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The Defence Procurement Outlook for Canada's 43rd Parliament

by David Perry
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POLICY PERSPECTIVE

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While defence received little attention during the 2019 federal election, an interesting point of consensus between the two most popular political parties was the need for further reform to the way Canada conducts military procurement.¹

The re-elected Liberals proposed to create Defence Procurement Canada. The Conservatives, now the Official Opposition, pledged to use the House of Commons Standing Committee on Defence to de-politicize procurement projects, while reforming a cabinet committee on defence procurement and creating a Privy Council Office secretariat to support it. The two approaches shared the idea of creating one organization to act as a single point of accountability, although the modalities of achieving this differed considerably.

The clear message, though, from Canada's two major parties is that they want a different, presumably better, outcome from Canada's defence procurement system. For a party in opposition, a call for action is predictable, although that does not mean it lacks merit. For a Liberal Party coming off four years of majority government to call for such a significant change in the form of a new entity for defence procurement is unexpected, including, it appears, to many Liberals themselves and the public service. The Liberal pledge is especially surprising given that Prime Minister Justin Trudeau's government spent the past two years extolling its record on defence procurement to stakeholders, and procurement officials have been unanimous in promoting their record of achievement when given the opportunity.

These campaign pledges highlight two problems with Canada's procurement system. First is a growing disconnect between procurement practitioners in government and everyone else paying attention about how well our procurement system functions. People working on procurement, while acknowledging some challenges, generally believe that the system works far better than those outside it perceive, and there is a widespread sentiment that the years since the launch of *Strong, Secure, Engaged* have been particularly productive. The views of those not working in the area, and for most in industry, are far more negative, ranging from the rejoinder that procurement is broken, to simply too bureaucratic, too cumbersome and too slow. A second and related problem seems to be that those working on procurement from the inside continually establish expectations that are not met. The procurement performance is judged more often than not based on whether delivery lived up to publicized plans. If the reality of delivery is slower than promised, those outside the system see problems.

So as the 43rd Parliament convenes, how is Canada doing on defence procurement? One answer was provided at the 2019 CANSEC trade show, where the minister of National Defence distributed a pamphlet emphasizing the Trudeau government's record on defence procurement. The handout highlighted that, of the 333 defence projects approved with *Strong, Secure, Engaged*, 157 had progressed from one major phase of the procurement process to another since the policy's

¹ "Procurement" is shorthand to describe the entire process that starts with the identification of a capability need and results in the Department of National Defence/Canadian Armed Forces obtaining that capability.



publication on June 17, 2019.² Of those 157 projects, 33 moved from identification to options analysis, 21 from options analysis to definition, 42 from definition to implementation and 61 from implementation to close-out. Clearly presented as a positive record of achievement, these metrics are difficult to assess. To take just one data point, is the movement of 33 projects from identification into options analysis in just under two years a better or worse record than we should have expected? Is it better or worse than the preceding two years? (Is that time period actually even a fair comparator against which the post-June 2017 period should be assessed?) How should anyone trying to evaluate that record view it, now that the Liberal Party campaigned on a proposal to significantly reform the procurement system that just produced those results?

Part of the difficulty in answering those questions stems from the boom-and-bust dynamics of Canadian defence procurement in the last several decades. Accurate and accessible public data are not readily available about the pace with which procurement projects of various characteristics have historically moved through the phases of Canada's procurement system. This past fluctuation makes finding an appropriate time period against which to compare the last two years exceptionally difficult, and in fairness would also make it tough to base schedule predictions on useful historical data.

To recap the highlights of these shifts: in 1989, Canada entered a decade of budget cuts and military downsizing which greatly curtailed the availability of recapitalization funding for DND. Without funding, few big procurements were put forward and much recapitalization was deferred (despite identified need). Life extension and modernization programs, rather than replacements, were initiated for major combat fleets, and innovative solutions such as contracted pilot training were launched, in part due to the financial shortfalls. With much less big kit to buy, and amid public service reductions across government, the procurement workforce was reduced by more than half in some instances.

The situation did not change meaningfully until 2005 when, following a review of Canada's international policy and the publication of the defence policy statement, Paul Martin's government provided policy direction and accompanying funding to initiate several major projects. A year later, Stephen Harper's government was elected on a platform that had devoted considerable attention to defence investments. Two years later, it published the *Canada First Defence Strategy*, which provided yet more policy direction for recapitalization and associated long-term funding. In just three years in the mid-2000s, Canada went from famine to feast with respect to defence procurement. Importantly, this coincided with Canada's first combat mission – in Afghanistan – since the Korean War, and thus a significantly different political and bureaucratic procurement milieu. While some of the procurement was bureaucratic business as usual, much was directly war-related and still more was justified on that basis. Then, in 2009, major changes were made to the government of Canada's administrative policies related to investment planning and the management of assets and services. These changes introduced more

² The major phases of the process start with identification, where a capability deficiency is identified. This is followed by options analysis, in which options to address the deficiency are analyzed. Next comes definition, where the preferred option for addressing the deficiency is developed. This is followed by implementation, when equipment or infrastructure is obtained, and ends with close-out, when a project is concluded once all aspects are complete.



rigour into the system and reoriented an approval system previously based on dollar values to one based on risk and complexity. Shortly thereafter, the federal auditor general published critical audits on some of these major projects and reports by the Parliamentary Budget Officer raised major questions about the financials of several projects, just as the government was leading a budget-cutting exercise. The fighter file was reset, and the rest of the procurement system went through major change as the defence procurement strategy unfurled. The transition to the Trudeau government and its Defence Policy Review further disrupted progress on a number of files. Reflecting on that recent experience, there is no clearly analogous procurement period against which to compare the present. Little happened during the 1990s and early half of the 2000s, and assessing the current record against wartime achievement is probably unfair. Similarly though, we should hopefully expect better performance when measured against the post-2010 era of spending restraint, problems and procurement reform.

