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# The Canada First Defence Strategy – One Year Later

Ву

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#### **EXECUTIVE SUMMARY**

While the Canada First Defence Strategy, formally issued in June 2008, is a welcome encapsulation of the Government's perspective and plans for Defence, it is very general in its strategic framework and fails to prioritize any of the initiatives described. The existence of a small but steady increase in defence funding over the longer term is very positive for planning purposes, but the ability to meet the demand for capability with the supply of resources will remain a major challenge. Adjustments to the Strategy will certainly be required as circumstances and priorities evolve, suggesting the need for a mechanism to make modifications from time to time.

Some progress has been made in implementing the policy and the specific investments identified, notwithstanding the difficulty in quantifying relevant performance measures. Announcements related to large capital purchases, often considered the bellwether in assessing the development and sustainment of military capability, have been few and far between, although some recent activity is encouraging. Moreover, some projects have suffered setbacks or have stalled.

Having said this, the acquisition of equipment is only one part of the Government's overall defence strategy. An objective examination of progress in the other three pillars of the CFDS – personnel, readiness and infrastructure – indicates some movement towards achieving a balanced military capability, even though the actual measurement of success is challenging.

#### SOMMAIRE

Si la Stratégie de défense le Canada d'abord, officiellement publiée en juin 2008, est une encapsulation bienvenue de la perspective et des plans de défense du gouvernement, elle est très générale dans son cadre stratégique et ne réussit pas à prioriser les initiatives décrites. L'existence d'une augmentation, légère mais constante, dans les fonds consacrés à la défense à long terme est très positive pour des fins de planification, mais la capacité de répondre à la demande de capacité en y mettant les ressources nécessaires va demeurer un défi majeur. Il faudra certainement apporter des ajustements à la Stratégie à mesure qu'évoluent les circonstances et les priorités, ce qui suggère le besoin d'un mécanisme permettant d'y faire des modifications de temps à autre.

Un certain progrès a été réalisé dans la mise en application de la politique et des investissements particuliers identifiés, malgré la difficulté qu'on peut avoir à quantifier les mesures de rendement pertinentes. Les annonces reliées aux grands achats d'immobilisations, souvent considérés comme précurseurs dans l'évaluation du développement et du maintien en puissance de la capacité militaire, ont été rarissimes, bien qu'un peu d'activité récente soit encourageante. De plus, certains projets ont souffert des reculs ou ont tourné court.

Ceci étant dit, l'acquisition d'équipement n'est qu'une partie de la stratégie de défense du gouvernement dans son ensemble. Un examen objectif des progrès réalisés dans les trois autres piliers de la Stratégie – le personnel, l'état de préparation et l'infrastructure – indique qu'un certain mouvement a été enregistrée dans le sens de l'atteinte d'une capacité militaire équilibrée, même si la véritable mesure de succès soit chose difficile.

#### **CFDS BY THE NUMBERS**

A little more than two years after assuming power, Prime Minister Harper announced the long-awaited Canada First Defence Strategy (CFDS) on 12 May 2008. The announcement appeared to go well until it was realized that there was no written document – no actual policy paper – to be released. This caused some initial embarrassment but the Government accepted that a 'deliverable' was necessary and produced the written version of the CFDS on 19 June 2008.

As the current defence policy, the CFDS identifies, not surprisingly, three main Government priorities for Defence:

- to strengthen our ability to defend Canada and protect its citizens;
- to meet Canada's commitments for continental security; and
- to make a contribution to global security.

It then goes on to state that military capabilities are based on four pillars – personnel, equipment, infrastructure and readiness – all of which must be properly funded. During the announcement, Mr. Harper emphasized the need for adequate resourcing with a reference to the 2% inflation protection provided for Defence in the earlier 2008 Budget and the promise of new jobs and a long-term defence procurement strategy:

This unprecedented commitment of stable, long-term funding will provide good jobs and new opportunities for thousands, for tens of thousands of Canadians who work in defence industries and communities with military bases. We intend to implement the defence strategy in tandem with a revised long-term procurement strategy designed to not just benefit but to build commercial capacity in the relevant knowledge and technology industries.<sup>1</sup>

Media coverage of the release of the policy was extensive, and included criticism regarding the general or vague nature of the Strategy. As David Bercuson reported, "anyone with a passion for clarity and transparency in Canadian defence policy will wonder about the paucity of information the policy paper contains." Opposition politicians were predictably critical of the CFDS, claiming that it was nothing more than a regurgitation of previous announcements by the Government. While some 'packaging' was added to identify the strategic defence priorities and the approach that the Government intended to take, the main elements which they specifically addressed were largely those spending initiatives previously announced. The personnel targets of 70,000 Regular Force (from the 2007-08 strength of about 64,800) and 30,000 Reservists (from a previous ceiling of 26,000) were, in fact, a reduction from the previous targets but not surprising, given the cost and time it will take to effectively increase the size of the Canadian Forces. As one writer concluded, "Perhaps the biggest change is in the context. Canada's military forces have not seen such a level of public support in decades...Today Canadians recognize the good work of the CF and see defence as a necessary expenditure."

<sup>&</sup>lt;sup>1</sup> Prime Minister Stephen Harper during a speech announcing the CFDS in Halifax, 12 May 2008, at <a href="http://www.pm.gc.ca/eng/media.asp?category=1&id=2095">http://www.pm.gc.ca/eng/media.asp?category=1&id=2095</a>. The 2008 budget increases the inflation factor for the Defence budget from 1.5% to 2% effective for the 2011-12 fiscal year (document at <a href="http://www.budget.gc.ca/2008/plan/chap4b-eng.asp">http://www.budget.gc.ca/2008/plan/chap4b-eng.asp</a>). This will result in the current budget of approximately \$18B rising to about \$30B in 20 years, according to DND sources.

