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Canada's Defence Procurement Strategy: An End or a Beginning?

Charles Davies

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Canada's Defence Procurement Strategy: An End or a Beginning?

Charles Davies

September / septembre 2014

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Executive Summary

Canada's 2014 *Defence Procurement Strategy* was announced on February 5. It represents the first serious attempt by any Canadian government since the disbandment of the Department of Defence Production in 1969 to take a more systematic approach to defence acquisitions. How successful the strategy will be in delivering its intended outcomes will not become evident for some time. However, its main themes can be evaluated, along with the principal issues surrounding each of its constituent elements.

This paper offers an analysis of the ten announced components of the Strategy and draws a number of conclusions about their likely effects, with a view to assessing whether the new Strategy represents a viable reformed end-state for defence procurement in Canada, or simply the start of a longer journey.

The central theme of the Strategy calls for a deliberate tectonic shift towards closer engagement with Canadian industry in major defence acquisitions. The paper suggests that implementation of the strategy will likely be characterized by a certain amount of trial and error in the coming years, while its influence will be reflected in a relatively limited, primarily economic, near- to mid-term vision. The paper identifies a number of particular challenges the government will face in the process, as well as several important risks that it will need to mitigate. It also identifies four significant structural weaknesses that need correction.

The issues identified can be expected to be problematic for the implementation of the Strategy, and consequently the paper finds that it does not establish a viable end-state for defence procurement, but neither should it be seen as a failed policy. A realistic assessment will require some patience to allow for the evolution of future events – in particular in regard to how the government adjusts and corrects the Strategy as it matures. In that context, the paper concludes that the 2014 *Defence Procurement Strategy* may ultimately prove to have been an important, if tentative, first step forward.



Sommaire

La nouvelle stratégie d'approvisionnement de la défense du Canada a été annoncée le 5 février, 2014. Il s'agit de la première tentative sérieuse du gouvernement canadien, en ce qui a trait à l'adoption d'une approche plus systématique concernant les achats de la défense, depuis la dissolution du ministère de la Production de défense en 1969. Il faudra un certain temps avant de pouvoir juger dans quelle mesure la stratégie délivrera les résultats escomptés. Cependant, il est possible d'en évaluer les thèmes principaux, ainsi que les questions d'importance reliées à chacun de ses éléments.

Ce rapport propose donc une analyse des dix composantes de la stratégie et en tire un certain nombre de conclusions sur leurs effets probables ; afin de déterminer si elle représente une réforme viable pour les marchés de la défense au Canada, ou tout simplement le début d'un long périple.

Le thème central de la stratégie indique une volonté de changement délibéré en vue de passer à un engagement plus étroit avec l'industrie canadienne en ce qui concerne les grandes acquisitions de la défense. Le rapport note que cette influence est reflétée de façon relativement limitée par une vision principalement économique et, de court à moyen terme seulement. Il y est suggéré que la mise en œuvre de la stratégie dans les années à venir pourrait inclure bon nombre d'essais et d'erreurs. Le rapport identifie un certain nombre de défis particuliers auxquels le gouvernement devra faire face au cours du processus et plusieurs risques importants qu'il lui faudra atténuer. Quatre grandes faiblesses structurelles nécessitant des corrections y sont aussi identifiées.

On peut s'attendre à ce que les questions soulevées posent problèmes pour la mise en œuvre de la Stratégie. Par conséquent, le rapport indique que la politique n'offre pas une solution durable pour les marchés de la défense, mais qu'il ne faut pas non plus considérer la politique comme étant un échec. Une évaluation réaliste exigera un certain niveau de patience envers les événements à venir - plus particulièrement concernant la façon dont le gouvernement ajustera et corrigera la stratégie à mesure qu'elle mûrit. Dans ce contexte, le rapport conclut que la *Stratégie d'approvisionnement de la Défense 2014* pourrait éventuellement s'avérer un important premier pas vers l'avant.



Canada's Defence Procurement Strategy: An End or a Beginning?

Introduction

On February 5, 2014 the Ministers of Public Works and Government Services and National Defence announced a new Defence Procurement Strategy. Details concerning the various elements of the strategy and how they are intended to work will continue to emerge over time, however its main thrusts and objectives are known. According to the government, the strategy is aimed at achieving three main outcomes:

- providing the Canadian Armed Forces and the Coast Guard with the right equipment in a timely manner by, among other measures, bringing Canadian industry more fully into the early planning and decision-making process for major defence and Coast Guard acquisitions;
- getting better results from these procurements in terms of economic development and employment benefits for Canada. This includes enhancing the exploitation of technology transfers and increasing the number and quality of jobs; and,
- improving the government's internal processes for making procurement decisions.

