Implementing the Defence Procurement Strategy: Is It Working?

by J. Craig Stone
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Introduction

Military procurement has been in and out of the headlines of Canada’s mainstream media for decades, with the most recent headlines in June 2016 dealing with whether or not the Trudeau government will sole-source the F-18 Super Hornet rather than run an open and transparent competition. Aside from the not unexpected criticism from both opposition Members of Parliament (MPs) and other Canadians about not being any different than previous governments if they sole-source the procurement, there is a broader issue at stake.

Two years after the launch of the Defence Procurement Strategy (DPS), the narrative around military procurement appears unchanged. Is that a fair assessment or have improvements been made? This paper will address this issue and examine what has been done since the DPS was announced in February 2014. The paper will address the key objectives of the DPS and provide an assessment of what actions have been taken or not taken, as well as provide an assessment of whether or not the actions are achieving their intended purpose.
THE DPS

The DPS was announced at the Economic Club of Canada on 5 February 2014 by the Ministers of Public Works and Government Services and the Minister of National Defence. The strategy was informed by consultations with industry and a number of substantive reports that were completed for government by outside parties, most commonly referred to as the Jenkins reports and the Emerson reports. Presented as being a “fundamental change in the Government of Canada’s approach to defence procurement” the three key objectives of the strategy are to:

- deliver the right equipment to the Canadian Armed Forces (CAF) and the Canadian Coast Guard in a timely manner;
- leverage our purchases of defence equipment to create jobs and economic growth in Canada; and
- streamline defence procurement processes.

Since the initial announcement of the DPS and a series of subsequent announcements around parts of the strategy, a number of commentaries and studies have been published, some positive, some negative, and some that provide recommendations for improvements. The intention is not to replicate these views but rather to focus on what progress appears to have been made on implementing the DPS.

Deliver the Right Equipment

Delivering the right equipment is first and foremost about ensuring that the Canadian Armed Forces and Coast Guard are equipped with the equipment needed to successfully do what government asks of them. However, not everyone agrees that this is, in fact, the priority of the DPS. An uninformed reader can be forgiven for reading the document and thinking that it is all about creating jobs and promoting the defence industry in Canada at the expense of what the military claims it needs. Initiatives like the Independent Review Panel for Defence Acquisition, the Defence Procurement Secretariat and the Value Proposition all point to a diminishing role for the importance of meeting CAF requirements in the defence procurement narrative. What is the appropriate balance between meeting the requirements of those who are experts and have to use equipment with their lives at risk and meeting the multitude of other government requirements when spending significant sums of public money?

Within the deliver the right equipment objective, the DPS deals with three sub-objectives: early and continuous industry and client engagement; publishing an annual defence acquisition guide that outlines National Defence procurement priorities; and establishing within National Defence an Independent Review Panel for Defence Acquisition. The government can claim that all of this has either been done or is underway.

In June of 2014, just four short months after launching the DPS, the first iteration of the Defence Acquisition Guide (DAG) was issued. The DAG is “designed to provide industry with the information they need to make informed research and development investment decisions based on potential requirements.” More specific to the issue of military requirements, the government’s statement indicated “this document fulfills a key component of the Government of Canada’s Defence Procurement Strategy and will ensure purchases of defence equipment
strengthen Canadian industry while supporting Canadian jobs and meeting the requirements of Canada's men and women in uniform in a timely and responsive way.”

The guide covers requirements over a 5 to 20 year period and edition 2 was released in June of 2015. The validity of the guide to industry remains to be seen. Initial reaction has been positive, but without a more specific indication of funding authorities beyond the cost estimate funding bracket, the guide remains problematic. Although the guide indicates, “The Bracket system is representative of a costing range that will provide Industry an indication of the potential value of an initiative” the brackets are really too large and uncertain for most small and medium enterprises to make investment decisions. Nevertheless, industry can use the guide to make decisions about what not to do, as there is no point for business to invest in a capability that the DAG indicates will not be required for 15 to 20 years. However, the guide lacks the funding and approval information that is required by industry for making decisions in the shorter term. Without an indication of approvals and funding, most of Canada’s small and medium size enterprises do not have the ability to fund “maybe this will come to fruition” projects.