<sup>&</sup>lt;sup>2</sup> David Bercuson, "Defence Strategy Remains Unclear," *Legion Magazine*, September/October 2008, p. 13.

<sup>&</sup>lt;sup>13</sup> Elinor Sloan, "Canada First Defence Strategy," Canadian Defence & Foreign Affairs Institute Issue Response Paper, 2008, p. 3 at http://www.cdfai.org/PDF/Canada First Defence Strategy.pdf.

While the CFDS may fall short on some expected details, it does provide a foundation upon which to evolve the process for capability development. Additionally, even thought not publicly released, specific information was purportedly contained in the CFDS approval documentation submitted to Cabinet. This included the refinement of scenarios for military operations, identification of the capabilities needed, synchronization of the major demands within a projected budget, and the incorporation of 'enabling projects'. These 'specifics' are important for they are the genesis of the Investment Plan which must be based on the CFDS. The Investment Plan identifies the scope and timing of investments under each of the four pillars and should provide the prioritization necessary to actually commit resources While the CFDS is important from a policy perspective, the for future capabilities. Investment Plan provides the guidance to military and civilian staffs in acquiring the necessary elements to deliver the capabilities needed. If resources are not programmed to purchase a piece of equipment, provide the necessary infrastructure, recruit and train the personnel and enable military readiness through operational employment, there will be chronic gaps in the ability of the CF to deliver on government-mandated missions. The Investment Plan, therefore, provides the resource 'structure' necessary to ensure that the funding is available and work is prioritized appropriately. It can help the staff to focus on the affordable and most important capability needs and, conversely, directs them away from initiatives which are not included in the Plan.

In assessing the progress on the CFDS one must be aware of the significant effort that continues to be needed to support the NATO mission in Afghanistan. Hundreds of millions of dollars of equipment has been purchased over the years to provide the capabilities needed, not only in theatre but also to provide pre-deployment training, and this will likely continue for as long as Canada remains involved. While the mission remains an important priority, the short-fused expenditures related to it are somewhat anomalous to the pursuit of a longer-term strategy, even if they contribute to an identified CFDS capability.

# THE CURRENT CFDS SITUATION

What progress has been made on implementing the CFDS over the past year or so? The casual observer may find cause to be critical of the apparent lack of advancement, given the fact that there have been few major announcements on capital equipment purchases in the year since the CFDS was issued, and two only recently.<sup>5</sup> These large purchases draw the most attention and have become the bellwether of progress for DND but they are, as identified in the CFDS itself, only a part of the overall picture. To enable an objective assessment of actual progress, it is useful to examine efforts in each of the four 'pillar' areas.

# Personnel

The personnel levels of 70,000 Regular Force and 30,000 Reservists are considered essential to support future CF missions. Total spending on personnel accounts for about

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<sup>&</sup>lt;sup>4</sup> From an answer given by LGen Walt Natynczyk, then Vice-Chief of the Defence Staff in the Technical Briefing on the CFDS held at 1100 on 14 May 2008.

<sup>&</sup>lt;sup>5</sup> An announcement to proceed with the purchase of 1300 new medium-sized logistic trucks for the army was made 9 Jan 2009, following an initial indication in June 2006 to proceed with this project. (Department of National Defence, "Government of Canada Provides Forces with Modern Trucks while Benefitting Economy," News Release 09.001, 9 January 2009, at <a href="http://www.forces.gc.ca/site/news-nouvelles/view-news-afficher-nouvelles-eng.asp?id=2847">http://www.forces.gc.ca/site/news-nouvelles/view-news-afficher-nouvelles-eng.asp?id=2847</a>). Another of these 2006 projects was the Chinook helicopter that was only recently made public (see Government of Canada Buys Chinook Helicopters for The Canadian Forces, NR – 09.070, August 10, 2009, at <a href="http://www.forces.gc.ca/site/news-nouvelles/view-news-afficher-nouvelles-eng.asp?id=3085">http://www.forces.gc.ca/site/news-nouvelles/view-news-afficher-nouvelles-eng.asp?id=3085</a>). Also, an announcement on land combat vehicles, the first of the 'new' projects, was made 8 July 09.

half of the defence budget.<sup>6</sup> Personnel growth targets were initially set at 1000 Regular and 750 Reserve Force annually, net of attrition, to achieve the 70/30,000 objective (in addition to 25,000 civilians) included in the Strategy. While this may seem to be only very modest growth, it has continued to place high demands on the recruiting, training, and re-training capabilities of the CF, which remain under pressure given the intensity of several years of operational activity and the relatively high rate of attrition. In 2007-08 overall attrition was 7.9% versus the historical rate, which has hovered around 6.2 to 6.4%.<sup>7</sup> In 2008-09 attrition rose to over 9% and is expected to remain at that level for several years.<sup>8</sup> Reasons for this vary – demographic distribution, time away from home even after returning from deployment abroad, the attractiveness of military personnel for civilian jobs, etc.

Having said this, the CFDS does not stipulate ambitious milestones for growth, showing that the 100,000 overall will only be achieved in 20 years. One could say, in fact, that military personnel strength remains relatively healthy by this simple quantitative measure. For the current fiscal year 2009-10, the Regular Force strength is projected to be almost 67,000 and the paid Primary Reserve Strength at about 26,000 for a total of 93,000. Projections show an increase of about 1000 each by 2011-12 for a total of 95,000. But these figures do not address the qualitative aspects of personnel growth: the proportion of people undergoing training and the loss of experience of those leaving the military. All three environmental chiefs of staff have indicated continuing pressure to fill some military occupations with qualified individuals. As a result, the overall experience level in many areas is low. LGen Angus Watt, Chief of the Air Staff, for example, has referred to the 'pipeline air force' that will persist over the next five years or so due to the general inexperience of pilots. As of 2008 the preferred manning level, or desired number, for pilots stood at 1,600 while the number trained and available for operations, was only 1,350. The Air Force is working to close this gap.<sup>10</sup>