At least one commentator has suggested that the first two outcomes are contradictory¹ and that the government has failed to clearly state whether its priority is getting the right equipment or obtaining the best economic outcomes. Others would disagree, saying that both can be achieved at the same time.² Certainly most developed countries seek to get both the right military capabilities and good economic payback through their major defence procurements, and Canada's Defence Procurement Strategy is no different in this regard.

How successful the strategy will be in delivering the intended outcomes will not become evident for some time. However, it is possible to assess, with some degree of confidence, its main themes and look at the principal issues surrounding each of its constituent elements. This paper offers an analysis of the ten announced components of the strategy and draws a number of conclusions about their likely effects, with a view to assessing whether it represents a viable reformed end-state for defence procurement in Canada, or simply the start of a longer journey.

Overall Assessment

There is not much in the individual elements of the Defence Procurement Strategy that is particularly new or innovative, but in aggregate the strategy does signal an intent to make a deliberate tectonic shift towards closer engagement with Canadian industry in major defence acquisitions. Direct government support to industry is also being strengthened.

This is entirely consistent with the present government's focus on economic growth and there is clearly an expectation that defence procurement can be better leveraged. Specifically, the government obviously expects that closer and earlier involvement will enable Canadian industry to propose more innovative solutions, invest more strategically in new technologies and production capabilities, and



have a better chance of successfully participating in procurements, whether as a prime contractor or a sub-contractor doing high-value work on advanced systems. As a broad outcome, the government would expect to see a stronger, more globally competitive defence industry as an engine for innovation and job growth.

To date, industry has generally welcomed the Defence Procurement Strategy and the change in relationship with government it promises.³ Not since the demise of the post-war Department of Defence Production in 1969⁴ has it been government policy to deliberately maintain long-term, stable partnerships with defence companies. More often the practice has been to keep relationships as arms-length as possible to avoid the appearance of unfairness in competitive procurements and public perceptions of a “cozy relationship” between government and industry.⁵ The Defence Procurement Strategy, as it has so far emerged, would replace this arms-length approach with some form of a structured framework for industry engagement. However, it remains to be seen just how far the government is prepared to go in building relationships, and also how willing it will be to modify its current procurement approach that sees open competition as the gold standard.

In this context, given the policy, perhaps legal, and certainly cultural shifts involved for all of the key players, implementation of the strategy will likely be characterized by a certain amount of trial and error over the coming years. The National Shipbuilding Procurement Strategy (NSPS), although it predates the Defence Procurement Strategy, may be viewed as one such “trial run” for a particular industrial sector. Seen so far as largely successful politically,⁶ the NSPS has yet to progress to the point of actually cutting steel for any ships so whether it will also be successful in cost-effectively delivering defence capabilities remains to be proven. Also remaining to be seen is whether the government will find this model, which effectively selects industry “winners” and “losers” early on in an acquisition program, to be a politically palatable approach that can be applied to other sectors.

Elements of the Strategy

The Defence Procurement Strategy contains ten specific elements covering a broad spectrum of activities, and each has challenges, opportunities, and risks. These are discussed in turn below.

1. Ensuring early and continuous industry and client engagement in the procurement process.

The main issues here relate to how industry engagement is achieved. The concept of “early industry engagement” is easy to say but difficult to implement, and means different things to different people. Also, past experiments with similar ideas have failed to produce a successful, sustainable model, which is a clear sign that there are significant risks that need to be carefully managed. The fact that the concept of early industry engagement is a centrepiece of the Defence Procurement Strategy means that failure to implement it successfully may put the entire strategy in jeopardy. Consequently, the government must keep a sustained focus on getting it right.⁷

The main challenges it faces are the same ones that have caused problems before. The first is how to have meaningful early industry involvement without contaminating the eventual procurement processes with real or perceived unfair advantages for one or more bidders. This will take



careful planning and negotiation. Although there is enough flexibility in the relevant international trade agreements, legislation, and government policies to achieve the desired results, there may be constraints imposed by Canada's domestic *Agreement on Internal Trade* that will need to be resolved.⁸ In addition, a significant cultural shift will be required within both government and industry before we can reasonably expect to see the emergence of the types of bilateral and multilateral working relationships needed for the intended partnerships to be successful. The difficulty, on both sides, of moving from a business relationship founded primarily on contract terms and conditions to one founded primarily on mutual understanding and trust should not be underestimated. Furthermore, new tools, mechanisms and contract models will need to be developed in order to encourage, manage, and sustain these relationships and few, if any, of these have so far emerged in the strategy.

The second challenge will be establishing a unified Government of Canada approach to industry engagement, at the general level as well as for individual procurements. The new ministers' working group and Defence Procurement Secretariat (see below) may provide mechanisms for managing this, but sustained effort will be needed on the part of all the main departments involved in order to consistently craft a unified view that bridges their fundamentally different mandates and perspectives. Ongoing active engagement by the Privy Council Office and Treasury Board Secretariat in providing a unifying Government of Canada perspective of the relative priorities among competing objectives will be critical to success.