A separate but related issue for the DAG will be how much the content changes year over year. There were a number of subtractions and additions between the first edition and the second edition. Although one should expect some change after the initial release, particularly since it was completed a short time frame, a continuation of a large number of changes year over year will be problematic. Industry is looking for some certainty in order to make investment decisions and this cannot be accomplished if year over year change is the norm. This issue, combined with the lack of an indication of funding approvals, remains an area that needs to be improved.

The next sub-objective that has been implemented is the creation of the independent third party review panel for defence acquisition. The government announced the membership of this panel in June 2015. A key issue from the DPS, the panel is “a new challenge function within National Defence that will support the review of projects and associated resource allocation” and is intended to “result in greater up-front clarity in the procurement process and help validate military requirements, enabling more timely resolution of contract letting.”

The panel is composed of members with knowledge, experience, and expertise who provide independent advice to the MND on the validity of requirements. Designed to get greater clarity on requirements earlier in the process and reduce delays later in the process, the panel will review high-level mandatory requirements for projects with values over $100M beginning at the Defence Capability Board stage of the approval process. It is too early to determine if this additional input to the process will actually reduce the overall procurement timeline. More importantly for those who have concerns about the influence of the CAF in determining what military requirements are needed, how often and by how much the independent review panel forces a reduction (or increase) in what the military identifies as a requirement will need to be assessed over time? This is an additional challenge function on top of an existing challenge function within the CAF and DND. It will add additional time to the process up front and there is no guarantee that this will result in less time later in the process. Companies who lose in the final selection process are still going to cry foul and lobby for the government to change its decision. That is what industry has traditionally done in the past regardless of the level of openness and transparency in the process.
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The third sub-object, early engagement, is more difficult to define. For the government, their view is that “early engagement will be an important element in improving economic outcomes of defence procurement, and in streamlining defence procurement processes.” The government has this belief because engagement with industry is viewed as being one of the reasons why the National Shipbuilding Procurement Strategy was a success. The government argues that “[E]ngagement establishes a two-way conversation between industry and government to better understand needs and available solutions” and “promotes a transparent approach to public procurement.”

Success remains difficult to determine because it is both early in the implementation and there remain many areas where there could be problems. How early is appropriate and what is the correct balance between industry engagement too early and too late? What are the risks around early industry engagement creating a set of circumstances where an individual industry’s own proposal becomes the requirement vice a competitor? How does early industry engagement impact an ability to compete for the actual procurement without being assessed as having an unfair advantage within the agreement on internal trade structure? All of these are valid questions that must be resolved before success can be declared.

Other nations have dealt with this early engagement issue by creating organizations that bring together industry, defence and academia to look at a problem and identify solutions. Both Australia and the United Kingdom have had success with their RAPID and NITEworks projects. Canada trialed a similar structure called Project Accord with a report on the trial submitted to DND on 30 March 2012.

**Leveraging our purchases of defence equipment to create jobs and economic growth in Canada.**

The second broad objective of the DPS is to leverage the purchase of defence equipment to create jobs and economic growth. This should not surprise anyone since all governments use defence procurement to promote their own economies by utilizing some form of offset policy or by national requirement. This is also the area that causes the most friction for governments because no matter how open, transparent, and fair a procurement decision is, those not selected will generally complain. For example, in the week of 5 June, there was media coverage of Lockheed Martin raising the issue of jobs and money as part of its messaging to the government. A CBC news article dealt with the possibility of up to $825M in F-35 contracts going to other members of the consortium if Canada walks away from the F-35. This message was released as a counter to earlier media coverage that indicated the Government had decided to purchase the F-18 Super Hornet from Boeing.

The sub-objectives of leveraging defence procurement include: using a weighted and rated Value Proposition to assess bids for procurement; implementing an export strategy to support international sales opportunities and gain access to global value chains; identifying and applying key industrial capabilities to inform potential economic benefits of individual procurements and establishing an independent, third-party Defence Analytics Institute to provide expert analysis.

The government released its value proposition guide as part of a new Industrial and Technical Benefits Policy in December of 2014. The Industrial and Technical Benefits Policy will apply to projects contracted after the release of the DPS. The Value proposition will apply to “all eligible defence procurements over $100 million and to all eligible Canadian Coast Guard procurements.
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over $100 million and for which the National Security Exception applies”. It is also intended that decisions will be made on a case by case basis for projects valued between $20 – 100 million to ensure that the right balance is maintained between capability for the CAF, cost to the taxpayers and economic benefit to Canada. Past practice around the former Industrial and Regional Benefits Policy leads the author to believe that the value proposition will be applied for the $20 to 100 million more often than not moving forward.