Therefore, even though the rates of growth are being achieved, a simple numerical depiction of CF strength, as treated in the CFDS, is misleading. A complete appreciation is only possible through a more measured study of the areas in which experience is lacking and consideration of the year-over-year increase to the 'trained effective strength', that is, the cadre of personnel available to fulfil an operational role. Growing this cadre presents a major challenge to operational readiness for the army, navy and air force. They must continue to sustain the resources needed for 'force generation' in order to meet operational demands, often with a higher-than-desired tempo for key personnel. While the missions will be performed, the depth of the 'readiness reserve' will remain shallow for some years to come.<sup>11</sup>

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<sup>&</sup>lt;sup>6</sup> In the most recent report it is stated that "The total personnel related costs are approximately \$8.8B or 52% of net National Defence expenditures." In *Making Sense Out of Dollars 2007-*2008, at http://www.admfincs.forces.gc.ca/fp-pf/msd-add/2007-2008/nde-dmdn-eng.asp - nde-dmdn-07.

<sup>&</sup>lt;sup>7</sup> Department of National Defence, 2008-09 Report on Plans and Priorities, "Section II: Analysis of Program Activities by Strategic Outcome, Military Personnel Management," at <a href="http://www.tbs-sct.gc.ca/rpp/2008-2009/inst/dnd/dnd02-eng.asp-sec2a">http://www.tbs-sct.gc.ca/rpp/2008-2009/inst/dnd/dnd02-eng.asp-sec2a</a> e.

<sup>8</sup> Ibid. "Military Detection in the formula of the program of th

<sup>&</sup>lt;sup>8</sup> Ibid., "Military Retention initiatives and strategy," at <a href="http://www.tbs-sct.gc.ca/rpp/2009-2010/inst/dnd/dnd01-eng.asp">http://www.tbs-sct.gc.ca/rpp/2009-2010/inst/dnd/dnd01-eng.asp</a>.

<sup>&</sup>lt;sup>9</sup> Ibid., "Section II: Analysis of Program Activities by Strategic Outcome, Growth and Renewal." This does not include some categories of personnel currently providing valuable augmentation to staff and operational activities, such at those former Regular Force members hired as Class C Reservists for specific functions.

<sup>&</sup>lt;sup>10</sup> BGen Terry Leversedge, Director General Air Force Personnel, *Air Force Crewbrief*, Summer/Fall 2008, Vol. 6, No. 3, at <a href="http://www.airforce.forces.gc.ca/site/newsroom/crew/index\_e.asp?id=7173">http://www.airforce.forces.gc.ca/site/newsroom/crew/index\_e.asp?id=7173</a>.

For an additional perspective on this and other resource pressures on the three environments, see George Macdonald, "Resource Challenges of the Army, Navy, and Air Force," *On Track,* Volume 13, Number 3, Autumn 2008, pp 16-19.

What is also not addressed is any linkage between the number of personnel and the mandated capabilities of the CF. A general impression has been created in which it is assumed that a larger CF will be naturally a more capable CF. While this is not unreasonable, there is a need to achieve and maintain some balance in capabilities. There is little advantage to increasing the size of the CF if there are insufficient resources to provide for the other elements needed for a functioning military capability: equipment, maintenance and spares, individual and collective training, doctrine, infrastructure and information technology support. Throughout, the CFDS does not appear to be the result of a balanced approach to capability development when it comes to personnel. Rather, the personnel goals reflect a desire to see some growth, but also to constrain this expensive and long-lasting component of defence capability to a manageable number.

Overall the CFDS provides little substance on the requirement for the personnel objectives and has established only a simplistic objective of modest growth over the longer term. While growth is positive and is being achieved, the rationale for additional personnel and the capability enhancements for which they are intended is missing.

# Equipment

Equipment acquisition is by far the most visible aspect of defence spending, given the high commitment of taxpayer dollars and the expectations of Canadian industry for work and opportunities related to the expenditures being made. The CFDS focuses on a twenty-year plan of capital expenditure and specifically mentions the acquisition of 17 Fixed-Wing Search and Rescue aircraft, 15 destroyers/frigates, 10-12 maritime patrol aircraft, 65 fighter aircraft, and various land force combat vehicles and systems. These 'big ticket' items are in addition to the ongoing projects such as the C17 and C130J airlift procurements, Chinook helicopters, the Joint Support Ship, army trucks, and the Maritime Helicopter Project. Overall these new capital investments total \$45-50B, 13 not all of which are contained in the 20-year period due to accrual budgeting. While the natural tendency is to gravitate to these high-profile items, there are a myriad of other supporting or enabling projects, some of which are quite large themselves, and which must also be implemented if complete capabilities are to be achieved.

So what progress is being made in advancing these procurements? To be fair, it would be unrealistic to expect delivery of any of these larger capabilities in the year since the CFDS identified them as priorities. Lead times can easily range to five years to achieve an initial operating capability. New ships are not expected before 2015, new fighters by 2017, and maritime patrol aircraft by 2020. The C130J tactical transport aircraft, for which the acquisition contract was formally signed in January 2008, will see its first deliveries in mid-2010. The contract for fifteen Chinook helicopters was announced in August 2009 with first delivery in four years. Nevertheless, milestone decisions on major projects must be made if they are to advance and it should be possible to identify some progress since the CFDS was issued. Selected projects listed in the document are discussed below.

The Fixed-Wing Search and Rescue aircraft project has endured procrastination by the Liberal and now Conservative government for over five years. Initially identified as a "major

<sup>&</sup>lt;sup>12</sup> For a more detailed description of this, see George Macdonald, "Developing Capabilities for the Canadian Forces," *The Dispatch,* Fall 2006, Volume IV, Issue III, at

http://www.cdfai.org/newsletters/newsletterfall2006.htm - Article:%20Developing%20Capabilities%20f.

