

Regionalism, nationalism and defence procurement in Canada

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## **Abstract**

Regionalism and nationalism are two powerful political forces in Canada. Due to the complex nature of Canadian federalism, these forces influence many policy spheres. As a result the federal government must continually balance competing regional and national demands when making decisions. One policy sphere which has received little academic attention in relation to regionalism and nationalism is national defence. This paper attempts to rectify that gap by exploring how regionalism and nationalism influence a very important aspect of national defence: defence procurement. Though procurement may not represent the flashy side of national defence, it directly influences both the operational abilities of the military and the costs to the Canadian taxpayer. To understand how regionalism and nationalism influence defence procurement, this paper analyzes the debates surrounding three major procurements: the maintenance contract for CF-18s awarded to a Montréal based firm in the 1980s, the National Shipbuilding Procurement Strategy Decision in 2011 and current debates on the F-35 Joint Strike Fighter. This paper attempts to identify the role regionalism and nationalism play in the decision making process, and determine if and how it affected the outcome of the decisions. In so doing, this paper offers insight not only into an important aspect of Canadian security decision making, but also a major aspect of federal public spending.

## **Introduction**

The process of military procurement in Canada has long been problematic for both the military and the government. The Canadian Forces (CF) often has to use antiquated equipment as the process of replacing equipment has been known to take decades (Plomadon 2010). This may be due in part to the fact that historically Canada has not faced a direct threat to its territory in living memory outside of nuclear attack. The United States is the only country that could conceivably launch an offensive into Canada, and it is a state which is so powerful that Canada simply could not defend itself against it. As such there has been no pressing need to ensure that military equipment is purchased in a timely manner. This has given the government flexibility with regards to national defence spending as it has largely been a depoliticized issue, despite capability gaps which do have an effect on Canadian soldiers on the ground. Occasionally, the government has to make defence procurement decisions which, due to the sheer size of the expenditures involved, become politicized. The Conservative Party of Canada, an amalgamation of the former Progressive Conservative Party of Canada and the Canadian Alliance (the renamed Reform Party of Canada), is acutely aware of this.

Prime Minister Harper was a key player in the early days of the Reform movement in Western Canada. As such, he is very aware that one of the events that led to the creation of the Reform Party was the decision to award a maintenance contract for Canada's CF-18 fighter

planes to a Montreal firm over a firm from Winnipeg (despite the government's own assessors stating the Winnipeg bid would be cheaper and technically superior). This led to a surge of resentment in Western Canada. As Carty et al note (2000: 48) "For many Westerners, this decision was taken as evidence that even a government in which the West was well represented would sacrifice the region's economic interests on the altar of Quebec politics." As a result, many westerners ceased to look towards traditional parties to represent them within the Canadian House of Commons, leading to the rise of the Reform Party of Canada and the slow death of the Progressive Conservative Party of Canada.

Although defence has not often been a source of major political issues in Canada, the emphasis the current Conservative government places on national defence and military history has created a different relationship between the current Conservative government and the military. The Conservative government has managed to stake out a clear defence procurement "win" with regards to shipbuilding, and a defence procurement "loss" with regards to replacement fighter aircraft. Given the sheer scope of the projects involved (both in the tens of billions of dollars) and the massive impact both will have on regional economies, it is important to understand how defence procurement could exacerbate regionalism and nationalism within Canada. For as long as Canada has a military, it will be faced with the task of purchasing increasingly costly military hardware as the country strives to maintain interoperability with the American military.

To better understand how the forces of regionalism and nationalism can influence defence procurement, and vice versa, this paper examines three major defence procurement projects: the decision to award maintenance contracts in 1986 for the CF-18 fighter aircraft to Canadair out of Montreal; the decision to award contracts to Irvine Shipbuilding from Halifax and Seaspan from North Vancouver within the National Shipbuilding Procurement Strategy (NSPS); and the ongoing debates around the replacement plane for the CF-18 which was initially slated to be the F-35.

