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THE DEFENCE PROCUREMENT STRATEGY: A GOOD START

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Exercise Solo Flight

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THE DEFENCE PROCUREMENT STRATEGY: A GOOD START

“A procurement strategy defines in general terms how a good, service, or construction will be procured, and will include, at the highest level, the determination to proceed competitively or non-competitively and applicable details in support of industrial and regional benefits or other national objectives.”¹ In recent years the Canadian Government, in an effort to try improve defence procurement policy and process following decades of defence contracting blunders, has introduced the Defence Procurement Strategy.

Although a step in the right direction, in order to improve the recently announced Defence Procurement Strategy, the Canadian Armed Forces needs to be the owners of the defence procurement process and not rely on another Federal department, Public Services and Procurement Canada.

Defence procurement in Canada has a long and storied history; at the onset of the first World War, defence procurement was conducted individually by each of the elements of the military.² As the war progressed, it became evident “there was no effective coordination of armed forces purchases; significant variations existed in the prices paid for specific defence products; no federal government control was in place for defence production on the home front; and numerous cases of individual and corporate profiteering from defence contracts came to

¹ BuyandSell.gc.ca, Public Works and Government Services Canada, Chapter 3 – Procurement Strategy. <https://buyandsell.gc.ca/policy-and-guidelines/supply-manual/section/3#section-3.1>. Last accessed 9 May, 2018

² Auger, M. “The Evolution of Defence Procurement in Canada.” <https://lop.parl.ca/Content/LOP/ResearchPublications/2016-09-e.html?cat=international#a27>. Last accessed 24 May, 2018

light.”³ As a result, the Prime Minister at the time, Robert Borden, ordered the stand-up of the Royal Commission on War Supplies to study the issue.

This first study resulted in a centralized contracting and procurement concept and was named the War Purchasing Commission; established in May of 1915. The Commission would be responsible to the Privy Council and would be “appointed to oversee all Canadian war purchases as well as all contracts placed by international allies with businesses and industries across Canada.”⁴ This first centralized procurement body would not last long and would be dissolved in 1919 when procurement went back to being run by the Navy, Army and Air Force of the day.

The next iteration of a centralized contracting system for the Canadian Armed Forces would arrive in 1939 as a result of the recommendation of a Royal Commission studying corruption allegations. “In June 1939, Parliament passed the Defence Purchases, Profits Control and Financing Act, creating the Defence Purchasing Board, which began operations on 14 July 1939.”⁵ This new Defence Purchasing Board would take control of all Defence procurement across all three elements of the Canadian Armed Forces. Shortly after its establishment, and with the beginning of World War II, the government of the day would further centralise procurement with the establishment of the Department of Munitions and Supply, a separate department under the government which “would direct the purchase, production and distribution of defence products.”⁶

³ Ibid.;

⁴ Auger, M. “The Evolution of Defence Procurement in Canada.” <https://lop.parl.ca/Content/LOP/ResearchPublications/2016-09-e.html?cat=international#a27>. Last accessed 24 May, 2018

⁵ Ibid.;

⁶ Ibid.;

Upon the conclusion of the war, the Mackenzie government made the first strike at reducing the exclusivity of defence procurement and began the reduction of focused attention on the fulfillment of defence requirements. “In December 1945, the Mackenzie King government merged the Department of Munitions and Supply with the Department of Reconstruction to form a new Department of Reconstruction and Supply... the new department assumed responsibility for both defence procurement and production in Canada.”⁷

With less and less focus on defence spending, between the end of World War II and the beginning of the Korean War, defence procurement would be handled by various government organizations. With the Korean War in the 1950’s, the government would once more centralize defence procurement under the Defence Supplies Act in 1951 which established the Department of Defence Production. The Department of Defence Production would become “the central purchasing agency for the federal government as a whole to serve all departments, both civil and military and extended its responsibilities to include the area of civil supply”⁸ further attenuating the responsibility of defence procurement. The Department of Defence Production would continue until 1969 when it would be replaced by the Department of Supply and Services.

