the CF-18 Replacement Program."<sup>107</sup> This is not the only unique aspect of this procurement procedure.

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<sup>105</sup> Byers and Webb, "Mistake," 217-218.

<sup>106</sup> Anton Bezglasnyy and Douglas Alan Ross, "Strategically Superfluous, Unacceptable Overpriced: The Case Against Canada's F-35 Lightning II Acquisition," *Canadian Foreign Policy Journal*, 17:3 (2011), 241.

<sup>107</sup> Tim Dunne, "A Case for the F-35 Lightning," *Canadian Military Journal*, <http://www.journal.forces.gc.ca/vol11/no4/55-dunne-eng.asp> (accessed July 7, 2015)

Lessons learned from earlier procurement decisions influenced the commitment Canada was willing to make on contractually agreeing to purchase the F-35. Perhaps the most unique aspect of this project is the fact that no contract was signed when Canada agreed to procure F-35 aircraft.<sup>108</sup> It is the belief of this author that there was no contract signed at this time due to the political embarrassment that befell the federal Liberal government in the 1990s with the cancellation of the EH-101 in 1994. If Canada signed a contract for the F-35 and later cancelled the agreement, there would be considerable costs. Canada can back away from the project at any time without financial penalty (besides money already invested in the project). Perhaps more importantly, Canada can still play a major role in the development of the F-35 without officially agreeing to purchase a single aircraft.

Despite the lack of IRBs for the F-35, Canada is benefitting from investments from a variety of sources to its domestic industry. As of 2011, the PBO could not determine how Canada would benefit from IRBs, nor had the government received any sort of guarantee from LM about the scale of financial benefits Canadian industry would receive.<sup>109</sup> Despite this lack of any formal IRBs or financial commitment from LM, Canada is benefitting from being a partner in the JSF program. In 2010, Industry Minister Tony Clement stated that Canada's involvement in the F-35 project has "result[ed] in more than \$350 million in contracts awarded to Canadian companies, research laboratories, and universities."<sup>110</sup> When Clement said this, Canada had invested \$165 million dollars in the project, and over 85 organizations had received contracts to

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<sup>108</sup> Bezglassny and Ross, "Superfluous," 244.

<sup>109</sup> Byers and Webb, "Purchase," 224.

<sup>110</sup> Byers and Webb, "Purchase," 224.

develop the F-35.<sup>111</sup> These benefits to Canadian industry and research are all contributed to Canada being an early partner in the JSF program. Canada has received a substantial return on industrial benefits from LM for the amount of capital it has contributed to the project. There are believed to be future benefits of being part of this process as well. The Harper Government predicts 12 billion dollars' worth of industrial benefits to Canadian companies. This includes many high-tech jobs and the opportunity to be part of the production of LM's expected 3,000 F-35s.<sup>112</sup> As these examples illustrate, domestic Canadian industry is benefitting from being involved in the production of F-35s. As long as Canada intends to purchase this new fighter aircraft at a future date, the country will continue to receive these benefits. Canada could potentially never procure a single F-35, yet they would still have benefitted from the influx of capital into Canadian industry, laboratories, and universities. Despite this, Canada is domestically benefitting from being a part of the F-35 purchase. Like with the majority of Canadian defence procurements, there would be problems and delays with developing and assembling the F-35.

Technical difficulties with the design and assembly of the F-35 have resulted in lengthy delays in the production of the new fighter aircraft. Unlike the SKR, these delays are not the result of the international, domestic, and political structure of Canadian defence procurement. These delays can be attributed to production issues by LM. When Canada agreed to purchase 65 F-35s in 2010, LM believed they would have twelve flights per month to test various capabilities of the aircraft; instead, there is only an

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<sup>111</sup> Bezglasny and Ross, "Superfluous," 246.

<sup>112</sup> Justin Massie, "Bandwagoning for Status: Canada's Need for the F-35," Canadian Foreign Policy Journal, 17:3 (2011), 252.

average of two to eight flights per month.<sup>113</sup> This has led to delays in the expected delivery date of the plane. In 2013, it was revealed that design flaws in the F-35 have rendered night flying nearly impossible. The two main causes of this are that the radar systems do not work at night and the helmet design for the F-35 renders vision blurry during night hours. Furthermore, there was a crack found in an F-35 test aircraft engine. This resulted in delays until the problem could be remedied.<sup>114</sup> Since this time, LM has corrected the complaints with the helmet, but at a cost of \$400,000 per unit.<sup>115</sup> Despite the new and improved helmet, the litany of technical difficulties that have befallen the F-35 during its design and development phase have led to delays in creating a final product. While Canada has not made a formal contractual decision on the F-35 purchase, these delays from LM allow the country to continue to benefit from being a member in the development of the JSW. While these delays and modifications are not the responsibility of the GoC, they have affected the final cost of the F-35.

The cost of procuring the F-35 fighter aircraft continues to rise from when the project was announced in 2010. The escalation in price began almost immediately after Canada's intentions of purchasing the fifth-generation aircraft was announced. Initially, Canada was expected to spend 75 million dollars per plane; however, by 2011, the price had escalated to 128 million per plane.<sup>116</sup> Another report in 2011 from the PBO states that besides being five years behind schedule and roughly 20 billion dollars over budget,

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<sup>113</sup> Byers and Webb, "Mistake," 220.

<sup>114</sup> Lee Berthiaume, "F-35 Design Problems Make Night Flying Impossible, Increase Risk of Being Shot Down, U.S. Pilots Warn," *NationalPost.com*, <http://news.nationalpost.com/news/canada/f-35-design-problems-make-night-flying-impossible-increase-risk-of-being-shot-down-u-s-pilots-warn> (accessed July 6, 2015).

<sup>115</sup> Christian Davenport, "The Helmets that go with the F-35 Cost \$400,000 and allow pilots to look around as if the plane wasn't there." *NationalPost.com*, <http://news.nationalpost.com/news/world/f-35-helmets> (accessed July 06, 2015).

<sup>116</sup> Byers and Webb, "Mistake" 220.

the price per aircraft has increased to an expected value of 165.3 million dollars per aircraft. Furthermore, Bezglasny and Ross speculate that the lifetime costs of the F-35 procurement would be 450.6 million dollars per aircraft, not the estimated 246 million suggested by the DND.<sup>117</sup> A report released by Michael Byers in 2014 further illustrates the skyrocketing costs of the F-35A Lightning. Byers argues that the full lifetime costs of the F-35 Lightning would not be 45.8 billion estimate from the GoC, but 126 billion dollars – 81 billion dollars higher than Ottawa’s estimate.<sup>118</sup> As these examples illustrate, the price for the F-35 Lightning have risen exponentially since the project was announced in 2010. While the need for Canada to procure a fifth-generation aircraft exists, it is highly unlikely to occur if the price point continues to escalate. Despite these rising costs, the GoC is benefitting politically from being a part of this project.

Despite never signing an official contract to procure F-35s, the Harper Government is benefitting politically from being a part of the JSF project. These political benefits go beyond contributions to industry, research laboratories, and universities from various actors in this process. According to Kim Richard Nossal, “Harper may be so adamant about F-35 purchase in order to distance himself from Chretien’s ‘decade of darkness.’”<sup>119</sup> This type of policy would help garner support from the large number of Canadians who feel as though the military has been neglected by the GoC for the past fifty years. Justin Massie echoes the political benefits of the F-35 acquisition when discussing the 2011 Conservative electoral strategy. A campaign tactic implemented by the Conservatives was to remind the Canadian electorate that this procurement would

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<sup>117</sup> Bezglasny and Ross, “Superfluous,” 247.

