

Of Ships and Planes: The National Shipbuilding Procurement Strategy as a model for choosing  
Canada's next generation fighter.

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On April 2, 2012 the Auditor General of Canada, Michael Ferguson, issued his Spring report which included his findings on Canada's involvement in the F-35 Joint Strike Fighter program (Canada 2012). From the public perspective, this report seemed to suggest the federal government and the Department of National Defence were hiding the true costs of the F-35 program. There was a discrepancy of approximately \$10 billion dollars between what the government and the Department of National Defence (DND) claimed the costs would be and what the Auditor General suggested. The opposition parties quickly pounced, calling for the resignation of the Prime Minister, the Minister and Associate Minister of Defence, as well as the Chief of Defence Staff. This was a marked departure from the scene a few months earlier, when the results of the National Shipbuilding Procurement Strategy (NSPS) were announced and the opposition lauded the government for its fair and impartial handling of a potentially controversial file. Both cases involved some of the largest equipment expenditures since the Second World War and possessed the ability to transform Canadian industry. Yet these two procurement plans, one to replace Canada's aging fleet of fighter aircraft, the other to replace Canada's aging coast guard and naval fleets, had nearly diametrically opposed outcomes. One was a political success, the other a political failure. Given the high level of controversy surrounding the F-35 decision, it was unsurprising that the federal government decided the best decision lay in "pressing the reset button" (reported in Leblanc 2012). The government decided the best way to find a replacement fighter aircraft for Canada's aging CF-18 fleet was to mimic the success of the National Shipbuilding Procurement Strategy which will build Canada's next generation of Royal Canadian Navy and Canadian Coast Guard surface vessels.

Defence procurement in Canada and throughout the Western world is a story of bureaucratic wrangling, cost over-runs, and political interference. Accordingly, the story of

interest is not the problems plaguing the F-35 program, but rather the anomalous success of the NSPS. Not only was the NSPS seen as fiscally well-managed, it avoided many of the political and institutional pitfalls inherent in the Canadian federal regime. The government appeared to have avoided bureaucratic infighting and kept the full support of the opposition parties. Further, it did not isolate any of the provincial governments even though the strategy created winners and losers amongst the provinces as they competed against each other, even pitting Quebec against two English speaking provinces, to secure billions of dollars in federal funds. Given the success of the NSPS, it is not surprising the Minister of National Defence wanted to emulate the process to replace Canada's aging CF-18s. However this assumes that the same issues apply to choosing fighter aircraft as to ships for the Navy and Coast Guard. On the surface this may appear to be the case as both involve spending tens of billions of dollars on advanced weapons platforms, but this author does not believe the NSPS model is a 'one size' fits all approach to decision making. To determine the validity of the NSPS model for fighter aircraft procurement, this paper will survey the F-35 decisions made to date, explore the key success areas of the NSPS and analyze the applicability of the shipbuilding model for fighter aircraft. The research for this paper is based upon publicly available information on the decisions leading up to the Canadian government announcement that it would purchase the F-35 and its retreat from that decision, and the NSPS, various publications of government agencies, and interviews conducted by the author with members of the NSPS governing structure in Ottawa.

### F-35 Joint Strike Fighter Background

The F-35 Lightning II is one of only a few airframes in existence or development suitable for the RCAF. It was selected in open competition as the airframe that would be

developed under the Joint Strike Fighter program; an American led international project (which began in 1993) to produce a fifth-generation multi-role fighter.<sup>1</sup> In 1997, under the Chretien government, Canada joined the program as an “informed partner”. In 2002 Canada became a level three partner in the project with a US\$150 million investment. This allowed Canadian industry to compete on an equal footing with American and other partner state industries without obliging the Canadian government to purchase any planes. To date, Canada’s estimated return on investment in this project has been over US\$490 million.

Currently, Canadian air power—Canada’s ability to project lethal force from the air—is maintained through the RCAF’s fleet of CF-18s. As these aircraft will only be operational until approximately 2020, they are approaching the end of their life cycle. The Canadian government is currently attempting to find a suitable replacement to avoid having a capability gap in the near-future (they have already had their life-cycle extended to approximately 2017-2020 at the cost of \$2.6 billion). In of itself, this is significant as Canada’s involvement in the F-35 process was one of the few times the Canadian government has begun a procurement process early enough to properly phase out the existing system (Plamondon 2011: 265). However, the Air Force has kept the operational requirements of Canada’s CF-18 replacement secret. This makes it difficult (but not impossible), to determine if the F-35 is suitable for Canada’s security needs. In a special edition of the Canadian Foreign Policy Journal dedicated to the F-35 debate, it was noted by Justin Massie that there are four publicly available rationales for the F-35: 1) to support Canada’s aerospace industry, 2) to protect Canada’s sovereignty, 3) to ensure interoperability, and 4) to