On the 1st of April 1969, the Department of Supply and Services was created to manage “planning, acquiring, and supplying the goods and services required by all federal government departments and agencies, including DND and the armed forces”⁹ thus cementing the future of centralized defence procurement within Canada as a separate federal department outside of the Department of National Defence and the Canadian Armed Forces.

⁷ Auger, M. “The Evolution of Defence Procurement in Canada.”
<https://lop.parl.ca/Content/LOP/ResearchPublications/2016-09-e.html?cat=international#a27>. Last accessed 24 May, 2018

⁸ Ibid.;

⁹ Ibid.;

Canada's procurement process would not see significant change again until the 1990's when the Conservative government decided to once again move procurement to be more inclusive of other federal departments with the creation of Public Works and Government Services Canada (PWGSC). By November of 2015, PWGSC would be renamed Public Services and Procurement Canada and defence procurement would involve "a number of federal government departments and agencies: DND, PWGSC (renamed Public Services and Procurement Canada, or PSPC, on 4 November 2015), Industry Canada (renamed Innovation, Science and Economic Development Canada, or ISED, on 4 November 2015), and the Treasury Board of Canada Secretariat."¹⁰ The Canadian governments latest idea of efficient and effective defence procurement was a culmination of four separate and distinct Federal departments. Critics of this new plan believed "the glacial and confused inter-departmental procurement process should be centralized within one organization, be it DND, Public Works, or a new stand-alone agency."¹¹

This latest change in organization would result the latest answer to defence procurement by the federal government, the Defence Procurement Strategy (DPS); released in 2014. The DPS is "designed to reform the way Canada acquires military equipment."¹² The DPS was designed with "three key objectives: (1) delivering the right equipment to the CAF in a timely manner; (2) leveraging purchases of defence equipment to create jobs and economic growth in Canada; and

¹⁰ Auger, M. "The Evolution of Defence Procurement in Canada." <https://lop.parl.ca/Content/LOP/ResearchPublications/2016-09-e.html?cat=international#a27>. Last accessed 24 May, 2018

¹¹ Gilmore, Scott. "Military Procurement Is a National Disgrace." *Maclean's*, 19 June 2015.

¹² Perry, Dave. "Putting the 'Armed' back into the Canadian Armed Forces - Improving Defence Procurement in Canada." Conference of Defence Associations Institute, Jan. 2015, www.macdonaldlaurier.ca/files/pdf/MLIdefenceprocurement.pdf. P. 3.

(3) streamlining defence procurement processes.”¹³ In keeping with current government strategies regarding procurement, the DPS incorporates “a new governance and accountability framework”¹⁴ called the Defence Procurement Secretariat which is accountable to the Deputy Ministers Governance Committee and comprised of representation from, once again, five separate Federal government departments: PSPC, DND, Innovation, Science and Economic Development Canada, Global Affairs Canada and Fisheries and Oceans Canada. To provide a simple analogy of how ineffective this kind of decision making can be, picture five brothers and sisters from the same family each trying to get the attention of their mother, each with a different demand and their own agenda; not much would get done. Although the DPS is only a few years old, perhaps it is time, once again, to make a large scale change.

Throughout defence procurement history, as detailed in this paper, the responsibility of defence procurement has shifted from a centralized bureaucratic, multi-discipline procurement machine to procurement being conducted by the individual elements of the Canadian Armed Forces. Numerous critics of the current defence procurement plan, the Defence Procurement Strategy, believe it could be improved and believe “better accountability and efficiency could be achieved if Canada abandoned its multi-departmental defence procurement system and centralized the system under a single federal government organization.”¹⁵ The United States of America is one country which has done exactly that; United States defence procurement is controlled and managed by the Department of Defense.