Fast-forward to June 2017. *Strong, Secure, Engaged* provided tens of billions of dollars in new funding for dozens of new procurement projects, and provided more detail on planned spending on procurement activity than any previous policy. That transparency revealed incredibly aggressive spending plans that forecast an immediate doubling of the capital procurement spend in the policy's first year. Also forecast was a fourfold increase in spending in eight years relative to actual defence expenditures in the last year before the policy was published. Unlike project schedule data, information on past capital procurement spending is available. Relative to past history, in inflation-adjusted dollars, the forecasts in *Strong, Secure, Engaged* intended to see far more money spent with a far faster rate of increase in spending than was actually achieved during the latter half of the 2000s when Canada was at war in Afghanistan. To date, roughly 2/3 of that spending is happening as anticipated.

To return to the type of metrics that the minister of National Defence highlighted at the 2019 CANSEC, there are now two years of publicly available data that can be used to independently track procurement progress. However, that same information still can't be used for historical comparisons. In another step toward greater defence transparency brought into effect with *Strong, Secure, Engaged*, a version of the Defence Investment Plan was made public, along with the Defence Capabilities Blueprint. The project information in the latter document is being refreshed annually. As of this spring, with the first annual refresh, the two versions of the capabilities blueprint can be used to track progress on the projects in *Strong, Secure, Engaged* between the publications of those two documents. A total of 232 projects appear in both versions of the document under the same name, or one similar enough to allow a comparison. Of those, 63 – or just over a quarter – advanced at least one milestone.³ At the same time, however, 159 of the 232 projects – or 2/3 – are showing a schedule delay of one year or more in at least one

³ This was calculated by comparing the dates indicated in the 2018 and 2019 defence capabilities blueprints for each project. For each project, a date or date range was provided for start options analysis, start definition, start implementation, initial delivery and final delivery. If the entry for 2019 indicated "past", this was recorded as that milestone having been achieved. These are just a few of the milestones through which a project must pass, but the only ones reported upon. Of note, the statistics the MD published at CANSEC appear to show progress since the publication of the policy itself in June 2017, whereas the first Defence Capabilities Blueprint was not published until the spring of 2018. As well, the blueprint does not depict all 333 projects included in *Strong, Secure, Engaged*, for reasons that are not clear.



milestone.⁴ Equally notable, of the 63 projects that showed an advance in one or more milestones, 44 of those – 70 per cent – are also showing a schedule delay of one year or more. This means that, as an example, a project may have started options analysis, but is now expected to start implementation a year later than previously anticipated. This year-over-year comparison of the available data shows that most of the projects in *Strong, Secure, Engaged* are falling behind schedule, even though progress has been made on roughly a quarter of them.

In sum, roughly 70 per cent of the projects approved with *Strong, Secure, Engaged* have seen their schedules slip already, despite a quarter of those having achieved a notable measure of progress. It's impossible for those outside the system to know if we should have expected more, or less, progress based on previous performance and reasonable expectations for what could have been achieved. And yet the data show that spending is falling short of forecast and schedules are slipping relative to *Strong, Secure, Engaged*. The start of the 43rd Parliament offers a perfect opportunity to reset procurement schedules and spending forecasts and bring the expectations of those in and out of government into better alignment.

⁴ This was calculated by comparing the dates indicated in the 2018 and 2019 defence capabilities blueprints for each project. For each project, a date or date range was provided for start options analysis, start definition, start implementation, initial delivery and final delivery. If the dates or date range shown in 2019 for one of those milestones was a year or more into the future, the author considered it to be a schedule delay.

► About the Author

***Dr. David Perry** is Vice President, Senior Analyst and a Fellow with the Canadian Global Affairs Institute. He is the author of multiple publications related to defence budgeting, transformation and procurement, published with the Canadian Global Affairs Institute, Conference of Defence Associations Institute, Defence Studies, Comparative Strategy, International Journal, and Journal of Military and Strategic Studies and is a columnist for the Canadian Naval Review. He received his PhD in political science from Carleton University where his dissertation examined the link between defence budgeting and defence procurement. He is an adjunct professor at the Centre for Military and Strategic Studies at the University of Calgary and a research fellow of the Centre for the Study of Security and Development at Dalhousie University. He was previously the Senior Security and Defence Analyst of the Conference of Defence Associations Institute and Deputy Director of Dalhousie University's Centre for Foreign Policy Studies. Embassy Magazine and The Hill Times named him to their "Top 100 Influencing Canadian Foreign Policy" in 2014.*

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