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<sup>1</sup> There is no universally agreed upon definition of a fifth generation fighter. Common elements include stealth capabilities when armed, radar which is difficult to detect with passive measures, high-performance air frames, advanced avionics features, and on-board computer systems fully integrated into other battlefield assets. The definition may actually be based upon characteristics of the F-35 and its sister plane, the F-22.

contribute to international security (Massie 2011: 251) The F-35 clearly meet these requirements yet it is not necessarily the only aircraft that does. A major critique of the process was the lack of open competition with a formal request for proposals linking the capabilities of the aircraft to the operational military requirements (Plamondon 2011: 267).

This is where money matters. Canada is a relatively small state with a comparatively even smaller defence budget. As noted by Chief of Air Staff Andre Deschamps, resource constraints mean the RCAF can only purchase one type of plane to replace the CF-18, one which is capable of air to air and air to ground operations within a variety of roles. (Massie 2011: 254). This poses a problem, as Canada's security interests are met with air power at home and abroad, and these contrasting demands are overseen by two different operational commands: Canadian Expeditionary Force Command and Canada Command. These commands operate in two very different environments, at home in a benign environment and abroad in an often hostile environment where Canadian involvement is discretionary (Fergusson 2011: 211). The decision to purchase 65 F-35s will most likely enable Canada to meet its traditional defence requirements—supplying two squadrons of fighters for North American defence and six planes for overseas expeditionary operations (Massie 2011: 254). Yet some argue there are other aircraft in production or development that could meet Canada's defence and security requirements.<sup>2</sup> Byers and Webb (2011) even look to the advancements in Unmanned Aerial Vehicles (UAVs) as a possible option to replace the CF-18. The lack of open competition and debate means the Canadian government and public cannot be sure the F-35 is the plane for Canada.

The situation is exacerbated by the fact that DND has kept the operational requirements of the replacement aircraft secret. The Parliamentary Budget Office, which had access to the

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<sup>2</sup> Other options include the Boeing F-18F/A *Super Hornet*, the Saab *Gripon*, the Dassault *Rafale*, and the British Aerospace *Eurofighter*. None of these are classified as fifth generation.

Statement of Requirements (SOR), noted “as it is written the F-35 is the only strike/fighter jet that can meet the specifications contained in the SOR” (reported in Plamondon 2011: 273), this is not support for the qualifications themselves but an acknowledgement that as written, only the F-35 meets the requirements. Given that there has been no public debate surrounding the SOR, the Canadian public cannot be sure that the SOR was not designed on the characteristics of the F-35, as one cannot assume that the RCAF or DND is not acting within its bureaucratic interests (see Atkinson and Nossall 1981 for more on how bureaucracies act in their own self-interest), and the Canadian public cannot be confident of the operational validity of the requirements themselves.

As there was no competition in determining which airframe best suited Canada’s defence requirements and no open debate surrounding Canada’s defence requirements there is a lack of consensus as to whether or not the country needs a fifth generation fighter with stealth capabilities. According to Lagassé (2010), public debate ensures Canada’s defence requirements are met in the most efficient and effective manner; in fact, he believes that depoliticized decision making within this policy sphere is inherently bad. Fergusson (2011: 205) notes that debates about the F-35 have either consciously or unconsciously sought to limit Canadian airpower capabilities as a means to limit Canada’s overseas operations. Lack of public debate by default means Canada’s military capabilities may be determined by equipment, and not government policy stemming from democratic debate. Though debates may be unable to provide consensus on Canadian airpower requirements, they would at least ensure that decisions of strategic importance are not made by either neglect or stealth.

Beyond the specific technical and strategic requirements, there is an economic aspect to the debate. Military procurement involves vast sums of money, capable of supporting or even

transforming entire industries and regions of the country. To ensure the Canadian public receives the maximum benefit from military expenditure, Canada employs the Industrial and Regional Benefits (IRB) Policy. This policy stipulates that companies receiving procurement contracts spend an amount equal to the contract's worth in Canada over the contract's lifetime. IRBs contribute greatly to the national economy, obliging "vendors and sub-contractors to purchase goods and services over and above what it would have bought from purchaser's economy" (Martin in Plamondon 9).