Although the dollar amounts are impressive, the amount that will be committed to capital equipment over the 20-year period will only be about 12% of the defence budget. While it is difficult to identify a specific proportion of the budget that should be dedicated to capital due to difficulties with objective measurement, a proportion this low is generally considered to be insufficient to renew the plethora of military capabilities which need to be addressed.

priority" and incrementally funded in the Budget of February 2004, 14 it has yet to be formally launched. No project documentation has been released to solicit bids for a new fleet, or to even gauge the interest of potential suppliers and qualify them as such. There is a perception that the requirement is prejudiced to one aircraft. Still, many believe that there must be a competition to reach a cost effective solution. Also, there is an ongoing concern that Canadian companies may not have access to important job opportunities. Whatever the concerns, the government has failed as yet to move a relatively straightforward procurement towards any resolution whatsoever.

Other new specifically-identified aircraft projects in the CFDS were the maritime patrol aircraft to replace the Aurora fleet and the next-generation fighter to replace CF-18s. Procurement of a Canadian multi-mission aircraft for maritime patrol is still some time off, but it is not too soon to begin work on the concept of operations, given the clearly stated linkage with unmanned aerial vehicle and satellite surveillance capabilities, along with other sensors which may be employed for monitoring maritime approaches and the Arctic. Meanwhile, the continuation of the Aurora Incremental Modernization Program and the concomitant structural upgrades needed to extend the aircraft life will ensure that 10 Auroras will be available circa 2020. Unfortunately, milestones can slip and funding can be reprioritized. For a project as complex as this one, the Government could mitigate the risk by extending the systems and structure improvements to the entire Aurora fleet of 16 aircraft.

The replacement of a fighter is clear cut. The CF-18 fleet will reach the end of its life in the 2017-2020 timeframe and the CFDS confirms the continuation of this capability. While a contract award could be delayed to about 2012/13, Canada's participation in the US Joint Strike Fighter project offers considerable opportunities for Canadian industry now. Canada has invested and committed over \$US500 million to the JSF program<sup>15</sup> to the significant benefit of Canadian companies who have won contracts for JSF-related work. Consideration should be given to an early decision on the choice of replacement aircraft (if not a definite contractual commitment) for the benefit of domestic industry. If the JSF is chosen, high-technology opportunities could be continued into the longer term, currently estimated to be four decades. 16

Progress on the replacement of destroyers and frigates has taken a back seat to the attention accorded the Joint Support Ship project. This high priority project has been in existence, in one form or another, for several years but came to a sudden halt during the summer of 2008 when it was terminated due to non-compliancy of the proposals submitted by the two consortia engaged to develop a solution to the navy's requirement. Depending on one's perspective, the available funding was inadequate to build ships to meet the requirement or the requirements were too extensive to be accommodated in the identified

<sup>&</sup>lt;sup>14</sup> Government of Canada, Federal Budget February 2004, Chapter 4 - Moving Forward On The Priorities of Canadians - The Importance Of Canada's Relationship To The World, Planned Capital Spending, at http://www.fin.gc.ca/budget04/bp/bpc4e-eng.asp: "Another major priority for Canada's military is the purchase of modern Fixed Wing Search and Rescue aircraft (SAR) to replace older Hercules aircraft and Canada's fleet of Buffalo aircraft. Under Defence's current plan, deliveries of the new aircraft will begin much later in the decade. This budget sets aside non-budgetary resources to allow the Department of National Defence to move this acquisition forward in time without displacing other planned capital investments. By doing so, the Government will accelerate the process so that deliveries of the replacement SAR planes to Canada's military can begin within 12 to 18 months. This measure will allow Defence to spend an additional \$300 million on capital in 2005-06 and similar amounts in subsequent years until this procurement is completed."

<sup>&</sup>lt;sup>15</sup> Department of National Defence, "Canadian Participation in the Joint Strike Fighter Program," News Backgrounder BG-06.038, December 11, 2006 at http://www.forces.gc.ca/site/news-nouvelles/viewnews-afficher-nouvelles-eng.asp?id=2164.

16 "The F-35 project is the biggest acquisition programme in Pentagon history...," Janes Defence

Weekly, Volume 46, Issue 23, 10 June 2009, p. 58.

funding. Rather than choosing to modify the requirement or increase the funding available, the project was terminated. Options have been under review ever since to determine the way ahead. Consultations with allies to determine how they have addressed this issue have been conducted to broaden the thinking on how to proceed. Meanwhile, the availability of the two remaining supply ships still in service presents an increasing challenge due to the age of their structures and systems.

A similar problem appears to be occurring with the Government's previously-announced Arctic/Offshore Patrol Ship project. Requirements have been pared in the name of affordability to the point where some are questioning its utility: "The navy now envisions purchasing just six Class 5 ice-cutting ships and arming with 25-mm cannons...as opposed to larger 40-mm weapons." Other compromises are being considered which may reduce the initially intended size, speed and capability of on-board systems. This project is also being challenged from a policy perspective. The chairmen of the Senate Committees on National Security and Defence and Fisheries and Oceans maintain that the Coast Guard is more appropriate for Northern patrol duties. It has far more experience and competence in this region. Moreover, "moving the navy into the Arctic will drain its effectiveness elsewhere." There is also evidence that this is a concern of the navy, where investment in an Arctic capability may compromise its chances to "get the full capability replacement that they need for their blue-water activities."