Perhaps more important, though, is that the Value Proposition policy is a much better lever for government to ensure that large defence acquisitions provide economic benefit to Canada. The policy requires companies to indicate where and how they will invest in Canada and that proposal will be scored as part of the assessment along with cost and technical merit. It means that companies will have to consider their proposals differently and the proposals will have to be more than just an agreement to spend the dollar value of the contract in Canada. If implemented and managed with a long-term strategic view, this has the potential to be a very effective lever for the government. However, the assessment must move beyond the individual project by project assessment strategy that is currently used and allow industry to make proposals that connect various projects with a view to the long term.

Identifying and applying key industrial capabilities, one of the sub-objectives listed above, is directly connected to the value proposition policy because key industrial capabilities will be an important aspect of the weighted value proposition. The government’s intention is that proposals that “lead to improved economic outcomes through investments that strengthen Canadian KICs; investments that support enhanced productivity in Canadian firms; and broader industrial and technological high-value activities, such as a ‘technology transfer’” will receive more favourable ratings.

Implementing an export strategy to support international sales opportunities and gain access to global value chains is much like the early engagement with industry sub-objective. It is difficult to measure success but the intention has been articulated. The government has indicated that the export strategy will complement the Global Markets Action plan by “building on Canada’s existing strengths, weaving Canada’s defence-related industrial capabilities into the Government of Canada’s economic diplomacy and trade promotion activities.”

The export strategy will take time both to determine if it is successful and for informed measurement of results to occur. All of the areas identified by the government for improvement are framed as broad goals rather than specific targets. Consequently, the government will be able to claim success for any improvement in the measurements and detractors will argue there is no direct correlation to the export strategy. The export strategy is supposed to help Canadian companies penetrate promising defence markets by:

- strengthening institutional collaboration at the federal level to ensure that government support meets industry expectations for international business development;
- marshalling Canada’s international diplomatic network, including defence attachés, on behalf of Canada’s defence industry;
- improving outreach strategies to small and medium-sized enterprises and leveraging existing relationships in the defence and security sectors;
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- enhancing coordinated support for Canada’s presence at key international events;
- strengthening access to and relationships in markets where Canada already has major trade interests while opening new markets for defence trade with Canada; and
- streamlining the administration of export controls while continuing to fully respect Canada’s established foreign, trade and defence policies.  

All three of these sub-objectives require evidence in order to help government make informed decisions. To deal with this issue the government indicated its intention to establish an independent, third-party Defence Analytics Institute. The need for such an institute is based on a recommendation from the Jenkin’s report on leveraging defence procurement which identified that in the “process to identify KICs, it found neither adequate data nor the analytical base to support a thorough evaluation based upon the foregoing criteria.” The report then recommended that the “government should move immediately to facilitate the establishment, in partnership with industry and academia, of an independent, third-party defence research and analysis capability in Canada.” This recommendation is also consistent with the issues identified in the Project Accord study, which was also focused on helping government make better and more informed decisions.

The government announced the creation of an interim defence analytics institute on 19 February 2014. When Minister Findley announced the creation of the institute she also announced an Interim Board of Directors composed of members from industry and academia. The mandate of the interim institute Board of Directors was to:

> provide expert analysis to help inform various aspects of the defence procurement process to include: the development and sustainment of KICs; research and insight on the Canadian defence industrial base; information on global export market opportunities, including trends and issues related to foreign defence markets; and insights on technological trends in global defence, as well as on Canadian industry’s capacity to develop new technologies in those areas.

The Interim Board provided its recommendation to government in November of 2014 and the February 2015 budget identified funding beginning in fiscal year 2016-17 for the creation of an institute. Since that time, the government has changed and the new government has not indicated its intention with respect to the creation of an institute. However, prior to the fall 2015 election, Industry Canada did send out a request for proposal from industry to provide most of the information identified in the Interim Board of Director’s report. It remains to be seen what the new government will do but the author does not expect anything further in this area. Industry Canada is actually getting most of the information they need from the contract they have let with Avascent Group Ltd so there is no incentive to create a separate organization that might challenge their own findings or preferences.