According to Byers and Webb (2011: 224), the Parliamentary Budget Officer was not able to determine how or where the F-35 purchase will generate IRBs for Canada. In fact, the international JSF program stipulates that no country involved can expect guaranteed investment in their state's economy along the lines of Canada's IRB policy. Instead, firms from all partner states compete for contracts on equal footing. Though this may appear to unfairly advantage America firms due to the fact they are already imbedded within the American Military-Industrial Complex, the Canadian defence industry has effectively operated as a subsidiary of the American defence industry since the end of the Second World War. The Defence Production Sharing Agreement has resulted in a great deal of military production north of the border where Canadian firms have competed successfully with their American counterparts. This strategic decision on the part of the Canadian government to participate in the Joint Strike Fighter Programme, while not without risk, appears to have been made in the best interests of Canada's aerospace industry, to ensure Canadian businesses were not kept out of cutting edge technological developments. As noted by (Dunne), instead of receiving IRBs from 65 planes, Canadian companies can compete for contracts of upwards of 4000 planes that will be made within the entirety of the international Joint Strike Fighter Programme.

The main problem with the decision to purchase the F-35, which is shared by the Auditor General and the Parliamentary Budget Officer, is the lack of agreement on how much the purchase will actually cost the Canadian taxpayer. In an era of cutbacks and fiscal restraint, the spiralling cost of the F-35, coupled with the government being seen as either misleading or incompetently presenting the costs, appears to have hurt the governing Conservative Party of Canada.<sup>3</sup> The handling of the project has left Canadians feeling suspicious. The federal government's latest estimate was for \$16 billion, but the Auditor General puts the costs at closer to \$25 billion. This led to a very public debate, in April and May of 2012, between the Department of National Defence and the Auditor General over the accuracy of the figures presented by DND and then used by the Auditor General, with DND claiming the discrepancy lay in differences in accounting practices, most notably that DND uses a 20 year costing model and the AG was using a 36 year model.<sup>4</sup>

Overall, there appear to be three main problems with the F-35 project. First, there has been no debate as to whether or not Canada needs a fifth generation fighter to defend its interests at home and abroad. Second, the nature of the international Joint Strike Fighter Program which gave birth to the F-35 precludes guaranteed investment in the Canadian economy through Industrial and Regional Benefits. Third, the cost of the project is increasing and the public feels the federal government and the department of national defence have not been upfront regarding the true costs of the F-35.

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<sup>3</sup> The Globe and Mail reported on 27 April, 2012, reported on a poll from Nanos Research that suggested with the controversy surrounding the F-35 decision, coupled with an electoral scandal in Canada known as the Robo-caller affair, Conservative support had fallen below that of the Official Opposition, the New Democratic Party of Canada.

<sup>4</sup> On May 1<sup>st</sup>, 2012, it was reported officials from the Department of National Defence had visited Washington to determine in greater detail the cost of the project (Chase and Leblanc 2012)



## National Shipbuilding Procurement Strategy: Background

The NSPS project involves both the Royal Canadian Navy and the Canadian Coast Guard and has been billed as Canada's largest naval procurement since the Second World War. The ships to be built include Arctic/Offshore Patrol Vessels (for seaborne surveillance of Canada's waters, including the Arctic); Joint Support Ships (logistical support vessels which increase the time a naval task force can deploy without having to replenish at port, allowing the RCN to remain one of the world's few 'blue water' navies which possesses the ability to deploy and project force across the world's oceans); and Canadian Surface Combatants (to replace the Canadian Navy's frigates and destroyers). The Coast Guard components comprise offshore science and fisheries vessels which will contribute to Canadian security and sovereignty, especially in the Arctic. The cornerstone of this procurement process is the so-called "Polar Class" ice-breaker the CCGS John G. Diefenbaker. As stated by Prime Minister Harper, "When it launches for the first time into the frigid Canadian waters, the Diefenbaker, as it is almost certain to be nicknamed, will be a crowning achievement for our country" (Canadian Coast Guard 2010). In addition, a smaller package of vessels is planned for both the Navy and Coast Guard (Canada 2010b).

