

Purchasing Power

Explaining Variation in the Canadian Armed Forces' use of Contracted Services

by

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Abstract

This dissertation examines why the Canadian military's use of privatized defence services has varied over time. In answering this question, the hypothesis tested is that variation in the use of Private Military and Security Companies by the Canadian military has been driven by changes to the size and internal allocation of the defence budget. Drawing on the concept of constrained optimization, this hypothesis asserts that defence officials have attempted to optimize the allocation of the defence budget between its constituent spending categories of Personnel, Operations and Maintenance and Capital. Variation in the extent of service contracting has been influenced by changes to the size of the defence budget and constraints on its allocation.

The dissertation reviews the history of changes to the size and allocation of the defence budget and the historical use of service contracts by the Department of National Defence (DND). It then examines four case studies that provide focused examinations of significant shifts in DND's use of service contracts. Three of these cases examine increases to the use of service contracting: the Alternate Service Delivery program; In-Service Support contracting; and Operational Support Contracts. The fourth case study, the 2012 Service Contracting Cut, examines a decrease in the use of service contracts.

This research found that constraints on DND's ability to spend money on Personnel have been the most consistent cause of variation in the use of service contracts, but this variation was most significant when Personnel constraints were combined with budget cuts. Whether the combination of constraints on Personnel and budget cuts led to an increase or decrease in the use of service contracts has depended on the constraints on the other two major categories of defence spending (Capital or Operations and Maintenance).

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List of Acronyms Used

Alternate Service Delivery (ASD)

Canadian Armed Forces (CAF)

Canadian Contractor Augmentation Program (CANCAP)

Contractor Support Project (CSP)

Department of National Defence (DND)

Fleet Maintenance Facilities (FMF)

In-Service Support (ISS)

In-Service Support Contracting Framework (ISSCF)

North American Air Defence Command (NORAD)

North Atlantic Treaty Organization (NATO)

Optimized Weapons System Management (OWSM)

Original Equipment Manufacturers (OEMs)

Person Years (PYs)

Private Military and Security Companies (PMSCs)

Public Works and Government Services Canada (PWGSC)

Royal Canadian Air Force (RCAF)

Royal Canadian Navy (RCN)

United Nations (UN)

World War Two (WWII)

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Chapter 1: Introduction

Private Military and Security Companies (PMSCs) have played an increasingly important role in conflict and provide a vast array of services intricately linked to all aspects of warfare.¹ This shift coincided internationally with the end of the Cold War, as the prevalence of these firms increased steadily after 1989. Now, almost all actors in the international system, including Western governments, have contracted for some type of defence related service with such firms.²

The Canadian Government's use of PMSCs fits within this overall pattern. After the Cold War the Department of Foreign Affairs as well as the Canadian military began increasing their use of PMSCs.³ For the Department of National Defence (DND), its use of PMSCs, measured by expenditures on service contracts, increased significantly towards the end of the 1990s. Beginning in 1997/1998, expenditures on service contracts at DND rose from a relatively constant level of around \$1 billion annually, to rise progressively to roughly \$3 billion in 2011.⁴ This sharp increase from DND's previous use of service contracts was initiated as a result of programs started in the mid-1990s to contract with private firms in order to provide support for bases, maintain equipment, and provide administrative services. The continued increase in the use of service contracts by DND continued as the scope and scale of maintenance contacts with the private sector was extended, and contractors were called on to provide services to troops deployed in operational theatres.⁵ By the late 2000s it was well recognized that the use of service contracts by DND had increased significantly.

¹ P. W. Singer, *Corporate Warriors* (Ithaca: Cornell University Press, 2003).

² Ibid.; Kateri Carmola, *Private Security Contractors and New Wars* (New York: Routledge, 2010).

³ Christopher Spearin, "A Private Security Panacea?" *Canadian Foreign Policy* 7, no. 3 (2000): 67-80.

⁴ Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada* (Ottawa: 1970-2014).

⁵ Christopher Spearin, "Not a "Real State"?" *International Journal* 60, no. 4 (2005): 1093-1112.; Christopher Spearin, "Canada and Contracted War," *International Journal* 69, no. 4 (2014): 525-541.

During Canada's military operations in Afghanistan, for instance, their use was deemed to have reached "unprecedented"⁶ levels. Similarly, an internal study found that between 2003/2004 and 2009/2010, spending on service contracts experienced one of the highest rates of growth of any of the individual spending component across the defence program.⁷ As is detailed below, the existing explanations that accounted for this increase in the literature suggested that the private provision of services to the Canadian military would continue to increase unabated into the second decade of the 21st Century.⁸

Yet, despite this trajectory of increased spending and no evidence to indicate that it would cease, in 2012 DND announced a major reduction in its use of contracted services.⁹ This \$445 million cut to spending on service contracts was in fact the single largest component of DND's \$1.1 billion contribution to the Government-wide budget cuts announced in 2012.¹⁰ After almost two decades of progressive increases in the use of service contracts, DND substantially reduced its use of service contracts a means of saving money as it dealt with a significant budget. The move to save money in 2012 by reducing the use of service contractors is particularly puzzling, since the literature attributes Canada's *increased* use of PMSC's through the programs implemented in the mid-1990s to an effort save money. At that time, faced with the most significant budget reduction since the post-World War Two (WWII) period of demobilization, DND actively pursued a program to increase its use of private services with the expectation that private services would be cheaper.

⁶ Ibid.: 525.

⁷ Lieutenant General Andrew Leslie. *Report on Transformation 2011* (Ottawa: Department of National Defence, 2011); Craig Stone, "The Economic Impact of Defence Expenditures in Canada," in *2010: Canadian Defence Industry at a Crossroads?*, ed. Craig Stone (Kingston: Defence Management Studies Program, School of Policy Studies, Queen's University, 2010).

⁸ Spearin, *Not a "Real State"?*, 1093-1112.

⁹ Canada. Department of National Defence. Senior Defence Officials, Telephone Technical Briefing on Budget 2012, 2012.

¹⁰ Canada. Department of National Defence, DND Public Affairs Official, Email to the Author, February 1, 2013.

The 2012 decision to cut service contracts in Canada therefore presents a puzzle that has been acknowledged in the literature, but not explained.¹¹ The existing explanations for previous variation in Canada's use of PMSCs, detailed below, offer little that would explain DND's decision to reduce its use of service contracts in 2012. Most suggest that service contract use would continue to increase steadily, although one, the functional explanation, indicated that the overall use of service contracts might have declined naturally with the end of Canada's operations in Afghanistan. Canada's combat operations there, which ended in July 2011, relied extensively on operational support contracting, as detailed in Chapter 7. As a result, when that mission ended in 2011, the overall use of contracted services by the Canadian military would have declined somewhat as the operational support contracts tied to operations came to an end. The literature therefore offers a explanation that can partially explain why Canada's use of service contracts has declined in consecutive years since 2012.¹² The literature, though, *does not* explain why DND announced a \$445 million reduction in its use of service contracts a year after combat operations in Afghanistan ended.

The literature therefore offers an explanation for the increase in the use of defence service contracts in Canada, but cannot account for decisions to decrease their use. As the subsequent section details, service contracting is a critical component of Canadian defence policy and defence procurement as well as the Canadian defence industrial base. A better understanding of the *variation* in the use of Canadian defence service contracts by the Canadian military that accounts for both increases and decreases is therefore needed.

This topic warrants further study for several reasons. Simply put, the service contracts provided by PMSCs are a crucial component of Canada's national defence. They

¹¹ Spearin, *Canada and Contracted War*, 525-541.

¹² Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*, See Figure 2 in Chapter 3.

provide services that support virtually all Canadian Armed Forces (CAF) equipment, many bases and installations, and directly support CAF personnel on operations. Service contracting is, in other words, “now integral for the CAF.”¹³ Gaining more insight into the relationship between National Defence and privately provided services, how the relationship has evolved, and what will likely happen to that relationship in the future is key to understanding Canadian defence policy. Furthermore, defence procurement has become one of the most pressing defence priorities in Canada, as it has been widely acknowledged that the processes of making Canadian defence purchases is not working effectively.¹⁴ Recognizing this, the Government of Canada launched a Defence Procurement Strategy in 2014 to make significant changes to the way the government undertakes defence acquisitions.¹⁵ Despite this increased attention, the acquisition of defence services in Canada is poorly understood. This is due to the fact that the majority of academic attention devoted to Canadian defence procurement concentrates narrowly on the acquisition of goods, and large weapons systems in particular. As a result, service contracting, which accounts for more than one quarter of all defence purchases,¹⁶ has been almost ignored in the literature on defence procurement, despite its crucial role in the operation of the Canadian defence establishment. Obtaining a better understanding of how and why Canada procures defence services is therefore critical to understanding Canadian defence procurement and defence policy.

In the same light, better understanding Canadian defence service contracts is important to the domestic Canadian defence industry which the Government of Canada is

¹³ Spearin, *Canada and Contracted War*, 2.

¹⁴ Elinor Sloan. *Something Has to Give* (Calgary: CDFAI, et al., 2014); Philippe Lagassé. *Recapitalizing the Canadian Forces' Major Fleets* (Calgary: CIC and CDFAI, 2012).

¹⁵ Canada. Public Works and Government Services Canada. "Defence Procurement Strategy," accessed May 12, 2014, <http://www.tpsgc-pwgsc.gc.ca/app-acq/stamgp-lamsmp/sskt-eng.html>.

¹⁶ Department of National Defence Official, Email correspondence with the Author, February, 2014.

attempting to strengthen through the Defence Procurement Strategy. The service segment is currently the largest market sector of the domestic defence industry by contribution to Gross Domestic Product, as well as employment.¹⁷ Furthermore, the Defence Procurement Strategy is explicitly prioritizing defence services as a Key Industrial Capability in its attempts to leverage overall defence acquisitions to bolster the domestic defence economy. Since DND's spending is critical to this sector's economic viability, better understanding how DND's spending in this area varies over time is important to the success of these efforts to support the Canadian defence industrial base.

Given the importance of defence service contracts to Canada's National Defence and their significant economic impact, it is important to better understand how and why their use has varied. The fact that this aspect of defence procurement is variable is in itself not surprising, as defence procurement overall has varied over time. But the existing explanations for changes in Canadian use of defence service contracts predicted that this variation would see only further increases, and cannot account for DND's decision to decrease their use. This turn of events calls the adequacy of our existing explanations into question, and suggests that our existing understanding of variation in Canada's use of PMSCs must be expanded to account for both increases and decreases in utilization.

Core Argument

This insufficiently explained variation in Canada's use of PMSCs prompts this study's **research question**: Why has the Canadian military's use of privatized defence services varied over time?

¹⁷ KPMG, *Economic Impact of the Defence Industry in Canada* (Ottawa: 2012).

To answer this question, this dissertation explores the interplay between Canadian foreign policy, Canadian federal budgeting, and military preferences. The argument made here is that variation in the use of defence services in Canada has been driven by the military's attempts to reconcile what the Government of Canada asks it to do and the budget it is provided in a manner consistent with its own preferences. On one hand, the military is expected to produce capabilities that can support the activist foreign policy Canada has pursued since the Second World War. On the other hand, the Canadian government has consistently provided the military with inadequate resources to fully implement their defence policies, leading to persistent funding gaps. As a result, Canadian defence planners have always needed to reconcile the competing pressures of high demands for the military to support foreign policy, but limited funding made available to do so. These pressures intensified in the 1990s, however, when the Government adopted a neoliberal approach to federal budgeting, but retained its activist foreign policy.

At the same time, the military itself has maintained its own preferences for maintaining technologically sophisticated, combat centric forces capable of engaging in military operations abroad with Canada's allies. Consequently, the Canadian military seeks to maximize the resources it devotes to combat capability and minimize the resources it devotes to support activities.

The way such competing pressures are rationalized is through a process known as constrained optimization, whereby defence planners seek to make allocations between the various components of their budget in a way that maximizes their desired outputs (combat capability). These allocations are also shaped, however, by any constraints imposed upon planners regarding how they can allocate the defence budget between its primary spending components: Personnel; Capital; and Operations and Maintenance. The constraints

restricting expenditures are generally tightest during periods of budget cuts, and thus the process of constrained optimization is heightened during periods of fiscal restraint. After 1994, these constraints on DND became particularly tight when strict limits were placed on the size of the military and Capital spending was sharply curtailed.

Within these allocation constraints, increasing or decreasing the use of service contracts, one of the largest sub-components of Operations and Maintenance expenditure, has allowed the military to maximize the military capability it can produce within its constrained budget. Spending more or less on service contracts has allowed DND to either increase or decrease its expenditures on the Operations and Maintenance component in a way that has allowed it to optimize its spending on Personnel and Capital in a way that maximized the military's tooth to tail ratio.

Whether service contracting has increased or decreased has depended upon which spending component formed the residual budget category. So long as Capital was the residual budget category, increasing spending on service contracts allowed DND to use its Operations and Maintenance budget to offset shortages in its Personnel budget. DND could purchase support services from defence service contractors to perform support functions, rather than allocating scarce military positions to perform support tasks. By doing so, DND could allocate its Personnel expenditures in a way that maximized the resources devoted towards combat forces. Once Operations and Maintenance became the residual budget category, however, DND lost the flexibility to do this. The introduction of accrual accounting meant that the Operations and Maintenance category would be cut during a period of defence budget reductions. Comprising one of the most significant components of the Operations and Maintenance category, decreasing spending on service contracts

became one of the only means of reducing the defence budget after DND lost the ability to save money in the short term by cutting expenditures on Capital.

The **hypothesis** that will be tested is as follows: Variation in the use of PMSCs by the Canadian military has been driven by changes to the defence budget and constraints on how it can be allocated. The direction of that variation is attributable to the nature of the constraints on how it can be allocated.

Literature Review

A significant degree of attention has focused on variation in private actors' involvement in conflict over time.¹⁸ The origins of the private military industry have been

¹⁸ Renée de Nevers, "(Self) Regulating War?" *Security Studies* 18, no. 3 (2009): 479-516.; Andrew Bearpark and Sabrina Schulz, "The Future of the Market," in *From Mercenaries to Market*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 239-250.; Marina Caparani, "Domestic Regulation," in *From Mercenaries to Markets*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 158-178.; Simon Chesterman and Chia Lehnardt, eds., *From Mercenaries to Market* (London: Oxford University Press, 2007).; James Cockayne, "Make Or Buy?" in *From Mercenaries to Markets*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 196-216.; Laura Dickinson, "Contract as a Tool for Regulating Private Military Companies," in *From Mercenaries to Markets*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 217-238.; Elke Krahmman, "Transitional States in Search of Support," in *From Mercenaries to Market*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 94-112.; Anna Leander, "Regulating the Role of Private Military Companies in Shaping Security and Politics," in *From Mercenaries to Market*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 49-64.; Kevin O'Brien, "What should and what should Not be Regulated?" in *From Mercenaries to Market*, eds. Simon Chesterman and Chia Lehnardt (Toronto: Oxford University Press, 2007), 29-48.; Elke Krahmman, "Regulating Private Military Companies," *Contemporary Security Policy* 26, no. 1 (2005): 103-125.; Caroline Holmqvist. *Private Security Companies* (Sweden: Stockholm International Peace Research Institute, 2005); Christopher Kinsey, "Regulation and Control of Private Military Companies," *Contemporary Security Policy* 26, no. 1 (2005): 84-102.; Christopher Kinsey, "Private Military Companies," *Conflict, Security & Development* 2, no. 3 (2002): 127-137.; Rita Abrahamsen and Michael C. Williams, "Security Beyond the State," *International Political Sociology* 3, no. 1 (2009): 1-17.; Rita Abrahamsen and Michael C. Williams, "Securing the City: Private Security Companies and Non-State Authority in Global Governance," *International Relations* 21, no. 2 (2007): 237-253.; Alyson Bailes, Ulrich Schneckler and Herbert Wolfe. *Revisiting the State Monopoly on the Legitimate Use of Force* (Geneva: Geneva Centre for the Democratic Control of Armed Forces, 2007); Anna Leander. *Eroding State Authority?*(Rome: Centro Militare di Studi Strategici, 2006); Elke Krahmman, "Security Governance and the Private Military Industry in Europe and North America," *Conflict, Security & Development* 5, no. 2 (2005): 247-265.; Fred Schreier and Marina Caparani. *Privatising Security* (Geneva: Geneva Centre for the Democratic Control of Armed Forces (DCAF), 2005); Christopher Spearin, "Accountable to Whom?" *Civil Wars* 6, no. 1 (2003): 1-26.; Deborah Avant, "From Mercenary to Citizen Armies," *International Organization* 54, no. 1 (2000): 41-72.; Guy Arnold, *Mercenaries* (New York: St. Martin's Press, Inc, 1999); Janice Thomson, *Mercenaries, Pirates, and Sovereigns* (Princeton, N.J.: Princeton University Press, 1994).

explained by several interrelated factors arising from the end of the Cold War that led to the industry's rise, including: the reluctance of western powers to engage in developing world conflicts;¹⁹ the availability of military weaponry and personnel;²⁰ and the emergence of a 'risk society' requiring protection services.²¹ All the preceding factors combine to provide a credible explanation of what Mandel calls the "bottom up" emergence of the private military industry.

At the same time, however, a separate set of "top down" decisions were made by individual states to increasingly privatize their militaries in the post-Cold War era.²² Academic inquiries into these decisions initially focused on developing world governments,²³ with attention only recently turning to PMSCs working on behalf of developed states. The vast majority of this literature focuses on the United States,²⁴ with a secondary focus on Britain,²⁵ and Germany.²⁶

¹⁹ P. W. Singer, "Corporate Warriors," *International Security* 26, no. 3 (2001): 186-220.

²⁰ Singer, *Corporate Warriors*.

²¹ Carmola, *Private Security Contractors and New Wars*.

²² Robert Mandel, "The Privatization of Security," *Armed Forces & Society* 28, no. 1 (2001): 136.

²³ Madelaine Drohan, *Making a Killing* (Toronto: Vintage Canada, 2004); Singer, *Corporate Warriors*; Singer, *Corporate Warriors*, 186-220.

²⁴ Sarah K. Cotton et al., *Hired Guns* (Santa Monica: RAND, 2010); Richard Fontaine and John Nagl, *Contracting in Conflicts* (Washington, DC: Center for a New American Security, 2010); David Perry, "The Privatization of the Canadian Military," *International Journal* 64, no. 3 (2009): 687-702.; Mark Cancian, "Contractors," *Parameters* 38, no. 4 (2008): 61-77.; Peter Singer. *Can't Win With 'Em, Can't Go To War without 'Em* (Washington, DC: Brookings Institute, 2007); Christopher Spearin, "Special Operations Forces a Strategic Resource," *Parameters* 36, no. Winter (2006-2007): 58-70.; Frank Camm and Victoria A. Greenfield, *How should the Army use Contractors on the Battlefield?* (Santa Monica, CA: RAND Corporation, 2005); Victoria A. Greenfield and Frank Camm, *Risk Management and Performance in the Balkans Support Contract* (Santa Monica, CA: RAND Corporation, 2005).

²⁵ Carmola, *Private Security Contractors and New Wars*; Bearpark and Schulz, *The Future of the Market*, 239-250; Kevin O'Brien, "What Future, Privatized Military and Security Activities?" *The RUSI Journal* 152, no. 2 (2007): 54-60.; Christopher Kinsey, *Corporate Soldiers and International Security* (New York: Routledge, 2006); Jeremy Greenstock, "Private Security Companies in an Insecure World," *The RUSI Journal* 151, no. 6 (2006): 42.; Kinsey, *Regulation and Control of Private Military Companies*, 84-102; Christopher Kinsey, "Examining the Organisational Structure of UK Private Security Companies," *Defence Studies* 5, no. 2 (2005): 188-212.; Elke Krahmann, "Private Military Services in the UK and Germany: Between Partnership and Regulation," *European Security* 14, no. 2 (2005): 255-275.; Clive Walker and Dave Whyte, "Contracting Out War," *International and Comparative Law Quarterly* 54(2005): 651-690.; Matthew R. H. Uttley, "Private Contractors on Deployed Operations," *Defence Studies* 4, no. 2 (2004): 145-165.; Kinsey, *Private Military Companies*, 127-137; "Interview with Lt Col Tim Spicer," *Cambridge Review of International Affairs* 13, no. 1 (1999): 165.

²⁶ Elke Krahmann, *States, Citizens and the Privatization of Security* (New York: Cambridge University Press, 2010); Ulrich Petersohn, "The Privatization Decision" (New York, International Studies Association, 2009).; Ulrich

An even smaller literature has examined PMSC use in Canada, dominated by the work of Christopher Spearin.²⁷ The services provided by these firms span a range of functions to the Government of Canada. At one range of activities, federal departments, including DND, contract for security at establishments in Canada and for close personal protection for Very Important Persons.²⁸ The Canadian military also contracts for security at military installations overseas.²⁹ The CAF relies on the private sector for virtually all of its sealift, much of its strategic airlift, Unmanned Aircraft Systems for naval deployments, and previously contracted for tactical theatre aviation and Unmanned Aircraft Systems support for operations in Afghanistan.³⁰ Private companies also provide equipment maintenance, repair and overhaul for most of the military's fleets, and health services are provided to the Canadian military largely through contracted health providers.³¹ Furthermore, a wide range of business consulting, engineering, training, and education services are provided by contract.³² Several components of military training are provided by contractors as well.³³ Finally, a wide range of base support services, including building maintenance, food services

Petersohn. *Outsourcing the Big Stick* (Cambridge, MA: Weatherhead Center for International Affairs, Harvard University, 2008)

²⁷ Perry, *The Privatization of the Canadian Military*, 687-702; David Antonyshyn, Jan Grofe and Don Hubert. *Beyond the Law?* (Florence: PRIV-WAR, 2009); Christopher Spearin, "The Changing Forms and Utility of Force," *International Journal* 64, no. 2 (2009): 481-500.; Major Shane Gifford, "The Armed Private Security Company and the Canadian Forces," *Canadian Army Journal* 11, no. 1 (2008): 78-97.; David Perry, "Contractors in Kandahar, Eh?" *Journal of Military and Strategic Studies* 9, no. 4 (2007): 1-23.; Spearin, *Not a "Real State"?*, 1093-1112; Lieutenant Colonel (ret'd) Al Morrow, "CANCAP," *Canadian Army Journal* 8, no. 2 (2005): 74-85.; Christopher Spearin, "International Private Security Companies and Canadian Policy," *Canadian Foreign Policy* 11, no. 2 (2004): 1-15.; Spearin, *A Private Security Panacea?*, 67-80.

²⁸ Ibid.

²⁹ Perry, *The Privatization of the Canadian Military*, 687-702; Spearin, *The Changing Forms and Utility of Force*, 481-500.

³⁰ Canada. Department of National Defence. "News Release - HMCS Regina Relieves HMCS Charlottetown in the Arabian Sea," , accessed September 1, 2013, <http://www.forces.gc.ca/en/news/article.page?doc=hmcs-regina-relieves-hmcs-charlottetown-in-the-arabian-sea/hgq87xnb>.; Antonyshyn, Grofe and Hubert, *Beyond the Law?*; Spearin, *International Private Security Companies and Canadian Policy*, 1-15.

³¹ Spearin, *Not a "Real State"?*, 1093-1112.

³² Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*.

³³ Antonyshyn, Grofe and Hubert, *Beyond the Law?*

and related life support functions are supplied to Canadian military bases under contract, and contractors provide logistics services support to the CAF on expeditionary operations.³⁴

To account for developed state's increased use of service contracts since the end of the Cold War, scholars have advanced four primary explanations. The first situates defence privatization as part of the changing nature of warfare. The increasing technological complexity of military equipment via the Revolution in Military Affairs, particularly with respect to the use of information technology, has made military equipment increasingly complex. As a result, rather than attempting to develop and retain the expertise needed to maintain military equipment, governments have instead turned the maintenance of high-tech platforms over to the civilian industry that manufactures it.³⁵ Thus, defence privatization has been driven, in part, by the increasing technical sophistication of military forces.

A second explanation for the rise of PMSCs points to the privatization revolution which swept the West in the 1980s. This revolution had a number of constituent parts, including: the spread of neoliberal ideology in the 1980s which privileged the private sector over the public; the outsourcing boom in the private sector; and a general view that publicly provided services were inherently inferior to those offered by the market.³⁶ Intrinsic to this movement was the assumption that the private sector is a more efficient service provider and thus outsourcing would lead to cost savings. This line of reasoning holds that states privatized their militaries as part of a wider effort to outsource government services to the private sector in order to reduce government expenditures and the size of government overall.

³⁴ Spearin, *The Changing Forms and Utility of Force*, 481-500; Spearin, *Not a "Real State"?*, 1093-1112; Antonyshyn, Grofe and Hubert, *Beyond the Law?*; Perry, *Contractors in Kandahar*, *Eb?*, 1-23.

³⁵ Christopher Kinsey, *Private Contractors and the Reconstruction of Iraq* (New York: Routledge, 2009); Singer, *Corporate Warriors*.

³⁶ *Ibid.*

A third explanation for state use of PMSCs is the “functional argument”³⁷ that privatization enables states to meet the challenges of the post-Cold War security environment. Following the Cold War, most Western states significantly downsized their militaries, with major reductions in troop strength and budgets in the early 1990s. Despite this downsizing, the rate at which these troops were deployed abroad on expeditionary deployments increased dramatically. As Avant writes, “just two years into the ‘New World Order,’ ...a rash of smaller-scale conflicts unleashed disorder and demands for intervention. As the clamour for a western response grew just as western militaries were shrinking, nascent [PMSCs] provided a stop-gap tool for meeting greater demands with smaller forces.”³⁸ Krahmman similarly contends, “Since Western electorates have been unwilling to give up their peace dividends for seemingly distant threats, private military contractors have provided governments in Europe and North America with a way of bolstering their armed forces without formally increasing their size.”³⁹ Hiring PMSCs thus allowed states to deploy armed forces abroad with downsized militaries.

Finally, a fourth explanation for the use of these private actors is that they can provide states their “expert knowledge.”⁴⁰ The rise in the overall PMSC industry resulted in a “commodification of security.”⁴¹ As a result, defence and security knowledge ceased to be the sole purview of state actors. Instead, security has increasingly become “a technique and a form of expert knowledge.”⁴² Following that shift, a new “caste of private security ‘experts’ emerged,”⁴³ in some PMSCs that are available to help formulate policy and

³⁷ Krahmman, *States, Citizens and the Privatization of Security*, 9.

³⁸ Deborah Avant, *The Market for Force* (New York: Cambridge University Press, 2005).

³⁹ Krahmman, *States, Citizens and the Privatization of Security*, 10.

⁴⁰ Abrahamsen and Williams, “Security Beyond the State,” 5.

⁴¹ Rita Abrahamsen and Michael C. Williams, “Selling Security,” *Review of International Political Economy* 15, no 1 (February 2008), 141.

⁴² Abrahamsen and Williams, “Securing the City,” 242.

⁴³ Anna Leander, “The Power to Construct International Security,” *Millennium* 33, no. 3 (2005), 820.

strategies, evaluate those of the existing security bureaucracies and advise on reforms to defence and security organizations. Since these firms emerged, their expertise has been desirable, leading governments to contract with them for their specialized skills. Contracts with these consultancy firms are desirable for some governments because they can provide “the knowledge to become more effective.”⁴⁴

These first three of these explanations that explain the increased use of defence services in developed states generally have been used to explain the increased use of service contracting in Canada, along with an additional explanation that attributes it to military emulation. Of these, the two that are most compelling are the neoliberal and functional explanations.

The Revolution in Military Affairs explanation has been used to explain the contracted maintenance of the Canadian military’s equipment. Contract maintenance in this view has been presented as a response to the increasingly complex technical expertise required to keep Canadian military equipment serviceable. The military technical revolution has witnessed the increasing use of high technology related to networking, information management, remote sensing, and precision guided munitions. At the same time, civilian technology has more frequently been adopted in military applications and technology has been introduced more rapidly. All of these factors have contributed to significant costs associated with keeping military members trained to stay abreast of these technological developments.⁴⁵ By contracting for such expertise, the Revolution in Military Affairs explanation contends that the defence establishment avoids both the cost and time of training CAF personnel to maintain complex systems.⁴⁶

⁴⁴ Leander, *Eroding State Authority?* 56.

⁴⁵ Spearin, *Not a "Real State"?*, 1099.

⁴⁶ Gifford, *The Armed Private Security Company and the Canadian Forces*, 78-97.

According to Spearin, an additional explanation for the increased post-Cold War use of contracted defence services in Canada is emulation of the American military and the Pentagon's use of service contracts. As he describes, "Canada, like other western states such as the United Kingdom, France, and Australia, is a follower in this regard; the United States leads the way in terms of defence privatization."⁴⁷ According to Spearin, this arose from pressures to replicate the practices of the world's most powerful state and was therefore a means of managing strategic uncertainty. This rationale, posits that defence privatization is the result of military emulation, a general phenomena which has been attributed to the competitive pressures of the international system⁴⁸ and desires to replicate best practices.⁴⁹ These pressures could arguably have induced the Canadian military to copy American military practices, including defence privatization.

A more persuasive explanation is rooted in "neoliberal thinking in the unstable post-Cold War world"⁵⁰ that is argued to have been an important driver of increased privatization. This gained particular salience after the *1994 Defence White Paper* "[cleared] away the privatization taboo in defence management once and for all."⁵¹ This pivotal policy document mandated that the military should concentrate on providing the 'tooth' while turning many logistical functions in the 'tail' over to the private sector. This was accompanied by a move to examine which functions were 'core' to the defence mission and then examining which functions deemed non-core could be provided by private sector.⁵² This was underpinned throughout by the "neoliberal ethos"⁵³ that assumed that private

⁴⁷ Spearin, *Not a "Real State"?* 1102.

⁴⁸ Joao Resende-Santos, "Anarchy and the Emulation of Military Systems," *Security Studies* 5, no. 3 (1996): 193-260.

⁴⁹ Theo Farrell, "World Culture and Military Power," *Security Studies* 14, no. 3 (2005): 448-488.

⁵⁰ Spearin, *Not a "Real State"?* 1096.

⁵¹ *Ibid.*: 1096-1097.

⁵² Perry, *The Privatization of the Canadian Military*, 687-702.

⁵³ Spearin, *Not a "Real State"?* 1097.

services could be relied upon to “cut costs, save money, and conduct business more efficiently.”⁵⁴ On this basis, during the 1990s, National Defence turned to the private sector to provide pilot training and support services at Canadian bases that had previously been provided by uniformed military personnel as part of the Alternate Service Delivery (ASD) program detailed in Chapter 5.⁵⁵

Finally, the literature on the increased use of PMSCs in Canada also accords significant support to the functional explanation. This explanation posits that defence service contracting in Canada increased significantly after the Cold War because “During the tumultuous 90s, the Canadian Military found itself stretched to the limit.”⁵⁶ Service contracting became a means of ameliorating staffing shortages that were the result of two pressures. Following the end of the Cold War, the military was significantly downsized, by roughly 30 percent, with support occupations facing even more significant reductions.⁵⁷ The Army dropped from four brigade groups to three. On its own, this downsizing might not have been an issue, but number, scope and complexity of missions increased, seriously undermining the military’s ability to support its operations.⁵⁸ Over the course of the 1990s, this insufficient number of personnel relative to mission requirements was exacerbated by weak recruiting results and significant challenges retaining personnel in the face of a booming economy. As a result, this led DND to resort to “private personnel as a stopgap measure to help the CF meet operational requirements” and address a “competency anemia.”⁵⁹ These pressures lead DND to contract for logistics support on domestic

⁵⁴ Christopher Spearin, "Mall Cops, Military Contractors, and *Al-Qaeda*," *The Journal of Conflict Studies* 24, no. 1 (2004): 45.

⁵⁵ Spearin, *The Changing Forms and Utility of Force*, 481-500.

⁵⁶ Morrow, *CANCAP*, 74.

⁵⁷ Perry, *Contractors in Kandabar, Eh?* 1-23.

⁵⁸ Morrow, *CANCAP*, 74-85.

⁵⁹ Spearin, *Not a "Real State"?* 1101.

missions and then in support of operations in Bosnia.⁶⁰ When the Canadian military was deployed to Kabul, Afghanistan in 2003, service contracts played a critical role in supporting the Canadian deployment. Similar services were again called upon when Canada deployed on a combat operation in Kandahar in 2006, as the tempo of operations required more support than the deployed Canadian military logisticians could provide.⁶¹

The operational pressures created by the mission in Afghanistan also led the Canadian Army to turn to service contracts to provide training for new recruits.⁶² With so many troops engaged in support of the mission, the military experienced significant difficulty finding sufficient staff to continue training programs for new members. As a result, contractors were viewed as a temporary solution to this staffing shortfall.

Similar functional imperatives have driven the use of contracted equipment, particularly for air assets. Canada's Disaster Assistance Response Team, for example, could only deploy to Indonesia in response to the 2004 Indian Ocean tsunami after charter airlift was secured, because Canada possessed only a tactical airlift fleet.⁶³ Chartered airlift was also used extensively in support of operations in Afghanistan, which required an enormous resupply effort.⁶⁴ When moving significant materiel by sea, the Canadian military is reliant on chartered sea lift, such as the GTS Katie, which transported Canadian Army equipment home from Balkans. Further, following the Manley Panel's report on operations in Afghanistan, the Canadian military initiated contracts for Unmanned Aircraft Systems and medium lift helicopters. In these instances, service contracting was "a function of operational demands...[and] focused on value for money and compensating for CAF

⁶⁰ Morrow, *CANCAP*, 74-85.

⁶¹ Perry, *Contractors in Kandahar, Eh?*, 1-23.

⁶² Gifford, *The Armed Private Security Company and the Canadian Forces*, 78-97.

⁶³ Ray Szeto and Barry Cooper. *The Need For Canadian Strategic Lift* (Alberta: Fraser Institute, 2005).

⁶⁴ Spearin, *Mall Cops, Military Contractors, and Al-Qaeda*, 42-64.

limitations.”⁶⁵ Similar operational imperatives, namely the pressure to conduct offensive operations, drove Canada to contract for defensive security at Canada military installations in Southern Afghanistan. The common theme in all of the cases explained by the functional explanation is a shortage of Canadian military capability, either personnel or equipment, and military operational need.

Literature Gap

While these explanations all help explain discrete aspects of defence privatization in Canada, each is restricted in its explanatory power and none accounts for DND’s 2012 decision to decrease the use of service contracts. The Revolution in Military Affairs explanation, for instance, only explains the privatization of technology intensive equipment maintenance, but says nothing about the privatization of support services at Canadian bases, which are largely low skill activities.⁶⁶ The Revolution in Military Affairs explanation would also suggest that the military equipment with the most complex technology in the Canadian inventory would have the most extensive contractor support. In fact, the reverse is the case. Amongst Royal Canadian Air Force (RCAF) aircraft, the CH-149 Cormorant Helicopter, an un-armed utility helicopter used for domestic Search and Rescue, is the only Canadian military aircraft that has its maintenance provided exclusively by industry.⁶⁷ Finally, the Revolution in Military Affairs explanation potentially explains the creation of the In-Service Support Contracting Framework (ISSCF) whereby Original Equipment Manufacturers (OEMs) provide for the support of the equipment they produce. It does not explain,

⁶⁵ Spearin, *Canada and Contracted War*, 2.

⁶⁶ Moshe Schwartz. *Department of Defense Contractors in Iraq and Afghanistan* Congressional Research Service, 2009).

⁶⁷ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance* (Ottawa: 2013).

however, why DND is cutting its use of contractors at a time when it is planning to acquire multiple technologically cutting edge platforms including “next generation” fighter aircraft, a new class of naval surface combatants, and Unmanned Aircraft Systems.⁶⁸

The military emulation explanation provides a plausible theoretical explanation for the variation in the use of defence services in Canada, and is best positioned to explain the decision in 2012 to reduce the use of contracted services. The United States’ *2010 Quadrennial Defence Review* announced that the American military would decrease its use of private contractors to pre-2001 levels following multiple controversies over their use.⁶⁹ Thus, the emulation explanation would suggest that Canada’s move in 2012 to cut service contracts is explainable as a move to replicate American practices, as was the decision in the mid-1990s to significantly increase their use.

The empirical record, however, does not lend the emulation explanation much support. Senior military officials who were instrumental in initiating the mid-1990s contracting increase, for instance, state that they did not find American privatization practices a useful model when doing so.⁷⁰ Similarly, the internal DND report recommending a major reduction in service contracting that influenced the 2012 decision made no references whatsoever to comparable American efforts.⁷¹ This is particularly problematic for the emulation explanation, since the same report referred to its author’s extensive efforts to seek inspiration from Canada’s allies regarding the Canadian reforms, and made explicit references to allied best practices in making other recommendations.

⁶⁸ Canada. Department of National Defence, *Canada First Defence Strategy* (Ottawa: 2008).

⁶⁹ United States of America. Department of Defense, *Quadrennial Defense Review Report* (Washington, D.C.: 2010).

⁷⁰ Lieutenant General (ret'd) Ken Pennie, Interview with the Author, December 6, 2011.; Vice Admiral (ret'd) Gary Garnett, Interview with the Author, November 9, 2011.

⁷¹ Leslie, *Report on Transformation 2011*.

In contrast, the neoliberal explanation has more merit. The acceptance of increased private sector involvement in providing government services and the associated pressures to reduce government spending, are clearly part of the explanation for why Canada's use of defence services increased in the mid-1990s. The utility of the neoliberal explanation is still limited, however, for multiple reasons. First, it suggests that the privatization of defence services occurred alongside the privatization of other government functions. This would suggest that privatization in defence and the rest of government should demonstrate similarities, but in Canada this has not been the case. Since the 1990s, DND has become significantly more privatized than the rest of government.

Many authors have put forward their own definitions of the firms providing defence and security services.⁷² Following the multilateral effort to adopt The Montreux Document, which concluded in 2009, the definition provided in that document has become a standard. The Montreux Document definition is that:

“PMSCs” are private business entities that provide military and/or security services, irrespective of how they describe themselves. Military and security services include, in particular, armed guarding and protection of persons and objects, such as convoys, buildings and other places; maintenance and operation of weapons systems; prisoner detention; and advice to or training of local forces and security personnel.⁷³

However, as discussed in Chapter 3, data limitations preclude the use of this definition in an analysis of Canada's use of PMSCs. Because the Government of Canada's financial documents lack the specificity required to limit the discussion to the types of services specified above, the discussion of PMSCs in this dissertation will extend to all activities captured by expenditures on Standard Object 4 in the Public Accounts of Canada.⁷⁴

⁷² Singer, *Corporate Warriors*; Avant, *The Market for Force*

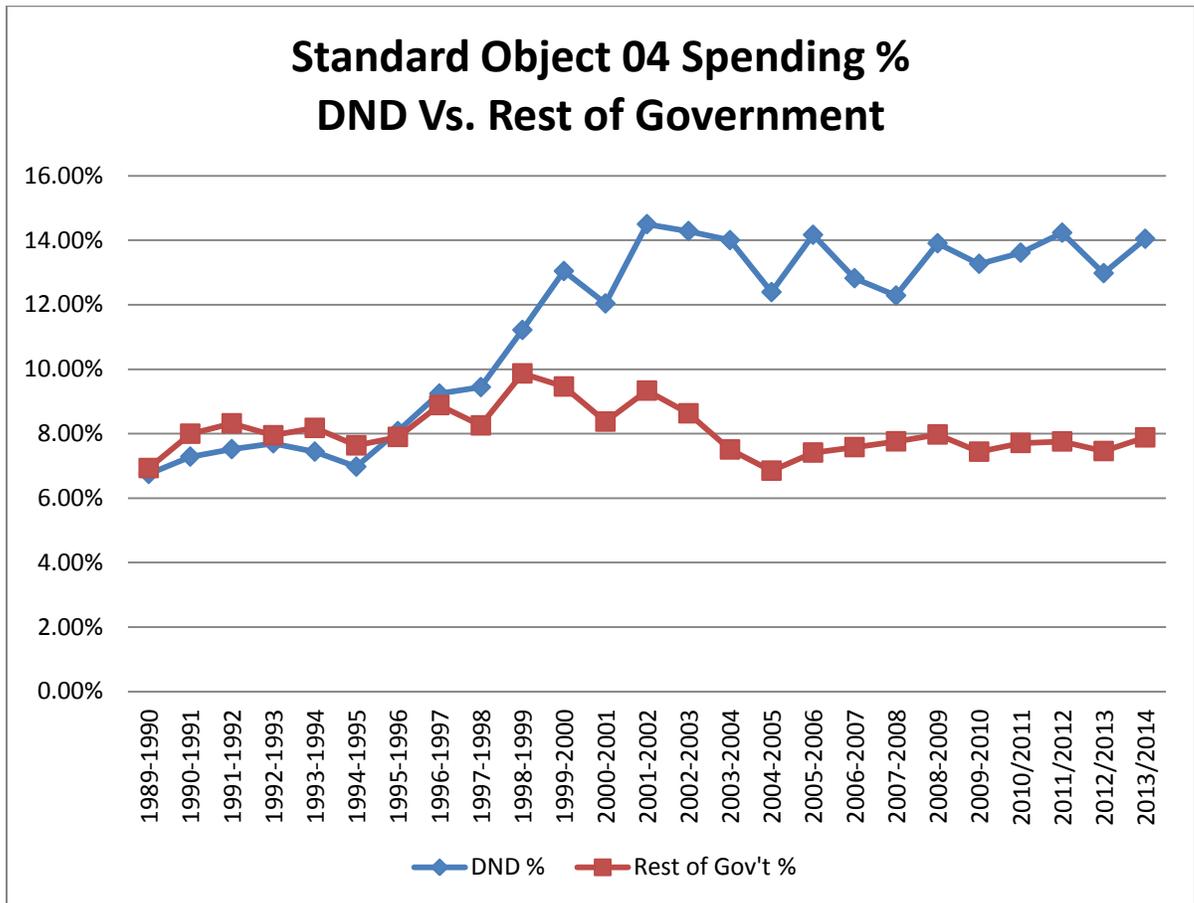
⁷³ International Committee of the Red Cross and the Federal Department of Foreign Affairs, Switzerland, *The Montreux Document* (Geneva and Berne, 2009), 9.

⁷⁴ The precise activities captured by this spending category are discussed further in Chapter 3.

An analysis of this spending in Figure 1 shows that in 2012/2013, 12.98 percent of defence spending was devoted to service contracts, compared to 7.44 percent for the rest of the federal government. Furthermore, the share of services in defence has not co-varied with the rest of government. Between 1983/1984 and 2001/2002 the proportion of Canadian defence spending devoted to professional and special services more than tripled, rising from 4.43 percent of departmental spending to 14.04 percent. In comparison, the share of all Canadian Government spending devoted to such services increased only marginally; rising from 7.26 percent to 9.33 percent.⁷⁵ In the mid-1980s DND spent proportionally half of what the rest of government did on private services, but this share rose steadily over the next two decades to exceed spending in the rest of Government. Thus, if the use of contracted services by the Canadian military was the result of neoliberal pressures that affected the entire Canadian Government, it is puzzling that the increase in privatization was so much more prevalent at DND than in the rest of government, and why variation in defence privatization has not been linked to wider changes in the rest of Government.

⁷⁵ Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*.

Figure 1



Second, the actual timing of the most significant increase in defence privatization is also problematic for the neoliberal explanation. The most significant point of increase in the use of service contracts, when the proportional share of spending at DND exceeded that in the rest of government, occurred after 1994. As Spearin suggests, it was only then that the ‘privatization taboo’ in National Defence was erased, but this occurred almost a decade after various efforts during the 1980s to implement the neoliberal agenda in Canada, including through the privatization of Crown corporations.⁷⁶ The delayed timing is even more notable because the Mulroney Government, which implemented the privatization of Crown

⁷⁶ Donald J. Savoie, *Thatcher, Reagan, Mulroney* (Toronto: University of Toronto Press, 1994).

corporations, commissioned a study of defence procurement in 1985 which recommended an increase in the acquisition of services from the private sector.⁷⁷ That recommendation appears to have had little impact on DND and yet the same report's recommendations regarding economic offsets were highly influential in creating the Industrial Regional Benefit program.⁷⁸ This strongly suggests that neoliberal conceptions about the role of the state and private sector provided a less direct role in prompting the increased use of service contracts at DND in the mid-1990s than previously understood.

The neoliberal explanation also does not explain why DND would attempt to reduce its reliance on contracting as a means of cutting its budget. As indicated above, the neoliberal explanation suggests that DND increased its use of contracted defence services in the mid-1990s because it thought it could save money by doing so, thereby helping the department meet its budget reduction targets. As Chapter 5 details, these efforts did yield tangible financial savings.⁷⁹ Yet a major *reduction* in the use of contracted services was the single largest measure adopted by DND in 2012 as part of its effort to meet budget cuts imposed in 2011. The utility of the neoliberal explanation is therefore weakened by the decision to decrease the use of defence service contracts to achieve budget cuts in 2012.

Finally, the functional explanation, while also persuasive, has shortcomings too. It plausibly explains why the Canadian military *initially* opted to contract for services in the post-Cold War era as a means of compensating for operational military shortfalls. As Spearin contends, contracting began as a “stopgap measure to help the CF meet operational

⁷⁷ Eric H. Shelton and et al. *Management of Government: Procurement* (Ottawa: Minister of Supply and Services Canada, 1985).

⁷⁸ James Fergusson, "In Search of a Strategy," in *The Economics of Offsets*, ed. Stephen Martin (Amsterdam: Harwood Academic, 1996), 107-137.

⁷⁹ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery* (Ottawa: 1999).

requirements.”⁸⁰ A functional explanation does not explain, however, exactly *how* and *why* privatization has proven to be a more appealing option over the last twenty years than the alternative: generating and deploying more military forces. The CAF began contracting for operational support, supposedly due to functional imperatives, in 2000 just after DND’s budget and personnel strength hit their lowest points. Between 2004 and 2010, however, defence spending rose 51 percent in nominal terms, the full time military expanded by 6,400 members, and numerous major weapons systems were acquired.⁸¹ A functional explanation cannot explain why the Canadian military continues to contract for operational support, despite a significant increase in defence resources and capabilities. Finally, as outlined at the beginning of this chapter, the functional explanation does not explain the 2012 decision to cut \$445 million in defence service contracts.

This study therefore seeks a better understanding of why Canada’s use of private defence services has varied over time is important for several reasons. The goals and objectives of this research are fivefold. First, this project makes a policy relevant contribution to IR scholarship by broadening the existing understanding of the relationship between states and private actors in international relations. Second, this research expands the contemporary American-centric understanding of defence privatization by providing a detailed analysis of PMSC use in a secondary power. This extends the perspective on the role of PMSCs beyond their interactions with the dominant state in the international system. Third, it makes a significant contribution to the Canadian defence and foreign policy literature in two ways. At once it expands upon the existing understandings of how Canadian foreign and defence policy is actually implemented. It also provides a significant contribution to a previously under-explored area of Canadian defence procurement. Finally,

⁸⁰ Spearin, *Not a "Real State"?* 1101.

⁸¹ Leslie, *Report on Transformation 2011*.

the research develops a more nuanced explanation for defence privatization that can account for both increases and decreases in the extent of defence privatization.

Theoretical Framework

The Canadian defence policy literature provides a strong indication that changes to the size of the defence budget and constraints on its allocation may be responsible for the variation in spending on defence services in Canada. The combination of the dual pressures of an active foreign policy, but a limited defence budget, is recognized as being responsible for variation in the extent of spending on the Capital component of the defence budget.⁸² As a result of constraints on the allocation of the Canadian defence budget towards Personnel and Operations and Maintenance, driven in part by the demands of Canadian foreign policy, one of the most consistent features of Canadian defence spending historically is that expenditures on Capital purchases have invariably been curtailed when DND has experienced budget restraint.⁸³ Conversely, the share of the defence budget devoted to Capital acquisitions has historically only increased when the overall defence budget has increased.⁸⁴ Stated otherwise, the literature attributes the variation in Canada's expenditures on defence *goods* (Capital) to changes in DND's budget levels and the constraints imposed on the allocation of the defence budget. There is thus significant reason to expect that these same budgetary dynamics, the competing pressures of an activist Canadian foreign policy and limited defence budget, may also drive the variation expenditures on defence *services*.

⁸² John M. Treddenick, "The Defence Budget," in *Canada's International Security Policy*, eds. David Dewitt and David Leyton-Brown (Scarborough: Prentice Hall Canada, Inc., 1995), 413-454.

⁸³ James Fergusson, "Beyond the Dollar Crisis," in *Security, Strategy and the Global Economics of Defence Production*, eds. David G. Haglund and S. N. MacFarlane (Montreal, Quebec: McGill-Queen's University Press, 1999), 93.

⁸⁴ Danford Middlemiss, "Canadian Defence Funding," *Canadian Defence Quarterly* 21, no. 2 (1991): 13-20.

The need for Canadian defence planners to make difficult resource allocation decisions is well recognized because constrained optimization is highly prevalent feature of defence budgeting in Canada's National Defence.⁸⁵ As the 1971 Defence White Paper acknowledged, "there is no obvious level for defence expenditures in Canada."⁸⁶ Because of this, according to Treddenick, the actual level of defence spending has been determined by the interaction of two distinct rationalities that drive "defence budget-determination."⁸⁷

On one hand, there is military culture that believes defence posture should be the logical outcome of translating the declared defence policy of the day into ends and means. In this view, the "the defence budget is then simply the cost of making the desired defence posture a reality, and its determination is essentially a technical military and economic matter."⁸⁸ This perspective has also been depicted as a "'needs-based' approach to defence funding,"⁸⁹ which has attributed Canadian defence spending to changes in the external threat environment. From this perspective, changes in the international system and Canada's participation in defence alliances meant that "alliance commitments have driven defence spending."⁹⁰ Solomon, for instance, found that during the early Cold War, Canadian defence expenditures were correlated with allied defence spending, especially that of the non-

⁸⁵ Binyam Solomon and Craig Stone, "Accrual Budgeting and Defence Funding," *Defence and Peace Economics* 24, no. 3 (2013): 211-227.; Binyam Solomon, Paul Chouinard and Leonard Kerzner. *The Department of National Defence Strategic Cost Model: Vol II Theory and Empirics* (Ottawa: Defence R&D Canada - CORA, 2008); J. Craig Stone, "Planning Defence Budget Allocations for Canada's Strategy 2020," *Defence and Peace Economics* 16, no. 3 (2005): 223-246.; John Treddenick, "Modelling Defense Budget Allocations," in *The Economics of Regional Security*, eds. Jurgen Brauer and Keith Hartley (Amsterdam, the Netherlands: Harwood Academic Publishers, 2000), 43-70.; John M. Treddenick, "Distributing the Defence Budget," in *Issues in Defence Management*, ed. Douglas Bland (Kingston, ON: School of Policy Studies, Queen's University, 1997), 57-82.

⁸⁶ Canada. Department of National Defence, *Defence in the 70s* (Ottawa: 1971), 41.

⁸⁷ Treddenick, *The Defence Budget*, 413.

⁸⁸ *Ibid.*, 414.

⁸⁹ Middlemiss, *Canadian Defence Funding*, 14.

⁹⁰ D. W. Middlemiss and J. J. Sokolsky, *Canadian Defence* (Toronto: Harcourt Bruce, Javonovich Canada Inc., 1989), 214.

American members of the North Atlantic Treaty Organization (NATO).⁹¹ The military culture approach to defence budgeting thus provides an apt description of the significant increase in the Canadian defence budget as Cold War began. In the wake of multiple actions by the Soviet Union detailed in the next section, including the Prague coup, and Berlin blockade, Canada's defence budget increased by 38 percent in 1948, rising for the first time since the WWII demobilization. Spending increased by another 43 percent in 1949, the year the North Atlantic Treaty was signed, and by 1951, after the start of the Korean War, the defence budget had increased tenfold.⁹² The military culture perspective would explain these funding changes to a logical adaption to the external threat environment.

This military culture approach has faced significant competition since the 1950s, however, with a "fiscal culture"⁹³ which evaluates defence expenditures in the context of other fiscal pressures on the Government of Canada. From this perspective, stated defence policy does not imply a sacrosanct level of defence spending.⁹⁴ Since the Second World War, DND has consistently comprised the largest component of direct federal program spending. Because of this, the defence budget has frequently been reduced in the face of other fiscal pressures because it "provides government with significant flexibility to...reduce expenditures during times of restraint."⁹⁵ Adherents of this viewpoint contend that "fiscal considerations have had a more important impact on the evolution of military capabilities than have commitments and responsibilities."⁹⁶ Consequently, according to Bland, the availability of defence resources is determined only once other government priorities, "the

⁹¹ Binyam Solomon, "The Demand for Canadian Defence Expenditures," *Defence and Peace Economics* 16, no. 3 (2005): 171-189.

⁹² Treddenick, *The Defence Budget*, 413-454.

⁹³ *Ibid.*, 414.

⁹⁴ *Ibid.*

⁹⁵ Lieutenant Colonel Ross Fetterly, "Budgeting for Defence," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Education Network, 2009), 49.

⁹⁶ R. B. Byers. *Canadian Security and Defence* (Oxford: International Institute of Strategic Studies, 1986), 31.

facts of national life,”⁹⁷ have been accounted for. These facts of life are the domestic political and socio-economic imperatives that drive the federal budgeting process. As a result of these pressures, he contends that “Defence policy in Canada usually does not originate from a strategic idea but rather from the dynamics of the annual federal budget.”⁹⁸

According to Treddenick, the two competing budgeting cultures have expressed themselves as dual external pressures on the defence budget: one from the international system and the other the domestic political environment.⁹⁹ The next two sections examine in detail these two competing pressures, driven by the demands of Canadian foreign policy on one hand, and the federal government’s approach to budgeting on the other. The net result of these competitions, according to most analysts, is that the fiscal culture perspective has dominated defence budgeting in Canada. At the same time, the demands of Canadian foreign policy has been persistent, making active use of the military, and trend that increased significantly after the Cold War’s end. This has meant that DND’s budget allocation has generally been “*just* enough – just enough to keep [the] armed forces together and to allow the military to operate alongside allied units undertaking similar roles.”¹⁰⁰ As a consequence, the Canadian military has faced a perennial problem of constrained optimization.

Argument

In the 1990s two long standing pressures on the Canadian military, an activist Canadian foreign policy and defence budgetary shortfalls, became significantly more intense.

⁹⁷ Douglas Bland, "The Public Administration of Defence Policy," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Educational Network, 2009), 9.

⁹⁸ Douglas L. Bland, *Chiefs of Defence* (Toronto: Canadian Institute of Strategic Studies, 1995), 158.

⁹⁹ Treddenick, *The Defence Budget*, 413-454.

¹⁰⁰ Middlemiss and Sokolsky, *Canadian Defence*, 220.

During this decade, the Canadian Government's foreign policy became even more activist, making frequent use of the military, a trend that continues to the present. At the same time, the budgetary pressures on DND increased significantly after the Chrétien government adopted a neoliberal approach to federal budgeting that is still in effect today. Throughout this period, DND retained its preferences for balanced, combat centric forces with a high tooth to tail ratio. Varying the use of service contracts has allowed DND to make reallocations between its spending on Personnel, Capital, and Operations and Maintenance in a way that maximized the combat capabilities it could produce within a limited budget.

In 1989, the Canadian military entered a decade long period of budget cuts that intensified between 1994 and 1999, resulting in the most significant budget cuts to National Defence since the 1950s. Between 1994 and 1999, DND also faced tight constraints on the allocation of its budget towards Personnel because of limits on the number of military Person Years (PYs) and declining expenditures on Capital because it was the residual budget category. Faced with major budget cuts and tight controls on the number of military PYs, DND opted to increase its use of service contracts. As noted in the literature review, service contracts was that they offered the prospect of providing support services more cheaply than by having those services provided by military personnel. Thus, increasing the use of service contracts offered the prospect of helping DND achieve its budget reductions. Just as importantly, however, increasing the use of service contracts meant that DND could allocate the maximum possible share of its scarce military positions towards combat forces. At the same time, by reducing its overall costs through increasing the use of service contracts, DND hoped to reallocate the resulting savings towards Capital expenditures.

After 1999, DND's budget began to increase slowly, but until 2005 when an expansion was announced, the size of the armed forces was capped at 60,000. As Chapter 3

describes, by 2007/2008 DND had recovered from the impact of the budget cuts incurred during the 1990s but DND still has a significantly smaller workforce than it did in 1989. Even after the budget growth increased sharply in 2005, DND still faced significant budget pressures due to operational demands and additional capability requirements. Furthermore, the number of military positions remained constrained, restricting the allocation of funds towards Personnel. As a result, DND's use of service contracts continued to increase, to maximize the allocation of its most constrained expenditure component, Personnel, towards combat forces. Within its tightly controlled allocation of military positions, DND attempted to allocate as many positions as possible towards combat forces. Because the defence budget was rising during this period, the residual budget category played little role in influencing the allocation of these resources.

After 2011 when the defence budget was again cut as part of the Government of Canada's effort to combat the deficit, the residual budget category once again became an important factor in DND's resource allocation. However, the nature of these constraints differed from those in the 1990s. As was the case then, DND faced tight constraints on its ability to allocate expenditures towards Personnel, because the military was directed to maintain 68,000 military positions. Unlike the earlier period, however, Operations and Maintenance was now the residual budget category, and reducing spending on Capital no longer afforded the prospect of major annual budget reductions. As a result, DND opted to make a reduction to its spending on service contracts, because cutting this component of the defence program was one of few options available that would allow DND to achieve its budget reduction within the constraints imposed by government.

To reiterate, the budget optimization explanation advanced here is that service contracts provide military planners with increased flexibility to make optimal allocations

between expenditures on Personnel, Operations and Maintenance, and Capital. During periods of budgetary restraint, planners have either increased or decreased their spending on contracts to allocate the defence budget in a way that maximized the military capabilities it could produce within a restricted defence budget. So long as Capital was the residual budget category and the number of military positions tightly controlled, increasing the use of service contracts provided a means to allocate the maximum number of military PYs to combat forces and reallocate funds to bolster the Capital budget. Once the residual budget category switched to Operations and Maintenance, it became almost inevitable that service contracting would be reduced in the event of a budget cut, which is what happened in 2012.

Research Question

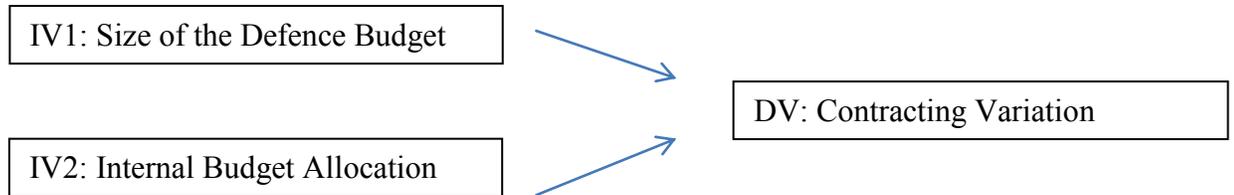
Why has Canadian defence privatization varied over time?

Hypothesis

The **hypothesis** that will be tested is as follows: variation in the use of PMSCs by the Canadian military has been driven by changes to the size and the internal allocation of the defence budget. When defence spending has decreased, DND's use of PMSCs has varied significantly as well. Whether that variation has been to increase or decrease the use of service contracts has been determined by the constraints imposed by the government on the allocation of the defence budget between its primary spending components: Personnel, Operations and Maintenance, and Capital. Throughout the rest of this dissertation, this hypothesis is referred to as the budget optimization explanation.

Variables

The hypothesized relationship between variables is mapped as follows:



Operationalization of Variables

The first independent variable, the size of the defence budget, will be operationalized as actual defence spending either increasing, or decreasing, in constant dollars. The second independent variable, internal budget allocation, will be operationalized by assessing the constraints on the allocation of the budget between Personnel, Operations and Maintenance, and Capital expenditures. This is comprised of two parts: the residual budget category and how tightly the Personnel component of the defence budget is constrained. Finally, the dependent variable is operationalized as service contract spending, in constant dollars.

Table 1 depicts these variables over time. It denotes the first independent variable, Budget Size, as either increasing or decreasing. The second independent variable, Internal Budget Allocation, is measured in two ways by describing the nature of the constraints imposed on Personnel spending and the residual budget category. Finally, Table 1 indicates the changes to the dependent variable, as either constant, increasing or decreasing.