The third challenge is ensuring that the resulting industry expectations for particular acquisitions do not unduly constrain the government's decision space or ability to change direction in response to unforecasted events and circumstances.⁹ Government requires a certain degree of flexibility to adjust, or even cancel, spending plans for a variety of valid reasons, but early industry engagement naturally begins a process of increasing corporate and sometimes regional expectations. At some point, any substantive change to a maturing program may become politically difficult. Finding the right balance has no simple formula, but failure to achieve it represents a significant area of risk to the strategy. In order to manage it, both sides will need to work to develop a high level of mutual understanding that, in time, would allow them to anticipate and more flexibly adjust to changing circumstances.

Overall, early and meaningful industry engagement is an aspiration that is much easier to articulate than achieve, and a considerable level of sustained effort will be required by all parties if this objective is to be successfully attained.

2. Publication by DND of an annual Defence Acquisition Guide.

This is not a new idea. For decades, DND has periodically provided industry briefings or published sector-specific documents outlining its future acquisition plans, for example in the areas of ammunition and capital equipment programs. More recently, Treasury Board Secretariat has been pressing DND to formally document its future procurement plans, both for internal management purposes and to benefit external stakeholders such as industry.¹⁰

The main problem with such a document is that DND does not control the implementation of its procurement plans. Defence procurement is a Government of Canada activity that involves



multiple departments and DND controls neither its future budget allocations, the government's decision processes, nor the procurement process and its timelines. Industry expects that procurement plans will be implemented more-or-less as published, and in fact needs some certainty in this if it is to make good investment decisions. Promising to have a Request for Proposals out within three years and then substantially delaying or even cancelling the process simply sows frustration and distrust.

For these reasons, past attempts by DND to articulate future procurement plans have been accompanied by so many cautionary caveats that they have been justifiably viewed by industry as nothing but interesting "wish lists", and the recently released 2014 Defence Acquisition Guide is similarly cautious in avoiding any implied commitments.¹¹ This will need to change. If the guide to be of practical use to industry or government it needs to provide information that management can base decisions upon. In other words, it needs to promise a program that the government as a whole can actually deliver, and as far as possible the government needs to deliver the program the guide promises.

This is much more easily said than done, not least because governments are understandably reluctant to box themselves in when it comes to future decisions on large financial commitments. The new ministerial working group on defence procurement can perhaps be helpful in developing a longer-term view in Cabinet about defence acquisition plans. However, to really make this element of the strategy effective either the Privy Council Office or Treasury Board Secretariat will need to take a considerably more active leadership role in disciplining the planning and decision processes across all of the departments and agencies involved in delivering the defence procurement program set out in the guide. This would represent a very significant cultural change for the government as neither of these offices has assumed such a hands-on integrating role in recent decades, nor are there any signs that they are prepared, or have the capacity, to do so now.

3. Establishing within DND an independent, third-party challenge function for military requirements.

At least one critic has questioned the value of bringing "unaccountable" outside advisors in to challenge DND's equipment requirements analyses¹², however this criticism is unfounded. Under Section 36 of the *National Defence Act*, the Minister of National Defence is responsible for defining defence equipment requirements and the Minister is entitled to seek advice from whatever internal or external sources he or she considers appropriate. The new challenge function will operate in support of the appropriate authority – the Minister of National Defence – and therefore accountability for any decisions remains where Parliament intends it to be.

Determining defence capability requirements is a complex activity that requires the careful balancing of many factors, not least of which is affordability. An additional complication is the fact that the government has a virtually infinite audience of critics parsing every decision on how the Canadian Armed Forces will be equipped. In this context, if well implemented, the new challenge function has the potential to be useful in demonstrating to Canadians that the development of military requirements is being done objectively and under independent scrutiny. If it is not well implemented, there is a considerable risk of bad outcomes for the Canadian Armed Forces and their ability to defend the nation and its interests.



According to the information provided thus far, the intent is to engage expert third parties from the military, scientific and policy communities to look at major procurements during the early options analysis stage of a project. For this to be effective – and give the minister, the government, Parliament, and Canadians confidence in the resulting advice – it will be important to ensure that the independent expertise brought to the table is both credible and highly relevant to the capability concerned. In some cases, international experts may need to be engaged.

The external panel established by PWGSC to oversee the new options analysis for the Next Generation Fighter Capability (NGFC)¹³ will perhaps be viewed by some as a prototype model to follow. However, DND will require a challenge body that is much more evenly balanced in current expertise across not only the policy area, where the NGFC panel is very strong, but also science, technology, and 21st Century military operations. Having the right expertise engaged in the challenge function will be essential if it is to be able to authoritatively assess and objectively critique the operational and technical analyses prepared by DND staff.