Defence procurement in Canada and throughout the Western world is a story of bureaucratic wrangling, cost over-runs, and political interference. Accordingly, the problems plaguing the F-35 program and the debates surrounding the awarding of the CF-18 maintenance contracts are the norm, whereas the success of the NSPS is an aberration. The NSPS has been viewed as well-managed and has so far avoided many of the political and institutional pitfalls

inherent in the Canadian system; even though the strategy created winners and losers amongst the provinces as they competed against each other over tens of billions of dollars in federal funds in a competition that crossed two of Canada's historically salient cleavages: East versus West, and Quebec versus Canada (outside Quebec). Given the success of the NSPS, it is not surprising the Minister of National Defence wanted to emulate the process for the replacement of Canada's aging CF-18s. The research for this paper is based upon archives from the Cf-18 maintenance contract, 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 various publications of government agencies and interviews conducted by the author with members of the NSPS governing structure in Ottawa.

### **CF-18 Maintenance Contract**

The cost of operating state of the art military equipment is incredibly high. Even if a location does not get a chance to *produce* a piece of military hardware, the opportunity to *maintain* or *upgrade* it can have an extremely large economic benefit to local communities. This was highlighted in 1986 when the government awarded a major maintenance contract valued at \$1.2 billion over 20 years (in 1986 dollars) for its fleet of CF-18s. Fighter planes are both technologically advanced and subject to extreme conditions and need to be continually maintained. In the early to mid 1980s the government was looking to award a maintenance contract for them. There was near universal consensus that the contract would not merely keep the planes flying, but that it would also have huge technical, scientific and economic spin offs. The contract would be transformative.

Numerous bids were placed, but in the end Bristol Aerospace of Winnipeg, Manitoba, and Canadair of Montreal, Quebec, were short-listed for the contract. The technical experts employed by the government stated that the bid from Winnipeg was both technically superior and would cost less to the Canadian taxpayer, an assessment that was met with no apparent objection from any stakeholder. The government, however, awarded the contract to Canadair of Montreal (located in the constituency of then Quebec Premier Robert Bourassa). Prime Minister Mulroney claimed this was due to economic considerations, particularly that Manitoba had lower rates of unemployment than Quebec, and that Manitoba and the rest of the West had already received a great deal from the Federal government (Thomas 1989). Quebec Premier Robert

Bourassa called the decision brave and defended it based upon the higher levels of unemployment in his province (Meisel 1999:285). By awarding the contract to Canadair, a crown corporation which was about to be sold off, it made the deal more attractive and avoided the need for the government to bail out the company (Rabson 2010).

This caused an uproar not only in Winnipeg, but across Western Canada. “The decision outraged most Westerners and convinced them that the Conservatives were no better than the Liberals at defending the interests of the West, especially when votes in Quebec were at stake” (Tanguay and Gagnon: 1996). Suggesting he was aware of the problems that the decision would cause in the West, Prime Minister Mulroney held off making the announcement until after the Progressive Conservative Party of Saskatchewan had won re-election on October 20, 1986. The decision was announced on October 31, 1986 even though cabinet documents obtained by the Winnipeg Free Press in 2010 indicate the decision was made as early as June of 1986. In the West it was seen as central Canada once again listening to the interests of Quebec and ignoring the interests of the West. Within Manitoba itself, the reaction was fierce. Even the provincial Manitoba Progressive Conservatives reacted against the federal PCs. Gary Filmon, leader of the party, considered changing the party name (Meisel 1999: 284), and the provincial caucus and executive passed a motion expressing displeasure over the awarding of the contract (Globe and Mail 1986b). Furthermore, polling conducted in 1987 indicated that even amongst supporters of the Manitoba PCs, 38% would not vote for the federal PCs (York 1987)