<sup>118</sup> Steven Chase, F-35 Costs at Least \$10 Billion Higher than Ottawa Estimates, Expert Says,” *TheGlobeandMail.com*, <http://www.theglobeandmail.com/news/politics/f-35-costs-could-double-over-programs-life-expert-says/article18325378/> (accessed July 10, 2015).

<sup>119</sup> Nossal, “Late Learners,” 181-182.

enhance the capabilities of the CF while creating thousands of jobs for Canadians in high-technology sectors.<sup>120</sup> The political benefits of maintaining employment that has already been acquired to develop the F-35 in Canada and possibilities of acquiring even more vocations and capital for development only increase the political profile of the Harper Government. This is combined with the fact that Canada has invested very little in this project and is not contractually obligated to purchase a single F-35. As long as this remains the norm for this procurement process, it would be hard to fathom the Harper Government attempting to distance themselves from the project. The international structure of Canadian foreign and defence policy also permits delays in formally signing a contract to procure the F-35.

The threat from Canada's traditional international foe, Russia, is not as pertinent as it once was. The bipolar structure of the Cold War is no more and the threat to North America via the Arctic from Russia is not as significant as it once was. Wikileaks released confidential cables where Stephen Harper states that he is not currently concerned about a possible conflict with Russia.<sup>121</sup> The international structure of Canadian foreign and defence policy does not necessitate the immediate acquisition of fighter aircraft to counter a threat from Russia in the Arctic. Even after Harper told Vladimir Putin to "get out of Ukraine" after the crisis between Ukraine and Russia broke out in 2014,<sup>122</sup> Canada has not increased its role in the F-35 acquisition, nor have they publically stated their goals in acquiring a different fifth generation fighter aircraft. The lack of an immediate threat from Russia is another reason why there has been a delay in

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<sup>120</sup> Massie, "Bandwagoning," 251-252.

<sup>121</sup> Byers and Webb, "Mistake," 219.

<sup>122</sup> Tonda MacCharles, "'Get out of Ukraine,' Harper Tells Putin at G20 Retreat," *TheStar.com*, [http://www.thestar.com/news/world/2014/11/15/get\\_out\\_of\\_ukraine\\_harper\\_tells\\_putin\\_at\\_g20\\_retreat.html](http://www.thestar.com/news/world/2014/11/15/get_out_of_ukraine_harper_tells_putin_at_g20_retreat.html) (accessed July 10, 2015).

replacing the CF-18. Furthermore, this is an example of the geographic structure of Canadian defence and foreign policy. Since the only avenue through which Russia could attack Canada is via the Arctic, there is a large geographic boundary between where these bomber aircraft would be launched and their intended targets. This gives Canada and its allies ample time to counter any potential threat from the north.

The CF-18 fighter aircrafts can protect Canadian sovereignty and are technologically superior to the Russian long-range bomber. The current Russian bombers are older than the CF-18s that Canada currently is using, which enables Canada to defend itself from this current threat.<sup>123</sup> In addition, Russia's next generation intercontinental bombers that are currently under development do not have stealth capabilities.

Bezglasny and Ross argue that Canada does not need stealth, a major and expensive component of the F-35, since it would not be needed in potential combat with this proposed new Russian bomber.<sup>124</sup> These are not the only examples of the structure of international politics not requiring Canada to act immediately on procuring a new fighter aircraft.

If Canada and other nations allied with the United States do officially procure an F-35 Lightning, it has the possibilities of creating a security dilemma with Russia. James Fergusson argues that "there are few, if any, threats that necessitate an advanced multi-role fighter, even with the resumption of Russian bomber flights over the Arctic the past several years."<sup>125</sup> If Canada were to acquire this new fighter aircraft, it could force Russia into constructing a fighter aircraft to compete with the F-35. Fergusson discusses the Russian next-generation fighter, the Sukhoi T-50, and the fears that Western countries

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<sup>123</sup> Massie, "Bandwagoning," 255.

<sup>124</sup> Bezglasny and Ross, "Superfluous," 245.

<sup>125</sup> Fergusson, "Debate," 211.

have with the prospect of this development becoming a reality.<sup>126</sup> If Canada and its allies were to acquire the F-35 and put it into service, it would force Russia to further develop the Sukhoi T-50 to counter this new threat. The longer the delay of the F-35 Lightning, the longer that this security dilemma can be avoided. In addition, the CF-18 has been capable of defending Canadian airspace since their purchase in 1983.

The CF-18s are currently being upgraded in order to maintain their capabilities until 2025. This decision ensures that the need for a new fighter aircraft can be delayed for another decade. If there are lessons from the Sea Kings, this date can probably be extended even further. In early 2014, the GoC spent roughly 400 million dollars on “life extension upgrades” to keep the CF-18s in the air until 2025. There exist the capabilities of extending the replacement date of the aircraft until 2030, which would cost 1.5 billion dollars.<sup>127</sup> These “life extension upgrades” of the CF-18 ensure that Canada does not in the foreseeable future need to procure the F-35 Lightning. As long as Canada can fulfil its international alliance obligations and protect Canadian sovereignty, there is no impetus on Canada to speed up the fifth-generation aircraft procurement. Canada can continue to reap the benefits of being a partner in the JSF program without being contractually obligated to purchase a single aircraft.

### **Case Study Number Three: The National Shipbuilding Procurement Strategy**

#### **Introduction**

The following section of Chapter Three is a case study of the National Shipbuilding Procurement Strategy (NSPS). The specific events of this procurement

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<sup>126</sup> Fergusson, “Debate,” 204.

<sup>127</sup> Murray Brewster, “It Will Cost \$400M to keep CF-18s Flying Until 2025 while Harper Decides Whether to Buy F-35 Jets: report,” *NationalPost.com*, <http://news.nationalpost.com/news/canada/canadian-politics/it-will-cost-400m-to-keep-cf-18s-flying-until-2025-while-harper-decides-whether-to-buy-f-35-jets-report> (accessed July 9, 2015).

initiative are examined in order to provide context of how the structural conditions of Canadian foreign and defence policy have influenced the manner in which this procurement has taken place. As will become evident, this procurement strategy is different from the other two case studies examined in this chapter; however, the constraints that the structure of Canadian foreign and defence policy have on procurement ensures that this project will face numerous delays and financial difficulties before a final product is delivered to the CF.

### **Timeline of Events in the NSPS**

The NSPS was announced in 2010 as a new manner in which to procure the next generation of naval equipment. The history of naval procurement has traditionally followed a “boom and bust” cycle where there are a plethora of jobs and opportunities to capitalize on procurement when the ships are being constructed; however, when the ships are completed, these opportunities for labour and industry evaporate. The NSPS is designed to alleviate these concerns with shipbuilding. The benefits of the NSPS approach include sustainable employment, IRBs, and the ability for Canada to develop a first-class shipbuilding industry.<sup>128</sup> According to Ian Parker, the most important aspect of the NSPS is its promise to end the “boom and bust” cycle of procuring naval ships.<sup>129</sup> Unlike the F-35 Fighter Replacement Program, the NSPS had an open bidding process where five proposals were received from three companies. After nearly a year and a half of deliberations, it was decided that Irving Shipbuilding Inc. in Halifax, Nova Scotia would procure six to eight Arctic Offshore Patrol Ships (AOPS) and fifteen Canadian

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<sup>128</sup> Martin Shadwick, “The National Shipbuilding Procurement Strategy (NSPS) and the Royal Canadian Navy (RCN),” *Canadian Military Journal*, 12:2 (Spring 2012), 77.

<sup>129</sup> Ian Parker, “Strategic Approach to NSPS: Combat Systems Integrator, Best Value,” *Frontline Defence*, 9:3 (2012), [http://www.frontline-defence.com/index\\_archives.php?page=1947](http://www.frontline-defence.com/index_archives.php?page=1947) (accessed July 11, 2015).