¹³ Auger, M. “The Evolution of Defence Procurement in Canada.”
<https://lop.parl.ca/Content/LOP/ResearchPublications/2016-09-e.html?cat=international#a27>. Last accessed 24 May, 2018

¹⁴ Ibid.;

¹⁵ Ibid.;

“The U.S. employs a system of systems approach, based on requirements, resource allocation and acquisition.”¹⁶ The systems of systems approach consists of a three step process; the first step, Joint Capabilities and Development System, is the ‘idea’ portion of the process and focuses of the needs of defense. The second step is the Planning, Programming, Budgeting and Execution System; this step is primarily focused on budget and execution of the requirements. The third and final step, the Defense Acquisition System, is primarily responsible for the procurement of the requirements.¹⁷ “Only after completing the steps of identifying the requirement and obtaining a budget can the process of acquiring the product start.”¹⁸

Although the Department of Defense controls the procurement process, it does not mean it is the perfect process. Like Canadian defence procurement, the United states suffers from the same procurement pitfalls such as cost overruns and time delays but, this is to be expected when dealing with the “longstanding preferences of the military services for state-of-the-art weaponry.”¹⁹ Basically, because the United States demands the latest-and-greatest, the technologies involved have either not yet been invented or are in the infancy regarding development and testing; this set of parameters, due to the nature of the requirements, create difficulties in creating time and cost estimates. One such example of this that crosses both Canadian and United States defence procurement lines, is state-of-the-art weaponry such as the F-35 which has suffered both, time delays and cost overruns.

Where the United States procurement system also shows weakness is it follows the old Canadian construct in that the individual services within the Department of Defense control their

¹⁶ Kimball, A. L. “What Canada could learn from U.S. Defence Procurement: Issues, Best Practices and Recommendation.” The School of Public Policy - SPP Research Papers, vol. 8, no. 17, Apr. 2015, www.policyschool.ca/wp-content/uploads/2016/03/us-defence-kimball.pdf.

¹⁷ Ibid.;

¹⁸ Ibid.;

¹⁹ Ibid.;

own procurement. “Each individual armed service (U.S. Army, U.S. Navy, U.S. Air Force, U.S. Marine Corps, and U.S. Coast Guard) executes its own defence procurement.”²⁰ This stove piping of procurement has the possible disadvantages of creating duplication of efforts, variations in costs for like items and reduces the ability to ‘bulk buy’ items and consequently reduce costs. Perhaps, the United States system for defence procurement is not a solid candidate for comparison to Canada’s system as although defence procurement is administered and managed by the Department of Defense, the defence budget is exhaustive and the size of the department dwarfs that of Canada and contains many complexities.

Perhaps a better comparison would be between Canada and Australia when it comes to defence and defence procurement; the countries are similar in size, population and associations within the world stage. The biggest differences militarily between the two countries is the percentage of military spending and the number of personnel within the ranks of the military. Canada appends approximately \$15.5B where Australia spends approximately \$25B or 1.89% of GDP to Canada’s 1% of GDP;²¹ Canada has approximately 188,000 Regular and Reserve Force personnel while Australia tops at approximately 77,000 Regular and Reserve Force personnel. Although these differences exist, they are not drastic enough to warrant differences in how defence procurement is managed.

The Australian procurement system is, perhaps, a better example to compare to that of Canada. In Australia, “the Capability Acquisition and Sustainment Group (CASG) is part of the Department of Defence and exists to meet the Australian Defence Force's (ADF) military

²⁰ Auger, M. “The Evolution of Defence Procurement in Canada.” <https://lop.parl.ca/Content/LOP/ResearchPublications/2016-09-e.html?cat=international#a27>. Last accessed 24 May, 2018

²¹ http://armedforces.eu/compare/country_Australia_vs_Canada. Last accessed 28 May, 2018

equipment and supply requirements as identified by Defence and approved by Government.”²²

The CASG is the latest stand up procurement plan of the Australian Department of Defence and is similar to the Canadian Assistant Deputy Minister (Materiel) (ADM(Mat)) in that it is responsible for the cradle to grave process of materiel management; where it expands beyond ADM(Mat) is the Defence Materiel Organisation also handles the initial procurement.