The decision not only split the federal and provincial PCs in Manitoba, it also split the Western provinces. Manitoba Premier Howard Pawley appealed to the other Western premiers, but only the Premier of British Columbia lent his support as Alberta and Saskatchewan had PC governments (Meisel 1999:284). The Premier of Saskatchewan, Grant Devine, went so far as to argue that the West was treated very well under the federal PCs, and that Manitoba should not complain about the contract (Globe and Mail 1986a).<sup>1</sup> Yet after being in a minority position for so long under succession of Liberal governments, Western Canadians were supposed to be a key pillar in the Mulroney government with western voices finally being heard in Ottawa. Support for the governing Progressive Conservative Party plummeted in the West. By May of 1987, all

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<sup>1</sup> This exemplifies a structural weakness the West has in Canada vis-à-vis Quebec—the lack of a unified voice. While the Premier of Quebec is the only person with the political legitimacy to speak on behalf of Quebec, because the West is divided into four provinces, there is no one person to speak for it and, its voice can often become fractured.

three traditional political parties began to fear that western alienation could harm them. They all paid close attention to the inaugural meeting of the Reform Association of Canada in Vancouver, and were concerned that a new party would emerge (Cruikshank 1987). It is perhaps not surprising that the meeting produced a new political party, and unsurprisingly, The Reform Party of Canada held its first convention in Winnipeg in October, 1987, precipitating a major realignment in Canadian politics along regional lines.

### **National Shipbuilding Procurement Strategy**

The NSPS project involves the Royal Canadian Navy and the Canadian Coast Guard; it is Canada's largest military procurement since the Second World War. The ships to be built include Arctic/Offshore Patrol Vessels for seaborne surveillance of Canada's waters; Joint Support Ships, logistical support vessels which will allow the RCN to remain one of the world's few 'blue water' navies which possess 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).

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 will create an average of 8 400 jobs per year, peaking at 11 500.<sup>2</sup>

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<sup>2</sup> For readers interested in a more detailed history of the NSPS, 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>).

On the third of June, 2010, the Government of Canada announced its intention to build the next generation of ships for the Royal Canadian Navy and the Canadian Coast Guard. According to Minister Ambrose, “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. Any shipyard that met the requirements would be allowed to participate in the RFP stage. 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 October 2010 and 27 January 2011. 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, as competition would produce the best overall result for Canada. This was particularly important due to the fact that as a mandatory financial requirement under the RFP a bidder could not be under CCAA<sup>3</sup> or insolvent.

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<sup>3</sup> Companies Creditors Agreement Act: Federal legislation which allows financially troubled large companies to restructure themselves (PriceWaterhouse Coopers 2012)

Davie Shipyards in Quebec was under CCAA, meaning it would be excluded from making a bid. The government of Quebec came to its aid, first helping Davie navigate the legal system, and then ensuring the restructured Davie Shipyards would meet the SOIQ requirement of having built, or having a contract to build, a ship over 1000 tonnes by awarding Davie a contract for two passenger ferries each over 1000 tonnes (reported in Marowits 2011). The bids were then evaluated in a blind process to ensure fairness. The evaluation was divided into nine areas with 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’s Seaspan 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.

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

The decision making processes of the NSPS itself was conducive to achieving the overarching goals of the government. The manner in which the RFP was developed included A) Co-opting industry into the decision making process early on while banning industry lobbying; B) Making use of effective third party agencies as technical experts and fairness monitors in a very public and open process, and: C) creating an arms-length secretariat and governing body

free of political interference charged with making the final decision based upon agreed criteria. By doing all of the above, the final decision was deemed by all to be free of political influence. According to interview respondents in Ottawa, though briefings were regularly given to ministers, particularly the Minister of Public Works (Public Works and Government Services Canada is the lead ministry for procurement), at no time was either a decision sought from or offered by a minister. Nor did political staffers attempt to influence the decision, which interview respondents indicated was fairly normal in Ottawa but did not occur with the NSPS.

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), 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, they will have much more of the information required to judge both efficiency and effectiveness than politicians. 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 a general agreement that a decision needed to be made and that the need to make a decision outweighed the bureaucratic interests of those involved. In sum, 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.