Surface Combatants (CSS); meanwhile Vancouver Shipyards Co. Ltd. would build the non-combat vessel package.<sup>130</sup> These two shipyards would become part of the “umbrella agreement” announced by Stephen Harper in January 2012. This “umbrella agreement” allows the shipbuilders to negotiate individual contracts with companies to provide material, technology, and equipment for the NSPS.<sup>131</sup> The conditions of the NSPS discussed in this paragraph provide the framework for how Canada will procure its next generation of naval equipment. While the NSPS is a unique and innovative manner in which to conduct procurement, it is not able to avoid the various predicaments that have hindered defence procurement in the past.

The political benefits of the NSPS are substantial for the Harper government. This is due to the assembly of the various ships in the program, which are to be manufactured in Canada. According to Eric Lerhe (2013), “The Conservative government itself seems to have sensed that having its ships built overseas and thus denying Canadian industry \$1 billion a year in business and Canadian labor some 15,000 jobs (both direct and indirect) for twenty years was unsellable politically.”<sup>132</sup> These political benefits of promoting industry in Canada has come at the expense of procuring “off-the-shelf” equipment at a significantly lower cost from foreign nations. The Arctic/Offshore Patrol Ship (AOPS) will cost the Canadian taxpayer \$3.5 billion dollars, which is a figure that is seven times as high as what Denmark is paying for a similar acquisition.<sup>133</sup> In addition, J.L. Granatstein (2013) states that the two naval supply ships

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<sup>130</sup> Shadwick, “NSPS,” 77.

<sup>131</sup> Shadwick, “NSPS,” 78.

<sup>132</sup> Eric Lerhe, “The National Shipbuilding Procurement Strategy: An Update,” Canadian International Council and the Canadian Defence and Foreign Affairs Institute, 3.

<sup>133</sup> Terry Milewski, “Canada’s Vast Shipbuilding Plan Still at Starting Line: 5 Years On, there are Lots of Plans for Renewal of Canada’s Navy – but no New Ships,” *CBC.ca*,

to be constructed in Vancouver are estimated to cost \$3 billion. The British Royal Navy are purchasing four similar ships from a South Korean company for \$750 million.<sup>134</sup> Despite the significant savings that buying ships abroad provides, the NSPS is still politically beneficial to the Harper government. Lerhe (2013), when discussing the NSPS, states, “no opposition party has argued against it, and the strategy enjoys wide media and academic support.”<sup>135</sup> Having widespread acceptance of a major procurement process in Canada is a rare event, and the political benefits of the NSPS are enough to accept the certain delays that procurement in Canada brings.

The Canada’s Economic Action Plan, an initiative to stimulate spending in Canadian infrastructure, is a partner in the NSPS project. Created in 2009, the Canada’s Economic Action Plan was intended to create jobs in Canada to counter the effects of the economic recession that Canada was experiencing.<sup>136</sup> The NSPS is promoted on the Canada’s Economic Action Plan website. This page discusses the various industrial and economic benefits that the NSPS will have for Canada.<sup>137</sup> This infrastructure program yields political benefits to the federal government and is yet another example how the IRB policy enacted by Trudeau in the 1970s is a politically viable manner in which to procure in Canada. These IRBs have already allowed Canadian shipbuilders to develop naval technology for the RCN.

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<http://www.cbc.ca/news/politics/canada-s-vast-shipbuilding-plan-still-at-starting-line-1.3058147>, (accessed July 11, 2015).

<sup>134</sup> J.L. Granatstein, “J.L. Granatstein: National Interests Collide in Ship Strategy,” *TimesColonialist.com*, <http://www.timescolonist.com/opinion/columnists/j-l-granatstein-national-interests-collide-in-ship-strategy-1.680471> (accessed July 13, 2015).

<sup>135</sup> Lerhe, “Update,” 3.

<sup>136</sup> CBC News, “How the Economic Action Plan Works: Criteria for Qualifying Projects,” *CBC.ca*, <http://www.cbc.ca/news/canada/how-the-economic-action-plan-works-1.923188> (accessed July 20, 2015).

<sup>137</sup> Canada’s Economic Action Plan, “The National Shipbuilding Procurement Strategy,” Canada’s Economic Action Plan, <http://actionplan.gc.ca/en/page/national-shipbuilding-procurement-strategy> (accessed July 12, 2015).

The Canadian Coast Guard's Offshore Fisheries Science Vessel is the first ship to begin construction under the NSPS. This project has been a benefit to numerous Canadian companies. As this is the inaugural vessel created within the NSPS, it serves as an interesting case study in how IRBs factor in to the NSPS. The ships, being constructed at Seaspan's Vancouver Shipyards, are expected to cost \$514 million and to be complete in 2017. Seaspan, the prime contractor, states that as of 26 June 2015, they have reached agreements with 137 companies in Canada and signed over 200 contracts.<sup>138</sup> This type of procurement has significant political benefits for the Harper Government since there is tangible evidence of how industry is benefitting in Canada due to the NSPS. While industry is benefitting from expensive procurement projects, the delays that are inherent in Canadian defence procurement remain.

One of the most significant obstacles for the NSPS to avoid delays is a lack of capacity in Canada to procure a modern navy. These delays will have significant repercussions on Canada's ability to purchase equipment in the future. According to Perry (2013), Canada does not have the industrial capabilities to complete all the procurements in the NSPS, which has caused delays. This results in a decrease in Canada's purchasing power due to inflation.<sup>139</sup> The Canadian shipbuilding industry, at the beginning of the NSPS, was in a precarious situation. This industry had been neglected for thirty years, and new infrastructure was going to be needed to be built.<sup>140</sup> Irving's shipyard in Halifax was in need of two years of infrastructure updates, which led

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<sup>138</sup> Vanguard Staff, "Seaspan Starts Construction on First NSPS Vessel," *Vanguard*, <http://www.seaspan.com/seaspans-vancouver-shipyards-celebrates-start-of-construction-on-first-nspvessel> (accessed July 8, 2015).

<sup>139</sup> David Perry, "Editorial: The Navy after the NSPS," *Canadian Naval Review*, 8:3 (Fall 2013), 1.

<sup>140</sup> Milewski, "Shipbuilding."

to the AOPS project being delayed.<sup>141</sup> This lack of shipbuilding expertise in Canada has led to companies not being able to locate and hire potential employees. Seaspan stated that they were having difficulties finding enough labourers who could afford to live in Vancouver. Since they could not find enough workers, Seaspan was granted an extension on delivery of their ships.<sup>142</sup> All of the given examples have resulted in serious delays in the production of ships in the NSPS. Despite this drawn-out process of developing the capabilities to procure a navy in Canada, the NSPS is a politically viable option for the current Conservative government. Capabilities are not the only delay that has hindered the NSPS process.

The limited resources of the capital procurement budget has led to delays and reductions in the number of ships to be built. There are numerous examples of this in the NSPS. The AOPS project was expected to begin in 2012 with construction of eight ships; however, once costs increased by \$400 million, the project required scaling back the number of ships to be built to five, expected to be delivered to the RCN by 2018.<sup>143</sup> Once the project was short on funds, there was a delay to determine how many ships they could build with the money allotted from the GoC. According to Lerhe, a shortfall in defence funding will result in Canada not being able to purchase the fifteen destroyers and frigates that are proposed in the NSPS. He argues that the \$26 billion dollars allotted to this purchase is not enough money due to inflation.<sup>144</sup> In addition, the GoC's ambition

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<sup>141</sup> Michael Byers and Stewart Webb, "Blank Cheque: National Shipbuilding Procurement Strategy Puts Canadians at Risk," *Canadian Centre for Policy Alternatives*, (December 2013), 22.