The economic benefit to the cities and provinces where the contracts are awarded will be immense. To ensure efficiency, Public Works and Government Services Canada (PWGSC) divided the large ship projects into two packages to be awarded to two separate shipyards: the \$25 billion Combat Vessels Package and the \$8 billion Non-Combat Vessels Package (including the Joint Support Ships). A \$2 billion small ships package will be set aside for all other shipyards to compete for the remaining ships individually. According to reports prepared by the Greater Halifax Partnership (2011), awarding the \$25 billion package to the Halifax based shipyard

would create an average of 8 400 jobs per year, peaking at 11 500. It will also generate \$266 million in tax revenue for the federal, provincial and local governments, and increase the provincial GDP by almost \$900 million. Overall investor confidence in Nova Scotia is predicted to increase, leading to even greater investment. For those interested, the NSPS Secretariat maintains a website which includes a detailed Chronology of Events and Milestones (<http://www.tpsgc-pwgsc.gc.ca/app-acq/sam-mps/chronologie-chronology-eng.html>). Here a quick overview will be done.

On the third of June, 2010, the Government of Canada announced its intentions to build the next generation of ships for the Royal Canadian Navy and the Canadian Coast Guard. The words of Minister Ambrose on this occasion demonstrate that the NSPS was not merely designed to build ships, but to support industry; “Our Government made the decision to support the Canadian marine industry, to revitalize Canadian shipyards and to build ships for the Navy and Coast Guard here in Canada.” On December 2, 2010, the Governance Terms of Reference for the National Shipbuilding Procurement Project was decided, allowing the NSPS Secretariat to begin work (Canada 2010). They proceeded with issuing of the Solicitation of Interest and Qualification (SOIQ) for Large Ships – NSPS on August 20, 2010, in order “to establish a pool of Short Listed Respondents for the follow-on Request for Proposals (RFP) competitive process” (Canada 2010a 10). Shipyards throughout Canada were invited to submit responses to the SOIQ, and any shipyard that met the requirements would be allowed to participate in the next stage, the preparation of the RFP. In the end five shipyards were selected under the SOIQ as being potential participants in the NSPS: Davie Yards Inc., Lévis, QC; Irving Shipbuilding Inc., Halifax, NS; Vancouver Shipyards Co. Ltd., North Vancouver, BC; Kiewit Offshore Services - a

division of Peter Kiewit Infrastructure Co., St John's, NL; and, Seaway Marine & Industrial Inc., St. Catharine's, ON.

At this stage the Secretariat submitted a draft RFP to all the short-listed shipyards for comment. While the federal government was under no obligation to amend the RFP based upon the feedback, the “process [was] intended to permit an exchange of information to facilitate the finalization of the RFP and UA [Umbrella Agreement]...” (Canada 2010a 11). During this period, the NSPS Secretariat on behalf of the government of Canada actively engaged the shipyards in a dialogue intended to create a robust and fair (as interpreted by the actors) Request for Proposals. There were five meetings of all the shipyards with the NSPS secretariat between 12 Oct 2010 and 27 January 2011 and the final version of the Request for Proposals was issued February 7, 2011. During the RFP stage, the shipyards from Newfoundland and Labrador and Ontario withdrew from the process, leaving only three shipyards in competition for two contracts. At this point the NSPS Secretariat and its governing structure were keenly aware of the need to ensure the three shipyards remained in the competition. Interview respondents stressed that competition amongst the shipyards would produce the best overall result for Canada. This was particularly important due to the fact that in the meeting between the short listed bidders and the Secretariat, it was established that as a mandatory financial requirement under the RFP a bidder could not be under CCAA<sup>5</sup> or insolvent. As one of the three remaining shipyards, Davie Shipyards in Quebec was under CCAA, this potentially meant that it could be excluded from making a bid, reducing the overall level of competitiveness within the process.

Highlighting the role of provincial governments in the process, the government of Quebec assisted Davie Shipyards not only in navigating the legal system, but it tendered a bid to

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<sup>5</sup> Companies Creditors Agreement Act: Federal legislation which allows financially troubled large companies to restructure themselves (PriceWaterhouse Coopers 2012)

Davie for two passenger ferries each over 1000 tonnes to ensure that the restructured Davie Shipyards still met the SOIQ requirement of having built, or having a contract to build, a ship over 1000 tonnes (reported in Marowits 2011). Due to financial troubles Davie Shipyards requested an extension of the deadline by two months, in order to complete the bid. The NSPS ADM Interdepartmental Steering Committee met to discuss this on June 28, and saw three courses of action: 1) deny an extension, 2) grant the two month extension, or 3) grant a two week extension (Canada 2011b). It recommended to the DM Governance Committee (DMGC) that the two week extension be granted, with competition being one of the considerations. The DMGC decided to grant a two week extension. In line with the desire for competition, all three remaining short listed shipyards were able to submit their bids.