The first independent variable, defence spending, decreased from 1989 until 1998. It then increased from 1999 until 2011, and began decreasing again between 2011 and 2014. The first aspect of the second independent variable, internal budget allocation, is the residual budget category. This variable can be delineated into two periods. From 1989 until 2002, the residual budget category was Capital and then from 2003 onwards, Operations and

Maintenance became the residual budget category. The second aspect of the internal budget allocation variable is constraints on Personnel. From 1989 to 1993, these were loose. From 1994 until 2004 these were tight. After 2005 and until 2010 the constraints on Personnel were medium. After 2011, these constraints again became tight.

Finally, the dependent variable, contracting variation experienced three shifts. From 1989 through 1997, contracting variation remained unchanged. Between 1998 and 2010, contracting variation increased and then after 2011, contracting variation decreased.

Table 1

	Changes to Independent and Dependent Variables					
Time Period	1989-1993	1994-1998	1999-2002	2003-2004	2005-2010	2011-2014
Size of the Defence Budget	Decreasing	Decreasing	Increasing	Increasing	Increasing	Decreasing
Internal Budget Allocation						
Residual Budget Category	Capital			Operations and Maintenance		
Personnel Constraints	Loose	Tight	Tight	Tight	Medium	Tight
Contracting Variation	< - >		Increasing			Decreasing
Time Period	1989-1997		1998-2010			2011-2014

Methodology

This research will employ case studies and process tracing as its primary methodologies. A case study approach is appropriate to this subject matter for several reasons. First, military privatization is a multifaceted phenomenon that affects many components of the military in many different capacities and impacts a multitude of policy processes ranging from procurement to expeditionary operations. Case studies are well placed to study complicated research areas, as they provide comprehensive accounts of a research subject and facilitate the uncovering of complex causal mechanisms.¹⁰¹ In this

¹⁰¹ Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, 1997); Gary King, Robert Keohane and Sidney Verba, *Designing Social Inquiry* (Princeton, N.J.: Princeton University

instance, cases will be used to conduct detailed examinations of factors leading senior decision makers to vary the use of service contracts. In particular, this will examine how a combination of a limited defence budget, constraints on the apportionment of the defence budget towards Personnel, and the residual budget category led defence decision makers to increase or decrease spending on service contracts in order to maximize the military's tooth to tail ratio. Beyond simply providing a more nuanced analysis, case studies are furthermore able to capture and portray the "holistic and meaningful characteristics of real-life events"¹⁰² thus situating the variables cited for analysis within the contexts within which they operate. A case study approach is therefore best suited to capturing the complexity of military privatization.

Second, case studies are particularly useful for understanding new phenomenon, particularly through "field work – such as archival research and interviews with participants."¹⁰³ Military privatization in Canada has received relatively limited academic attention, thus making a detailed analysis through case studies beneficial.

Third, case studies are particularly appropriate for policy analysis, as they are amenable to exploring both policy outcomes and their corresponding policy processes which are rooted in "spatio-temporal configurations."¹⁰⁴ A case study is therefore appropriate for exploring decision making within highly institutionalized environments such as military bureaucracies.¹⁰⁵

Press, 1994); A. Abbot, "What do Cases do?" in *What is a Case?*, eds. Charles C. Ragin and Howard Saul Becker (New York: Cambridge University Press, 1992).

¹⁰² Robert K. Yin, *Case Study Research* (Newbury Park, California: Sage Publications, 1989), 14.

¹⁰³ Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge, Mass.: MIT Press, 2005), 20.

¹⁰⁴ Leslie A. Pal, "Case Study Method and Policy Analysis," in *Thinking Like a Policy Analyst*, ed. Iris Geva-May (New York, N.Y.: Palgrave Macmillan, 2005), 237.

¹⁰⁵ Ibid.; Kathleen Thelen, "Historical Institutionalism in Comparative Politics," *Annual Review of Political Science* 2, no. 1 (1999): 369.

The case study approach will be further supplemented by the use of process tracing. At its most basic, process-tracing takes the form of a detailed narrative presented in the form of a chronicle that “purports to throw light on how an event came about.”¹⁰⁶ It is a complementary method that is also well suited for studying causal mechanisms, the “independent stable factors that under certain conditions link causes to effects.”¹⁰⁷ This method seeks an “*historical explanation* of an individual case,”¹⁰⁸ that can be used to test explanations for that case. It therefore permits attention to the historical complexity of a given case, but also providing potentially generalized explanations to a wider range of cases.¹⁰⁹ This study will employ a diverse body of evidence in its process tracing efforts. A key component will be semi-structured interviews with key officials involved in varying the use of service contracting at DND over time. These interviews will be cross referenced to limit the impact of potential biases with a variety of other sources including: transcripts from Parliamentary committee hearings; House of Commons and Senate reports; Auditor General of Canada reports; official government statements and documents; DND audits and reports; Access to Information Requests; archival data; trade and professional publications; media reports; and presentations at defence industry trade shows, in addition to the academic literature.

This study will use the deductive elements of process tracing, suitable for testing hypothesis. In doing so, the researcher “attempts to identify the intervening causal process – the causal chain and causal mechanism – between an independent variable (or variables) and

¹⁰⁶ George and Bennett, *Case Studies and Theory Development in the Social Sciences*, 210.

¹⁰⁷ Ibid.

¹⁰⁸ Andrew Bennett, "Process Tracing," in *The Oxford Handbook of Political Methodology*, eds. Janet M. Box-Steffensmeier, Henry E. Brady and David Collier (New York: Oxford University Press, 2008), 704.

¹⁰⁹ George and Bennett, *Case Studies and Theory Development in the Social Sciences*.

the outcome of the dependent variable”¹¹⁰ In this study, it will examine how a limited defence budget and constraints on how it could be allocated between its constituent components interacted to induce increases in service contracting under some conditions and decreases in service contracting under others.

This will be done by providing a detailed examination of the “sequential processes within a particular historical case.”¹¹¹ Through this method the researcher attempts to see “whether the causal process a theory hypothesizes or implies in a case is in fact evident in the sequence and values of the intervening variables in that case.”¹¹² Thus, rather than establishing the co-variation of variables, process tracing instead “attempts to empirically establish the ... implications that should be true in a case if a particular explanation of that case is true.”¹¹³

This study adopts the variant of process tracing described by George and Bennett as an “Analytic Explanation,”¹¹⁴ which seeks to convert a historical narrative into an analytical causal explanation couched in theoretical terms. As such, the subsequent chapters in this study will search for the predicted indicators of support for the hypothesis being tested listed below. The aim is to pass smoking gun tests¹¹⁵ that provide strong supporting evidence for the explanation under consideration, by searching for congruence between the empirical record and the following expected behavior.¹¹⁶

¹¹⁰ Ibid., 206.

¹¹¹ Ibid., 13.

¹¹² Ibid., 6.

¹¹³ Ibid., 147.

¹¹⁴ Ibid., 211.

¹¹⁵ Van Evera, *Guide to Methods for Students of Political Science*

¹¹⁶ Andrew Bennett and Jeffrey Checkel. *Process Tracing* (Vancouver: School for International Studies, Simon Fraser University, 2012).

Supporting Evidence for the Hypothesis:

- Contracting variation, both increasing and decreasing, during budget reductions
- Contracting behavior (increase or decrease) differs when the allocation constraint changes.
 - When spending on Personnel is tightly constrained, and Capital the residual budget category, service contracting increases.
 - When spending on Personnel is constrained, and Operations and Maintenance is residual budget category, service contracting decreases.
- Decisions to vary the use of service contracts are taken in the context of allocating defence resources in order to maximize the tooth to tail ratio: eg. Allocating military PYs to combat forces or increasing the Capital budget

Refuting Evidence for the Hypothesis:

- Constraints on Personnel have no impact on variation in service contracting.
- Changes to the residual budget category have no impact on the direction of the variation in the use of service contracting.
- Decisions to vary the use of service contracts are taken without consideration for maximizing the tooth to tail ratio.

Case Selection

These cases selected for this study are: i) Alternate Service Delivery ; ii); contracts for In-Service Support (ISS) iii) Operational Support Contracting; iv) and the 2012 Service Contracting Cut. The cases selected for inclusion were chosen based on two primary

considerations. First, they aim to provide as much variation as possible on the independent and dependent variables. Second, they were selected based on data richness and the availability of research materials. The contracts falling under the first three categories are the most extensively documented in Canada, as they have been examined in internal DND audits, reports by the Auditor General of Canada, and in Parliamentary hearings. This is an important consideration as other categories of contracting, such as those for security contracts, have much less information available publically, due to security considerations. The selection of these cases, three of which involve logistics support, are beneficial as logistical support remains an under-examined aspect of Canadian defence policy.

Case 1, the ASD initiative, was selected since it is cited in the literature as a crucial turning point in the post-Cold War increase in service contracting. Under this program, several services, primarily related to base logistics, were subjected to possible outsourcing to industry. This case coincides with the significant increase in the share of the defence program devoted to contracted services.

Case 2, ISS contracts for equipment maintenance, repair and overhaul, represents an increasingly important component of the defence program, and one that forms a key component of the Government of Canada's Defence Procurement Strategy. The multitude of maintenance programs and individual contracts provides significant data richness, extending over multiple time periods.

Case 3, Operational Support Contracting represents a significant shift in DND and the CAF's use of service contracts. Under these programs, Canada deployed contractors abroad on expeditionary operations for the first time. The use of contractors in an expeditionary context received widespread academic study in other jurisdictions, which suggests that PMSCs are now crucial components of deployed military operations.

Comparatively little academic effort in Canada has focused on this critical change, yet Canada has recently extended this program.

These first three cases are all instances of the dependent variable, contracting, increasing. Furthermore, as Table 1 demonstrates, the cases selected provide for significant variation on both of the independent variables.

Case 4, the 2012 Service Contracting Cut is an instance of the dependent variable, contracting, decreasing. This case has not yet been examined in the literature, so it offers insight into the future use of service contracts as well as the current program of defence austerity at National Defence. Case 4 also provides a crucial test of the budget optimization explanation, as it is the only explanation that suggests a plausible explanation for a reduction in contracted spending.

The remainder of this dissertation proceeds as follows. Chapter 2 expands on the theoretical framework introduced in this chapter that underpins this study. Chapter 3 discusses the data used in this study, the federal accountabilities for Canadian defence service contracting and the relevant aspects of the control over personnel and federal government expenditures in Canada. It then traces the evolution of the Canadian defence budget over time, to illuminate the major changes relevant to this study, concentrating on the period from 1989 to the present. Finally the costs and funding of expeditionary operations are examined in detail as this is highly relevant for Case Study 3.

Chapter 4 provides an overview of the historical use of service contracting at DND. This achieves three objectives. First, it demonstrates that the use of service contractors is not unique to the post-Cold War era. Rather, contracts with maintenance firms have existed to varying degrees so long as there has been an RCAF. Second, by reviewing these historical maintenance relationships, this provides the historical context within which to situate the

changes to DND's maintenance that occurred in the 1990s and thereafter. Third and finally, the chapter reviews two past studies that recommended Canada increase the use of contractors at DND. As this demonstrates, the concept of increasing the use of contractors was not new, but only factors present after 1994, namely the adoption of a neoliberal approach to budgeting and an increase in Canada's foreign policy activism, led DND to act on them.

Chapter 5 examines the ASD case. This chapter traces the evolution of ASD at DND, situating it within a government wide program of the same name and multiple other change initiatives at DND. Although this initiative was intended to save money through outsourcing to the private sector, this alone did not make it appealing to DND. Rather ASD was embraced initially because it allowed DND to allocate fewer human and financial resources to support services and redirect those savings towards operational capability, either in the form of personnel or additional funds for the Capital program. Within a few years, though, the outsourcing component of this program fell out of favour in the face of substantial opposition and byzantine human resources rules that significantly reduced the cost effectiveness of private options. Instead, DND proceeded with in-house reforms that provided the desired reallocation potential, but without the difficulties of pursuing private sector options.

Chapter 6 reviews four separate evolutions in Canada's use of contracted ISS. The first occurred alongside the ASD program and was driven by the same imperatives. Driven by the budget cuts and personnel reductions that accumulated after 1989 and a desire to allocate the remaining resources to operational forces to the maximum extent possible, an increasing share of ISS work was turned over to industry. Reductions to front line maintenance staff through ASD had created a situation where the military lacked the

capacity to maintain some fleets in-house. A lack of capacity also precipitated the second shift reviewed, to Optimized Weapons System Management (OWSM). This saw a move to bundle existing maintenance contracts into fewer contracts that were easier for a much smaller Materiel Group in Ottawa to manage. The third change reviewed, to adopt the ISSCF, saw the combination of acquisition and support contracts and their award to OEMs become DND policy. This was driven by multiple factors, including the desirability of: creating a single point of accountability; increasing fleet availability; maximizing total life-cycle costs; and managing new fleets with a Materiel Group too small to do so otherwise. The fourth shift examines a number of activities started in 2014 to move away from the ISSCF. Two of these are driven by domestic political and economic imperatives while the third is part of a wider effort to maximize DND's tooth to tail ratio.

Chapter 7 traces the evolution of DND's operational support contracting. As it outlines, DND's use of these contractors has been driven by a mismatch between the capacity of the CAF's combat support and combat service support organizations and the operational requirements of the Government of Canada. This led first to a contract in 2000 for the military's Year 2000 operation and then for a contract to support operations in Bosnia. Subsequently, DND created an operational support contract, the Canadian Contractor Augmentation Program (CANCAP), that could be used anywhere in the world. The first three of these contracts were created in the aftermath of the major downsizing of the 1990s, during which time the CAF support forces were minimized in an effort to devote the maximum personnel possible to operational units. The most recent contract, CANCAP II, was signed in 2013 after a significant expansion of the CAF. As is demonstrated, the use of operational support contractors appears to be part of a conscious effort to maximize the tooth to tail ratio in the CAF and use contractors where needed on operations to

supplement an otherwise too-small support organization. Viewed in this light, this is part of a deliberate effort to maximize the allocation of resources to operational forces.

Chapter 8 reviews the cut in service contracting enacted as part of the 2012 budget. To do so it provides a detailed examination of the 2010 and 2012 budget cuts and the most recent round of Canadian defence transformation. This review reveals that the budget cuts at DND since 2010 were taken under heavy constraints. One of these was that Capital spending could not be reduced, which provides empirical evidence confirming that Capital is no longer the residual budget category. This review also shows that DND could not cut Personnel to save money during this reduction either. As a result, the constraints imposed upon DND by a Government determined to find defence efficiencies led DND to reduce spending on service contracts. Finally, Chapter 9 summarizes the findings, indicates the contribution made by this dissertation to the literature, provides policy options, and makes recommendations for future research.

Chapter 2: Theoretical Framework

This chapter describes the theoretical framework employed in this study. It begins with an overview of the three primary understandings of Canadian Foreign Policy, and how each contributes to an activist foreign policy orientation in Canada. It then examines the theoretical approaches to federal budgeting in Canada, with a particular focus on the impact of neoliberalism. The chapter then examines the organizational culture of the Canadian military. Finally, the chapter explores the concept of constrained optimization and describes how it operates in Canada.

The Pressure of an Activist Canadian Foreign Policy

Following WWII, Canadian foreign policy has been oriented towards active engagement with the international community. This provided a marked departure from past practice, since the country had previously followed a largely isolationist foreign policy. Prior to the Second World War, to the extent that Canada was involved in the international community, such as through its membership in the League of Nations, these efforts were designed to bolster claims to national independence.¹ It was that approach that led Senator Roaul Dandurand to describe Canada as a “fire proof house, far inflammable materials”² in an effort to downplay the need for an active commitment abroad by articulating Canada’s relative safety.

Canada’s post-WWII foreign policy of an “activist strategy of international involvement”³ was therefore a novel development. This has entailed deep involvement in

¹ Hector Mackenzie, "Canada's Nationalist Internationalism," in *Canadas of the Mind*, eds. Norman Hillmer and Adam Chapnick (Montreal: McGill-Queen's University Press, 2007), 89-109.

² Norman Hillmer and J. L. Granatstein, *Empire to Umpire* (Toronto: Irwin Publishing, 1994), 76.

³ Tom Keating, *Canada and World Order* (New York: Oxford University Press, 2002), 9.

the creation of the United Nations (UN) and subsequent strong support for its activities abroad, particularly UN peacekeeping. Similarly, Canada was a founding member of NATO and has long committed significant resources towards its collective defence principles and crises response operations. At the same time, by virtue of sharing the continent with the United States, Canada has also been required to carefully manage its security relationship with the Americans, both in North America and internationally. Sharing the continent with a super-power has often driven Canada to seek foreign policy activities that would facilitate an “independent”⁴ foreign policy.

This foreign policy orientation has driven Canadian international policy in two directions that have impacted its defence policy. The first is defending Canada and the continent, the second, engaging actively abroad, sometimes in support of the first objective. These two activities, the home and away games, have often come into tension, as Canadian officials have desired to do both. There has thus been an oscillation at times between greater support for one role over the other.⁵ The combined imperatives to conduct both active international foreign policy and defend the continent with the United States have placed significant demands upon the Canadian Armed Forces to support Canadian foreign policy. As a result, Canada’s military and therefore the Canadian defence budget have been under perennial pressure to produce substantial defence capabilities and use them frequently. These various pressures in Canada’s international policy can fit within three broad theoretical perspectives, Internationalism, Atlanticism, and Continentalism. While there is often significant overlap between these perspectives, each represents a distinct imperative for the use of the Canadian Armed Forces.

⁴ Brian Bow and Patrick Lennox, "Introduction," in *An Independent Foreign Policy for Canadians?*, eds. Brian Bow and Patrick Lennox (Toronto: University of Toronto Press, 2008), 3.

⁵ Elinor C. Sloan, *Security and Defence in the Terrorist Era* (Montreal: McGill-Queen's University Press, 2010).

Internationalism

Internationalism, or liberal internationalism, has been described as the “dominant idea in both the discourse and the practice of Canadian foreign policy in the decades after the end of the Second World War.”⁶ Internationalism has contained two broad components, an attitude towards Canada’s role in the world and how that role should be played. With respect to the former, internationalism has centered around a “*responsibility for playing a constructive role in the management of conflicts*” and a willingness to “use national resources for the system as a whole.”⁷ One of its defining features is “a more active role of the nation in international politics, together with the acceptance of the responsibilities of statehood.”⁸

The orientation towards playing an active role in international affairs emerged as “the antithesis of interwar isolationism”⁹ which had persisted in Canada between the First and Second World Wars. This isolationism had downplayed multilateral involvement, international law and institutions, and involvement in global political conflicts in an attempt to avoid foreign policy entanglements. Following WWII, the dominant in Ottawa was that this orientation amongst the great powers had contributed to the conflict. Further, despite its purported isolationism, Canada had become involved, and deeply so, in the Second World War. Canada ended the war as the fourth largest contributor of military forces, yet despite this sizeable commitment, by 1942 Canadian officials were unhappy with the lack of input they were afforded into wartime policies irrespective of Canada’s significant military

⁶ Kim Richard Nossal, "The Liberal Past in the Conservative Present," in *Canada in the World*, eds. Heather A. Smith and Claire Turenne Sjolander (Don Mills: Oxford University Press, 2013), 22.

⁷ *Ibid.*, 23.

⁸ Kim Richard Nossal, *The Politics of Canadian Foreign Policy* (Scarborough, Ont: Prentice-Hall Canada, 1985), 44.

⁹ Nossal, *The Liberal Past in the Conservative Present*, 31.

and economic contributions.¹⁰ Prime Minister Mackenzie King's speech that year articulated that countries should have influence in world affairs in proportion to their international contributions.¹¹ This approach carried through into Canada's support for the post-war international organizations where Canada sought active commitments for its security, but also to secure some degree of influence over the institutions commensurate with its capacity for international action. This notion would serve to underpin Canadian participation in the 1945 San Francisco negotiations establishing the UN Charter. At the time, Canada was committed to using its postwar status to "gain a voice in world affairs" while also finding "security in collective agreements."¹² Support for the nascent UN was driven by the view that while the organization acknowledged the fundamental importance of the world's great powers, it was one that still afforded a role for secondary or middle powers in the organization and maintenance of the world order. Canadian officials were therefore committed to the notion of "functionalism;"¹³ that there would be a special role in international affairs for non-great powers with sufficient military capacity to play an active role in maintaining the international system.

This call to action also contained a strongly normative component as internationalism reflected an "idealistic vision of international relations" predicated on liberal values like "peace, freedom, justice and democracy."¹⁴ This was often attributed to a sense of moral obligation given Canada's enviable position in the world. This was expressed most clearly in a 1947 speech by Minister of External Affairs Louis St. Laurent, who stated that

¹⁰ Hillmer and Granatstein, *Empire to Umpire*.

¹¹ Adam Chapnick, "Running in Circles," in *An Independent Foreign Policy for Canada?*, eds. Brian Bow and Patrick Lennox (Toronto: University of Toronto Press, 2008), 25-40.

¹² John W. Holmes, *Life with Uncle* (Toronto: University of Toronto Press, 1981), 21-22.

¹³ John W. Holmes, *The Shaping of Peace* (Toronto: University of Toronto Press, 1979), 236.

¹⁴ Kim Richard Nossal, Stéphane Roussel and Stéphane Paquin, *International Policy and Politics in Canada* (Toronto: Pearson, 2011), 136.

“Canada had the ability to act” which meant it “had a duty to act.”¹⁵ In so doing, St. Laurent expressed that Canadian foreign policy should be underpinned by the principles of political liberty, the rule of law, and be rooted in human values.¹⁶ Thus, internationalism in Canada has often been associated with the promotion abroad of “cosmopolitan values.”¹⁷

Internationalism has also been underpinned by a focus on multilateral approaches to international affairs. As a result, it has been characterized by extensive Canadian involvement in, and support for, international institutions.¹⁸ Yet, the propensity towards multilateralism associated with internationalism has been largely underpinned by self-interested concerns. Internationalism was predicated on the understanding that the nature of many international problems requires the cooperation of multiple states working in concert. In this respect, Canadian involvement in creating and then maintaining the post-WWII international system was underpinned by the interconnected beliefs in collective security, international organizations and world peace. The belief that the first two contributed to the third formed the basis for Canada’s support for multilateral institutions as it was thought that they provide the best means of confronting international problems and bettering Canada’s place in the world.¹⁹

This was particularly the case for Canada as a secondary power. Lacking the ability to shape its post-war world in its own image, Canada was best served by using its influence with the United States and in multilateral institutions to promote a stable, rules-based

¹⁵ Louis St. Laurent, "Address by SSEA Louis St. Laurent, Inaugurating the Gray Foundation Lectureship at University of Toronto, January 13, 1947," in *Canadian Foreign Policy 1945-2000*, ed. Arthur E. Blanchette (Ottawa: The Golden Dog Press, 2000), 1-11.

¹⁶ David Pratt, "Canadian Grand Strategy and Lessons Learned," *Journal of Transatlantic Studies* 6, no. 1 (2008): 61-78.

¹⁷ Jean-Christophe Boucher, "The Responsibility to Think Clearly about Interests," in *Canada in the World*, eds. Heather A. Smith and Claire Turenne Sjolander (Don Mills: Oxford University Press, 2013), 55.

¹⁸ Keating, *Canada and World Order*.

¹⁹ Michael Hawes, *Principal Power, Middle Power, Or Satellite?* (Toronto: York Research Program in Strategic Studies, 1984).

international order that served its national interests.²⁰ Having just emerged from the crucible of world war for the second time, and with an economy dependent upon trading relations that could be negatively disrupted by conflict, Canada was supportive of peace for self-interested reasons. According to St. Laurent, it was therefore axiomatic that Canada “give our support to every international organization which contributes to the economic and political stability of the world.”²¹ Given the strong linkages between Canada’s reliance on international trade for much of its economic well-being, internationalism served as a means of furthering Canada’s national interests.²² Thus, once it was established, Canada remained firmly committed to preserving and changing only incrementally the post-WWII international order because it secured great economic benefits from it.²³

A second self-interested aspect of internationalism was that it provided Canada with a counter-balance to the undue influence of any particular actor. For Canada, this has traditionally meant providing for international peace and security, while at the same time doing so in a way that would “offset the dominant and potentially domineering power of the United States.”²⁴ This line of thought was one of the appeals of functionalism, which had afforded the prospect of a unique role for lesser powers that offered Canada the change to secure influence over international affairs.²⁵ The basic premise was that active engagement in the international sphere would afford Canada a means of adopting a role in the international system independent of the one it played in North America.

²⁰ Peyton Lyon, *An Independent Foreign Policy for Canada?*, ed. Stephen Clarkson (Toronto: McClelland & Stewart, 1968).

²¹ St. Laurent, *Address by SSEA Louis St. Laurent, Inaugurating the Gray Foundation Lectureship at University of Toronto, January 13, 1947*, 10.

²² Boucher, *The Responsibility to Think Clearly about Interests*, 53-70.

²³ Adam Chapnick, "Peace, Order, and Good Government," *International Journal* 60, no. 3 (2005): 635-650.

²⁴ Keating, *Canada and World Order*, 2.

²⁵ Hawes, *Principal Power, Middle Power, Or Satellite?*

The clearest expression of Canada's internationalism lies with its support for the UN, which has driven many of Canada's external military engagement since WWII. It was a desire to support the UN's role in providing for collective security that drove much of Canada's policy towards the Korean War.²⁶ Throughout Canada's involvement in the conflict, which began with the deployment of a few destroyers but eventually grew to a force of 20,000 that suffered 300 casualties, Canada's was committed to maximizing the UN's role in Korea. In part this was an attempt to emphasize the collective dimension of the security arrangements, which had been undermined when the UN as a whole failed to respond to the act of aggression in the first instance.²⁷ Beyond that, however, the maximization of the UN dimension afforded Canada an opportunity to have a say in the decision making process.²⁸ The goals of constraining the United States and bolstering Canada's voice in the conflict were thought to be best served by maximizing the UN's role in the conflict as it was believed that this would allow Canadian officials to play a more significant role than engaging with the United States directly.²⁹

At the Cold War's end, a similar set of imperative drove Canadian involvement in the UN authorized American led coalition that liberated Kuwait from Iraq in 1990-1991. In that instance, Canada was "conscious of its role in defending international order in concert with the world's other principal powers,"³⁰ prompting another significant Canadian military involvement through the deployment of naval, air and land forces. Similarly, as in Korea, Canada's support for the UN role in the Gulf War was oriented around an effort to use the

²⁶ Denis Stairs, "Containing Communism in Korea, 1950-53," in *Canadian Foreign Policy*, eds. Don Munton and John Kirton (Toronto: Prentice-Hall Canada, Inc., 1992), 46-57.

²⁷ Keating, *Canada and World Order*.

²⁸ Denis Stairs, *Diplomacy of Constraint* (Toronto: University of Toronto Press, 1974).

²⁹ Ibid.

³⁰ John Kirton, "Liberating Kuwait," in *Canadian Foreign Policy*, eds. Don Munton and John Kirton (Toronto: Prentice-Hall Canada, Inc, 1992), 383.

UN to constrain American actions.³¹ Canadian post-war foreign policy has thus been underpinned by strong support for the UN as a means of ensuring collective security generally, maximizing its input into international affairs, and moderating America's role in world conflicts.

Following the Korean War, the other primary component of Canada's support for the UN came through involvement in the organization's peacekeeping efforts. This emerged reluctantly at first, as Canada only begrudgingly deployed small numbers of observers to the UN Military Observer Group in India-Pakistan in 1949 and the UN Truce Supervisory Organization in the Middle East in 1954.³² While Canada's embrace of peacekeeping would later be viewed as universally enthusiastic, Canada was initially fundamentally cautious and pragmatic about supporting these efforts.³³

This attitude changed radically after Canada's seminal contribution to peacekeeping with the Suez Crisis of 1956. In November of that year, Israel with France and Britain's tacit support invaded Egypt following its nationalization of the Suez Canal. The ensuing crisis resulted in condemnation of Britain and France by both the United States and Soviet Union. These events threatened the UN's credibility given the involvement of two permanent members of the Security Council, which was as a result, incapable of acting. In response to the situation, Canada's External Affairs Minister Lester Pearson took the lead in proposing and garnering the support of the UN's General Assembly for the United Nations Emergency Force. Led by the Canadian General E.L.M. Burns, and initially featuring Canadian troops

³¹ RAdm Fred Crickard and Lieutenant (N) Richard Gimblett, "The Navy as an Instrument of Middle Power Foreign Policy," in *Maritime Forces in Global Security*, eds. Ann L. Griffiths and Peter T. Haydon (Halifax: Centre for Foreign Policy Studies, 1995), 327-342.

³² J. L. Granatstein, "Peacekeeping," in *Making a Difference?*, eds. John English and Norman Hillmer (Toronto: Lester Publishing Limited, 1992), 225.

³³ Adam Chapnick, "Caught in-between Traditions," in *Canada among Nations 2007*, eds. Andrew F. Cooper and Dane Rowlands (Montreal: McGill-Queen's University Press, 2006), 58-75.

as the most significant contingent, it interposed itself between the combatants prior to the departure of the British, French and Israelis, deescalating the crisis.³⁴ The Canadian initiated response served to strengthen the support for the functional principle as well as the commitment to multilateralism more broadly, as it indicated “there was not only room for middle power intervention in the midst of the Cold War, but a role for the United Nations as well.”³⁵

Pearson’s Suez legacy, which earned him the Nobel Peace Prize, endured in multiple ways. It established a lasting effect on Canadian’s sense of purposes internationally, and “successive governments were continually trying to renew that feeling through an active, values-driven foreign policy.”³⁶ This cemented the notion that Canada could act as a helpful fixer or honest broker in the public mind, that could act as an international mediator.³⁷ Thus, while internationalism had started as an elite driven change in perception about how Canada should act in the world it evolved in the 1960s and 1970s, as political leaders noted that the policies resonated with the public who liked the idea of “an engaged and responsible middle power contributing to international peace and stability.”³⁸ As Maloney notes, it also served to create a further point of distinguishing Canada’s international activities, as “UN peacekeeping became part of an ideology of Canadian Exceptionalism.”³⁹ Canada would go on to participate in missions in Ethiopia, and Eritrea, Cyprus, the Congo and multiple

³⁴ Lt -Gen E. L. M. Burns, *Defence in the Nuclear Age* (Toronto: Clarke, Irwin & Company, 1976).

³⁵ Keating, *Canada and World Order*, 41.

³⁶ Bow and Lennox, *Introduction*, 11.

³⁷ Hawes, *Principal Power, Middle Power, Or Satellite?*

³⁸ Nossal, *The Liberal Past in the Conservative Present*, 21-35.

³⁹ Sean M. Maloney, *Canada and UN Peacekeeping* (St. Catherines: Vanwell Publishing Limited, 2002), xii.

others, serving as observers, providing support to UN operations, and also interposing themselves between opposing forces.⁴⁰

This extensive participation in UN peacekeeping increased significantly during the 1990s. This has been attributed by some to an effort to remain a “good international citizen.”⁴¹ Sokolsky, for instance, attributed it to “that old ‘internationalist itch’ that can sometimes only be scratched by dispatching expeditionary forces.”⁴² At the same time, however, this also reflected a desire to play both an “active” and “distinctly Canadian”⁴³ role in international affairs, given the disinclination for American forces to participate in UN peacekeeping. While Canada had engaged throughout the Cold War in multiple peacekeeping operations, those of the Post-Cold War era were both more numerous and also more complex.⁴⁴ Canada made major commitments to UN operations in Somalia, East Timor, Haiti and the former Yugoslavia, in addition to multiple other smaller deployments.⁴⁵ In the early part of the decade, Canada consistently maintained between 2,000-3,000 troops abroad on peacekeeping missions.⁴⁶ In combination with other activities, this meant that nearly 5,000 Canadian troops were committed abroad in the early 1990s. For a military the size of Canada’s, then in the midst of the largest downsizing since the 1950s, these operations required a massive effort.

⁴⁰ Joseph T. Jockel, *Canada and International Peacekeeping* (Toronto: Canadian Institute of Strategic Studies, 1994).

⁴¹ *Ibid.*, 15.

⁴² Joel J. Sokolsky, "Over there with Uncle Sam," in *What NATO for Canada?*, ed. David G. Haglund (Kingston: Centre for International Relations, Queen's University, 2000), 15-36.

⁴³ *Ibid.*, 18.

⁴⁴ Jockel, *Canada and International Peacekeeping*

⁴⁵ *Ibid.*

⁴⁶ Roland Paris, "Are Canadians Still Liberal Internationalists?" *International Journal* 69, no. 3 (2014): 274-307.

Despite the extensive involvement in peacekeeping, however, by the late 1990s many believed that Canada was abandoning internationalism.⁴⁷ In large part, this was the result of reductions to the material support to the instruments of Canadian international policy as a result of the neoliberal budgetary pressures detailed below, which started under Brian Mulroney's administration. Under his watch Canada withdrew the remainder of its forces from Europe, and ended its nearly 30 year commitment to peacekeeping in Cyprus. The trend continued with the election of the Chretien government and in particular the ascendance to the post of Minister of Foreign Affairs Lloyd Axworthy. Thereafter, internationalism, morphed into support for human security which made "the security risk to individuals"⁴⁸ the focal point of Canadian foreign policy during the late 1990s.

The change to Canada's international role was explained in two broad ways. Some argued that it simply represented a response to the new fiscal environment. Stairs, for instance, decried the increase in foreign policy rhetoric at a time of Canada's when Canada was doing less in the world.⁴⁹ Canadian officials were argued to be practicing 'internationalism lite' whereby the gulf between rhetoric and action grew increasingly wide.⁵⁰ But others, including Nossal, argued that Canada was retreating from elements of internationalism, in favour of a "pinchpenny diplomacy," marked not just for attempting to minimize costs, but also by an abandonment of "voluntary acts of 'good international citizenship.'⁵¹ This line of argument recognized that Canada was continuing to support

⁴⁷ Nossal, Roussel and Paquin, *International Policy and Politics in Canada*.

⁴⁸ Lloyd Axworthy, *Navigating a New World* (Toronto: Alfred A. Knopf Canada, 2003), 4.

⁴⁹ Denis Stairs, "Myths, Morals, and Reality in Canadian Foreign Policy," *International Journal* 58, no. 2 (2003): 239-256.

⁵⁰ Nossal, Roussel and Paquin, *International Policy and Politics in Canada*.

⁵¹ Kim Richard Nossal, "Pinchpenny Diplomacy," *International Journal* 54, no. 1 (1999): 103.

multiple UN missions, but argued that the Canadian Government was doing so without much enthusiasm for their efforts.⁵²

The transition from the Chrétien government to that of Paul Martin shifted this dynamic. Determined to distinguish himself, Martin sought to shift Canada's international policy towards the goal of securing greater Canadian influence abroad.⁵³ Under his watch, Canada committed to a major combat operation in Afghanistan in 2005, the largest military operation since the Korean War. Under Stephen Harper's subsequent government, the size of this commitment was increased, and the mission extended, with combat operations lasting until 2011 followed by three years of a massive training mission.⁵⁴ The extent of Canada's Afghan commitment, which would see a total of 40,000 troops deploy to the theatre, was deemed to signify a "revolution in Canadian foreign policy"⁵⁵ indicating that Canada would be newly willing to take on the hard security challenges of the day.

Throughout his tenure, Harper retained a focus Canada's international policy increasingly on these aspects of international involvement. In so doing, his government is argued to have "clearly, if not ostentatiously, distanced itself"⁵⁶ from the internationalism of his predecessors. His approach to international affairs deemphasized traditional approaches to Canadian diplomacy, and support for multilateralism through the UN especially.⁵⁷ Yet, despite this shift, the Government has maintained a very strong support for the use of hard

⁵² Nossal, Roussel and Paquin, *International Policy and Politics in Canada*.

⁵³ Philippe Lagassé and Paul Robinson. *Revising Realism in the Canadian Defence Debate* (Kingston, ON: Centre for International Relations, Queen's University, 2008).

⁵⁴ Murray Brewster, *The Savage War* (Mississauga: Wiley, 2011).

⁵⁵ Alexander Moens, "Afghanistan and the Revolution in Canadian Foreign Policy," *International Journal* 63, no. 3 (2008): 586.

⁵⁶ Paris, *Are Canadians Still Liberal Internationalists?* 275.

⁵⁷ *Ibid.*

power, making it a feature of their approach to international affairs.⁵⁸ While it is difficult, although not impossible, to find evidence of a “normative-oriented middle power approach,”⁵⁹ in the Harper government’s approach to international affairs, it is far easier to find evidence of his desire to be a “courageous warrior.”⁶⁰ There was therefore a significant shift to reemphasize the use of the Canadian military as a tool of international engagement abroad after 2003, although this was not internationalism as traditionally conceived. This shift occurred during a period of significant defence budget increases by both the Martin and Harper governments that was ostensibly intended to fully fund these activities. In reality however, the spending backlog that had accumulated during the 1990s was enormous, significant new demands were placed on the military, and operations in Afghanistan consumed a major share of the new funds.⁶¹ Consequently, the additional funds provided during this period did not address the existing budgetary deficit at DND because they placed significant new demands on the military.⁶²

Atlanticism

Alongside internationalism, a second leading explanation for Canada’s post-WWII activist foreign policy is rooted in the concept of Atlanticism, which has encompassed Canada’s security relations with both the United States and Europe across the Atlantic Ocean. The evolution of this understanding following the Second World War was driven by two imperatives: “hard diplomacy considerations” for Canadian security and “soft diplomacy

⁵⁸ Adam Chapnick, "A Diplomatic Counter-Revolution," *International Journal* 67, no. 1 (2011): 137-154.

⁵⁹ Andrew F. Cooper and Bessma Momani, "The Harper Government's Messaging in the Build-Up to the Libyan Intervention," *Canadian Foreign Policy Journal* 20, no. 2 (2014): 180.

⁶⁰ Paris, *Are Canadians Still Liberal Internationalists?* 276.

⁶¹ David Perry, "Canada's Seven Billion Dollar War," *International Journal* 63, no. 3 (2008): 703-725.; Douglas L. Bland, ed., *Canada without Armed Forces?* (Montreal: McGill-Queen's University Press, 2004).

⁶² Lagassé and Robinson, *Revising Realism in the Canadian Defence Debate*.

elements” concerned about “community of shared values.”⁶³ While the former drove Canada’s involvement in the creation of, and strong support for, NATO, the latter helped sustain Canadian involvement with the alliance even after the Soviet threat which precipitated it disappeared.

After WWII, the swiftly changing security dynamics provided a “significant spur to the Atlantic idea.”⁶⁴ The potential threat from the Soviets was made clear in Canada early after the war, with the revelation by Igor Gouzenko of a Soviet spy ring operating in Canada.⁶⁵ Having recently gone to war twice to prevent a single power from dominating Western Europe, Canada did not want to see another threatening power, the Soviet Union, do so again. Beginning in 1947, Canadian officials began expressing support for a defensive pact amongst the western powers.⁶⁶ The Czech coup in 1948 was the final Soviet action in Europe that precipitated the formation of the security pact, but it was the last in a long line of Soviet moves including the Berlin blockade and support for communist parties in Europe that had caused significant concern. Canada along with Great Britain and the United States met in secrete in Washington for talks that concluded a formal alliance between the nations of Western Europe and North America was necessary.

Views differ on the extent to which Canada was active in forming the alliance. Some, like former diplomat Escott Reid contend that Canada initiated and then led the negotiations that lead to the creation of NATO,⁶⁷ while others assert that Canada’s efforts were

⁶³ Pratt, *Canadian Grand Strategy and Lessons Learned*, 63.

⁶⁴ Kim Richard Nossal, "A European Nation? the Life and Times of Atlanticism in Canada," in *Making a Difference?*, eds. John English and Norman Hillmer (Toronto: Lester Publishing Limited, 1992), 83.

⁶⁵ Hillmer and Granatstein, *Empire to Umpire*.

⁶⁶ C. P. Stacey, *Canada and the Age of Conflict, Vol. 2* (Toronto: University of Toronto Press, 1981).

⁶⁷ Escott Reid, "Forming the North Atlantic Alliance, 1949," in *Canadian Foreign Policy*, eds. Don Munton and John Kirton (Toronto: Prentice-Hall Canada, Inc., 1992), 27-42.

largely responsive to Allied grand strategy.⁶⁸ Whichever version is more accurate, there is a consensus that Canada was at least present at the organization's creation, as Canadian officials were key proponents of growing security cooperation in the North Atlantic.⁶⁹ The concern in the first instance was to respond to the growing threat to Canada's material security posed by the Soviet Union. Aside from a focus on balancing against the Soviet Union in the emerging Cold War bi-polar international structure, in security terms, the alliance offered Canada "a seat at the most important allied table in the world."⁷⁰ By creating an alliance based on consensus NATO afforded smaller powers, including Canada, influence over their collective defence and therefore access to multilateral alliance decision and strategy making.⁷¹

Beyond this, NATO also provided a European counter-weight to American security interests. By virtue of being a transatlantic multilateral institution, NATO ensured that Canada would not need to deal with issues related to Canadian defence and security with the Americans on a bilateral basis alone. It thus provided a means of reducing the otherwise dominant voice of the United States.⁷² Yet at the same time, Atlanticism was also intended to ensure that the United States remained "in,"⁷³ in the sense that the Americans would remain committed to defending Western Europe, a matter of significant concern to Canadian policy makers. At this time, it was also hoped that an alliance would reinforce Canada's role as a linchpin, or bridge, between the Americans and British in a North Atlantic

⁶⁸ Pratt, *Canadian Grand Strategy and Lessons Learned*, 61-78.

⁶⁹ Joseph T. Jockel and Joel J. Sokolsky, "Canada and NATO," *International Journal* 64, no. 2 (2009): 315-336.

⁷⁰ *Ibid.*, 316.

⁷¹ David G. Haglund and Joel J. Sokolsky, "Introduction," in *The U.S.-Canada Security Relationship*, eds. David G. Haglund and Joel J. Sokolsky (Boulder, Colo: Westview Press, 1989), 1-16.

⁷² Robert Bothwell, "Serial Monogamy Or Constructive Bigamy," in *Forgotten Partnership Redux*, eds. Greg Anderson and Christopher Sands (Amherst, NY: Cambria Press, 2011), 15-30.

⁷³ Jockel and Sokolsky, *Canada and NATO*, 316.

Triangle.⁷⁴ In the early post-Cold War days some hoped Canada could continue playing such a role post-war, thus serving a useful function, while also ensuring its own security by helping prevent an American reversion to isolationism.⁷⁵

Aside from these hard security considerations, Canada maintained a longstanding affinity for Western Europe, stemming from both self-perception and Canada's historical past. The country's early settlements had created "transatlantic ties of birth, family, national origin, politico-cultural inspiration, [and] commercial intercourse"⁷⁶ with Europe. Canada thus has a "natural affinity"⁷⁷ towards Western Europe, and in particular Britain and France. Driven by this Atlanticist ideal, Canada pushed strongly for the North Atlantic Treaty to represent more than just a collective defence organization to foster security. Rather, Canada envisioned a North Atlantic community between its states. In response, Article Two of the North Atlantic Treaty included non-military cooperation amongst the nations, as part of a Canadian effort to make NATO more than simply a military alliance.⁷⁸ While the clause would have little impact on the alliance itself, it signified that NATO was from its inception more than just a security treaty for Canada, it was also linked to a desire that there be a "viable North Atlantic community."⁷⁹

Important in this understanding of Atlanticism, is NATO's role in fostering "transatlantic solidarity among three natural allies."⁸⁰ Massie contends that due to concerns for internal stability in Canada related to managing Canada's two linguistic communities,

⁷⁴ David G. Haglund, *The North Atlantic Triangle Revisited* (Toronto: Irwin, 2000).

⁷⁵ R. J. Sutherland, "Canada's Long Term Strategic Situation," *International Journal* LVII, no. 3 (1962): 199-223.

⁷⁶ Nossal, *A European Nation? the Life and Times of Atlanticism in Canada*, 81.

⁷⁷ Sutherland, *Canada's Long Term Strategic Situation*, 205.

⁷⁸ Jockel and Sokolsky, *Canada and NATO*, 315-336.

⁷⁹ Keating, *Canada and World Order*, 81.

⁸⁰ Justin Massie, "Making Sense of Canada's "Irrational" International Security Policy," *International Journal* 64, no. 3 (2009): 625.

Canadian officials placed significant emphasis upon NATO as a means of maintaining Canada's relationship with France. NATO's appeal has therefore not been limited to fostering an extension of the North American Triangle, of Canada, the United States and Great Britain, but rather, a North Atlantic quadrangle including France. This was in part the rationale behind the inclusion of Article II in NATO, due to a belief that Quebec would not support an alliance that was strictly military in nature.⁸¹

This concept of a North Atlantic community proved to be largely "illusory"⁸² during the Cold War and the non-security aspects of the alliance never materialized. These aspects of the North Atlantic link proved instrumental, however, in retaining Canadian support for NATO once the Cold War's end removed the rationale upon which it had been created. It was to this sense of community, held at the elite level in Canada, that Nossal et al. attribute Canada's general willingness to "bear the costs of membership"⁸³ in the alliance for more than a half century.

These costs, in defence terms, have been substantive. Following the end of World War Two, Canada had almost completely demobilized, reducing to a total armed force of 40,000.⁸⁴ Canada had instituted a major rearmament program in 1950 in response at first to the Korean War, but after the initial deployment of troops to that theatre, a military build-up continued oriented towards defending NATO Europe.⁸⁵ Beginning in 1951 the Canadian Army deployed 6,000 troops to Germany and the RCAF, a division composed of 12 squadrons and 300 aircraft, and the Royal Canadian Navy (RCN) eventually contributed a fleet of 50 vessels including submarines, and aircraft carrier to the defence of the North

⁸¹ Pratt, *Canadian Grand Strategy and Lessons Learned*, 61-78.

⁸² Nossal, *A European Nation? the Life and Times of Atlanticism in Canada*, 80.

⁸³ Nossal, Roussel and Paquin, *International Policy and Politics in Canada*, 46.

⁸⁴ Robert Bothwell, *The Big Chill* (Toronto: Irwin Publishing, 1998).

⁸⁵ David Bercuson, *True Patriot* (Toronto: University of Toronto Press, 1993).

Atlantic.⁸⁶ While the activities of Canadian peacekeepers often received more public attention, the preponderance of the Canadian military during the Cold War was earmarked for NATO duties, including the roughly 12,000 troops deployed there for most of the 1950s and 1960s.⁸⁷ Further, according to Maloney, the first twenty five years of Canadian peacekeeping efforts during the Cold War were in actual fact conducted by Canada as part of its support for the alliance and the West.⁸⁸ These forces and the considerable expenses associated with maintaining them and their families would remain until the Cold War ended.

Such was the influence of NATO over Canadian foreign and defence policy that Bland contends that throughout the Cold War, Canada's defence policy was driven almost exclusively by a "strategy of commitments that had little substance outside commitments to the North Atlantic Treaty Organization (NATO)."⁸⁹ This was a major concern for Pierre Trudeau during his first administration, as he came to office unhappy with the extent to which Canada's foreign policy had become its NATO policy.⁹⁰ He therefore sought to reduce Canada's permanent commitments to Europe, reducing them by half, cutting the army's contribution to a battle group of 2,800 and the RCAF to three squadrons, for a total of 5,000 troops.

Despite his initial antipathy towards the alliance, Trudeau also committed to creating a Canadian Air-Sea Transportable brigade, based in Canada, but designed for deployment to NATO's Northern flank in Norway in a move designed to offset the impact of the reduction to permanently stationed European forces.⁹¹ Further, as his government engaged in the

⁸⁶ Jockel and Sokolsky, *Canada and NATO*, 315-336.

⁸⁷ Sean M. Maloney, *War without Battles* (Whitby, ON: McGraw-Hill Ryerson, 1996).

⁸⁸ Maloney, *Canada and UN Peacekeeping*.

⁸⁹ Douglas Bland, "A Sow's Ear from a Silk Purse," *International Journal* LIV, no. 1 (1998-1999): 149.

⁹⁰ J. L. Granatstein and Robert Bothwell, *Pirouette* (Toronto: University of Toronto Press, 1990).

⁹¹ Maloney, *War without Battles*.

Defence Structure Review of 1974-75 he actually recommitted to the alliance and initiated a program of military reinvestments to forestall a situation, otherwise likely given his prior budget cuts, where the military would become incapable of “carry[ing] out all of its assigned commitments.”⁹² This recommitment was also prompted by Trudeau’s desire to establish a stronger economic link with Western Europe, thereby strengthening the long sought non-military ties across the North Atlantic. He therefore changed course and purchased new Leopard tanks from Germany⁹³ making clear that the alliance also provided an important counterweight to American influence economically, given the link between the security and economic ties with Europe.⁹⁴

When the Cold War ended, NATO reoriented its missions significantly, assuming a role fostering co-operative security relations with the former Warsaw Pact through the North Atlantic Co-operation Council and then the Partnership for Peace. By taking on these new functions, NATO was at long last assuming a “political vocation”⁹⁵ that Canadian officials had desired when pushing for the inclusion of NATO’s Article 2, ensuring Canadian support. More significantly, however, shortly thereafter, NATO took on the role of crisis management in Europe, intervening in Bosnia in 1995 following ineffectual UN missions, and again in Kosovo in 1999.⁹⁶ While in the mid-1990s there had been speculation that Canada would not follow NATO on this reoriented agenda, these concerns proved unfounded.⁹⁷ Providing support for NATO’s new role strongly influenced the Canadian

⁹² Peter Haydon and Dan Middlemiss, "The 1975 Defence Structure Review," in *Canadian Military History since the 17th Century*, ed. Yves Tremblay (Ottawa: Directorate of History, DND, 2001), 352.

⁹³ Granatstein and Bothwell, *Pirouette*.

⁹⁴ Nossal, *A European Nation? the Life and Times of Atlanticism in Canada*, 79-102.

⁹⁵ David G. Haglund, "The NATO of its Dreams?" *International Journal* 52, no. 3 (1997): 469.

⁹⁶ B. Zyla, "NATO and Post-Cold War Burden-Sharing," *International Journal* 64, no. 2 (2009): 337-359.

⁹⁷ Paul Buteux, Michel Fortman and Pierre Martin, "Canada and the Expansion of NATO," in *Will NATO Go East?*, ed. David G. Haglund (Kingston, Ont: Centre for International Relations, Queen's University, 1996), 147-179.

decision to contribute substantial forces to operations in the Balkans in the 1990s which at one point resulted in Canada deploying almost 4,000 personnel to NATO operations at one time.⁹⁸ In making these commitments the Canadian government was forced to reduce its commitment to UN based peacekeeping because it lacked the military capacity to do both, but the choice to opt for NATO operations was made “without much difficulty.”⁹⁹ While Canada received significant criticism for its declining commitments to NATO measured by the metrics of the overall size of the armed forces and the share of national wealth devoted to defence, Canada contributed to these crises response activities at a level commensurate with its economic wealth and population.¹⁰⁰ Thus, despite its overall defence reductions at end of the Cold War, Canada remained a “committed, capable and dedicated ally”¹⁰¹ willing to shoulder a proportional role in NATO crises response. Given that it was not a European country, Canada’s extensive role in NATO operations during this period led Sokolsky to argue that the country was bearing “*more than its share.*”¹⁰² Doing so during a period of such intense budgetary pressure continued the strain on the defence budget initiated by prior participation in UN missions.

This trend would continue following the September 11, 2001 terrorist attacks on the United States, when NATO assumed a role in military operations outside of its area of responsibility. Following the alliance’s first ever invocation of the Article 5 commitment in response to the Al Qaeda attacks, the alliance became progressively involved in operations in Afghanistan, assuming in 2003, command of the International Security Assistance Force which eventually expanded throughout Afghanistan. Committing to these operations in a

⁹⁸ Jockel and Sokolsky, *Canada and NATO*, 315-336.

⁹⁹ Justin Massie, "United West, Divided Canada? Transatlantic (Dis)Unity and Canada's Atlanticist Strategic Culture," *Journal of Transatlantic Studies* 8, no. 2 (2010): 123.

¹⁰⁰ Zyla, *NATO and Post-Cold War Burden-Sharing*, 337-359.

¹⁰¹ Benjamin Zyla, "Years of Free-Riding?" *American Review of Canadian Studies* 40, no. 1 (2010): 23.

¹⁰² Sokolsky, *Over there with Uncle Sam*, 33.

significant way was part of a Canadian pledge of “solidarity within the alliance.”¹⁰³ The magnitude of the contribution, which dominated its military activities throughout the 2000s, was attributed to Canada seizing a “perceived opportunity to strengthen the transatlantic alliance and raise Canada’s international prestige.”¹⁰⁴ In part because of the very significant costs associated with operations in Afghanistan, it reaffirmed the importance of NATO to Canada’s foreign policy.¹⁰⁵ While the defence budget had begun to grow during the latter half of this effort, the extent of the involvement in Afghanistan continued to leave DND under financial stress, given the massive operational costs of the operation.

Continentalism

Finally, Canada’s foreign policy has also been strongly shaped by Continentalism. This perspective begins with the acknowledgement that “the first priority of Canadian foreign policy must be the maintenance of a fundamentally healthy working relationship with the United States.”¹⁰⁶ The continental perspective stems from the fact that, since Confederation, Canada’s security has been intimately tied to that of the United States, as have its economic fortunes.¹⁰⁷ The salience of this perspective has evolved over time, emerging strongly at the beginning of the Cold War, and reemerging following the negotiation of the Canada-United States Free Trade Agreement.¹⁰⁸ It views Canada’s relations with the

¹⁰³ David McDonough, "Afghanistan and Renewing Canadian Leadership," *International Journal* 64, no. 3 (2009): 648.

¹⁰⁴ Justin Massie, "Canada’s War for Prestige in Afghanistan: A Realist Paradox?" *International Journal: Canada's Journal of Global Policy Analysis* 68, no. 2 (2013): 287.

¹⁰⁵ Nossal, Roussel and Paquin, *International Policy and Politics in Canada*.

¹⁰⁶ Denis Stairs, "Challenges and Opportunities for Canadian Foreign Policy in the Paul Martin Era," *International Journal* 58, no. 4 (2003): 485.

¹⁰⁷ Boucher, *The Responsibility to Think Clearly about Interests*, 53-70.

¹⁰⁸ Donald Barry, "Managing Canada-US Relations in the Post 9/11 Era," in *Readings in Canadian Foreign Policy*, eds. Duane Bratt and Christopher J. Kukucha (Don Mills: Oxford, 2007), 116-138.

United States as the lens through which all of Canada's other interests are examined,¹⁰⁹ requiring that Canadian officials evaluate all international policy not only on its own merits, but for its impact on the "all-important relationship with the United States."¹¹⁰

The defence aspects of this relationship date to 1938, and the threat of German aggression. That year, with war threatening in Europe, in a speech in Kingston, American President Franklin Roosevelt stated that America would "not stand idly by" if Canada were threatened by another empire. In reply shortly thereafter, Prime Minister Mackenzie King stated that Canada also had an obligation to ensure that "enemy forces should not be able to pursue their way, either by land, sea or air to the United States"¹¹¹ from Canadian soil. This "Kingston dispensation"¹¹² has formed the basis for Canada-United States defence cooperation ever since. Two years afterwards in Ogdensburg, NY the two countries formalized this understanding by creating the Permanent Joint Board on Defence. A year later, once the Hyde Park agreement on wartime materiel was inked, a military alliance had been formed.¹¹³ From its issuance, the Kingston Dispensation has meant that both North American countries would be treated as a single security unit since Canada is the only American ally that is truly necessary for the direct defence of America, simply by virtue of North America's geography.¹¹⁴ Sharing the continent has meant Canada receives an "involuntary American guarantee"¹¹⁵ of Canada's defence, but at the same time, an obligation to contribute to that same defence.

¹⁰⁹ David S. McDonough, "Getting it just Right," *Comparative Strategy* 32, no. 3 (2013): 224-244.

¹¹⁰ B. Bow, "Parties and Partisanship in Canadian Defence Policy," *International Journal* 64, no. 1 (2008): 69.

¹¹¹ Sutherland, *Canada's Long Term Strategic Situation*, 202.

¹¹² Michel Fortmann and David Haglund, "Canada and the Issue of Homeland Security," *Canadian Military Journal* 3, no. 1 (2002): 18.

¹¹³ Nossal, Roussel and Paquin, *International Policy and Politics in Canada*.

¹¹⁴ Joel J. Sokolsky, *Defending Canada* (New York: Priority Press Publications, 1989).

¹¹⁵ Sutherland, *Canada's Long Term Strategic Situation*, 202.

This situation has formed the basis for what has been described as the imperative for Canada to engage in “defense against help”¹¹⁶ from the United States. As articulated by Orvik, this has meant that Canada during the Cold War faced two types of threats. In addition to the threat of external aggression from the Soviet bloc, he believed a second threat existed in the form of unwelcomed ‘help’ from the Americans if they believed Canada incapable of providing an adequate defence. Because an “effective unilateral defence” of Canada is “inconceivable,”¹¹⁷ Canada has therefore been driven towards close cooperation with the Americans. Thus, paradoxically, “protection of Canada’s *sovereignty* requires close military cooperation with the United States.”¹¹⁸ As a result, Canada has traditionally sought a balance between getting too close or too distant in its defence and foreign relations with the United States.¹¹⁹ Striking this balance has been influenced significantly by the fact that Canada is not in a position to refuse American requests for essential defence cooperation.¹²⁰

In the early part of the Cold War, an emerging Soviet bomber threat to North America led the Americans to seek a number of improvements to existing defence arrangements in the Canadian North and Newfoundland.¹²¹ After the Soviet’s developed a nuclear weapons capability in 1949, the lack of adequate air defence radars to warn of Soviet bombers transiting Canadian territory became a matter of significant concern to American officials.¹²² This led to the construction of a series of radar installations, the Mid-Canada, Pinetree and Distant Early Warning Lines, built with a mix of Canadian and American

¹¹⁶ Nils Ørvik, "Canadian Security and ‘defence Against Help’," *Survival* 26, no. 1 (1984): 29.

¹¹⁷ Holmes, *Life with Uncle*, 17.

¹¹⁸ David G. Haglund, "North American Cooperation in an Era of Homeland Security," *Orbis* 47, no. 4 (2003): 685.

¹¹⁹ McDonough, *Getting it just Right*, 224-244.

¹²⁰ Alex Macleod, Stephane Roussel and Andri Van Mens, "Hobson's Choice," *International Journal* LV, no. 3 (2000): 341-354.

¹²¹ Bercuson, *True Patriot*, 175-39.

¹²² Joseph T. Jockel, *No Boundaries Upstairs* (Vancouver: University of British Columbia Press, 1987).

funding, followed by agreements on cross border operations of the two countries' fighter-interceptor fleets. These trends progressed into the North American Air Defence Command (NORAD) approved in 1957 and formally established in 1958.¹²³

NORAD has since served as the primary basis for North America's defence arrangements. The agreement, renewed multiple times, most recently on a perpetual basis, has been progressively expanded to encompass aerospace defence, counter-narcotics trafficking, maritime warning functions and providing ballistic missile warning to the American missile defence system.¹²⁴ Maintaining Canada's participation in this arrangement has required significant ongoing investments. In the 1970s the Canadian government Canadianized the NORAD surveillance, detection and identification functions occurring within Canadian territory, assuming a more significant role than previously performed.¹²⁵ This was followed by the efforts beginning in 1986 to replace the Distant Early Warning line with a new North Warning System. The Canadian portions of the system were Canadian owned and operated¹²⁶ and the effort represented the largest Canadian investment in the continent's aerospace defence infrastructure since the 1950s.¹²⁷ Further, maintenance of the NORAD arrangement has necessitated that Canada maintain a "respectable fighter-interceptor fleet."¹²⁸ Defending the continent as therefore been a significant driver of defence spending.

¹²³ Ibid.

¹²⁴ James Fergusson, "The NORAD Conundrum," *International Journal* 70, no. 2 (2015): 196-214.; James G. Fergusson, *Canada and Ballistic Missile Defence, 1954-2009* (Vancouver: UBC Press, 2010); Joseph T. Jockel, *Canada in NORAD, 1957-2007* (Kingston: Queen's Centre for International Relations & Defence Management Studies, 2007).

¹²⁵ Donald Barry and Duane Bratt, "Defense Against Help," *American Review of Canadian Studies* 38, no. 1 (2008): 63.

¹²⁶ Ibid.

¹²⁷ John Anderson, "Canada and the Modernization of North American Air Defence," in *The US-Canada Security Relationship*, eds. David G. Haglund and Joel J. Sokolsky (Boulder: Westview Press, 1989), 168-183.