<sup>142</sup> Michael Den Tandt, "Fed's Shipbuilding Program Headed for Trouble," *OttawaCitizen.com*, <http://www.ottawacitizen.com/shipbuilding+program+headed+trouble/11057727/story.html> (accessed July 10, 2015).

<sup>143</sup> Michael Bird, "Making Waves: The Navy's Arctic Ambition Revealed," *TheGlobeandMail.com*, <http://www.theglobeandmail.com/news/national/the-navys-arctic-ambition/article23290380/> (accessed July 20, 2015).

<sup>144</sup> Lerhe, "NSPS," 6.

to balance the federal budget led to a reduction in defence spending. This is yet another example of “low politics” superseding “high politics” in Canadian foreign and defence policy. Perry (2013) argues that reductions in the budget will result in the RCN being able to take part in fewer missions with fewer vessels available for future missions.<sup>145</sup> Furthermore, the permanent Navy supply vessels are encountering similar difficulties in their procurement. Two new supply ships were supposed to be delivered in 2012 to replace the recently retired *HMSC Preserver* and *HMCS Protecteur*. The major issue in this procurement was a lack of money for the project. Public Works Minister Diane Finley said she “hopes” that these replacements will begin construction in 2017, yet there are no guarantees.<sup>146</sup> As these examples illustrate, a lack of funding for the NSPS has resulted in delays and a reduction in the number of ships to be built. Despite this, there have been no significant consequences to the Harper government politically, and there has been no public demand for a speedier procurement process. Due to these conditions, the NSPS will continue to be fraught with delays.

## **Conclusion**

Chapter III illustrates the structure of defence and procurement strategies in Canada. In addition, this chapter gives a thorough review of the SKR, the F-35 Replacement Project, and the NSPS. The evidence gathered throughout this chapter illustrate how the current model of defence procurement is unlikely to be altered, even though this process has not allowed Canada to acquire new military equipment in a timely and cost-effective fashion. These structural realities and case studies will provide

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<sup>145</sup> Perry, “Editorial,” 1.

<sup>146</sup> CTVnews.ca Staff, “Finley not Worried about Delivery of New Naval Supply Ships,” <http://www.ctvnews.ca/politics/finley-not-worried-about-delivery-of-new-naval-supply-ships-1.2438434> (accessed July 20, 2015).

the basis for offering reasons why various critics of defence procurement recommendations to alter defence procurement in Canada are unlikely to be adopted.

The following chapter will examine the various arguments critics have offered to account for the crisis and their proposed policy solutions. The chapter will explain why many of the most common solutions offered are unlikely to work.

## **Chapter Four:**

### **Proposed Defence Procurement Solutions and Why They Fail**

#### **Introduction**

The previous chapter's three case studies illustrate the complexities that have befallen Canadian defence procurement since the introduction of Industrial Regional Benefits (IRBs) in the 1970s. All three cases show how a combination of domestic political and economic factors, and a relatively benign security environment, have created a set of structural conditions that virtually guarantee delays in major procurement projects. The purpose of this chapter is to carefully evaluate some of the more common recommendations for solving the problem, and the many reasons why these policies are unlikely to work. The recommendations offered by these authors are for the most part sound advice to the GoC; however, there is no impetus for the GoC to adopt these measures.

#### **Defence Procurement Solutions and why they Fail**

Dave Perry (2015) offers many recommendations to remedy defence procurement in Canada. Perry's primary concerns are the delays in the procurement process that are a result of the Defence Procurement Strategy (DPS) and related emphasis on IRBs.<sup>147</sup> Perry is correct to argue they are responsible for delays in procurement, as the case studies illustrate, but his recommendations are unlikely to be adopted for reasons outlined in this thesis.

Perry offers several explanations as to why Canada cannot equip soldiers in a timely manner and attributes these delays to a) limited capacity and workload for

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<sup>147</sup> Perry, "Armed," 3.

acquiring and deploying new equipment, and b) a lack of capital to cover the costs of procurement.<sup>148</sup>

With respect to delays tied to procurement capacity and workload, Perry offers several examples. In the early 2000s, the GoC adopted an accrual accounting formula for procurement. This allowed Canada to pursue multiple large-scale procurement projects at a single time. Prior to this budgeting formula, it was common practice for the Royal Canadian Navy to have a major procurement project, which was later followed by a procurement for the Royal Canadian Air Force. Both institutions would never have major procurement projects happen at the same time. Due to the new funding formula, in the five years preceding the publication of Perry's article, major capital projects had increased by 50 percent.<sup>149</sup> While increases in major capital procurements are beneficial in order to properly equip CF personnel, Perry believes this increased workload will inevitably cause delays in the procurement of these products. In the 1990s, major procurement projects in Canada became almost non-existent. Due to this the individuals and companies who had expertise in procurement in Canada were forced to leave their positions. This left a significant lack of personnel and industry, especially in shipbuilding, who have procurement expertise to deal with this increased workload.<sup>150</sup> Perry argues that this method of defence procurement has led to delays and is detrimental to developing a sound defence procurement strategy for Canada.

While Perry is correct to argue that procurement workload and capacity are hindering Canada's ability to equip CF personnel in a timely fashion, it is highly unlikely that this framework for military acquisition will change in the foreseeable future. If

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<sup>148</sup> Perry, "Armed," 4-13.

<sup>149</sup> Perry, "Armed," 6-7.

<sup>150</sup> Perry, "Armed," 6-8.

Canada can revive dormant procurement industries with major capital contracts, the GoC will benefit politically, and the regions of Canada where these procurements take place will benefit domestically. As evident from the NSPS case study in Chapter Three, delays in domestic defence procurement ensure that Canadian labour and industry have employment and contracts for the foreseeable future, which benefits Canada domestically. If these companies can provide new equipment and potentially sell said equipment on world markets, this can be seen as a positive for industry in Canada. If any federal political party were to attempt to cancel this project while in power, it would be detrimental to said party in ridings where defence procurement is prevalent in the next federal election. Possessing a limited procurement workload and capacity is not a major concern for the GoC since the building of this infrastructure will benefit Canada.

Perry, like many critics of defence procurement in Canada, argues that a lack of money for capital projects is another factor responsible for delays - specifically, money allotted to procurement projects in the *Canada First Defence Strategy* (CFDS) is not enough to finance all the projects Canada desires. This quandary is compounded when using a Budget Year dollars formula. What this entails is that the various budgets for procurement initiatives are determined in advance, with adjustment for inflation, which is based on when each project is estimated to be finished. Under this type of formula, any delay in the procurement process hinders the purchasing power of each individual project and will inevitably result in a smaller number of ships, planes, or helicopters being ordered.<sup>151</sup> This is yet another example of how delays and a lack of capital hinder Canada's ability to properly equip CF personnel. Under this type of procurement model, the GoC earmarks a certain amount of money for capital, and this figure remains static.

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<sup>151</sup> Perry, "Armed," 9-10.

The lack of capital for defence procurement is yet another example of “low politics” superseding “high politics” in Canadian foreign and defence policy. In addition, the lack of capital for defence procurement in Canada, while detrimental to the CF, benefits the GoC politically. With this new funding formula, Canada decides at the beginning of each project how much money they are willing to spend on a project. While Canada may not be able to procure the number of equipment they initially desired due to various delays, the GoC is guaranteeing that spending for each procurement project is capped. This process allows the federal government to know in advance how much money it is spending on each project. This benefits the country politically since the GoC announces how much money it is bequeathing to each project and ensures that their procurement price points do not increase exponentially over time. The SKR case study from Chapter Three illustrates how project costs rise considerably with delays. Furthermore, Canadians face limited threats from state actors, so the real push to reduce these delays when purchasing new equipment is not as powerful as some critics might hope. As long as Canada continues to benefit politically from the DPS and IRBs, it is not likely that this framework will change in the immediate future.