4. Adopting a weighted and rated Value Proposition in the bid evaluation process.

Adding weighted industrial benefits to the rated portion of the bid evaluation process can only be done by reducing, by an equivalent amount, the relative value assigned to the operational, technical and price elements. There is real potential for shifting procurement decisions further away from obtaining the most appropriate operational solution and minimizing whole-life costs of ownership, and towards desired industrial outcomes. The degree to which this happens will be dependent upon the relative weightings assigned to the various elements in any given procurement¹⁴ and there will (quite naturally) be considerable political pressure to emphasize industrial benefits. Unless sound qualitative analysis is injected into the assessment of competing Value Propositions, going beyond simple dollar calculations, there is a high risk that this measure will simply add cost without generating long-term industrial returns. This would be at the direct expense of the military capability being acquired within an already resource constrained environment.

Notwithstanding assurances from industry to the contrary,¹⁵ there will inevitably be some impact on Canadian Armed Forces capabilities in terms of both the technologies procured for them and affordability pressures related to higher whole-life costs of ownership of systems for which procurement decisions were tilted in favour of industrial advantage.¹⁶

This is not necessarily a bad thing from a national security perspective. Many countries follow strategies designed to sustain domestic defence industrial bases and accept the “sharp-end” trade-offs as the price of greater industrial capabilities that provide more strategic independence from great power arms providers. However, these calculations are typically made within a defence industrial strategy that connects national economic development, technology development, defence-related export, and defence policy objectives in a way that is designed to deliver long-term value to the nation.¹⁷ Canada has no such wider strategy beyond its long-time cooperation with the United States in the North American Defence Industrial Base.



This means that the government must be very careful when applying Value Proposition calculations to new defence acquisitions. There have been too many instances over the years where DND was required to fund expensive investments in what proved to be short-lived, unsustainable industrial initiatives.¹⁸ The risk of similar results will only increase under the new formula without a clear understanding of how each procurement's industrial components are intended to contribute to the achievement of well-defined, sustainable economic and security outcomes.¹⁹

5. Implementing an Export Strategy.

This will be welcomed by defence industries and some others, but not everyone will be comfortable with the idea of Canada being an "arms exporter." The politics of the matter aside, the main problem with this element of the Defence Procurement Strategy is that it too needs to fit within a wider defence industrial strategy before it can be expected to reliably deliver more than a few discrete sales successes for some companies.

It also has to be recognized that Canada has very practical cultural and political barriers to overcome when it seeks to sell into the international defence marketplace. That market does not work the same way as the domestic marketplace and sometimes product quality, price, and technical innovation are not enough. Of course, bribery and any other forms of corruption must be scrupulously avoided in all circumstances, however there are entirely lawful and sometimes culturally necessary hospitality, small gift and other legitimate expenses that may need to be incurred by the Crown in some markets to build necessary relationships if Canada wants to be effective in supporting industry sales efforts.

Unfortunately, current Canadian government culture and Treasury Board policies limit the chances of success by severely restricting such expenditures and tightly controlling decision-making about them.²⁰ This control regime may be a valid reflection of Canadians' expectations for restraint in this kind of spending, but the fact remains that the two objectives – effective support for defence exports and tightly limiting spending on things like hospitality – may be somewhat mutually exclusive, especially in certain markets. The government will need to find a more appropriate balance point between the two if it wants the export strategy to be optimally effective.

6. Implementing the Jenkins Report recommendations on Key Industrial Capabilities (KICs).

The Jenkins Panel did not develop the KICs idea. The Panel's mandate was to develop an implementation strategy for the concept, which had already been embraced by the government.²¹ It is these implementation proposals that the Defence Procurement Strategy incorporates.

The overwhelming focus of the KICs concept is leveraging defence procurements to achieve desired industrial and economic outcomes.²² The Jenkins Report does point to some presumed national security objectives such as sovereign capability to maintain key systems, but these are only superficially described in the document without substantiating analysis, and are not well supported in published government policy. Consequently, they are very much open to debate and in any event are not the main focus of the KICs argument.



As a contribution to the government's economic development strategy, KICs have the potential to result in some business successes. It is less certain that they will have a measurable degree of strategic impact on the nation's security or economic health. At the risk of becoming repetitive, the KICs concept can only be fully exploited within an integrated defence industrial strategy. Without this wider context defining intended outcomes and objectives, and shaping key decisions, the Jenkins recommendations cannot be reliably connected to agreed national priorities for developing and maintaining defence industrial capabilities.