Next the bids were evaluated in a blind process to ensure fairness. The evaluation was divided into nine areas and there were seven investigative teams. The teams evaluated the individual criteria items across all three shipyards, and did not share their findings with each other. Only two public servants knew the total scores and even the Prime Minister of Canada only found out the results the day they were announced, by a Deputy Minister, not a politician. In the end, the Halifax based Irving Shipyards' bid easily outstripped the other two. Its final score was 82.8% compared to Vancouver at 74.9% for the Combat package and 76.8% for the non-Combat package. Quebec based Davie trailed at 63.2% for the non-combat package. As Halifax won the combat package its score for the non-combat package was not made public, and Davie only submitted a bid for the non-combat package.

## The Process

The selection process for the NSPS was unique in the manner in which it deftly navigated the political minefield of military procurement. Any competition that creates winners and losers has the ability to become highly politicized, and Canadian federalism can exacerbate the situation. In particular, it creates powerful sub-state actors (the provinces) which can use their democratic legitimacy to use state resources against the central government. One need only recall the ABC (Anyone But Conservative) campaign during the 2008 federal election by Newfoundland and Labrador Premier Danny Williams to understand how provinces are able to marshal resources against the federal government. In this case, it was to defeat Tory MPs in Newfoundland and send a message to Prime Minister Harper. Accordingly, in order to meet its desire to modernize the RCN and CCG, the federal government did its best to 'de-politicize' the decision making process. The government guided how the decision was to be made, but once the system was in place the Ministers effectively excused themselves from influencing the outcome.

According to interview respondents in Ottawa, though briefings were given to ministers, particularly the Minister of Public Works as Public Works and Government Services Canada is the lead ministry for procurement, at no time was either a decision sought from a minister or one offered by them. Neither did political staffers attempt to influence the decision, which was something that respondents indicated was fairly normal in Ottawa and that did not occur with the NSPS. Three key criteria can be identified which allowed the NSPS to effectively navigate the hurdles of federalism in Canada. First, it co-opted industry into the decision making process early on. Second, it made use of effective third party agencies as technical experts and fairness monitors in a very public and open process. Third, it created an arms-length secretariat and governing body free of political interference charged with making the final decision based upon

detailed technical merit, Value Proposition, and Industrial and Regional Benefits, as illustrated in Figure 1. By doing all of the above, the federal government had no influence the final decision, which was universally hailed as having been made on the soundest of technical merit.

Figure 1: The Shipyard Selection Framework Scoring

1 – Mandatory (Pass/Fail)		
1a. Administrative	1b. Legal	1c. Financial
2 – Shipyard’s Current State and Plans (60%)		
2a. Current State 36%		2b. Plans 24%
3 – Cost to Canada for Upgrades and Improvements (20%)		
4 – Shipyard’s Financial Situation (10%)		
4a. Financial Capability 6%		4b. Source of funding for Improvements 4%
5 – Value Proposition (10%)		

Source: NSPS Secretariat Nova Scotia Briefing 30 May 2011

It should be noted that the NSPS is not the first time the government has sought to exclude itself from decision making. In May of 2000, the Canadian government determined it needed to establish where the offshore boundary between Nova Scotia and Newfoundland and Labrador would be in order to divide revenue from offshore resources (offshore natural gas and oil resources belonging to the federal government). The government used international law to determine where the boundary would be if the two provinces were sovereign states. They set up a quasi-legal tribunal to apply international law and determine the boundary. Though the depoliticization of this decision appeared to be a positive move, according to Baier and Broarke (2003), it was a failure of executive decision making on behalf of the government of Canada. They argue the federal government abdicated its responsibility to settle disputes through open negotiation and public weighing of the social and political alternatives, and that “depoliticizing the process [was] a fundamental denial of responsibility” (Baier and Broarke 2003: 334). In essence, by ignoring political issues such as the need for additional revenue for the provincial

economies the government abdicated some of its key responsibilities towards the citizens of the two provinces. As this example illustrates, the benefits of depoliticization can come at a cost.