Perry (2013) also addresses the political pressures forcing Canada to reduce defence spending in a time of austerity. After the 2008 recession, Canadian officials began to examine ways to reduce defence expenditures. Perry reviews three of these approaches: efficiency reforms, capability cuts, and readiness reductions.<sup>152</sup> Although he does not explicitly endorse any of the options he does point out that all three would deliver savings in defence spending, assuming we see changes in the structural conditions affecting Canadian foreign and defence policy. Following a review of these three options

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<sup>152</sup> Perry, “Realism,” 345.

the chapter will address reasons why none of these options will resolve the procurement crisis.

With respect to efficiency reforms, these are rarely effective at reducing expenditures. In addition, the CF has been forced out of necessity to repeatedly adopt efficiency reforms to achieve “more with less,” but this has no significant impact on resolving the procurement crisis. Perry (2014) also acknowledges that during periods of economic uncertainty, Canada was nevertheless able to maintain its international obligations with no loss of efficiency and with a reduction in overall budget spending.<sup>153</sup> It should be noted that during this period of financial turmoil, Canada was able to adopt and implement the NSPS, which is one of the largest procurements in Canadian history. Efficiency reforms are not the means in order to improve defence procurement in Canada, nor will it provide a more productive manner in which Canada acquires capital purchases.

Capability cuts are another possible avenue for the GoC to reduce spending on the Canadian military. According to Perry, capability cuts have typically occurred at the end of a major conflict, or when the capital equipment budget was slashed during times of budget uncertainty - the SKR example was discussed in the preceding chapter. At the end of the Cold War, the EH-101 was cancelled due to an easing of relations with Russia after the collapse of the Soviet Union, and due to financial difficulties Canada was facing in the early 1990s. In addition, reducing staff and military personnel, which occurs less frequently than cuts to the capital budget, is another manner in which capability cuts apply.<sup>154</sup> While these two approaches have historically allowed the GoC to reduce expenditures on the CFs, these capability cuts could not work under the current structure

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<sup>153</sup> Perry, “Realism,” 346.

<sup>154</sup> Perry, “Realism,” 346.

of Canadian foreign and defence policy. The relationship between capabilities cuts and the procurement crisis illustrate why this is the case. Canada's last major shipbuilding initiative prior to the NSPS, the Halifax Class Frigates, which were commissioned from 1992 to 1996, were built during the peace dividend that occurred after the Cold War concluded.<sup>155</sup> At this particular moment in history, Canada and its allies did not have a traditional state actor enemy, and the military budget was being reduced due to the federal governments desire to balance the budget. Even during times of peace and economic uncertainty, Canada is still going to require major procurement projects since military equipment is constantly evolving.

The adoption of accrual accounting and the political backlash of reducing military personnel are two reasons why capability cuts are no longer a feasible option for reducing the DND's budget. Perry describes how accrual accounting ensures that cuts aimed at reducing capabilities are no longer feasible,

Under the previously employed 'cash accounting' principles, capital procurements were charged in full against DND's budget in the year expenditures were made. Thus, cancelling or delaying procurement plans could significantly reduce DND's budget by shifting large budget charges into the future. For instance, cancelling the F-35 program under cash accounting principle would have saved DND up to \$1.1 billion a year over a seven year period in aircraft procurement costs alone. Accrual practices, however, have fundamentally changed the allocation of procurement funds. Now, equipment is purchased with 'investment cash' which is sourced from the general federal budget passed by parliament and provided to DND for the purposes of executing procurements.<sup>156</sup> Due to this method of accounting, Perry argues that cuts to the capital equipment budget are not likely since there would be little cost savings in the short run.<sup>157</sup> If the equipment capital budget will most likely not be cut, then cuts need to be made to the personnel

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<sup>155</sup> <http://www.naval-technology.com/projects/halifax/>

<sup>156</sup> Perry, "Realism," 346-347.

<sup>157</sup> Perry, "Realism," 347.

budget to reduce defence expenditures during times of austerity.<sup>158</sup> But reducing CF personnel numbers is another unlikely proposition. Lagasse and Robinson (2008) argue that the current troop levels are sufficient enough to protect Canadian sovereignty, and any reduction from this number would have detrimental effects for the GoC. They came to this conclusion by arguing that Canada has been able to protect sovereignty with the current number of troops.<sup>159</sup> The last major personnel reduction occurred in the years following the conclusion of the Cold War. This was a time when the potential for international conflict had been reduced drastically. If the GoC were to decrease personnel levels, this would have a negative political impact. Due to this and the newly adopted accrual accounting formula, capability cuts are an unlikely proposition to reduce defence spending during a recession. With the adoption of accrual accounting, there will always be a guaranteed number of dollars allotted to procurement. This ensures that money cannot be cut from the procurement budget. This allows the DND to have more rather than less money for equipment purchases since traditionally procurement budgets are one of the first capability cuts.

The final option Perry offers for the GoC to reduce defence expenditures is readiness reductions. Perry describes readiness reductions as a means “to curb spending on operations and maintenance, over and above any efficiency improvements.”<sup>160</sup> Operation and maintenance are an integral aspect of the procurement budget, totalling nearly 40 percent of the entire procurement budget. This money is used to ensure that spare parts and maintenance can be conducted on equipment already procured. Perry

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<sup>158</sup> Perry, “Realism,” 347.

<sup>159</sup> Phillippe Lagasse and Paul Robinson, “Reviving Realism in the Canadian Defence Debate,” (Kingston: Centre for International Relations, (2008), 93.

<sup>160</sup> Perry, “Realism,” 349.

concludes his argument on readiness reductions by stating, “the structure of the Canadian defence budget would therefore appear to make a readiness reduction virtually inevitable, unless a political decision is taken to reduce personnel levels.”<sup>161</sup> Prior to the publication of Perry’s article, Canada was already in the process of readiness reductions when in 2012 the GoC announced a 2.1 billion dollar cut to the DND’s budget. General Tom Lawson argued at the time that this reduction in spending would reduce the readiness and capabilities of existing equipment; however, Lawson admits that these cuts are manageable for the time being.<sup>162</sup> Readiness reductions have been a consistent factor of Canadian defence for decades; however, this has not hampered Canada’s ability to undertake various alliance obligations throughout the world. In addition, the NSPS, the largest procurement initiative in a generation, is currently in production and illustrates how readiness reductions does not hinder Canada’s abilities to procure large projects. While readiness reductions is an option to reduce defence spending, it is unlikely that Canada will increase the scale of readiness reductions to further reduce the defence budget. If this were to occur, Canada would most likely not be able to meet its international alliance obligations. While readiness reductions may affect the defence budget, it will not negatively alter the manner in which Canada procures equipment.

Philippe Lagasse and Peter Jones’s (2012) also discuss the options available to Canada to reduce costs after the financial recession of 2008. The authors offer two suggestions on how Canada can plan for military expenses during times of financial uncertainty. The first option is to drastically increase funding to DND. The second

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<sup>161</sup> Perry, “Realism,” 350.