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>4</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). That the government allowed the public service to conduct its decision making unburdened by political interference was positively viewed by opposition parties and the general public. Even the Bloc Québécois's response to the decision was muted, suggesting cross party consensus had been reached and allowing for the production of ships to begin.

Canada often uses military procurement to support domestic industry, but in the case of the NSPS the intent was to create truly sovereign Canadian shipbuilding capability. From design to building to operation, 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 interested in the shipbuilding *process* as the final product. 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 airplanes to helicopters to tanks, Canada may modify the equipment to meet its requirements, but they are in fact Canadian versions of foreign military hardware. Uniquely, the ships being constructed under the NSPS are truly Canadian vessels.

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<sup>4</sup> It should be noted that as an MP from Greater Halifax, Mr Stoffer's constituents would directly benefit from the decision.

### **F-35 Joint Strike Fighter**

While it is possible for Canada to develop its own warships, few states have the capability to produce their own modern fighter aircraft. Instead, it is often international consortiums that develop them. Therefore, Canada must look for airframes already in use or under development. 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 in the early 1990s as the airframe that would be developed under the Joint Strike Fighter program; an American led international project to produce a fifth-generation multi-role fighter.<sup>5</sup> In 1997, under the Chrétien 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 equal footing with American and other partner state industries without obliging the Canadian government to purchase any planes. To date, Canadian industry has already made over US \$490 million on this project.

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 about 2020, the Canadian government is attempting to find a suitable replacement (getting them to 2020 required a life-cycle extension costing \$2.6 billion). Canada’s involvement in the F-35 process is significant because it is 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 (not impossible), to determine if the F-35 is suitable for Canada’s security needs. Massie notes that there are four publicly available rationales for Canada to purchase the F-35: 1) to support Canada’s aerospace industry, 2) to protect Canada’s sovereignty, 3) to ensure interoperability, and 4) to contribute to international security (Massie 2011: 251). Though the F-35 clearly meets these requirements, this does not mean it is the only aircraft that does. A major critique of the F-35 decision was the lack of open competition with a

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<sup>5</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.

formal Request For Proposals linking the capabilities of the aircraft to the operational military requirements (Plamondon 2011: 267).

As noted by Chief of Air Staff André Deschamps, resource constraints mean the RCAF can only purchase one type of plane to replace the CF-18, which needs to be capable of air to air and air to ground operations (Massie 2011: 254). This poses a problem, as Canada's security interests are met with air power at home and abroad--two very different environments. While the home game is played in a relatively benign environment in which Canada has no choice but to act, the away game is played in an often hostile environment where Canadian involvement is discretionary (Fergusson 2011: 211). As such, Canada requires a single aircraft that can meet its domestic and international commitments across a variety of operation requirements. While purchasing 65 F-35s would 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)—others argue there are other aircraft in production or development that could meet Canada's defence and security requirements.<sup>6</sup>

The difficulties in determining the necessity of the F-35 are exacerbated by the fact that DND has kept the operational requirements of the replacement aircraft secret. This lack of open competition and debate means the Canadian public cannot be sure the F-35 is the plane for Canada. Though DND has produced a Statement of Requirements, it is secret and the Canadian public has no way of judging its validity. The Parliamentary Budget Office, which had access to the Statement of Requirements (SOR) for Canada's next fighter plane, 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). Given that there has been no conclusive public debate surrounding the SOR or Canada's strategic defence requirements, the Canadian public cannot be sure that the SOR was not based upon the characteristics of the F-35, and the Canadian public—the *consumer* of defence in Canada—cannot be confident of the operational validity of the requirements themselves.

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. This may be an unfair critique as the international JSF program stipulates that no country involved can expect

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<sup>6</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.