### NSPS Problems Solved

Though never explicitly mentioned, the memory of the CF-18 maintenance contract controversy of the mid 1980s seems to have guided the decision to adopt an arm's length approach. In short, the problems encountered in the 1980s occurred when a decision had to be made between competing bids from Winnipeg and Montreal for the costly maintenance contracts for Canada's fleet of CF-18 fighter planes. The technical experts ruled the bid from Winnipeg was technically superior and cheaper than the bid from Montreal, yet the governing Progressive Conservatives awarded the contract to the Montreal based bid. This led to accusations that the decision to award the contract was made for political reasons, in particular to garner favour in Quebec. This was one of the events that led to the abandonment of the Western Canadian wing of the Progressive Conservative Party and the eventual creation of the Reform Party of Canada. This turn of events, coupled with the loss of the Quebec wing of the party, contributed to near complete annihilation of the Progressive Conservatives in the 1993 general election and the eventual creation of the Conservative Party of Canada in 2004. Of interest to note, Prime Minister Mulroney made it clear that the award went to Montreal due to the fact that unemployment was higher there and it that his government felt the money would be better spent there than in Manitoba, which had the lowest unemployment rate in the country (reported in Robinson 1986). This author does not know the relative weight given to this consideration in the CF-18 maintenance contract award (and perhaps it was never explicitly stated by the government), yet in the case of the NSPS, IRB was front and centre. IRB policy does not state

where in the country money must be spent, only that an equivalent amount must be spent in Canada. As Industry Canada works closely with Canada's Regional Development Agencies in assisting the companies with IRB, one can assume that the regions covered by these Agencies will have an advantage due to their close relationship with the businesses within their respective regions. Additionally, the NSPS model looked to Value Proposition in its determination. Bidders were expected to invest 0.5% of the value of the bid on what is termed Value Proposition. Value propositions, which come out of the bidders' own funds, are separate from the Regional and Industrial benefits, and are designed to advance the industrial marine sector in Canada. Given the weighting is not proportionate to the cost, (0.5% of the bid total cost and 10% of the bid's final score. See Figure 1) is suggestive of the importance of procurement not only in building equipment for the Canadian Forces, but to support Canadian industry.

Albeit an extreme example, the CF-18 maintenance contract debates exemplify a problem inherent in highly non-centralized federation such as Canada; the provinces are extremely powerful and provincial governments will act in the best interests of their constituents. Provincial power combined with the weight given to the Value Proposition in the NSPS, demonstrates how important defence spending is to shaping the national and regional economies. This section will explore the major accomplishments of the NSPS. It will examine how elite consensus for the decision making process was created at the federal level, both politically across parties and institutionally within the federal bureaucracy, and it will examine how the process, which was focused on transparency and co-opting industry from the beginning, managed to effectively navigate the pitfalls of Canadian federalism. Finally, it will concentrate on the ability of the NSPS decision to support and sustain Canada's domestic maritime industry.



The support from all parties for the NSPS decision was clear. Though there was some murmuring of dissent from Quebec based politicians, the clear consensus, both inside and outside Quebec, was that the decision was reached in a fair and equitable manner. As noted by NDP Shipbuilding critic Peter Stoffer<sup>6</sup> "I have to say how proud I am and have to give the government credit for the independence of this program ... I have no evidence leading up to know that any political interference in any way, shape or form led to this" (reported in Visser 2011). The fact the government allowed the public service to conduct its decision making unburdened by political interference was viewed very positively by opposition parties. Even the Bloc Quebecois's response to the decision was muted, suggesting cross party consensus had been reached and allowing for the production of ships to begin.

The decision making processes of the NSPS itself was very conducive to achieving the overarching goals of the government. The manner in which the RFP was developed by bringing in industry, banning the use of lobbyists, and using third party fairness monitors, ensured the competing shipyards' voices were heard and moved the process forward. In particular, the requirement that industry refrain from engaging lobbyists kept conflict to a minimum and promoted the view that the final decision was fair and equitable.

In addition to the de-politicization of the process at the political level there was very little interdepartmental or bureaucratic competition. It is well known that government agencies, while existing to serve the interests of the government and the state, develop their own interests. As noted by Atkinson and Nossal (1981 532-533) in their investigation into the initial purchase of the CF-18, government departments not only attempt to maximize organizational well being; but bureaucrats can hold a great deal of power over politicians due to the fact that in any given area,

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<sup>6</sup> It should be noted that as an MP from Greater Halifax, Mr Stoffer's constituents would directly benefit from the decision.

they will have much more information than politicians, information required to judge both efficiency and effectiveness. Atkinson and Nossal (1981) note that competing departments will have competing interests, for example DND will be focused on getting the most powerful weapons system, while Industry Canada will be focused on maximizing economic output. This creates winners and losers *within* the bureaucracy in addition to any other winners and losers the final outcome creates.