¹²⁸ Philippe Lagassé, "Nils Ørvik's "Defence Against Help", " *International Journal* 65, no. 2 (2010): 471.

Choquette-Levy and James contend that the long-term trends in the Canada-United States security relationship, particularly during the Cold War featuring close defence cooperation can be defined as “classic balance-of-power politics.”¹²⁹ Drawing from Waltz’s assertion that the international system induces balancing behavior as states seek to ensure their own survival in an anarchic world, they argue that the rising power of the Soviet Union after WWII drove close North American defence cooperation. As they argue, “For the United States, the relationship helped preserve its position in the system by aiding in the collective defense it led against the Soviet threat; for Canada, the relationship served to bolster its position in the system by helping meet its security needs, as well as by improving its economic power through a robust trading relationship.”¹³⁰ Following the end of the bipolar Cold War arrangement, Canada’s defence relationship with the United States has been reinterpreted as bandwagoning, a strategy whereby weak powers “join forces”¹³¹ with the more powerful states in the system. This view rests on the conception that Canada’s defence relationship with the United States is “the backbone of its foreign and defence policy”¹³² in a unipolar world.

In addition to the extensive requirements for defending the continent at home, the Continentalist perspective has also interpreted much of Canada’s activist foreign policy as a function of its relationship with the United States. This depicts many of Canada’s military engagements abroad as providing for the “forward defence”¹³³ of North America. This has stemmed from the notion that “once a threat is identified, it should be met as close to its

¹²⁹ Nicolas Choquette-Levy and Patrick James, "Structural Realism and Transaction Costs in the U.S.-Canadian Partnership," in *Forgotten Partnership Redux*, eds. Greg Anderson and Christopher Sands (Amherst, NY: Cambria Press, 2011), 34.

¹³⁰ Ibid.

¹³¹ John Mearsheimer, *The Tragedy of Great Power Politics* (New York: Norton, 2001), 139.

¹³² Massie, *Making Sense of Canada's "Irrational" International Security Policy*, 632.

¹³³ Joel J. Sokolsky, "Clausewitz, Canadian Style," *Canadian Military Journal* 3, no. 3 (2002): 4.

origins as possible.”¹³⁴ Maloney therefore describes a “strategic tradition of Canada fighting overseas to keep aggression away from North America and protect her markets.”¹³⁵ Echoing this assessment, Fortmann and Halgund for instance, contend that following the articulation of the post-WWII defence agreements, much but not all, of Canada’s bilateral defence cooperation with the United States occurred overseas, in a multilateral context.¹³⁶

In addition to serving as the best means of addressing threats themselves, forward defence has also been argued to help enhance Canada’s continental defence relationship because the Americans embraced this same doctrine. According to Sokolsky, the need to be “over there – with Uncle Sam,”¹³⁷ was driven by a similar American view that the continent was best defended abroad. This American view was significantly heightened after the 9/11 terrorist attacks. Given growing American concern about terrorism, rogue states and weapons of mass destruction, Canada felt the need to coordinate its foreign policy with the Americans.¹³⁸ The Chrétien government’s response of deploying special operations forces to Afghanistan and dispatching ships to the Persian Gulf in the fall of 2001 was thus deemed a “necessary measure to reassure Canada’s superpower neighbor in the immediate aftermath of 9/11.”¹³⁹

At the same time, there was also clearly a desire to participate with the United States in support of the War on Terror as part of an effort to protect North America from terror by practicing forward defence.¹⁴⁰ Canada’s subsequent participation in the mission in Afghanistan was also construed as an effort by Ottawa to secure “its bona fides in

¹³⁴ Ørvik, *Canadian Security and 'defence Against Help'*, 29.

¹³⁵ Sean M. Maloney, "Helpful Fixer Or Hired Hun?" *Policy Options* 22, no. 1 (2001): 60.

¹³⁶ Fortmann and Haglund, *Canada and the Issue of Homeland Security*, 17-22.

¹³⁷ Joel J. Sokolsky, "Realism Canadian Style," *Policy Matters* 5, no. 2 (2004): 5.

¹³⁸ Justin Massie and Stéphane Roussel, "The Twilight of Internationalism?" in *Canada in the World*, eds. Heather A. Smith and Claire Turenne Sjolander (Don Mills: Oxford University Press, 2013), 36-52.

¹³⁹ McDonough, *Afghanistan and Renewing Canadian Leadership*, 659.

¹⁴⁰ Sokolsky, *Realism Canadian Style*, 1-43.

Washington as an American ally.”¹⁴¹ This was argued to have been especially important in fostering Canada’s commitment to operations in Kandahar, after it had publically renounced participation in the American war in Iraq.¹⁴² These efforts to secure Canada’s “status of being the United States’ closest partner and most reliable ally”¹⁴³ have also been argued to have recently influenced the government’s procurement of military equipment. Massie, for instance, attributes the initial plans to purchase the F35 as part of a bandwagoning strategy that would enable continued participation as ally on American air missions.¹⁴⁴ A similar imperative also underpins what Boucher describes as ‘neocontinentalism,’ his term for the Harper government’s use of force under less restrictive conditions than those imposed by previous Canadian regimes. According to this interpretation, under Harper, the importance of the military in Canadian international policy has been elevated and greater emphasis placed on the use of military force abroad with an increasingly small pool of likeminded coalition partners.¹⁴⁵ Thus, particularly since September 11, 2001, the dispatch of sizeable contingents of Canadian troops overseas has been viewed as part of the defence of North America, both to defend Canada but also to reassure the United States that Canada is a committed ally. Yet, these operational commitments were made at a time when the increases occurring in the defence budget, even after 2008, were insufficient to deliver on the Government’s defence requirements, even after the publication of the *Canada First Defence Strategy*.¹⁴⁶

¹⁴¹ Jockel and Sokolsky, *Canada and NATO*, 330.

¹⁴² Bow, *Parties and Partisanship in Canadian Defence Policy*, 86.; Janice Gross Stein and Eugene Lang, *The Unexpected War* (Toronto: Viking Canada, 2007).

¹⁴³ Massie and Roussel, *The Twilight of Internationalism?* 41.

¹⁴⁴ Justin Massie, "Bandwagoning for Status," *Canadian Foreign Policy Journal* 17, no. 3 (2011): 256-269.

¹⁴⁵ Boucher, *The Responsibility to Think Clearly about Interests*, 53-70.

¹⁴⁶ David Perry. *The Growing Gap Between Defence Ends and Means* (Ottawa: Conference of Defence Associations Institute, 2014).

In sum, Canada has pursued an activist foreign policy since WWII that can be explained variously by one of three interpretations: Internationalism; Atlanticism; and Continentalism. These pressures have pulled the Canadian military in two directions. The first required an active program of military engagements in support of the UN, and extensive defence commitments to NATO during the Cold War. After the Cold War ended, these pressures morphed into support for UN peacekeeping missions and then NATO crisis response operations. The second has required that Canada contribute to the defence of Canada and North America, primarily in the aerospace domain. Supporting this bifurcated defence policy in support of these foreign policy pressures has placed significant demands on the Canadian Armed Forces, often necessitating tradeoffs between these home game and away game investments as defence officials attempted to deal with a limited budget.¹⁴⁷

Canadian Federal and Defence Budgeting

As the previous section indicated, since the end of the Korean War, Canadian defence expenditures have essentially always been constrained by fiscal pressures. The nature of that pressure can be broken into two broad periods, denoted by the macroeconomic approach to budgeting in vogue at the time. From the Korean War until the mid-1980s, the primary pressure on the defence budget came from social and economic spending priorities that arose from Canada's Keynesian approach to public budgeting. After the election of the Mulroney government in 1984, the nature of these pressures began to change, at first gradually, but then more significantly after the election of Jean Chrétien's government in 1993. Following the adoption of a neoliberal approach to budgeting,

¹⁴⁷ Elinor Sloan, "Canada's International Security Policy Under a Conservative Government," in *Canada among Nations 2006*, eds. Andrew F. Cooper and Dane Rowlands (Montreal: McGill-Queen's University Press, 2006), 145-163.

competition with economic and social programs persisted, but this occurred under a stronger imperative to reduce government spending and eliminate the deficit. While both approaches to Canada's macroeconomy limited the defence budget, those that emerged under neoliberalism were more significant.

Keynesianism

In the immediate aftermath of WWII, Keynesian economic policies became the dominant economic paradigm shaping most Western democracies, including Canada. At its root, the doctrine argued that free markets were imperfect and that state intervention into economic matters could help improve economic results.¹⁴⁸ As a result, states adopted two broad policies as part of an overall approach to public budgeting that can be characterized as “state activism.”¹⁴⁹ The first was the advent of significantly expanded programs for social security, including welfare payments, old age pensions, family allowances, unemployment insurance, and public health care. The second was active state promotion of investment and economic growth through expenditure programs and the tax system.¹⁵⁰

In Canada, these policies resulted in a significant expansion in government spending on social programs starting in the 1950s when the Diefenbaker government introduced agricultural and rural development program, hospital grants and increases to old age pensions. Under the Pearson government, these expenditures increased dramatically as the introduction of the Canada Pension Plan, Medicare, the Canada assistance plan and others

¹⁴⁸ John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936).

¹⁴⁹ G. Bruce Doern, Allan M. Maslove and Michael John Prince, *Public Budgeting in Canada* (Ottawa: Carleton University Press, 1991), 2.

¹⁵⁰ *Ibid.*

measures pushed expenditures on social programs higher still.¹⁵¹ In addition to creating significant additional new spending priorities, these Keynesian approaches also brought with them an acceptance and legitimization of government deficits.¹⁵² Whereas deficits had previously been studiously avoided, even during recessions, under Keynesian principles they were viewed as a key enabler of counter-cyclical economic policies.

As a result, these rising spending priorities began to effectively crowd out defence spending in the federal budget.¹⁵³ As a share of all spending, DND declined from roughly 25 percent of federal spending in 1960, to 8 percent by 1984.¹⁵⁴ As Chapter 3 details, after 1957, in nominal dollars, the defence budget remained at a roughly constant level for almost two decades, but the impact of inflation resulted in a significant drop in actual purchasing power. While this shift first occurred during a recession, the trend continued even after the economy rebounded, due to the growing costs of social programs. To address this emerging problem, in 1964, the Pearson government introduced the first “formula-funding approach”¹⁵⁵ to the defence budget in the 1964 White Paper. Under the formula, DND’s budget was supposed to grow at a rate of two percent annually. The introduction of this measure marked a firm shift towards the fiscal culture approach to establishing the defence budget. Thereafter, defence funding would be tied to a specified percentage changes in spending, or increases permitting specified percentage allocations of the budget to Capital.¹⁵⁶ In other words, after formula funding was introduced, defence spending was no longer tied to actual military requirements, but rather a specified share of the federal budget.

¹⁵¹ Ibid.

¹⁵² Donald J. Savoie, *The Politics of Public Spending in Canada* (Toronto: University of Toronto Press, 1990).

¹⁵³ Lagassé and Robinson, *Revising Realism in the Canadian Defence Debate*.

¹⁵⁴ Byers, *Canadian Security and Defence*.

¹⁵⁵ Ibid., 32.

¹⁵⁶ Middlemiss, *Canadian Defence Funding*, 13-20.

Beginning in the mid-1970s, however, these formulas provided the defence budget with real increases. This was driven in part by the pressing need for reinvestments after almost two decades of minimal Capital spending. It was also influenced by political pressure from NATO Europe, as the Europeans effectively tied further defence investments to Trudeau's hope of increasing Canadian trade with Europe. This reinvestment was tied to Trudeau's Defence Structure Review in 1974 and 1975 which introduced a new funding formula that provided DND with inflation compensation for its Personnel and Operations and Maintenance expenditures, along with a planned increase in Capital expenditures of 12 percent annually, for five years. As a result, from 1976 until 1984, a series of successive formulas were tied to DND's calculation of the rate of defence specific inflation, which is not well captured by standard inflation models.¹⁵⁷ As a result of this change, during this period DND's budget was completely indexed to account for inflation, in an effort to reverse the impact of past budget cuts.¹⁵⁸ This proved to be "too little too late"¹⁵⁹ however, as by this point in time, a commitment-capability gap had emerged. As a result, the increased funding was directed towards a lengthy backlog of investments in addition to the new Canadian Air Sea Transportable brigade commitments described above.

Neoliberalism

This funding dynamic would worsen after neoliberalism emerged as a set of economic theories arising in reaction to the widespread Keynesian economic orthodoxy. In the late 1970s and early 1980s these economic perspectives morphed in a global political phenomenon that spread throughout the West and the United Kingdom and United States

¹⁵⁷ Binyam Solomon, "Defence Specific Inflation," *Defence and Peace Economics* 14, no. 1 (2003): 19-36.

¹⁵⁸ Treddenick, *The Defence Budget*, 413-454.

¹⁵⁹ Byers, *Canadian Security and Defence*, 11.

in particular. In Canada, the initial neoliberal political project took the form of strident anti-bureaucracy attitudes, changes to public administration and the sale of Crown corporations under Brian Mulroney's administration. During this period, little real progress was made in terms of deficit reductions, however. Under his successor, Jean Chrétien, neoliberalism in Canada morphed away from strident anti-bureaucratic approaches towards a concerted effort to reduce the deficit that saw the introduction of the most significant budget cuts in a half century.

The various impacts and interpretations of neoliberalism have been multiple and divergent, and it has often been used interchangeably with the term globalization.¹⁶⁰ The term itself defies easy definitions, but can be associated with the following characteristics: confidence in the market as an efficient allocator of scarce resources, including the provision of public goods; a belief in the desirability of free trade, free capital mobility, and limited state intervention in the economy; a conceptualization of the state as a facilitator and custodian rather than a substitute for market mechanisms; a defence of individual liberty; a commitment to remove the elements of the welfare state that are disincentives to market participation; a defence of labour-market flexibility; and a promotion of cost competitiveness.¹⁶¹

Much of neoliberalism's intellectual background originated in the Chicago School of monetarist economics led by Friedrich von Hayek and Milton Friedman.¹⁶² They advocated for the adoption of monetarist policies to limit the supply of money and interest rates, giving greater powers to central bankers and opening markets to foster both economic prosperity

¹⁶⁰ Ravi K. Roy, Arthur T. Denzau and Thomas D. Willett, "Introduction," in *Neoliberalism*, eds. Ravi K. Roy, Arthur T. Denzau and Thomas D. Willett (New York: Routledge, 2007), 3-13.

¹⁶¹ Colin Hay, "The Genealogy of Neoliberalism," in *Neoliberalism*, eds. Ravi K. Roy, Arthur T. Denzau and Thomas D. Willett (New York: Routledge, 2007), 51-70.

¹⁶² Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962); Friedrich A. von Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).

and individual freedom.¹⁶³ These intellectuals gained greater credence in the 1970s during a period of global economic weakness and high unemployment which undermined the previous consensus around Keynesian approaches.¹⁶⁴

These intellectual undercurrents translated into a more general criticism of the role of Government after the developed world entered into a recession in the early 1980s, resulting in the spread of “bureaucracy-bashing.”¹⁶⁵ This derived on one hand from Friedman’s precept that “the scope of government must be limited”¹⁶⁶ to prevent an inexorable expansion of bureaucracy at a time of dwindling economic fortunes.¹⁶⁷ At the same time, this was also linked to a focus on the size of the public sector and public debt loads as a source of economic malaise and an impediment to full employment.¹⁶⁸ By the 1980s, the public in many western countries had been captured by the appeal of neoliberal policy prescriptions given their declining economic prospects.¹⁶⁹

These pressures translated into a significantly changed political perception about the value of pursuing budgetary restraint, leading to the maxim that “the state’s main task should be to get out of the way.”¹⁷⁰ Politicians came to see electoral advantage in “running against government”¹⁷¹ as populations overall developed “less confidence in the capacity of

¹⁶³ Gary Teeple, "Notes on the Continuing Economic Crisis," in *Relations of Global Power*, eds. Gary Teeple and Stephen McBride (Toronto: University of Toronto Press, 2011), 227-257.

¹⁶⁴ David A. Smith, Dorothy J. Solinger and Steven C. Topik, "Introduction," in *States and Sovereignty in the Global Economy*, eds. David A. Smith, Dorothy J. Solinger and Steven C. Topik (New York: Routledge, 1999), 1-19.

¹⁶⁵ Peter Aucoin, "Politicians, Public Servants, and Public Management," in *Governance in a Changing Environment*, eds. B. Guy Peters and Donald J. Savoie (Montreal: McGill-Queen's University Press, 1995), 113.

¹⁶⁶ Friedman, *Capitalism and Freedom*, 2.

¹⁶⁷ André Blais and Stéphane Dion, eds., *The Budget-Maximizing Bureaucrat* (Pittsburgh: University of Pittsburgh Press, 1991).; William A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine, Atherton, 1971).

¹⁶⁸ Milton Friedman and Rose D. Friedman, *Tyranny of the Status Quo* (San Diego: Harcourt Brace Jovanovich, 1984).

¹⁶⁹ John Shields and B. Mitchell Evans, *Shrinking the State* (Halifax, N.S: Fernwood, 1998).

¹⁷⁰ Smith, Solinger and Topik, *Introduction*, 6.

¹⁷¹ G. Bruce Doern, Michael John Prince and Allan M. Maslove. *Federal and provincial budgeting* (Ottawa: Supply and Services Canada, 1986).

governments to do things.”¹⁷² This trend amplified a general unhappiness about the state of multiple previous attempts at public administration reform to prompt another round of public administration change.¹⁷³

As a result, this led to the appeal of New Public Management driven by a combination of a general move away from collective solutions to societal problems and a growing fiscal crisis in the early 1980s. The results included the “marketization of the state”¹⁷⁴ as governments examined increasing the private sectors’ role in providing public services. These changes were appealing both because they resonated ideologically with the wider neoliberal ideals but also because they purported to “generate much-needed cash”¹⁷⁵ to help these governments improve their budget balances.

Virtually everywhere in the Western world, even in countries with left leaning governments, the private sector was looked upon as an inspiration for management practices driven by an “ideology of worship”¹⁷⁶ of the free market. This included empowering managers to operate in a generally more businesslike manner and encouraging the adoption of client centered approaches.¹⁷⁷ One of its key tenets was introducing elements of competitive market techniques into public administration, as well as opening up government itself to competition with the market.¹⁷⁸ Although in some instances privatization was viewed in purely ideological terms, in others it was construed as merely a means of helping

¹⁷² Leslie A. Pal, *Beyond Policy Analysis* (Scarborough, Ont: ITP Nelson, 1997).

¹⁷³ Savoie, *Thatcher, Reagan, Mulroney*.

¹⁷⁴ Jon Pierre, "The Marketization of the State," in *Governance in a Changing Environment*, eds. B. Guy Peters and Donald J. Savoie (Montreal: McGill-Queen's University Press, 1995), 56.

¹⁷⁵ Savoie, *Thatcher, Reagan, Mulroney*, 148.

¹⁷⁶ David M. Kotz, "Financialization and Neoliberalism," in *Relations of Global Power*, eds. Gary Teeple and Stephen McBride (Toronto: University of Toronto Press, 2011), 3.

¹⁷⁷ Donald J. Savoie, "Globalization, Nation States, and the Civil Service," in *Governance in a Changing Environment*, eds. B. Guy Peters and Donald J. Savoie (Montreal: McGill-Queen's University Press, 1995), 82-112.

¹⁷⁸ Donald F. Kettl, *Sharing Power* (Washington: The Brookings Institution, 1993).

governments balance their budgets.¹⁷⁹ In the realm of public administration, privatization was often portrayed as a means of reducing the size of the bureaucracy, which was viewed by many to be beneficial simply through shrinking a perennially inefficient organization, thereby improving government's efficiency.¹⁸⁰

The dimensions of these efforts spanned in four directions, involving potential shifts in state financing, delivery, responsibility and decision-making regarding public services. The individual techniques of privatization were diverse.¹⁸¹ These ranged from management reforms, to load-shedding efforts to withdraw the state from providing some services, asset sales, whereby public enterprises or property were sold, contracting out, where the state shifted from delivering services to managing their acquisition from private firms, in addition to public private partnerships for major public works.¹⁸²

The two leaders most linked with the neoliberal agenda internationally were Margaret Thatcher and Ronald Reagan, although their respective implementation of the agenda differed greatly. Thatcher made reducing the power of organized labour a key focus of her efforts in Britain,¹⁸³ blaming the unions for "creating unemployment and pressuring governments to undertake an inflationary expansion of the money supply."¹⁸⁴ She also aggressively sold off state owned assets in an effort to both eliminate their chronic mismanagement but also raise funds for a struggling treasury.¹⁸⁵ Reagan's efforts were significantly different as the United States had significantly fewer state-owned enterprises, so there were few American state assets to sell. The bulk of his government's privatization

¹⁷⁹ Harvey B. Feigenbaum, Chris Hamnett and Jeffrey R. Henig, *Shrinking the State* (New York: Cambridge University Press, 1999).

¹⁸⁰ Patrick Dunleavy, "Explaining the Privatization Boom," *Public Administration* 64(1986): 13-34.

¹⁸¹ Madsen Pirie, *Privatization* (Aldershot: Wildwood House, 1988).

¹⁸² Feigenbaum, Hamnett and Henig, *Shrinking the State*, vii-vii.

¹⁸³ E. A. Reitan, *The Thatcher Revolution* (Lanham, Md: Rowman & Littlefield, 2002).

¹⁸⁴ Ben Jackson, "The Think-Tank Archipelago," in *Making Thatcher's Britain*, eds. Ben Jackson and Robert Saunders (Cambridge: Cambridge University Press, 2012), 51.

¹⁸⁵ Reitan, *The Thatcher Revolution*.

activities were instead oriented towards increasing the involvement of private firms in delivering public services, as he was able to tap into a burgeoning “popular distaste for government”¹⁸⁶ as part of his agenda. Arguably his most successful achievement was “to sell the political idea of a return to the free market to the general populace, in the process popularizing neoliberalism.”¹⁸⁷

The Impact of Neoliberalism in Canada

This wider ideological shift internationally provided the primary impetus for the adoption of a neoliberal agenda in Canada. The results of this shift were multifaceted, including trade liberalization and deregulation. More germane to this study, the Canadian neoliberal agenda included aspects of the privatization agenda and the adoption of a fiscal restraint in federal budgeting.¹⁸⁸ The most significant of these two impacts was the latter. Fiscal deficits had started to grow in the late 1970s, but these were mild compared to the ones that emerged in the 1980s and were growing at an alarming rate by the early 1990s. Eliminating, and then staying out of, fiscal deficits became an important policy position in Canada following the adoption of “structural fundamentalism” as part of a macroeconomic policy focused on “getting the fundamentals right.”¹⁸⁹ This has involved a twofold approach of establishing matters of taxation, investment and regulation while approaching the management “of the public purse”¹⁹⁰ by focusing on eliminating budgetary deficits.

¹⁸⁶ John D. Donahue, *The Privatization Decision* (New York: Basic Books, 1989), 1.

¹⁸⁷ Nancy Neiman Auerbach, "The Meanings of Neoliberalism," in *Neoliberalism*, eds. Ravi K. Roy, Arthur T. Denzau and Thomas D. Willett (New York: Routledge, 2007), 33.

¹⁸⁸ Allan Tupper and Bruce G. Doern, "Canadian Public Enterprise and Privatization," in *Privatization, Public Policy and Public Corporations in Canada*, eds. G. Bruce Doern and Allan Tupper (Halifax: Institute for Research on Public Policy, 1988), 1-44.

¹⁸⁹ G. Bruce Doern, Allan M. Maslove and Michael J. Prince, *Canadian Public Budgeting in the Age of Crises* (Montreal: McGill-Queen's University Press, 2013), 84.

¹⁹⁰ *Ibid.*

Mulroney

The wider neoliberal agenda was first introduced to Canada through meetings between some of Thatcher's officials and those in the Joe Clark's government.¹⁹¹ Only after her efforts began demonstrating success in the early 1980s and Reagan's efforts built, however, did they appear practical, inspiring the Mulroney government. While normal electoral pressures and bureaucratic constraints have generally made it difficult for federal politicians to pursue agendas of restraint,¹⁹² the shift in attitudes towards the size of government worldwide changed this dynamic.¹⁹³ Mulroney "could hardly hide his disdain for the public service,"¹⁹⁴ remarking frequently during his 1984 campaign speeches that once in office he planned to issue "pink slips and running shoes to bureaucrats."¹⁹⁵

During its first term, the Mulroney government introduced "a wide range of neo-conservative, pro-market policies aimed at shrinking the size and role of the state through downsizing, privatization and deregulation."¹⁹⁶ This change in orientation was reflected in an attempt to introduce New Public Management techniques. These approaches, adopted in many developed economies, contained numerous facets, but were based primarily on "market principles."¹⁹⁷ This held that private sector management techniques were superior, and that many of the principles of private sector management theory, including competitive practices, could be imported into the public sector. This was accompanied by the idea that managers in government should focus on managing and leave the actual delivery of services

¹⁹¹ Tupper and Doern, *Canadian Public Enterprise and Privatization*, 1-44.

¹⁹² Donald J. Savoie, *Whatever Happened to the Music Teacher?* (Montreal & Kingston: McGill-Queen's University Press, 2013); Savoie, *The Politics of Public Spending in Canada*.

¹⁹³ Peter Aucoin, "The Politics and Management of Restraint Budgeting," in *The Budget-Maximizing Bureaucrat*, eds. André Blais and Stéphane Dion (Pittsburgh: University of Pittsburgh Press, 1991), 119-141.

¹⁹⁴ Savoie, *Thatcher, Reagan, Mulroney*, 91.

¹⁹⁵ *Ibid.*, 4.

¹⁹⁶ Susan D. Phillips, "Making Change," in *How Ottawa Spends 1994-95*, ed. Susan D. Phillips (Ottawa: Carleton University Press, 1994), 12.

¹⁹⁷ B. Guy Peters, *The Politics of Bureaucracy* (New York: Routledge, 2010), 328.

to others. Consequently, this led to the demands for market testing of alternatives to government provision of public services, through putting government services out to tender.¹⁹⁸

In addition, shortly after assuming office Mulroney announced a series of spending cuts totaling more than \$4 billion. To do so, he established a Ministerial Task Force led by his Deputy Prime Minister Erik Nielsen that was mandated to review all existing programs, with a view to eliminating those that no longer served a purpose and introducing more business-like practices into government. As part of this, a policy of contracting out public services, a Make or Buy policy, was proposed that would have seen many functions turned over to the private sector and fewer performed by government. This initiative, described in greater detail in Chapter 4, much like the review itself, ultimately had very little impact. Despite identifying \$7-8 billion in program cuts and tax changes, less than \$500 million worth of the initiatives were actually implemented.¹⁹⁹

Mulroney's government was far more successful, however, in selling off Crown assets. His relative success and focus on these areas is understandable, since they represented a significant share of the economy and afforded the prospect of significant budget savings. He successfully privatized de Havilland, Canadair, Teleglobe and Eldorado Nuclear, amongst others.²⁰⁰

In their second term, Mulroney's government shifted to adopt a new, but closely related, policy framework centered around competitiveness. The policy agenda that followed from this edict included workforce training, combatting inflation and deficit reduction. Of these elements, the latter two were judged to be of particular importance, as

¹⁹⁸ Peter Aucoin, *The New Public Management* (Montreal: Institute for Research on Public Policy, 1995); Savoie, *Thatcher, Reagan, Mulroney*.

¹⁹⁹ *Ibid.*

²⁰⁰ *Ibid.*

“the pursuit of lower deficits and of low and stable rates of inflation” became the “sine qua non for achieving greater competitiveness.”²⁰¹ These concerns increased in importance following the completion of the Canada-United States free trade agreement,²⁰² in part due to the resultant pressure to reduce corporate tax rates.²⁰³ This in turn led to a “philosophy in fiscal matters that support[ed] fiscal discipline,”²⁰⁴ to keep Canada competitive with the United States and compensate for the lowered federal revenue base because of reduced corporate taxes.

These efforts had a notable impact on DND’s budget. After 1985/1986, DND’s lost its defence specific inflation, resulting in a loss of purchasing power.²⁰⁵ Dosman attributes this switch in part to a change in the relationships amongst central agencies. With the advent of the new agenda of fiscal restraint, the Department of Finance had gained greater influence over defence spending, usurping a special relationship that had developed between the Treasury Board Secretariat and DND. With the Department of Finance controlling the program expenditure process, “the negotiation of the fiscal framework”²⁰⁶ began to determine the annual DND budget. This change, which occurred several years prior to the first major budget cut in 1989, signalled the advent of dramatically reduced resources at DND.

Despite these efforts, the Mulroney era was characterized by a failure to reduce the fiscal deficit “despite early electoral and rhetorical emphasis by the Conservatives on the

²⁰¹ Fanny S. Demers, "The Department of Finance and the Bank of Canada," in *How Ottawa Spends 1992-93*, ed. Frances Abele (Ottawa: Carleton University Press, 1992), 81.

²⁰² Frances Abele, "The Politics of Competitiveness," in *How Ottawa Spends 1992-93*, ed. Frances Abele (Ottawa: Carleton University Press, 1992), 1.

²⁰³ Amelita Armit and Jacques Bourgault, "Introduction," in *Hard Choices Or no Choices*, eds. Amelita Armit and Jacques Bourgault (Toronto: Institute of Public Administration of Canada, 1995), 1-20.

²⁰⁴ Demers, *The Department of Finance and the Bank of Canada*, 90.

²⁰⁵ Middlemiss, *Canadian Defence Funding*, 13-20.

²⁰⁶ Edgar J. Dosman, "The Department of National Defence," in *How Ottawa Spends 1988/89*, ed. Katherine A. Graham (Ottawa: Carleton University Press, 1988), 179.

need to right the fiscal ship.”²⁰⁷ Mulroney’s efforts in this regard were thwarted, because his government had attempted to implement its agenda through a gradualist approach to expenditure reduction and it maintained weak fiscal controls over spending departments. This resulted in an actual increase in departmental spending ahead of the 1988 election.²⁰⁸ The weak results have also been attributed to Mulroney following a less ideologically motivated approach than the ones pursued in Britain and America, in part because of a lack of enthusiastic public support.²⁰⁹ Furthermore, his government’s attention was diverted towards constitutional reform through the Charlottetown and Meech Lake accords.²¹⁰ Consequently, the early implementation of neoliberal agenda in Canada resulted in policies that did not attack the welfare state.²¹¹ The result was a general approach to fiscal restraint, while still stimulating the economy and making little progress on actually reducing the deficit.²¹² While a moderate rebalancing of the public and private spheres occurred with the sale of Crown corporations, on the whole, Mulroney’s government made “little or no tangible progress”²¹³ in implementing a neoliberal approach to the federal budget.

His government was, however, effective in generating a widespread acceptance that the country needed to address its fiscal problem.²¹⁴ Based in part on Mulroney’s discussion of these issues, by the early 1990’s, there was a “consensus on the importance of tackling the deficit and the debt.”²¹⁵ This sentiment was widely shared throughout the country, including

²⁰⁷ G. Bruce Doern, "Evolving Budgetary Policies and Experiments," in *How Ottawa Spends 2009-2010*, ed. Allan M. Maslove (Montreal: McGill-Queen's University Press, 2009), 18.

²⁰⁸ Leslie A. Pal, "Shape Shifting," in *How Ottawa Spends 1999-2000*, ed. Leslie A. Pal (Don Mills: Oxford University Press, 1999), 1-36.

²⁰⁹ Tupper and Doern, *Canadian Public Enterprise and Privatization*, 1-44.

²¹⁰ Michael Hart, Colin Robertson and Bill Dymond, *Decision at Midnight*: (Vancouver: UBC Press, 1994).

²¹¹ Paul Pierson, *Dismantling the Welfare State?* (New York: Cambridge University Press, 1994).

²¹² Doern, Maslove and Prince, *Public Budgeting in Canada*.

²¹³ Doern, Maslove and Prince, *Canadian Public Budgeting in the Age of Crises*, 77.

²¹⁴ Ibid.

²¹⁵ Pal, *Shape Shifting*, 10.

amongst the public, and had actually been adopted first at the provincial level.²¹⁶ When the Mulroney government was elected in 1984 it joined a “virtual sea of Conservative provincial governments also interested in restraining the state.”²¹⁷ This inclination would culminate in the early 1990s with the introduction of legislated deficit control measures in New Brunswick, Alberta and Manitoba.²¹⁸ Similarly, a cross party acceptance of the need to reduce the deficit had also been reached federally by that point. The Reform Party had emerged as a champion of expenditure cuts and deficit reduction, and this sentiment was reinforced through the emergence of conservative think tanks, journalists and business-orientated interest groups.²¹⁹ Even the New Democratic Party, the party most supportive of government intervention in the economy, had addressed the importance of controlling the deficit.²²⁰

Finally, the need to address the budget deficit also became the received wisdom in both the Department of Finance and the Bank of Canada. Each had shifted away from past Keynesian approaches to macroeconomic policymaking in the 1980s.²²¹ Finance officials had written much of an economic doctrine that Mulroney followed, including a rejection of deficit financing as an appropriate response to cyclical economic performance. Rather, the view articulated was that the budgetary balance was a significant factor in promoting growth and economic prosperity. As a result, “eliminating and staying out of deficits became an important policy objective in its own right”²²² in the financial bureaucracy.

²¹⁶ Armit and Bourgault, *Introduction*, 1-20.

²¹⁷ Tupper and Doern, *Canadian Public Enterprise and Privatization*, 1.

²¹⁸ Ronald Kneebone, "Making Macroeconomic Policy in an Integrating North America," in *Capacity for Choice*, ed. George Hoberg (Toronto: University of Toronto Press, 2002), 61-103.

²¹⁹ David M. Cameron, "Whither the Canadian Polity?" in *Hard Choices or No Choices*, eds. Amelita Armit and Jacques Bourgault (Toronto: Institute of Public Administration of Canada, 1995), 113-119.

²²⁰ Savoie, *The Politics of Public Spending in Canada*.

²²¹ Doern, Maslove and Prince, *Canadian Public Budgeting in the Age of Crises*.

²²² *Ibid.*, 64.

During the 1993 election, the Liberal Party of Canada embraced a muted version of this anti-deficit mantra, noting in their platform that “fiscal discipline will support economic growth.”²²³ As part of this, they committed to reducing the deficit to three percent of Gross Domestic Product by 1997/1998, and initiated a series of policy reviews, including one of National Defence detailed in Chapter 5, with an eye towards reducing spending and meeting these targets. According to Pal, the embrace of the neoliberal agenda by the Chrétien government was the result of a growing consensus around the nation’s fiscal problems, and the extent of Canada’s deficit problem.²²⁴ This objective was tied to a rapidly mounting deficit, which has seen Canada’s federal debt as a share of Gross Domestic Product more than triple during the 1980s.²²⁵ The consequence of the federal debt became significantly more serious in 1994 when rising interest rates significantly increased the costs of Canada’s debt repayments. As a result of the sharp increase in borrowing costs, the estimated annual debt charges for 1995/1996 increased by roughly \$7.5 billion in only 12 months.²²⁶ Because of this, debt servicing costs were forecasted to consume more than a quarter of all federal expenditures.²²⁷ Consequently, by 1994, “Finance Minister Paul Martin was convinced by his officials that the deficit...situation was extremely grave, and that it could not be addressed simply through incremental measures and the hope that economic growth would buoy government revenues.”²²⁸

²²³ Liberal Party of Canada, *Creating Opportunity* (Ottawa: 1993), 16.

²²⁴ Pal, *Beyond Policy Analysis*.

²²⁵ B. Guy Peters, "Introducing the Topic," in *Governance in a Changing Environment*, eds. B. Guy Peters and Donald J. Savoie (Montreal: McGill-Queen's University Press, 1995), 3-22.

²²⁶ Arthur Kroeger, "Changing Course," in *Hard Choices Or no Choices*, eds. Amelita Armit and Jacques Bourgault (Toronto: Institute of Public Administration of Canada, 1995), 21-28.

²²⁷ Shields and Evans, *Shrinking the State*.

²²⁸ Pal, *Shape Shifting*, 8.

In part, this concern was due to the wider impacts of neoliberalism on the global economy which had reduced the scope to perpetuate interventionist welfare states.²²⁹ This was particularly true for developing economies, as both the World Bank and International Monetary Fund had become “missionary institutions”²³⁰ for the Washington Consensus that made acceptance of fiscal austerity, privatization and market liberalization a prerequisite to accepting either institution’s assistance.²³¹ Similar dynamics had also created an international financial market that had come to play an increasing role in shaping macroeconomic policy in developed economies. On some issues, it was argued the markets had become “masters over the governments of states”²³² and could therefore “radically alter the costs of particular policy options.”²³³ The international bond ratings agencies, and Moody’s in particular, had as a result assumed an “increasingly important role in the global economy”²³⁴ in the late 1980s and early 1990s. These agencies had gained an ability to shape macroeconomic outcomes by threatening government bond downgrades.²³⁵ This led many governments to curtail both state spending and market interventions in an effort to retain favourable lending rates.²³⁶

These dynamics were exerting strong pressures on the Chrétien government by 1994 that intensified with the prospect of a potential bond downgrading and a commensurate

²²⁹ Eric Helleiner, *States and the Reemergence of Global Finance* (Ithaca: Cornell University Press, 1994).

²³⁰ Joseph Stiglitz, *Globalization and its Discontents* (New York: W.W. Norton, 2002), 13.

²³¹ John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment*, ed. John Williamson (Washington: Institute for International Economics, 1990), 5-20.

²³² Susan Strange, *The Retreat of the State* (New York: Cambridge University Press, 1996), 4.

²³³ David Held et al., "Global Transformations," *ReVision* 22, no. 2 (1999): 11.

²³⁴ Saskia Sassen, "Embedding the Global in the National," in *States and Sovereignty in the Global Economy*, eds. David A. Smith, Dorothy J. Solinger and Steven C. Topik (New York: Routledge, 1999), 163.

²³⁵ Eric Helleiner, "Sovereignty, Territoriality and the Globalization of Finance," in *States and Sovereignty in the Global Economy*, eds. David A. Smith, Dorothy J. Solinger and Steven C. Topik (New York: Routledge, 1999), 138-157.; Timothy J. Sinclair, "Between State and Market," *Policy Sciences* 27, no. 4 (1994): 447-466.

²³⁶ David Held, *Global Transformations* (Stanford, Calif: Stanford University Press, 1999); Giovanni Arrighi, "Globalization, State Sovereignty, and the "Endless" Accumulation of Capital," in *States and Sovereignty in the Global Economy*, eds. David A. Smith, Dorothy J. Solinger and Steven C. Topik (New York: Routledge, 1999), 53-73.

threat to the Canadian currency in the weeks leading up to the 1995 budget.²³⁷ It was later argued that “Canadian foreign indebtedness ha[d] enfranchised international bond-rating agencies, making their pronouncements an important part of the country’s fiscal policies.”²³⁸ This prompted a realization that a “comprehensive redefinition of the role and responsibilities of the federal government was required”²³⁹ in order to avoid such an eventuality.

The result was the 1995 Budget and Program Review which introduced the largest spending cuts to the federal government since the post-WWII period of demobilization²⁴⁰ and the most significant cuts to the civil service since the 1940s.²⁴¹ In making these reductions, Chrétien implemented a number of lessons learned from Mulroney’s failed attempt at curtailing Government spending. The effort was led personally by the Prime Minister himself, set out to achieve hard targets for expenditure reductions, and front loaded its implementation.²⁴² Following the 1995 Budget, Chrétien’s government proved successful at sticking to the austerity program introduced by his Minister of Finance Paul Martin, refusing to give in to pressure from any of the spending departments. The results were significant. The Government of Canada balanced its budget in 1997/1998 for the first time since 1969/1970.²⁴³

As Chapter 3 details, the impact of these measures at DND was severe. They resulted in a 27 percent cut to inflation adjusted defence spending, a 32 percent reduction in

²³⁷ Doern, Maslove and Prince, *Canadian Public Budgeting in the Age of Crises*.

²³⁸ Banting Keith, "Social Policy," in *Border Crossings*, eds. G. Bruce Doern, Brian W. Tomlin and Leslie A. Pal (Toronto: Oxford University Press, 1996), 34.

²³⁹ Kroeger, *Changing Course*, 25.

²⁴⁰ Ibid.

²⁴¹ Ian Lee and Clem Hobbs, "Pink Slips and Running Shoes," in *How Ottawa Spends 1996-97*, ed. Gene Simmer (Ottawa: Carleton University Press, 1996), 337-378.

²⁴² Paul G. Thomas, "Visions Versus Resources in the Federal Program Review," in *Hard Choices Or no Choices*, eds. Amelita Armit and Jacques Bourgault (Toronto: Institute of Public Administration of Canada, 1995), 39-46.

²⁴³ Doern, Maslove and Prince, *Canadian Public Budgeting in the Age of Crises*.

the Regular Force military and a 46 percent reduction in the number of civil servants employed at DND. In budgetary terms, they were the most significant fiscal cuts to defence since the end of the Korean War. As some analysts later described, during the decade after the end of the Cold War, Canada's defensive capabilities "withered under the fiscal constraints of a neoliberal economic creed enforced by global finance."²⁴⁴

Once the budget was balanced, Chrétien's government and that of his successor Paul Martin continued systematically paying down the debt. This policy was initially continued by Stephen Harper, although his tax cuts and spending initiatives had reduced the size of the surplus by 2008. In the wake of the economic downturn in 2008, Harper's government was forced by public pressure to introduce a stimulus spending package that resulted in a significant deficit for the first time in more than a decade. Both the reluctance to accept this deficit fighting measure as well as the firm commitment to reverse its impacts quickly provides an indication of how firmly entrenched the neoliberal approach to federal budgeting had become in Canada.²⁴⁵ The 2009 Budget's discussion of the stimulus measures was notable, for instance, for emphasizing their temporary nature and a plan to return to fiscal balance was introduced within 12 months.²⁴⁶

As explicated in Chapter 3, the defence budget began to increase modestly in real terms after 1999, once the federal budget had returned to balance. DND's funding was then increased significantly by major boosts to the defence budget by Paul Martin in 2005 and then again by Stephen Harper in 2006 which significantly raised DND's budget. This

²⁴⁴ Bow and Lennox, *Introduction*, 8.

²⁴⁵ Doern, Maslove and Prince, *Canadian Public Budgeting in the Age of Crises*.

²⁴⁶ Canada. Department of Finance Canada, *Budget Plan 2010* (Ottawa: 2010); Canada. Department of Finance Canada, *Canada's Economic Action Plan: Budget 2009* (Ottawa: 2009).

budgetary respite was short-lived, however, as the plan to return Canada to fiscal balance following the post-2008 recession stimulus package took effect at DND in 2011/2012.²⁴⁷

The Confluence of Foreign Policy and Neoliberal Budgeting

As the preceding two sections detail, the two competing budgetary pressures on DND came to a head in the 1990s. On one hand, the demands on the military imposed by Canada's activist foreign policy in many ways increased after the Cold War as troops were deployed on missions around the world under both UN and NATO banners at a rate far exceeding that experienced during the Cold War. Yet at the same time, DND's budget experienced the most severe cuts in 40 years. The two most compelling explanations for the increase in the use of defence service contracts, the functional and neoliberal explanations can be attributed individually to these two respective aspects of Canadian defence policy after the Cold War. Yet to understand how and why varying the use of defence service contracts was appealing to DND at that time and remains so two decades later requires an understanding of the military's own preferences for adjusting to these pressures by apportioning its resources.

DND's Organizational Preferences

Clearly, varying the use of service contracts to deal with these two competing pressures found a receptive audience at National Defence. Three aspects of bureaucratic culture and the Canadian military's own preferences can help explain this. First, the CAF, like all bureaucracies maintains a vested institutional interest in preserving its primary

²⁴⁷ David Perry, "A Return to Realism," *Defence Studies* 13, no. 3 (2013): 338-360.

organizational activities. Second, the Canadian military defines its organizational essence in terms of Capital intensive expeditionary forces. Third, the Canadian military has historically maintained an ingrained devotion to maintaining balance across the three primary services. In combination, these factors have made the CAF favorably disposed towards allocating its resources in a way that maximizes its tooth to tail ratio, and devotes as much of its budget as possible towards Capital. These preferences, in turn, made DND amenable to varying its use of service contracts to further these aims when faced with budget constraints.

The literature on bureaucratic culture provides ample evidence that bureaucracies are in general resistant to change.²⁴⁸ This literature does note, however, that changes that fit within an organization's existing operational framework are more likely to be accepted than those that involve a change in roles.²⁴⁹ How organizations define their missions and the capabilities they need to implement them, thus strongly influences their views towards organization change. As Keir has demonstrated, these general precepts about bureaucratic culture are applicable to military bureaucracies as well.²⁵⁰ How organizations self-identify and view their proper role is encapsulated in a organization's "essence" which is "the view held by the dominant group within the organization of what its mission and capabilities should be."²⁵¹ Organizations will resist efforts that would change its organizational essence and will fight "hardest for the capabilities which it views as necessary to the essence of the

²⁴⁸ Peters, *The Politics of Bureaucracy*; James Q. Wilson, *Bureaucracy* (New York: Basic Books, 1989); Niskanen, *Bureaucracy and Representative Government*.

²⁴⁹ Wilson, *Bureaucracy*.

²⁵⁰ Elizabeth Kier, "Culture and Military Doctrine," *International Security* 19, no. 4 (1995): 65-93.

²⁵¹ Morton H. Halperin, Priscilla Clapp and Arnold Kanter, *Bureaucratic Politics and Foreign Policy* (Washington, D.C: Brookings Institution Press, 2006), 27.

organization.”²⁵² Stated otherwise, organizations try to “keep what they have and keep doing what they do.”²⁵³

Individually, the three main branches of the Canadian military all conceive of their organizational essence in terms of expeditionary forces designed for high end operations alongside Canada’s allies.²⁵⁴ In particular, the armed forces view their proper role as overseas with the United States military.²⁵⁵ Consequently, the Canadian military is inclined to reject suggestions that they adopt non-expeditionary roles, which might be less costly, as it defines its organizational essence as “armed forces capable of operating throughout the world and across the spectrum of conflict.”²⁵⁶ As an example, when the Trudeau government prioritized the protection of Canadian sovereignty, the military countered that while those activities might be the Government’s priority, more pressing operational activities overseas should determine the mix of equipment acquired for the armed forces.²⁵⁷

The RCN, for example, conceives of itself as a ‘blue water,’ or expeditionary, fleet. This orientation means its design, training, and operations have all focused on working alongside Canada’s allies, especially the United States Navy.²⁵⁸ Consequently, from 1948 until 1989, Canada’s preeminent naval task was one of NATO Anti-Submarine Warfare, while after the Cold War, the RCN reoriented itself towards an expeditionary Task Group

²⁵² Morton H. Halperin, Priscilla Clapp and Arnold Kanter, *Bureaucratic Politics and Foreign Policy* (Washington: The Brookings Institution, 1974), 39.

²⁵³ Marie-Eve Desrosiers and Philippe Lagassé, "Canada and the Bureaucratic Politics of State Fragility," *Diplomacy & Statecraft* 20, no. 4 (2009): 661.

²⁵⁴ Bland, *Chiefs of Defence*.

²⁵⁵ Sokolsky, *Over there with Uncle Sam*, 15-36.

²⁵⁶ Desrosiers and Lagassé, *Canada and the Bureaucratic Politics of State Fragility*, 664.

²⁵⁷ Danford Middlemiss, "The Canadian Navy and the "Home" Game," *Canadian Naval Review* 1, no. 3 (2005): 2-3.

²⁵⁸ Eric Lerhe, *At what Cost Sovereignty ?* (Halifax: Centre for Foreign Policy Studies, 2013).

designed to operate alongside the United States Navy.²⁵⁹ For its part, the Canadian Army has long desired to perpetuate the role it played in World War Two where it was “relatively large, heavily equipped, and prepared to fight a Great Power war in Europe.”²⁶⁰ It has ever since conceived of its essence as a “big army”²⁶¹ equipped with armoured formations. Similarly, the RCAF, despite performing multiple functions, including transport, search and rescue, and maritime aviation, has viewed fighter attack as its primary role. Thus, the continental air defence role with fighter aircraft, has been the RCAF’s “prime combat mission”²⁶² On their own, each of the military services’ expeditionary cultures would lead each organization to pursue expensive force structures. As an example, while a mixed fleet of both high and low capability ships designed for respective expeditionary and constabulary roles might be more cost effective, the RCN has always sought a force structure composed of higher capability destroyer variants.²⁶³

In combination, these expeditionary essences have consistently driven defence costs upwards because of an additional institutional desire for ‘balance’ amongst the armed services in Canada’s military. This desire has meant that the Canadian military seeks to retain what it views to be a roughly comparable apportionment of combat forces across the Army, RCN and RCAF and resists attempts to alter this balance through reductions in capability. This predilection originated in Canada’s NATO commitments, where each service sought to

²⁵⁹ Peter T. Haydon. *Why Canada Needs a Navy* (Ottawa: Navy League of Canada, 2010); Peter T. Haydon, "The Real Canadian Defence Priority is the Task Group," *Canadian Naval Review* 2, no. 1 (2006): 37-40.

²⁶⁰ Peter Kasurak, *A National Force* (Vancouver: University of British Columbia, 2013), 4.

²⁶¹ *Ibid.*, 172.

²⁶² Jockel, *Canada in NORAD, 1957-2007*, 19-20.

²⁶³ Ken Hansen, "The Superior-Simple Ship Fleet Construct," *Canadian Naval Review* 3, no. 2 (2007): 4-7.; Kenneth Hansen, "The "Destroyer Myth" in Canadian Naval History," *Canadian Naval Review* 2, no. 3 (2006): 5-9.; Richard Gimblett, "It's all One Game," *Canadian Naval Review* 1, no. 2 (2005): 30.

maintain its own unique role in alliance defence.²⁶⁴ Over time, this has persisted as a repetitive exercise of maintaining an overall equality of major roles between the services, expressed in terms of a preference for general purpose combat capability. While this has been articulated as an effort to present government officials with as broad a range of policy choices as possible, Bland rejects this premise. Instead, he characterizes it as merely an effort to mask a reluctance by the senior officers corps to take tough decisions.²⁶⁵ Abandoning a balance across the armed services would require difficult reforms and create losers amongst some military constituencies, an anathema to a senior leadership cadre that prefers “getting along.”²⁶⁶ Public articulation of such a force can be found as early as Trudeau’s 1974/1975 Defence Structure Review, which recommended the preservation of a “balanced, general purpose force.”²⁶⁷ This preference for balance was reiterated in the 1994 *Defence White Paper* and most recently in the 2008 *Canada First Defence Strategy*, although the terminology is now slightly altered to that of a “balanced, multi-role, combat-capable force.”²⁶⁸ Maintaining combat capability across the services has remained a priority for the Canadian military even in the face of significant budget constraints.²⁶⁹

Together, these organizational preferences have given DND a strong preference for allocating its resources in a manner that maximizes the military’s ‘tooth to tail ratio.’ This is the proportion of combat and direct combat support units relative to the supporting organizations in the rest of the defence establishment. The first recognition of the need to

²⁶⁴ Joseph T. Jockel and Joel J. Sokolsky, *Canada and Collective Security* (Washington: The Center for Strategic and International Studies, 1986).

²⁶⁵ Bland, *A Son's Ear from a Silk Purse*, 143-174.

²⁶⁶ Douglas L. Bland, *National Defence Headquarters* (Ottawa: Minister of Public Works and Government Services Canada, 1997), 44.

²⁶⁷ Kasurak, *A National Force*, 140.

²⁶⁸ Canada. Department of National Defence, *Canada First Defence Strategy*; Canada. Department of National Defence, *1994 Defence White Paper* (Ottawa: 1994).

²⁶⁹ Peter Jones and Philippe Lagassé, "Rhetoric Versus Reality," *Defense & Security Analysis* 28, no. 2 (2012): 140-151.; Desrosiers and Lagassé, *Canada and the Bureaucratic Politics of State Fragility*, 659.

address this issue came with the Diefenbaker government's Royal Commission on Government Organization (hereafter the Glassco Commission). The Glassco Commission's discovery of "the relative size of the "administrative tail" growing steadily"²⁷⁰ in DND served as a primary impetus towards the integration of the Canadian Armed Forces later mandated in the 1964 Defence White Paper.²⁷¹ Defence Minister Paul Hellyer's battle to both integrate and unify the Canadian Armed Forces is often cited as the initial step towards improving the "tooth to tail ratio" of the forces. By minimizing overhead, headquarters and support functions through unification, Hellyer sought to maximize the military's operational output.

Since Hellyer's effort, DND has been possessed by an "obsession to 'do more with less'."²⁷² The hope of such endeavors is that, by becoming better at managing its resources, DND can realize a greater return on the defence budget and maintain its capabilities and operational outputs. The pursuit of a more efficient military has therefore reduced the need for tough choices that might upset the balance across the services or reduce capabilities outright.²⁷³ Instead, efficiency reforms have been particularly appealing as they offer the prospect of reducing expenditure on overhead and support, allowing DND to preserve its operational capabilities. This was the goal of the 1971 Management Review Group, which was intended to improve management efficiency in the Canadian defense establishment, and, in so doing, make the "sharp end sharper."²⁷⁴ The imperative to focus defence resources on operational capability to the maximum extent possible continues to drive efforts at

²⁷⁰ Canada. *The Royal Commission on Government Organization* (Ottawa: Queen's Printer, 1962-1963), 68.

²⁷¹ Canada. *White Paper on Defence* (Ottawa: Queen's Printer, 1964).

²⁷² Lieutenant-Colonel Michael Rostek, "Managing Change within DND," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Education Network, 2009), 220.

²⁷³ Claire Turenne Sjolander, "Cashing in on the "Peace Dividend"," in *How Ottawa Spends 1996-1997*, ed. Gene Swimmer (Ottawa: Carleton University Press, 1996), 261.

²⁷⁴ Rostek, *Managing Change within DND*, 223.

reforming the Canadian military to the present day under the rubric of the Defence Renewal effort discussed in later chapters.²⁷⁵

A corollary of this overall desire is that DND seeks to devote as large a share of the defence budget towards Capital expenditures as possible, as this is critical to generating future military capability. Although as discussed below DND has consistently been unable to allocate as much money as it would prefer to this category and these expenditures perennially drop during times of fiscal restraint, defence has for decades set targets for Capital spending and oriented its reforms around increasing the size of this budgetary component. A longstanding goal of departmental change initiatives has thus been reallocating funds towards the Capital budget. The fact that these efforts have been largely unsuccessful has not lessened their influence over DND's management of its resources. Increasing Capital's share of the defence budget was an additional objective of Hellyer's unification of the Canadian Armed Forces. Faced with a Capital budget insufficient relative to demand, Hellyer attempted to reduce expenditures on Operations and Maintenance to redirect those funds towards Capital. As the 1964 White Paper stated, "The total savings to be effected as a result of such reductions will make available funds for capital equipment purchases...Sufficient savings should accrue from unification to permit a goal of 25 per cent of the budget to be devoted to capital equipment being realized in the years ahead."²⁷⁶ Since the 1964 White Paper, DND has established multiple targets for Capital spending, at times as part of DND's funding formulas. The 1987 White Paper, for instance, noted approvingly that on average other NATO countries spent 25 per cent of their budget on Capital.²⁷⁷ Five years later, *Defence Policy 1992*, issued just prior to the most severe 1990s defence cuts, stated

²⁷⁵ R. Adm Andrew Smith, "Defence Renewal," *Vanguard*, June/July, 2013.

²⁷⁶ Canada, *White Paper on Defence*, 19.

²⁷⁷ Canada. Department of National Defence, *Challenge and Commitment* (Ottawa: 1987).

that DND would “strive to establish a better balance between the funds devoted to personnel, operations and maintenance, and capital.”²⁷⁸ This translated into a goal of increasing Capital’s share of the defence budget to 26 percent within four years, with the organizations maintaining a target of 30 percent.²⁷⁹ Thus, just as it was entering into a period of the most intense budget cuts in two generations, DND was attempting to bolster its spending on Capital.

Constrained Optimization

By the mid-1990s, DND faced two pressures on its budget: increasing operational demands and a sharply declining bottom line. At the same time, organizationally, DND remain committed to maintaining balanced combat capabilities with a high tooth to tail ratio. The process by which it dealt with these competing pressures is known as constrained optimization.²⁸⁰

Within a limited budget, defence managers attempt to allocate as efficiently as possible between the major components of defence spending: Personnel, Operations and Maintenance, and Capital. The first category includes pay, allowances, and benefits. The second category includes the costs associated with operating and maintaining equipment and facilities, conducting deployed operations, routine missions and training exercises. Finally, the third category comprises the costs of acquiring or making major upgrades to equipment or infrastructure.²⁸¹

²⁷⁸ Canada. Department of National Defence, *Canadian Defence Policy* (Ottawa: 1992).

²⁷⁹ Ibid.

²⁸⁰ Treddenick, *Modelling Defense Budget Allocations*, 43-70.

²⁸¹ Lieutenant Colonel Ross Fetterly, "Budgeting within Defence," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Education Network, 2009), 53-91.

Two aspects of the breakdown of DND's resources are notable for this study. First, expenditures on service contracts with PMSCs are accounted for in the Operations and Maintenance category.²⁸² Second, the literature on Canadian defence budgeting recognizes that Operations and Maintenance expenditures can act as substitute for expenditures on Personnel. This is because contracts can replace manpower when "services previously produced within the military establishment, especially at the lower stages of the defense production chain, such as training, personnel support services, financial services and maintenance, are contracted out to the private sector."²⁸³ Thus, if budgetary circumstance permit, defence planners can opt to utilize service contracts to perform some of the administrative and support tasks that comprise the military tail, rather than allocating the Personnel budget to perform the same functions. Hence, varying the use of service contracts has been part of an attempt to manage scarce defence resources.²⁸⁴

Defence managers respond to changes in budget levels by reallocating expenditures as needed to either minimize input costs or "maximize the output of defense obtainable from a given budget."²⁸⁵ Stated differently, the challenge for defence planners is to "maximize the military capability achievable from a given budget"²⁸⁶ by selecting the optimal allocation of expenditures. For DND this means choosing the best allocation of spending across the Personnel, Operations and Maintenance and Capital components of its budget. In doing so, the objective is to "establish, equip, and sustain the Canadian Forces to produce as much useable coercive force as is possible from the resources provided by the

²⁸² Ross Fetterly and Naceur Essaddam, "An Examination of Defence Operations and Maintenance Costs in Canada," *Review of Business Research* 8, no. 2 (2008): 190-200.

²⁸³ Treddenick, *Modelling Defense Budget Allocations*, 47.

²⁸⁴ Martin C. McGuire, "Economics of Defense in a Globalized World," in *Handbook of Defence Economics*, eds. Todd Sandler and Keith Hartley (Boston: North-Holland, 2007), 623-648.

²⁸⁵ Treddenick, *Modelling Defense Budget Allocations*, 45.

²⁸⁶ *Ibid.*, 45.

government²⁸⁷ within the constraints imposed on its budget. These constraints include the overall budget constraint, constraints on manpower levels, political constraints on the acquisition of certain weapons, or on where and how military equipment is to be acquired, and where and how military bases are to be maintained. In practice, allocating the budget can be viewed as “an effort at rationing resources across and within the military departments.”²⁸⁸ Inherent in these allocation decisions is the tension between defence planners’ desire for flexibility on one hand and policy and partisan direction on the other.²⁸⁹ Planners desire the maximum flexibility possible to make optimal allocations, but they must do so within the policy and partisan constraints established by the government.

One example of the challenge of constrained optimization in defence organizations internationally, is the impact of the steady increase in the unit cost of weapons systems at rates exceeding inflation, year after year.²⁹⁰ One of the ways that defence managers respond to this increasing growth in Capital costs is to “slow the replacement cycle”²⁹¹ so that these large costs are incurred less frequently. In doing so, resources are shifted away from Capital and towards Operations and Maintenance to account for these rising costs. In making these allocations, defence organizations strive to find “an affordable balance between investments in current missions and investments in new capabilities.”²⁹² Similar dynamics of balancing between investments in current and future capabilities have traditionally affected Canadian defence budgeting as well.

²⁸⁷ Bland, *The Public Administration of Defence Policy*, 10.

²⁸⁸ L. R. Jones, "Policy Development, Planning and Resource Allocation in the Department of Defense," *Public Budgeting & Finance* 11, no. 3 (1991): 20.