7. Establishing an independent, third-party Defence Analytics Institute.

This new institute is intended to gather and analyze the data needed to support the KICs concept. According to the government, it will essentially be industry-focused and provide advice to both industry and government on:

- industry aspects of the military procurement process, including development and sustainment of KICs;
- strengths, weaknesses, and opportunities for growth within the Canadian defence industrial base; and,
- information on export opportunities, technology trends, and Canadian industry's capacity to exploit them.²³

The Institute is intended to provide objective data and independent analysis of the industrial results of the Defence Procurement Strategy and its component elements, including KICs. In essence, it will support industry and government in understanding "what we can do" and provide some insight into how well we're doing it. There is no indication at this point that its mandate will extend beyond this fairly limited view and look at "what we should do" from a defence industrial perspective. In other words, it will not be developing a wider defence industrial strategy. This limits the potential strategic value of the Institute, although it can certainly be expected to be of some practical utility to defence companies and the government's economic development efforts. Just how much impact it will have will not become apparent for quite some time.

As a side note, it is interesting that interim leadership for the creation of the institute is being provided by the Minister of Industry,²⁴ yet under the *Defence Production Act* it is the Minister of Public Works and Government Services who is accountable in law for most aspects of its advertised mandate.²⁵

8. A new regime to streamline and coordinated decision-making for major procurements.

The core of this element of the strategy is a new working group of ministers who will be supported by similar groups at the deputy minister and assistant deputy minister levels. To date, not much substantive information has been provided on how this framework will improve the efficiency and effectiveness of government decision-making. According to the Minister of Public Works and Government Services, "...[e]ach minister will remain accountable for his or her own responsibilities, but [they] will exercise them together in a much more coordinated way."²⁶ In other words, the success or



failure of these working groups of co-equal ministers and officials will hinge on their members' commitment and group interpersonal dynamics more than anything else. In many ways, this mirrors the *status quo* so for these bodies to be demonstrably more effective they will need be clearly mandated to bring about a major cultural change in government decision-making that includes a much greater collective leadership focus on establishing and achieving common objectives.

It is unclear how the ministerial working group will fit into the established Cabinet governance structure. Decisions on major defence acquisitions are formally taken in one or more of the legally embodied Cabinet committees and it is difficult to see any government radically changing how those committees decide what are typically complex questions involving competing political priorities. Certainly the ministerial working group can do much to prepare the political ground within the committees and add depth to their deliberations. It can also be expected to cause departmental officials to give greater focus to particular defence procurement files, improve coordination, and reduce process delays. However, it cannot entirely supplant the formal Cabinet management structures. Only time will demonstrate whether the working group adds net value to the decision process, or simply creates more decision process that slows everything down further, as several critics have suggested.²⁷

It is also unclear how the responsible ministers and officials will manage the critical business integration between the PWGSC-led acquisition process and DND's in-service support responsibilities, as required by Treasury Board policy and strongly recommended by international experts.²⁸ The best long-term outcomes are obtained when acquisition and in-service support are managed within an integrated, end-to-end view of the whole-life cost of ownership, especially for complex systems. Good outcomes are less likely when procurement is managed as a stand-alone activity focused principally on getting the system delivered. The Defence Procurement Strategy risks reducing the government's ability to cost-effectively manage its major defence systems from a whole-life perspective by treating their procurement as a distinct function led by one minister, and their in-service support as a separate function led by another. Managing these risks requires that concrete mitigation measures be adopted, but none appear in the strategy.

9. Establishing a Defence Procurement Secretariat within PWGSC.

Canada's complicated defence procurement business model, with its dispersed accountabilities, has struggled for years to consistently deliver a large and complex program of acquisitions, so something like the Secretariat was probably bound to emerge at some point as an alternative to more radical reform. It is a natural companion to the ministerial working group and is intended to: enable improved government decision-making; support ministers, deputy ministers and assistant deputy ministers in the wider implementation of the Defence Procurement Strategy; and coordinate related activities.

One of two potential outcomes can be expected to emerge from this framework. The first is that the working groups, supported by the Secretariat, will be reasonably successful in overcoming the friction inherent in the current business model and facilitating better decision-making by the government. The second is that it will not improve decision-making, demonstrating that the existing business model of diffused accountability – built in and for another time – simply cannot be made to respond



adequately to current and expected future demands. Only time will reveal which outcome is dominant.

10. Reviewing National Defence's delegated authority to purchase goods.²⁹

This measure has the potential to streamline processes for many lower dollar value procurements, permit PWGSC to focus its resources on the more complex files, and allow DND to execute a wider range of smaller goods procurements more promptly. This would benefit industry and be especially useful to the Canadian Armed Forces in domestic and international missions.

What's Missing in the Defence Procurement Strategy?