Ultimate replacement of the current surface combatants is the fundamental element of the navy's longer-term plan. For the time being, life extension contracts for the frigate fleet, both for the basic structure and for the combat systems, are underway for completion over the next few years. This will ensure the medium-term capability of these ships, although the continued operation of the destroyer fleet remains a challenge until replacements are available. As the recently-retired Chief of the Maritime Staff, VAdm Drew Robertson, reported "...we are standing on the threshold of an intensive fleet modernization and replacement program, perhaps the most intensive one we have undertaken in our history — the program to deliver the fleet that Canada will be operating for the next half century."<sup>20</sup> Unfortunately, the trend has been for slippages of these projects due to other priorities, lack of funding, or technical and 'process difficulties'. It is simply too early to determine whether the longer-term capabilities of the navy are in jeopardy. What is a reality now is the need to resolve the Joint Support Ship issue and sustain the destroyers until they can be replaced.<sup>21</sup>

One bright spot on the maritime horizon is the recent attention being given to shipbuilding issues in Canada. A two-day industry consultation event held in Gatineau on July 27-28, 2009, with the key federal cabinet ministers attending the initial session, offers some hope that the long list of future requirements will provide work for all major Canadian shipbuilders for many years to come. In Minister MacKay's words, "By having this kind of open, transparent forum we're saying there's enough work for everybody."<sup>22</sup>

e.htm?Language=E&Parl=40&Ses=2&comm\_id=76.

<sup>22</sup> Peter MacKay, as reported by Murray Brewster, "Tories pitch co-operation on shipbuilding projects," *The Chronicle Herald.ca*, July 28, 2009.

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<sup>&</sup>lt;sup>17</sup> "Navy waters down plans for Arctic patrol ships," June 16, 2009 at <a href="http://www.ctv.ca/news">http://www.ctv.ca/news</a>.

<sup>&</sup>lt;sup>18</sup> Colin Kenny and Bill Rompkey, "Wrong decision on ships could sink navy," *Times Colonist*, July 16, 2009.

<sup>2009. &</sup>lt;sup>19</sup> Rob Hubert in Sharon Hobson, "Plain Talk: Off Course and Rudderless?", *Canadian Naval Review*, Volume 5, Number 1 (Spring 2009), p. 37.

<sup>&</sup>lt;sup>20</sup> Vice-Admiral Drew Robertson, Chief of the Maritime Staff, in testimony to the Senate Committee on National Security and Defence, March 29, 2009 at <a href="http://www.parl.gc.ca/40/2/parlbus/commbus/senate/Com-e/defe-e/02ev-">http://www.parl.gc.ca/40/2/parlbus/commbus/senate/Com-e/defe-e/02ev-</a>

<sup>&</sup>lt;sup>21</sup> The entire issue is further complicated by a lack of resolution of the future of Canada's broader shipbuilding needs. The strategic requirements need to be matched to Canada's industrial capabilities for long-term planning and sustainment of this sector of the defence industrial base.

Land force combat vehicles and systems were also singled out in the CFDS for 'progressive acquisition'. In response to this, an omnibus project was created to address the main requirements. The components of this project are the Light Armoured Vehicle Upgrade, the Tactical Armoured Patrol Vehicle, the Close Combat Vehicle, and the Force Mobility Enhancement initiative. These were approved in principle by Government and were the subject of a major announcement on July 8, 2009 to proceed.<sup>23</sup> Although they are not projected to be under contract until 2011, progress is being made to address this shortfall and the resultant CFDS commitment. The commander of the army, LGen Andrew Leslie, enthusiastically supported the announcement as a huge investment in the army of the future.<sup>24</sup>

# Readiness

Readiness generally relates to the intensity and quality of operational preparedness. This section in the CFDS endorses the need to ensure that readiness is enhanced in the future: "Readiness refers to the Canadian Forces' flexibility and preparedness to deploy in response to Government direction. It encompasses the resources needed to maintain equipment, conduct training and prepare units for operations."25 An additional \$140M per year is included in the overall budget.

Past pressures to reduce sea days, vehicle kilometres and flying hours due to limited operational budgets have compromised some of this training, resulting in reduced agility and responsiveness. The CFDS identifies the need to commit more resources to training, which includes the related consumable items and support activities, in order to increase readiness levels. Much of the resource demand falls to repair and maintenance, for which spare parts are needed, and shortages in this area have been chronic. When resources are limited, operational activities (and along with them readiness) are usually the first to be reduced because they can produce immediate, although limited, savings when necessary. The CFDS strives to correct this tendency by assuring that a sufficient portion of the Defence budget is dedicated to readiness over the longer term. Whether this is ultimately successful remains to be seen. In the end, when there is a need to limit funding to reallocate it to a higher priority, a reduction in day-to-day operations and training often presents the only solution. If allowed to persist, this can compromise the 'force generation' of people and capabilities needed for deployed operations with dire consequences. And, of course, the lead time for many spares and the need to contract for out-sourced maintenance does not permit many, if any, short-term savings in these areas of readiness, resulting in an inefficient imbalance in this pillar of the defence budget. A current example of the acute need to maintain readiness is reflected in the condition of vehicles which are being 'consumed' in Afghanistan at a rate several times greater than during normal operations. Unserviceability rates, not just for operations in Afghanistan, but for training in Canada, are acute.<sup>26</sup> An assured supply of spares and maintenance support is essential.

<sup>&</sup>lt;sup>23</sup> Department of National Defence, news release on the Light Armoured Vehicle (LAV) III Upgrade Project, July 8, 2009 at http://www.forces.gc.ca/site/news-nouvelles/view-news-afficher-nouvelleseng.asp?id=3037.

24 As reported by Jeff Davis, "With \$5.2 Billion in New Funding Army Will No Longer Need A Break",

Embassy Magazine, July 22, 2009: "Lt.-Gen. Leslie said this funding announcement is one of the largest in the history of the Canadian Army, and he expressed some surprise that the media seemed not to understand the significance of the planned expansion of the army. This announcement is huge for us,' he said, slapping a hand on his desk in a moment of unbridled enthusiasm. 'These things will be, for all intents and purposes, brand new."