²⁸⁹ Ibid.

²⁹⁰ David L. I. Kirkpatrick, "Trends in the Costs of Weapon Systems and the Consequences," *Defence and Peace Economics* 15, no. 3 (2004): 259-273.

²⁹¹ Ibid., 270.

²⁹² Gene L. Dodaro, "Maximizing DOD's Potential to Face New Fiscal Challenges and Strengthen Interagency Partnerships" (National Defense University, Washington, DC, Government Accountability Office, January 6, 2010).

The constrained optimization process in Canada's defences has been governed by two key factors affecting the allocation of defence resources: constraints on Personnel and the residual budget category. Personnel expenditures are DND's "least flexible expenditure category."²⁹³ This is because the size of the armed forces is set independent of the annual budget by the Government, either through policy or legislative instrument. As a result, DND has a portion of its budget dedicated to Personnel costs, but also a finite allocation of military PYs established by the Government of Canada. At times the number of military PYs can act as a cap on the maximum size of the military, while at others it establishes "minimum force element levels"²⁹⁴ below which the military cannot shrink. Thus, the size of the armed forces can act as either a ceiling which the military cannot exceed, or a floor below which it cannot fall. Whereas it is possible, albeit difficult, to transfer funds between the main categories of defence spending, the number of military positions cannot be increased simply by reallocating funds from either Operations and Maintenance or Capital.

Two implications flow from this construct. First, the number of military positions is always DND's most tightly controlled resource. As such, apportioning military PYs across the defence organization is one of the most challenging aspects of DND's resource allocation. Allocating military personnel between combat and support positions is therefore one of the most critical aspects of adjusting the military's tooth to tail ratio. The degree of control over military personnel has fluctuated over time, however. During the Cold War, defence planners had significant flexibility to adjust Personnel levels to manage their budget²⁹⁵ and these decisions were largely the purview of the military bureaucracy.²⁹⁶ This

²⁹³ Fetterly, *Budgeting within Defence*, 58.

²⁹⁴ Ugurhan G. Berkok, "Specialization in Defence Forces," *Defence and Peace Economics* 16, no. 3 (2005): 192.

²⁹⁵ Bland, *Canada without Armed Forces?*, 21.

²⁹⁶ Craig Stone and Binyam Solomon, "Canadian Defence Policy and Spending," *Defence and Peace Economics* 16, no. 3 (2005): 145-169.

flexibility initially persisted after 1989, during the early period of budget cuts as DND was able to make successive changes to the size of its workforce.²⁹⁷ This flexibility was removed in 1994 however, after the issuance of the *1994 Defence White Paper*. In that document, “the government insisted that the Canadian Forces be maintained at 60,000 personnel.”²⁹⁸ From 1994 until 2005 when an increase to the size of the Regular Forces was announced, the size of the military was capped at 60,000 troops, even after the defence budget began to increase. As Chapter 3 details, the expansion of the military after 2005 was slow to take effect and short lived. In 2012, when another period of budget cuts was announced, the size of the military was again tightly constrained, this time at 68,000 positions. In sum, for most of the period after 1994, the number of military PYs has been strictly controlled, placing tight constraints on Personnel spending.

The second implication of the fact that military PYs are tightly controlled is that Personnel is by default the first defence budget allocation priority because the costs associated with this fixed number of positions must be covered. Determining which budget category is the second allocation priority has historically been affected by an “Inter-temporal trade-off” which is the “trade-off between having more capability today or having capability in the future.”²⁹⁹ The second budget priority has historically been allocated for Operations and Maintenance, because together, expenditures on both Personnel and Operations and Maintenance represent the “running costs of defence.”³⁰⁰ Spending on both of these components of the defence budget is associated with present, immediately available defence capability. As was detailed above, throughout the Cold War, Canadian defence policy was driven by commitments to NATO. These commitments obligated Canadian defence

²⁹⁷ Ibid.

²⁹⁸ Bland, *Canada without Armed Forces?*

²⁹⁹ Stone, *Planning Defence Budget Allocations for Canada's Strategy 2020*, 229.

³⁰⁰ Treddenick, *The Defence Budget*, 420.

planners to maintain a certain degree of Operations and Maintenance funding to honour past pledges made to Canada's allies for NATO commitments.³⁰¹ Similarly, the increase in operational tempo during the 1990s for UN and NATO missions also resulted very significant Operations and Maintenance costs which could not be avoided.³⁰²

In contrast, Capital expenditures "are payments for potential forces."³⁰³ The most important measure of a defence organization's Capital capability is the aggregate inventory of total capital stocks. As such, and because annual Capital expenditures can only marginally influence a net change in these cumulative Capital stocks, investments in any given year can have only a limited impact in affecting the quality and quantity of overall Capital stocks. Thus, it is only through cumulative Capital investments over a long time period that Capital stocks can be improved. As a result, Capital expenditures have "everything to do with the future."³⁰⁴ As these expenditures were essentially investments made to realize capability years or even decades into the future, they came with a high degree of uncertainty about potential changes in the future threat environment, technological changes, and evolving strategies. Coupled with the relatively insignificant short term impact of Capital spending, and the immediate impact of spending on Personnel and Operations and Maintenance, this created strong incentives to delay Capital purchases. Because opting to invest in Capital for the future comes at that direct expense of not investing in Personnel or Operations and Maintenance for the present, Capital expenditures have traditionally been "eminently deferrable."³⁰⁵

³⁰¹ Byers, *Canadian Security and Defence*.

³⁰² Lieutenant Colonel Ross Fetterly, "The Canadian Defence Peacekeeping Cost Estimate Process," *Resource Management*, 1st Quarter, 2006; Ross Fetterly, "The Cost of Peacekeeping: Canada," *The Economics of Peace and Security Journal* 1, no. 2 (2006): 46-53.

³⁰³ Treddenick, *Distributing the Defence Budget*, 62.

³⁰⁴ Treddenick, *The Defence Budget*, 420.

³⁰⁵ Treddenick, *Modelling Defense Budget Allocations*, 48.

The method of accounting used by the Canadian government until the early 2000s heavily reinforced this inter-temporal tradeoff. Until that time, the Government of Canada employed “cash accounting” principles through which DND was provided both Vote 1 and Vote 5 “A Base” funding as a cash appropriation in the Estimates each year. Under this system, all expenses (Personnel, Operations and Maintenance, and Capital) were charged in full against DND’s budget in the year expenditures were made. Under this method of accounting, DND’s Capital expenses represented a series of short term, but very large budgetary charges when major platforms were acquired. The massive size of these budgetary pressures led DND to acquire major weapons systems sequentially through what Stone characterizes as the “principal of Buggin’s Turn,”³⁰⁶ whereby the services would procure major systems one after another. This was because under the cash accounting system used at the time, DND’s budget was never large enough to make major purchases simultaneously.

When faced with budget cuts, Capital expenditures represented massive, short term budgetary costs that would produce capability only far into the future. Thus, if these expenses were cut, the budgetary savings were immediate and significant, whereas the impact in terms of defence capability would only be felt in the future.³⁰⁷ These costs were also relatively easy to cut if they had not yet reached the contract stage. In contrast, reducing Personnel or Operations and Maintenance costs takes long to take effect.³⁰⁸ Reducing staff levels takes time to implement properly as does reducing the scope of military operations, and in each case the impact in terms of reduced defence capability is felt in the short term.

³⁰⁶ Craig Stone, "Defence Procurement and the Need for Disciplined Capital Investment," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto: Breakout Educational Network, 2009), 96.

³⁰⁷ Treddenick, *Distributing the Defence Budget*, 57-82; Middlemiss, *Canadian Defence Funding*, 13-20.

³⁰⁸ Canada. Office of the Auditor General of Canada, *Chapter 24: National Defence - Defence Management Systems* (Ottawa: 1994).

In sum, until the early 2000s, Capital expenses presented immediate, short term, large budgetary costs, but produced only future capabilities. In contrast, both Personnel and Operations and Maintenance expenditures, also produced immediate, short-term, large budgetary costs, but they produced capabilities immediately. Cancelling or delaying Capital expenditures could therefore significantly reduce DND's budget quickly, while only marginally reducing DND's capabilities in the short term.

As a result of all of these factors, until the early 2000s, Capital was the “residual”³⁰⁹ component of Canadian defence spending. As a result, the funding available to procure Capital goods was historically the “amount remaining after allocations have been made for both personnel expenditures (civilian and military salaries, benefits, and pensions) and for essential operations and maintenance expenditures.”³¹⁰

The adoption of accrual accounting in 2001/2002 and accrual budgeting in 2003, however, significantly changed the budgetary dynamics that previously made Capital a residual budget category.³¹¹ Under the old cash based accounting system, Capital was the residual budgetary component in part because Capital costs were large, one-time expenses that could easily be deferred. Accrual accounting and budgeting, however, fundamentally changed the management of Capital funds. Under accrual, Personnel and Operations and Maintenance costs are still charged against DND's budget in full in the year costs are incurred. The process is significantly different for Capital expenditures, however. When DND buys Capital equipment, it is provided with “Investment Cash” from Parliament in the year required to execute the purchase. This Investment Cash is not charged against DND's

³⁰⁹ Middlemiss, *Canadian Defence Funding*, 19.

³¹⁰ Dan Middlemiss, "Defence Procurement in Canada," in *Canada's International Security Policy*, eds. David B. Dewitt and David Leyton-Brown (Scarborough, ON: Prentice-Hall Canada Inc., 1995), 396.

³¹¹ This section draws on Lieutenant Colonel Ross Fetterly and Major Richard Groves, *Accrual Accounting and Budgeting in Defence* (Queen's University, Kingston ON: Defence Management Studies, 2008).

budget in the year it is used, however. Rather, the costs of procurements are amortized over the equipment's full life-cycle and charged against DND's budget as an annual amortization expense, otherwise known as a depreciation charge. Thus, under accrual practices, DND's Capital budget resembles a series of mortgage payments, as the annual amortization expenses for acquired Capital assets are charged against its budget in annual increments.³¹²

The purchase of the C-17 fleet helps illustrate the difference brought about by this change. Between 2006 and 2011 DND acquired four C-17 strategic airlift aircraft, associated infrastructure, and equipment. That purchase required \$1.8 billion in Investment Cash to execute over the five year period of the acquisition. Yet, despite this very large cash expenditure, because it was conducted using accrual principles, it resulted in only \$149 million in amortization charges over the same time frame.³¹³ Hypothetically, had this procurement been cancelled under the cash based system, between 2006 and 2011 DND's costs would have been reduced by the full \$1.8 billion. In contrast, had this procurement actually been cancelled, because it occurred after the switch to accrual accounting, DND would have only saved \$149 million over the same five years. As this demonstrates, the budgetary savings that can be realized by cutting the Capital budget following the introduction of accrual accounting have been reduced dramatically.

Furthermore, under the cash based system, once Capital purchases were made, the Capital asset presented no further costs to DND's budget. Under accrual practices, however, these dynamics have fundamentally changed because DND must to continue to budget for the annual depreciation costs of previously acquired Capital.³¹⁴ An asset, once acquired, is accompanied by a set of annual depreciation costs for the duration of its life.

³¹² Solomon and Stone, *Accrual Budgeting and Defence Funding*, 211-227.

³¹³ Ibid.

³¹⁴ Ibid., 7.

Thus, defence planners have significantly less freedom to reduce Capital spending than they did in the past, because the Capital budget now bears the costs of defence capabilities previously purchased. As its Capital budget has shifted over time to a series of accrual charges that are automatically charged against its budget, DND can no longer simply reduce Capital spending as a means of dealing with budget cuts. As a result, Solomon and Stone contend that “the move to accrual will put pressure on defence planners to make longer term decisions and prevent some of the trade-offs between current and future capability that has happened as a matter of routine in the past.”³¹⁵

The institution of an Investment Planning process by the Treasury Board which requires departments to submit long-term capital plans on a three year basis has further made cutting capital funding difficult. This has increased significantly the requirements for systematic, long-term planning of Capital purchases to align depreciation expenses with available funding. The adoption of its Investment Plan will help DND “ensure that the timing of major investments corresponds to the availability of funds,”³¹⁶ but requires careful long term planning. Making changes to these plans is time-consuming and requires significant additional reporting to the central agencies.³¹⁷ As a result, Solomon and Stone argue that accrual practices have made the previous practice of automatically reducing Capital spending to meet budget reductions untenable.

However, as was the case when Capital was the residual budget category, the size of the military is still controlled independent of the defence budget, so Personnel expenditures remain highly constrained. Consequently, according to Solomon and Stone, Capital is no longer the residual budget category, but has now become the second spending priority after

³¹⁵ Ibid., 9.

³¹⁶ Canada. Department of National Defence, *Canada First Defence Strategy*, 19.

³¹⁷ Canadian Association of Defence and Security Industries, *CADSI RCN Outlook* (Ottawa, April 8, 2014).

Personnel. As they write, “Since depreciation expenses will have to be accounted for under the new accrual accounting construct and personnel numbers are fixed (predetermined by policy or legislation), [Operations and Maintenance] or readiness is effectively the residual.”³¹⁸ Thus, after 2003, Operations and Maintenance become the residual budget category.

This change in the residual budget category has two implications. First, during periods of defence budget reductions, the residual budget category is the one disproportionately affected by budget cuts. Hence, with this change, we would no longer expect to see Capital expenditures drop when the defence budget is cut, but rather see Operations and Maintenance reduced. Second, the type of defence procurement affected by budget reductions would also be expected to change. Previously, because Capital was the residual, the acquisition of defence *goods* was curtailed when the budget was cut. If Operations and Maintenance is now the residual, this would no longer be the case. Rather, we would expect to see the acquisition of defence *services* funded by Operations and Maintenance cut when the defence budget is reduced.

Conclusion

To fully understand the impact of these changed budget dynamics on the process of constrained optimization outlined here requires understanding how Canadian defence resources have changed over time. After first describing the data and processes relevant to this study, the next chapter provides such an overview.

³¹⁸ Solomon and Stone, *Accrual Budgeting and Defence Funding*, 217.

Chapter 3: Canadian Defence Resource Overview

This chapter begins by outlining the expenditure process for the Government of Canada, and highlights the key sources of information relevant to this study, illuminating some challenges regarding access to data. It then surveys the major changes to DND's financial and human resources over time. This overview is intended to demonstrate the historical pattern of resource allocation and demonstrate that Capital spending was previously the residual budget category. Following this, particular attention is paid to the changes in resource levels and their allocation between constituent spending categories after 1989. This concludes with a focus on the resource recovery that began after 1999, including the expansion of the military. The resource reductions and subsequent recoveries will be illustrated. This demonstrates that both the reductions and subsequent recoveries unevenly impacted the constituent components of the defence budget. In particular, this shows that defence human resources were cut more significantly than the budget after 1989 and have never fully recovered. In contrast, the defence budget fully recovered from its loss of purchasing power by 2007/2008. Finally, the chapter examines the special arrangements for the costing and financing of expeditionary operations, to establish the basis for the discussion of resource allocation for operations contained in Chapter 7.

Expenditures in the Government of Canada and DND

Financial information for DND, along with other federal departments, is presented in multiple formats and the presentation of this information has evolved multiple times. The current version of the Government of Canada's expenditure planning process is the Expenditure Management System adopted in 1995. This process is oriented primarily

around the federal budget, economic and fiscal updates and the Estimates process. The federal budget is generally presented between January and March, and the economic and fiscal update between October and December. In neither case is there a specific requirement related to timing. The Estimates process, however, follows an established parliamentary calendar which outlines specific periods of supply, which is “the process by which the government asks Parliament to appropriate funds in support of approved programs and services.”¹ Three separate periods of supply are outlined for the fiscal year which runs from April 1 to March 31: April 1 to June 23; June 24 to December 10; and December 11 to March 26. By Standing Order of the House of Commons, the Main Estimates must be tabled on or before March 1. This document provides the bulk of the federal expenditures for the fiscal year. Thereafter, if and as needed, Supplementary Estimates A, B and C are tabled providing, withdrawing or moving fiscal resources as needed during the three supply periods during the fiscal year. After the adoption of the EMS system in 1995, two additional documents were added to the financial reporting cycle that together forms the Estimates Part III. The first, the Reports on Plans and Priorities, provides a fiscal spending plan at the start of the fiscal year while the Departmental Performance Report reports on actual spending at year’s end. The reporting cycle is completed by the publication of the Public Accounts of Canada, which are the audited financial statements of the Government of Canada published in the fall.² At the time of writing, data for 2013/2014 was the most recent available.

Each of these documents contains varying degrees of information. The two reports in the Estimates Part III provide the most detailed breakdown of departmental expenditure

¹ Canada. Treasury Board of Canada Secretariat. "The Reporting Cycle for Government Expenditures," accessed October 3, 2014, <http://www.tbs-sct.gc.ca/ems-sgd/rc-cr-eng.asp>.

² Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*.

plans and actual spending. However, these reports have only been in existence since 1994/1995 and their reporting formats have changed four times since they were instituted.³ Thus, a consistent analysis of spending across even the relatively short period of time since their introduction is impossible, as are historical comparisons. Both the Estimates and Public Accounts of Canada have, however, used a consistent reporting format known as Standard Objects, which does allow for a consistent analysis of expenditures over time and permits an analysis of the internal allocation of the defence budget. Furthermore, because it reports on actual, year-end, audited expenditures, the Public Accounts of Canada is used whenever possible for financial information. Finally, the Fiscal References Tables, an annual publication of the Department of Finance, is also used for comparing the share of expenditure on service contracts at DND with those across government.⁴ This data source is employed as it presents Direct Program Expenditures, those for federal departments, in a consistent format, whereas the Public Accounts do not. Thus, this data source facilitates a meaningful comparison, whereas other documents do not.

As discussed in Chapter 1, there are three primary categories of defence expenditure: Personnel; Operations and Maintenance; and Capital. Expenditures on Personnel capture rates of pay and allowances, and are reported under Standard Object 1. Operations and Maintenance expenditures include the costs of operating and maintaining facilities and equipment, including spare parts, fuel, petroleum oil and lubricants for vehicles, ships and aircraft, travel, transportation, engineering services and contracted repair and overhaul.⁵ These costs are captured by Standard Objects 2, 3, 4, 5, 6 and 7. Two additional categories,

³ Canada. Department of National Defence. *Estimates 1994-1995: Part III* (Ottawa: Minister of Supply and Services, 1994).

⁴ Canada. Department of Finance Canada. "Fiscal References Tables - 2014," last modified October 12, 2011, accessed October 6, 2014, <http://www.fin.gc.ca/frt-trf/2014/frt-trf1403-eng.asp#tbl12>.

⁵ Fetterly, *Budgeting within Defence*, 53-91.

for the acquisition of land, buildings and works, Standard Object 8 and the acquisition of machinery and equipment, Standard Object 9, combined comprise Capital expenditures.

Standard Object 4, Professional and Special Services is particularly notable since this is the Standard Object used in this study as a proxy for overall spending on service contracts.

This category encompasses the following types of services:

Provision for all professional services performed by individuals or organizations such as payments (in the nature of fees, commissions, etc.) for the services of accountants, lawyers, architects, engineers, scientific analysts, reporters, and translators; for teachers at various levels of educational institutions; for doctors, nurses and other medical personnel; for management, data processing and other research consultants; and for other outside technical, professional and other expert assistance.⁶

Although Standard Object 4 does not include all service contracts, it provides the best approximation of this spending. The *Report on Transformation 2011*, for instance, which was underpinned by an unprecedented degree of financial data analysis, used this spending category to approximate spending on service contracting.⁷

The use of Standard Object 4 as a proxy for service contract spending in *Report on Transformation 2011* is likely attributable to the overall lack of contracting data in Canada.⁸ Even within this wider dearth of information, the data on service contracting is noticeably poor. In a 2001 report, DND's internal audit branch, Chief Review Services stated "Accurate department-wide information on the extent and nature of service contracting does

⁶ Canada. Receiver General of Canada. "7. Object Codes - 2013-2014," Public Works and Government Services Canada, last modified March 5, 2013, accessed July, 16, 2013, <http://www.tpsgc-pwgsc.gc.ca/recgen/pceaf-gwcoa/1314/7-eng.html>. This category furthermore includes: Payments for hospital treatment, care of veterans and welfare services, payments for the provision of informatics services, payment of tuition for Indians at non-federal schools, purchase of training services under the *Adult Occupational Training Act*, and payments made to the Canada School of Public Service for training. Payments for Corps of Commissionaires services and for other operational and maintenance services performed under contract, such as armoured cars, laundry and dry cleaning, cleaning of buildings, temporary help, hospitality, storage and warehousing, and other business services, as well as payments made to the Department of Public Works and Government Services for contract administration.

⁷ Leslie, *Report on Transformation 2011*.

⁸ David J. Bercuson, Aaron P. Plamondon and Ray Szeto. *An Opaque Window* (Calgary: Canadian Defence & Foreign Affairs Institute, 2006).

not exist.”⁹ While Chief Review Service’s reports have occasionally examined service contracting, they have not done so regularly. These studies have, however, highlighted the magnitude of DND’s contractual links with the private sector. In 2007 alone, 15,584 contracts had been tendered by Public Works and Government Services Canada (PWGSC) on DND’s behalf, worth a total of \$22 billion over their lifetime. These records were not delineated between contracts for goods and those for services, however, and no public records do so.¹⁰

The Chief of Review Services has furthermore noted that “there is no consistent departmental approach to reporting these expenditures. Consequently, it is difficult to measure any trends in expenditures for these services.”¹¹ In a separate audit, the organization noted that the coding and cataloguing of service contracts was poor and that as a result, the comparability of information across time periods and between organizations was limited.¹² These problems were deemed significant enough that they were found to “impede departmental initiatives to reduce or monitor spending in particular areas because baseline information is inaccurate.”¹³ These data limitations preclude a more comprehensive examination of service contracts and reinforce the reasonableness of a heavy reliance on Standard Object 4 as a measure of service contracting over time.

⁹ Canada. Department of National Defence. Chief Review Services, *Audit of Contracting for Professional and Technical Services* (Ottawa: 2001).

¹⁰ Canada. Department of National Defence. Chief Review Services, *Risk Analysis of Operations and Maintenance Contracts* (Ottawa: 2007).

¹¹ Canada. Department of National Defence. Chief Review Services, *Audit of Professional Services Contracting* (Ottawa: 2010).

¹² Canada. Department of National Defence. Chief Review Services, *Audit of Accuracy and Efficiency of Financial Coding* (Ottawa: 2011).

¹³ Ibid.

Recognizing this limitation, Figure 2 shows DND expenditures on Standard Object 4, adjusted using DND's Economic Model for defence specific inflation.¹⁴ Between 1989/1990 and 1997/1998 there was a small net decrease in expenditures on Standard Object 4, of one percent, as expenditures remained relatively steady. Across this time period, though, there were more significant year to year fluctuations. Having grown three percent from 1989/1990 to 1993/1994, expenditures dropped by 13 percent between 1993/1994 and 1994/1995. Thereafter, spending on service contracts increased modestly through 1997/1998, before increasing sharply in 1998/1999 when spending on contracts rose 18 percent over the previous year. As a result of this significant increase in 1998/1999, the period from 1994/1995 to 1998/1999 saw spending in this area increase by a total of 30 percent. Thereafter, spending increased at an average rate of 8 percent per year until 2011/2012, increasing by a total of 182 percent, after inflation, between 1997/1998 and 2011/2012. While there were some year to year decreases during this period, these never lasted more than a single year, and the overall trend was one of significant real increases. After 2011/2012, however, this spending decreased for two straight fiscal years, dropping by a total of ten percent.

All told, spending on service contracts between 1989/1990 and 2013/2014 can be broken into three periods. From 1989/1990 until 1997/1998, service contract spending was relatively constant, decreasing during this period by one percent. Between 1997/1998 and

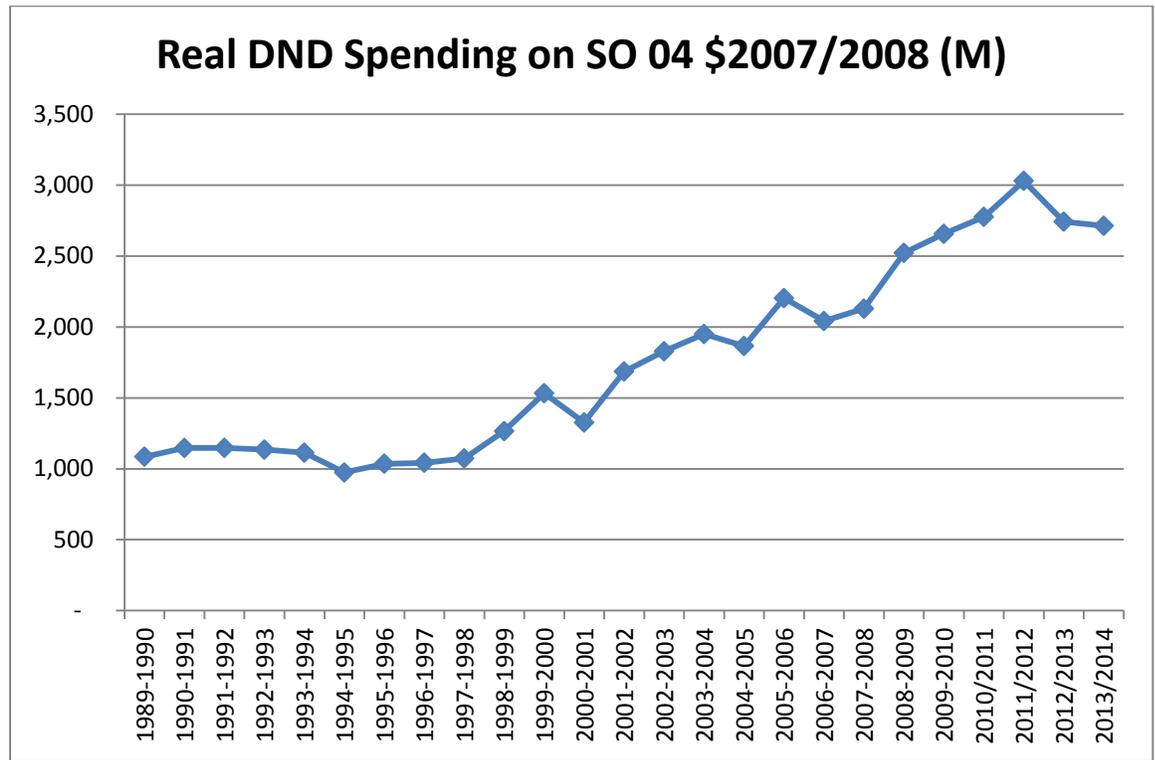
¹⁴ Spending Standard Object 04 is from the Public Accounts of Canada, Vol 2, Budgetary Expenditures by Standard Object. This data was deflated by the author using DND's Defence Specific Inflation index, which used the DND Economic Model. Defence expenditures are dissimilar to expenditures in either the broader economy, or consumer spending more generally. As a result, since 1973 DND has conducted its own analysis of defence specific inflationary trends, and compiled its own DSI index. A copy of this index dating back to 1986/1987 was made available to the author by a DND official. As it is the most appropriate deflator for defence spending, it is used where possible. However, since the copy available only extends to 1986, other indices were used for adjustments over longer time periods, such as for Figure 3.

2011/2012, however, spending on service contracts increased significantly, at a rate of eight percent per year. Since 2011/2012, however, service spending has dropped 10 percent.

Although the Standard Object expenditure categories provide the most detailed analysis of spending over time, it should be noted that they do not align precisely with the Vote structure used in the Estimates. Three primary Votes are used in the Estimates: Vote 1 (Operating Expenditures); Vote 5 (Capital Expenditures); and Vote 10 (Grants and Contribution). These Votes form the basis of the Government's requests for Parliamentary spending approval.¹⁵ Vote 1 includes spending on both Personnel and Operations and Maintenance. In the case of Votes 5 and 10, in each instance these categories represent Capital or Grants and Contributions expenditures that exceed \$5 million. Expenditures by Standard Object do not neatly fall into the categories that the Votes suggest however. Vote 5, for instance, also captures some costs related to Standard Objects 1 (Personnel), 2, 3, 4, 5, 6 and 7 (Operations and Maintenance) in addition to those in Standard Objects 8 and 9 which are directly attributed to expenditures on Capital. This is because the costs of staff working on a Capital project, captured by Standard Object 1, would be attributed to Vote 5, as would any Operations and Maintenance costs directly related to a Vote 5 activity.

¹⁵ Alex Smith. *A Guide to the Estimates* (Ottawa: Library of Parliament, 2010).

Figure 2



Contracting Accountabilities for Service Contracts

The complexity of DND's accounting structure reflects an equally complex process for making acquisitions in the Government of Canada. Although the process of acquiring Major Crown Projects has been well outlined in the literature the process and accountabilities surrounding the acquisition of services has not, so it will be outlined briefly.¹⁶

The Minister of National Defence has contracting authority to acquire services but this is constrained by Treasury Board limits restricting the size of contracts that they can execute under their own authority. The limitations for DND service contracts, excluding architectural or engineering services, are \$2 million for contracts with electronic bidding,

¹⁶ Aaron Plamondon, *The Politics of Procurement* (Vancouver: UBC Press, 2010).

\$400,000 for competitive contracts, and \$100,000 for non-competitive contracts.¹⁷ As a defence procurement specialist noted, for the type of services that DND contracts, these are ‘pretty low amounts.’¹⁸ Above these contract thresholds, DND must engage PWGSC by means of a contract requisition, since that department is mandated to provide “the acquisition and provision of services”¹⁹ as a Government of Canada common service provider. As such, PWGSC is the default contract authority for services on DND’s behalf for those contracts that exceed DND’s authorities. PWGSC’s contracting authorities are significantly higher: \$20 million for contracts with electronic bidding, \$10 million for competitive contracts, and \$3 million for non-competitive contracts.²⁰

PWGSC’s contracting authorities specify the value of service contracts that the Minister of Public Works can enter into on DND’s behalf without seeking prior approval from the Treasury Board, a subset of the federal Cabinet. For contracts that exceed these values, Treasury Board approval is required. Obtaining these approvals under ideal conditions takes two to three months, and requires both a DND submission for expenditure authority and a PWGSC submission to obtain contracting authority.²¹ In the case of large value contracts, where a funded definition stage is required to investigate options before releasing a request for proposals, a second set of Treasury Board approvals is required for definition authority. Although the approval process can be expedited, particularly if driven by urgent operational requirements, securing Treasury Board approvals can take years.²² Similarly, securing PWGSC involvement for contracts exceeding DND’s authorities can also be time consuming. PWGSC service standards aim to award contracts of up to \$1 million

¹⁷ Canada. Treasury Board of Canada Secretariat, *Contracting Policy* (Ottawa: 2013).

¹⁸ Defence Officials, Interview with the Author, June 26, 2012.

¹⁹ *Department of Public Works and Government Services Act*, Public Law c. 16, *Statutes of Canada* (1996).

²⁰ Canada. Treasury Board of Canada Secretariat, *Contracting Policy*.

²¹ Canada. Treasury Board of Canada Secretariat, *A Guide to Preparing Treasury Board Submissions* (Ottawa: 2007).

²² Defence Official, Telephone Interview with the Author, September 5, 2013.

within 100 working days.²³ Contracts involving more money, or significant risk, take longer. Thus, even under ideal circumstances, securing the appropriate approvals to execute service contracts can be time consuming. As Chapter 5 demonstrates, the complexity and length of time involved in coordinating procurement activities between the relevant departments has been an important factor in DND's use of service contracts.

The Unique Characteristics of Defence Spending

Both the size and allocation of the budget provide important information regarding Canada's defences, as "the defence budget represents the government's plan of action with respect to the execution of its intended defence policy."²⁴ The overall size of the defence budget also shapes how that money is spent. DND's use of resources is unique for three reasons. First, in terms of direct program spending, DND is the largest federal department. Prior to 1997, DND accounted for more than 20 percent of these expenditures and since then has accounted for an average of 18 percent.²⁵ As a result, National Defence plays an important role in shaping the Canadian Government's expenditure budget. Because of this, defence spending has historically been highly variable, as reducing defence spending is usually required to achieve overall expenditure reductions in times of fiscal restraint.²⁶

Second, DND is also notable for comprising a highly significant percentage of expenditures on Capital. Of the two components of DND's Capital spending, those for the acquisition of machinery and equipment (Standard Object 9) are the most significant. DND

²³ Canada. Public Works and Government Services Canada. "PWGSC @ Your Service: Our Services, Standards and Results 2012-2013," , accessed September 5, 2013, <http://www.tpsgc-pwgsc.gc.ca/sc-cs/tdm-toc-eng.html>.

²⁴ Treddenick, *The Defence Budget*, 413.

²⁵ Canada. Department of Finance Canada, *Fiscal References Tables - 2014*

²⁶ Fetterly, *Budgeting for Defence*, 39-52.

represents by far the majority of the federal government's expenditures in this category, exceeding all other federal departments combined.²⁷ As discussed below, DND's spending in this category has fluctuated over time. However, even during the recent low point of spending on this category in 1998/1999, DND expenditures on the acquisition of machinery and equipment still represented 58 percent of all government spending in this category. In 2010/2011 when DND's Capital spending reached its post-Cold War peak, DND accounted for 72 percent of the government total.²⁸ As this indicates, the share of spending devoted to Capital expenditures at DND is unique in the Government of Canada. Although as detailed below, DND has historically had difficulty spending as much money on this category as it would like, it nonetheless spends significantly more on Capital than any other federal department.

The third factor that makes DND's resource use unique is that military personnel are managed in a manner distinct from the wider public service. According to the *National Defence Act*, the governor-in council, the Governor General acting on the advice of Cabinet, has the authority to "make regulations for the organization, training, discipline, efficiency, administration and good government of the Canadian Forces."²⁹ The governor-in-council furthermore determines the number of members, commissioned and non-commissioned, in both the Regular and Reserve components of the Canadian Armed Forces. The Minister of National Defence also has the authority to determine the unit composition of the Canadian military.³⁰ Based on these authorities, the size of the armed forces is determined as a matter

²⁷ Fetterly, *Budgeting within Defence*, 53-91.

²⁸ Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*.

²⁹ *National Defence Act*, Public Law R.S.C., (1985).

³⁰ *Ibid.*

of policy or through legislative instrument.³¹ The management of military personnel is therefore notable for how it differs from the management of the Public Service of Canada.

Public Service Management

Unlike the military, the public service is not managed by the number of civil service positions. In December 1989 the Mulroney government launched a set of public service reforms known as Public Service 2000. This effort was multifaceted but overall aimed to make program delivery more efficient and effective, simplify the employment and personnel system, and reduce central agency controls over departments to give deputy ministers greater freedom and accountability. As part of this reform, a highly significant change was made to the management of personnel. Prior to the introduction of Public Service 2000, all government departments had two budget constraints: their fiscal budget and their person-year complement. For years the Treasury Board had controlled personnel allocations and the size of the public service by segregating salary funds from other Vote 1 operating costs. This meant that money allocated for salaries could not be used for other purposes and unused Vote 1 funds could not be used for Personnel costs without Treasury Board authorization. Under that system, it was “common for departments to have funds available for a project but no person-years [PY] left.”³² Because of this “dual constraint of PYs and money, a department that had used up its PYs but not its finances might be forced to contract for personnel services at a much higher cost than would be paid for temporary

³¹ Solomon and Stone, *Accrual Budgeting and Defence Funding*, 211-227.

³² Gene Swimmer and Kjerstine Kinaschuk, "Staff Relations Under the Conservative Government," in *How Ottawa Spends 1992-93* (Ottawa: Carleton University Press, 1992), 283.

salaried employees.”³³ Thus, the previous dynamics through which the federal civil service was managed created a problem of constrained optimization. At that time, due to external constraints on Personnel, resource managers would often use service contracts as a means of making optimal allocations between their budget components. Prior to 1989, the use of separate controls on Personnel and other Vote 1 operating funds was believed to incentivize the use of service contracts across the Government of Canada, to alleviate the constraints imposed up spending on Personnel resulting from PY controls.

Public Service 2000 and the creation of operating budgets marked a major change for most departments in the federal government, as well as DND’s civil servant population. This move eliminated the previous distinction between funds earmarked for salaries and those earmarked for other components of the department’s Vote 1 allocation. In effect, this change resulted in “the abandonment of person-year (PY) controls.”³⁴ For DND, however, this change was much less significant, because the majority of its workforce (72 percent in 1989/1990) is comprised of military members who have remained subject to PY controls. When the Public Service 2000 changes eliminated the “dual constraint of PYs and money”³⁵ it was argued to have eliminated the previous incentive to contract out civilian positions. Due to the ongoing process for establishing the size of the military separately from that of the public service, DND’s military workforce remained subject to dual PY and budget controls after 1989. As a result, following this change, DND had tighter constraints on its workforce than the remainder of the public service. This may provide part of the explanation for why the use of contracted services has varied between DND and other federal departments.

³³ Gene Swimmer, Michael Hicks and Terry Milne, "Public Service 2000," in *How Ottawa Spends 1994-95*, ed. Susan D. Philips (Ottawa: Carleton University Press, 1994), 175.

³⁴ *Ibid.*, 175.

³⁵ *Ibid.*, 176.

The Decade of Darkness

With its 1987 Defence White Paper, the Mulroney government had launched what it intended to be a revitalization of the Canadian military. The document committed to numerous capability replacements and some new, and very costly, acquisitions, most notably a fleet of 10-12 nuclear powered submarines. The White Paper was directed explicitly towards closing the decades long “Commitment Capability Gap”³⁶ that had emerged between the Government’s policy commitments and the resources assigned to achieve them. To fund the purchases required to close this gap, the government committed to a “base rate of annual real growth in the defence budget of two per cent per year after inflation, for the fifteen-year planning framework” and well as “increased resources over those provided by [the] planned funding floor” to fund major projects.³⁷

Despite this intent, the foundations of the Conservative defence program were quickly eroded in the face of significant pressure to reduce expenditures because of rising deficit levels.³⁸ Within two years, the planned “two percent plus bumps” formula was abandoned. Instead, the 1989 Budget cut \$2.74 billion in planned expenditures from the defence budget.³⁹ Beginning with the 1989 budget, DND experienced a sequence of 17 budget cuts that progressively eroded defence funding until 1998/1999.⁴⁰ Throughout this period, DND experienced one, temporary budget boost when it received an additional \$350 million in 1990/1991 and \$600 million in 1991/1992 to provide funding in support of

³⁶ Canada. Department of National Defence, *Challenge and Commitment*, 43.

³⁷ Canada, *Challenge and Commitment* (Ottawa: 1987), 67.

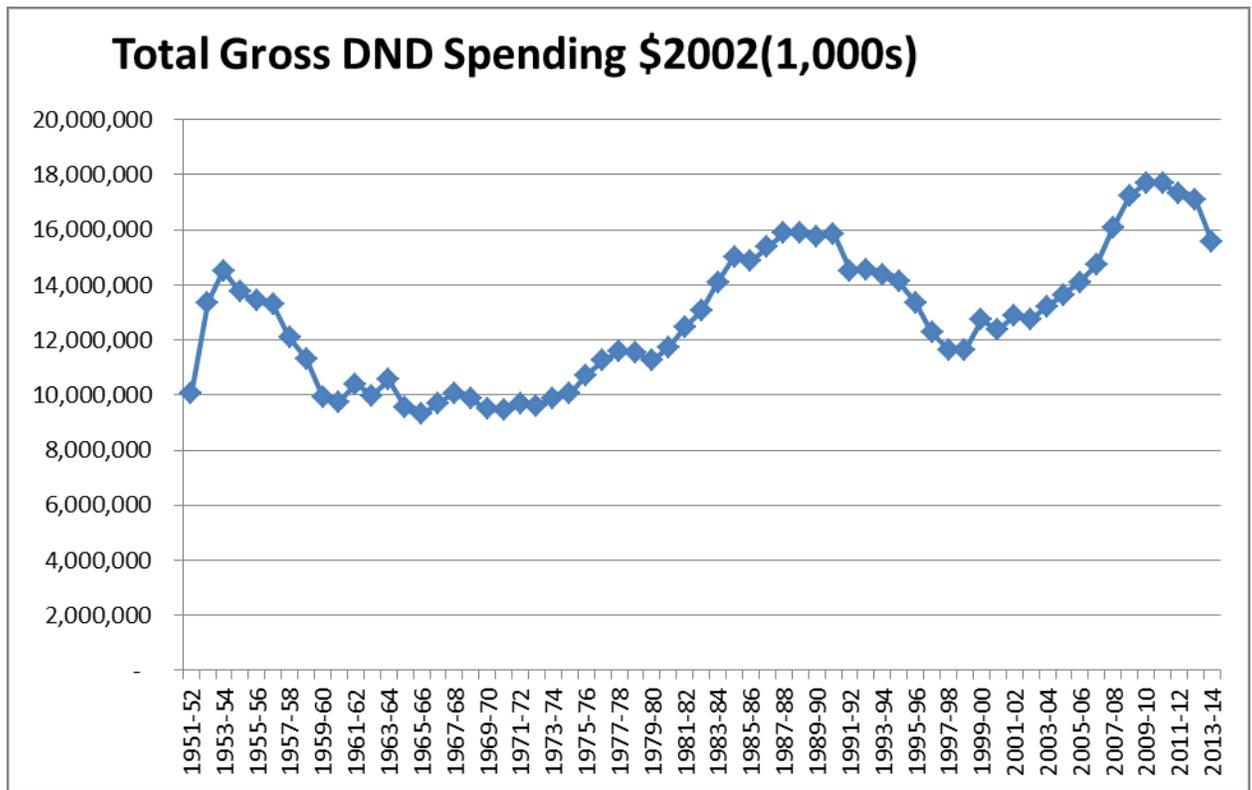
³⁸ Nelson Michaud, "Bureaucratic Politics and the Shaping of Policies," *Canadian Journal of Political Science* 35, no. 2 (2002): 282.

³⁹ Canada. Department of Finance Canada, *Budget 89* (Ottawa: 1989). Because this cut reduced, but did not eliminate, a previously planned budget increase, its impact is difficult to discern in actual year end spending.

⁴⁰ Canada. Department of National Defence. Directorate of History and Heritage, "DM/CDS Address/Questions & Answers: Senior Management Session, Ottawa, 15 January, 1996" Management, Command and Control Re-Engineering Fonds, Box 1, File Folder 3. (Ottawa: 1997).

Canadian military operations in Iraq.⁴¹ As discussed below, DND does not maintain a separate budget for expeditionary operations, so these funds and all others received for operations over the years are included in its annual financial reports. This operational funding, spread over two years, reduced the immediate impact of the 1989 budget cuts, and is the reason why defence spending did not immediately decline after 1989 (See Figure 3).

Figure 3



Budget Allocation Constraints during the Decade of Darkness

The reductions that began after 1989 were notable for the impact they had on reducing the size of the military and the share of the budget devoted to Capital. Despite these impacts, however, this period was characterized by a balanced approach to reducing the defence budget, as the cuts were apportioned across the components of defence expenditure. This process started with the 1989 Budget which announced that: a number of

⁴¹ Canada. Department of Finance Canada, *The Budget* (Ottawa: 1991).

bases and installations would be closed, reducing military infrastructure; the size of the Regular Forces and defence civil servants would be lowered; and a “number of equipment acquisitions will be cancelled and others reduced in size or put on hold.”⁴² The 1992 budget continued this trend, closing the Canadian military installations in Europe, amidst other infrastructure rationalizations and further restricting expenditure on Capital equipment.⁴³ A year later, “further reductions in the military and civilian work force”⁴⁴ along with additional restrictions on Capital spending and Operations and Maintenance were announced. While the 1994 Budget introduced the forthcoming Program Review and other measures detailed in Chapter 5, it also mandated: the cancellation of the EH101 contract, significantly lowering capital spending; more infrastructure reductions; further cuts to Operations and Maintenance; and the civilian reduction program detailed below.⁴⁵ Summarizing the reductions to that point in time, the *1994 Defence White Paper* stated “The Department and the Canadian Forces have absorbed past reductions in a variety of ways. Canadian defence commitments have been revised, personnel levels cut back, operations and maintenance budgets shrunk, defence infrastructure reduced, and capital program cancelled or delayed.”⁴⁶ As this section demonstrates, the reductions during the early part of the decade of darkness affected every facet of DND and the CAF and were distributed across each of the major components of defence expenditure, although inequitably. As described in Chapter 3, however, such a balanced approach ceased with the imposition of a firm 60,000 limit on the military ranks in 1994. The budget cuts imposed after 2010, in contrast, would be subject to even tighter limits, as Chapter 8 describes.

⁴² Canada. Department of Finance Canada, *Budget 89*, 24.

⁴³ Canada. Department of Finance Canada, *The Budget 1992* (Ottawa: 1992).

⁴⁴ Canada. Department of Finance Canada, *The Budget 1993* (Ottawa: 1993), 54.

⁴⁵ Canada. Department of Finance Canada, *The Budget Plan* (Ottawa: 1994).

⁴⁶ Canada. Department of National Defence, *1994 Defence White Paper* 10.

The Capital Budget

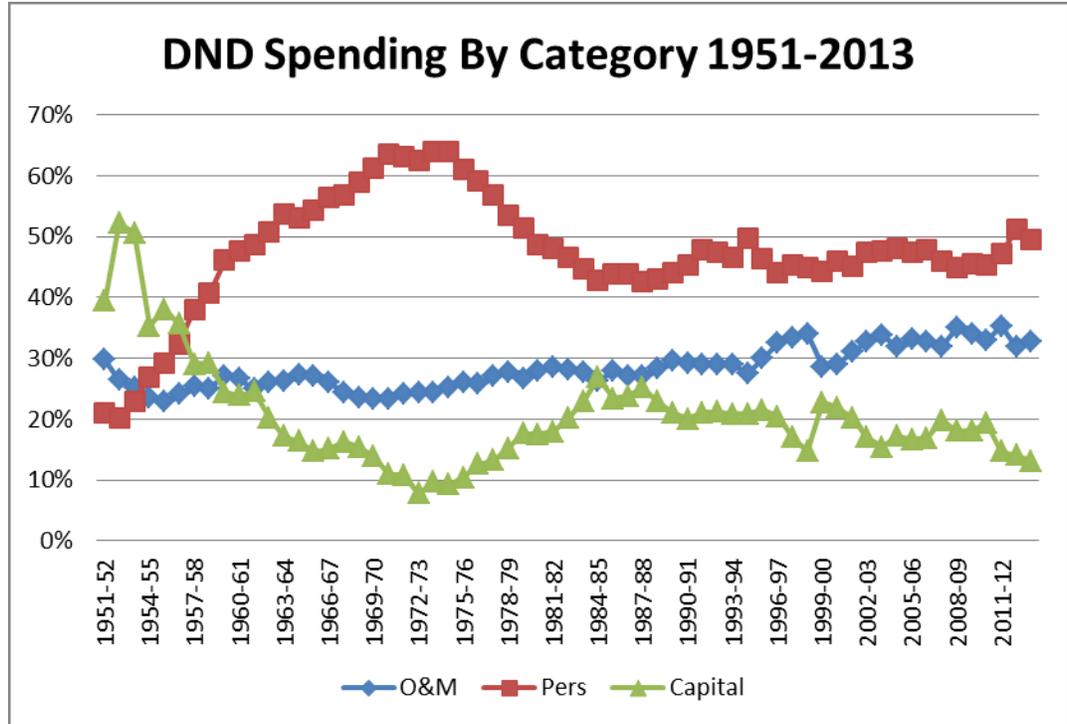
Despite an attempt to allocate the post-1989 Budget reduction equitably, it disproportionately cut Capital expenditures at the expense of other budget components. This fit within an historical pattern, as the Canadian defence establishment has treated its Capital budget as a residual budget category. As Figure 3 demonstrates, adjusted for inflation, defence spending has been significantly reduced three times since WWII: after 1953; after 1989; and again after 2010.⁴⁷ In all three instances, both the share of spending devoted to Capital (Figure 4) and real Capital expenditures (Figure 5) declined significantly. In the first two instances, this occurred because Capital was the residual budget category. As Chapter 8 details, the drop in Capital expenditures after 2010 occurred for other reasons.

The impact of reduced Capital spending was most prominent throughout the two decades following the Korean War, as both actual Capital spending and its share of total expenditures dropped to all-time lows by 1972/1973. Thereafter, across both the Trudeau and Mulroney administrations defence spending overall increased steadily, in real terms (See Figure 3). Similarly, over this period, the share of defence expenditure devoted to Capital increased as well, peaking at 27 percent of defence spending in 1984/1985 (see Figure 4). This same year, real spending on Capital reached its post-1956/1957 peak (Figure 5). As this shows, historically, there has been an important interrelationship between the size of the defence budget and its allocation. The share of the budget devoted to Capital has

⁴⁷ This chart reflects actual, year end, gross expenditures by DND. Data from 1951/1952-2005/2006 were obtained by the author from the editor of Craig Stone, ed., *The Public Management of Defence in Canada* (Toronto: Breakout Educational Network, 2009). Data from 2006/2007-2013/2014 were compiled by the author using the Public Accounts of Canada, Vol 2. Budgetary Expenditure by Standard Object, and Total Gross Expenditure. Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*. This spending category was used to maintain consistency with the data from Stone, which was compiled to provide the percentage breakdowns employed in Figure 3. This data was converted into \$2002 by the author using the Consumer Price Index. Canada. Statistics Canada, *Table 326-0020 Consumer Price Index (CPI)* (Ottawa: 2014) While the Consumer Price Index is not the most appropriate index to use for making adjustments to defence spending, it was the only index available to the author that extends back to 1951.

historically only grown when the overall defence budget does and is reduced when the overall budget shrinks.⁴⁸

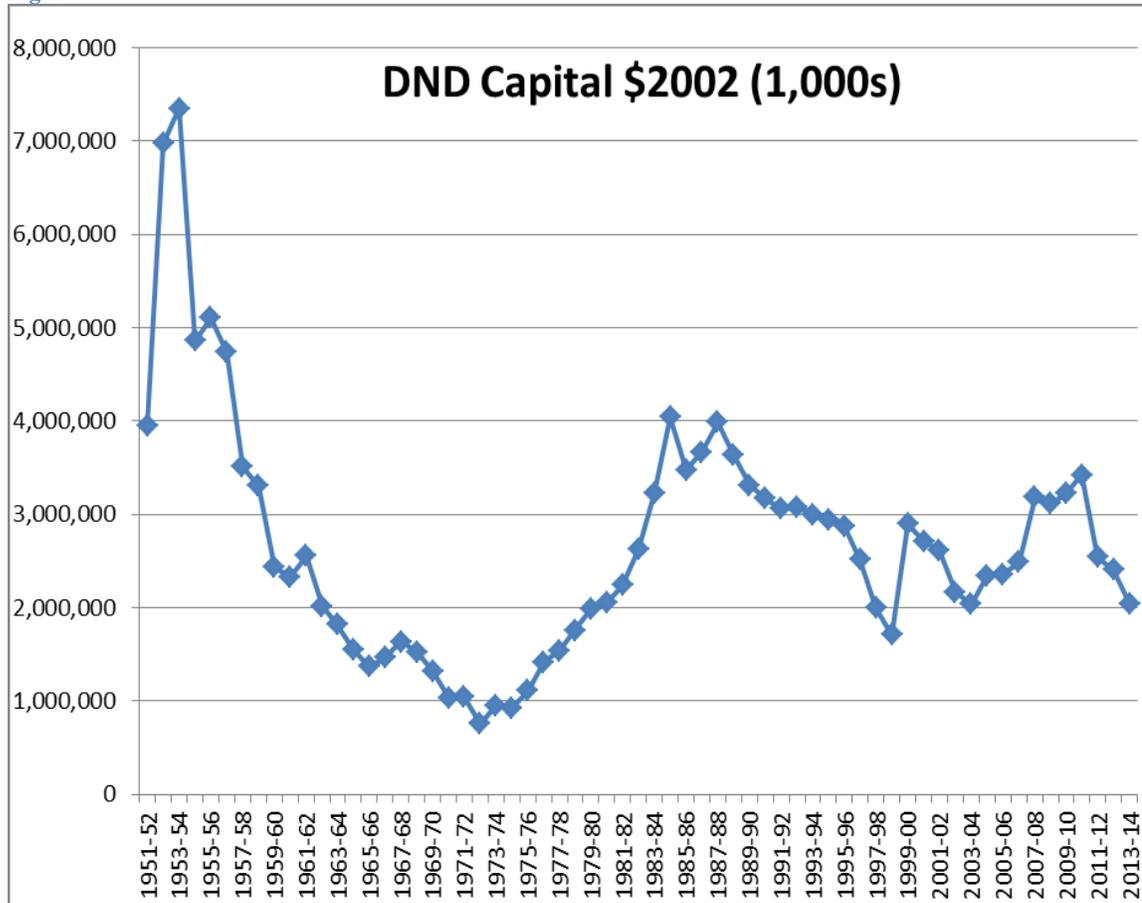
Figure 4



After 1989, the historical pattern of reduced defence expenditures leading to a reduction in Capital spending was repeated, as the Capital component was reduced from slightly more than 20 percent in 1995/1996 to less than 15 percent in 1998/1999. Over this time period, real Capital spending fell to a twenty year low point.

⁴⁸ Treddenick, *Distributing the Defence Budget*, 57-82.

Figure 5

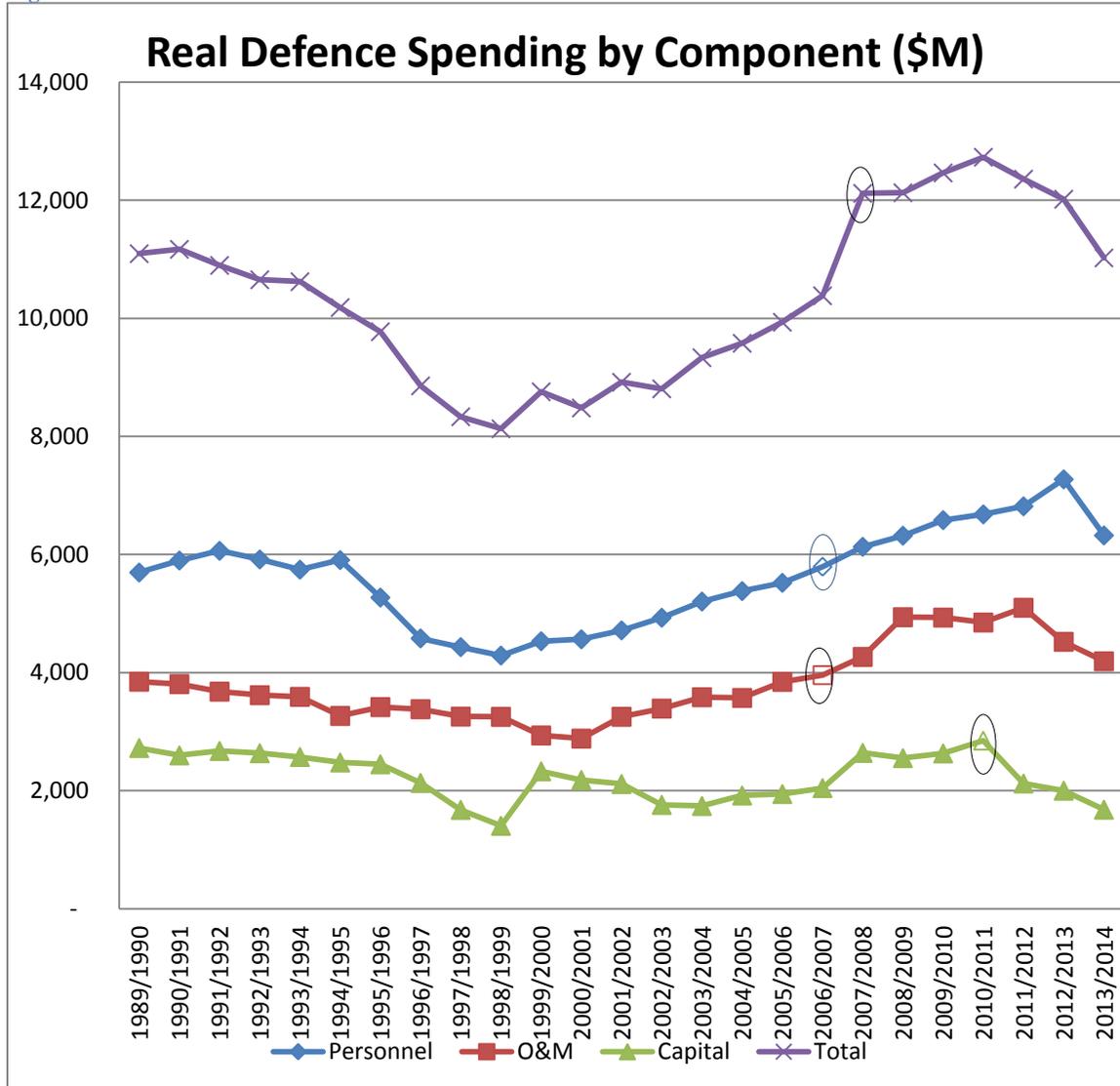


Furthermore, the percentage reductions to Capital were more significant than those to the other components of spending, and overall expenditures. Adjusted using DND's Economic Model for defence specific inflation, Figure 6 shows real defence spending by component between 1989/1990 and 2013/2014.⁴⁹ As it demonstrates, adjusting for inflation, Personnel and Operations and Maintenance expenditures dropped 25 percent

⁴⁹ Spending by component data is from the Public Accounts of Canada, Vol 2, Budgetary Expenditures by Standard Object. Total spending is from Public Accounts of Canada, Vol 2. and represents actual net spending. Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*. This data was deflated by the author using DND's Defence Specific Inflation index, which used the DND Economic Model. Defence expenditures are dissimilar to expenditures in either the broader economy, or consumer spending more generally. As a result, since 1973 DND has conducted its own analysis of defence specific inflationary trends, and compiled its own DSI index. A copy of this index dating back to 1986/1987 was made available to the author by a DND official. As it is the most appropriate deflator for defence spending, it is used where possible. However, since the copy available only extends to 1986, other indices were used for adjustments over longer time periods.

respectively after 1989, with total spending reducing by 27 percent. In contrast, the proportional reduction in Capital spending was almost twice as significant, as that component dropped by 48 percent.

Figure 6



Force Reductions

The pressure on DND to reduce its resources beginning in 1989 included specified targeted reductions in the numbers of military personnel. As noted at the outset of this

chapter, unlike other components of defence spending, the size of the military personnel establishment is controlled independently from the defence budget. The funding available for defence civil servants, Capital, and Operations and Maintenance is a function of overall defence expenditures. In contrast, the size of the uniformed military is managed according to a fixed number of PYs set by government. This creates both a ceiling and a floor for the size of the uniformed ranks. In addition to issuing defence policy and establishing the departmental budget level, adjusting the military establishment is thus one of the primary ways in which the government exerts management control over the military.⁵⁰

Altering the military establishment is also one of the major means of adjusting overall spending levels because it is the single largest category of defence spending. In combination, military and civilian compensation, of which the latter is a significantly smaller proportion, has historically represented nearly half of all defence spending. While the exact share has fluctuated significantly, Personnel has averaged 47 percent of DND since 1951/1952 (See Figure 4.)⁵¹ Because of this, significant reductions in Canadian defence spending have historically been accompanied by reductions in the military establishment, and the post-Cold War period followed this model. Expenditures on Personnel reflect both manpower levels and average rates of pay and allowances, however, so reductions or increases in actual manpower levels have not always been proportional to changes in the allocation of the defence budget to Personnel. Between 1964 and 1974, for example, the military received significant pay increases as a result of a 1964 decision to establish parity between the armed forces and public servants. This drove a proportional increase in the

⁵⁰ Vice Admiral (ret'd) Ron Buck, Interview with the Author, October 27, 2011.; Pennie, *Interview with the Author*

⁵¹ Stone, *The Public Management of Defence in Canada* and the Author's calculations.

share of the budget devoted to Personnel, even as the size of the military remained unchanged.⁵²

Beginning in 1991, the Canadian Government undertook a program designed to shrink the size of military.⁵³ That year, defence officials launched the Force Reduction Program, which took effect in 1992 and lasted until 1997.⁵⁴ Through this process, the Regular Forces dropped from 87,016 in 1989/1990 to 75,693 in 1993/1994.