The Defence Procurement Strategy contains one important foundational flaw as well as three significant gaps in its structure. The foundational flaw is that the strategy is based on the premise that defence procurement is a discrete activity, which, as previously noted, it is not. Defence procurement is part of a complex, integrated business framework designed for:

- managing the development, acquisition, life-cycle management, support and eventual disposal of military equipment;
- the generation of integrated force packages; and,
- the conduct of military operations.

The complete framework requires integrated management and there is nothing in the strategy to connect the critical procurement function to the wider whole. If anything, it further disconnects the two by weakening the role of DND in co-managing procurements. This means that the strategy may increase the risk of systemic failure in the fielding and sustainment of military capabilities as well as the support of future operations.

Correcting this foundational flaw would require a modest redefinition of the strategy to clearly place the defence procurement function into its wider framework, and the adoption of specific measures by the government to actively manage the necessary business integration between the responsible departments. This is particularly important when it comes to assuring the sound, cost-effective, long-term life-cycle management of Canada's major defence systems, as required by Treasury Board policies.³⁰

Of the three structural gaps, the first, and most critical, is the absence of any evident intent to establish a government-level performance management framework for defence procurement. The new management mechanisms being introduced are primarily designed for resolving project-specific issues and they have good potential to be reasonably successful in doing so. However, real optimization of defence procurement needs to be tackled at the system level, not the project level. Specifically, it requires integrated management of the end-to-end processes and machinery, strong supporting performance measurement, and effective business intelligence tools. The government's business model for defence procurement, built on shared accountability among multiple ministers, makes integrated performance management difficult but not impossible.



The second gap is the lack of effective mechanisms for bringing government and industry together at the practical level. The stated role of the new Defence Analytics Institute is to support the government and industry in identifying investment and growth opportunities, and to provide independent analysis of the results of the KICs strategy. This may be useful as far as it goes, but something more is needed.

Other nations that want to nurture strong, stable military-industry relationships have established mechanisms to facilitate hands-on collaboration at many levels. The Australian RPDE and UK Nite Works organizations are examples of this.³¹ They bring together defence, science, engineering and industry expertise on an ongoing basis to analyze defence problems and, when needed, rapidly develop and deliver innovative solutions within a structured collaboration framework that protects intellectual property and preserves a competitive marketplace. Both the Australian and UK centres exist within a wider framework for defence-industry cooperation designed to build and sustain relationships, confidence, and trust.

DND was developing such a concept under a project called ACCORD, but this initiative was terminated in 2013.³² The absence of anything in the Defence Procurement Strategy that would re-energize efforts to encourage and facilitate this kind of broad technical and operational collaboration is a substantial weakness.

The third gap is the previously discussed lack of a defence industrial strategy that would guide more consistent and coherent long-term targeting of industrial and security outcomes from defence procurements. This is a long-standing deficiency in our national security policy framework, and not unique to the present government. A well-structured strategy would take a long time to mature,³³ but would enable government and industry to make better decisions regarding investments in new industrial capabilities. Over time, it would also encourage the development of a more stable, innovative and successful Canadian defence industrial base with a stronger presence in the global marketplace. Without such a strategy, spending on industrial benefits will continue to generate hit-and-miss results. Some spending may produce successful outcomes for specific companies, but others will simply repeat past costly failures. This is not an efficient or reliable way to achieve the national economic benefits the government is seeking.

Conclusion

Notwithstanding its weaknesses, the Defence Procurement Strategy can be lauded as the first serious attempt by any government since the disbandment of the Department of Defence Production in 1969 to take a more systematic approach to defence acquisitions. The introduction of the strategy is therefore a significant event.

Unfortunately, however, it has major flaws and is too narrowly focused on a limited, primarily economic, near-term vision. The outcomes that can be expected from it must therefore also be limited. Of particular concern is the fact that the strategy introduces a number of important risks, but to this point includes no evident measures to manage or mitigate them. Further, if the implementation is not well managed some of the initiatives have the potential, in practice, to make matters worse



rather than better. For example, will the working group of ministers improve the government's decision-making or simply layer on yet more choking process?

Certainly the industry-focused elements of the strategy collectively represent a significant shift in the relationship between defence contractors and the Canadian government. Initiatives such as the export strategy have the potential to help individual companies become more successful in their global marketing efforts, and for those corporate leaders who want to look further ahead in their strategic planning the Defence Analytics Institute could become a valuable resource. Implementation of the Jenkins recommendations will, in some cases, help guide investment decisions. The Defence Acquisition Guide will be watched with interest, and probably some prudent scepticism, for the first few years to see how useful it becomes as a business development guidepost. The changes to the bid evaluation process to incorporate Value Propositions as rated elements will similarly need to be "test driven" for some time before the impact on industry becomes clear.