<sup>25</sup> Government of Canada, *Canada First Defence Strategy*, June 2008, p. 18.

<sup>&</sup>lt;sup>26</sup> LGen Andrew Leslie, in testimony to the Senate Committee on National Defence and Defence, March 9, 2009 at http://www.parl.gc.ca/40/2/parlbus/commbus/senate/Com-e/defe-e/02eve.htm?Language=E&Parl=40&Ses=2&comm\_id=76: "This rate is 33 per cent for light armoured vehicles; it is 76 per cent for the Coyote-type reconnaissance vehicles; and for other light armoured vehicles the rate is 100 per cent. These figures are from February 2009. As for the Bison-type

#### Infrastructure

A renewed commitment to provide sufficient funding for physical infrastructure is provided in the CFDS, with a relatively large portion, 8%, of the overall budget dedicated to this. Defence infrastructure generally has suffered from the lack of proper maintenance and recapitalization funding in deference to higher requirements in tight fiscal circumstances. During times of resource challenge, infrastructure projects often present the most easily As long as safety issues are properly addressed, the deferral of infrastructure maintenance or replacement can almost always be managed. The CFDS purports to change this trend and identifies a priority to replace 25% of the Defence infrastructure in the next 10 years and 50% in the next 20 years.<sup>27</sup> With new infrastructure related to capital equipment projects, this will result in a significant improvement overall if fully implemented.

Progress on this is difficult to measure in that it has been somewhat overtaken by the events of the global recession and the resultant stimulus plan announced by the Federal Government. 'Shovel ready' projects have received much of the Government's attention with a view to achieving near term stimulus to the economy through infrastructure spending. Minister of National Defence Peter MacKay began travelling across Canada in mid-March 2009 to announce a number of projects, giving speeches at several locations describing the benefits of the projects for the economy and for the CF, all the while making appropriate linkages to the CFDS.<sup>28</sup> Given the rather cumbersome process that is prescribed for DND projects, those related to infrastructure included, it is unlikely that any number of newlycreated initiatives were in the stimulus package. In fact, DND would have had a detailed infrastructure plan with a backlog of prioritized projects, large and small, for every location where there is a military presence. When integrated, these plans would provide a very desirable menu of projects from which to choose. Accelerated funding of these projects will benefit the military and contribute to the fulfillment of the CFDS commitment to improve defence infrastructure overall.

Success is typically measured in this area by calculating the proportion of the realty replacement cost spent on infrastructure each year. From an average of 2.5% during the first half of the decade, the Government aims to increase to almost 4% over the next 20 years.<sup>29</sup> In other words, the equivalent of 4% of the replacement value of all infrastructure will eventually be spent annually on maintenance, renovation and replacement of DND facilities. The extent to which the gradual increase in this annual commitment identified in the CFDS may be accelerated by economic stimulus package spending will be of interest when the figures are compiled for FY 2009-10 in a year or so.

# **OTHER CFDS ISSUES**

In the document, considerable emphasis is given to the partnership between the military and Canadian industry:

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armoured vehicles, the out-of-service rate is 73 per cent, and the rate for tanks remaining in Canada is 71 per cent. So those are the various percentages of vehicles that are out of service. Because of a lack of mechanics and technicians, we are unable to repair these vehicles."

<sup>&</sup>lt;sup>27</sup> Government of Canada, Canada First Defence Strategy, June 2008, p. 19.

<sup>&</sup>lt;sup>28</sup> One example is a speech Mr. MacKay gave in Edmonton on 15 March 2009 in which he announced projects for Edmonton, Wainwright and Cold Lake, concluding with statements which included "today's announcements regarding important infrastructure projects are a vital element of our government's Canada First Defence Strategy." MND Speeches, Edmonton Infrastructure Announcement, March 15, 2009, at http://www.forces.gc.ca/site/news-nouvelles/view-news-affichernouvelles-eng.asp?id=2938.

<sup>29</sup> Government of Canada, *Canada First Defence Strategy*, June 2008, p. 19.

The Canada First Defence Strategy will also have significant benefits for Canadian industry. The infusion of long-term stable funding it provides will enable industry to reach for global excellence and to be better positioned to compete for defence contracts at home and abroad, thus enabling a proactive investment in research and development and opportunities for domestic and international spin-offs as well as potential commercial applications.30

Specific references are made to positioning Canadian companies for global excellence and to assist in leveraging Canada's competitive advantage. The benefits of effective investment in new technologies, in cooperation with Defence Research and Development Canada, are identified:

Indeed, the Canada First Defence Strategy represents a significant investment in the country's industry, knowledge and technology sectors that will yield sizeable dividends for every region of the country. This clear, longterm plan will give these sectors the opportunity to better position themselves to compete for defence contracts in Canada and in the global marketplace.<sup>31</sup>

Overall, the CFDS is seen to set the stage for a renewed relationship with defence industries and R&D organizations across the country, from major players to small and medium businesses. While this is a positive outlook, widespread inclusion can be a recipe for delay and procrastination. For any particular project or procurement issue, there are almost always winners and losers. Necessary government decisions will be praised by some and panned by others, reducing the political benefits of making a decision to proceed.

Procurement improvement and reform is intended to be a key element of this new relationship, with stated intentions of fostering greater transparency and engaging industry earlier in the process.<sup>32</sup> While this is an important commitment for the Government to make, the reality is that procurement reform has been a priority for some time and changes do not happen over night. Even with the appropriate champions in place and solid political support to effect change, real benefits may take years to realize. The Government also intends to revise current industrial regional benefit policies with a view to encouraging industry to make long-term investments in Canada – another initiative that may take a significant period of time to identify tangible gains.