<sup>162</sup> Kristen Everson, “Gen. Lawson Warns Military Cuts will Hurt Readiness: Training and Maintenance Bearing Brunt of Cuts, Top Soldier Tells Defence Minister n Memo,” *CBC.ca*, <http://www.cbc.ca/news/politics/gen-tom-lawson-warns-military-cuts-will-hurt-readiness-1.2687806> (accessed August 10, 2015).

option is to have specialized forces, where one of the RCN, RCAF, or Army would be abolished. They argue that specialized forces is an option since NATO has stated that they are not opposed to alliance members developing niche forces. While the authors prefer an increase of capital to modernize the army, they believe the specialized forces is a more attainable goal.<sup>163</sup> The specialization of the CF is a novel concept that potentially could have revolutionized the CF and the manner in which Canada procures equipment, but it will never come to fruition for many of the reasons outlined in previous chapters.

To begin, an influx of capital to the DND budget to modernize the CF is unlikely to occur under current conditions. Since the 1960s, Canada has spent enough to ensure all three arms of the CF can fulfill international and domestic obligations. There has never been a substantial enough increase to the defence budget to modernize the RCN, RCAF, or the CF with state-of-the-art equipment. If a governing political party were to agree to increase the defence budget substantially to purchase new equipment, this would hinder this party politically since Canadians prefer governmental spending to go to “low politics” causes. It should be noted that changes in the structure of international politics has shown that Canadians will accept increased spending to procure military equipment. Procurement increases during Afghanistan and during operations in Bosnia and Kosovo illustrate that Canadians will support increases in spending on procurement; however, procurement instances like this are not on the same scale as the NSPS, SKR, and F-35 Replacement Program. A substantial increase to the defence budget does not make sense for Canada politically since not even a general increase will have a positive effect on resolving the procurement crisis.

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<sup>163</sup> Peter Jones and Philippe Lagasse, “Rhetoric Versus Reality: Canadian Defence Planning in a Time of Austerity,” *Defence & Security Analysis*, 28:2 (2012), 140-141.

The specialization of the CF, an option that both Jones and Lagasse endorse, is another unlikely proposition for the GoC. While the specialization of the forces would enable Canada to devote more funds to two arms of the CF instead of three and would potentially allow Canada to develop a more specialized role within NATO, there are a plethora of reasons why this approach will not be adopted. First, it would not be in the best interests of the CF to abolish any of the arms of the Canadian military.

Representatives from the RCN, RCAF, and Canadian Army would be adamant about why their institution should remain, and most Canadians are likely to agree. Second, industry officials would lobby for the status quo to remain in light of the benefits from IRBs and defence contracts from all three arms of the CF and to avoid the loss of defence jobs and expertise. Finally, the political backlash from abolishing an arm of the CF would be considerable. For example, if Canada were to abolish the RCN, ridings where ships were being procured and where navy bases are stationed would be motivated not to vote for the political party who enacted this policy. Politically, it does not make sense to have specialized forces in Canada. The idea of niche forces is novel; however, it is unlikely due to the structures of Canadian foreign and defence policy.

Lagasse and Robinson (2008) argue that realism should be brought back into the Canadian defence and foreign policy debate. Their main argument centers on the notion that Canada spends the minimum amount needed to ensure the defence of Canada, and nothing more than this. Instead of demanding more resources from the GoC, they argue that National Defence Headquarters should simply be more efficient with the capital given to them. One manner in which Canada could achieve greater efficiency would be to cancel unessential procurement programs, for example by abandoning the F-35 in lieu

of a cheaper alternative.<sup>164</sup> This is unlikely, for several reasons. First, the F-35 arrangement Canada currently has with Lockheed Martin is too important (beneficial) to Canada to kill. The IRBs that Canada is currently benefitting from come with no guarantees of Canada actually procuring this expensive aircraft since Canada has not officially signed a contract to procure next-generation aircraft. In addition, the CF-18s that Canada currently employs to guard Canadian sovereignty have been sufficient to thwart any potential incursion into Canadian airspace by foreign actors. Costly procurement projects may not allow Canadian foreign and defence policy to follow realist logic; however, the benefits to domestic Canadian industry and politically to the GoC trump calls for a more efficient procurement process. In addition, according to Richard Shimooka (2013) of the CDA Institute, international partnerships in procurement are beneficial since it is easier to achieve three goals of procurement: meeting operational requirements, creating good value for Canadian taxpayer's dollars, and strengthening domestic industry in Canada. Shimooka further elaborates that when international partnerships are created for procurement, it effectively avoids cost overruns, delays, and suboptimal performance that are three common quandaries that occur during most procurements.<sup>165</sup> As Shimooka illustrates, the international partnership for F-35 procurement is more appealing and likely to promote Canadian initiatives and mandates in procurement.

With respect to procuring a modern Canadian navy, Eric Lerhe (2010) discusses how this is possible if DND redistributes how they spend on capital and personnel. In particular, Lerhe believes that Canada needs to spend 23 to 27 percent of the DND budget

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<sup>164</sup> Lagasse and Robinson, "Reviving," 87-100.

<sup>165</sup> Richard Shimooka, "Towards an International Model for Canadian Defence Procurement? An F-35 Case Study," CDA Institute, 2.

on capital in order to modernize the RCN.<sup>166</sup> In order to achieve this goal, Canada should close military bases, since Lerhe argues that there are currently too many in operation for the current needs of the CF, and Canada should limit personnel growth.<sup>167</sup> Again, there are a number of reasons why these recommendations are unlikely to be adopted.

To begin, capital spending will never reach 23 to 27 percent. It would not be beneficial to Canada domestically or politically to drastically alter the manner in which the DND budget is distributed. Domestically, closing numerous unwanted bases throughout the country would harm the areas and regions where this infrastructure is located and produce negative regional economic effects. Furthermore, since Canadian defence spending is intended to prop up all regions of the country, this type of action would not be politically beneficial to policymakers.

In addition, drastically increasing the level of capital spending in Canada is not a likely proposition. While Canada does need to replace its aging navy, allocating significantly more capital to the program will not solve the problem. With accrual accounting and the NSPS currently in place, Canada will acquire a modern navy without having to increase the capital budget. While these new procurements in the NSPS will undoubtedly be delayed and will most likely have less ships than originally estimated, this program will ensure that Canada's navy can guard sovereignty and be active in international obligations in the future. As long as these two criteria are fulfilled by the RCN, there is no need to drastically increase capital spending.

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<sup>166</sup> Eric Lerhe, "Getting the Capital and Personnel Mix Right: Implications for the Future of the Canadian Navy," in *Naval Gazing: The Canadian Navy Contemplates its Future*, ed. Ann Griffiths and Eric Lerhe, (Halifax: Centre for Foreign Policy Studies, Dalhousie University, 2010), 55-56.

<sup>167</sup> Lerhe, "Getting," 72-84.

Elinor Sloan (2014) argues that delays are the new norm in defence procurement in Canada. She offers several reasons as to why these delays occur. These include unrealistic procurement projects that lack the capital and technology to produce desired equipment, a lack of open bidding process for contracts (examples of this are given in Chapter Three), battlefield experiences resulting in Canada needing to adapt procurement policies, the rough order of magnitude costs not altering project cost increases and inflation, and a lack of a single source of accountability in the three federal departments responsible for defence procurement.<sup>168</sup> Sloan also questions if the DPS, which was created in 2014, will be able to remedy procurement delays. The DPS, like the IRBs, is meant to create defence industries throughout all areas of Canada. Sloan believes that the DPS will have a positive impact on a few of the current conundrums facing defence procurement since it allows for third-party reviews during the options-analysis stage of defence procurement. This has the potential to remedy the lack of a bidding process and pursuing ambitious procurement projects. The Defence Procurement Secretariat will also ensure the removal of all three federal departments working on the same projects at the same time.<sup>169</sup>

While the DPS may not remedy all five of Sloan's concerns with defence procurement the new policy model can still fulfil other specific goals and ambitions of the GoC. Pursuing ambitious procurement projects may cause delays, but it also has allowed Canada to create and develop the NSPS, which will benefit Canadian industry and allow Canada to develop a modern navy. The lack of an open-bidding process is not always a detriment to Canada's interests. . While this type of practice will inevitably

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<sup>168</sup> Elinor Sloan, "Something has to Give: Why Delays are the New Reality of Canada's Defence Procurement Strategy," University of Calgary: The School of Public Policy, October, 2014, 3-4.