Unfortunately, while each of these measures may individually have varying degrees of merit, their potential aggregate net benefit to the nation will be constrained by the lack of a wider integrating defence industrial strategy. No Canadian government in recent decades has shown interest in formulating such a strategy, which is perhaps not surprising given the amount of time and effort that would be required to create one – and the political complexities that would be involved. However, the need remains. Perhaps together the new Defence Procurement Secretariat and Defence Analytics Institute may provide the capacity, focus and impetus to begin building the necessary analytical and intellectual foundations for one. This could eventually set the conditions for a future government to articulate a comprehensive strategy that would properly inform and guide decisions on defence industrial capability investments by government and business. Until that happens, we should expect to continue realizing less than optimal returns from these expenditures.

The Defence Procurement Strategy is even weaker when it comes to improving the government's internal machinery, in practical terms introducing little substantive change. If anything, it increases risk in the government's management of the nation's defence resources and capabilities. The new ministerial working group and its associated subordinate committees, supported by the Defence Procurement Secretariat, represent a collaboration model that is difficult to operate effectively for any length of time. It is too highly dependent upon good interpersonal relationships and sustained personal commitments on the part of the respective ministers, as well as the leadership of the Treasury Board Secretariat and the Privy Council Office. With all the other demands on the attention of these officials, this is a risky foundation from which to expect sustained success.

The value of the new internal DND military requirements challenge function will depend upon how it is implemented and used. Above all, the quality of people selected to perform the function, and the scope of expertise they bring to it, will be the main factors determining its success or failure.

The one low-risk, good payback measure in the strategy is the intent to increase DND's delegated goods procurement authority. Depending on the new level selected, business should see faster and more efficient processing of smaller purchases, and the Canadian Armed Forces will be better supported in domestic and overseas missions.



Overall, it has to be concluded that the Defence Procurement Strategy has at least as many gaps and weaknesses as it does strengths, and many of its prospective strengths will have to be proven over time. Nevertheless, it is encouraging to see, for the first time in decades, a Canadian government making a serious attempt to reform this area of its business. The strategy is too limited in scope to address all the real issues and is mainly focused on tinkering with the *status quo* structures to support the government's near-term economic agenda, however it would be unrealistic to expect an immediate leap to a perfect future state, if such a thing can be said to exist.³⁴

In view of the many areas of risk and gaps discussed in this paper, the prudent observer will see the strategy as simply a hopeful starting point for a process of change that will likely include many false-starts and possibly some dead-end failed experiments. If nothing else, the strategy should before long clearly demonstrate whether the government's existing defence procurement machinery, with its dispersed processes and accountabilities, can ever be made to deliver acceptable results. If not, there will be increased pressure to move towards a more radically different business model.

In view of all this, and to borrow from Winston Churchill, the Defence Procurement Strategy cannot be seen as "the end," or the "beginning of the end," or even "the end of the beginning." At best, we are at "the beginning of the beginning." Nevertheless, it has potential to be a promising beginning if the government recognizes and begins to progressively address the strategy's initial flaws and gaps, and mitigate the significant new risks it has introduced. Critics may see in these various issues evidence of a failed policy, however a more realistic assessment will require some patience to allow for the evolution of future events – in particular, how the government adjusts and corrects the strategy as it matures. In that light, future observers may see the 2014 Defence Procurement Strategy as having been an important, if tentative, first step forward.

NOTES

¹ Jean-Christophe Boucher, writing in Embassy on 14 August 2014. Article accessible at:

<http://www.embassynews.ca/opinion/2014/08/14/canadas-contradictory-defence-procurement-strategy/45921>.

² For example, Tim Page, President of the Canadian Association of Defence and Security Industries in the Ottawa Citizen on February 7th, 2014 (*Is Defence Procurement on the right Track? Yes*. Page A11.)

³ *Ibid.*

⁴ To be replaced by the Department of Supply and Services with government-wide procurement responsibilities, later amalgamated with the Department of Public Works to form the Department of Public Works and Government Services.

⁵ The one consistent exception to this has been the Munitions Supply Program, established in 1974, under which four designated companies are the preferred suppliers of military ammunition and small arms weapons to DND.

⁶ However, there are already public rumblings about the merits of alternative procurement strategies for Canada's naval building program. See a Postmedia News opinion piece by Michael Den Tandt from 9 July 2014, published in the Ottawa Citizen and elsewhere. Accessible at: <http://www.ottawacitizen.com/news/Tandt+French+firms+share/10018347/story.html>.

⁷ Dr. Craig Stone of the Canadian Forces College has described the major challenges to be overcome in a January 2014 CDFAI policy paper *Prioritizing Defence Industry Capabilities: Lessons for Canada from Australia*. The paper is accessible at <http://www.cdfai.org/idevicepapers/PrioritizingDefenceIndustryCapabilities.htm>. Another CDFAI paper by Sven Tommi Rebien, a doctoral candidate at the University of British Columbia, has looked at some of the same issues, this time with a UK comparison. See *Canada's New Defence Procurement Strategy: Has the Pendulum Swung Too Far?* Accessible at <http://www.cdfai.org/idevicepapers/CanadasNewDefenceProcurementStrategy.htm>.