Additional themes that are reinforced throughout the paper include the need to remain interoperable with other forces (especially the US), to be able to contribute across the full spectrum of international operations, and to assume a "whole of government" approach in addressing threats. These are commendable initiatives but have not been elaborated upon in the document. A more complete treatment of the policy would certainly have to address what is meant by the "full spectrum" of operations and security challenges, for example. The capabilities needed to make a "meaningful contribution" to the former, or to "give the Government maximum flexibility" in countering the latter, as stated in the document, could vary dramatically depending on one's interpretation.<sup>33</sup>

<sup>&</sup>lt;sup>30</sup> Ibid., p. 4.

<sup>&</sup>lt;sup>31</sup> Ibid., p. 20.

<sup>&</sup>lt;sup>32</sup> Two recent events suggest that consultation with industry may become more common. The first was the controversial Fixed-Wing Search and Rescue aircraft industry day on July 14, 2009; the second was the extensive Shipbuilding Forum on July 27-28, 2009 with widespread stakeholder participation, including that of four cabinet ministers.

<sup>&</sup>lt;sup>3</sup> Government of Canada, Canada First Defence Strategy, June 2008, pp. 9 and 14 respectively.

### CONCERNS WITH THE CFDS

Even though the publicly-released background information is very limited, the CFDS is apparently based on a comprehensive plan which addresses a wide range of projects and capability 'enablers' within the projected defence funding promised by Government. Even so, there is still no obvious strategic framework, that is, no identification and prioritization of CF contributions to overall Government defence and security objectives; hence, there is no way to assess the actual utility of the CFDS and, more specifically, whether resources are adequate. The CFDS is essentially a mechanism to capture and update the Government's thinking on defence objectives and funding. No linkage is made, for example, with a broader national security environment or the future of the defence industrial base. Having said this, the document does provide an adequate policy foundation from which to extrapolate direction in developing military capabilities.

The document emphasizes the benefits of stable funding<sup>34</sup> in building those military capabilities and identifies the strategic allocations of funding for each of the investment pillars. Importantly, the Government also indicates its commitment "to separately fund incremental costs for major operations" thus reinforcing the predictability of the funding provided for ongoing deployments. However, while the Government has 'celebrated' its initiative to ensure funding stability for the CF over the longer term, the provision of 2% for inflation will really only work towards maintaining the current spending power of the Defence budget.

In examining this issue in a little more detail, one source of confusion in the CFDS is a chart that identifies nominal and real growth in the defence budget to be 2.7% and 0.6% respectively over the long term, implying that inflation will be 2.1%.<sup>36</sup> The assumption that this level of inflation is sufficient is something of an inductive leap, given that the rate for the 20 years ending in 2006 was considered to be 2.6%.<sup>37</sup> Although some relief comes from low core inflation, projected to bottom out at 1.1% in 2009 during the recessionary period, the Bank of Canada projects that it will return to 2% in 2011.<sup>38</sup> It would be premature, therefore, to draw any solace from the current situation. Moreover, it is generally accepted that military procurement costs traditionally outstrip normal inflation levels, and are expected to continue to do so in the future.

More importantly perhaps is the profiling or cash-phasing of capital spending. While major acquisitions have been accounted for in the CFDS, the demand for replacement weapons systems is skewed to the front end of the 20-year projection. For example, ships and FWSAR start in 2015, new fighters in 2017, and land combat vehicles very soon, in addition to the several major acquisitions imminent or ongoing. Elinor Sloan writes that the "longterm funding formula does not meet the Canadian Forces' needs....Reduced investments in defence in the 1990s have led to a situation in which a whole range of major military platforms...must be replaced within the same five year window of about 2012-2017."39 Even

<sup>36</sup> Ibid., p. 11.

<sup>&</sup>lt;sup>34</sup> This has been reinforced over the past year. At the CANSEC defence exhibition held in Ottawa 27-28 May 2009, Minister MacKay, in a breakfast meeting speech, declared, "The funding will be there, I assure you. It's locked in." (As reported by Mike Blanchfield, Canwest News Service, Many 28, 2009 in the Ottawa Citizen.)

<sup>&</sup>lt;sup>35</sup> Government of Canada, Canada First Defence Strategy, June 2008, p. 13.

<sup>&</sup>lt;sup>37</sup> Brian MacDonald, "The Canada First Defence Strategy of 2008 and the 20 Year Defence Budget," Conference of Defence Associations Commentary 4-2008, July 28, 2008, p. 2. <sup>38</sup> Bank of Canada, "Monetary Policy Report Update," January 2009, p. 5 found at

http://bing.search.sympatico.ca/?q=canada%20monetary%20policy%20update&mkt=enca&setLang=en-CA. Core CPI for August 2009 was 1.6% as reported by the Bank of Canada at http://www.bankofcanada.ca/en/cpi.html.

<sup>&</sup>lt;sup>39</sup> Elinor Sloan "Stretched to the breaking point," *National Post,* Tuesday, June 17, 2008.

though the injection of additional spending in the 2005 and 2006 budgets, supplemented by the inflationary protection, has provided some relief in the many areas of longstanding resource constraint, the longer-term strategic plan remains challenged.

The ability to actually spend the funds available remains a challenge as well. Resourcing the necessary project management experience to conduct analyses, coordinate interdepartmental issues, and prepare documentation represents a huge effort. Even when the Government is receptive to granting approvals for projects, the work which must be done to assemble the necessary information to seek those approvals is significant. With drastic cuts to project management personnel in the 1990's and few large projects being prosecuted until recently, DND project personnel are stretched to the limit to keep up. Levels of expertise in this specialized area are lower than they have been traditionally and are further reduced by the demographics of the military and the public service, with experienced baby boomers retiring in large numbers. Hiring in contractors to do the work is effective but expensive. Nevertheless, this work is essential to making headway in addressing the capability deficiencies over the 20-year period in question.