<sup>169</sup> Sloan, "Something," 6.

result in delays, this does not mean that Canada does not benefit politically and domestically from this approach to defence spending. The need to alter requirements due to battlefield experiences is not a unique situation to Canada. While Sloan is right to argue that Canada could design their procurement process to deal with these sorts of problems, the lack of major conflicts and Canadian battlefield experiences does not make this option as pertinent as others. A static rough order of magnitude in costs benefits the GoC politically because the GoC informs all players in the procurement process how much money they are willing to spend for the lifetime of the project. While this may lead to difficulties when delays and inflation increase the costs of project, it does ensure that costs for procurement do not rise exponentially. This benefits the GoC politically since the potential for significant cost overruns (as evident in the SKR case study in Chapter Three) do not occur. The lack of a single point of accountability does result in delays, but it would be detrimental politically and domestically for Canada to adopt this type of policy. As has become evident, procurement in Canada is meant to create industry and employment throughout Canada. The DND, PWGSC, and Industry Canada are major beneficiaries from the current mode of accountability in Canada. Since all three departments would lose clout in procurement in Canada if this policy were to be amended, it does not make sense for any of these three to relinquish control of procurement, especially when considering that billions of dollars annually are fueled into defence procurement.

### **Conclusion**

This chapter illustrates why various critics of defence procurement recommendations to alleviate the current flaws of the program are unlikely to be adopted.

While this does not mean that these suggestions are not valid and would not be effective if implemented, it just offers credence to the fact that the current model of defence procurement is too valuable politically and domestically for Canada to abandon. The concluding chapter will examine the policy implications of the current model of defence procurement.

## **Chapter V: Conclusion**

The previous chapter examined a number of very common recommendations on how to remedy the procurement crisis in Canada, and outlined several political, domestic and regional economic pressures that will reinforce the status quo and virtually guarantee ongoing procurement delays and failures. The concluding chapter will address the long-term policy implications of these findings for Canadian procurement and defence policy, and conclude with an examination of how the ongoing procurement crisis will affect Canada's domestic and international interests and obligations.

### **Theoretical Framework**

The theory of neoclassical realism is ideally suited as a theoretical framework establishing the central thesis on Canada's defence procurement crisis. This framework implements the various traditional aspects of realism, including state centrism, interests, power, security, geography, industry, population, and resources. However, the framework also accounts for the importance of domestic factors in the procurement story. Although NCR is a powerful tool for understanding Canada's procurement crisis, there is compelling evidence throughout these case studies that could reasonably speak to other theories. For example, there is considerable evidence to support a 'political economy' framework that also addresses the incentives guiding Canadian defence spending as a source of industry promotion at home. In addition, complex interdependence could be used to illustrate how global actor and companies work together to improve various procurement strategies. An example of this would be the F-35 Replacement Program, an initiative that includes a number of states and Lockheed Martin.

### **Policy Implications**

As the previous four chapters illustrate, the current procurement strategy in which IRBs ensure regional industrial and technological benefits encompasses far too many domestic political and economic advantages for Canadian officials to change course. Scholars, journalists and other prominent critics of Canadian procurement policy may have brilliant ideas on why and how things ‘should’ change, but these recommendations are rarely followed and almost never implemented. What this entails is that Canadian procurement will continue to be flawed for the foreseeable future, unless these domestic and structural conditions change.

Significant delays in procurement in Canada remain a concern for CF personnel, because the military equipment they rely on will often be out-of-date and potentially unsafe. This problem does not appear to be much of a concern for the GoC. While it would be safe to assume that more people would be angered by the failures of defence procurement in Canada, this is simply not the case. The citizenry of Canada has never made the lackluster manner in which procurement is conducted an election issue, and since not many Canadians are directly affected by the current mode of procurement it is rarely politicized. From time-to-time a candidate may make electoral promises to do something about procurement; however, these decisions are never the reason why these people are elected. Furthermore, if Canada were to scrap the DPS and start buying military equipment “off the shelf” from other states, industry and union lobbyists would petition the government to halt this process, or assist another political candidate in their campaign. Due to these factors, Canadian officials do not suffer any serious political consequences for getting procurement wrong consistently.

The GoC will always have a procurement crisis, but this does not necessarily mean that Canada will not occasionally procure modern military equipment. It should be noted that when military security crises arise, procurement decisions become much easier. If there is a direct need for new equipment and a speedier procurement process, as was the case for the CF during the Afghanistan operation, the Canadian government can remedy the procurement process in these instances.<sup>170</sup> These same pressures could apply to Canada's current mission in places like Syria and Iraq, if fighter planes and other equipment used needs replacements. However, these instances do not occur frequently, and Canada cannot rely upon the next mission to procure new equipment. Initiatives like the DPS are meant to ensure that Canada has a domestic procurement industry that can produce equipment whenever Canada needs it.

As the case studies from Chapter Three illustrate, Canada has and will continue to be committed to major procurement projects that give the CF the equipment to assist our allies in international missions, protect Canadian sovereignty, and promote industry throughout Canada. The SKR, a project that has been fraught with extensive delays and alarming costs, is in the process of delivering helicopters to the RCN. These new helicopters will be a valuable addition to the CF for decades to come. The NSPS will modernize an antiquated RCN with ships that will be able to guard and protect Canadian sovereignty for the foreseeable future. While this project is of great cost to Canadian taxpayers, the NSPS will allow Canada to maintain a shipbuilding industry which will eliminate the "boom-bust" cycle of shipbuilding in Canada. The F-35 fighter aircraft, a project in which Canada has yet to sign a contract to acquire, is valuable to Canadian

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<sup>170</sup>National Defence and the Canadian Armed Forces, "Canada First Defence Strategy – Complete Document," Government of Canada, <http://www.forces.gc.ca/en/about/canada-first-defence-strategy.page> (accessed October 14, 2015).

industry and aeronautical research since Canada is one of the international partners involved in developing the technology to be used in this next-generation fighter aircraft. While this author questions whether or not the GoC will actually purchase any F-35s, the benefits to universities, research laboratories, and various businesses throughout Canada ensure that this country will remain an influential partner in aeronautical research - if it's not the F35 it will likely be some other modern fighter that will carry the same benefits. As these three examples illustrate, procurement in Canada is, and will continue to be, a slow and arduous process. Despite this, Canada will continue to procure equipment using policies like IRBs and the DPS for the foreseeable future.

The adoption of accrual accounting in Canadian defence procurement will ensure that a static monetary figure for procurement will become the norm. As the SKR case study in Chapter Three illustrates, rising costs for procurement have often handcuffed procurement in Canada because there is rarely enough money available to procure the desired amounts of equipment with modern capabilities. This often leads to increasing the budget or reducing the number of units to be procured. Accrual accounting ensures that each project has a fixed amount of money for the duration of the procurement. The long-term policy implication of this type of initiative is that everyone involved in the procurement knows how much is available to be spent, and this will better organize and prepare all actors involved in the procurement process.