In 1993, a comparable civilian equivalent program was initiated. After Paul Martin was named Finance Minister in the newly elected Chrétien government, the Minister of National Defence and the Treasury Board launched the civilian reduction program “in anticipation of substantial reductions in defence spending.”⁵⁵ The program was created to provide a special incentive program to induce DND civilians to leave the department in anticipation of a directed staff reduction that could not be achieved by normal attrition or reduced hiring alone. As it turned out, the 1994 Budget called for DND to cut its 33,513 strong civilian workforce by 8,400 positions.⁵⁶

Despite years of progressively increasing reductions to human resources, the *1994 Defence White Paper* was still notable for driving the staffing levels at DND and the CAF even lower, to 60,000 Regular Forces and 20,000 civilians by 1999.⁵⁷ The reduction to 60,000 troops became particularly problematic since it created a ceiling on the number of military positions that could not be exceeded. Because of a booming economy and weak recruiting, personnel strength actually dropped even lower than this ceiling. The Regular Forces shrank

⁵² Treddenick, *The Defence Budget*, 413-454.

⁵³ Lagassé and Robinson, *Revising Realism in the Canadian Defence Debate*.

⁵⁴ Canada. Department of National Defence. Chief Review Services, *Audit of Force Reduction Program* (Ottawa: 1997).

⁵⁵ Lee and Hobbs, *Pink Slips and Running Shoes*, 344.

⁵⁶ Canada. Department of National Defence, *Estimates 1994-1995: Part III*.

⁵⁷ Canada. Department of National Defence, *1994 Defence White Paper*.

as low as 58,852 positions in 2000/2001, while civilian personnel fell to a low of 19,246 positions (See Figure 7).

In comparison to the loss of defence purchasing power after 1989, of 27 percent, the reduction in defence human resources was substantially higher. The full time military shrank 32 percent and DND public servants 46 percent. The personnel reductions at DND also stood in sharp contrast to the overall reduction in the public service, which shrank from 225,619 to 195,000, a reduction of just 13 percent. Given the changed geostrategic situation, disproportionate reductions at DND were reasonable.⁵⁸ The fact remains, however, that DND incurred a much more serious loss of human resources, three times higher in percentage terms, than the rest of the federal government. As subsequent chapters demonstrate, the shortage of human resources created a strong incentive to increase the use of service contracts at DND. The degree to which the human resource reduction at DND exceeded that of the rest of the federal government may provide part of the explanation for the use of service contracts increased significantly in the mid-1990s while their use in the rest of the federal government remained relatively constant.

Resource Recovery

DND's finances began to recover in 1999. From that year until 2004, multiple budget initiatives increased DND's fiscal base by hundreds of millions of dollars annually. These efforts amplified in 2005 when Paul Martin's government pledged a \$12.8 billion increase over five years.⁵⁹ One year later, the newly elected Conservative Government built on that increase, adding another \$5.3 billion in multi-year funding. During this period,

⁵⁸ Lagassé and Robinson, *Revising Realism in the Canadian Defence Debate*.

⁵⁹ Canada. Department of Finance Canada, *The Budget Plan 2005* (Ottawa: 2005).

DND was also the recipient of a 1.5 percent annual increase to its budget, plus additional funding to offset the impact of negotiated wage increases.⁶⁰ With the *Canada First Defence Strategy* in 2008, the Government committed to increase the annual automatic escalation of the defence budget from 1.5 to 2 percent annually, beginning in 2011/2012.⁶¹

Just as the different components of DND's resources were cut unevenly after 1989, their constituent budgetary categories recovered unevenly as well. Figure 6 shows that by 2006/2007 both the Personnel and Operations and Maintenance components of defence expenditure had surpassed the effective purchasing power they held in 1989, with overall expenditures following the subsequent year in 2007/2008. In contrast, however, Capital spending did not return to 1989 levels of purchasing power until 2010/2011.

It is also notable how these recoveries lagged those in the wider federal government. The cuts at DND were more than twice as severe as those made to all other government operating budgets, and the other departments recovered their purchasing power much faster. The rest of federal government had been restored to its pre-Program Review fiscal position by 1999/2000. In contrast, Figure 6 shows that DND did not recover its 1993/1994 level of purchasing power until 2007/2008, seven years later.⁶²

The increase to Operations and Maintenance spending reflected in Figure 6 came as a result of two factors: additional funds for expeditionary operations and additional funds to improve overall operational sustainability. Funding for the former category included additional money "to improve National Defence's ability to participate in peacekeeping activities"⁶³ in the 2000 Budget, and "an additional \$210 million to fund Canada's

⁶⁰ Fetterly, *Budgeting within Defence*, 53-91.

⁶¹ Canada. Department of National Defence, *Canada First Defence Strategy*.

⁶² Fetterly, *Budgeting within Defence*, 53-91.

⁶³ Canada. Department of Finance Canada, *The Budget Plan 2000* (Ottawa: 2000), 72.

participation in the international military campaign against terrorism”⁶⁴ in 2001. After Canadian troops were deployed to Afghanistan, the 2003 and 2004 budgets pledged several hundred million dollars in support of those operations.⁶⁵ Beyond the funds provided directly to offset the costs of these operations, DND also received additional monies to improve the overall sustainability of the CAF.

After 1989, the Canadian military had experienced a much increased rate of expeditionary deployments, many at great distance from traditional supply lines. Because of this, and given the sustained high operational tempo of these missions, the Operations and Maintenance budget came under “intense and sustained pressure.”⁶⁶ At the same time, the average age of the DND’s equipment increased throughout this period, because reduced Capital expenditures had slowed the rate of capital replacement. Combined, these pressures created a sustainability gap by the early 2000s. To address this, the 2003 Budget provided a recurring \$800 million boost to the budget to “sustain Canada’s military in the coming years.”⁶⁷ This was added to substantially in the 2005 budget, which provided more than \$3 billion for this purpose, over five years. Combined, these two budget actions allowed DND’s Operations and Maintenance expenditures to return to their 1989 level of purchasing power by 2006/2007. As the next section demonstrates, Operations and Maintenance recovered before any of the other components of the defence budget.

⁶⁴ Canada. Department of Finance Canada, *The Budget Plan 2001* (Ottawa: 2001), 99.

⁶⁵ Canada. Department of Finance Canada, *The Budget Plan 2004* (Ottawa: 2004); Canada. Department of Finance Canada, *The Budget Plan 2003* (Ottawa: 2003).

⁶⁶ Fetterly, *Budgeting within Defence*, 60.

⁶⁷ Canada. Department of Finance Canada, *The Budget Plan 2003*.

Force Expansion

A significant impact of the Force Reduction program that continues to plague the CAF today was an altered demographic profile. Ideally, the military's demographic distribution would resemble a bell curve. Because of the Force Reduction program, however, a significantly higher than normal number of troops with less than ten years of service opted to accept early departure incentives and leave the military in the early 1990s. Afterwards, recruiting was significantly curtailed until the end of the 1990s. Consequently, by the early 2000s, the CAF had developed an abnormal demographic distribution featuring higher than normal numbers of troops with limited experience and a larger than normal cohort close to retirement. In an effort to mitigate the future impact of the looming wave of retirements, in the early 2000s, the CAF increased its recruiting efforts, which bolstered the ranks of the CAF by roughly 2,000 positions above the *1994 Defence White Paper* official ceiling of 60,000 positions. Notably, DND accomplished this without a commensurate funding increase, as it absorbed this staff increase within its funding baseline. As this step was taken to preclude a drop in end strength, rather than actually raise it, it did not constitute an increase in the troop ceiling.⁶⁸

During the 2004 federal election, the Liberal Party campaigned on a promise to increase the size of the military to “greatly enhance[e] Canada’s capacity for peace support.”⁶⁹ In the 2005 Budget Prime Minister Paul Martin provided the funding and policy direction to deliver on this promise. As a result, the budget provided for the Regular Forces to increase

⁶⁸ Fetterly, *Budgeting within Defence*, 59.

⁶⁹ Liberal Party of Canada, *Moving Canada Forward* (Ottawa: 2006), 48.

by 5,000 members and the Reserves by 3,000, beginning in 2005/2006.⁷⁰ Only a year later, this commitment was increased once again. In the 2006 election the Conservative Party pledged to build on the Liberal increase by recruiting an additional 13,000 Regular and 10,000 Reserve forces.⁷¹ This would have brought the increase to 75,000 Regular and 30,000 Reserves forces in total. This goal was reassessed for its affordability in 2007, however, and downgraded to an expansion to 68,000 regular and 26,000 reservists by 2010/2011.⁷² As Figure 7 shows, the targeted expansion of the Regular Forces was achieved on schedule. The *Canada First Defence Strategy* revised the long term planned growth, adjusting the commitment to a 70,000 strong Regular Force and 30,000 reservists by 2028.⁷³

Even the planned expansion to 70,000 personnel would see the Regular Forces recover only 37 percent of the full time positions the CAF lost since 1989. The actual expansion to 68,000, the limit for the foreseeable future, has limited the actual recovery to regaining only 29 percent of the positions lost. Thus, even if the CAF expands to 70,000 it will remain significantly smaller than it was in 1989.

It is also notable how the increase in Regular Force establishment was apportioned. As it occurred during the war in Afghanistan, the increase in forces was directed primarily towards the Canadian Army. The Defence Policy Statement specified that “the vast majority of this increase”⁷⁴ would accrue to the Army, increasing its ability to deploy on expeditionary operations, particularly in failed and failing states. Within this allocation, the extra troops were earmarked for combat positions. As the 2005 defence statement further specified, the additional soldiers would be directed to “increasing the “tooth-to-tail ratio”” of the Army,

⁷⁰ Canada. Department of Finance Canada, *The Budget Plan 2005*, 22.

⁷¹ Conservative Party of Canada, *Stand Up for Canada* (Ottawa: 2006).

⁷² Canada. National Defence, *Performance Report: For the Period ending March 31, 2007* (Ottawa: 2007).

⁷³ Canada. Department of National Defence, *Canada First Defence Strategy*.

⁷⁴ Canada, *Canada's International Policy Statement: Defence* (Ottawa: 2005), 3.

and not to bolstering “administrative overhead.”⁷⁵ Reporting on this increase after its first two years, DND confirmed that the force expansion had been directed towards the Army and its combat arms positions specifically. “In order to sustain Joint Task Force Afghanistan, the CF recruited in advance of future years for the army combat arms, especially the Infantry and Armoured occupations, and consequently these two occupations were responsible for a significant proportion of overall net growth.”⁷⁶ Thus, the expansion of the CAF to 68,000 was directed almost exclusively towards increasing the ranks of army combat troops.

Any increase to the ranks of other positions, particularly support positions, is still pending. The *Canada First Defence Strategy* specified that the increase from 68,000 to 70,000, which has yet to occur, would address these wider personnel pressures described in Chapter 7. The document stated that the addition of these 2,000 positions would “allow the military to strengthen key joint and enabling capabilities, including medical and *maintenance technicians*, surveillance, reconnaissance and intelligence specialist, and special operations forces.”⁷⁷

Although the number of troops and civil servants at DND remains well below their 1989 levels, the economic resources devoted to Personnel spending returned to their 1989 purchasing power in 2006/2007 as indicated in Figure 6. This is the result of two factors. First, after reaching a low point in 1999/2000, the number of fulltime defence civil servants increased steadily in each subsequent year, until peaking in 2009/2010. As noted earlier, since 1989 the number of public service positions have generally been limited only by the availability of Vote 1 funding, not a specified number of PYs. This likely accounts for the gradual growth over time in the size of the defence public service. The second factor leading

⁷⁵ Ibid.

⁷⁶ Canada. National Defence, *Performance Report: For the Period ending March 31, 2007*, 14.

⁷⁷ Canada. Department of National Defence, *Canada First Defence Strategy*, 15 (emphasis added).

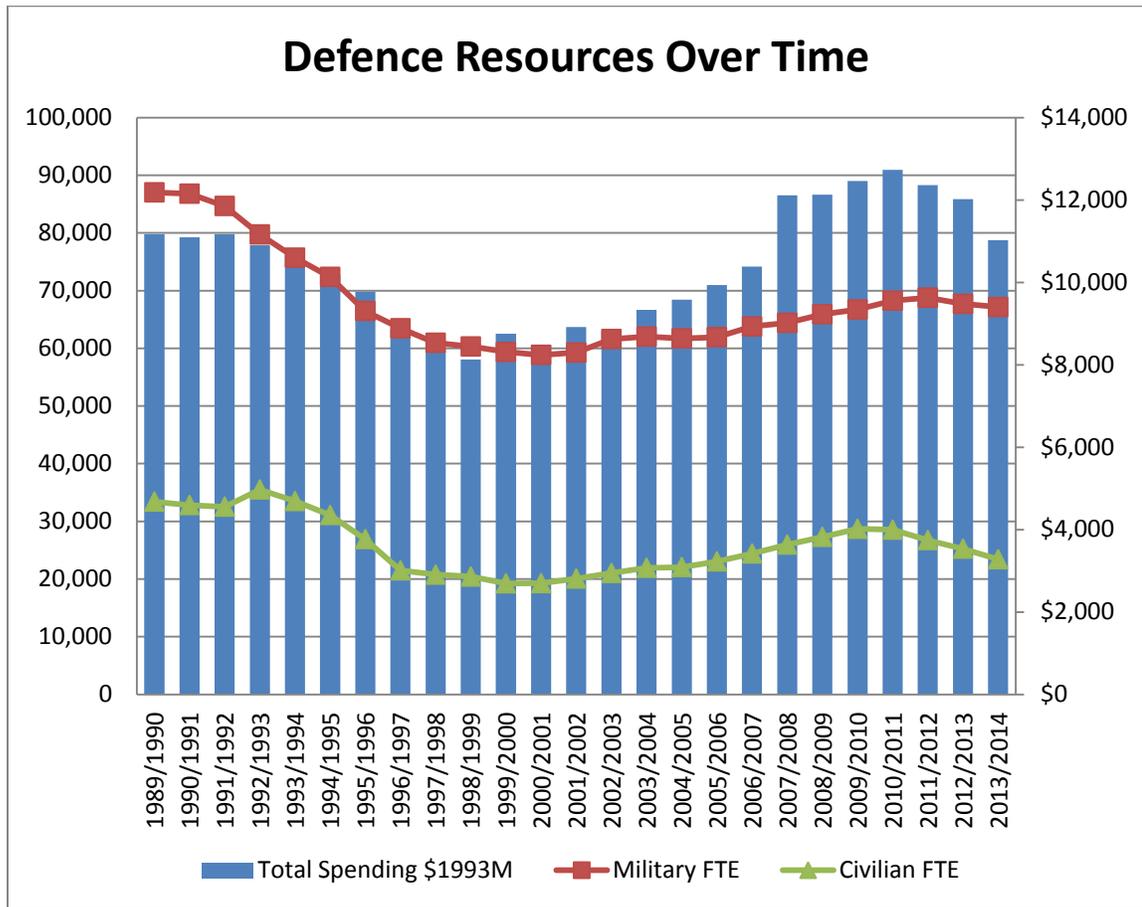
to a significant rise in Personnel funding, was a significant compensation increases implemented in the 1999 budget to “address compensation and benefit issues in the military.”⁷⁸ This increase was supplemented by additional funds in the 2000 Budget. Both measures came after a detailed inquiry into military quality of life by the House of Commons Standing Committee on National Defence and Veterans Affairs (SONDVA).⁷⁹ It was thus the expansion of the civil service and an increase in military compensation that led to the steady increase in spending on Personnel, returning that budget component to its 1989 level of purchasing power by 2006/2007, not an increase in the Regular Forces. By 2006/2007, while the budget share for Personnel had regained the level it held in 1989, the size of the full time military had only increased marginally.

In contrast, however, as Figure 7 shows, as of 2013/2014 the actual human resources of the DND and CAF, in terms of full time military and civilian personnel, remained well below 1989 levels. Even at the maximum strength obtained after 1999, which for defence civilians occurred in 2008/2009 and for the military in 2011/2012, the defence workforce remains much smaller. At those points in time, the ranks of full time troops peaked at only 79 percent of their 1989 strength. The number of full time civilians increased marginally more, returning to 85 percent of their past levels by 2010/2011. Subsequently, however, the number of civilians has dropped to only 70 percent of the 1989 workforce, as detailed in Chapter 8, while the number of full time soldiers has remained constant. As a result, DND has substantially less human resources, even after a decade of increases, than it did in 1989.

⁷⁸ Canada. Department of Finance Canada, *The Budget Plan 1999* (Ottawa: 1999), 70.

⁷⁹ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Moving Forward: A Strategic Plan for Quality of Life Improvements in the Canadian Forces*, 1st Sess., 36th Parliament, October, 1998.

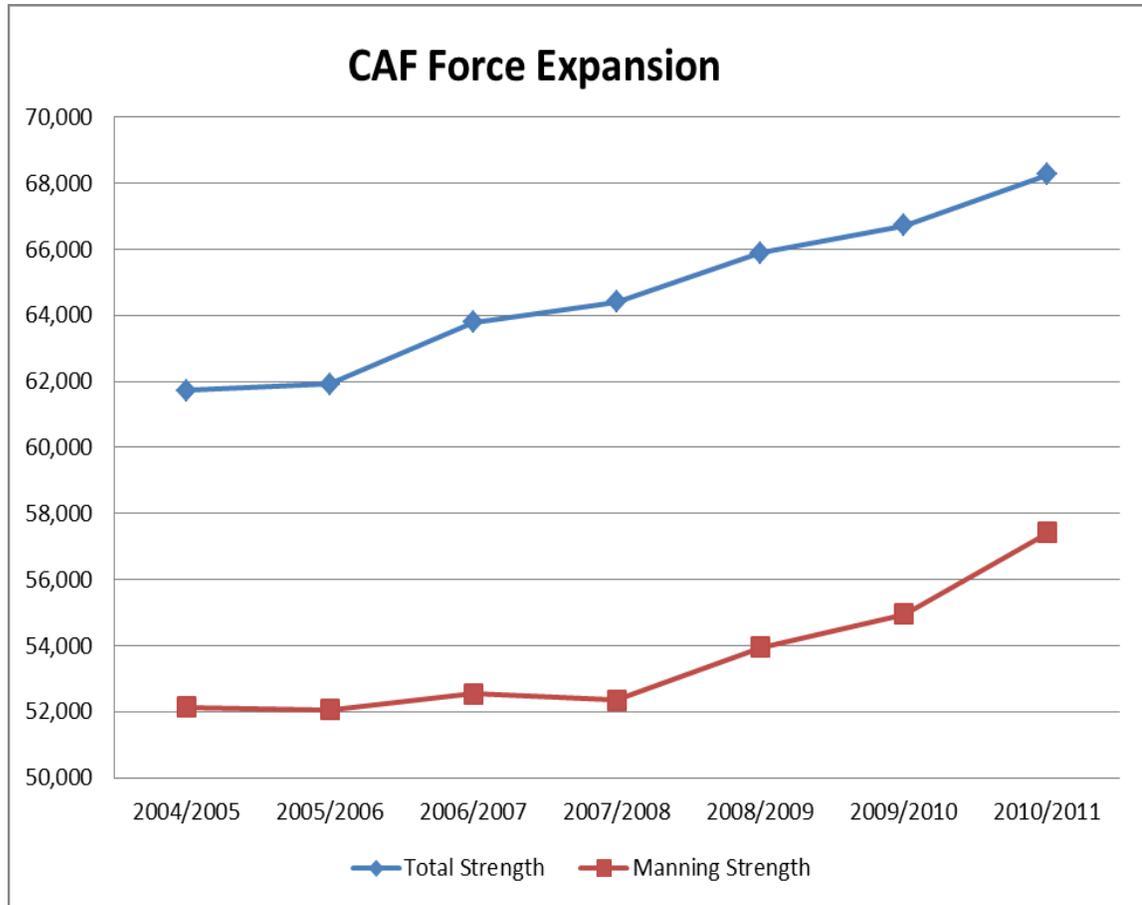
Figure 7



Furthermore, the increase in employable troops significantly lagged that of the Regular Forces as a whole. When military members are brought on strength they must complete basic and occupational specific training before they can be usefully employed. As Figure 8 shows, the increase in Manning Strength trailed approximately two years behind the increase in the aggregate size of the Regular Forces. From 2004/2005 when the force expansion was announced, it took two years for the Regular Forces to grow appreciably. In contrast it took *four years* for the military’s Manning Strength to increase meaningfully. It was therefore not until 2008/2009, almost two full decades after the 1989 cuts, that the

number of operationally employable Regular Force military personnel in Canada increased.⁸⁰ This means that a meaningful increase in military human resources did not occur until roughly 10 years after the defence budget started to recover from the decade of darkness, in 1999.

Figure 8



After 1989, DND lost both money and people, but the staff reductions were more significant, proportionally, than the financial reductions. Beginning in 1999/2000, DND began to recover financially, and the next year its civilian workforce began a gradual, decade-long increase. This was followed by an increase in full time military staff beginning in 2006/2007, but this increase was gradual and produced no meaningful results until

⁸⁰ Canada. Department of National Defence, *Departmental Performance Report 2010-11* (Ottawa: 2011).

2008/2009. As a result of this increase in its resources, by 2007/2008 DND had surpassed the level of purchasing power it held in 1989/1990. Despite this, as of 2014, DND still has 20 percent fewer full time staff overall and 26 percent fewer full time troops. Stated differently, over the last 25 years, DND has consistently had more financial, than human, resources.

Expeditionary Operating Costs and Funding

The forgoing demonstrates the ebbs and flows of what is generally referred to as the 'baseline' defence budget. In addition to the costs incurred as part of these planned activities DND also incurs additional costs for expeditionary operations, which are often unplanned. National Defence provides costing estimates for any operations known at the beginning of the fiscal year in its Reports on Plans and Priorities and reports on the costs actually incurred at the end of the fiscal year for all named operations in its Departmental Performance Report. In each case, this information is provided in a supplementary information table on the "Costs of International Operations" on the DND website.

DND estimates these additional costs in two distinct formats. Incremental DND Costs are the "additional costs for personnel and equipment that are directly attributable to the Canadian Armed Forces operation."⁸¹ These include the additional cost to deploy troops and equipment to a theatre of operations, additional maintenance and support, any specialized training required, compensation for Reserve Force members deployed on

⁸¹ Canada. National Defence and the Canadian Armed Forces. "Cost of Canadian Armed Forces (CAF) International Operations," accessed October 30, 2014, <http://www.forces.gc.ca/en/about-reports-pubs-departmental-performance/2014-section-iv-cost-cf-international-operations.page>.

operations and special pay and allowances for Regular Force members.⁸² In addition to these costs that are directly attributable to a mission, DND also tracks Full DND Costs, which includes all Incremental DND Costs plus any costs that would have been incurred had the Personnel and equipment used on the mission never deployed.

Of particular note is the different treatment of CAF Personnel and assets compared to contracted services. This is best illustrated by comparing alternate approaches to providing airlift. With respect to RCAF aircraft, only those hours flown in support of a mission that exceed the baseline funding allotment for the RCAF are considered Incremental DND Costs.⁸³ If the activity falls “within the Years Flying Rate, costs are absorbed by the squadron. While they are direct costs to DND, they are not directly reported as deployed operations costs.”⁸⁴ In comparison, any and all contracted services used for an operation are considered to be Incremental DND Costs, as they would not be incurred without the operational demand.⁸⁵ This holds true for the Operational Support Contractors discussed in Chapter 7.

Estimating the costs of operations is difficult because operational activities do not fall along neat functional lines or fit into convenient expenditure categories. Rather, they are dispersed across a number of organizations at DND that produce direct and indirect operational support in the form of Personnel, materiel, training, Capital and operational expenditures.⁸⁶ As a result, DND does not maintain a budget dedicated directly to offsetting the costs of operations.

⁸² Fetterly, *The Canadian Defence Peacekeeping Cost Estimate Process*, 28-32; Fetterly, *The Cost of Peacekeeping: Canada*, 46-53.

⁸³ Fetterly, *The Canadian Defence Peacekeeping Cost Estimate Process*, 30.

⁸⁴ Fetterly, *The Cost of Peacekeeping: Canada*, 50.

⁸⁵ *Ibid.*, 50.

⁸⁶ Lieutenant Colonel Ross Fetterly, "The Cost of Peacekeeping to the Defence Budget" Exercise New Horizons: CSC 30, (Toronto, 2004).

Rather, the funds needed to offset these costs can be sourced in one of two ways: from within DND's existing baseline appropriation or as incremental funding. The source of this funding is significant. If DND receives incremental funding, its operations are significantly less affected by the incremental cost of operations. If DND does not receive incremental funding, its DND Incremental Costs must be funded by providing internal offsets from within its planned expenditures, thereby affecting other priorities. When this happens, incremental costs of unforeseen operations, or changes to an existing operation, can significantly impact DND's financial planning. When the costs of operations are known in time for inclusion in the annual budget cycle, incremental funding is often included in the federal budget. As the preceding sections show, this was the case for operations in the First Persian Gulf War and for peacekeeping operations and operations in Afghanistan in the early 2000s. For unforeseen operations, these costs are submitted to the Treasury Board during the fiscal year through the Supplementary Estimates process for reimbursement.⁸⁷

DND has been one of the largest recipients of additional funding in the Supplementary Estimates and incremental funding for operations is one of the reasons for this. Historically, DND's baseline funding has been understood to be sufficient to accommodate some incremental operational activities. The understanding developed over time was that DND would absorb incremental costs of up to 1.25 percent of annual defence spending.⁸⁸ Just prior to the publication of the *Canada First Defence Strategy*, however, the understanding had evolved such that DND would incur costs of up to roughly \$100 million within its baseline funding, before seeking incremental funding.⁸⁹ The *Canada First Defence Strategy*, however, included a provision that DND would be provided with any required

⁸⁷ Ibid.

⁸⁸ Fetterly, *Budgeting within Defence*, 53-91.

⁸⁹ Rear Admiral (ret'd) Brynn Weadon, Telephone Interview with the Author, July 19, 2011.

funding for operations over and above its baseline budget. As the strategy specified, “in addition to this new formula, the Government is committed to separately fund incremental costs for major operations.”⁹⁰ According to the former Assistant Deputy Minister, Financial and Corporate Services, the senior financial officer in DND at the time, this commitment was powerful, since the prior arrangements had existed on informal understandings. The *Canada First Defence Strategy* commitment thus provided a higher level of planning certainty for DND, providing it with more assurance that it would receive additional funding for operations.⁹¹

The availability of incremental funding is highly significant for the operational contracts discussed in Chapter 7. As stated, all costs related to service contracts incurred in support of an expeditionary operation are considered incremental. Thus, if DND is able to secure incremental funding for its expeditionary operation, it can effectively be reimbursed for the costs incurred through service contracting. In comparison, only the activities and costs incurred by DND personnel in support of an operation that exceed their regular, baseline activities, such as added training and their deployment allowances, are considered Incremental DND Costs. Thus, even if DND receives 100 percent incremental funding for an operation this additional funding would only offset that additional portion of a soldier’s costs that were directly attributable to conducting an operation. The availability of incremental funding for expeditionary operations can therefore be used to fully offset the costs of services contracted for operations, but only partially offsets the costs of troops deployed on operations. As detailed in Chapter 7, this incremental funding dynamic has provided part of the rationale for using contractors on operations.

⁹⁰ Canada. Department of National Defence, *Canada First Defence Strategy*, 13.

⁹¹ Weadon, *Telephone Interview with the Author*.

Conclusion

This review of Canadian defence resource changes over time illuminates several important changes to the variables examined in the study between 1989/1990 and 2013/2014. First, it demonstrates that service contracting, the dependent variable, went through three periods of change between 1989/1990 and 2013/2014. From 1989/1990 until 1997/1998, service contract expenditures held relatively constant, decreasing very slightly across the eight year period by one percent, in real terms. Between 1998/1999 and 2011/2012, however, spending on service contracts increased significantly, rising at a rate of eight percent per year to increase by a total of 182 percent. Since 2011/2012, service contract expenditures have dropped by 10 percent.

Second, over this same time period, the size of the defence budget, the first independent variable, also changed across three, albeit different, periods. From 1989/1990 until 1998/1999 real defence expenditures declined progressively. Then, from 1999/2000 until 2010/2011, defence expenditures increased, after inflation. Finally, from 2011/2012 to 2013/2014 real defence expenditures have decreased.

Third, this chapter also demonstrated the changes to the internal budget allocation, the second independent variable. This variable is shaped by two factors: which budget category is the residual and the allocation constraints on Personnel. Regarding the first component, the residual budget category, this chapter demonstrated that historically, Capital has been the residual budget category. As Chapter 8 will demonstrate, after 2003 this has no longer been the case. In terms of the second component, constraints on Personnel, this chapter's analysis demonstrated that between 1989 and 1993, constraints on personnel were loose, and DND had the freedom to adjust Personnel numbers along with the other main budget categories as it made its budget reductions. After 1994, however, that dynamic

changed. The *1994 Defence White Paper* limited the Regular Forces to 60,000 positions. This effectively created a ceiling on the size of the military until an expansion was authorized in 2005. Between those two dates, Personnel were tightly constrained by this ceiling. After 2005, a force expansion was authorized, but the actual growth in the size of the armed forces was slow and lagged significantly growth in defence spending overall. Thus this period, from 2005 until 2010, is characterized as one with medium constraints on Personnel. Finally, after 2011, DND was unable to make any reductions to its Regular Forces as the government established 68,000 troops as the floor for the size of the military, creating another period of tight constraints on Personnel.

The analysis in this chapter furthermore indicates that since 1994, human resources at DND have been more constrained than financial resources. During the period of resource reductions, the relative reduction to the size of the military and defence civil service population exceeded the cut to defence spending by a considerable margin. Similarly, during the resource recovery at National Defence after 1999, the increase in defence spending has significantly exceeded the increase in human resources. By 2006/2007 DND had exceeded the budgetary purchasing power it had in 1989, effectively eliminating the impact of the financial reductions during the 1990s. As of 2014, however, DND has yet to recover from the human resource cuts in the 1990s and still has significantly fewer people than it did in 1989.

With this survey of the changes to DND's budget and its internal allocation, the remainder of this dissertation tests the hypothesis outlined in Chapter 1 against four case studies. In order to do so, the next chapter provides a brief overview of DND's use of service contracts historically. By doing so, Chapter 4 will help demonstrate how the changes

in the allocation of defence resources outlined in this chapter, helped shape the variation in service contracts described in Chapters 5 through 8.

Chapter 4: Historical Service Contracting

The literature on defence privatization in Canada portrays the use of contractors as a largely post-Cold War phenomenon. In reality, the private sector has always played some role in providing services to the Canadian military. Dating back to its creation just after Confederation, for instance, the Canadian militia was supplied by private armouries.¹ In the aftermath of the First World War, these same munitions makers came under fire for their supposed role in fomenting the outbreak of war.² Generally, though, the provision of services was primarily restricted to “materiel acquisition and related support.”³

The official record keeping using the Standard Object format in the Public Accounts of Canada begins in 1969 and shows a continual use of service contracts since that time. This data does not permit a meaningful comparison with services spending in other federal departments. The relevant tables include transfers to individuals and the provinces as part of the activities of the Federal Government, and there is no consistent way to examine direct program spending alone. Thus, Figure 9 uses the Fiscal Reference Tables, which provide a consistent measure of Direct Program Spending that facilitates a direct comparison between expenditures on services in National Defence and expenditures on services in the ‘Rest of Government.’⁴ Figure 9 shows that spending on service contracts was roughly comparable from 1989/1990 and 1998/1999. After that point in time, the share of spending devoted to services in the rest of government dropped to roughly six percent, while the share of service spending at DND increased to between 12 and 14 percent.

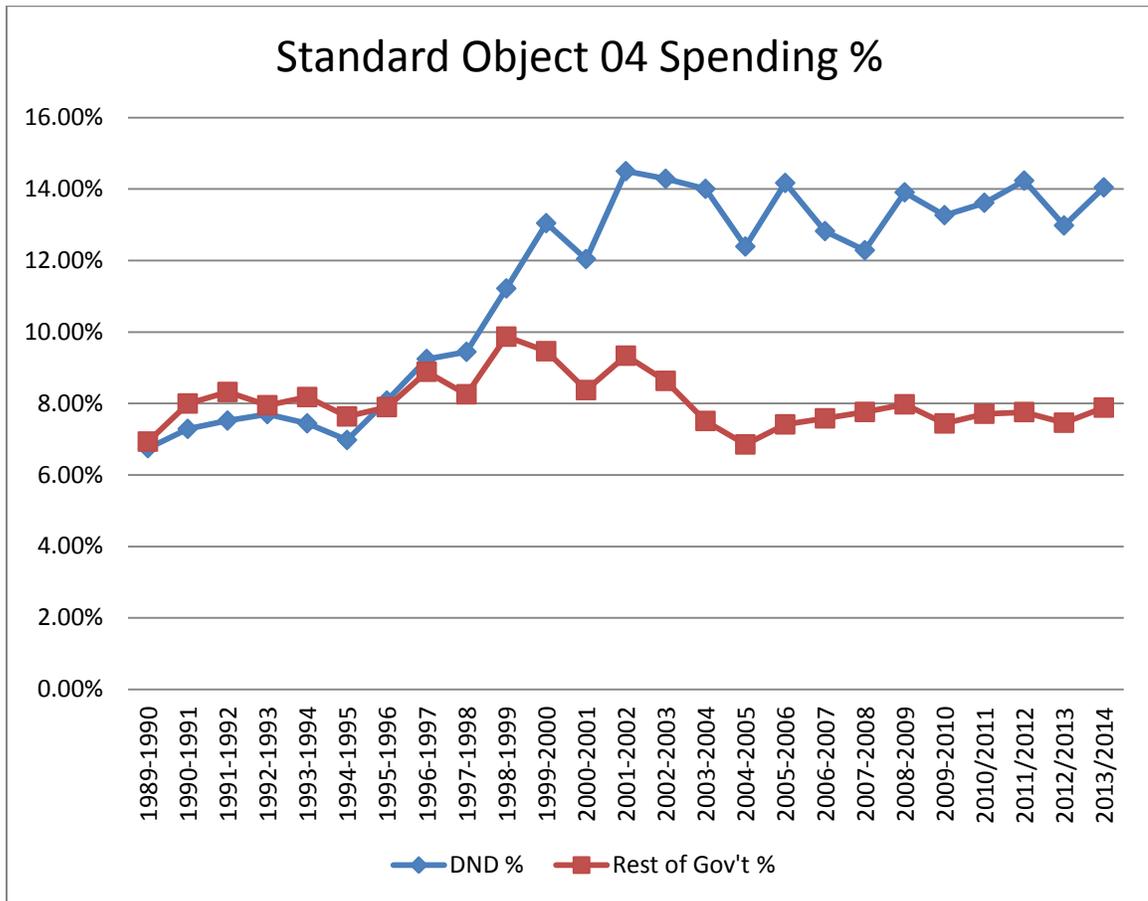
¹ Desmond Morton, *Understanding Canadian Defence* (Toronto: Penguin Canada, 2003).

² James Eayrs, *In Defence of Canada: From the Great War to the Great Depression* (USA: University of Toronto Press, 1964).

³ Spearin, *Not a "Real State"?* 1095.

⁴ Canada. Department of Finance Canada, *Fiscal References Tables - 2014*.

Figure 9



Maintenance, Repair and Overhaul

Of the various services performed via service contracts, the best documented are those for maintenance, repair, and overhaul of military equipment. According to the Auditor General of Canada, DND has “historically relied on the private sector to maintain and repair various components and systems of its military aircraft, ships and land vehicles, especially for third and fourth line activities.”⁵ To better understand this history requires first outlining the four ‘lines’ of equipment maintenance categorized by the Canadian military: first; second; third; and fourth. This delineation is a useful point of departure for

⁵ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment* (Ottawa: 2011), 17.

examining the transition to increasing degrees of contracted support, although it should be noted that the Army, RCN and RCAF each have unique understandings of this breakdown. First and second line maintenance provide simple and short-term preventative maintenance and minor repairs and have traditionally been carried out by a combination of military and civilian technicians on bases across Canada. These activities are the responsibility of the Army, RCN and RCAF. Third and fourth line maintenance consist of more complicated inspection, major repair or complete equipment overhauls. These latter two categories are more time intensive, and unlike first and second line maintenance, these activities are managed centrally by the Materiel Group. These efforts are led by the Assistant Deputy Minister, Materiel and supported by Directors General Air, Land and Maritime Equipment Program Management using a corporately controlled Operations and Maintenance fund known as the National Procurement budget. Historically, much of the third and fourth line maintenance has been carried out by DND or CAF personnel in depot level facilities, such as the Army's 202 Workshop Depot and the naval Fleet Maintenance Facilities (FMF). Additionally, a significant portion of this work has been performed by the private sector.

The extent and nature of industrial involvement varies considerably by military branch, however. This is in part an extension of the considerable variation in the specific ways that armies, navies and air forces carry out maintenance and repair for their equipment overall.⁶ This variation has extended to the respective services' approach to contracted ISS as well. While the RCAF and RCN have enjoyed extensive relationships with industry, the Army has historically performed the highest proportion of its maintenance 'in house.'⁷ As an example, in 2001/2002, the National Procurement budget provided the RCAF with \$460

⁶ Ibid.

⁷ Buck, *Interview with the Author*.

million for maintenance, of which at least \$342 million or 75 percent was contracted. In comparison, the RCN spent \$198 million, of which \$167 million or 84 percent was contracted. In contrast, the Army's share of National Procurement was only \$104 million, of which just \$50 million, or 47 percent, was contracted to the private sector.⁸ To better understand the changes to the CAF's support arrangements after 1994, the following section examines the historical relationship between each of the major branches of the CAF and privately provided maintenance, repair and overhaul.

Royal Canadian Air Force

The RCAF is unique in the Canadian military for having only ever conducted first and second line maintenance in house. For the RCAF, first line maintenance is largely preventative maintenance required for day to day flying operations that does not involve major disassembly. In contrast, second line maintenance involves more significant work performed in controlled conditions with access to specialized equipment, but which can still be performed at the tactical level.⁹ Drawing on the legacy of extensive fighter aircraft manufacturing in Canada during the Second World War, the RCAF has always had third line maintenance provided by industry. This level of maintenance involves major structural modifications such as the replacement or restoration of major parts, assemblies or components.¹⁰ The Government of Canada has never owned depot-level organizations capable of performing this type of work.¹¹ This fact appears to stem from the Canadian

⁸ Canada. Department of National Defence. Chief Review Services, *National Procurement* (Ottawa: 2003).

⁹ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*.

¹⁰ Ibid.

¹¹ Middlemiss, *Defence Procurement in Canada*, 391-412; Lieutenant General (Ret'd) George Macdonald, Interview with the Author, September 26, 2011.

Government's longstanding support for the domestic aerospace industry. During and after WWII the Canadian Government actively built and supported the aerospace industry in Canada. As part of this support "the RCAF was not allowed to provide depot level maintenance; this was reserved for Canadian Aerospace industries."¹² From the end of the Second World War until the end of the Cold War, the Canadian Government actively supported Canadian aerospace ISS firms by directing that the support of RCAF aircraft be provided in Canada by Canadian companies. As a result of this policy, aerospace has historically been one of the strongest sectors of the Canadian defence industrial base, and this has included several Canadian companies specializing in ISS.¹³

This support regime was facilitated by the Canadian Government acquiring the requisite Technical Data Package (data) and Intellectual Property for the aircraft. This data and Intellectual Property was obtained from either the United States Government or the OEM as part of the acquisition, and provided to Canadian support firms.¹⁴ Until the 1970s, Canadian industry built aircraft for the RCAF under licence from international aircraft manufacturers. By virtue of these arrangements, the Canadian firms acquired the engineering skills, data and Intellectual Property to provide ISS as part of the licensing agreement. From the 1970s onward, however, the shrinking size of procured aircraft fleets made licensing arrangements in order to build fleets in Canada cost prohibitive. As a result, the Government of Canada switched to procuring aircraft offshore. In doing so, however, it negotiated data and engineering arrangements into its aircraft acquisition contracts, which allowed Canadian companies to continue providing ISS without the assistance of foreign

¹² COGINT. *Approaches to In-service Support (ISS): Final Report to the Aerospace Review Secretariat* (Ottawa: Aerospace Review, 2012), 27.

¹³ Alastair D. Edgar and David G. Haglund, *The Canadian Defence Industry in the New Global Environment* (Montreal: McGill-Queen's University Press, 1995).

¹⁴ Peter Gartenburg, Interview with the Author, March 4, 2014.; COGINT, *Approaches to in-Service Support (ISS): Final Report to the Aerospace Review Secretariat*.

OEMs.¹⁵ This post-1970s arrangement became known as the “traditional approach” and saw Canadian maintenance firms paid for the time and materials needed to complete repairable item support, spares support and engineering services through multiple contracts for each aircraft.¹⁶ As military aircraft can have thousands of components, hundreds of contracts were sometimes required to support single fleets.¹⁷

The controversial awarding of a maintenance contract for the CF-18 fleet demonstrates this traditional approach. The CF-18 Hornet was selected as Canada’s New Fighter Aircraft in April 1980. The procurement strategy called for a contract for 137 planes to be delivered over an eight year period, during which time McDonnell Douglas, the manufacturer, was responsible for their maintenance. At the end of the warranty period, however, a twenty-year maintenance contract would be awarded to a Canadian firm. Since the aircraft’s maintenance involved multiple technologically advanced processes, split between the airframe, its engine and its avionics, no Canadian companies were capable of handling the task on their own. As such, three competing consortia formed to submit proposals. The one led by Canadair, Ltd. was comprised of three firms, while those of the Bristol Group and the IMP Aerospace Ltd. each had five primary partners. The bid was ultimately awarded to Quebec based Canadair, against the advice of DND procurement officials that Bristol’s bid was cheaper and technically superior, causing significant controversy.¹⁸ In announcing the contract, Treasury Board President Robert De Corbet, stated that Canadair was selected because they stood to benefit more from the technology

¹⁵ Ken Rowe, "In-Service Support of New Aircraft Fleets," *Frontline Defence*, January/February, 2007.

¹⁶ COGINT, *Approaches to in-Service Support (ISS): Final Report to the Aerospace Review Secretariat*.

¹⁷ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

¹⁸ Middlemiss, *Defence Procurement in Canada*, 391-412.

transfer that would accompany their award of the contract.¹⁹ The maintenance contract award was argued to have been an attempt by the federal government to make up for the selection of the CF-18, which had been perceived to be a less advantageous purchase for the Quebec based aerospace industry than the primary contender, the F-16. There was therefore a strong perception that the CF-18 deal was designed to “assuage Quebec by giving it the maintenance contract.”²⁰ As Chapter 6 demonstrates, concerns about the economic benefits of maintenance contracts are once again influencing arrangements for ISS.

Partly because of the perceived limitations of the NFA acquisition and unsatisfactory experiences with the procurement of a Long Range Patrol Aircraft and Tanks in delivering domestic industrial benefit, the Mulroney Government established the Nielsen Task Force on procurement and directed it to examine Canada’s Industrial and Regional Benefits policy. The report recommended a significant reform of that policy, including a recommendation that federal procurements “take into account the potential for Canadian industry to participate in the servicing of major equipment purchases during their operational life.”²¹ The Canadian government thereafter desired that life-cycle support contracts be established in Canada for Major Crown procurements.²² The 1987 Defence White Paper accordingly stated that “In acquiring equipment, the Government will pay greater attention to the long-term industrial implications. For example, the need for indigenous support and repair and overhaul capability for new equipment will be addressed from the beginning.”²³ Five years later in the 1992 Defence Policy Statement, this commitment was slightly modified. As the document stated, “There is a requirement, which is driven by considerations of security of

¹⁹ Leslie A. Pal, "The CF-18 Affair," in *The Real Worlds of Canadian Politics*, eds. Robert M. Campbell and Leslie A. Pal (Peterborough, Ont: Broadview Press, 1989), 19-52.

²⁰ Plamondon, *The Politics of Procurement*, 110.

²¹ Shelton and et al., *Management of Government: Procurement*, 222.

²² Plamondon, *The Politics of Procurement*.

²³ Canada. Department of National Defence, *Challenge and Commitment*, 75.

supply and the economy, *to maintain a degree of capability for equipment support within Canada.*”²⁴ By 1992, the commitment to domestic ISS appears to have softened somewhat, but still remained Government policy.

This policy appears to have influenced the proposed acquisition of a New Shipborne Aircraft. This project to acquire a helicopter for maritime and search and rescue roles intended to award a maintenance contract at the same time as the acquisition contract. The 1985 Request for Proposal for the project indicated that the government preferred “the establishment of domestic lifetime maintenance.”²⁵ The project’s termination by the Chrétien Government in 1993 prevented the realization of the contract, but IMP of Halifax had been expected to become responsible for logistics support. Thus, amongst the many outcomes of the Chrétien Government’s cancellation of the EH 101 purchase, was that it delayed for several years a contemporary discussion about the awarding of contracts for maintenance of RCAF aircraft acquired off-shore.

One of the reasons for this was that following the publication of the revised 1985 Industrial and Regional Benefits policy and the policy direction that ISS be performed in Canada, subsequent defence procurements, particularly for the RCAF, were sourced in Canada. Between 1982 and 1996, ten of sixteen planned Major Crown Procurements involved Canadian production or assembly of the platform.²⁶ Consequently, debate over the sourcing of ISS, and specifically whether it should be performed by the Canadian aerospace industry, was greatly reduced because many of the acquisition contracts were awarded domestically. The first purchase of this nature was that for the CC-150 Polaris in 1992 from Canadian Airlines. This contract was part of a broader Canadian Government intervention

²⁴ Canada. Department of National Defence, *Canadian Defence Policy*, 12 (emphasis added).

²⁵ Plamondon, *The Politics of Procurement*, 90.

²⁶ Fergusson, *In Search of a Strategy*, 107-137.

to save the company from bankruptcy, of which purchasing the aircraft from the firm was only one part.²⁷ As part of that arrangement, one of the company's subsidiaries, Aveos Fleet Performance assumed the responsibility for both second and third line maintenance of the aircraft in December 1992.²⁸ Placing both second and third line maintenance with a company was unusual at that time but reflected the type of aircraft being acquired. The CC-150 was a commercial Airbus A-310 that had previously been entirely maintained by Canadian Airlines. As such, the commercial support arrangements were transferred to the RCAF after its acquisition. This was a unique arrangement predicated on the entirely commercial nature of the aircraft, but it would mark the first step in a progressive evolution of increasing the support activities performed by the private sector.²⁹

Army

Unlike the RCAF, the majority of the Army's ISS has historically been conducted 'in-house' by Army technicians or by Materiel Group full time civilian and military employees at DND workshops. The army maintains the 202 Workshop Depot, originally created in 1942, as its third and fourth line maintenance facility. The organization is the repair center for over 2,000 army items, components and equipment, and is recognized as the "centre of excellence for life extension, projects, repair and refurbishment of equipment."³⁰ At the same time, however, the Army has traditionally relied on some degree of industry support

²⁷ Geoffrey Rowan, "Troubled PWA Finalizes Sale of A-310s to Ottawa \$150-m Illion Will Put Airline on Easier Ground," *The Globe and Mail*, August 26, 1992.

²⁸ Canada. Department of National Defence, Email News Release: Air Canada Wins Airbus Support Contract, provided to the author by Sharon Hobson, August 15, 2002.

²⁹ Canada. Department of National Defence and the Canadian Forces. "Government Awards One-Year Contract for Maintenance of Canadian Forces' Airbus Fleet," accessed October 20, 2014, <http://www.forces.gc.ca/en/news/article.page?doc=government-awards-one-year-contract-for-maintenance-of-canadian-forces-airbus-fleet/hgq87xu6>.

³⁰ Sophie J. Tremblay, "202 Workshop Depot," *EME Journal*, no. 1 (2011): 15.

for third and fourth line maintenance. In general, this was oriented towards having commercial suppliers perform work on sophisticated components there were held in low numbers. Given the need to maximize training time for Army technicians on a diverse vehicle fleet, the Army would concentrate its training efforts on those vehicles in the greatest supply, such as its armoured personnel carriers. Thus assistance would be sought from industry for some of the less common weapons systems.³¹ Furthermore, commercial support was generally sought for equipment that was essentially non-military in nature. This included heavy construction equipment acquired for the army engineers and commercial grade pick-up trucks operated by the Army reserves.³² Beyond this, the Army also historically sought support from OEM's when the scope of required changes exceeded the in-house capabilities in the Army's support battalions or the 202 Workshop. For instance, extensive repair work on the Army's Centurion tanks deployed to Canadian Forces Base Lahr in Germany was provided in Holland with the assistance of their OEM.³³

Before the significant budget and end-strength reductions to the CAF in the 1990s, the Army attempted to retain as many support functions as it could in-house. This was driven by two factors. The first was a professional concern over having to rely on industry support. At that point in time, commercial support options were not believed to have demonstrated an ability to provide reliable support on operations.³⁴ According to a former Director General, Land Equipment Program Maintenance, the Army simply trusted contractors' ability to provide support less than the RCN and RCAF did.³⁵ This lack of trust was influential because the second consideration in the Army's desire to retain support in-

³¹ Brigadier General (ret'd) Camil Giguere, Interview with the Author, August 11, 2014.

³² Colonel (ret'd) Tom Temple, Interview with the Author, August 18, 2014.

³³ Brigadier General (ret'd) Bill Brewer, Interview with the Author, August 28, 2014.

³⁴ Giguere, *Interview with the Author*.

³⁵ Brewer, *Interview with the Author*.

house was its unique operational environment and support concepts. Land operations have historically required that support be provided in close proximity to an enemy; consequently all Army supporters needed to be capable of protecting themselves and engaging in combat.³⁶ Cold War Army support doctrine was accordingly premised on the Army maintaining a self-sufficient support capability and deploying the full scope of third and fourth line support to the battlefield in an operational context. In practice, even during the Cold War, retaining this support concept had proven challenging as the Army never retained a completely independent ability to fully support itself independently. Only the brigade stationed in Lahr had come close to fully supporting itself during the Cold War. And even this support had gaps and came at the expense of the brigades in Canada that were left with a lesser degree of support as resources were prioritized to supporting the units in Germany.³⁷ Yet despite these limitations, the Army was still resolved to retain as much support as it could in-house and was wary of contractor support.³⁸

Royal Canadian Navy

The RCN's approach falls somewhere between that of the Army and RCAF. It has traditionally relied extensively on industry support for ship repair and overhaul, yet it has also maintained its own depot-level overhaul facilities. Thus, naval ISS in Canada has been provided by a combination of industry and in-house support depending upon the type of maintenance and vessel in question and location of the ships. In naval terms, the different types of maintenance are disaggregated into three categories, denoting both the organization that performs the maintenance and its character. Basic maintenance, or first line, is

³⁶ Temple, *Interview with the Author*.

³⁷ Giguere, *Interview with the Author*.

³⁸ Brewer, *Interview with the Author*.

performed by the ship's crew itself. Maintenance beyond a ship's immediate capacity, second line, is conducted at a depot level facility. Since the 1990s, this has been provided by the FMFs on both coasts. Finally, third line maintenance requires resources from the Materiel Group, and is largely corrective or preventative in nature, and is either contracted out to industry, or performed in the FMF.³⁹ The RCN is unique amongst the CAF's services in that a significant portion of its commercial maintenance arrangements must be performed by Canadian companies under explicit Government of Canada policy. While the Government had previously articulated a desire to have ISS in general performed in Canada, the policy in the shipbuilding sector is much more explicit. In 1986, the Mulroney government rationalized the Canadian shipbuilding industry and removed government subsidies from the shipbuilding sector. At the same time, the government mandated that "federal government fleets were to be constructed, converted, refitted and repaired in Canada."⁴⁰ While there are exceptions to this policy, normally for sophisticated platform and missions systems, the remaining repair work must be conducted in Canadian shipyards. As a result of this policy, in 2009 \$500 million of the RCN's overall \$620 million annual cost of repair and overhaul was estimated to have been spent in Canada.⁴¹

During the Second World War Canada developed a significant repair and maintenance capability in support of the allied fleets and transatlantic convoys. Although this involved some commercial support, this primarily occurred in Government dockyards, as the civilian shipyards were mostly consumed with wartime shipbuilding and had little

³⁹ LCdr Derek Sims, "A Support Option for the Victoria Class" Paper Prepared for JCSP: Exercise New Horizons, (Toronto, 2004).

⁴⁰ Vice Admiral (ret'd) Peter Cairns, "Shipbuilding and Industrial Preparedness," *Canadian Naval Review* 2, no. 3 (2006): 17.

⁴¹ CADSI Marine Industries Working Group. *Sovereignty, Security and Prosperity* (Ottawa: CADSI, 2009).

additional capacity to devote to repairs.⁴² In the immediate post-WWII time period, Canadian naval maintenance concentrated on time-based repairing of mechanical defects in the primarily destroyer based post-war fleet. This relied on annual docking periods and biannual ship refits in the naval dockyards of the ‘Cadillacs’ the 20 ships in the *St. Laurent*, *Restigouche*, *Mackenzie* and *Annapolis* classes.⁴³ Although the RCN always performed some of this work, there was a general proviso that third line maintenance was largely reserved for commercial shipyards.⁴⁴ This was particularly the case for the Auxiliary Oiler Replenishment fleet, as these vessels were too large to be refitted in naval facilities. The extent to which support for the Cadillacs was conducted in house, varied between the east and west coast. On the west coast, refits were normally performed in the naval dockyards into the 1980s. The east coast naval fleet utilized commercial repair facilities to a much greater degree, however. This was the result of three factors. First, there were limits on the dockyard infrastructure in Halifax. Second, there were higher maintenance demands on the east coast due to the fact that two thirds of the fleet was stationed in Halifax as part of the RCN’s Cold War fleet posture.⁴⁵ Finally, there were fewer commercial shipyards in British Columbia available to perform maintenance for the RCN.⁴⁶

Maintenance in Historical Perspective

As the proceeding sections detail, while discussions about providing private sector maintenance in the PMSC literature refer to what is supposedly a relatively new phenomena

⁴² J. H. W. Knox, "An Engineers Outline of RCN History: Part 1," in *The RCN in Retrospect, 1910-1968*, ed. James A. Boutilier (Vancouver: University of British Columbia Press, 1982), 96-115.

⁴³ Doug Thomas, "Significant Canadian Warships," *Canadian Naval Review* 6, no. 1 (2010): 41-47.

⁴⁴ Commodore (ret'd) Jim Sylvester, Interview with the Author, August 21, 2014.

⁴⁵ Rear Admiral (ret'd) Richard Greenwood, Telephone Interview with the Author, August 5, 2014.

⁴⁶ Sylvester, *Interview with the Author*.

brought about by the Revolution in Military Affairs this is not the case. The Canadian military has historically always received some degree of contracted maintenance support. While this has varied between the military services, for the RCAF, private sector third line maintenance has always been the norm, with varying degrees of support provided to the Army and RCN. Alan Williams, former Assistant Deputy Minister, Materiel (the head of DND's procurement and equipment ISS organization) emphasised the historical nature of this relationship with industry in testimony before SCONDVA in 2002. Responding to a question about increased involvement with industry for ISS, he stated:

A lot of our very sensitive weapons systems today – the material, the parts—is in the hands of the private sector today, as it will be tomorrow. This isn't some huge revolution with everything within the military and the department's accountability going to the private sector. To the contrary.⁴⁷

Outside of the ISS for equipment, the private sector has also continually provided some services to support the Canadian defence establishment. At various points in time over the last several decades Government commissioned administrative studies have recommended that the share of services provided by the private sector be increased.

The Glassco Commission

Inspired by the Hoover Commission on the organization of the American executive branch, the Diefenbaker government created the Glassco Commission to reexamine the role of Government in Canada. As part of its review, the Glassco commission borrowed from the Hoover Commission a focus on adopting private sector practices. Amongst its multiple

⁴⁷ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 37th Parliament, Meeting No. 61, June 13, 2002.

reports, Number 10, on the “Make or Buy Problem,” presents the first official Canadian discussion of public service privatization. Although the Commission was charged with finding administrative efficiencies, it did not measure these in terms of financial savings alone. A more useful metric for assessing Government efficiency, according to the commissioners, was its size. In the study on the “Make or Buy Problem,” the largely business dominated Commission, argued that “a way to control the size of government is by contracting out, wherever possible, selected peripheral activities.”⁴⁸ The commissioners recommended that when decisions to devote resources to peripheral activities were brought forward in government, they be examined to determine whether they could be better provided by the private sector.

This practice was envisaged to be of particular relevance for DND. With respect to the military, the commissioners suggested that the allocation of military personnel billets, rather than defence department financial savings, be the primary motive for turning to private sector service provision. According to the Commission, “the numbers of personnel in the Department of National Defence, both uniformed and civilian, employed in supporting services or secondary activities are quite substantial. The greater the involvement of uniformed personnel in these activities, the less strength is available for other tasks which only the military can perform.”⁴⁹ Accordingly, the Glassco Commission recommended that the provision of services such as dry cleaning, laundry, photography, and mapping operations be reviewed “in order to contract a greater proportion to private industry.”⁵⁰ There is little evidence that this recommendation led to an increased role for the private sector in defence in the short or medium term. But, this first discussion in the public record

⁴⁸ Canada, *The Royal Commission on Government Organization*, 322.

⁴⁹ *Ibid.*, 353.

⁵⁰ *Ibid.*, 358.

of increasing the involvement of the private sector in the provision of defence services outlined a compelling rationale for increasing the use of contracted services that would resonate over time. Providing for an optimal allocation of uniformed military positions, rather than simply cost efficiencies, was the primary rationale articulated by Glassco for suggesting an increase in the use of privately provided services. This argument would find a receptive audience in DND during the 1990s.

The Mulroney Government

While the notion of increasing the private provision of public services was first mentioned in the early sixties, increasing the extent of privatization would not reappear as a major theme in public policy for another two decades. The issue reappeared under the Mulroney government, in part due to the influence of the Grace Commission launched by the Reagan administration which had recommended a number of reforms to reduce and change the role of government in the United States.⁵¹

The Mulroney government itself claimed that their agenda for reducing the scope of state intervention in Canada's economy and society represented a fundamental break with the past.⁵² This included an intent to create a smaller state, and also one that was more directed towards serving the needs of the private market. The Mulroney government was, in sum, driven by a desire to "reduce the role of government in Canadian society."⁵³ As a result, several measures were undertaken to implement aspects of new public management

⁵¹ V. Seymour Wilson, "What Legacy?" in *How Ottawa Spends 1988-89*, ed. Katherine A. Graham (Ottawa: Carleton University Press, 1988), 23-47.

⁵² Michael J. Prince, "The Mulroney Agenda," in *How Ottawa Spends 1986-87*, ed. Michael J. Prince (Ottawa: School of Public Administration, Carleton University, 1986), 11-60.

⁵³ Wilson, *What Legacy?* 28.

including: reductions in the size of the public service; centralization of control within the central agencies and the Prime Minister's Office; and various attempts to instill private sector practices into the public services.⁵⁴ Beyond this, the administration sought to dismantle the National Energy Program, pursue free trade with the United States and privatize several Crown corporations.⁵⁵

Despite pursuing measures similar to those undertaken in the United States and United Kingdom, Mulroney's agenda was less ideological than Thatcher or Reagan's. It also lacked a concrete plan for implementation.⁵⁶ Due to these factors, there was less action on actually enacting a neoliberal reform agenda during the Mulroney administration than commonly portrayed. With respect to the privatization of Crown Corporations, for instance, despite placing significant energy into the initiative by appointing a Ministerial Task Force supported by a secretariat, the results fell below some expectations. As a result, three years into their 1984 mandate, the "slow and deliberate approach" to change in this area led to characterizations of the effort as "a reshuffling of the instruments of state intervention," rather than an "ideological attack on public enterprise."⁵⁷

Mulroney's ultimate failure to adopt new practices was not for lack of an initial effort. The Neilsen Task Force, chaired by Deputy Prime Minister Erik Neilsen, was established immediately after the Mulroney government's assumption of power, with the intent of thoroughly reviewing existing government programs and their delivery. Amidst a myriad of recommendations, many members of the Task Force, comprised of private sector leaders, argued that their most important recommendation was for the government to adopt

⁵⁴ David Detomasi, "The New Public Management and Defense Departments: The Case of Canada," *Defense & Security Analysis* 18, no. 1 (2002): 51.

⁵⁵ Prince, *The Mulroney Agenda*, 11-60.

⁵⁶ Detomasi, *The New Public Management and Defense Departments: The Case of Canada*, 51; Aucoin, *The New Public Management*; Savoie, *Thatcher, Reagan, Mulroney*.