Notwithstanding its positive aspects, the major concern with the CFDS is whether demands which have long been apparent can be satisfied with the projected funding level for Defence. There appears to be a nascent realization within DND that all of the capabilities identified cannot be achieved in the 20-year plan given the funding envelope available. The demand on resources for the core capabilities, coupled with the prospects of the ongoing challenges related to international deployments, <sup>40</sup> will continue to create a great deal of pressure on the Defence budget. This is not to say that significant capability cannot be achieved, but the combined demand for frigates and destroyers, new fighters, SAR aircraft, armoured vehicles, uninhabited aerial vehicles, etc in the numbers proposed will almost certainly exceed the funding available. Moreover, the demand between 2015 and 2020 will be acute as funding for these major undertakings overlaps (even proponents of the benefits of recentlyintroduced accrual accounting have to accept that the Government must be willing to write cheques as new equipment is delivered). And one must not forget the need to address all pillars of a capability, especially that related to personnel, which will continue to consume about half of the defence budget. Demographic projections for the segment of the population from which military manpower will be drawn in the future suggest that efforts to recruit, train and retain the right people will become increasingly challenging.

By way of measuring progress, the most evident indicators relate to capital equipment milestones, announcements and expenditure. True to the content of the CFDS, ministers are (slowly) proceeding with expenditures to fulfil their stated intentions. Although developments have only been recent, there have been signs of progress. For example, the announcement for the Family of Land Combat Vehicles has been made after preliminary approval was received and some procurement documentation has been released.

One area of major concern that does not appear to have attracted any attention is the need for a mechanism to review the content of the CFDS from time to time. Thus far the Government has shown no indication of compromise or reconsideration of the scope and

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<sup>&</sup>lt;sup>40</sup> Even with the Government's promise to provide incremental funding, there remain a number of challenges in maintaining effective force generation to provide the trained personnel to be deployed, or ready for operational assignment as necessary. Issues related to basic training and retention, the time to acquire new weapons systems, keeping up with the everyday operational tempo, etc all put stress on the system to provide the capabilities needed to meet whatever contingencies may arise. It is only the *incremental* costs for *major* operations which the Government has committed to fund. Overall, these challenges may greatly limit the scope and number of future deployments undertaken by Canada.

priority of capabilities; however, as the overall defence and security environment evolves, it is reasonable that the assumptions used in the creation of the CFDS may change, precipitating the need to modify some aspects of the policy. Some capabilities may become less or more urgent, the availability of funding may fluctuate, decisions on deployed missions may drive priorities in the renewal of relevant capabilities, and new requirements may emerge. One example of a project that might have been reconsidered is the project to acquire the Chinook medium lift helicopter. While it will no doubt be an excellent capability for both domestic and international operations, delivery will be well after the stated end of the current mission in Afghanistan for which the aircraft was initially justified.<sup>41</sup> And the commitment of more than \$5B for this capability over the next 20 years will certainly represent an opportunity cost that will impact other badly-needed capabilities.

A periodic review of the CFDS would appear to be appropriate, perhaps every two years, to confirm the major elements - requirements vs affordability - and to make modifications in response to developments. This need not be a major policy review, but rather a refinement of the existing plan brought about by inevitably changing circumstances. On the face of it, this may appear to be a simplistic approach given the extant political uncertainty regarding federal election timing and the possibility of a change of government. In reality, however, changes would likely be limited. The Liberal Defence Policy Statement in April 2005 identified the importance of the same fundamental areas of military activity - domestic, continental and international - that the CFDS addresses. In 2005, the emphasis was on (structural) transformation of the military, increasing personnel strength, surveillance of the North and maritime approaches, a continuing response to security following the 9/11 attacks, and ongoing support for projects in train. None of these are divergent from the CFDS. Perhaps the most significant difference in the two policies is the Liberal initiative for a Standing Contingency Task Force and a national command element for a Mission-Specific Task Force, both of which would demand even more resources than called up in the CFDS. Overall, a change in government may precipitate a pause to reflect on defence policy and may even result in a new policy document, but would not likely represent a fundamental shift in direction. The need for a requirements and affordability review will remain an important element for responsible management of the defence program.

Throughout CFDS implementation, there will need to be significant compromises in the delivery of capability – descoping projects, delaying their implementation (and spending), or deferring them altogether – in order to maintain an affordable program. Inevitably, tradeoffs and adjustments will be necessary to address the gap between the demand on, and the supply of, resources. This points to the importance of a comprehensive investment plan, one that captures the affordable, phased funding needs for all capabilities within the projected Defence budget. The Vice Chief of the Defence Staff has overseen the development of such a plan, which addresses all the elements of the CFDS, and will provide the wherewithal to advance the defence program in a structured way, consistent with the Government direction provided. Approvals for specific projects can be more easily achieved once the projects are established as affordable elements of the master plan.

In the end, it is difficult to identify quantitative performance parameters to employ in measuring the Government's success in delivering on the CFDS, especially in the short term. Over time, success should be the specific realization of capital projects and other elements of the four pillars cited: personnel, equipment, readiness and infrastructure. The key measures should all focus on how the Government continues to enhance the capacity of the Forces through investments across the four areas that form the foundation of military

<sup>&</sup>lt;sup>41</sup> In the event that a medium lift helicopter capability is a serious consideration for any possible post-2011 Canadian commitment to Afghanistan, the six used Chinooks now there could continue on. The new fleet of aircraft will be delivered in 2013 and 2014 and could also be used for this purpose, of course.

capabilities. Throughout, specific projects and personnel targets to build a "balanced, multirole, combat-capable force" which have been declared to be affordable through stable defence funding over the next 20 years must be aggressively advanced to meet the needs of Canada and the Canadian Forces.

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