The NSPS Secretariat managed to create consensus amongst the four government departments working on the project. As the document which created the NSPS Secretariat and governing structure indicates, a dual line of communication and authority was in place. Individual members of the Secretariat were responsible, ultimately, to their respective departmental chains of command. For example the DND Director on the NSPS Secretariat was responsible to Director General Major Project Delivery – Land & Sea (Canada 2010c). This had the potential to pit departmental interest against departmental interest. Interview respondents were queried about this arrangement and how it was overcome. They indicated two important aspects. First, there was clear direction given by, and strong leadership from, the Prime Minister’s Office (PMO) which was seeking to have a decision made in a timely manner (reinforcing the process versus outcome argument made earlier). Second, there was general agreement amongst the departments involved that a decision needed to be made, and the desire for agreement was more important than achieving specific departmental interests. To paraphrase the words of Atkinson and Nossal (1981: 544), no department appeared to interpret its interests as being more important than the stakes at hand. In the case of the NSPS, the fact that there was agreement on the types of ships to be built at the beginning of the process, rather than the process being about determining what types of ship Canada required, seems to have been key to its

success. Unlike either the debates leading up to the purchase of the CF-18 or the current debates on the F-35, the NSPS was dealing in technical, not strategic, terms.

The final accomplishment of the NSPS to be addressed is its mandate to support the marine industry in Canada; a key aspect of the initial government announcement was the revitalization of marine industry and the establishment of long term strategic relations between Canada and the two winning shipyards. The Canadian government was looking to accomplish far more than building ships, the government was actively trying to re-build Canada's domestic capacity to produce modern, high tech vessels for both the Royal Canadian Navy and the Canadian Coast Guard into the future while eliminating the "traditional boom and bust" of shipbuilding in Canada (Shadwick 2012). In this sense, the government of Canada was as interested in the shipbuilding *process* as the final product.

Canada often uses military procurement to support domestic industry, but in the case of the NSPS the intent appears to have been to create truly sovereign Canadian shipbuilding capability, from design to operation. This differs from projects where a great deal of assembly may happen in Canada, and some of the internal systems may be "Canadianized," but foreign industry and expertise serve as the basis for the equipment. From planes to helicopters to tanks, Canada may modify the equipment to meet its requirements, but they are Canadian versions of foreign military hardware. Uniquely, the ships being constructed under the NSPS are truly Canadian vessels.

### The NSPS and F-35 Compared

Given the problems encountered in the decision to purchase the F-35, the Minister of Defence decided to use the NSPS as the model for re-thinking and re-evaluating Canada's next

fighter aircraft. From what has been reported, this includes an interdepartmental secretariat modeled after the NSPS one and an ADM steering committee similar to the one that oversaw the NSPS secretariat. This paper will evaluate the three key problems identified with the F-35 decision and contrast them with the successes of the NSPS.

The first problem is that F-35 decision has been highly politicized. Though it is not unusual for opposition parties to heavily critique the government, Canada's involvement with the F-35 began under a Liberal government. This could have presented an opportunity to de-politicize the purchase decision, but the Conservatives handled the file very poorly, seemingly lacking effective oversight of the bureaucracy. Not only has this led to questions about the Minister and Associate Minister of Defence's abilities, it has brought the entirety of the F-35 decision into disrepute. Given the very high likelihood that the F-35 aircraft will be chosen through this new procurement process, one can predict that questions surrounding the choice will linger and make it very difficult for the jet fighter version of the NSPS to achieve the same level of legitimacy, especially if the F-35's operational capabilities fall short. If its sister plane, the F-22 Raptor, is anything to go by, we can expect unanticipated problems, as the F-22 fleet has been grounded at least twice, once February 2010 and again in May 2011, due to design problems and there have been reports of a mysterious cough plaguing F-22 pilots (Lee 2012).

The media often portrays the F-35 as the largest defence expenditure in Canadian history when in fact the cost of the ships under the NSPS exceeds even the highest cost estimates to date for the F-35. Additionally, the costs associated with the F-35 are the full costs of operating the plane during the life-cycle of the project, from personnel (pilots and support crew), fuel, munitions, maintenance and so forth and will be spent over the operational lifecycle of the aircraft. This is very different than the costs for the ships which are for construction *only*. They

do not include the cost of fuel, ammunition, personnel, support ships, onboard helicopters, supporting infrastructure and so forth. The cost of running the ships will probably be in the range of tens of billions of dollars beyond the construction costs. The contrast between the two could not be starker, and it emphasizes the difference in perception and outcome when one project has broad political support and one does not.