The Assistant Deputy Minister (Materiel) is an organization which resides within the Department of National Defence which is led by a politician and comprised of both civilian and military members throughout from leadership roles to working positions. Like any organization within government, ADM(Mat) has some key roles with regards to materiel management. The primary role is “to acquire new equipment to help enable the readiness of the Canadian Armed Forces (CAF)”²³ with the follow-on roles focusing on “in-service support and the maintenance of the existing fleets”²⁴ and creating and sustaining relationships with industry. The ADM(Mat) organization takes over once major capital acquisitions are made; ADM(Mat) manages the large contracts such as the Maritime Helicopter Replacement project and the National Shipbuilding Procurement Strategy from contract award until contract completion which could mean final disposal or work conclusion. ADM(Mat) is also the organization which manages smaller projects such as military clothing procurement; with each of these projects, large or small, ADM(Mat) is responsible to “do a good job on cost and schedule, while at the same time

²² Department of Defence. “Who are we?” <http://www.defence.gov.au/casg/AboutCASG/WhoWeAre/>. Australian Government. Last accessed 27 May, 2018

²³ National Defence and Canadian Armed Forces. “Materiel More than just procurement and acquisitions.” Government of Canada. 18 December, 2013.

²⁴ Ibid.;

continuing to move the other capabilities and programs that are equally important.”²⁵ In other words, ADM(Mat) takes over where major procurement ends.

Like ADM(Mat), the Capability Acquisition and Sustainment Group is comprised of both civilian and military members; “the CASG leadership team has a good balance of private and public sector experience, as well as extensive military domain knowledge.”²⁶ The structure of the CASG allows for all procurement and materiel management for all elements of the Australian Defence Force to be housed within one organization under the Department of Defence.²⁷ Having one organization as the lead for procurement and materiel management helps to reduce duplication of effort plus also provides oversight on the full process which allows for better management and decision making while considering all parties involved.

Much like the Canadian Defence Procurement Strategy, the Capability Acquisition and Sustainment Group has similar key goals for which they hope to achieve with the creation of the group. Like DPS, the CASG hopes to improve relationships with government and customers, they want to “improve our strategic level partnerships with industry.”²⁸ Where the CASG goes beyond the DPS is with the goals of transparency and the improvement of their personnel on a professional level. The goal which is glaringly missing from the CASG list is the political goal of job creation within the country.

²⁵ National Defence and Canadian Armed Forces. “Materiel More than just procurement and acquisitions.” Government of Canada. 18 December, 2013.

²⁶ Department of Defence. “Who are we?” <http://www.defence.gov.au/casg/AboutCASG/WhoWeAre/>. Australian Government. Last accessed 27 May, 2018

²⁷ Department of Defence. “Our Structure” <http://www.defence.gov.au/casg/AboutCASG/OurStructure/>. Australian Government. Last accessed 27 May, 2018

²⁸ Department of Defence. “Who are we?” <http://www.defence.gov.au/casg/AboutCASG/WhoWeAre/>. Australian Government. Last accessed 27 May, 2018

The Defence Procurement Strategy has been a positive step for the Canadian government in that focus has been brought back onto the defence procurement process with its goals of creating jobs, improving procurement processes and improving timeliness. The government has recognized the need to improve the procurement process and create efficiencies which will benefit the military, industry and hopefully reduce costs for Canadian taxpayers. As shown throughout Canadian defence procurement history, the next change is just around the corner.

The Australian Defence Force model for procurement, the Capability Acquisition and Sustainment Group should be the next evolution of the Defence Procurement Strategy in that, Canada already has the support structure to move procurement within the Department of National Defence. With slight organization changes within the Assistant Deputy Minister (Materiel) organization, it too could become the owner of the entire procurement and materiel management process like Australia's CASG. "Creating a single point of accountability might help resolve interdepartmental disagreements earlier, better allocate scarce human resources, and eliminate delay attributable to process duplication, particularly for Treasury Board submissions."²⁹

²⁹ Perry, Dave. "Putting the 'Armed' back into the Canadian Armed Forces - Improving Defence Procurement in Canada." Conference of Defence Associations Institute, Jan. 2015, www.macdonaldlaurier.ca/files/pdf/MLIdefenceprocurement.pdf. P. 5.

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