⁸ Stone.



- ⁹ For example, experience with the IED threat in Afghanistan forced DND to revise blast and fragment protection requirements for some equipment procurements mid-process. In other cases political circumstances have changed even very mature procurement plans.
- ¹⁰ Annual Management Accountability Framework (MAF) evaluation. The most recent publicly available report dealing with procurement is the one for 2011/12, which can be accessed at <https://www.tbs-sct.gc.ca/maf-crg/assessments-evaluations/2011/dnd/dnd-eng.asp>.
- ¹¹ The 2014 Guide is accessible at <http://www.forces.gc.ca/en/business-defence-acquisition-guide/index.page>.
- ¹² Alan Williams, former Assistant Deputy Minister (Materiel) at DND in an opinion piece in the Ottawa Citizen on February 7th, 2014 (*Is Defence Procurement on the right Track? No*. Page A11.)
- ¹³ For a description of the Panel's role and composition see the PWGSC web page at <http://www.tpsgc-pwgsc.gc.ca/app-acq/stamgp-lamsmp/ter-tor-eng.html#a1>.
- ¹⁴ The Minister of Public Works and Government Services has stated that value propositions would make up "approximately" 10%, but went on to say that actual levels are to be determined on a case-by-case basis. Speech by the Honourable Diane Finley, Minister of Public Works and Government Services, 19 February 2014.
- ¹⁵ Page.
- ¹⁶ The same conclusion is drawn in the "Jenkins Report": Public Works and Government Services Canada (2013). *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities* (Government of Canada Catalogue No. P4-52/2013E, ISBN 978-1-100-21762-8), page 3.
- ¹⁷ Both the UK and Australia have comprehensive strategies, although neither is perfect. See Stone and Rebien. The Canadian Association of Defence and Security Industries has called for such a strategy. See CADSI (2009) *Industry Engagement on the Opportunities and Challenges Facing the Defence Industry and Military Procurement*.
- ¹⁸ The defunct Western Star truck plant in Kelowna and the Saint John and Davie shipyards are but three of many examples where little or nothing of the industrial capabilities originally constructed at considerable DND expense remains.
- ¹⁹ See Stone for a good overview of the very lengthy and public process Australia went through to develop its policy framework.
- ²⁰ See the Treasury Board Directive on Travel, Hospitality, Conference and Event Expenditures, accessible at: <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=27228§ion=text>.
- ²¹ Jenkins Report, Page viii.
- ²² Section 4 of the Jenkins Report outlines its case in favour of KICs.
- ²³ Speech by Minister Finley, 19 February 2014.
- ²⁴ *Ibid*.
- ²⁵ Section 12 of the *Defence Production Act*.
- ²⁶ Speech by Minister Finley at the Economic Club of Canada, Ottawa, February 5, 2014.
- ²⁷ Williams. See also Stone and Rebien.
- ²⁸ See the Treasury Board *Policy on the Management of Materiel*. (Accessible at: <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12062>). Also, both the *NATO Policy for Systems Life Cycle Management* with its associated implementation guides and *ISO Standard 15288 System and Software Engineering – System Life Cycle Processes* strongly advise managing system life cycles as an integrated end-to-end process framework running through development, pre-acquisition, acquisition, in-service support and ultimate disposal. Similar end-to-end perspectives are foundational to the various industry reference models advocated by the Supply Chain Council. Separating decision-making on acquisition from in-service management is known to sometimes lead to significantly higher whole-life cost of ownership, poor system performance, or both.
- ²⁹ Authorities for goods procurement and services procurement have different legal and policy structures. Authority to procure goods must be delegated to other ministers by the Minister of Public Works and Government Services under her exclusive authorities established in the *Defence Production Act* and *Department of Public Works and Government Services Act*. Authority to contract for services is a legal prerogative of all ministers, constrained only by policy direction and administrative limits established by Treasury Board under powers defined for it in the *Financial Administration Act*.
- ³⁰ In particular, the Treasury Board *Policy on the Management of Materiel*.
- ³¹ See the RPDE website at <http://www.rpde.org.au/>, and the Nite Works site at <http://www.niteworks.net/>.
- ³² DND's 2012-2013 Departmental Performance Report, accessible at <http://www.forces.gc.ca/en/about-reports-pubs-departmental-performance/2013-section-ii-analysis-program-activities-strategic-outcome.page?#p1.1>.
- ³³ Australia has been working on its strategy for over a decade. See Stone.
- ³⁴ Neither the Australian nor the UK models, both of which are quite mature, are without problems. See Stone and Rebien.