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 American firms in the bidding process, it should be remembered that 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 (2011), 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 government, though, has not been able to articulate this, which has allowed the competition for the F-35 to make clear proposals with easily identifiable IRBs. Recognizing this weakness, Boeing, the maker of the F/A-18 Superhornet has already promised greater IRBs to the Canadian Government (Milewski 2013).

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. As such, it is perhaps not surprising that the government felt that for political reasons it was required to reach a decision in a more public manner, and looked to emulate the model of the National Shipbuilding Procurement Strategy.

## **Analysis**

The NSPS, managed to avoid the pitfalls of regionalism and nationalism while the case of the CF-18 contract was, and the case of the F-35 is, highly politicized. The case of the CF-18s became politicized along regional and national lines and the replacement fighter decision is

heading in that direction, especially if and when the economic benefits of the competitors become known and pit firms located in different provinces against each other – a distinct possibility given the Aerospace sector in Canada is still divided between Winnipeg and Montreal. The overview of these programs suggests four key areas in which success or failure came about. These key indicators, and the government’s ability to hit them, are seen in Figure 2.

Fig 2: Indicators of Success

	CF-18	F-35	NSPS
IRBs	No	No	Yes
Outside Experts	?	No	Yes
Elite/Bureaucratic Agreement	No	Partial	Yes
Clear Expectations	No	No	Yes

A major defence procurement contract will avoid the pitfalls of regionalism and nationalism if it has clearly defined industrial and regional benefits, makes use of impartial outside experts, has clear expectations that are known to all the stakeholders in advance, and there is a broad agreement amongst bureaucrats and political elites, within and between different orders of governments, that the process is fair.

*IRBs*

It is important to start with economic benefits because this is the reason defence procurement becomes so heavily politicized not just in Canada, but throughout the western democracies. Defence procurement is not merely about making equipment; the impact on local and regional economies is enormous. 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). As such, local and provincial governments have a very strong incentive to attempt to influence the decision making. As can be seen from Figure 2, only within the NSPS were clear expectations regarding IRBs made. With regards to the CF-18 contract, the government decided that the economic impact of the contract was important and should be part of the final decision,

but it was not made clear throughout the process the weight that would be given to economic considerations. Using governmental spending powers to help alleviate unemployment or strengthen a regional industry is not the same as politicizing expenditure. What appears to have happened in the 1980s was that the government did not communicate the factors that would be considered or their weight in the decision making process beforehand. This created the opportunity for regional actors in the West to accuse the federal government of favouritism and bias within the process. Moving to the F-35 case, though the Conservative government inherited the project from the previous Liberal government, it did not effectively communicate the economic rationale within the program to the public. Another airframe could ensure IRBs for Canada, but the government made the decision to take a chance with the F-35 in the hopes of a greater return on investment.

#### *Outside Experts*

Though Canadian government and state certainly have a variety of experts, other organizations throughout the world may have greater expertise. The NSPS called on groups such as First Marine International of the United Kingdom to advise on technical issues that were outside the scope of expertise of both the government and DND/CF. But the NSPS did not only use technical experts, they made use of independent fairness monitors and outside consultants because those involved in the process wanted to ensure not only that it was fair, but that it also had the appearance of being fair. This differs from both the CF-18 and F-35 decisions. While both made use of in-house experts, neither appears to have made any use of outside experts, other than with regards to the Canadian government and the Royal Canadian Air Force ceding to the decision of the USAF to choose the F-35 as the fighter to be developed under the Joint Strike Fighter programme. None of this is to say that governments should cede decision making power to outsiders, decisions need to be made by politicians who are accountable to the electorate. Rather, the use of outsiders in both a technical capacity and to ensure fairness in the decision making process helped advance the decisions made by the Conservative government regarding the NSPS.