⁵⁷ Bruce G. Doern and John Atherton, "The Tories and the Crowns," in *How Ottawa Spends 1987-1988*, ed. Michael J. Prince (Ottawa: School of Public Administration, Carleton University, 1987), 164.

a comprehensive “Make-or-Buy” policy. Echoing the terminology used in the Glassco Commission, this amounted to a recommendation to review government provided services with a view to opening some, specifically building maintenance, inspection services and equipment repair and maintenance, up to private sector companies.⁵⁸ Citing American contracting out policies, the study estimated that 15 percent savings could be found in Canada, resulting in \$200 million in savings to the Canadian government.⁵⁹ According to some members of the Neilsen Task Force’s private sector advisory committee, this recommendation was the single most important recommendation of the review.⁶⁰

As a result, a ‘Make or Buy’ policy was approved in July 1986 aimed at determining the most cost efficient means of delivering government services, including contracting out. Rather than mandating participation, however, the Treasury Board’s implementation of the Make-or-Buy policy invited departments to participate in pilot projects on a voluntary basis.⁶¹ Although the study phase identified potential savings ranging between 12 and 20 percent, line departments were provided with no incentives to actually undertake service competitions, nor were they mandated to provide justification for the retention of services in-house, as was the case in Great Britain and the United States where such initiatives were more successfully adopted.⁶² This was symptomatic of the overall application of new public management in Canada, whereby “the federal bureaucracy was essentially left on its own to improve public management.”⁶³

A number of factors are argued to have contributed to the Neilsen Report having a limited impact on government operations as a whole. Line departments felt that the task

⁵⁸ Shelton and et al., *Management of Government: Procurement*.

⁵⁹ Savoie, *The Politics of Public Spending in Canada*, 136.

⁶⁰ Savoie, *Thatcher, Reagan, Mulroney*.

⁶¹ Savoie, *The Politics of Public Spending in Canada*.

⁶² Savoie, *Thatcher, Reagan, Mulroney*.

⁶³ Aucoin, *The New Public Management*, 129.

force's composition was unduly targeted towards them. The task force was also argued to have taken too long to complete its work, allowing opposition to its recommendations to solidify. Neilsen himself was dropped from cabinet three months after the reports were tabled, so the process lost its champion in government almost immediately after the results were presented.⁶⁴ As a result, "despite efforts by the study team to promote its recommendations, there was insufficient political commitment to support a comprehensive policy in favour of contracting out."⁶⁵ This, combined with substantial opposition from public sector unions and poorly handled communication of the process which resulted in early controversy, combined to ensure that little process was realized with its implementation, beyond the study phase.⁶⁶ Finally, given the breadth of issues under examination, there was a sense that the Government had simply taken on more reforms than it could actually implement.⁶⁷

Furthermore, Savoie attributes the failure of the Neilsen Task Force to the same types of bureaucratic forces that undermined past efforts at public administration reforms.⁶⁸ The size of departmental budgets and the resources controlled by senior bureaucrats are viewed as key measures of success in the federal bureaucracy. Additionally, the size of the workforce senior managers supervise is a key determinant of managerial classification and thus compensation levels. Together, this means senior managers generally had few incentives to implement restraint agendas, and this was the case in this instance.⁶⁹ Savoie contends that a key lesson from the process under Mulroney was that "the only incentive ... for managers to look at the make-or-buy option is when they are asked to absorb across-the-

⁶⁴ Savoie, *Thatcher, Reagan, Mulroney*.

⁶⁵ Paul G. Thomas, "Contracting Out," in *Managing Strategic Change*, eds. Peter Aucoin and Donald J. Savoie (Ottawa: Canadian Centre for Management Development, 1998), 182.

⁶⁶ Savoie, *The Politics of Public Spending in Canada*.

⁶⁷ Prince, *The Mulroney Agenda*, 11-60.

⁶⁸ Savoie, *Thatcher, Reagan, Mulroney*.

⁶⁹ Savoie, *Whatever Happened to the Music Teacher?*

board spending cuts.”⁷⁰ Absent the pressure of a significant budget reduction, bureaucrats can push off attempts at reforms, and the lack of across the board spending cuts precluded a successful implementation of the Make or Buy policy and the bulk of Neilsen’s other recommendations. As a result, the Task Force’s impact was relatively minimal.⁷¹

Conclusion

As this chapter indicates, the Canadian military has historically maintained a relationship with industry for service contracts related to maintenance, repair and overhaul of military equipment. These arrangements varied between the Army, RCAF and RCN, with the former relying on industry the least, the RCAF the most and the RCN falling in between. Of note for the discussion in Chapter 6, historically Canada has specified that some contracted maintenance, repair and overhaul must occur in Canada. ‘Repair in Canada’ policy provisions have existed historically for both ships and aircraft and this historical legacy influenced subsequent changes to these arrangements after 1994.

There were two notable efforts undertaken historically to change the amount of service contracting performed by DND. The first was the Glassco Commission and the second the Neilsen Task Force. With respect to the former, it outlined a key rationale for increasing the use of service contracts, namely to enable an optimal allocation of military positions, that would prove compelling after 1994. No evidence was found to indicate that the Glassco Commission itself was influential in changing the extent of service contracting use by DND, however.

⁷⁰ Savoie, *Thatcher, Reagan, Mulroney*, 157.

⁷¹ Gilles Paquet and Robert Shepherd, "The Program Review Process," in *How Ottawa Spends 1996-97* (Ottawa: Carleton University Press, 1996), 39-72.

The Neilsen Task Force also recommended an increase in the use of service contracts, but this gained little traction with the Mulroney government, and was essentially dropped in 1990.⁷² At that point in time, there was “no reliable breakdown on the extent of contracting out.”⁷³ Thus, it is not evident that it led to meaningful change. As Chapter 3 indicated, in constant dollars, the use of service contracts remained essentially unchanged between 1989/1990 and 1997/1998.

While neither of these reports effected change, the analysis of each foreshadowed the conditions that would cause it after 1994. Within a few years of the Neilsen Task Force’s completion, the across-the-board spending cuts Savoie contends would have been needed to realize change under the Mulroney Government, were present in Ottawa. As the following analysis shows, this produced a very significant change in DND’s relationship with the private sector. While the significant budget reductions precipitated this shift to increased service contracting, the appeal of doing so was rooted in the logic espoused by the Glassco Commission. By contracting for services, DND could achieve an optimal allocation of its military positions. As the next two chapters describe, these dynamics led to a significant change in DND’s relationship with the private sector.

⁷² Savoie, *Thatcher, Reagan, Mulroney*.

⁷³ Swimmer and Kinaschuk, *Staff Relations Under the Conservative Government*, 273.

Chapter 5: Alternate Service Delivery

This chapter examines the ASD program at DND that began in 1995. The literature asserts that this case marked a seminal milestone in the evolution of DND's approach to service contracting, as it represented a tipping point in the increased use of service contracts post-Cold War. As this chapter details, however, ASD must be understood in the context of two wider changes. First, the ASD program was one component of a Government of Canada wide initiative to cope with the financial reductions that began in 1989 and increased under the Chrétien Government. In this context ASD was oriented towards improving efficiency and saving money, but doing so by contracting for services with the private sector was only one option amongst many for achieving this. Second, although it was part of this government wide context, at DND this program was merely one amongst a number of change initiatives implemented in an attempt to cope with the financial and human resources reductions outlined in Chapter 3. The common theme amongst these changes was a desire to increase the military's tooth-to-tail ratio, thereby maximizing the allocation of increasingly scarce resources towards combat capabilities. These efforts were comprised of two components. The first was finding efficiencies that could help generate additional Capital expenditures. The second was diverting as much of the reduced level of human and financial resources as possible towards operational capability. For DND, these motives were the primary drivers behind the organization's embrace of ASD. At defence, ASD was not simply designed to save money; rather it provided a means to the end of operational capabilities. Furthermore, ASD also enabled the DND to successfully achieve other objectives, including recapitalizing the RCAF training fleet and keeping Canadian Forces Base Goose Bay operational.

As this chapter details, ASD did not remain a priority at DND for long. Although the program did, in fact, facilitate financial savings and the reallocation of resources, it did so only with significant effort and great controversy. The process to implement ASD was lengthy, involving extensive inter and intra-departmental coordination. This was particularly the case after some early initiatives proved controversial after the unions representing DND workers and in turn Members of Parliament, resisted the initiative. Interestingly, while ASD is associated with a neoliberal ethos, at DND it proved less attractive than originally believed because in practice, the Government of Canada's human resource policies effectively prohibited the application of neoliberal principles. Instead, they imposed public sector employment practices on private sector bidders. As a result of these factors, the initiatives took so long to implement that by the time DND was investigating several significant options that would have entailed private sector provision of services, the DND budget had already started to recover from its low point and both the wider Public Services of Canada, and the DND civilian workforce had begun increasing. Thus, the impetus for ASD, the significant resource reductions, had begun to attenuate by the time that DND had actually moved to implement its ASD program. Furthermore, while DND examined many areas of its organization under ASD reviews, only a minority of them resulted in contracts with the private sector. Rather, many of them resulted in significantly less contentious in-house reorganizations that produced the intended defence outcomes; a reduction in the resources devoted to non-operational capabilities.

DND before the 1994 Budget

The federal fiscal problems that had been building since the mid-1970s, as a result of mounting federal debt and a growing annual deficit deepened with a recession in the early 1990s. In their campaign platform *Creating Opportunity*, the Liberal Party of Canada pledged to tackle the national deficit. To do so, their campaign committed to cancel the procurement of EH-101 helicopters, and beyond that, “reduce national defence spending.”¹ These reductions were to be one component of a wider effort to improve the fiscal state of the government writ large, but National Defence was notable for receiving specific mention in the campaign platform. The Chretien government thus came into office recognizing that a major effort was needed to resurrect the “financial credibility of the country”² and indicated prior to the election that cutting DND’s budget would play a major role in achieving that goal.

These reduction pressures that intensified after the Liberals won election in 1993 were directed onto a defence establishment that was already in the midst of several reform initiatives aiming to improve the efficiency of its operation. As early as the late 1980s DND had started examining innovative ways of saving money, most concentrating on reducing the military’s logistical footprint.³ These efforts increased after the 1989 budget cuts. The Base DelegAAT project, for instance, was launched in 1991 with a goal of achieving measurable improvements in the efficiency of support services at Canadian Forces Base Kingston and Borden by delegating authority to local base commanders and increasing their

¹ Liberal Party of Canada, *Creating Opportunity*.

² Lawrence Martin, *Iron Man* (Toronto: Viking, Canada, 2003).

³ Pennie, *Interview with the Author*.

accountability.⁴ Another initiative, Defence 2000 was launched in 1992 to co-ordinate the multiple renewal initiatives within a single framework. This included reforms to planning and budgeting processes and financial, personnel and information's systems.⁵

The 1994 Budget, Defence Review and White Paper

Upon assuming office, Chretien sought a radical re-evaluation of Canada's defence, based on the premise that "national security requires a sound economy."⁶ This was reflected in the first Chrétien budget of February 1994, which outlined seven billion dollars in reduced defence budgets over five years and gave specific direction as to how this should be achieved. DND was mandated to strike a "better balance between the operational and support elements of the Canadian Forces"⁷ and make improvements in "efficiency and productivity."⁸ These budget proclamations were not intended to prejudice the forthcoming review of defence policy, but rather be policy neutral, as they were to be "achieved through overhead reduction and productivity improvements."⁹ Despite this, in his Budget impact statement the Minister of National Defence clearly articulated that his overriding objective was "to preserve effective forces, capable of combat."¹⁰

Despite their ostensible policy neutrality, the budget reductions dominated the ensuing 1994 Defence Policy Review. Building on a Liberal Party campaign promise to

⁴ Canada. Department of National Defence. Directorate of History and Heritage, "Management Command and Control Re-Engineering Information Package" Management Command and Control Re-Engineering Team Fonds, 95/111, Document 191, (Ottawa, 1996).

⁵ Canada. Office of the Auditor General of Canada, *Chapter 34: National Defence - Support Productivity* (Ottawa: 1996).

⁶ Canada. Department of National Defence, *Review of Canadian Defence Policy: Minister of National Defence Guidance Document* (Ottawa: 1994), 2.

⁷ Canada. Department of Finance Canada, *The Budget Plan*, 31.

⁸ The Honourable Paul Martin. *The Budget Speech* (Ottawa: Department of Finance Canada, 1994).

⁹ Canada. Department of Finance Canada, *The Budget Plan*, 32.

¹⁰ Canada. Office of the Auditor General of Canada, *Chapter 24: National Defence - Defence Management Systems*, 24.14.

democratize policy development, the Chretien government created a Special Joint Committee of the House of Commons and Senate to assist the government's review of defence policy. The Committee was tasked with widespread public consultation and issuing a formal report. The Special Joint Committee, comprised of Senators and Members of Parliament from all parties, was established in March 1994 and subsequently engaged in seven months of consultation with hundreds of individuals and groups across the country.¹¹ While the literature attributes a major shift in the use of contracted services to the *1994 Defence White Paper*, in fact, such a move was first suggested in the report of the Special Committee.

In its report, the Committee recommended that:

To get the most military output for our defence dollar, we recommend a rigorous examination of which military occupations and trades can be filled by civilian employees or contractors. This should be done with a view *not only to saving money, but to maximizing the "tooth to tail" ratio of the Canadian Forces.*¹²

As this shows, from the first public mention of increasing privatization in DND/CAF in 1994, the intent was never simply to save money. Rather, the objective outlined was to save money so that the forces could concentrate their remaining resources on operational capability

As the *1994 Defence White Paper* itself states, "The Report of the Special Joint Committee played an integral role in shaping Canada's new defence policy."¹³ Beyond this simple acknowledgment, some analysts have pointed to similarities between some of the recommendations in the committee report and language in the White Paper to indicate its influence over the later process. In addition to the discussion of privatization, other points

¹¹ Robert J. Lawson, "Construction of Consensus," in *Canada among Nations 1995*, eds. Maxwell A. Cameron and Maureen Appel Molot (Ottawa: Carleton University Press, 1995), 99-117.

¹² *Security in a Changing World*, 1st sess., 35th Parliament, 1994, 48.

¹³Canada. Department of National Defence, *1994 Defence White Paper*, 2.

of commonality included the recommendation to reduce the number of headquarters units by one third.

The precise role of the Committee in influencing the content of the White Paper is somewhat difficult to determine as it appears that it may have simply reflected work already underway. Since the White Paper was tabled only a month after the Committee's report, it strongly suggests that "a parallel policy process with the Defence bureaucracy clearly existed throughout the defence review."¹⁴ This fact led Sjolander to argue that the review had the effect of "legitimizing, rather than profoundly influencing" the post-Cold War defence consensus in Canada.¹⁵ To an extent this is unsurprising, given that the Committee's guidance from the Minister of National Defence was the same one underpinning the official policy review. In essence, the direction was that defence policy had to be reviewed within the context of significantly reduced resources in an effort to combat the deficit.¹⁶ This direction that their study needed to reduce resources was fully internalized by the Committee and strongly shaped their efforts.¹⁷ At the same time, several analysts have argued that the committee embraced the consensus DND view that the Canadian military should keep the same mixture of capital fleets and combat capabilities that it had when the Cold War ended.¹⁸ Given these strategic preferences, and the financial constraints imposed on the defence review by the government, it is unsurprising that the Committee took seriously any option of reducing defence costs that preserved operational capability. The possibility of additional privatization was therefore simply one amongst a number of cost savings measures the

¹⁴ Lawson, *Construction of Consensus*, 109-110.

¹⁵ Sjolander, *Cashing in on the "Peace Dividend"*, 253-281; Denis Stairs, "The Public Politics of the Defence and Foreign Policy Reviews," *Canadian Foreign Policy* 3, no. 1 (1995): 91-116.

¹⁶ Canada. Department of National Defence, *Review of Canadian Defence Policy* (Ottawa: 1994).

¹⁷ Commodore (ret'd) Eric Lerhe, Telephone Interview with the Author, September 19, 2013.

¹⁸ Lawson, *Construction of Consensus*, 99-117.

Committee examined within the context of concentrating reductions on non-operational resources.¹⁹

The transcripts of the Committee's hearings furthermore suggest that the committee was actually briefed on work underway at DND to examine increased privatization. Senator Forrestall stated on May 3, 1994 that "senior officers in the department have been told to spend wiser, spend better, and they are determined they're going to do it. One of the ways they are examining is privatization."²⁰ Thereafter, the committee began investigating the possibility of privatization in some detail, commissioning a study on the subject. Although the transcripts do not contain public testimony of any serving defence official discussing privatization initiatives, by May 3, the committee had received two official briefings by senior officials *in camera* (in private). In addition, the committee heard from several invited experts who encouraged more use of privately contracted services. A representative of the Fraser Institute reflected these expert's viewpoints when he encouraged "privatization or contracting of a wide range of services"²¹ in DND broadly.

The Vice Chief of the Defence Staff at the time of the defence review, Lieutenant-General (ret'd) Paddy O'Donnell, recalls that the motivation for the senior defence leadership to seriously examine increasing DND's involvement with the private sector came from briefings defence officials received about the forthcoming Chretien budget cuts, prior to the budget. As the Vice Chief of the Defence Staff was at that time the senior resource manager for the DND and CAF, O'Donnell was well placed to reflect on this direction. Notably, O'Donnell indicates that extant policies such as the Treasury Board's Make or Buy policy and previous recommendations such as those from the Nielsen Task Force were

¹⁹ Lerhe, *Telephone Interview with the Author*.

²⁰ Canada. Parliament. Special Joint Committee on Canada's Defence Policy, *Evidence*, 1st sess., 35th Parliament, Issue No. 7, 1994.

²¹ *Ibid.*

insignificant in prompting the examination of increased contracting. Instead, looming budget pressures were the most influential motivator in the post-Cold War consideration of increasing the share of privatization at DND. Thereafter, the department examined multiple options that would allow DND to retain the maximum general purpose combat capability, across the Army, RCN and RCAF within its remaining funding envelope. Naturally this led to a focus on reducing administration and support forces. As a result, reductions to both civilian and military workforces, process renewal and reengineering, as well as outsourcing were pursued. These measures were initially examined within the bureaucracy, and then proposed to the Government, and likely briefed to the Committee. Thus DND was not given specific direction to examine increased privatization by either the committee or the Chretien Government. Senior defence leaders correctly believed, though, that the initiative would be well received by the government.²²

O'Donnell himself was unable to be specific about when DND first considered additional outsourcing. The department's pledge in the 1994/1995 Estimates to give "consideration of privatizing or contracting out some services"²³ confirms that DND began this work ahead of the defence review. Given the timelines involved in compiling that document, this suggests that it was first considered in the late fall of 1993. Regardless of the specific timing, DND began examining this issue somewhere in the period between the November 3, 1993 election of the Chretien Government and the publication of the Budget on February 22, 1994.

²² Lieutenant General (ret'd) Paddy O'Donnell, Telephone Interview with the Author, September 23, 2013.

²³ Canada. Department of National Defence, *Estimates 1994-1995: Part III*, 20.

The 1994 White Paper

A month after the publication of the Committee's report the *1994 Defence White Paper* was published in November 1994. It formalized into policy several of the measures that had been examined internally for some time, including further budget cuts and personnel reductions. The attendant personnel cuts reduced the CAF to 60,000 Regular Forces and 20,000 civilian personnel by 1999.²⁴ Along with the mandate to achieve these budgetary reductions, yet maintain the 'combat capable forces' desired by the government, the White Paper articulated a number of initiatives to improve the CAF's tooth to tail ratio and thereby "increase the proportion of operational personnel."²⁵ This included a one third reduction in headquarters establishments while at the same time adding an additional 3,000 soldiers to the Army's field force. The direction to increase the army was significant, given the overall reduction pressures. To achieve this result, significant changes to the delivery of services in DND and the CAF were envisioned.²⁶ This included introducing a greater role for industry in delivering the defence program, mandating that:

The Department...enhance its partnership with the private sector. Where business-case evaluations demonstrate potential for increased cost effectiveness, support activities currently conducted "in-house" will be transferred completely to Canadian industry or shared with private industry under various partnership arrangements.²⁷

The end result, it was hoped, would see "more resources devoted to combat forces and less to administrative overhead."²⁸ This was seen as essential to maintaining the White

²⁴ Canada. Department of National Defence, *1994 Defence White Paper*.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid., 41-42.

²⁸ Ibid., 40.

Paper's commitment to retain sufficient multi-purpose combat capabilities to fight "alongside the best, against the best."²⁹

More Tooth, Less Tail

Given this direction to make major cuts, but maintain significant operational outputs, the departmental initiatives during this period were intended to facilitate a resource re-allocation. Specifically, many were designed to allow a redirection of funds towards the Capital portion of the defence budget to preserve as much money as possible for recapitalization of the military. After 1991/1992 Capital spending progressively declined, in real terms, for the next seven years. Anticipating that this historical pattern of Capital reductions would occur, many of the change initiatives during the 1990s were guided by an attempt to preserve scarce Capital funding to facilitate the acquisition of new equipment. As an example, DND officials hoped that the money saved through Force Reduction could be redirected towards the Capital budget. When launched, it was thought that Force Reduction could save DND \$1 billion, and that this could be reallocated to the Capital account.³⁰ As the Vice Chief of the Defence Staff from 1997-2001 stated, a major focus of the department's efforts during the 1990s was finding recapitalization funding, because DND "had almost no money for capital."³¹

²⁹ Ibid., 14.

³⁰ Major Jeff Tasseron, "Military Manning and the Revolution in Social Affairs," *Canadian Military Journal* 2, no. 3 (2001): 53-62.

³¹ Garnett, *Interview with the Author*.

DND Reform Initiatives

Following the publication of the *1994 Defence White Paper*, DND embarked on five avenues of change. These included: downsizing; infrastructure rationalization; better use of information technology; ASD; and management renewal.³² With respect to the latter, multiple initiatives were begun. The first was Operation *Excellerate* in 1994 designed “to achieve major improvements in the cost effectiveness of material operations while providing the same level of service.”³³ The following year Operation *Renaissance*, a comparable effort was started in the Assistant Deputy Minister Personnel Group. This was followed in 1997 by the RCAF’s Project *Genesis*. Given the magnitude of the change underway, there was recognition that the various management renewal efforts needed greater coordination, emphasis and support. More broadly it was decided that process re-engineering would be the principle means of reorienting National Defence for the future. To direct these efforts, the Management, Command and Control Re-engineering Team was created in January 1995.³⁴

The Management, Command and Control Re-engineering Team

By examining the processes involved in delivering national defence, the Management, Command and Control Re-engineering Team attempted to significantly reduce

³² Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

³³ Canada. Office of the Auditor General of Canada, *Chapter 34: National Defence - Support Productivity*, 34.17.

³⁴ Canada. Department of National Defence. Directorate of History and Heritage, "Management, Command and Control Re-Engineering Team Historical Report" Management, Command and Control Re-Engineering Team Fonds 95/111, Document 3. (Ottawa: 1997).

departmental overhead in order to utilize its remaining resources as efficiently as possible.³⁵ The assumption held by re-engineering theorists of the day was that “fewer people can provide even greater levels of service by fundamentally re-designing the work they do.”³⁶ The process was designed to accompany the downsizing and financial reductions by adjusting the military’s tooth to tail ratio to generate more operational forces within the remaining resources. A primary focus of these efforts was reducing the number of personnel working in departmental headquarters, eliminating one layer of headquarters and reducing the size of National Defence Headquarters by up to 50 percent.

While the over-arching political direction was to reduce resources, in doing so, the senior leadership exhibited a strong preference for imposing the reduction burden on the military’s support forces. This was designed to maximize the retention of operational capability and increase it where possible.³⁷ As its official history states “The main focus of the [Management, Command and Control Re-engineering Team] became the headquarters structure with the intention of making dramatic cuts to preserve the allocation of resources for operational units.”³⁸ Following this direction, the Chief of the Defence Staff General Jean Boyle stated mid-way through the exercise process in 1996, “what I have to do is ensure that I have the maximum fighting capability out of the 60k that I have.”³⁹ Thus, ensuring as efficient an allocation of the Regular Force military positions as possible within the 60,000 person ceiling imposed by the government was an objective alongside re-allocating funding for capital acquisitions.

³⁵ Canada. Department of National Defence. Directorate of History and Heritage, "Project Background" Management, Command and Control Re-Engineering Team Fonds, 95/111, Document 9.1, (Ottawa, 1994).

³⁶ David Detomasi, "Re-Engineering the Canadian Department of National Defence," *Defense Analysis* 12, no. 3 (1996): 329.

³⁷ Vice Admiral (ret'd) Ron Buck, Email Correspondence with the Author, July, 2013.

³⁸ Canada. Department of National Defence. Directorate of History and Heritage, *Management, Command and Control Re-Engineering Team Historical Report*, 4.

³⁹ Canada. Department of National Defence. Directorate of History and Heritage, *DM/CDS Address/Questions & Answers: Senior Management Session, Ottawa, 15 January, 1996*, 64.

This approach characterized the various change initiatives through-out this period, including those that examined the provision of services privately. The department was led by seven ministers in the decade after 1989, few of whom were engaged in directing the minutia of the departmental reductions. While the political leadership mandated that budgets be reduced, how that was specifically achieved was not directed politically and senior officials found the Ministers receptive to any sensible recommendations that afforded financial savings.⁴⁰ The senior military bureaucracy was therefore left with a significant degree of discretion to direct its reorganization process, so long as it delivered the mandated savings. This group opted throughout this period of retrenchment to protect operational capability to the greatest extent possible. Within DND, there was an acknowledged imbalance in departmental resource consumption with too much diverted to headquarters, infrastructure and “wasteful business practices.”⁴¹ Given the shrinking pool of financial and human resources, the senior leadership felt that, left uncorrected, this would diminish combat capability.

The International Context

This reorganization was undertaken based on the CAF’s expectation that the post-Cold War threat environment would allow for a significant restructuring of Canadian operational logistics support. Military planners saw no immediate great power threat replacing the Soviet Union and thus no need to maintain substantial support capabilities. Rather, it was assumed that the rise of any competitor would be gradual, therefore providing the military with adequate time to regenerate support shortfalls. As Jockel and Sokolsky

⁴⁰ Pennie, *Interview with the Author*.

⁴¹ Canada. Department of National Defence. Directorate of History and Heritage, *Management, Command and Control Re-Engineering Team Historical Report*, 10.

argued in 1993, “the transformation of the international environment has left Canada in a most favourable position of virtual physical security from any conceivable direct or indirect threat.”⁴² This was reflected in the Minister of National Defence’s Guidance to the Joint Parliamentary Committee’s review of defence and foreign policy in 1994, which stated that “the prospect of Canada becoming involved in conflict against a major power in the near future seems unlikely.”⁴³

The decision to apportion the most significant force reduction to the support units was based on a calculation that combat forces would be harder to regenerate quickly if a great power threat emerged in the international system. On this basis, operational capability was to be protected as much as possible from the reduction imperatives. The logic behind this decision was, in effect, that because many support positions resembled activities performed in the private sector, this would facilitate a quick regeneration of the capability, if needed.⁴⁴ Consequently, the Force Reduction Program placed particular attention on reducing the size of many support trades, ultimately cutting some of them by as much as half. Reflecting this approach, at the outset of the ASD process, the Chief of the Defence Staff stated that “if [a military trade] is not core or semi-core required, it will most likely be eliminated through ASD.”⁴⁵

To adjust to the smaller support profile, the military prioritized the creation of Tactically Self Sufficient Units that could support themselves for short deployments, on the assumption that operational level support for longer missions would be available from either a coalition partner or the host nation. In essence, the Canadian military planned to rely

⁴² Joseph T. Jockel and Joel J. Sokolsky, "Dandurand Revisited," *International Journal* 48, no. 2 (1993): 386.

⁴³ Sjolander, *Cashing in on the "Peace Dividend"*, 259-260.

⁴⁴ Larry Lashkevich, Interview with the Author, October 19, 2011.

⁴⁵ Canada. Department of National Defence. Directorate of History and Heritage, *DM/CDS Address/Questions & Answers: Senior Management Session, Ottawa, 15 January, 1996*, 46.

increasingly on others for operational logistics and it was assumed that “support deficiencies could be made good during the warning phase of any new superpower confrontation.”⁴⁶ Notably, this planning scenario did not foresee the extremely high operational tempo experienced by the Canadian Forces throughout the 1990s. While “multi-purpose combat capable forces” were retained, the “unstable international situation had led to an unprecedented level of operational deployments at a time when the size of the CF was diminishing.”⁴⁷ As Chapter 7 details, the use of operational support contracts was the direct result of these incorrect assumptions.

In sum, by 1994 multiple reduction pressures combined to lead the defence establishment to examine several options for reducing resources while maximizing operational capability. The Force Reductions detailed in Chapter 3 left the military leadership seeking to free up scarce military personnel resources wherever possible. The overall budget reduction were decisive in driving the department to cut costs where they could and there was an expectation from the beginning that contractors would be less expensive than highly trained military personnel. At the same time, all of these efforts were driven by a strong institutional desire to maximize the military’s tooth to tail ratio by striking a better allocation of personnel between operational and support roles, and preserving funds for the Capital budget where possible. Thus, these efforts, of which ASD was only one, were not designed merely to save money. They were driven, above all else, by a desire to maximize the allocation of resources, both financial and human, towards operational capability.

⁴⁶ Canada. Department of National Defence, “*Generating Support Capability to Sustain Operations*,” *Access to Information Request A20071373, Document A0253381* (Ottawa: 2006), 6-7.

⁴⁷ Canada. Department of National Defence. Directorate of History and Heritage, *Management, Command and Control Re-Engineering Team Historical Report*, 9.

Program Review

These defence specific efforts were not isolated, as change was also underway in the wider federal government. A significant effort to once again reorganize government and find efficiencies was started during the last years of the Mulroney government. Acting on the subsequent report, Prime Minister Kim Campbell moved in 1993 to reduce from 32 to 23 the number of ministries, regroup those that remained, and restructure Cabinet. While she was unable to complete this reorganization after losing the election, the incoming Liberal government built on this initiative under the rubric of Program Review, an initiative announced in the February 1994 Budget.⁴⁸

The Program Review exercise was initially guided by a six step test, developed over the winter of 1994, which provided the federal government with a roadmap for reviewing its activities. The six questions provided an itemized checklist to assess whether the activities undertaken by the government remained relevant, and if so, whether the federal government should continue to provide them. These questions were as follows: Does the program area or activity continue to serve a public interest? (the Public Interest Test); Is there a legitimate and necessary role for government in this program area or activity? (the Role of Government Test); Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces? (Federalism Test); What activities or programs should or could be transferred in whole or in part to the private or voluntary sector? (Partnership Test); If the program or activity continues, how could its efficiency be improved? (Efficiency Test); and, Is the resultant package of programs and activities

⁴⁸ Paquet and Shepherd, *The Program Review Process*, 39-72.

affordable with the fiscal restraint? If no, what programs or activities should be abandoned? (Affordability Test).⁴⁹

This process held that first, government activities would be considered for whether they continued to serve the public interest, and then if so, how they could be best provided. At this stage, the “Partnership Test” evaluated whether the activity or some portion therefore could be transferred to the voluntary or private sectors. Over the summer of 1994 all departments were required to submit their plans to a Program Review Secretariat and special committee of deputy ministers, and these plans were incorporated into the February 1995 budget.

As part of Program Review the Treasury Board Secretariat established a new organization responsible for Alternative Service Delivery and Crown Corporation Policy to coordinate ASD projects across government.⁵⁰ This group was responsible for coordinating the government wide effort to find better ways of providing public services and published a framework document early in 1995 to guide departmental efforts.⁵¹ This framework outlined multiple options available for achieving the program’s search of “value for money” and “cost-effective”⁵² service delivery. These options included privatizing government programs and services, commercializing government services, and negotiating partnering arrangements with the private sector.⁵³ While the description of this program focused extensively on the aspects involving the private sector, they were not the only options available. Other possibilities included creating Special Operating Agencies, establishing new forms of inter-departmental cooperation, and partnering with other levels of government and the voluntary

⁴⁹ Ibid., 45.

⁵⁰ Evan Potter, "Treasury Board as a Management Board," in *How Ottawa Spends 2000-2001*, ed. Leslie A. Pal (New York: Oxford University Press, 2000), 95-129.

⁵¹ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

⁵² Canada. Treasury Board of Canada Secretariat, *Framework for Alternative Program Delivery* (Ottawa: 1995) (un-paginated).

⁵³ Ibid.

sector. This early framework was notable for articulating that any options that would involve a shift away from public servants providing a service, to buying it, would be subject to the federal government's Workforce Adjustment Directive for Public Service employees.

Alternate Service Delivery for Defence

It is within this wider context of widespread change that ASD was introduced at National Defence in July 1995. Under ASD, DND began a formal process of exploring alternative methods of delivering services that were not explicitly related to war-fighting, with a search for efficiencies. Initially at least, the department firmly embraced the process and began exploring a number of initiatives. Some of these were started before the Treasury Board launched the official ASD framework in 1995. These included initiatives leading to an outsourcing of the support arrangements for the reserve training and support center at Meaford in July 1995 and the creation of a special agency to manage CAF married quarters.⁵⁴ Under the formal ASD process, in 1996 DND selected an initial list of 18 projects to examine for ASD applicability. These potential projects were: base support services (at Goose Bay, Kingston, Vernon Cadet Camp and CF Support Unit Ottawa); Behavioural Science Testing; Non-destructive Testing; Auxiliary Fleet Support; Automated Test Equipment Operation; Food Services; Second/Third line Maintenance (specifically Ship Repair; Aircraft Maintenance Support Equipment, Aerospace Engineering Test Establishment, and Proof and Engineering Test Establishment); NATO Flying Training; Canadian Forces Base Cold Lake Air Weapons Ranges; Defence Research Establishment Suffield Testing and Evaluation Services; Medical Services and Material Group Local Area

⁵⁴ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 2nd sess., 35th Parliament, Meeting No. 5, May 16, 1996.

Network Support.⁵⁵ This list of potential projects grew to a total of 40 projects by 1999. Based on data from Canadian allies, in 1996 DND estimated that the ASD program could produce savings of \$200 million a year by 1999 and \$350 million annually by 2001.⁵⁶

In its early days, much of DND's efforts under this program looked first at private sector solutions. Although first initiated in the bureaucracy on the assumption that the private sector could provide many of the same support functions at a reduced cost, this was later driven by the direction in the *1994 Defence White Paper* to do so.⁵⁷ Private sector workers were expected to be cheaper than defence civil servants because their largely non-unionized workforce had lower labour rates. Analyses of public and private sector compensation have consistently demonstrated that public service workers earn more than private sector employees. When these analyses are extended to include benefits and pensions this compensation gap is even more significant.⁵⁸ Private sector costs were also anticipated to be significantly less than the costs of soldiers for two reasons. First, private sectors employees would not need to be trained. In comparison, military personnel initially incur significant training costs.⁵⁹ Second, soldiers must also conduct numerous tasks related to military life, such as maintaining basic combat proficiency, in addition to their day to day jobs. Contractors, in contrast, could devote 100 percent of their time to providing a specific

⁵⁵ Canada. National Defence, *Alternative Service Delivery* (Ottawa: 1996).

⁵⁶ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

⁵⁷ Pierre Lagueux, Interview with the Author, October 6, 2011.; KPMG Consulting LP, *Department of National Defence ASD Capacity Check Assessment*; Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

⁵⁸ Milagros Palacios and Jason Clemens. *Comparing Public and Private Sector Compensation in Canada* Fraser Institute, 2013); Morley Gunderson, Douglas Hyatt and Craig Riddell. *Pay Differences between the Government and Private Sectors* (Ottawa: Canadian Policy Research Networks, 2000).

⁵⁹ Buck, *Interview with the Author*.

service.⁶⁰ Thus, a contractor was expected to be more efficient than a soldier, based on their allocation of time alone.

DND therefore undertook a review of what constituted its “core” military activities; those “directly essential to the achievement of the defence mission.”⁶¹ These were specified to be “combat and combat related requirements; essential combat support requirements; and public interest considerations.”⁶² The remaining non-core functions were potentially subjected to the ASD process.

Although the process in DND later became associated for many with turning over service provision to the private sector, the ASD process in National Defence, like the wider effort in the federal government in reality examined a number of options for improving the delivery of support services. Other options examined included the DND or the CAF retaining authority for service provision, or forming a partnership with industry. Two options saw existing personnel propose lower cost alternatives. In-House Bids would see these tasks performed more efficiently by in-house personnel, while Employee Takeovers would see employees transform into corporations to do so. Other possibilities included the devolution of service provision to another level of government, and internal government options such as the creation of Special Operating Agencies or Service Agencies.⁶³ In the words of the DND’s Deputy Minister, “A review under alternate service delivery does not equate necessarily to contracting out. ...we do not have an automatic bias in favour of

⁶⁰ Lieutenant General Bob Fischer, Interview with Sharon Hobson, Provided to the Author, September 28, 1995.

⁶¹ Ray Crabbe. "Alternative Service Delivery," Council for Canadian Security in the 21st Century, , accessed March 16, 2005, www.ccs21.org.

⁶² Canada. Department of National Defence. Directorate of History and Heritage, *Management, Command and Control Re-Engineering Team Historical Report*, 9.

⁶³ Ibid.

contracting out.”⁶⁴ One of the senior military logisticians responsible for many elements of ASD asserts that it was geared primarily to finding better ways to deliver services, including by adopting private sector business practices.⁶⁵

As a result, numerous ASD reviews resulted in the retention of services in-house through Most Efficient Organizations, or resulted in In-House bids winning contracts to perform the services. Such ASD outcomes occurred with the FMFs, the Aerospace Engineering Test Establishment, Military Pay, Auxiliary Fleet Operations and Manning, Food Services at Canadian Forces Base Trenton, National Defence Headquarters Facilities Management, the DND Publication Depot, the Army’s 202 Workshop Depot, Canadian Forces Housing Agency, and the Canadian Forces Supply Chain.⁶⁶

While the literature characterizes the ASD effort as an outsourcing initiative designed to save money by contracting with the private sector, in reality, service contracts were only one option considered amongst many. DND had been directed in the *1994 Defence White Paper* to examine outsourcing options. However, the government wide program for implementing this directive situated private sector alternatives within a range of options for improving service delivery, many of which retained the services within the public sphere, albeit in altered form.

The National Defence Objectives for Alternate Service Delivery

Just as ASD was one part of a wider series of efforts at DND designed to re-allocate resources towards operational capability, DND’s objectives for ASD specifically echoed

⁶⁴ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 36th Parliament, Meeting No. 7, October 30, 1997.

⁶⁵ Lashkevich, *Interview with the Author*.

⁶⁶ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

these wider concerns. This does not mean that financial efficiencies and value for money were not core objectives of ASD at National Defence. Rather, a narrow perception of the program as a money saver alone obscured the wider objectives. Marie Sassine, one the key civilians in charge of day to day management of ASD and other change initiatives by 2001, summarized this inaccurate view as follows: “I’m afraid the perception was largely that it was completely linked to cost savings, and only linked to cost savings....It’s not really cost driven.”⁶⁷ In reality, the program was primarily embraced less for the financial efficiency it afforded, but more specifically for what creating an efficient support structure would allow the organization to do. According to early DND project documentation, the program was developed “as part of a broader strategy to reduce overhead and direct resources towards operations.”⁶⁸ Lieutenant-General Bob Fischer, Assistant Deputy Minister, Materiel at the time ASD was launched, and thus the person charged with implementing the centrally controlled ASD projects, stated that ASD was driven by the imperatives of “keeping the sharp end sharp.”⁶⁹ Beyond this, Pierre Lagueux, who replaced Fischer as ADM Mat., contends that a key consideration for ASD was to save money on Operations and Maintenance to be able to put money into the Capital budget. At the time, Capital spending had already started to decline, and DND had a long standing desire to increase the proportion devoted to Capital by a significant margin to fund recapitalization.⁷⁰ Thus, ASD was attractive not simply for its stand-alone financial savings, but also because they could help the department-wide effort to focus financial cuts in a manner that protected Capital spending. Testifying before SCONDVA, General Maurice Baril extolled the virtues of ASD

⁶⁷ Marie Sassine and LCol Claude Perras, Interview with Sharon Hobson, Provided to the Author. August 10, 2001.

⁶⁸ Canada. National Defence, *Alternative Service Delivery*.

⁶⁹ Fischer, *Interview with Sharon Hobson, Provided to the Author*.

⁷⁰ Lagueux, *Interview with the Author*.

in facilitating Capital reinvestment. As he told the Committee, the process was advantageous because it allowed him to “save more money so that we can buy equipment, which is showing some age.”⁷¹ This view was echoed by the Minister of National Defence, who cited a plummeting Capital share as a key reason for implementing ASD.⁷²

Brigadier-General Peter Gartenburg, a key official involved in coordinating these projects, viewed their utility in a slightly broader scope. As he informed SCNDVA, “we are trying to reduce our support costs so that we can field the most effective military capability possible to do the job that government wants done.”⁷³ The Deputy Chief of the Defence Staff, the top officer in charge of operations, put it even more succinctly, stating that the ASD process meant “streamlining the costs to put that money up front for operations and equipment.”⁷⁴ Thus, another appeal of ASD in National Defence was its ability to allow a relocation of military and civilian personnel.⁷⁵ ASD was particularly appealing, as it offered to produce departmental savings, “both in money and other resources” that could “be redirected to enhance operational effectiveness.”⁷⁶ If the ASD process found more economical means of delivering a service, it offered financial savings. If it could provide a service with fewer personnel it helped achieve the personnel reduction targets. And if it could reduce the demand for uniformed personnel to provide a support service, it could free up a personnel billet for reallocation to operational combat capability. It thus offered financial savings, but equally importantly the prospect of reallocating

⁷¹ *Evidence*, October 30, 1997.

⁷² Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 36th Parliament, Meeting No. 64, May 13, 1998.

⁷³ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 36th Parliament, Meeting No. 44, April 1, 1998.

⁷⁴ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 36th Parliament, Meeting No. 16, December 4, 1997.

⁷⁵ Fischer, *Interview with Sharon Hobson, Provided to the Author*.

⁷⁶ Canada. Department of National Defence. Directorate of History and Heritage, *Management, Command and Control Re-Engineering Team Historical Report*, 43.

personnel billets to core military capabilities. As Chapter 4 discussed, this was the basis for the Glassco Commission recommending turning over more support services to the private sector 30 years earlier. The view at ASD's inception was that "we want to get more people in uniform doing the operational jobs....what we don't want to do is have expensive military folks in areas where you don't need the uniform."⁷⁷ According to one commentator, at the time of the program's launch, it was believed that "ASD could take uniformed military positions from logistics and give the billet to the combat arms, and simultaneously deliver cost savings in the provision of logistics for DND. More combat arms troops and cheaper logistics. It is not hard to see why ASD was so seductive."⁷⁸ Senior officers who were instrumental in implementing ASD process described the key advantage of ASD as saving military person years, to make them available for redeployment to an operational role,⁷⁹ and making best use of scarce military resources.⁸⁰

As such, within the overall re-engineering process, very early on it was mandated that "alternative service delivery must play a key role where it is operationally viable and cost effective to do so."⁸¹ In this sense, the government wide ASD policy provided DND with a process that was entirely complementary to the re-engineering undertaken through the Management, Command and Control Re-engineering Team because "the ultimate objective of both [was] to free more resources for operations by reducing support costs."⁸² Reflecting

⁷⁷ Fischer, *Interview with Sharon Hobson, Provided to the Author*.

⁷⁸ Lieutenant-Colonel John Conrad, *What the Thunder Said* (Kingston and Toronto: Canadian Defence Academy Press and The Dundurn Group, 2009), 68-69.

⁷⁹ Garnett, *Interview with the Author*.

⁸⁰ Buck, *Interview with the Author*.

⁸¹ Canada. Department of National Defence. Directorate of History and Heritage, "Presentation to Minister of National Defence, August 15, 1995" Management, Command and Control Re-Engineering Team Fonds, 95/111, Document 37, (Ottawa, 1995), 15.

⁸² Canada. Department of National Defence. Directorate of History and Heritage, *Management, Command and Control Re-Engineering Team Historical Report*, 43.

on these objectives, an outside audit noted in 2001 that the “objectives for ASD have expanded informally to include *optimizing force structure* and maximizing value for money.”⁸³

Alternate Service Delivery as a Replacement for Capital

A further advantage of ASD is it provided a direct substitute for the Capital funding that was becoming increasingly scarce. The largest single ASD project, by dollar value, was the \$2.8 billion NATO Flying Training in Canada contract signed in 1998. This project had multiple goals, of which cost savings were only one. The key factor actually precipitating the contract was a desire to replace the RCAF’s training fleets to retain a pilot training program in Canada. In doing so, DND searched for a way forward without using Capital funding, because there were insufficient funds to recapitalize the RCAF training fleets and also meet other capital investment priorities.⁸⁴ This objective was characterized as “cost avoidance”⁸⁵ by DND’s Deputy Minister. The contract with Bombardier had multiple components, with one of the key provisions being that the contractor would supply and maintain the necessary training aircraft as part of a long term contract. This contractual arrangement allowed the RCAF to effectively recapitalize its training fleet by making annual installment payments on a service contract, rather than making a large, capital purchase.⁸⁶ As a result, it saved DND the “cost of going out and purchasing a lot of aircraft that we could not have afforded in the circumstances.”⁸⁷ Interestingly, this provided the exact type of financial flexibility, small

⁸³ KPMG Consulting LP, *Department of National Defence ASD Capacity Check Assessment*, 3.

⁸⁴ Pennie, *Interview with the Author*; Garnett, *Interview with the Author*; Macdonald, *Interview with the Author*.

⁸⁵ Canada. Parliament. House of Commons. Standing Committee on Public Accounts, *Evidence*, 2nd Sess., 36th Parliament, Meeting 12, February 17, 2000.

⁸⁶ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*; Pennie, *Interview with the Author*.

⁸⁷ *Evidence*, February 17, 2000.

annual payments spread out over a long timeframe instead of a large one-time charge, that the shift to accrual accounting provided DND when it was adopted roughly a decade later.⁸⁸

Alternate Service Delivery: Non-Defence Objectives

In addition to their direct impacts to DND, several of the largest ASD contracts with the private sector were signed with non-defence objectives in mind. In particular, these ASD projects provided a means of retaining employment and economic benefits in locations that DND wanted to close. The primary objectives of the NATO Flying Training in Canada project, for example were to save money and avoid a capital expense the department could not afford. It was also intended to achieve several other objectives. These included: keeping the base in Moose Jaw operating; demonstrating the capabilities of the Canadian aerospace industry; and making a significant contribution to NATO.⁸⁹ Similarly, part of the impetus for the ASD project at Goose Base was to retain employment and economic activity in an area where the base accounted for an enormous share of the local economy, yet provided no military capability.⁹⁰ Concern about the costs of the operation by those allies paying for training there were also influential in the decision to move to an ASD contract. According to the Minister of National Defence Art Eggleton:

“one of the reasons we needed to go to ASD in Goose Bay is that the costs there are absorbed by our allies, not by us....Our allies were getting after us about our costs, saying they were too high. If we didn’t stay competitive, we could have lost them and we would have lost the base. I know the change was hard for some people in Goose Bay, but the alternative was a lot worse. The alternative was we’d close the base.”⁹¹

⁸⁸ Fetterly and Groves, *Accrual Accounting and Budgeting in Defence*.

⁸⁹ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

⁹⁰ Pennie, *Interview with the Author*.

⁹¹ *Evidence*, May 13, 1998.

In these two instances, a number of concerns that had little to do with cost savings or improving the military's operational capability were influential in leading to ASD contracts. In both instances, a contracted solution allowed the base to stay open, which was otherwise unaffordable or undesirable. While DND appeared to be comfortable with the option of closing both facilities, wider Government of Canada imperatives related to the bases' economic benefits made ASD an appealing option.

Evaluation

Achieving savings was always a core component of ASD and this program was launched at the height of the reduction pressures at National Defence. However, as the forgoing outlines, ASD's appeal to DND from its first suggestion in the 1994 Special Committee's report fit within the wider framework of DND's organizational goals. These were to prioritize combat capabilities and structure all of the department's change activities, including ASD, around the objective of reducing the use of resources on support activities, to redirect or prioritize those that remained to operational resources. The financial savings were never simply valued in their own right, however. Rather they were desirable specifically because they allowed scarce human resources to be prioritized on generating military capability and equally scarce budget dollars to be spent on Capital acquisitions. Thus, the very tight constraints on personnel expenditures created by the 60,000 person troop ceiling were instrumental in making ASD appealing to DND. So too was the fact the baseline budget constraint at the time left Capital as the residual budget category. In some instances DND used ASD as a direct substitute for a lack of Capital funds. In other situations, the belief that ASD could save money provided defence officials with the hope that they could

make a reallocation of those funds to bolster Capital spending. In each instance, the crushing budget cuts exacerbated the pressure to reallocate.

The Impact of Alternate Service Delivery

Despite the early appeal of ASD, it failed to produce results quickly. By 1997, DND was concerned about the slow progress of its ASD projects and recognized a need for improved management. As a result, it created a Steering Committee at the Assistant Deputy Minister level to oversee projects and increase the sense of corporate urgency associated with them. It also made significant efforts to strengthen the business case analyses employed in support of projects. After that point in time, the department moved to concentrate its efforts on four large projects: the Supply Chain; The Site Support Services Project; Military Pay; and the Research and Development Branch.⁹²

Providing a definitive assessment of the cost savings realized as a result of the ASD process is impossible. The Auditor General of Canada's 1999 report on ASD stated "we were unable to verify the actual savings achieved in any of the ASD projects we audited."⁹³ The reasons for this finding were twofold. First, as of 1999 the contracts had not been in place long enough to allow for such a determination. Second, the baseline costs of the services, prior to starting the ASD projects had not been established in a manner that would allow such a comparison. DND simply did not have a solid understanding of how its resources were used before launching multiple attempts to reduce that resource use. Furthermore, by 1999 for reasons described below, DND was estimating that it had saved

⁹² Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

⁹³ *Ibid.*, 27.22.

\$68 million through the program to date, and was projecting that it would save \$175 million a year by the end of 2004.⁹⁴

Although it saw significantly less than expected savings, the ASD process, did, however coincided with a noticeable increase in DND expenditures on service contracts, as can be seen in Figure 1 in Chapter 1. After dropping from a high of \$830 million in 1992/199 to \$728 million in 1994/1995, spending on Professional and Special Services, witnessed a steady increase. After ASD was introduced in 1995/1996 spending rose steadily, to \$1 billion by 1998/1999. By 2011/2012 this spending stood at \$3.2 billion. Since the ASD initiative was introduced in 1995/1996, adjusting for inflation, the rate of growth in this area averaged 7.96 percent a year, more than double the 3.58 percent a year average annual increase from 1978/1979 to 1994/1995.⁹⁵ As a share of overall defence spending, contracted services have increased dramatically since the introduction of ASD. From 1977/1978, the first year that data is available, until 1994/1995, the last fiscal year before the introduction of ASD, contracted services averaged five percent of DND expenditures. Since the introduction of ASD, contracted services have averaged 12 percent of defence expenditures, and stood at 16 percent of defence spending in 2011/2012.⁹⁶ The increase in contracted spending to such a substantial share of overall defence expenditures was directly attributed to the ASD program according to a major internal report published in 2011.⁹⁷

⁹⁴ Ibid.

⁹⁵ Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada* Public Accounts data was adjusted by the author using the Consumer Price Index.

⁹⁶ Ibid.

⁹⁷ Leslie, *Report on Transformation 2011*.

The End of Alternate Service Delivery

Despite the early enthusiasm, the centrally driven ASD process effectively fell off the defence agenda by the early 2000's. DND reported annually on ASD initiatives between 2001/2002 and 2007/2008 in the Estimates documents, but stopped doing so after this time. These reports indicate that throughout the 2000's, only nine ASD projects were considered in total, with just three resulting in contracts with industry.⁹⁸

The reasons that this fell off the defence agenda were multiple. One was that the savings accrued from ASD were significantly less than those expected. By 2001/2002 DND had completed 22 ASD projects, resulting in \$62 million in savings. This represented less than 20 percent of the savings that had originally been expected. Interestingly, one of the key factors believed to have produced the less than expected result, was the fact that ASD was only the most recent in a long list of historical, and contemporary efforts to make DND more efficient. The Auditor General of Canada noted that the CAF entered into the ASD process with an already high tooth to tail ratio, and while ASD was underway, multiple other efforts continued to increase it. While DND's estimation of expected savings had been generated based on allied experiences, the Canadian military, after decades of efforts

⁹⁸ Canada. Department of National Defence, *National Defence: 2006–2007 Report on Plans and Priorities* (Ottawa: 2006); Canada. Department of National Defence, *National Defence: 2005–2006 Report on Plans and Priorities* (Ottawa: 2005); Canada. Department of National Defence, *Department of National Defence: 2004–2005 Report on Plans and Priorities* (Ottawa: 2004); Canada. Department of National Defence, *Department of National Defence: 2003–2004 Report on Plans and Priorities* (Ottawa: 2003); Canada. Department of National Defence. *National Defence: 2002–2003 Estimates Part III – Report on Plans and Priorities* (Ottawa: Minister of Public Works and Government Services, 2002); Canada. Department of National Defence, *Department of National Defence 2001–2002 Report on Plans and Priorities* (Ottawa: 2001).

stretching back to 1964, were by the mid-1990s a comparatively efficient organization. Thus, there were far fewer savings to be had in Canada through ASD, than there were elsewhere.⁹⁹

Lack of Capacity

One of the reasons ASD failed to produce the expected savings was a lack of good quality data on virtually all aspects of service contracting. The absence of a firm financial understanding made it difficult to accurately predict cost savings before proceeding with ASD and later made cost comparisons difficult to assess savings after the fact.¹⁰⁰ This was exacerbated by a lack of experienced staff needed to conduct sophisticated business case analyses. Consequently, the initial business case and options analysis were often not of a high quality.¹⁰¹ As a result, DND scaled back its ambitions for large scale ASD programs in 1997 to focus its departmental resources on a smaller number of projects as a means of concentrating skilled analysts on doing fewer projects better.¹⁰²

Furthermore, several officials involved in the ASD process also argued that the approach used with ASD prohibited DND from realizing cost savings. In many of the early ASD reviews, firms were essentially asked to perform the same tasks, in the same manner, as DND. In other words, rather than asking bidding firms to provide a service however they saw fit using private sector practices, DND in essence asked contractors to replicate their existing approach. As one defence industry official stated, the government's expectation was

⁹⁹ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 37th Parliament, Meeting No. 8, April 5, 2001.

¹⁰⁰ Macdonald, *Interview with the Author*.

¹⁰¹ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 2nd sess., 36th Parliament, Meeting No. 12, December 14, 1999.

¹⁰² *Ibid.*

“do it exactly the way we do it and charge us less.”¹⁰³ Because they were asking industry to ‘do what we do’¹⁰⁴ some contend that ASD was not set up to produce significant savings. DND, responsible for writing the contract specifications, tended to outline highly detailed technical specifications industry was supposed to implement, rather than describing the desired output. Exacerbating this problem, PWGSC, responsible for the contracts, had trouble writing output oriented service contracts which were more difficult to draw up than contracts for goods.¹⁰⁵ A commissioned review of the lessons learned with the ASD process in 2000 found that greater effort needed to be placed on defining the intent of statements of work, rather than how to implement them.¹⁰⁶ Thus, whereas the intent of ASD was to use private sector business practices in the public sector, in practice, ASD asked the private sector to simply do what the public sector had been doing for years.

Human Resources Decisions

The phenomenon of asking the private sector to replicate the public sector was even more prevalent with respect to numerous human resources policies that applied to ASD initiatives. These proved to be an even more serious impediment to finding cost savings, and the ASD program more broadly. As detailed in Chapter 3, federal departments do not bear the full costs of employee compensation in their departmental budgets. Rather, the roughly 20 percent of compensation attributable to benefits and pensions is borne by the central agencies. The Public Service 2000 changes were supposed to allow for financial transfers between the Personnel and Operations and Maintenance components of

¹⁰³ Canada. Parliament. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 36th Parliament, Meeting No. 111, May 6, 1999.

¹⁰⁴ Lagueux, *Interview with the Author*.

¹⁰⁵ *Ibid.*

¹⁰⁶ KPMG Consulting LP, *Department of National Defence ASD Capacity Check Assessment*, 1-16.

departmental budgets in a manner that compensated departments for employee costs previously borne by the central agencies. At the outset of the ASD process, however, Treasury Board policy mandated that DND would need to assume responsibility for the 20 percent of overall compensation previously accorded to employee benefits if a service was contracted out. Thus, when comparing the costs of in-house options with those of a private firm, from the perspective of DND's budget alone, private firms were at an automatic disadvantage. Even if the costs of both the private and public sector alternatives were exactly equivalent, the cost to DND of the private option, which would be borne by its Operations and Maintenance budget, would be 20 percent higher than that of the in-house option because the Treasury Board Secretariat paid for the benefits and pensions of soldiers and public servants. Therefore, in the initial years of ASD, a contracted service option could be less costly to the Government of Canada overall, but not cost attractive to DND, since it would have to assume the costs of private sector benefits. As the Auditor General of Canada wrote of this aspect of ASD, "failure to coordinate government compensation policy created an impediment to contracting out,"¹⁰⁷ until the policy was amended in 1999. The attribution of employee benefits for in-house bids resulted in the defence industry feeling, rightly, as though there was an uneven evaluation of the real costs of their bids, since their proposals had to include all such costs.¹⁰⁸ Thus, at the outset, Government of Canada policies were not aligned in a manner that incentivized the private option in ASD reviews.

This problem reflected several other human resources policies, controlled by the central agencies, which significantly restricted DND's ability to reduce costs by contracting with industry. Given the ideological association of their government with neoliberalism, is it

¹⁰⁷ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*, 21.

¹⁰⁸ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 41st Parliament, Meeting No. 99, March 25, 1999.

ironic that many of these policies originated in the Mulroney administration. During Mulroney's first term in office, the government faced significant union opposition to the potential contracting out of public service positions, as was recommended by the Neilsen Task Force. In response, the Mulroney government agreed to a new workforce adjustment policy with all public service unions in 1991 that took effect in March 1994. This directive required that Departments advise union leadership of any decision to explore contracting out, and in the event that the option of tendering contracts to the private sector was chosen, to provide the unions with any cost-benefit studies conducted to support the decision.¹⁰⁹ When such moves were under consideration, the directive furthermore required that employees be guaranteed: 12 months' notice of any contracting out; the offer of another indeterminate position in the Public Service within the same geographical area and at the same salary; or alternatively, 12 months of severance pay which would be reduced to six months' severance pay if employees went to work for the contractor.¹¹⁰ An assessment two years after these changes took effect stated that they effectively "provided de facto life-time job security to all indeterminate public servants and required that any permanent employee declared surplus be given a reasonable job offer in the same geographic area and generally at the same classification level."¹¹¹ Given the remote location of some DND facilities, this would have been difficult for DND to accommodate. Although not their explicit intent, the Government of Canada's collective bargaining agreements with the public services were argued to have amounted to a "*de facto* ban on contracting out."¹¹²

¹⁰⁹ Swimmer and Kinaschuk, *Staff Relations Under the Conservative Government*, 267-312.

¹¹⁰ Ibid.

¹¹¹ Lee and Hobbs, *Pink Slips and Running Shoes*, 343.

¹¹² Swimmer and Kinaschuk, *Staff Relations Under the Conservative Government*, 274.

Successor Rights at Goose Bay

An additional section of the workforce adjustment agreement provided that departments would terminate prospective service contracting if doing so would assist the deployment of fulltime employees previously impacted by a downsizing measure. Both the Public Service Staff Relations Board and the Federal Court of Appeal in Canada ruled that the intent of this clause prohibited the Government from contracting out public service positions if any lay-offs would result, or if surplus employees were capable of performing the work.¹¹³ Following the Court of Appeal ruling, in June 1998, the Public Service Alliance of Canada applied to the Canada Labour Relations Board for certification as the bargaining agent for the employees of Serco, the firm that had just won the contract for base support at Goose Bay under the ASD program. On November 6, the Board ruled that successor rights did apply and certified the Public Service Alliance of Canada as the relevant bargaining agent at Goose Bay.