**Streamlining the Defence Procurement Processes**

The third objective of the DPS is to streamline the procurement process. Like the other objectives there are a number of sub-objectives that have been articulated as goals by the government:
• Adopting a new regime to ensure streamlined and coordinated decision-making for defence and major Canadian Coast Guard procurements;

• Establishing a Defence procurement Secretariat within Public Works and Government Services Canada (PWGSC); and

• Reviewing the current National Defence delegated authority to purchase goods with a view to increasing the level from the current $25,000 to achieve more efficient procurement practices.\(^\text{22}\)

The new regime begins with the establishment of a permanent working group of ministers that is chaired by the Minister of Public Services and Procurement Canada.\(^\text{23}\) Membership includes the key Ministers involved in procurement (Defence, Industry, Trade and Fisheries and Oceans (Coast Guard)) plus any other Ministers that may attend on a case by case basis depending on the issue being discussed. The working group is intended to: ensure shared accountability; enable procurements to proceed faster and more efficiently; ensure coordination and, perhaps more importantly, act as a forum for discussion in order to resolve issues in the implementation of major procurement projects sooner.\(^\text{24}\) Underneath this working group of Ministers will be permanent working groups of Deputy Ministers, Assistant Deputy Ministers, Director Generals and Directors. Although detailed terms of reference and responsibilities for each level of engagement are still being developed and finalized at the time of writing, the DPS indicates that Ministers “will be supported by a permanent Deputy Ministers Governance Committee (DMGC), which is the key decision-making body for the implementation of the Defence Procurement Strategy and chaired by Public Works and Government Services Canada. The DMGC will provide guidance for defence and major Canadian Coast Guard procurements and ensure timely and appropriate decisions among competing objectives associated with particular procurements.”\(^\text{25}\)

Not unexpected for those knowledgeable about the creation of permanent working groups in government, the second sub-objective deals with the creation of a permanent secretariat to manage and support the Minister’s working group and the DMGC. Leveraging lessons from the Government’s approach to the review of the next generation fighter aircraft and the implementation of the National Shipbuilding and Procurement Strategy, the new secretariat has been established as a permanent organization inside Public Services and Procurement Canada. The secretariat will undertake or support the following initiatives:

• Ensuring early engagement in the procurement process;
• Developing and integrating Value Propositions into procurement processes;
• Developing options to support decision-making, based on consideration of trade-offs involving capabilities, as well as cost and benefit to Canada;
• Using independent advice to strengthen the integrity of the procurement process;
• Ensuring a coordinated approach to implementation of the Defence Procurement Strategy across multiple departments, including PWGSC, National Defence, Industry Canada, Foreign Affairs, Trade and Development Canada, and Fisheries and Oceans Canada;
• Using an issue resolution approach to address problems quickly and effectively; and,
• Assessing and evaluating the performance of the Defence Procurement Strategy.\(^\text{26}\)
The final sub-objective in this area is an initiative to increase the current level of National Defence delegated authorities to purchase goods. The intention with this initiative is to achieve more efficient practices inside DND and to reduce the number of actual procurement activities that must go to PSPC.

**IS IT WORKING**

At this point in time, one could argue that the DPS is doing what it was designed to do but it really is too soon to declare success. Although many of the desired objectives have been addressed with initiatives designed to achieve success, those critical of the government’s approach can state the military is still waiting for new equipment. They would argue that despite the fanfare around announcements and stated intentions, no significant decisions have been made yet, so what is the value of the strategy after two years – just more bureaucracy. This would be unfair and does not reflect the reality of how much work has been completed, but in the world of sound bites and media headlines, it is easy to make the narrative.

In addition to the issues identified above with each of the sub-objectives, implementation has been complicated by a long election campaign and then the arrival of a new governing party. In the Canadian context, this has meant no decisions of importance have been made since June of 2015 when the election was called.

More problematic for the military moving forward is the state of the economy and the new Liberal government’s plan for a defence policy review. Both of these issues prevent significant movement on defence issues. The government is planning to run a large deficit in order to fund election promises and that will reduce their ability to fund defence, its largest discretionary spending area. The defence policy review, being conducted without completing a foreign policy or national security review first, can be viewed as an exercise to buy time before having to make the needed tough decisions about military spending. This is not new for Canada. Previous governments have done the same thing and this should be viewed neither negatively nor positively.²⁷ It is what new government’s do in order to give themselves time to get up to speed on important issues, particularly when they find out some of their election platform promises were based on faulty or flawed information.