The second problem with the F-35 is the lack of Industrial and Regional Benefits. IRBs have historically been the cornerstone of Canadian defence procurement. This has ensured that monies spent on defending Canada have not actually left Canada, instead they are cycled back into the Canadian economy, not a foreign one. Canada's return on investment could be quite high if it decides to purchase the F-35 given it will be participating in the economic output of not simply the 65 planes it will purchase, but in all 3-5000 that will be built, yet the federal government has been unable to effectively convey the potential benefit of the F-35's to Canadian industry. Given the low level of trust Canadians currently have in their government, with the governing Conservatives appearing statistically tied with the NDP Opposition at about 30 odd percent due in part to the F-35 problems, one could forgive the taxpayer for being skeptical. Industrial and Regional Benefits ensure that monies spent do not end up leaving the country, a concept that is fairly easy to explain to the public. However, explaining how the Canadian defence industry will be able to compete in an international environment against heavy hitters from the United States, Germany and the United Kingdom is more challenging, especially as most Canadians probably do not realize the extent of military production in Canada<sup>7</sup>. Canada has historically been very interested in Industrial and Regional Benefits in order to protect and

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<sup>7</sup> Many Canadians may be surprised that Canada is currently the 14<sup>th</sup> largest arms exporter in the world with over \$290 million of arms exports annually, according to the Stockholm International Peace Research Institute (2012) <http://armstrade.sipri.org/armstrade/page/toplist.php>

develop domestic industry, but IRBs in the traditional sense are not applicable to the F-35 project. Nor is there a plan in place to develop a domestic fighter plane along the lines of domestic shipbuilding. No matter what fighter is chosen, it will be a foreign designed plane modified for Canadian needs.

The final issue surrounding Canada's next generation fighter, which may in fact be the foundation of all the other problems, is that there is no agreement upon the required airframe. This is the key distinction between the F-35 and the NSPS. In the case of NSPS, the government, the Canadian Forces and DND, Industry Canada, Public Works, and the Department of Fisheries and Oceans (the Canadian Coast Guard) appear to have reached agreement on both the type and quantity of ship required. There was some debate prior to the initiation of the NSPS, but by the time the NSPS began, there was agreement on what was going to be purchased, with some minor room to maneuver at the margins (for example, 6-8 Arctic Patrol Ships or the option to build a third Joint Support Ship). This is fundamentally different from the decision to purchase a replacement for the CF-18. While there does not appear to be any group within Canada attempting to argue that Canada does not need a replacement for the CF-18, there is absolutely no agreement on what is necessary. Though DND has produced a Statement of Requirements, it is secret and the Canadian public has no way of judging its validity. As Canadians appear to be much less deferential to authority than they have been in the past (Nevitte 1996), it stands to reason that they are less willing to accept the word of the government and Generals at face value, especially during a time of economic uncertainty.

## Conclusion

This paper has charted the course of two different military procurement processes to determine if the model used by the NSPS is applicable to deciding which fighter plane should replace the aging CF-18 as Canada's main air asset. While in both decisions the government is seeking to optimize the spending of the tens of billions of dollars on military hardware, one was successful and other not. This has resulted in the federal government restarting the decision making cycle with regards to fighter plane replacements along the lines of the NSPS. A major point of departure between the shipbuilding and aircraft procurement is that a broad agreement on the types of ships to be built was reached *prior* to Canada initiating the National Shipbuilding Procurement Strategy. The decision with regard to the fighter plane procurement is about reaching a decision as to which planes Canada requires. In essence, the former was about process with an agreed upon product and the later about product without an agreed upon process. This allowed the NSPS to concentrate on technical merit, and allowed the government to take a hands off approach. The lack of agreed upon process within the fighter procurement is the place of IRBs within the decision. As the F-35 *cannot* be subject to IRBs, this means a political decision must be made either to eliminate IRBs as a major factor in deciding which plane to purchase, or to keep IRBs as a major factor and exclude the F-35; one of the most advanced fighter aircraft ever on offer to Canada. Accordingly, while the creation of an arms-length process to insulate the government and produce a sound technically based decision may be desirable from the view of the federal government, this author feels that the differences between the NSPS and the fighter replacement decision are not differences of degree, they are differences of kind, and as such are most likely incompatible with each other.

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