*Bureaucratic and elite agreement*

As a modern state with competing bureaucratic interests, it is important that agreement be reached within the federal bureaucracy to allow for smooth and efficient decision making. For defence procurement, this may be particularly challenging given the number of separate bureaucracies involved: DND, Government Works, and Industry Canada. DND can in turn be subdivided into the uniformed branch, the Canadian Forces, and the civilian branch—the Department of National Defence. For the NSPS there was an additional bureaucracy involved: the Department of Fisheries and Oceans, overseer of the Canadian Coast Guard. Bureaucrats interviewed as part of this research indicated that it was the clear political direction from the Prime Minister's Office that was one of the major factors that allowed these separate bureaucracies to work together in advancing the government's interests.

There appeared to be consensus within the federal bureaucracy with regards to the other two projects, however, bureaucrats and the federal government are not the only stakeholders within the system. There are opposition parties to contend with as well as provincial governments. Each has a different set of vested interests, and failure to address those interests caused serious problems for the CF-18 and F-35 decisions. In particular, the CF-18 agreement strongly suggests provincial governments are willing to invest a great deal of political capital in ensuring defence contracts are awarded to firms within their provinces.

The NSPS demonstrated that it is possible to craft a decision making process that meets the objectives of the federal government while maintaining the confidence of the unsuccessful provinces regarding the fairness of the decision. The NSPS also demonstrates that through transparency and openness, opposition attacks against the government can be managed. It is important to note that the transparency and openness of the NSPS did not mean industrial or military secrets were disclosed—there was a great deal that remained secret—rather the *process* itself was subject to scrutiny. When looking at the CF-18, the lack of clear guidelines or insight into the decision making process left ample room for Western Canadians to interpret the decision as pandering for votes in Quebec rather than being based upon pre-determined economic criteria. This is similar to the decisions regarding the F-35. While the Statement of Operational Requirements for Canada's next fighter probably should not be made public, this does not mean that the decision making process that leads to the decision cannot be made public. Indeed, due to the fact that the government has back-pedaled on the F-35 decision, no process may be able to

escape the appearance of political bias. Especially if the F-35 is chosen again under the new process that is in place for selecting the next fighter for the RCAF (a distinct possibility as the F-35 has been identified as the only plane that meets the SOR as determined by the RCAF).

### *Clear expectations*

According to Lagassé (2010), public debate ensures Canada's defence requirements are met in the most efficient and effective manner. 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 similar to the CF-18 maintenance decision, but fundamentally different from the decision to purchase a replacement for the CF-18. In both cases, the debates were about where to conduct the work, not what work was to be done. In the case of the F-35, 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.

### **Conclusion**

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 regionalism and nationalism in Canada can exacerbate the situation. The federal nature of Canada creates powerful sub-state actors (the provinces) which can use their democratic legitimacy to use provincial controlled 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, Progressive Conservative, to understand how provinces are able to marshal resources against the federal government. In this case, it was to defeat Conservative MPs in Newfoundland and send a message to Prime Minister Harper.

While these four indicators of success overlap, it is clear that a lot of thought went into making sure the NSPS did not fall afoul of the same regional and national problems that plagued

the CF-18 maintenance decision. This makes sense, given the history of Harper's Conservatives which has very much been influenced by the CF-18 decision from over a quarter century ago. It appears that in designing the decision making process of the NSPS the government and its advisors were acutely aware of the dangers of regionalism and nationalism within the Canadian federation. More importantly, in designing this decision making process, the federal government did not sacrifice either its authority or its desired outcomes by favouring process over outcome. Rather, it set up the parameters for success, and allowed the bureaucracy to do its work. Contrast this with the CF-18 decision in which the federal government overturned the recommendations of the bureaucracy or the F-35 decision which appears to have been made without much consultation at all.

To conclude, this paper does not argue that the NSPS model is a one size fits all model of decision making. The process was set up to ensure that the next generation of Coast Guard vessels and warships for the Royal Canadian Navy is a unique program that meets Canada's unique needs. However, the NSPS clearly demonstrates that it is possible for governments to avoid the pitfalls of regionalism and nationalism in defence procurement while ensuring the decisions were made in a timely manner and met the strategic objectives of the government of the day.

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