The difficulty for the military is that all of this delays actual decisions being made on major procurements. Consequently, when the decisions are made the cost will be higher. Without recognition of this by government combined with an agreement to increase funding because they have delayed making a decision, military capability will be reduced. Capability will be reduced by either reducing items inside the statement of requirement or reducing the number of platforms purchased. That is the only way to offset the effects of inflation if the budget does not increase.

Ultimately what this means for the military is that the DPS and all of its stated intentions can be implemented with 100 percent success and it will not matter. Without funding, they will not be able to leverage the improvements from the DPS.
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3 See for example Dave Perry, Putting the ‘Armed’ Back into the Canadian Armed Forces: Improving Defence Procurement in Canada (Ottawa; Conference of Defence Associations Institute, January 2015); Charles Davies, Competition in Defence Procurement: The Popular Choice, But Not Always the Right One (Ottawa; Conference of Defence Associations Institute, December 2015); and Tom Ring, The National Shipbuilding Procurement Strategy: How Did We Get to Where We Are Now? (Calgary: Canadian Global Affairs Institute, March, 2016).


7 For example the cost estimate funding bracket contains ranges like $20 to $49 million or $500 million to $1.5 billion.


9 An exception to this was the National Shipbuilding Procurement Strategy (now just National Shipbuilding Strategy). The process utilized by government allowed each of the major shipyards to see all of the assessments of by third parties on their competitors and prevented Members of parliament and Ministers from being involved in the process. It is unlikely that the government would follow this process for all procurements in the future


11 Ibid.


13 The media has also reported that the government has indicated no decision has been made.


According to GAC, the Global Market Action Plan is designed to “ensure that all the diplomatic assets of the Government of Canada are harnessed to support the pursuit of commercial success by Canadian companies and investors in key foreign markets, to generate new jobs and new opportunities for workers and families here at home.” The plan was released by the previous Conservative government on 27 November 2013.

18 Ibid.
20 Ibid.
23 Note that this is the new name for what used to be Public Works and Government Services Canada. The new Liberal Government changed the name to Public Services and Procurement Canada. They also changed the name of Industry Canada to Industry, Science and Economic Development.
27 Although one could make a strong argument about the need to conduct defence policy reviews based on an articulated national security strategy and a foreign policy, the government has chosen not to do so. This is unfortunate because as a new government from a different party they actually have the flexibility to conduct a broad based review before making any significant decisions.
About the Author

Dr Craig Stone holds a BA in Economics from the University of Manitoba and an MA and PhD in War Studies from the Royal Military College of Canada. Dr Stone joined the academic staff at Canadian Forces College (CFC) as an Assistant Professor in the summer of 2005 after 29 years in the Canadian Forces, the last five at CFC in the Strategic Studies Directorate. He served as the Deputy Director of Academics from 2005 until 2008 and as the Director of Academics from December 2008 until June 2015. He teaches Strategic Resource Management and Formulating National Security Strategy on the National Security Programme and a variety of management related activities on the Joint Command and Staff Programme. Dr Stone was a member Interim Board of Directors for the new Defence Analysis Institute in 2014.

Current Research and Projects
Dr Stone’s current research interests concern the economic impact of Defence expenditures, procurement and the Defence industrial base, Defence budgeting and the evolution of senior officer Professional Military Education within the Canadian Forces.
The Canadian Global Affairs Institute focuses on the entire range of Canada’s international relations in all its forms including (in partnership with the University of Calgary’s School of Public Policy), trade investment and international capacity building. Successor to the Canadian Defence and Foreign Affairs Institute (CDFAI, which was established in 2001), the Institute works to inform Canadians about the importance of having a respected and influential voice in those parts of the globe where Canada has significant interests due to trade and investment, origins of Canada’s population, geographic security (and especially security of North America in conjunction with the United States) or the peace and freedom of allied nations. The Institute aims to demonstrate to Canadians the importance of comprehensive foreign, defence and trade policies which both express our values and represent our interests.

The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the International Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada’s contribution to a globalized world and aims to inform Canadians about Canada’s role in that process and the connection between globalization and security.

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