After the cancellation of the SKR following the Liberal victory in 1993, it is highly unlikely that Canada will ever sign a large-scale procurement project contract without being certain that they will purchase said equipment. As discussed in Chapter Three, there was a considerable monetary penalty for cancelling the SKR project. This

explains why, in the opinion of this author, the GoC never signed a contract to purchase the new F-35 fighter planes. With the lack of capital and tendency for lengthy delays in the procurement process in Canada, it would be political suicide for a federal party or leader to sign a contract for a project when there is uncertainty as to whether-or-not said equipment will actually be procured. This type of behaviour towards procurement in Canada is becoming more common.

There has been a push by some critics of Canadian procurement to adopt a policy of buying military equipment “off-the-shelf.” What this entails is that Canada would scrap the IRBs and other policies that promote domestic procurement projects in favor of cheaper foreign alternatives. While this has the potential to save Canadian taxpayers’ money, it is a policy that will never be adopted for large-scale procurements in Canada due to the benefits of “made-at-home” policies. The IRBs are income generators for various regions across Canada, and the potential negative impacts of abandoning this type of policy would be detrimental to Canadians politically, domestically and industrially. While this type of policy can be implemented if Canada needs certain military equipment expedited in a timely fashion, it would be highly unlikely that the Canadian government would adopt this type of policy.

In the international sphere, Ottawa’s procurement crisis may at times draw the ire of Canadian allies, but Canada is still a reliable and dependable alliance member. As long as this is the norm there will be no considerable pressure put on Canada to remedy its procurement dilemma. In 2014, Canada was able to meet all its international

obligations.<sup>171</sup> If Canada is able to be an active and contributing member to alliance missions, like those currently taking place in Syria, the impetus from Canadian allies to put pressure on Canada to alter the manner in which it procures is not pertinent.<sup>172</sup> In March of 2015, Jens Stoltenberg, Secretary-General of NATO, met with Canadian Prime Minister Stephen Harper to discuss various affairs that were of concern to the alliance. In this meeting, the two discussed the need of Canada and the rest of the alliance members to halt Russia's territorial aggression. There is no mention in this article about Canada not meeting alliance obligations, nor any disagreements over what Canada's role in NATO is.<sup>173</sup> In addition, Sam Hossack claims that Canada's financial obligations to the alliance are "greater than most other states in the Alliance and represent Canada's commitment to NATO and to its own security vis-à-vis the Alliance."<sup>174</sup> Despite these contributions to this alliance, some alliance members have been critical of Canada's role in this institution. In 2011, outgoing United States Secretary of Defence Robert Gates criticized alliance members for not pulling their weight financially in the organization. He criticized that only four NATO members were spending more than two per cent of their GDP on defence, with Canada being one of the countries that are not making this target.<sup>175</sup> Roland Paris (2014) notes that when NATO's military commander, General Philip Breedlove visited Canada in early 2014, he commended Canada for being one of

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<sup>171</sup> Dave Perry and George Petrolekas "Petrolekas & Perry: The Canadian Forces' Good (and Bad and Ugly) Year Ahead," *National Post*, <http://news.nationalpost.com/full-comment/petrolekas-perry-the-canadian-forces-good-and-bad-and-ugly-year-ahead> (accessed September 28, 2015).

<sup>172</sup> Jack Moore, "Who's Bombing Who in Syria?," *Newsweek*, <http://www.newsweek.com/whos-bombing-who-syria-378445> (accessed September 30, 2015).

<sup>173</sup> Steven Chase, "NATO Secretary General Tells Canada and Allies to Keep Russia in Check," *TheGlobeandMail.com*, <http://www.theglobeandmail.com/news/politics/nato-secretary-general-tells-canada-and-allies-to-keep-russia-in-check/article23589176/> (accessed October 14, 2015).

<sup>174</sup> Sam Hossack, "Canada's Contribution to NATO," *NATO Association of Canada*, <http://natocouncil.ca/canadas-contribution-to-nato/> (accessed October 14, 2015).

<sup>175</sup> Daniel Schwartz, "Analysis: Canada's Future and Canada's Role," *CBCNews.ca*, <http://www.cbc.ca/news/world/nato-s-future-and-canada-s-role-1.977872>

the first NATO countries to provide forces and equipment in Eastern Europe during the Crimean Crisis of 2014. However, when discussing Canada's financial commitments to the alliance, he notes how Canada spends significantly less on defence than other alliance G7 states, which is a concern to NATO and its allies.<sup>176</sup> While Canada's contributions to NATO may not be as significant as the alliance or its members may desire, Canada has consistently been ready and able to assist the institution in missions when asked.

The current procurement model for Canada is assisting the nation in obtaining sovereignty in the Arctic. While the NSPS, the DPS, the F-35 Fighter Replacement Program, and the SKR were not designed to promote Canadian sovereignty in the Arctic, it does allow Canada to have the means to have a military presence in this area. With the melting of the polar icecaps, vast amounts of resources and new shipping channels are emerging in Canada's north. In order to claim territory in this area, Canada needs to prove that they are capable of governing; having a military capable of protecting sovereignty in this region is vital. While there have been many promises and broken promises from the GoC when it comes to Canadian sovereignty in the Arctic, the creation of the NSPS is part of the process that will assist Canada claim sovereignty in this area. With steel finally being cut for the AOPS project and the creation of the Nanisivik Naval Base will allow Canada to have a sustained military presence in the Arctic. The current model of procurement, while it may not be perfect, is a step in the right direction for Canada to have a modern military presence in the Arctic.

### **Lessons Learned**

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<sup>176</sup> Roland Paris, "Is Canada Pulling Its Weight in NATO?," *Centre for International Policy Studies*, <http://cips.uottawa.ca/is-canada-pulling-its-weight-in-nato/> (accessed October 14, 2015).

There are a number of lessons one can draw from the preceding analysis that could indicate directions for future research on Canadian defence procurement. More formal comparative analysis of procurement delays across other states, for example Australia and the United States, could improve the conclusions regarding the distinct nature of the Canadian case. Perhaps the most significant and original contribution of this thesis is that it challenges almost every solution offered by Canadian defence scholars who believe the procurement crisis is resolvable. This thesis pushes back against these suggestions and offers reasons as to why defence procurement is not likely to change for the foreseeable future. Furthermore, this thesis illustrates in great detail the importance of IRBs, KICs, and the DPS. This model of promoting defence procurement at home is too valuable to Canada politically and domestically to abandon with the current strategic imperatives that Canadian defence faces.

Canada will always have critics who question the manner in which defence procurement is conducted. Since the 1960s, defence procurement in Canada has been fraught with delays, cost overtures, promises and broken promises, and a litany of other problems that have questioned the integrity of defence procurement in Canada. While these instances often make headlines in the media, the procurement situation in Canada is not as dire as some believe. Canada will always have a procurement crisis, but this does not necessarily mean that the process of acquiring new military equipment is flawed. IRBs and procuring domestically has created good-paying employment to Canadians. An example of this would be the 1,000 jobs direct and indirect jobs created by the construction of AOPS in Halifax, Nova Scotia. It is estimated that these jobs will be paid \$100 million in wages. In addition, the NSPS has allowed Nova Scotia, an area that has

seen many of its workers leave the province for employment in Alberta to promote the benefits of a good paying job in their home province to these labourers.<sup>177</sup> This last point is an example of how procurement can prop up economically challenged regions of the country with defence contracts. Until there is a tectonic shift in the structure of Canadian politics, the current model of procurement will remain the norm for the foreseeable future.

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<sup>177</sup> Jennifer Henderson, "Irving Shipbuilding Eyes For McMurray in Effort to Recruit Workers," *CBC News*, <http://www.cbc.ca/news/canada/nova-scotia/irving-shipbuilding-eyes-fort-mcmurray-in-effort-to-recruit-workers-1.3101131> (accessed October 14, 2015).

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