This decision was hugely consequential, both in Goose Bay, and for the wider ASD program at DND. It meant that the collective agreements in place at the date of transfer of those public sector positions from the Government of Canada to their new positions at Serco, were carried over to the new employer. As a result, retroactive to the date of transfer, April 1, 1998, all aspects of the employees previous compensation, including their salary levels and benefits, were applied to their new positions with the firm. Thus, while ex-DND employees at Serco were already receiving 90 percent of their previous salary at the new company, on average, they immediately began receiving 100 percent of their previous compensation. Furthermore, the employees received a special settlement to compensate

¹¹³ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*, 27.22.

them for the previous wage differential. According to the Minister of National Defence at the time, this was the result of his personal concern about the matter and his direct intervention with the Treasury Board. In addition to that salary increase, DND also obtained an Order in Council authorizing a Transitional Allowance to partially compensate the employees for the loss of their Isolated Post Allowance. This compensation had originally been provided to the public servants who were deployed to the remote Labrador base when it first opened, and was retained to compensate employees for working in an isolated locale.¹¹⁴ The successor's rights ruling resulted in a hugely significant loss in the savings accrued through the contracted option. By changing the compensation regime for the employees after the fact, it immediately cut the savings achieved in half.¹¹⁵

As a result of the controversy related to the Goose Bay decision, DND made a number of changes to its ASD Policy. Amongst these were major changes to any ASD projects affecting 10 or more indeterminate civilian employees. Under the revised policy, DND instituted numerous restrictive requirements for ASD projects. Companies bidding on work were required to make job offers to 50 percent of the affected workforce or ensure that 70 percent of the new contractor workforce be comprised of civilians from the affected workforce, if that approach resulted in greater employment. The firms were also required to: pay individual salaries equivalent to 100 percent of comparable public service salary for similar work; pay full benefits; provide a minimum employment guarantee of two years to any employees transferring from the public service to the firm; and provide an average salary for the moving group of employees equal to at least 85 percent of the group's previous salary. Summarizing the department's views on these issues, the Assistant Deputy Minister

¹¹⁴ Canada. Department of National Defence. Vice Chief of the Defence Staff. "Update on the ASD Review at 5 Wing Goose Bay," accessed January 26, 2000, http://www.vcds.dnd.ca/dgmrs/asd/rev-gsbay_e.asp.

¹¹⁵ *Evidence*, February 17, 2000.

for Civilian Human Resources stated “we want to ensure that DND employees are given the best possible jobs at the best possible wages. One of our principal goals in every ASD situation is to maximize employment opportunities for our people.”¹¹⁶ These requirements meant that firm’s bids would be rejected, if they failed to meet the mandated human resources provisions, regardless of how cost effective they were.¹¹⁷

Beyond these provisions, DND also mandated specific requirements for employee retention over and above those outlined in the general directive. For the NATO Flying Training Center, for instance, DND required that the contractor employ 70 percent of the pre-existing Moose Jaw employees.¹¹⁸ For the Goose Bay project, the initial requirement for employees was also 70 percent, although it ended up being between 75 and 80 percent.¹¹⁹ The requirements were particularly onerous for DND’s ASD review of the DND Supply Chain. Discussing the possible contracting out of the Supply Chain in 2002, Alan Williams stated that “fair treatment of our valued employees has always been at the forefront.”¹²⁰ Expanding on this point he argued, “Given that we have to try to do our best for the taxpayers, from my perspective at least we’re trying to do it in the most favourable and helpful way for our employees, who deserve nothing less.”¹²¹ Consequently, the project mandated that, if transferred to a private firm, 100 percent of the affected permanent employees be guaranteed employment for seven years, with salaries equivalent to or better than public service pay rates, including full benefits, and pension. To ensure that this would be the case, the bid from the firm was reviewed by DND as well as both the relevant unions

¹¹⁶ Canada. Department of National Defence. Vice Chief of the Defence Staff, *Update on the ASD Review at 5 Wing Goose Bay* (un-paginated).

¹¹⁷ *Evidence*, May 6, 1999.

¹¹⁸ *Evidence*, October 30, 1997.

¹¹⁹ *Evidence*, May 13, 1998.

¹²⁰ *Ibid.*

¹²¹ *Ibid.*

and the affected defence employees, to ensure it delivered the desired treatment of defence workers.

Given these proscriptive guarantees, it is unsurprising that the Supply Chain bid was not considered overly impressive in terms of its cost savings. As Williams described in 2002, he had considered the proper treatment of affected employees to be of seminal importance, as he “didn’t join the public service in order to treat people badly.”¹²² Reflecting back on this period in 2011, Williams articulated that he personally believed that it was not necessarily true that the private sector can do things better than the public sector.¹²³

Overall, these policies significantly reduced the potential cost savings that could be achieved by private firms. Part of the original business case for proceeding with ASD had been predicated on lower labour rates in the non-unionized private sector.¹²⁴ That assumption proved to be inapplicable, since the Government of Canada’s human resources policies required in fact that public sector compensation rates be applied to any bidder’s workforce. These policies then mandated that these full costs, including roughly 20 percent in public service benefits be included in bids, while the costs of employee benefits were not included in in-house bids.

Under these conditions, winning bidders would have needed to adopt remarkably innovative practices to be competitive.¹²⁵ As the Supply Chain project indicates, this was simply impossible. By enacting these policies, largely as a result of union pressure, the Government of Canada made cost savings extraordinarily difficult to achieve. In practice, ASD essentially entailed taking government compensation rates and applying them to the

¹²² Ibid.

¹²³ Alan S. Williams, Telephone Interview with the Author, October 19, 2011.

¹²⁴ Buck, *Interview with the Author*.

¹²⁵ Buck, *Email Correspondence with the Author*.

private sector, and then asking the company to perform the work in the exact same way.¹²⁶ In Vice-Admiral Garnett's view, the 'push back' from DND employees, their unions and in turn politicians reacting to union dissent, led to the effective end of the private sector contracting options as part of ASD.¹²⁷

The Most Efficient Organization Option

By 1998, private sector options had become extremely contentious, facing significant opposition from the unions representing defence civil servants and Members of Parliament from ridings with large military presences.¹²⁸ As a result, increasingly onerous conditions were placed on ASD reviews, which made in-house alternatives more appealing. In May of 1998, Minister of National Defence Art Eggleton stated "this government has an obligation and a desire to make sure that our employees are treated in a fair and humane way...the goal in our current review of site-support services at six bases is the development of a most-efficient organisation, or MEO. So it's no longer just ASD...but a most-efficient organization is what we'll attempt to do first."¹²⁹ As he elaborated, this shift was prompted by his personal intervention. In the same testimony before SCONDVA, Eggleton continued that "I recently directed the department to ensure that employees at the six sites have the opportunity – this is important-to demonstrate whether sufficient savings can be achieved through internal redesign of the work before a decision is made to pursue the competitive

¹²⁶ Buck, *Interview with the Author*.

¹²⁷ Garnett, *Interview with the Author*.

¹²⁸ *Evidence*; Canada. Parliament. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 37th Parliament, Meeting No. 59, June 6, 2002.

¹²⁹ *Evidence*, May 13, 1998.

process through ASD.”¹³⁰ This edict resulted in the ASD review of Site Support at those bases stalling to allow the Most Efficient Organization process to proceed.¹³¹

The shift towards defaulting to in-house bids significantly reduced the inclination towards privately contracted solutions. Although this reduced the amount of service contracting that occurred, it still produced the desired outcome, less expenditure of human and financial resources on DND’s support activities. It furthermore achieved this with significantly less confrontation with the defence unions.¹³² According to Jim Judd, the Deputy Minister, the Most Efficient Organization approach “means that local management could work closely with union representatives and propose an internal redesign of the work now carried out that would produce the kinds of savings and other benefits we would expect to achieve if the work were turned over to a new service provider.”¹³³ The in-house efforts to improve upon the Supply Chain’s efficiency, for example, had already reduced the cost of operating the supply chain by more than \$200 million before a tender was extended to industry under the official ASD review in 2001.¹³⁴

Bureaucratic Resistance

The shifting focus in National Defence Headquarters to favour in-house bids became a further impediment to potential contracting because it reinforced a pre-existing inclination on the part of many local managers to support the Most Efficient Organization reforms of their workforce. The commitment to even this form of ASD was supported

¹³⁰ Ibid.

¹³¹ Sassine and Perras, *Interview with Sharon Hobson, Provided to the Author*.

¹³² Ibid.

¹³³ *Evidence*, February 17, 1990.

¹³⁴ Canada. Parliament. House of Commons. Standing Committee on Public Accounts, *Evidence*, 2nd Sess., 36th Parliament, April 4, 2000.

more vigorously by DND's senior corporate leaders, than at lower management levels.¹³⁵ The department's most significant ASD projects were put in place by the Materiel Group as centrally managed contracts funded out of the National Procurement budget.¹³⁶ While these projects could be initiated centrally, however, full implementation required active cooperation from the commanders of local bases or support organizations. This support was often less than enthusiastic.

The ASD process, requiring numerous procedural steps, was seen as a burden by implanting managers. The time consuming process also came with what commanders perceived to be substantial risk to their support arrangements. In part this was due to the fact that the advice they received about the potential impacts of any changes came from their own maintenance personnel, who had vested interests in keeping the functions "in house."¹³⁷ Given the numerous other downsizing and reengineering activities, there was also a substantial degree of fatigue with the overall process of widespread change at DND.¹³⁸ While it was only one of the initiatives underway, ASD became "a lightning rod for a lot of concerns"¹³⁹ arising from other reductions, reforms and the controversy over the Somalia scandal. As well, in many instances, local managers "pushed back"¹⁴⁰ and "championed"¹⁴¹ their employees' efforts to retain their positions through the ASD process. By actions such as actively supporting the creation of a Most Efficient Organization, local commanders worked actively to retain services in-house. This was particularly the case on many army bases, where the regimental system of two-way loyalty between subordinates and

¹³⁵ KPMG Consulting LP, *Department of National Defence ASD Capacity Check Assessment*, 1-16.

¹³⁶ Lagueux, *Interview with the Author*.

¹³⁷ Ibid.

¹³⁸ KPMG Consulting LP, *Department of National Defence ASD Capacity Check Assessment*, 1-16.

¹³⁹ *Evidence*, April 1, 1998.

¹⁴⁰ Garnett, *Interview with the Author*.

¹⁴¹ Pennie, *Interview with the Author*.

commanders was particularly strong, resulting in base commanders working hard to prevent their subordinates' services from being contracted.¹⁴² Similar dynamics appeared across DND and the CAF however. When the military supply chain was subjected to the ASD process, both the ADM Mat and the senior military logistics officers working with him challenged the in-house workforce to prepare a bid to compete against the private sector alternative and actively supported that effort. These senior leaders were motivated in doing so by the sentiment that their people deserved a chance to demonstrate what they could do on their own.¹⁴³ In general, taking away work from subordinates was not a popular activity.¹⁴⁴ An audit by KPMG found enacting ASD could result in a loss of professional pride and status, as well as reduced control over the provided service, exacerbating the other disincentives.¹⁴⁵ Testifying before SCODVA, the Chief of the Defence Staff General Baril stated that the overall process in DND "makes our people nervous...it is perceived by our employees that we are changing the goalposts as we're moving."¹⁴⁶

High level support for ASD was therefore easiest to find when ASD projects supported existing institutional interests. The RCAF, for instance, actively supported the NATO Flying Training in Canada, North Warning System and Goose Bay ASD initiatives for two reasons. First, the RCAF had borne a disproportionate share of the DND's post-1989 reductions, as by 1997 that service found itself "45% smaller in people terms and 50% smaller in budget terms."¹⁴⁷ This likely left the RCAF more receptive to such initiatives than the Army, which had actually received a 3,000 person increase. Second, with respect to the North Warning System and Goose Bay, institutionally, the RCAF had no operational stake

¹⁴² Lagueux, *Interview with the Author*.

¹⁴³ Lashkevich, *Interview with the Author*.

¹⁴⁴ Macdonald, *Interview with the Author*.

¹⁴⁵ KPMG Consulting LP, *Department of National Defence ASD Capacity Check Assessment*, 1-16.

¹⁴⁶ *Evidence*, October 4, 1991.

¹⁴⁷ *Evidence*, December 4, 1997.

in either activity and in fact wanted to divest itself of the operation.¹⁴⁸ Faced with serious resource pressures and not wanting to keep performing the activities, it was not difficult for the RCAF to support either project. In contrast, the Army after 1994 was actually provided with extra staff. In combination with the regimental system and the aversion to contracting described in Chapter 4, this left the Army more inclined to support keeping its support in-house under a Most Efficient Organization process.

Interactions with Other Government Departments and Delay

A final source of delay in proceeding with ASD was a time and resource intensive process of briefing ASD files up through multiple layers of bureaucracy which was required to assess whether a change in service provision might be warranted. The Treasury Board Secretariat of Canada, for instance, was the authority for human resources policies and any personnel related matters of consequence. Their involvement, along with that of many other government departments, particularly PWGSC as the contracting authority, for extensive reviews added substantial delay to the initial tranche of ASD projects. Combined with the need to consult with the unions and outside consultants, these procedural impediments substantially slowed the pace of implementation.¹⁴⁹ After the controversy with Goose Bay, DND's ASD policy was amended to require ministerial approval to initiate any ASD review potentially affecting more than 10 indeterminate civilian positions. For a department with 21,000 civilian employees at that point in time, this was an exceptionally onerous requirement.¹⁵⁰ Outside DND, the policy required advising the Treasury Board Secretariat

¹⁴⁸ Lagueux, *Interview with the Author*.

¹⁴⁹ Garnett, *Interview with the Author*.

¹⁵⁰ Canada. Department of National Defence, *DND Policy on Alternative Service Delivery* (Ottawa: 2003).

of any initiatives involving “sensitive financial or Human Resources issues.”¹⁵¹ This requirement came in addition to the standard requirements for Treasury Board authorization for any contracts with expenditures in excess of \$100 million.

As a result of these factors, by the time many of the initiatives first proposed after the 1995 adoption of ASD were ready to proceed to Requests for Proposals in the late 1990s several years had passed. By that time, the fiscal and political climate in Ottawa had shifted significantly. As of 1997, “the fiscal target had not only been met, it had been exceeded”¹⁵² for the federal government as a whole. As Chapter 3 demonstrated, by 1999/2000 the rest of the federal government had recovered the purchasing power it held in 1989. Furthermore, after a traumatic public service downsizing, the Clerk of the Privy Council, the top civil servant, concerned about employee morale, had launched *La Releve* in 1996 to modernize, rebuild and reinvigorate the public service and acknowledge the damage done by the cuts.¹⁵³ As a result, in Vice-Admiral Garnett’s opinion, the central agencies had already “moved on” conceptually from the ASD initiative just as DND was getting ready to move it forward significantly. As a result, DND was looking at potentially privatizing 5,000-7,000 jobs across the country just as the public service as a whole was starting to recover.¹⁵⁴ Due to this changed atmosphere, the Minister of National Defence decided to change the focus to smaller initiatives focused at the regional level, reducing the appeal of the contracts to industry.¹⁵⁵

¹⁵¹ Canada. Department of National Defence. Director General Strategic Change, *Guide to Alternative Service Delivery* (Ottawa: 2003).

¹⁵² Leslie A. Pal, "Balancing Act," in *How Ottawa Spends 1998-99*, ed. Leslie A. Pal (Toronto: Oxford University Press, 1998), 7.

¹⁵³ *Ibid.*

¹⁵⁴ Garnett, *Interview with the Author*.

¹⁵⁵ *Ibid.*

As of April 1, 1998, two and a half years after the process was launched, only four ASD projects had actually proceeded to a competition.¹⁵⁶ Given these constraints, concern was expressed by late 2002 that the multitude of restrictions had created “bureaucratic gridlock”¹⁵⁷ for defence ASD projects. This delay did not go unnoticed by the defence industry. The “very cumbersome, lengthy” process for arriving at a course of action had left the defence industry “a bit cynical” about the process by 2000.”¹⁵⁸

The last major project to examine a contracted option was the military’s Supply Chain. It was selected for DND’s shortlist of priority ASD projects in 1997, but the business case analysis supporting the project was not completed until 1999. An interim contract was awarded to a firm to review the business case and decide whether the project was actually commercially viable in August 2001, with a mandate to report back to DND in August 2002. That November, the Minister of National Defence announced that DND would not proceed with a contract.¹⁵⁹ This project illustrates how the extensive delay in implementing ASD led to the initiative being misaligned with the wider resource context at DND. The direction to pursue the initiative was announced in the *1994 Defence White Paper* at a time when defence resources were planned to reduce sharply over the next four fiscal years. When the private sector bid was received for the Supply Chain, eight years had passed and the circumstances had changed radically. By the fall of 2002, the defence resource circumstances had changed significantly. At that point in time, the defence budget had been increasing for four years and the size of the civil service had already grown by 10 percent.¹⁶⁰

¹⁵⁶ *Evidence*, April 1, 1998.

¹⁵⁷ Canada. Department of National Defence. Vice Chief of the Defence Staff, *Summary Record of the 29 November 2002 Meeting of the Alternative Service Delivery Steering Committee* (Ottawa: 2003) (un-paginated).

¹⁵⁸ Sharon Hobson, "DND Looks to Contract Out Non-Core Business," *Jane's Defence Weekly*, February 2, 2000.

¹⁵⁹ *Evidence*, June 6, 2002.

¹⁶⁰ See Figure 5 in Chapter 3.

Alternate Service Delivery and Program Review writ Large

DND's experience with ASD was somewhat different than the reception it experienced throughout the federal government. Although the Treasury Board Secretariat attempted to follow a New Public Management agenda, its success in doing so was mixed. As originally conceived, Program Review as a whole proposed to rethink and reframe the role of the state in Canada, but it evolved significantly over time. By the end of 1994, however, it had morphed into a budget cutting exercise.¹⁶¹ What had notionally begun as a fundamental re-examination of government's role in society, became, in effect a "scramble for cash."¹⁶²

This result, according to Savoie, is attributable to a lack of Prime Ministerial interest, as Chrétien, like Mulroney before him, did not consider New Public Management initiatives a high priority.¹⁶³ Rather, New Public Management initiatives including both "the sale of public assets and the contracting out of activities by the federal government...had more to do with the need to raise cash and reduce spending than a desire to pursue the New Public Management Agenda."¹⁶⁴ Government wide, what had started out as a first principles review of whether government should continue providing services at all, had morphed into a cost cutting exercise. As highlighted earlier, in reality, the Government of Canada's human resources policies had never reflected this desire to fundamentally rethink the role of the state, at least with respect to replacing civil servants with contractors. In fact, the human resource restrictions precluded a rethink of the role of the state, and significantly reduced the likelihood that significant cash would be found by any method other than a most efficient

¹⁶¹ Paquet and Shepherd, *The Program Review Process*, 39-72.

¹⁶² *Ibid.*, 51.

¹⁶³ Donald J. Savoie, *Governing from the Centre* (Toronto: University of Toronto Press, 1999).

¹⁶⁴ *Ibid.*, 316.

organization process. While the process overall may have been inspired by neoliberal thinking, the Human Resource policies affecting the process did not reflect it at all. Rather, these policies literally imposed the public sector's compensation regime on any private firms bidding to take over work previously performed by the civil service.

Analysis

The chapter provides strong support for the budget optimization explanation advanced in this study. For National Defence, ASD was never simply a means of achieving financial savings, although that was part of its initial appeal. Rather, what endeared DND to ASD was that the resources saved, both in terms of money and personnel, and both were considered equally valuable, could be directed towards a specific DND priority: operational capability. In the specific instance of NATO Flying Training in Canada, ASD also allowed DND to use its Operations and Maintenance budget to compensate for a lack of Capital funding.

Ostensibly, the Government directed DND specifically to look for private sector service providers in the *1994 Defence White Paper*, as a means of reducing its budget. As the review of the origins of this direction suggests, however, it originated within the military bureaucracy, and was accepted by the Government because it fit within their wider agenda. As the language in the 1994 Defence Committee's report indicated, from its first suggestion, the appeal of private service provision at DND was that it could allow a reallocation of DND resources to operational capability. Because it was believed that outsourcing would be cheaper, it was also thought that this would help National Defence meet its budget cuts. It had wider appeal because it allowed DND to maximize the operational capability of its full time troops which had been restricted to a 60,000 person ceiling. The budget dynamics at

the time also made Capital the residual budget category, leaving DND scrambling to allocate as much of its budget to that spending as it could, and in one instance actually made up for a shortfall in that spending. For roughly as long as these conditions existed, until 1999, support for ASD was strong in the senior ranks of the defence establishment.

Between the initiation of ASD in 1995 and 1999, though, a number of factors delayed progress on ASD projects. During that delay it became evident that although ASD had been launched on the assumption that it would save DND money, the Government of Canada's policies did not enable that outcome. In fact, in a number of respects, they actually inhibited attempts to achieve cost savings. The human resources policies of the Government of Canada were established in a manner that made a private contractor less cost efficient than they could have been had private firms been allowed to submit bids based on private industry compensation rates and business practices alone. Imposing public sector practices onto the private sector bids significantly reduced the potential for savings, as did the attribution of benefits and pensions to private sector bids. These below-potential savings combined with significant resistance by organized labour to reduce the appeal of contracted solutions.

Further, many at DND did not embrace the private sector options. Rather, they more broadly wanted to reallocate resources to operational capability, and ASD was simply one of several initiatives undertaken to achieve this outcome. The unions adamantly opposed ASD initiatives, and found a receptive audience in the office of the Minister of National Defence, and after Alan Williams assumed the role, the Assistant Deputy Minister, Materiel. As a result, the bureaucratic process to proceed with ASD projects became more intensive, thereby delaying timely progress.

As a result, by the time some key projects were being considered for ASD review, many of the resource pressures that had made the option appealing in the first instance no longer existed. By 2000/2001, DND's budget was increasing and the civilian workforce growing, reducing the pressure for change. In the face of significant controversy and bureaucratic headaches enacting private sector options and with in-house alternatives producing the same re-allocation results, support for ASD quickly tailed off. With the Most Efficient Organization process offering the prospect of redirecting resources in the manner DND desired, the option of replacing DND employees with contracted solutions fell out of favour. Consequently, DND was happy to continue proceeding with in-house reorganizations of the Supply Chain and the 202 Workshop Depot through Most Efficient Organization reviews. They afforded a means of reallocating resources to achieve DND's ultimate goals for the program, much as private solutions had, but in a manner that did not conflict with Government of Canada policies and defence attitudes towards the treatment of its Personnel.

Chapter 6: In-Service Support

One of the most significant components of service contracting in Canadian defence is for ISS. Collectively, ISS comprises “all activities, including, but not limited to, engineering services (such as maintenance, repair, test and upgrade), logistics (such as parts supply, documentation and training) and related management functions, necessary to maintain a CF platform throughout its service life.”¹ This field represents a significant component of Canadian defence activity with the private sector. These contracts accounted for 10 of the 31 largest contracts listed in the 2014 Defence Acquisition Guide, National Defence’s published list of major goods and services contracts.²

Unlike the procurement of other defence services such as those obtained under the ASD program and the operational supports described in the next chapter, a sizable literature exists on the procurement of major weapons systems in Canada, with which ISS is closely linked. Yet, within the Canadian defence procurement literature, the study of ISS and its evolution over time has received little attention. This is somewhat surprising since one maintenance contract, for the CF-18 fighter aircraft, was the subject of significant political discussion.³

Analyses of defence procurement have generally been focused on the wider defence industrial base, or case studies of individual procurement files.⁴ Regarding the latter, publically contentious procurement files have received the most attention, including two

¹ Canada. National Defence and the Canadian Forces. "DAOD 3022-0, Procurement of in-Service Support for CF Platforms," accessed August 13, 2014, <http://www.forces.gc.ca/en/about-policies-standards-defence-admin-orders-directives-3000/3022-0.page>.

² Canada. National Defence and the Canadian Armed Forces. "Defence Acquisition Guide 2014," accessed July 30, 2014, <http://www.forces.gc.ca/en/business-defence-acquisition-guide/index.page>.

³ Pal, *The CF-18 Affair*, 19-52.

⁴ *Security, Strategy and the Global Economics of Defence Production* (Montreal, Quebec: McGill-Queen's University Press, 1999); Edgar and Haglund, *The Canadian Defence Industry in the New Global Environment; Canada's Defence Industrial Base* (Kingston: R.P. Frye, 1988).

separate fighter aircraft acquisitions, and the purchase of maritime helicopters.⁵ The few studies examining procurement systematically have given ISS only brief attention at best.⁶ Government reports have not been much better at covering this subject. The Auditor General of Canada, which has frequently been the leading source of information on procurement more broadly, has examined ISS only sporadically. The Auditor General of Canada's 1988 report found, "Of the 1.5 million items managed by the Canadian Forces Supply System, about 33,000 are repaired under contract to the private sector or in third-line DND repair facilities. The value of these items accounts for about half of DND's \$7.5 billion inventory."⁷ Subsequent audits did not examine ISS provided by contractors, even though beginning in the mid 1980's, the Auditor General of Canada, the House of Commons Public Accounts Committee and DND all agreed that life-cycle costs, including ISS, were of significant importance.⁸ The 1996 Auditor General of Canada report into defence productivity which examined air maintenance recognized that "the Department has contracted out much of its air maintenance"⁹ yet focused its audit solely on support provided by DND or the CAF. Surprisingly, contractor maintenance was expressly excluded from the Auditor General of Canada's analysis of in-service equipment in 2001.¹⁰ As a result, only in

⁵ Plamondon, *The Politics of Procurement*; Aaron Plamondon, "Amnesia in Acquisition," *Canadian Foreign Policy Journal* 17, no. 3 (2011): 265-276.; Massie, *Bandwagoning for Status*, 256-269; Alan S. Williams. *Canada, Democracy and the F-35* (Kingston, ON: Defence Management Studies Program, School of Policy Studies, Queen's University, 2012); Michael Byers and Stewart Webb, "Canada's F-35 Purchase is a Costly Mistake," *Canadian Foreign Policy Journal* 17, no. 3 (2011): 217-227.; Anton Bezglasnyy and Douglas Alan Ross, "Strategically Superfluous, Unacceptably Overpriced," *Canadian Foreign Policy Journal* 17, no. 3 (2011): 239-250.; Rob Huebert, "The Future of Canadian Airpower and the F-35," *Canadian Foreign Policy Journal* 17, no. 3 (2011): 228-238.; Tim Dunne, "A Case for the F35 Lightning," *Canadian Military Journal* 11, no. 4 (2011): 55-60.

⁶ Alan S. Williams, *Reinventing Canadian Defence Procurement* (Montreal: Breakout Educational Network, School of Policy Studies, Queen's University, and McGill-Queen's University Press, 2006); Middlemiss, *Defence Procurement in Canada*, 391-412.

⁷ Canada. Office of the Auditor General of Canada, *Chapter 15: Department of National Defence* (Ottawa: 1988), 15.51.

⁸ Byers, *Canadian Security and Defence*.

⁹ Canada. Office of the Auditor General of Canada, *Chapter 34: National Defence - Support Productivity*, 34.88.

¹⁰ Canada. Office of the Auditor General of Canada, *Chapter 10: National Defence - in-Service Equipment* (Ottawa: 2001).

the Auditor General of Canada's 2011 audit on maintaining and repairing military equipment has ISS been examined in detail.¹¹

As a result, it remains difficult to know how much is spent on ISS with the private sector, as the breakdown between in-house and privately contracted National Procurement expenditures for 2001/2002 discussed in Chapter 4, has not been replicated. Thus, while the Auditor General of Canada reported in 2009/2010 that \$1.8 billion of the National Procurement budget was allocated to obtain third and fourth line maintenance, a breakdown between expenditures on in-house and commercial resources was unavailable.¹² Assessing the overall share of resources spent in house and with industry is furthermore difficult because the funding comes from multiple sources. While the National Procurement budget is centralized and controlled by ADM Mat., first and second line maintenance and repair performed at Canadian Forces Bases across the country is funded through the local operations and maintenance budgets of the Army, RCN and RCAF. While this funding totaled several hundred million dollars in 2009/2010, it is impossible to disaggregate this data. Because total maintenance expenditures are not accounted for by fleet, it is impossible to provide for exact expenditures on specific platforms which might enable a more detailed breakdown of the allocation of maintenance between government and commercial resources.

Nonetheless, it is clear that over the last decade, "DND has made sweeping changes in its approach to contracting for maintenance and repair of both existing and new equipment."¹³ These changes have been fourfold. First, an increasing share of third and fourth line maintenance is performed by industry, and the second and first line maintenance

¹¹ Ibid.

¹² Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

¹³ Ibid., 2.

of some fleets has also been contracted. Second, the focus of contracting efforts has evolved from repairing and overhauling components, to work on larger assemblies and now entire platforms or even fleets. Third, contracted support arrangements have shifted to fewer contracts including both the actual support and the management of support arrangements, and significantly increased in duration. Fourth, these arrangements have moved progressively away from simple 'time and materials' transactions to performance based maintenance arrangements oriented around weapons system availability and performance.

This chapter reviews four evolutions in Canada's approach to contracted maintenance. The first occurred alongside the ASD program and was driven by the same imperatives. The budget cuts and personnel reductions that accumulated after 1989 and a desire to allocate the remaining resources to operational forces to the maximum extent possible led DND to turn an increasing share of ISS work over to industry. Influential in this shift was the fact that reductions to front line maintenance staff through ASD had created a situation where the military lacked the capacity to maintain some fleets in-house. A lack of capacity also precipitated the second shift reviewed, to OWSM. This saw a move to bundle together maintenance contracts into fewer contracts that were easier for a much smaller Materiel Group in Ottawa to manage. The third change reviewed, to adopt the ISSCF, saw the combination of acquisition and support contracts and their award to OEMs become DND policy. This was driven by multiple factors, including the desirability of: creating a single point of accountability; increasing fleet availability; maximizing total life-cycle costs; and managing new fleets with a Materiel Group too small to do so otherwise. The fourth shift examines a number of activities started in 2014 to move away from the

ISSCF. Two of these are driven by domestic political and economic imperatives while the third is part of a wider effort to once again maximize DND's tooth to tail ratio.

The 1994 Defence Review and the 1994 White Paper

As was the case with the adoption of ASD the first phase of changes to DND's arrangements for ISS arose from the reduction pressures and changed initiatives outlined in detail in Chapter 6. As such, they will only be reviewed here in brief. In short, the pressure to reduce the defence budget and cut staff after 1989 had culminated in the mid-1990s. As a result, DND lost a significant portion of its staff and much of its budget. In reaction to this new level of resources, DND made a deliberate decision to apportion as much of these cuts as it could on its support forces. Thus, military and defence civilian maintenance staff were clearly identified as tail that could be reduced to prioritize the apportionment of resources to front line operational capability. As part of this effort, the Army's 202 Workshop Depot and the RCN's FMFs each went through the ASD process. In both cases, Most Efficient Organization reforms were undertaken, which significantly reduced the number of staff working in each.¹⁴

The Materiel Group in Ottawa was similarly treated as tail, and downsized heavily, as part of two initiatives. The first was Operation *Exelerate*, initiated in the Materiel Group in 1994 "to achieve major improvements in the cost effectiveness of materiel operations while providing the same level of service."¹⁵ This provided an organizational coherence to the force reductions occurring during this period and also helped shape the implementation of the second initiative, the White Paper's direction that the size of the National Defence

¹⁴ Canada. Office of the Auditor General of Canada, *Chapter 27: National Defence - Alternate Service Delivery*.

¹⁵ Canada. Office of the Auditor General of Canada, *Chapter 34: National Defence - Support Productivity*, 34.17.

Headquarters be reduced by one third. This directive applied to all headquarters organizations which then, as now, encompassed the Materiel Group, the organization responsible for managing DND's equipment fleets. As a result of this reduction, as well as the multiple pressures to reduce the size of DND's support infrastructure, the Materiel Group's staff was cut severely and it had several functions removed from its purview. This resulted in sizable reductions to the staff responsible for planning, managing and contracting for maintenance and repair. Because of these changes the reorganized Materiel Group did not perform the same roles it had prior to that reorganization. However, comparing only the workforce performing similar tasks, the Materiel Group was essentially cut in half. It dropped from roughly 9,000 positions at the end of the 1980s to 4,200 positions by 2003/2004.¹⁶ DND's maintenance support organizations therefore faced a double reduction. The change initiatives resulted in fewer frontline maintainers as well as fewer materiel managers. This resulted in both a loss of in-house capability to perform ISS as well as a loss of ability to manage the remaining arrangements for ISS. Each of these pressures would drive changes to the share of ISS performed by industry.

In the first public record indicating there might be a change to these arrangements, Assistant Deputy Minister, Materiel Pierre Lagueux informed the Aerospace Industries Association of Canada in April 1994 that DND would be increasing the share of aircraft maintenance work performed by the defence industry.¹⁷ The value of making such a shift was echoed in the review by the Special Joint Committee on Canada's Defence Policy. In the course of the Special Committee's study, three individuals, representing defence contractors and the Canadian Defence Preparedness Association, suggested in their

¹⁶ David Perry. *Putting the 'Armed' Back into the Canadian Armed Forces* (Ottawa: CDA Institute, 2014).

¹⁷ Oliver Bertin, "Transport, Defence Plan to Expand use of Private Sector Aerospace Meeting Told of Proposals," *The Globe and Mail*, April 20, 1994.

testimony that National Defence increase its reliance on contractors for the In-Service Support of military equipment. The president of the Canadian Defence Preparedness Association, for instance, stated that “Department of National Defence should consider contracting out more of its life-cycle support where it can be shown to provide savings.”¹⁸ As with ASD, it is probable that the Committee received *in camera* briefings about ongoing efforts to alter ISS arrangements, particularly given Lagueux’s speech in April. Based on this testimony, the Committee’s recommendation that DND conduct a “rigorous examination of which military occupations and trades can be filled by civilian employees or contractors”¹⁹ was as applicable to ISS specifically as any of the activities reviewed under the ASD program as whole.

The Committee’s recommendation was incorporated into the *1994 Defence White Paper*, which provided the direction that DND “explore innovative ways to acquire and maintain equipment.”²⁰ Beyond this general missive, the White Paper also specifically directed the RCAF to examine its maintenance arrangements for the planned purchase of a search and rescue helicopter. Discussing this project, which had emerged from the cancelled EH-101 acquisition, the White Paper stated, “we also intend to explore other possibilities, including different forms of partnership with the private sector for aircraft maintenance.”²¹ In the same section, the White Paper went on to state that “The Canadian Forces will reduce military staff in certain occupations and trades as functions are contracted out or reassigned to civilian employees.”²²

¹⁸ Canada. Parliament. Special Joint Committee on Canada's Defence Policy, *Evidence*, 1st sess., 35th Parliament, Issue No. 10a, 1994.

¹⁹ Canada. Parliament. Special Joint Committee on Canada's Defence Policy., *Security in a Changing World*, 48.

²⁰ Canada. Department of National Defence, *1994 Defence White Paper*, 41.

²¹ *Ibid.*, 48.

²² *Ibid.*

This reduction in the staff assigned to manage both the acquisition of new equipment as well as support equipment already in service was clearly significant. Although the demands on the portion of this workforce responsible for acquiring new equipment dropped during the 1990s, as capital expenditures dwindled, the demands on the equipment support organizations did not. Instead, the workload on this workforce increased significantly, as international peacekeeping commitments throughout the 1990s drove a much higher activity rate. This in turn increased maintenance demands substantially.²³ The combination of policy direction to examine new support arrangements, fewer people working in frontline support roles and a much smaller Materiel Group staff quickly led to a significant evolution in the traditional support arrangements for new equipment fleets.

The 1990s Changes to In-Service Support: Royal Canadian Air Force

As Chapter 4 describes, as recently as *Canadian Defence Policy*, published in 1992, the Canadian Government had directed that a degree of indigenous support for ISS be maintained in Canada. DND had furthermore evolved to an understanding with the proposed purchase of the EH-101 that the support arrangements would be arranged at the time of equipment acquisition. The first new fleet of aircraft actually obtained under this arrangement was the CC-150 in 1992. There, the completely commercial nature of the aircraft lent itself easily to support by industry.

The next fleet to be acquired, the 100 CH-146 Griffon Helicopters, were ordered the same year, 1992, though their delivery did not start until 1994. These were a slightly modified version of the commercial Bell 412 helicopters. They were acquired from Bell Helicopters through a sole-sourced contract that included a provision for their assembly at

²³ Fetterly and Essaddam, *An Examination of Defence Operations and Maintenance Costs in Canada*, 190-200.

the company's Montreal plant which had been established with government funding.²⁴ In 1994 it was announced publically that the maintenance for the helicopters would be provided by the firm²⁵ and three separate maintenance contracts were arranged with Bell Helicopter.²⁶ Like the Airbus acquisition, this maintenance arrangement was similarly due, in part, to the commercial nature of the airframes. Since they were built to civilian specifications and would be maintained to civil standards, directing the support contract to Bell allowed their support to tap into the company's existing worldwide commercial inventories and supply chain.²⁷ This was a key motivation for including the management of spare parts as part of the contract with the company, rather than the previous practice of holding such items in DND warehouses.²⁸ These support arrangements were uncontroversial, likely because in both instances the support firm was domestic and the same one that had supplied the aircraft originally. Thus access to technical data and Intellectual Property was not an issue.

These unproblematic arrangements changed, however, with the acquisition of Search and Rescue Helicopter, the CH-149 Cormorant. This project had emerged out of the cancelled EH-101 purchase. Following the *1994 Defence White Paper's* specific direction that commercial maintenance be examined for this platform, by 1997 the project planned to have two separate competitions, one for the aircraft and a second for its support and maintenance.²⁹ The 1998 contract to acquire the Cormorant was therefore signed with the

²⁴ Ross Howard and Alan Freeman, "Deal for Helicopters Defended Minister Accuses Critics of Opposing Only Contracts that Go to Quebec," *The Globe and Mail*, April 25, 1992.; Ross Howard and Alan Freeman, "Favouritism Alleged in Helicopter Deal Ontario Firm Not Allowed to Bid on \$1-Billion Contract," *The Globe and Mail*, April 16, 1992.

²⁵ Bertin, *Transport, Defence Plan to Expand use of Private Sector Aerospace Meeting Told of Proposals*.

²⁶ "Air Force Cuts Act as Spur to Contract-Out," *Jane's Defence Weekly*, April 16, 1997, 21.

²⁷ John D. Morrocco and David Hughes, "Tight Budgets Force Innovative Strategies," *Aviation Week and Space Technology* 142, no. 11 (1995): 55.

²⁸ Fischer, *Interview with Sharon Hobson, Provided to the Author*.

²⁹ *Air Force Cuts Act as Spur to Contract-Out*, 21-22.

expectation that it would be fully supported by industry. In 2000, IMP Aerospace & Defence IMP Group won the contract. As a result, the Cormorant remains the only RCAF aircraft for which all three lines of maintenance (along with program management, airworthiness certification, engineering, logistical support and technical training) is fully contracted. This aircraft is thus unique amongst all others in the RCAF inventory in that no RCAF maintenance whatsoever is conducted on the Cormorant.³⁰

Several factors were crucial in driving this unique contracting of all three lines of maintenance. The first was the specific policy direction in the *1994 Defence White Paper* to do so. The second driver was the budgetary and personnel reductions experienced by the RCAF after 1989. This process had seen the RCAF lose 45 percent of its people, and half of its overall budget. Within that cut, the RCAF's Operations and Maintenance budget was reduced more sharply, by 65 percent. At the time, it was estimated that fully contracting out the aircraft maintenance would allow the RCAF to free up 140 maintenance personnel for redeployment to other tasks.³¹ There was also an expectation that contractor maintenance could be performed more cost effectively by a civilian contractor than the RCAF, thus providing for cost savings.³² What made "Fully Contracted-out"³³ maintenance possible was the unique operational characteristics of the helicopter, which was the third major driver of this shift. Because it was not a tactical aircraft, but rather a dedicated Search and Rescue asset, the expectation was that the aircraft would operate exclusively in Canada.³⁴ Thus, while the flight crews and Search and Rescue technicians needed to be military personnel,

³⁰ Ken Ready, Interview with Sharon Hobson, Provided to the Author. September 24, 2001.

³¹ Canada. Department of National Defence. Chief Review Services, *Review of the Canadian Search and Rescue Helicopter Acquisition (Cormorant)* (Ottawa: 2007).

³² Hobson, *DND Looks to Contract Out Non-Core Business*, 34.

³³ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*, 4.

³⁴ Sassine and Perras, *Interview with Sharon Hobson, Provided to the Author*.

the view at the time was that the aircraft did not require a military maintenance capability, since it would not deploy operationally. On that assumption, it was believed that the aircraft could be maintained by any entity that provided helicopter repair and maintenance.³⁵ The contract was novel in the sense that it extended to the first and second lines of maintenance, but fit with the traditional model in that the contract for ISS of a foreign manufactured aircraft was awarded to a Canadian firm.³⁶

The 1990s Changes to In-Service Support: Royal Canadian Navy

Much like the RCAF, over the course of the 1990s, the RCN's approach to ISS evolved significantly as well, leading to an increasing share of its refit work allocated to commercial shipyards. This was the product of two primary factors. The first was the wider philosophical shift in DND about the appropriate allocation of work between DND and the RCN and the private sector that occurred as part of ASD. As part of the wider change underway within the forces, there was recognition that the RCN would also need to adapt its approaches to commercial maintenance.³⁷ This philosophical shift was partially influenced by the enormous effort undertaken to prepare RCN ships for deployment to the Persian Gulf as part of Operation *Friction*. While the response from naval support facilities in preparing the ships for deployment was highly effective, it prompted a realization in the RCN that the maintenance units could become significantly more efficient.³⁸ By 1999 this philosophical shift had been firmly entrenched within the Director General Maritime Equipment Program Management, the RCN's support organization. At that time, the

³⁵ Hobson, *DND Looks to Contract Out Non-Core Business*, 34-35.

³⁶ Canada. Department of National Defence. Chief Review Services, *Review of the Canadian Search and Rescue Helicopter Acquisition (Cormorant)*; Gartenburg, *Interview with the Author*.

³⁷ Greenwood, *Telephone Interview with the Author*.

³⁸ LCdr David Peer, "FMF Cape Scott — Changes in Fleet Support," *Maritime Engineering Journal* 15th Anniversary Issue(1997): 14-17.

Commodore in charge of the organization had clearly embraced the language of ASD, which had been applied to the FMFs, writing that “if industry has the resources and expertise, *industry* should do the work. Government should be as small as possible, and should “steer, not row.””³⁹

The second, closely related factor leading to greater commercial support was the significant reduction in naval support capability that came about through the ASD process as it was applied to the FMFs. Following the Cold War, the RCN support organization shrank to half its former size.⁴⁰ This was on the whole driven by the desire to cut costs by reducing the naval support workforce.⁴¹ In 1994, as part of the wider departmental efforts outlined above, Maritime Command initiated a review designed to reduce fleet maintenance costs by 20 percent, to “allow [Maritime Command] to shift resources to sustain operations.”⁴² As a result, along with other logistics units, the maritime engineering functions underwent significant change during the 1990s. In 1996, the Fleet Maintenance Groups, Naval Engineering Units and Ship Repair Units in Halifax and Esquimalt were combined into two FMFs, one on each coast.⁴³ Although the military and civilian staff of the FMFs continues to provide both second and third line maintenance,⁴⁴ increasing emphasis was placed on second line support.⁴⁵ The concept for the units evolved to an understanding that third line repair and overhaul activities would be conducted at the FMFs only to provide for continuity of work for their staff. Otherwise, third line maintenance activities would be contracted to

³⁹ Cmdre J. R. Sylvester, "Commodore's Corner: Pre-Facilitated Contracts," *Maritime Engineering Journal* 18, no. 2 (1999): 3.

⁴⁰ Commodore Marcel Halle, "Commodore's Corner," *Maritime Engineering Journal*, no. 73 (2014): 3.

⁴¹ Greenwood, *Telephone Interview with the Author*.

⁴² Peer, *FMF Cape Scott — Changes in Fleet Support*, 14.

⁴³ Halle, *Commodore's Corner*, 3.

⁴⁴ Canada. National Defence and the Canadian Armed Forces. "The Fleet Maintenance Facility (FMF) Cape Breton Shop Consolidation Project," accessed July/30, 2014, <http://www.forces.gc.ca/en/news/article.page?doc=the-fleet-maintenance-facility-fmf-cape-breton-shop-consolidation-project/hnocfji>.

⁴⁵ Halle, *Commodore's Corner*, 3.

commercial shipyards.⁴⁶ The facilities, did however, retain an ability to respond quickly to operational requirements.

This substantially reduced naval engineering capacity required a “greater reliance on industry for things that were traditionally done in-house.”⁴⁷ As early as 2000, it became apparent that the RCN was facing a challenge in keeping up with even first line maintenance on the *Halifax* Class frigates. This in turn resulted in a continual deferral of planned first line maintenance, much of which was passed on the FMFs in the form of an additional workload. This in turn exacerbated the impact of having these shore based units assume a greater share of the maintenance workload in the first place. At first the use of increased commercial support was resisted by some members of the naval engineering community.⁴⁸ However, it was quickly recognized that the support of naval vessels has been made possible only through an evolving relationship with industry including the creation of long term ISS arrangements.⁴⁹ While there has clearly been a change over time, one former Director General Maritime Equipment Program Management stressed that these changes were evolutionary in nature as commercial shipyards had always been involved in supporting the RCN fleet.⁵⁰

The most notable departure from these traditional support arrangements was established for the Maritime Coastal Defence Vessel fleet. These ships were delivered to the RCN beginning in 1995. They are notable for being the first Canadian military fleet to have an ISS contract, although this arrangement differed from those established after 2004 in that the ISS contract was not tied to the acquisition contract. Rather, the Maritime Coastal

⁴⁶ Captain(N) Bert Blattmann, "Guest Editorial: Fleet Maintenance Facilities Ready for 21st Century," *Maritime Engineering Journal* (1997): 2.

⁴⁷ Halle, *Commodore's Corner*, 3.

⁴⁸ LCdr Robert W. Jones, "Some Concerns with Alternate Service Delivery," *Maritime Engineering Journal*, no. 44 (1998): 3.

⁴⁹ Commodore Patrick T. Finn, "Commodore's Corner," *Maritime Engineering Journal*, no. 69 (2012): 2.

⁵⁰ Sylvester, *Interview with the Author*.

Defence Vessel ISS contract was negotiated with Fenco MacLaren, the company that served as prime contractor on the Maritime Coastal Defence Vessel construction, after the delivery of the first in class HMCS *Kingston* in December 1995. Under the initial contract, all second and third-line support to the Maritime Coastal Defence Vessels and their payload systems, with the exception of the ships gun and cytological equipment, are provided by the contractor.⁵¹ That contract was followed by a four year \$70 million contract renewal in 2002, with SNC Lavalin Defence Programs, the successor organization to Fenco again the winner. At the time, the contract was renamed the Minor Warship Auxiliary Vessel In Service Support Contract and its scope was extended to include a total of 44 minor naval vessels, such as the naval tug boats, barges and training vessels.⁵² The contract was subsequently renewed again in 2011, with its scope expanding again to cover a total of 58 vessels.⁵³

The Maritime Coastal Defence Vessel project marked a significant departure from past experience for the RCN, in that it was intended from the Maritime Coastal Defence Vessel's conception in the late 1980s that the vessels would be supported by industry. Several factors influenced this decision. First, unlike the RCN's other ships, the Maritime Coastal Defence Vessels are reserve-manned. Because of the structure of the naval reserve engineering occupations, the user-maintainer concept used on other naval vessels was not a viable option, thus prohibiting the normal construct of first and some second line maintenance being performed by the ship's company. As such, the traditional model of naval support would not be possible. That meant the only other viable option for conducting the first and second line maintenance in house, was for it to be done in the naval

⁵¹ Commodore Roger Westwood, "Commodore's Corner: Reaffirming our Commitment to Submarine Safety and Support," *Maritime Engineering Journal* 23, no. 2 (2005): 2.

⁵² Canada. Department of National Defence. Chief Review Services, *Minor Warship Auxiliary Vessel in-Service Support Contract* (Ottawa: 2010).

⁵³ SNC-Lavalin O&M. "Defence and Logistics," accessed August 14, 2014, <http://www.snclavalinom.com/en/Expertise/DefenceandLogistics.aspx#>.

dockyards.⁵⁴ The second reason that an ISSC was created was the limited capacity of the organizations that became the FMFs. From its inception, the Maritime Coastal Defence Vessel project was structured with the anticipation that the FMFs would be unable to provide a full level of support. This was driven in large part by the fact that the development of the project coincided with the planned, but ultimately cancelled acquisition of a fleet of nuclear submarines which would have dramatically increased the demands for naval support.⁵⁵ As a result, it was judged that the FMFs would have insufficient capacity to provide support to the new Maritime Coastal Defence Vessel fleet. This assessment eventually proved accurate given the FMFs commitments to supporting the *Iroquois* class destroyers, *Oberon* submarines while introducing the *Halifax* Class Frigates, with the latter class proving to be a significant challenge.⁵⁶ Adding the Maritime Coastal Defence Vessel to the naval dockyard's list of supported vessels would have required the addition of a significant number of civil servants.⁵⁷ As these vessels were launched during the peak of DND's Civilian Reduction Program, ASD, Operation *Excellerate*, and other reforms, significantly increasing the ranks of naval support staff was deemed an untenable option. A third factor in the decision to have the support provided by industry was the commercial nature of the ships. The vessels had been built to commercial standards, using commercial technology, and with few exceptions did not involve sensitive government material. Like the RCAF's CC-150 and CH-146, the commercial nature of their construction ensured that the private sector could provide for their support.⁵⁸

⁵⁴ Buck, *Interview with the Author*.

⁵⁵ Sylvester, *Interview with the Author*.

⁵⁶ Rear Admiral (ret'd) Richard Greenwood, "An Engineer's Outline of Canadian Naval History, Part III (1970-2010)," *The Northern Mariner* XXIV, no. 3 & 4 (2014): 273-296.

⁵⁷ Garnett, *Interview with the Author*; Buck, *Interview with the Author*.

⁵⁸ Dave Rooke, Interview with the Author, February 25, 2014.

The 1990s Changes to In-Service Support: Army

As with the other services, the Army also began increasing the support work provided by industry in the mid-1990s.⁵⁹ This was similarly driven by a lack of personnel, as providing full support indigenously proved impossible after the Regular Forces were reduced to 60,000. In particular, the reduction in the capacity of the 202 Workshop left the Army without adequate production abilities to support all of its equipment fleets or sufficient engineering abilities to sustain all equipment types. This was, to a degree, influenced by the increasing technological sophistication of weapons systems as this increased the time and cost of developing personnel in house, and then retaining them; however, the primary driver was a capacity shortfall.⁶⁰

In the fall of 1997, the 202 Workshop was identified as a candidate for ASD review. At the time, it was given the opportunity to propose a Most Efficient Organization reorganization to provide financial savings and productivity benefits⁶¹ as well as to contribute to the overall military and civilian personnel reductions.⁶² The decision to proceed with the 202 Workshop as a Most Efficient Organization was taken in 1999 and in October 2000, the unit received its Most Efficient Organization instructions detailing the level of expected savings and productivity improvements. After a review that included a third party consultation, the organization was given direction to proceed in December 2001 and began the transition on 1 April 2002. As a result, it was required to commit to providing the same level of output in terms of work hours, but increased productivity, while also reducing costs

⁵⁹ Giguere, *Interview with the Author*.

⁶⁰ Christopher Boyle, "Equipment Fleet Management for the Land Forces" Paper Prepared for JCSP: Master of Defence Studies, (Toronto, 2003).

⁶¹ Canada. Department of National Defence. Chief Review Services, *Review of 202 Workshop Depot as a most Efficient Organization* (Ottawa: 2007).

⁶² Giguere, *Interview with the Author*.

by 20 percent. In order to do so, a plan was submitted to reduce the number of full time employees (both military and civilian) from 397 to 308 by 2006/2007.⁶³

The decreased capacity changed the role of the 202 Workshop. Previously, the workshop concentrated primarily on serving its ‘bread and butter’ the Leopard 1 (Main Battle Tank) and M113 (Armoured Personnel Carrier) fleets. Driven by reduced capacity, 202 reoriented towards four primary areas. The first is providing immediate operational requirements to the Materiel Group. Whereas the Government of Canada procurement system has lengthy response times, in-house resources can be deployed more quickly, so one of the workshop’s focuses is on providing quick response based on operational requirements. Second, the workshop retains the ability to provide support to older land equipment no longer supported industry.⁶⁴ Third, the organization aims to retain sufficient skills with repair and overhaul to ensure that the Army remains a Smart Buyer. That is, by retaining the ability to perform a certain degree of repair and overhaul in-house, the Army support community can maintain an understanding of the actual time and cost to provide support to inform its interactions with potential suppliers. Finally, by retaining key capacities in-house, the Army maintains a minimum level of competition with potential industrial suppliers, enabling them to secure value for money.⁶⁵ Thus, the Army still retains, and sometimes employs, its ability to provide repair and overhaul of the Light Armoured Vehicle III fleet, despite commercial arrangements detailed below, to optimize its use of contractors.⁶⁶ In 2005, for example, the depot won a contract to provide first and second

⁶³ Maj É. De Lafontaine, "All You Ever Wanted to Know about MEO at 202 Workshop Depot (WD)...and Never Dreamed to Ask," *EME Journal*, no. 2 (2003): 6-7.

⁶⁴ 2Lt F. Beauvais-Beaudry, "202 WD's Involvement," *EME Journal*, no. 1 (2012): 11.

⁶⁵ Temple, *Interview with the Author*.

⁶⁶ Canada. Department of National Defence. Chief Review Services, *Follow-Up on Internal Audit: Wheeled Light Armoured Vehicle Life Cycle Support Contracts* (Ottawa: 2008).

line repair of both the Coyote reconnaissance and Light Armoured Vehicle III armoured personnel carriers returning from operations in Bosnia and Afghanistan.⁶⁷

A further set of considerations was the workload on the Director General Land Equipment Program Management organization. Until the early 1990s, the organization was charged with supporting equipment, but also numerous other tasks. These included maintaining equipment publications, such as technical manuals, developing the system's spare parts plans, managing the spare parts inventory, providing engineering support to the field, providing configuration management, as well as conducting modifications. Combined with the wider reduction pressures, the targeted reduction to the Materiel Group left the Director General Land Equipment Program Management organization incapable of performing this broad range of tasks in-house.⁶⁸

At the same time, the Materiel Group perceived that there was significant political pressure on DND from the Minister to the department to improve the industrial base in Canada. This led to political direction to find a fleet that could serve as a test project for increasing OEM involvement in Army support arrangements. At the time, the Light Armoured Vehicle III acquisition from General Motors Diesel Division, later General Dynamics Land Systems Canada, was already underway. As a result, that fleet became the prime candidate to trial this approach.⁶⁹ Notably, cost savings were not one of the factors leading to this decision.⁷⁰

In actual fact, these support arrangements were first applied to the Canadian Army's acquisition of 203 Coyotes reconnaissance vehicles from General Dynamics Land Systems

⁶⁷ Capt Stephan Ipperciel, "LAV III's at 202WD," *EME Journal*, no. 1 (2005): 9.

⁶⁸ Brewer, *Interview with the Author*.

⁶⁹ Major Craig J. Stone, "An Examination of the Armoured Personnel Carrier Replacement Project," *Canadian Military Journal* 2, no. 2 (2001): 59-66.

⁷⁰ Brewer, *Interview with the Author*.

Canada. After their acquisition, an Interim Support Contract was signed in 1998 with the same company. This contract was subsequently amended in 2001 to include the maintenance of the newly procured Light Armoured Vehicle III fleet, through a contract directed to General Dynamics Land Systems Canada.⁷¹ Directing the contracts to the London, Ontario based firm, echoed the choice to direct the acquisition contract towards these same firms.⁷² This arrangement included provisions for General Dynamics Land Systems Canada to assume responsibility for much of the work on publications, spares management, modifications and engineering support that was previously performed by the Director General Land Equipment Program Management organization.⁷³ While these contracts were initially established on a time and materials basis, they were later amended to a performance basis as part of a desire to improve through life costs.⁷⁴

Evaluation of 1990s In-Service Support Changes

As the preceding analysis shows, compared to the historical support arrangements outlined in Chapter 4, the ISS for equipment acquired during the 1990s was significantly different. For the Polaris, Griffon, Maritime Coastal Defence Vessel and Light Armoured Vehicle III projects this involved extending maintenance arrangements with industry beyond third line. In the case of the Cormorant, all maintenance was contracted. During this point in time, both the RCN and Army also evolved their concepts of support in their depot level facilities, to turn over more work to the private sector.

⁷¹ Canada. Department of National Defence. Chief Review Services, *Audit of Wheeled Light Armoured Vehicle Life Support Contracts* (Ottawa: 2006).

⁷² Stone, *An Examination of the Armoured Personnel Carrier Replacement Project*, 59-66.

⁷³ Brewer, *Interview with the Author*.

⁷⁴ Canada. Department of National Defence. Chief Review Services, *Audit of Wheeled Light Armoured Vehicle Life Support Contracts*.

There were many motives for the initial shift to increased maintenance support. With the sole exception of the changed role for the Army's 202 Workshop Depot, however, increasing technological complexity was not one of them. The initial tranche of three RCAF platforms to increase the scope of support, including the fully supported CH-149 Cormorant, were and still are, amongst the least sophisticated platforms in the CAF inventory. The Airbus was a commercial airliner, the CH-146 a slightly adapted version of a commercial helicopter, and the CH-149 a Search and Rescue helicopter. Reflecting upon the risk of exposing the RCAF fleet to potential labour disputes the head of the RCAF, Lieutenant-General Lloyd Campbell, downplayed such concerns precisely because the expanded maintenance arrangements had only been applied to less technology intensive platforms. As he informed SCONDVA, "The focus of maintenance in the air force has been, of course, not on our core combat capabilities."⁷⁵ Similarly, part of the reason a commercial support concept was considered for the Maritime Coastal Defence Vessel was the fact that it too had been built to commercial standards. The RCN was furthermore inclined towards contracting support for the Maritime Coastal Defence Vessel because it believed it would need to devote its in-house resources to supporting the highly technical nuclear submarine fleet called for in the 1987 White Paper and the technologically advanced *Halifax* class frigates. Thus, these fleets received additional commercial support precisely because they were *not* technologically complex, and in the RCN's case, because it wanted to concentrate its in-house resources on supporting its most technologically advanced vessels.

In addition, some of these changes were pursued to save money. This was a motivating factor in the contracts for CH-146 and CH-149 support, but expressly not the case for the Light Armoured Vehicle III contract. A desire to save money was likely the

⁷⁵ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 37th Parliament, Meeting No. 14, May 15, 2001.

motive behind the White Paper's direction to explore new maintenance arrangements more broadly, however.

The most consistent motive for adopting these new forms of support was the personnel constraints resulting from the Force Reduction started in 1989 and the budget cuts originating that same year. In combination with ASD and Operation *Excelerate* this led to severe cuts to front line maintainers. With the addition of the direction to reduce the size of National Defence Headquarters by one third, this led to the Materiel Group being reduced by half. This contributed to the full contracting of CH-149 maintenance and support, the changed arrangements for work share between the FMFs, 202 Workshop and industry, Maritime Coastal Defence Vessel ISS contract and the Light Armoured Vehicle III ISS contract. These contracts were therefore a means of coping with fewer staff. When viewed within the wider context of these staff reductions, which were designed to facilitate an increase in the tooth to tail ratio, they provide support for the budget optimization explanation. These reductions were initiatives with the express goal of decreasing overhead and support so that operational forces could be prioritized. As a direct consequence of these measures, DND and the CAF had too few staff in the Materiel Group to manage its fleets on its own and too few front line maintainers to perpetuate the previous allocation of work between DND and the CAF and industry. These pressures led to an increase in the share of maintenance performed by industry and an increase in the type of activities industry performed, to offset staff shortages on materiel managers.

In-Service Support for Legacy Fleets

As late as the 1980s, the CAF's major weapons systems each had a large cadre of engineers that would manage its ISS. This practice was resource intensive as by the late 1990s DND was managing thousands of traditional time and materials contracts for maintenance. As a result, there were insufficient personnel to manage contract maintenance in the traditional manner, because National Defence lacked sufficient "personnel needed to manage all of the contracts."⁷⁶ Due to these pressures, DND turned to pre-facilitated contracts, to reduce the level of departmental resources devoted to managing these fleets. In 1999, Pierre Lagueux described the initiative as an attempt at rationalization:

We reduce the number of different contracts we have for bundles of goods and have one contractor responsible to provide a whole range of goods and services. He then manages all the subcontractors and all the subcontracts in place. We deal with one person or one contractor to give us that range of goods and services.⁷⁷

At the same time, DND had separately found that the traditional approach was not leading to satisfactory performance as equipment lacked the desired availability rates. Worse, the traditional approach left DND unable to hold contractors accountable for availability. Under the old system, performance accountability was fractured because of the multitude of small contracts, even for major systems or components.⁷⁸ To address the concerns about performance, National Defence looked to new contracting approaches employed in the United States, United Kingdom and Australia, of performance based logistics and contracting for availability. These approaches were designed to establish performance metrics that could be used to construct contractual incentives for support contracts.⁷⁹ This

⁷⁶ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*, 17.

⁷⁷ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 36th Parliament, Meeting No. 91, March 2, 1999.

⁷⁸ Ready, *Interview with Sharon Hobson, Provided to the Author*.

⁷⁹ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

was, in part, designed to ease the burden on support staff as well, since “the intent is to contract for outcomes, relieving DND of the need to levy proscriptive requirements and involve a large program management team.”⁸⁰ Each of the three services responded differently to the same general set of pressures.

Optimized Weapons System Management

The RCAF “took the lead”⁸¹ in implementing a new strategy, beginning in 1998, with the intent of combining between 40 and 100 short duration maintenance contracts per fleet. Often lasting between one and three years, managing the multitude of contracts required a substantial administrative workload. Given its personnel reductions, the Director General Aerospace Equipment Project Management group, responsible for aerospace support, was finding it increasingly difficult to negotiate and then manage the hundreds of individual contracts.⁸² This is unsurprising since the organization had been forced to cut its military and civilian workforce by 45 percent during the 1990s. By 2001/2002, the RCAF was managing 5,500 contractual transactions with 450 firms for ISS.⁸³ In addition to simply combining many smaller contracts together, the approach was also designed to expand the scope of contracted support to include others aspects of life cycle fleet management. Thus as part of the new approach, activities like the management and provisioning of spare parts and inventory management functions that were previously conducted by Director General Aerospace Equipment Project Management staff would be performed by the contractor, in

⁸⁰ COGINT, *Approaches to in-Service Support (ISS): Final Report to the Aerospace Review Secretariat*, 8.

⁸¹ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*, 18.

⁸² Ready, *Interview with Sharon Hobson, Provided to the Author*.

⁸³ Lieutenant Colonel Darryl Taylor, "Performance Based Contracting," Research Paper in Department of Economy, Management and Leadership presented to obtain the degree of Master of Arts in political and military science, (Brussels, 2013); Canada. Department of National Defence. Chief Review Services, *National Procurement*.

addition to actual maintenance.⁸⁴ These were the exact same pressures that lead the Army to turn over management of similar aspects of life-cycle fleet management for the Light Armoured Vehicle III.

By 2001, the stated intent of the Materiel Group was to exploit private industrial relationships to provide tailored weapon system support.⁸⁵ The OWSM approach was launched in 2002 for four RCAF fleets, chosen for their high maintenance costs, and lengthy remaining service lives. For the CF-18 Hornet, C-130 Hercules (E/H) models, and CP-140 Aurora aircraft, the intent was to award separate contracts for the airframe, avionics, and engines, while all support for the CH-146 Griffon fleet would be provided under a single contract. By introducing the OWSM, the multitude of one to three year contracts were to be bundled into a maximum of three performance based contracts of ten years or more. The Sea King Maritime Helicopter was also a candidate for an OWSM approach, but at the time that this initiative was created, a project was well underway to provide for its replacement, with an expected delivery date of 2008.

The first two OWSM contracts were signed in June 2005 for the CP-140; a \$342 million contract for the avionics and a \$492 million contract for airframe, with L-3 and IMP respectively.⁸⁶ In October 2005 the \$423.4 million, six year airframe contract for the CC-130 was signed with Cascade aerospace, and the avionics contract in April 2013.⁸⁷ As a result of

⁸⁴ Director General Public Affairs, ADM Materiel Section. Response to questions posed by Sharon Hobson, provided to the author. November 15, 2002.

⁸⁵ Boyle, *Equipment Fleet Management for the Land Forces*.

⁸⁶ Canada. Department of National Defence. Chief Review Services, *Audit of CP140 Optimized Weapon System Support (OWSS) Avionics Contract* (Ottawa: 2013); Canada. Department of National Defence. Chief Review Services, *Internal Audit: CP140 Maintenance Contracts* (Ottawa: 2007); Anonymous "Maintaining Canada's CP-140 Aurora Fleet," Defense Industry Daily, , accessed August 28, 2013, <http://www.defenseindustrydaily.com/canada-moves-to-longterm-performancebased-contracts-for-its-p3-fleet-01474/>.

⁸⁷ Anonymous "Cascade Aerospace Wins C-130 Avionics Contract with Canada's RCAF," Cascade Aerospace Inc., , accessed August 28, 2013, [http://www.cascadeaerospace.com/news/cascade-aerospace-news/74-news-apr-16](http://www.cascadeaerospace.com/news/cascade-aerospace-news/74-news-apr-16;); Anonymous "Cascade Aerospace and Herc Solutions Celebrate Arrival of First CC-130 Hercules

these new arrangements, the requirements for a large contract management staff was significantly reduced, as both the number of overall contracts and their duration resulted in a greatly reduced workload. This allowed the RCAF to make significant reductions in the number of engineers it was attempting to retain in its fleet management systems. Overall, OWSM permitted the smaller workforce in the Materiel Group to manage the fleets.⁸⁸

Increased Contractor Administration Support for the Army

In the Army, similar capacity issues led to the increased use of contractors by the Director General Land Equipment Program Management, the organization responsible for the Army's support in the Materiel Group. Beginning in the late 1990s, the Director General Land Equipment Program Management group faced a capacity gap with respect to the Equipment Management Teams that managed each weapons system. Due to staff shortfalls, over time this required the Equipment Management Teams' role to shift to one of providing only high-level management overview of the equipment program and financial control over contractor spending. Due to a shortage of staff, the Director General Land Equipment Program Management moved to augment its Equipment Management Teams with contracted subject matter experts using a portion of the Army's National Procurement budget. Doing so, however, placed an additional strain on the Army's National Procurement funding, as it compensated for the lack of staff, and Salary Wage Envelope (the funding identified for personnel salaries), by hiring additional people to manage the support

Aircraft for Maintenance," Cascade Aerospace Inc. , accessed August 28, 2013, <http://www.cascadeaerospace.com/component/content/article/1-news/47-news-may-1>.

⁸⁸ Alan S. Williams, "Procurement and Military Success," *Frontline Defence*, March/April, 2005; Pennie, *Interview with the Author*; Lagueux, *Interview with the Author*.

program.⁸⁹ Within its equipment management fleets, the Army had found itself severely short staffed, but less short on budget. It had therefore used its available funds to hire contractors on service contracts, to compensate for the lack of personnel and enable it to manage its fleets.⁹⁰

These pressures lead the Army to move in 2004 to an Optimized Weapons System Support contract for the Army's Wheeled Light Armoured Vehicle fleet, of Coyotes and Light Armoured Vehicle III. This was a three year, sole-sourced contract for \$392 million with two one-year options with General Dynamics Land Systems Canada. The contract evolved the existing arrangements with the company which was originally established on a time and materials basis, into a performance based contract. In 2008 the contract was renewed for five years, with 21, one year options for a total possible value of \$3.1 billion.⁹¹

Multi-Ship Refits and Naval Optimized Weapons System Management & In-Service Support

The RCN first responded to these challenges by increasing its use of pre-facilitated contracts to ease the burden of managing multiple support arrangements with a small staff, with the objective of reducing “both the amount and cost of contract administration.”⁹² The additional contract administration, which had come as a result of increasing the share of work provided by industry, had begun to overburden the Director General Maritime Equipment Program Management organization. In other words, the increased use of commercial shipyards as a result of ASD and the reorganization pressures in the mid-1990s

⁸⁹ Boyle, *Equipment Fleet Management for the Land Forces*, 1-68.

⁹⁰ Brewer, *Interview with the Author*.

⁹¹ Canada. Department of National Defence. Chief Review Services, *Audit of Wheeled Light Armoured Vehicle Life Support Contracts*.

⁹² Sylvester, *Commodore's Corner: Pre-Facilitated Contracts*, 3.

had increased the workload on the naval support staff in Ottawa. This in turn led the RCN's support organization to change its approach. Consequently, Director General Maritime Equipment Program Management looked to bundled, pre-arranged contracts, to create one contractual vehicle for existing arrangements for repair and overhaul, supply arrangements, field service representative support and other items already provided through contract, but under multiple smaller contracts with industry.⁹³

Under the traditional naval approach, Extended Work Periods, or refits, for ships were generally contracted on a competitive basis, ship by ship, although pre-facilitated contracts for multiple ship refits had occasionally been used on the Cadillac fleets as well.⁹⁴ As a result, different shipyards would perform the work for respective ships based on the outcomes of individual competitions, as occurred during the 1990s docking work periods for the *Iroquois* Class.⁹⁵ A major change was made to this process for the *Halifax* Class Modernization/Frigate Life Extension project which bundled many of these aspects together into two multi-ship refit contracts, and numerous other life extension and upgrade projects. The project, combining preventative maintenance, corrective maintenance, and engineering changes to both upgrade capabilities and prevent obsolescence, is one of the most complex DND capital projects with a project budget of \$4.5 billion.⁹⁶ As part of the work, two multi-ship contracts for both the mid-life refit and the Docking Work Periods associated with it were signed with Irving Shipbuilding and Vancouver shipbuilding respectively.⁹⁷ The significant departure from past approaches combined a multitude of smaller projects that might otherwise have been undertaken individually, supported by

⁹³ Ibid.

⁹⁴ Sylvester, *Interview with the Author*.

⁹⁵ Irek J. Kotecki and David B. Jones, "Extended Work Period Management — Principles for Success," *Maritime Engineering Journal* 18, no. 2 (1999): 14-19.

⁹⁶ Doug Thomas, "Life Extension Refits," *Canadian Naval Review* 8, no. 2 (2012): 41-42.

⁹⁷ Greenwood, *An Engineer's Outline of Canadian Naval History, Part III (1970-2010)*, 273-296.

industry, into one large project with multiple components, contracted to two separate shipyards. This move was intended in part to enable a greater commonality across fleets and allow for learning across the project, but also provided for easier management by the small staff at the Director General Maritime Equipment Program Management.⁹⁸

This type of arrangement was extended with the creation of the Victoria Class In-Service Support Contract in 2008, the RCN's first shift to a long term OWSM type contract for a fleet manned by the Regular Force RCN.⁹⁹ Although the language surrounding the contract does not draw directly on the OWSM, many of the principles behind the contract's creation reflect similar motivating factors. The introduction of the *Victoria* Class submarines, converted former *Upholder* class boats acquired used from the United Kingdom, required a shift in the supply of submarine support. Whereas the previous *Oberon* fleet had received extensive support from the naval dockyards, a lack of capacity prompted a shift to contractor provided maintenance for the *Victoria* boats. When acquired, it was believed that the *Victoria* Class would require significantly less maintenance than the fleet they were replacing, and would enjoy a significantly higher availability rate by virtue of increased reliability and the benefits of new maintenance by exchange and repair by replacement concepts.¹⁰⁰ The need to provide more significant than expected Canadianization Work Periods in order to introduce the fleet left the FMFs strained in their attempts to introduce the new submarines while simultaneously supporting the surface fleet.¹⁰¹ The full activation of the submarine's supply chain similarly proved to be more labour intensive than originally envisioned. At the time of acquisition, it was not fully appreciated how difficult it would be

⁹⁸ Greenwood, *Telephone Interview with the Author*.

⁹⁹ Chris Thatcher, "Submarines Chart a New Course for in-Service Support," *Vanguard*, June/July, 2014, 18.

¹⁰⁰ Cdr Richard Payne, "The Type 2400 Upholder-Class Submarine — an Introduction," *Maritime Engineering Journal*, no. 45 (1998): 10-12.

¹⁰¹ Sims, *A Support Option for the Victoria Class*, 1-25.

to Canadianize a British supply chain that had never been fully operational, due to the decision to mothball the fleet.¹⁰² Progressively after the acquisition of the vessels, the RCN shifted more of the second and third-line submarine repair and overhaul work to industry to compensate for these difficulties.¹⁰³

This move culminated in the award of a \$1.5 billion Victoria Class In-Service Support Contract in 2008. The new contract provides a significantly longer duration of work, through a 15 year commitment, permitting the development of expertise in the contractor. It provides one contractual vehicle to subsume the bulk of the smaller contractual arrangements that previously existed with individual suppliers. Furthermore, the new arrangement is “performance-managed” and provides the Crown with “material acquisition; repair and overhaul; and engineering services; as well as project management oversight to plan and organize refits of the submarines; and the provision of scheduled refit and maintenance activities.”¹⁰⁴ According to the head of the submarine support organization, this means “we have fewer contracts to manage, which makes our business simpler to execute.”¹⁰⁵ As a result, by shifting much of the work to Babcock, the firm that won the Victoria Class In-Service Support Contract, the RCN can manage the program with a significantly smaller staff. This shift will alleviate a significant pressure on the naval maintenance staff which faced a significant challenge in managing the associated contracts due to a lack of staff resources, and a constraint on expanding headquarters staff.¹⁰⁶ In so doing, “an industry-led ISS team could enable a larger portion of RCN personnel to focus

¹⁰² Greenwood, *Telephone Interview with the Author*.

¹⁰³ Westwood, *Commodore's Corner: Reaffirming our Commitment to Submarine Safety and Support*, 2.

¹⁰⁴ Canada. National Defence and the Canadian Armed Forces. "Victoria in-Service Support Contract," , accessed August 16, 2014, <http://www.forces.gc.ca/en/news/article.page?doc=victoria-in-service-support-contract/hjiq6l64>.

¹⁰⁵ Thatcher, *Submarines Chart a New Course for in-Service Support*, Quoting Blaine Duffley, 19.

¹⁰⁶ Sims, *A Support Option for the Victoria Class*, 1-25.

directly on operations.”¹⁰⁷ The contract has therefore allowed the RCN to maximize the share of its personnel devoted to operational activity.

The Incomplete Spread of Optimized Weapons System Management

Assessments conducted by National Defence determined that the OWSM approach had, in fact, lowered fleet support costs by 2010. In addition, DND claims that the program has led to administrative efficiencies as well as increased fleet availability.¹⁰⁸ The Auditor General of Canada, however, found that the Department lacked evidence to support its claimed cost savings. This was the result of a lack of baseline data on fleet support, and the increasing age of the fleets and their shrinking size which distorted their maintenance profiles and precluded an examination of support costs over time.¹⁰⁹

Although the OWSM process was intended to be complete by December 2005, as of April 2011, four of the twelve contracts had not yet been signed. Several factors were cited for the slow progress. One source of delay was the need for intergovernmental approvals, a time consuming process. The new OWSM approaches needed the concurrence of PWGSC, the government’s contracting authority, and the Treasury Board. To secure approval for one of the CF-18 contracts, for example, DND was required in 2009, seven years after the initiative was launched, to examine the possible impact of the new approach on small and medium Canadian enterprises, ahead of securing approvals for the OWSM contracts.¹¹⁰ Furthermore, during the OWSM implementation period, National Defence officials within ADM Mat were constrained in rolling out OWSM by the same capacity shortfalls that led

¹⁰⁷ Thatcher, *Submarines Chart a New Course for in-Service Support*, 20.

¹⁰⁸ Taylor, *Performance Based Contracting*.

¹⁰⁹ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

¹¹⁰ Ibid.

the department to pursue the new arrangements in the first place. The organization was in the midst of acquiring numerous new capital projects in support of operations in Afghanistan, as well as supporting the war effort, both massive undertakings. At the same time, DND was also attempting to acquire multiple weapons systems whose procurements were announced between 2004 and 2008.

An additional consideration appears to be a cultural reluctance to switch to the new performance based construct, which required moving away from detailed rate negotiations for time and material's contracts, to Firm Fixed Price contracts with profit incentives structured around contractor performance. PWGSC is believed by some to have resisted this switch for multiple reasons. The organization was more comfortable with the old time and materials approach to contracting and also seen as averse to contractors making additional profit. Under time and materials contracts, contractor profit was fixed. Under Firm Fixed Price contracts, however, the contractor has the ability to increase its profit so long as it stays within contract parameters. Thus some argue that PWGSC was opposed to the new regime, because it enables contractor innovation to maximize profits, even if it lowered the overall cost to government.¹¹¹ Furthermore, some industry members contend the Government has not realized the full potential for administrative savings because it has been reluctant to adopt the new business model intended under OWSM, which was meant to see the Government shift to a higher level role of providing benchmarks and measuring performance. Instead, lengthy and time consuming negotiations of rates for time and materials have persisted.¹¹² This is likely partially attributable to the fact that the intended OWSM approached required a new skill set and these skills were not abundant in the public

¹¹¹ Taylor, *Performance Based Contracting*.

¹¹² Peter Gartenburg, "Optimized Weapons Systems Support (OWSS) - A Decade Later," Unpublished Paper Provided to the Author, 2012.

service, a fact not helped by insufficient training and high staff turnover. These factors probably contributed to a Director General Aerospace Equipment Project Management determination that the expected personnel savings from transferring to an OWSM arrangement were less than expected,¹¹³ and could also partially explain why the financial savings that were less than intended.

Finally, the senior defence leaders that created the OWSM program intended it to be applied uniformly. As it was rolled out, however, individual Weapons Systems Managers and others at the staff level embraced it with varying levels of enthusiasm, even within the RCAF.¹¹⁴ As demonstrated, the Army and the RCN adopted their own, unique approaches that borrowed some elements of OWSM. The fact that the OWSM approach coincided with plans for the acquisition of new capabilities for the CAF likely also attributed to waning enthusiasm for reforming the support of legacy platforms, as in the mid-2000s it was expected that many of these platforms would be rapidly replaced.

Evaluation of In-Service Support for Legacy Fleets

The evidence does show that the forgoing changes were driven by two key factors: a shortage of personnel, and a desire to improve equipment availability. As these staff reductions had resulted from the deliberate choice in the mid-1990s to reallocate resources from support to operations, it provides additional support for the budget optimization explanation. Arrangements like OWSM originated directly from the decision to heavily downsize the Materiel Group to meet those initial reductions. In combination with the increased use of contractor maintenance which occurred in the first phase of changed ISS in

¹¹³ Taylor, *Performance Based Contracting*.

¹¹⁴ Gartenburg, *Interview with the Author*.

the 1990s, this increased the workload on this much smaller organization, and combining existing ISS arrangements was one of the few ways DND could cope. The desire to improve equipment availability provides further support for the budget optimization explanation as this change was intended to improve the operational capability achieved through these support arrangements.

New Acquisitions: In-Service Support Contracting Framework

Beginning in 2005, DND began developing a framework to link acquisition and support contracts. This formalized a practice that had emerged with the contract for the Maritime Helicopter purchase and a package of five acquisitions announced in 2006, for the C-17, C-130J, CH-147, Medium Trucks and Joint Support Ship all of which were to include 20 year support contracts.¹¹⁵ Together, these represented a “marked departure from past practice.”¹¹⁶ For aircraft specifically, no longer would Canada procure aircraft from a foreign company and then contract the maintenance of these platforms to a Canadian maintainer. Rather, the ISS would be provided by whoever supplied the actual aircraft. For the Joint Support Ship and Truck project, these were the first procurements for the RCN and Army launched with the intent of awarding a maintenance contract along with their acquisition.

Under the ISSCF introduced and applied as policy in 2008, and established as a departmental directive in August 2010, the acquisition and ISS contracts for all weapons systems have been bundled together into a single contract. This shift established the OEM

¹¹⁵ Canada. National Defence. ""Canada First" Defence Strategy Procurement, retrieved using the Internet Archive 'Wayback Machine'," accessed March 4, 2014, <https://archive.org/web/>.

¹¹⁶ Rowe, *In-Service Support of New Aircraft Fleets*, 20.

as the prime contractor by default for ISS, with long term contracts of up to 20 years. It also mandates that ISS contracts be:

- established with the platform supplier concurrently with the establishment of the platform acquisition contract;
- long-term, performance-based and incentivized; and
- structured and managed to ensure clear and irrefutable contractor accountability for contracted results.¹¹⁷

The ISSCF is furthermore intended to be “based on a consideration of the long-term effects on CF capabilities and strategy.”¹¹⁸ It was meant to apply to all CAF equipment purchases, as decisions regarding ISS contracts “are not to be made on a fragmented environment-by-environment, platform-by-platform or contract-by-contract basis.”¹¹⁹ Alternate support arrangements could be made, but they required Assistant Deputy Minister, Materiel approval, and substantiation of the decision to pursue alternate support arrangements.¹²⁰

As of 2015, the C-130J, CH-147 and C-17 fleets were the only ones operating with ISSCF contracts. Lockheed Martin’s seven year contract valued at \$723 million makes the company responsible for all third and some second line maintenance of the C-130J. It is furthermore responsible for the supply chain, management of all subcontractors and the in-service support of the Department’s training facility.¹²¹ Boeing is responsible for the CH-147’s support for 20 years, at an estimated cost of \$2.7 billion, with the first five year period taking effect June 2013.¹²² Support for the C-17 fleet is estimated at \$1.6 billion, over 20

¹¹⁷ Canada. National Defence and the Canadian Forces, *DAOD 3022-0, Procurement of in-Service Support for CF Platforms*.

¹¹⁸ Ibid.

¹¹⁹ Ibid.

¹²⁰ Temple, *Interview with the Author*

¹²¹ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

¹²² Anonymous "Fact Sheet - Medium-to-Heavy Lift Helicopter Project," Department of National Defence, , accessed August 28, 2013, <http://www.forces.gc.ca/en/news/article.page?doc=medium-to-heavy-lift-helicopter-project-status/hgndblkw>.

years through a contract as part of the Boeing global support system.¹²³ Under the latter arrangement only first line maintenance is performed on the C-17 by RCAF maintainers.¹²⁴ At the time of writing, neither the Army's medium truck nor Joint Support Ship program had proceeded to contract and the support concept for the latter has been altered.

In addition to this initial tranche of acquisitions, the Army's projects announced since 2008 have all included ISS contracts. The Land Command Support Systems project included an Engineering and Integration Long Term Support Contract signed in 2009 with General Dynamics for engineering and integration, while a smaller contract for software support was signed with Thales.¹²⁵ Further, the announcement of the Army's Family of Land Combat Vehicles project which replaces the Army's combat fleet, the Light Armoured Vehicle III Upgrade, Force Mobility Enhancement, Tactical Patrol Vehicle and the Close Combat Vehicle (subsequently cancelled) all include ISSs.¹²⁶ Similarly, portions of naval projects were initiated under this framework. The design and build of the new combat system for the upgraded *Halifax* Class Frigates, and its integration was accompanied by a 17 year ISS contract valued at approximately \$600 million.¹²⁷ While the Halifax Class Modernization/Frigate Life Extension project was the first naval project to actually contain a

¹²³ Canada. Parliament. House of Commons. Standing Committee on National Defence, *Evidence*, 1st sess., 39th Parliament, Meeting No. 34, February 8, 2007.

¹²⁴ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*

¹²⁵ Canada. Public Works and Government Services Canada. "Archived - Government Awards Military Procurement Contracts to Canadian Firms and Injects Millions into the Canadian Economy," accessed August 13, 2014, <http://news.gc.ca/web/article-en.do?ctr.sj1D=&mthd=tp&ctr.mnthndVI=&nid=436399>.

¹²⁶ Canada. National Defence and the Canadian Armed Forces. "ARCHIVED - Government of Canada to Renew Fleet of Land Combat Vehicles," accessed August 15, 2014, <http://www.forces.gc.ca/en/news/article.page?doc=government-of-canada-to-renew-fleet-of-land-combat-vehicles/hnps1ufs>.

¹²⁷ Canada. Department of National Defence. Chief Review Services, *Audit of the Halifax-Class Modernization/Frigate Life Extension (HCM/FELLEX) Project* (Ottawa: 2011); Canada. "Archived - Government of Canada Frigate Modernization Contract Benefits Forces and Economy," , accessed August 13, 2014, <http://news.gc.ca/web/article-en.do?ctr.sj1D=&mthd=advSrch&ctr.mnthndVI=12&nid=423479&ctr.dpt1D=6688&ctr.tp1D=&ctr.lc1D=&ctr.yrStrtVI=2008&ctr.kw=&ctr.dyStrtVI=1&ctr.aud1D=&ctr.mnthStrtVI=2&ctr.yrndVI=2009&ctr.dyndVI=31>.

combined build and support contract, the failed Joint Support Ship Project had originally intended to award a 20 year ISS contract to the winning bidder,¹²⁸ and the Arctic Offshore Patrol Ship project was initiated with the same intention.¹²⁹

Capacity

As with the shift to OWSM, the creation of the ISSCF was driven in part by a lack of staff capacity, in lieu of the significant increase in workload occasioned by the expansive re-capitalization plans announced in the 2005 and 2006 budgets and the *Canada First Defence Strategy*. With the publication of the latter, the CAF received political endorsement of wholesale replacement of all of its major equipment platforms as well as the acquisition of several new capabilities. Yet, this recapitalization program did not come with a corresponding increase in the acquisition workforce to manage these projects.

The *Report on Transformation 2011* provided a detailed analysis of these changes and this data is used in this section.¹³⁰ According to this document, between 2003/2004 and 2006/2007 the Materiel Group shrank from a workforce of 4,200 to 3,696, a loss of 12 percent. Between 2003/2004 and 2009/2010, the organization grew by only four percent despite a 68 percent increase in its expenditures.¹³¹ Over this same time period, the overall workforce at DND and the CAF increased by 18 percent, rising from 112,377 to 132,870 positions. The Regular Forces had increase by 11 percent, growing 6,521 positions. Similarly, the number of full time civilians had increased by an even more substantial 8,139 a

¹²⁸ Canada. Department of National Defence, *Backgrounder: "Canada First" Defence Procurement - Joint Support Ship* (Ottawa: 2006).

¹²⁹ Canada. National Defence and the Canadian Forces. "Backgrounder: Arctic/Offshore Patrol Ships (Retrieved using the Internet Archive WayBack Machine)," accessed August 17, 2014, https://web.archive.org/web/20080117034748/http://www.forces.gc.ca/site/Newsroom/view_news_e.asp?id=2370.

¹³⁰ Leslie, *Report on Transformation 2011*.

¹³¹ *Ibid.*

44 percent increase. Yet to that point in time, the Materiel Group had grown only minimally, and its Regular Force staff had actually shrunk 19 percent, reducing by 320 positions.

Exacerbating this problem, the organization's workload had essentially doubled. After 2000 the number of active Major Crown Projects reported by DND in the Estimates increased substantially, from 10 in 2000/2001, to 16 in 2005/2006, to 23 in 2009/2010. Over nine years, this represented a 130 percent increase.¹³² Furthermore the ratio of workload, measured by inflation adjusted Vote 5 expenditures to staff had increased significantly too. In 2003/2004 there were 4,200 people working in ADM Mat., and that year DND spent roughly \$1.6 billion on Vote 5, for a ratio of approximately 2,600 staff per one billion in capital. By 2009/2010, the workforce had increased to 4,355, and that year, DND spent \$2.4 billion on Vote 5, for a ratio of acquisition staff to workload of 1,800 staff per billion dollars of capital projects.¹³³ Measured by this metric, the workload of the organization had increased by 31 percent. As this demonstrates, just as the Materiel Group was reduced heavily by the various change initiatives in the 1990s, when DND's resources began to recover, the organization received only minimal benefit in terms of additional human resources, despite a substantial expansion in their workload.

Recognizing this capacity challenge, the ISSCF directive acknowledged that "The DND and the CF are in a period of significant equipment reinvestment. A standardized approach to ISS contracting is needed to streamline the procurement of CF platforms and

¹³² Canada. Department of National Defence, *Estimates Part III - Report on Transformational and Major Crown Projects* (Ottawa: Various Years).

¹³³ The Data on Vote 5 expenditures are from the Public Accounts of Canada, Vol. 2. These were converted to \$1993/1994 using the Defence Economic Model by the author.

associated ISS.”¹³⁴ While understated, this recognized the mismatch between capacity and workload. Furthermore, the creation of this approach was driven specifically by the lack of personnel, despite the availability of other Operations and Maintenance funds. According to an internal audit of RCAF aircraft support, “the ISSCF concept shifts the management of a larger scope of the activities to the contractor which in turn reduces the number of “blue suiters” [RCAF maintainers] and civilians necessary to perform functions that were previously residing within the [weapons systems managers] or at the wings.”¹³⁵ Making this move could be achieved because while people were scarce because of controls on the personnel establishments, budgetary resources were less so. The same report noted that “the fundamental *raison d’être* for the creation of an ISSCF-type contracting vehicle was because *the DND/CF had money and not enough people* after the Force Reduction Program of the 1990s.”¹³⁶

By 2008/2009, the year the ISSCF was introduced, defence spending had increased by 49 percent, in real terms and Operations and Maintenance spending by 52 percent relative to 1998/1999, the low point of defence expenditures (See Figure 5 in Chapter 3). With a substantially larger budget, even after adjusting for inflation, but only a paltry four percent increase in staff, the Materiel Group increasingly turned to contracts to mitigate staffing shortfalls.¹³⁷

It was during this period in time, that the imperative to support operations in Afghanistan in the face of such capacity shortfalls lead to a realization in the Army support community that its desire to maintain self-sufficiency was not viable. The Army’s

¹³⁴ Canada. National Defence and the Canadian Forces, *DAOD 3022-0, Procurement of in-Service Support for CF Platforms*.

¹³⁵ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*, 29.

¹³⁶ *Ibid.*, 30.

¹³⁷ Commodore (ret'd) Dan Sing, Telephone Interview with the Author, August 12, 2014.

deployment to Kandahar required the concerted effort of the entire Army support team and significant assistance from the other components of the DND and CAF. The exigencies of the operation demonstrated that neither deployed support, nor garrison support of Army vehicle fleets could be provided without contractor assistance. The fielding of a number of urgent operational requirements directly into theatre, required field service representative support from the OEMs because the Army could not establish a full support package using Army technicians. For the Armoured Heavy Vehicles System, for instance, Army technicians required the assistance of field service representatives to maintain the vehicle, because it was introduced too quickly to establish a full training regime. Furthermore, the intense focus on the operation created a major backlog of equipment in Canada that essentially went without support. Non-deploying weapons systems could not be serviced as normal because the maintainers were in the rotational deployment cycle. Given the threat environment in Afghanistan, pre-deployment training had been increased from six months to a nine month regime, focused primarily on soldiering skills. Thus deploying maintainers had little time left over for supporting weapons systems at bases in Canada. As a result, a significant backlog of equipment at domestic bases accumulated. According to retired Army supporters, the realization that the Army simply could not do everything was instrumental in making the Army more amenable to long term commercial support arrangements.¹³⁸

Cost Certainty

In addition to managing shortfalls in staff capacity, a second major motivator behind the shift to ISSCF was a desire to achieve greater certainty regarding the total life cycle costs

¹³⁸ Temple, *Interview with the Author*; Giguere, *Interview with the Author*.

of owning and operating defence equipment, and their operations and maintenance costs specifically. This was driven by the fact that the long term costs of operating and supporting defence equipment are generally two to three times more expensive than the amortization costs of a vehicle.¹³⁹ As an example, should Canada select the F35 as its next fighter aircraft, the acquisition costs of the Joint Strike Fighter would represent less than 20 percent of the life-cycle costs of owning the aircraft, while sustaining the aircraft would account for roughly 33 percent.¹⁴⁰ Similarly, the project budget for the Canadian Surface Combatant is estimated to account for only 29 percent of their life-cycle costs.¹⁴¹ Simply put, “the costs to sustain today’s equipment will exceed the costs of its purchase.”¹⁴²

This is true for both old and new defence equipment. As equipment ages, it becomes increasingly less reliable, driving up the costs of supporting “geriatric equipment.”¹⁴³ In 1996, for instance, the Auditor General of Canada found that National Defence could reduce its demand for vehicles by replacing them faster, as the age of DND operated vehicles was twice that of other public sector fleet owners.¹⁴⁴ The increasing demand for Operations and Maintenance funds as fleets aged, led the Auditor General of Canada to argue in 1998 that equipment maintenance demands were jeopardizing the military’s ability to recapitalize its major fleets.¹⁴⁵ The maintenance costs of new equipment fleets, however, generally exceed the costs of the legacy fleets they replace.¹⁴⁶ This is

¹³⁹ Major (ret'd) Richard Groves and Lieutenant-Colonel Ross Fetterly, "An Imperfect Storm," *The Canadian Air Force Journal* 1, no. 1 (2008): 17-29.

¹⁴⁰ Canada. National Defence, *Next Generation Fighter Capability Annual Update* (Ottawa: 2012).

¹⁴¹ Canada. Public Works and Government Services. "Backgrounder on the National Shipbuilding Procurement Strategy (NSPS) - Year 2: A Status Update," accessed November 12, 2013, <http://www.tpsgc-pwgsc.gc.ca/app-acq/sam-mps/ddi-bkgr-10-eng.html#no8>.

¹⁴² Williams, *Reinventing Canadian Defence Procurement*, 24.

¹⁴³ Kirkpatrick, *Trends in the Costs of Weapon Systems and the Consequences*, 270.

¹⁴⁴ Canada. Office of the Auditor General of Canada, *Chapter 34: National Defence - Support Productivity*.

¹⁴⁵ Canada. Office of the Auditor General of Canada, *Chapter 3: National Defence - Equipping and Modernizing the Canadian Forces* (Ottawa: 1998).

¹⁴⁶ Groves and Fetterly, *An Imperfect Storm*, 17-29.

attributable in part to the increasing technological sophistication of new equipment purchases which generally includes “sophisticated software that is expensive to maintain and upgrade.”¹⁴⁷

According to Alan Williams, consecutive Ministers of National Defence had trouble understanding the reality of these rising maintenance costs. As a result, “One of the most difficult challenges in military budgeting in Canada is convincing ministers that they have to pay not only for personnel and new capital purchases, but also to maintain current and new equipment.”¹⁴⁸ Senior civilian bureaucrats apparently were also not fully aware of these dynamics, as the military was prone to understating the total costs of proposed procurements.¹⁴⁹ Combined, these factors led to frequently higher than forecasted life cycle costs, which created a “sustainability gap”¹⁵⁰ between the costs of equipment acquired and what could be kept operational. The move to long term in-service support contracts was in part an attempt to gain a greater appreciation and control over support costs.¹⁵¹ By contracting for them at the outset of an acquisition, defence planners could better ensure the availability of the funds to maintain their fleets once they were in service.

Demand for National Procurement funds has historically significantly outstripped the supply of funding, as there is always more maintenance and repair than can be funded from this budget. Between 1990/1991 and 2008/2009, demand for this funding grew at twice the rate of funding increases to that budget category.¹⁵² By the mid-2000s this demand for funding was projected to continue increasing by 30 percent.¹⁵³ Consequently, National

¹⁴⁷ Williams, *Reinventing Canadian Defence Procurement*, 24.

¹⁴⁸ *Ibid.*

¹⁴⁹ An alternative explanation, supported by many, but difficult to substantiate, is that DND deliberately underestimated these costs. Perry, *Putting the 'Armed' Back into the Canadian Armed Forces*.

¹⁵⁰ Williams, *Reinventing Canadian Defence Procurement*, 24.

¹⁵¹ Williams, *Telephone Interview with the Author*.

¹⁵² Groves and Fetterly, *An Imperfect Storm*, 17-29.

¹⁵³ Williams, *Reinventing Canadian Defence Procurement*.

Defence has usually only been able to fund 70 percent of the services' demand for National Procurement.¹⁵⁴

The dispersion of contracted maintenance across hundreds of short term contracts exacerbated the challenge of predicting long term cost trends. The move to enact a single, long term ISS contract was driven by a desire to gain a better understanding, for planning purposes, of life cycle support costs, to facilitate planning and resource management. This approach attempted to move away from unknown, but rising costs by bundling maintenance contracts together, to provide more accurate estimates of total life-cycle costs, thereby reducing the number of un-forecast and unbudgeted maintenance problems. In-service support contracts were judged to be the only way to gain a “consistent picture of the total costs.”¹⁵⁵

At the time that long term cost certainty was desired, strategic capability planning was only nascent within DND, having been adopted in 2000. The process produced a Strategic Capability Investment Plan, which only incorporated the costs of equipment acquisition alone, not their full life cycle costs.¹⁵⁶ At the time, the Treasury Board of Canada's Policy on Long-term Capital Plans required that “Departments must plan the management and investment in their capital assets, over the longer term, based on adequate information on the state and best use of their asset inventory *with due consideration* given to the life cycle management of the asset base.”¹⁵⁷ Nevertheless, after the publication of the 2005 Defence Policy Statement, the Minister of National Defence promised that a Defence Capability Plan would be created to direct the implementation of that policy document. As

¹⁵⁴ Canada. Department of National Defence, *Canada First Defence Strategy*.

¹⁵⁵ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 2nd sess., 36th Parliament, Meeting No. 22, March 21, 2000.; Williams, *Reinventing Canadian Defence Procurement*.

¹⁵⁶ Ibid.

¹⁵⁷ Canada. Treasury Board of Canada Secretariat. "Policy on Long-Term Capital Plans," accessed July 30, 2014, <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12039§ion=text>.

part of this, National Defence created a Strategic Cost Model that could provide a detailed view of the full cost of all defence capabilities.¹⁵⁸ The model, which included combined views of the acquisition and operating costs of equipment, was a response to “Senior management in National Defence Headquarters...demanding more comprehensive cost information.”¹⁵⁹

Beginning in 2009, the Treasury Board implemented its Policy on Investment Planning - Assets and Acquired Services. This new regime has imposed significant challenge on National Defence given its more stringent requirements for financial planning. After its initial three year Investment Plan expired, DND was unable to secure approval for a new Investment Plan until June 2014. The requirements of this new policy with respect to life-cycle costing have increased, as Deputy Ministers are now required to ensure their investment planning “Takes into account the whole-of-life cost of stewardship based on the life cycle of assets and acquired services.”¹⁶⁰ Thus, the pressures to develop accurate life cycle costs, which contributed to the development of the ISSCF, have only intensified over time.

Total Package Procurement: Single Point of Accountability

A second additional motivation for maintenance contract rationalization was to improve the accountability of private sector maintainers. This was a contributing factor in the shift to OWSM contracts, as the multitude of smaller time and materials contracts resulted in a ‘fractured accountability’¹⁶¹ for fleet availability. As each of the individual

¹⁵⁸ Dr P. Chouinard and Cdr I. D. H. Wood. *The Department of National Defence Strategic Cost Model: Development* (Ottawa: Defence R&D Canada, 2007).

¹⁵⁹ Ross Fetterly and Naceur Essaddam, "National Procurement," *Review of Business Research* 8, no. 2 (2008): 68.

¹⁶⁰ Canada. Treasury Board of Canada Secretariat. "Policy on Investment Planning - Assets and Acquired Services," accessed July 30, 2014, <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=18225§ion=text>.

¹⁶¹ Ready, *Interview with Sharon Hobson, Provided to the Author*.

contractors was responsible for only a single maintenance element, no party was responsible for the availability of a fully serviceable platform. These experiences, as well as the shortcomings of the CH-149 Cormorant maintenance arrangement, prompted a move to Total Package Procurement to create a single point of accountability for new equipment. This approach was developed in the late 1990s, fully adopted during Alan Williams's tenure as Assistant Deputy Minister, Materiel, and later incorporated into the ISSCF. The concept attempted to make one party contractually responsible for both supplying and maintaining a weapons system, with the intent of establishing a clear accountability regime.¹⁶²

This concern arose out of the Cormorant acquisition. Two years after the delivery of the fleet, IMP Group was awarded a seven year contract for its support. Subsequently, "a range of serious issues affecting the helicopter's availability and capability ... pressured DND to increase the costs of the support contract."¹⁶³ These issues included numerous mechanical problems and a subsequent unavailability of spare parts. The latter was occasioned by problems with the language regarding spare parts in the acquisition contract, which did not specify required OEM performance regarding the provisioning of spare parts.¹⁶⁴ Contract language aside, a perception emerged that the OEM was simply disinclined to provide spare parts for the aircraft.¹⁶⁵ Furthermore, the Crown obtained only portions of the Technical Data Package for the aircraft and none of the Intellectual Property relating to the design was obtained.¹⁶⁶ The lack of Intellectual Property left IMP reliant on

¹⁶² Williams, *Telephone Interview with the Author*.

¹⁶³ Williams, *Reinventing Canadian Defence Procurement*, 28.

¹⁶⁴ Canada. Department of National Defence. Chief Review Services, *Review of the Canadian Search and Rescue Helicopter Acquisition (Cormorant)*.

¹⁶⁵ Lagueux, *Interview with the Author*.

¹⁶⁶ COGINT, *Approaches to in-Service Support (ISS): Final Report to the Aerospace Review Secretariat*.

the OEM for the purchase of spare parts, since they could not be produced locally.¹⁶⁷ Furthermore, while the procurement concept had assigned responsibility for maintenance to IMP immediately upon delivery, the aircraft also required maintenance early after delivery that was covered by the acquisition contract's warranty, blurring the accountability of either party.¹⁶⁸ As a result, the aircraft's operational availability has been only half that originally estimated by the OEM.¹⁶⁹ Since the maintenance contract was unassociated with the one for acquisition, DND was effectively left as the "meat in the sandwich"¹⁷⁰ as each party blamed the other for the availability problems. Testifying before SCNDVA, Alan Williams, articulated both the problem of split accountabilities, and the preferred solution:

If you in fact separate [the contracts], the front-end good that we have bought may be based on certain commitments that the supplier indicated would be the life cycle cost. Later on, however, when we try to secure that in service support, we find that those costs are totally out of hand, but we have left that front-end supplier off the hook. By bundling, we hope to hold the front-end supplier accountable for the life cycle costs that they commit to us at the front-end acquisition.¹⁷¹

Subsequently, DND moved to adopt the TPP approach to eliminate split accountabilities beginning with the 2005 contract for Maritime Helicopters. That procurement of Sikorsky S-92 *Cyclone* contained two interrelated contracts. The first, valued at \$1.8 billion was for the acquisition of 28 helicopters. The second was a \$3.2 billion contract for twenty-years of in-service support.¹⁷²

¹⁶⁷ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*.

¹⁶⁸ Canada. Department of National Defence. Chief Review Services, *Review of the Canadian Search and Rescue Helicopter Acquisition (Cormorant)*.

¹⁶⁹ Sharon Hobson, "Needed: Open Procurement," *Frontline Defence*, January/February, 2009, 6.

¹⁷⁰ Williams, *Reinventing Canadian Defence Procurement*, 28.

¹⁷¹ *Evidence*, March 21, 2000.

¹⁷² Anonymous "History of L-3 MAS," L-3 Communications MAS (Canada) Inc., , accessed August 27, 2013, <http://www.mas.l-3com.com/history.asp>.

Reducing Operational Risk and Improving Life Cycle Costs

An additional goal of the ISSCF is to provide an incentive to OEMs to manufacture equipment with increased availability rates and higher levels of reliability. By making them responsible for long term support, defence planners hope to encourage OEMs to use more reliable materials, rather than lowest cost compliant components, with the goal of improving availability.¹⁷³ A long term, combined contract with the manufacturer provides a means of holding companies accountable for performance, and to make sure that what is promised in the manufacturing phase is delivered and available in the support and operations phase of the life cycle.¹⁷⁴ The final component of this evolution has seen a move to contracting for availability, based on performance metrics.¹⁷⁵ Performance based, best value competitions have been used by DND since 2005 to confirm that proposed equipment meets mandatory performance measures, and then weigh performance against the costs of both acquisition and in-service support.¹⁷⁶

A desire to adopt these practices was particularly influential in the Army. Before this period, the Government of Canada treated the acquisition and support of land material as distinct activities, and procurements were often structured around lowest cost compliant approaches that did not incentivize long term reliability. This meant the acquisition process was oriented towards delivering the lowest cost, and therefore presumed lowest quality, products that would meet procurement requirements. Once acquired, significant support costs would be incurred maintaining them throughout their lives. The Army's support community, under the Director General Land Equipment Program Management,

¹⁷³ Garnett, *Interview with the Author*; Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 37th Parliament, Meeting No. 18, June 5, 2001.

¹⁷⁴ Buck, *Interview with the Author*.

¹⁷⁵ Lashkevich, *Interview with the Author*.

¹⁷⁶ Dan Ross, "Remember Murphy's Law," *Frontline Defence*, November/December, 2006, 30.

progressively pushed to move away from lowest cost compliant procurements towards best value acquisitions and securing long term support from industry was part of this shift.¹⁷⁷

As part of this, the support arrangements for the C-130J and Tactical Armoured Patrol Vehicle are structured around weapons systems availability. In each case, the support arrangements specify minimum availability requirements, with incentives for the contractor if it can exceed the targets. Whereas under previous arrangement contractors were paid for their time and the cost of parts, under performance based contracts they are paid to provide operational availability alone. Whereas contractors were previously paid for their work, even if the weapons system remained unserviceable, under the new structure contractors are only paid if the CAF is provided a useable weapons system.¹⁷⁸

The final motivation to combine manufacturing and support contracts into ISS contracts was the hope that doing so could reduce overall life-cycle costs for equipment, and achieve “optimum value for money.”¹⁷⁹ The OWSM approach to existing fleet maintenance was predicated on a goal of achieving a 15 percent cost savings over the traditional approach to maintaining fleets.¹⁸⁰ Similar imperatives also influenced the early shift to awarding long term support contracts, influencing the decision to have Air Canada provide parts and maintenance for the Airbus, Bell Textron manage the spare parts inventory for the Griffon Helicopter fleet, and have SNC-Lavalin maintain the Maritime Coastal Defence Vessels.¹⁸¹

The various means of combining acquisition and support, from Total Package Procurement, ISSCF and its most recent variant, performance based logistics, have all sought

¹⁷⁷ Temple, *Interview with the Author*.

¹⁷⁸ *Ibid.*

¹⁷⁹ Canada. National Defence and the Canadian Forces, *DAOD 3022-0, Procurement of in-Service Support for CF Platforms*.

¹⁸⁰ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

¹⁸¹ *Evidence*.

to “minimize life-cycle costs.”¹⁸² By changing the weighting of bid evaluations to include life-cycle costs and creating a contractual means of holding equipment manufacturers to their life cycle cost quotes, performance based logistics “ensures the lowest possible cost throughout the life cycle of the asset, instead of just in the initial procurement.”¹⁸³ According to Dan Ross, Assistant Deputy Minister, Materiel from 2005-2012, “By weighting the in-service support price in their bid higher than the acquisition price, we are motivating the builder and rewarding the builder who has invested in quality and knows the equipment will be cheaper to maintain.”¹⁸⁴ Doing so provides an incentive for manufacturers to reduce the support costs of their equipment by investing in the production, knowing they will recoup the investment over the course of supporting a fleet. This method was adopted with the knowledge that initial acquisition costs could actually be higher by virtue of taking this approach, but with the hope that “the total cost of ownership will be lower, with higher operational availability, providing best value to the Crown.”¹⁸⁵ The ISSCF thus represented an effort to achieve a fundamental reallocation of the resources devoted to defence acquisition and materiel management, oriented around decreasing the expenditure of Operations and Maintenance funds to keep weapons systems operational. In effect, this potentially increased the Capital cost of an acquisition if doing so would realize a savings later on in its Operations and Maintenance.

¹⁸² Ibid.

¹⁸³ *Evidence*, June 5, 2001.

¹⁸⁴ *Evidence*, February 8, 2007.

¹⁸⁵ Ross, *Remember Murphy's Law*, 30-31.

Evaluation of the In-Service Support Contracting Framework

The overriding motivation for switching to an ISSCF was a lack of capacity in the Materiel Group. Placed in the context of the wider DND/CAF workforce, which had increased significantly by this point in time, this provides support for the budget optimization explanation. By 2008 the human resources of the DND/CAF had been increasing for a number of years. While DND had not reclaimed the same level of staffing it once possessed, it had grown substantially, yet opted not to direct any of the staff increase to the Materiel Group. Instead, the personnel growth was allocated to other sectors of the organization. Thus, the capacity problem in the Materiel Group was not the result of a staff shortage, *per se*, but rather a deliberate choice to allocate resources elsewhere. This was the result of a long standing organizational imperative to retain a high tooth to tail ratio, thus providing evidence in support of the budget optimization explanation. As one official report stated, the revised approach was adopted because the organization had more money than people. Further support for this explanation was found in the motivation to increase accountability, thereby improving operational availability and the desire to achieve cost certainty.

In part, the ISSCF was attributable to the desire to reduce support costs, but this objective must be considered in the context of overall through life support. This desire was oriented around gaining better certainty about future outlays for support and reducing overall life cycle costs in an effort to reduce expenditures on Operations and Maintenance. This was considered desirable, even if this resulted in higher Capital costs in the acquisition phase. The move was therefore one intended to make long term reallocations between component of the defence budget in order to optimize the use of defence resources over time, providing additional support for the budget optimization explanation.

Post- In-Service Support Contracting Framework

At the end of 2014, the state of the ISSCF remains uncertain. After more than a decade, it is impossible to assess whether all of the objectives that drove these changes have been realized. A 2013 DND audit found, for instance, that “there is limited data available to confirm whether or not [outsourcing maintenance] is providing true value for money.”¹⁸⁶ This is in part the result of weak baseline data, endemic to defence, regarding the cost of owning and operating defence capabilities. In addition, despite adopting the ISSCF, this was not accompanied by the adoption of a set of corresponding standards to use when assessing ISS costs. Without such a baseline, significant variation was possible in the approaches to costing ISS, even within the same Equipment Program Management groups.¹⁸⁷ More broadly, it is impossible to fully assess the impact of switching to the ISSCF because only two fleets with ISS contracts have achieved full operational capabilities, the C-130J and C-17. It is therefore difficult to determine if the desired single point of accountability has improved equipment availability, led to greater cost certainty, or improved overall life cycle costs. Serious delay in the capital program meant that the CH-147, Maritime Helicopter, Joint Support Ship, Medium Truck, Tactical Armoured Patrol Vehicle, Arctic Offshore Patrol Ship and Fixed Wing Search and Rescue projects, all of which were initially intended to have achieved Full Operational Capability by 2014, with combined acquisition and support contracts, have been significantly delayed. This delay is due, in part, to ongoing capacity challenges in the Materiel Group. Thus, the reduced burden on scarce Materiel Group staff remains one of the most significant advantages of combined acquisition and support contracts. Despite the appeal of the approach to National Defence, since 2010, three

¹⁸⁶ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*, vi.

¹⁸⁷ Sing, *Telephone Interview with the Author*.

separate initiatives have been launched that have already, or could, alter the ISSCF in some fashion.

In-Service Support under the National Shipbuilding Procurement Strategy

The first shift away from the ISSCF accompanied the launch of the National Shipbuilding Procurement Strategy in 2010. While the Joint Support Ship and Arctic Offshore Patrol Ship projects began with the intent of awarding combined build and support contracts, the launch of the National Shipbuilding Procurement Strategy altered these plans. The strategy included three major components, the first two of which saw the award of the combat and non-combat work packages. Under the former, Irving Shipbuilding will build both the Arctic Offshore Patrol Ship and the Canadian Surface Combatant, while Seaspan will build the Joint Support Ship, in addition to Canadian Coast Guard Vessels. Unlike the previous arrangements, however, the work package award “encompasses shipbuilding only.”¹⁸⁸ The third component of the National Shipbuilding Procurement Strategy is a series of separate arrangements for the \$500-\$600 million in ongoing requirements for ISS. As a press release stated, “In-service support, repair, maintenance, and refit work for the federal fleet will be competed through public Requests for Proposals.”¹⁸⁹ As a result, while the three naval projects included as part of the National Shipbuilding Procurement Strategy will have In-Service Support contracts, the contracts will not be awarded in conjunction with the contracts for acquisition.

¹⁸⁸ Canada. Department of National Defence. Chief Review Services, *Internal Audit of Joint Support Ship Project* (Ottawa: 2011), 14.

¹⁸⁹ Canada. Public Works and Government Services., *Backgrounder on the National Shipbuilding Procurement Strategy (NSPS) - Year 2: A Status Update*.

The decision to move away from a combined Single Point of Accountability framework for naval ISS was driven by domestic economic and political imperatives. As one of the goals of the National Shipbuilding Procurement Strategy was to revitalize the Canadian shipbuilding industry, the ISS contracts are to be awarded separately to allow other shipyards the possibility of securing future work on federal fleets.¹⁹⁰ In essence, the decision to split the build and support contracts was intended to prevent all federal shipbuilding work from being concentrated into just two shipyards.¹⁹¹ Having awarded a combatant work package with total project budgets of \$29.3 billion to Irving Shipbuilding and a non-combatant work package with a total project budget of \$7.3 billion to Seaspan, the Government of Canada wanted to make other work available to the shipyards that lost out on those projects. This shift away from a combined acquisition and ISS contract was taken to foster increased competition in the Canadian domestic shipbuilding industry. This shift ran contrary to the intent of the RCN, which had desired combined acquisition and ISS contracts to optimize the through life cost of the vessel by incenting the shipbuilder to focus on providing long term availability when making design and build decisions.¹⁹²

The decision to move away from the ISSCF approach led the RCN to combine the prospective ISS arrangements for the Arctic Offshore Patrol Ship and Joint Support Ship into one contract with an estimated total value of \$5 billion, to be let in 2017.¹⁹³ The rationale for doing so, once the decision was taken to separate the ISS from the build contracts, was to create one contract which would be easier to manage than two separate arrangements for two small fleets. Doing so was made possible by the relative degree of

¹⁹⁰ Ibid.

¹⁹¹ CDA Institute Procurement Workshop (Conducted under Chatham House Rule), Ottawa: December, 2013.

¹⁹² Sing, *Telephone Interview with the Author*.

¹⁹³ Canadian Association of Defence and Security Industries, *CADSI RCN Outlook (Conducted Under Chatham House Rule)*, (Ottawa, 2014).

support commonality between the two classes.¹⁹⁴ As a result, that contract guarantees that the OEM of one of those projects will not provide its ISS. Similarly, the RCN had originally planned to award a contract for the ISS of the Combat System on the Canadian Surface Combatant to the Combat Systems Integrator for that vessel.¹⁹⁵ A final determination on that approach had not been taken as of 2015.

The Sustainment Initiative

The second significant change to the ISSCF, still underway, is the Sustainment Initiative, which is part of DND's Defence Renewal effort. This effort was launched in response to the budget reductions that started in 2010 that are detailed in Chapter 8. As part of the wider Renewal activities, the Materiel Group is examining the organization's Maintenance Program Design to "Optimize CAF equipment programs while delivering an acceptable level of safety and operational capability."¹⁹⁶ This initiative was launched with the object of reducing planned preventative maintenance and improving the efficiency of maintenance labour time. One of the four components that fall under the Maintenance Program Design initiative is ISS procurement, where the objective is to adopt best practices for sustainment contracting, and obtain better value for money with sustainment contracting. As the savings target for the entire Maintenance Program Design initiative is between \$25-\$75 million annually the prospective changes to the current ISSCF appear to be modest. One of the objectives for the initiative is to reduce sustainment contracting costs for given fleets. The assessment of the ease of achieving that goal in the Defence Renewal

¹⁹⁴ Sing, *Telephone Interview with the Author*; Greenwood, *Telephone Interview with the Author*.

¹⁹⁵ Sing, *Telephone Interview with the Author*.

¹⁹⁶ Canada. Department of National Defence and the Canadian Forces, *Defence Renewal Plan* (Ottawa: 2013), 26.

Plan stated that it would be difficult because an actual costing baseline for current ISS contracts did not exist.¹⁹⁷

As of 2015 the results of the Sustainment Initiative had not been made public. National Defence officials have stated, however, that the objective of the initiative is to “To optimize weapon system performance and value for money through the implementation of sustainment best practices.”¹⁹⁸ This will move away from a one size fits all ISSCF framework to using individual business case analysis for each project, in consultation with the defence industry, to develop tailored support arrangements for each weapons system. Whereas under the ISSCF business cases were required to propose arrangements other than the default combined acquisition and support arrangements with the OEM, the new approach purports to apply a unique solution to each individual project.¹⁹⁹ At the time of writing, not enough information was available to fully assess this change, but it appears to be yet another effort to minimize the costs of DND’s support, to reallocate resources to operational units.

The Defence Procurement Strategy

The final aspect of the shift away from the ISSCF is part of the Defence Procurement Strategy announced in February 2014. While it also aims to streamline the procurement process and deliver the right military equipment to the forces in a timely manner, the initiative is primarily focused on “leveraging ... purchases of defence equipment

¹⁹⁷ Canada. Department of National Defence, *Access to Information Request A-2013-01648 "SI 2.3 Maintenance Program Design (Sustainment Initiative) Plan* (Ottawa: 2013).

¹⁹⁸ Canadian Association of Defence and Security Industries, *CADSI RCN Outlook (Conducted Under Chatham House Rule)*, (Ottawa, 2014).

¹⁹⁹ *Ibid.*

to create jobs and economic growth in Canada.”²⁰⁰ Key to this change is reforming the Industrial and Regional Benefits policy, which applies to all Major Crown Projects, into an Industrial and Technological Benefits policy. As part of this revised approach, all contracts in excess of \$20 million, might, and all those greater than \$100 million will, have “rated and weighted” Value Propositions. The Value Propositions will focus on actions that lead to improved domestic economic outcomes, particularly those that provide for: investments that strengthen Key Industrial Capabilities; investments that support enhanced productivity in Canadian firms; and broader industrial and technological high-value activities, such as a “technology transfer.”²⁰¹ The focus on Key Industrial Capabilities derives from the work of Tom Jenkins, who was appointed a special advisor to the Minister of Public Works as part of the Government’s effort to reform defence procurement. Jenkins’s terms of reference specifically directed him to focus his efforts on developing a list of Key Industrial Capabilities to inform this reform. The resulting report identified ISS, alongside Arctic and Maritime Security, Protecting the Soldier, Command and Support, Cyber Security, and Training Systems, as one of the Key Industrial Capabilities.²⁰² The Jenkins Report also recommended a review of the default policy of assigning the Single Point of Accountability to the prime contractor, as well as requiring participation and leadership by Canadian firms in ISS contracts.²⁰³

Value Propositions have been officially adopted as part of the revised procurements strategy, but as of late 2015 were still evolving. The first defence procurement to proceed with a Request for Proposal under this regime, the Medium Range Radar simply invited

²⁰⁰ Canada. Public Works and Government Services Canada, *Defence Procurement Strategy*.

²⁰¹ Canada. Industry Canada. "Value Proposition and Industrial and Technological Benefits," accessed February 6, 2014, <http://news.gc.ca/web/article-en.do?nid=813549>.

²⁰² Tom Jenkins. *Canada First* (Ottawa: Public Works and Government Services Canada, 2013).

²⁰³ Ibid.

bidders to provide their own Value Proposition proposals. Similarly, an official list of Key Industrial Capabilities has not yet been finalized or publically promulgated.²⁰⁴ As a result, the status of this prospective defence-wide change to ISS arrangement for CAF fleets is uncertain. Despite this, the project to acquire a Fixed Wing Search and Rescue aircraft was changed in the fall of 2013 in a manner that reflects the recommendations of the Jenkins report. As currently structured, the contract will still see the prime contractor provide both the aircraft and ISS, but there is now a requirement that the project include a Canadian ISS integrator, which will perform “ISS functions” including second and third line maintenance.²⁰⁵

This shift appears to be driven by pressure from the domestic aerospace industry, which believes that it was disadvantaged by the implementation of the ISSCF. In 2011 the Auditor General of Canada expressed concerns that the ISSCF approach would negatively impact Canadian industry by shifting increasing amounts of maintenance work to foreign OEMs. Of particular concern was the move to designate OEMs as the default prime contractors for maintenance and repair which they argued could diminish opportunities for Canadian companies and see much of the value added work like engineering design done outside of Canada.²⁰⁶ An internal National Defence audit voiced these concerns about the domestic Canadian aircraft industry in particular.²⁰⁷ Similarly, both the Aerospace Industry Association of Canada and Canadian Association of Defence and Security Companies echoed these sentiments in reports submitted to the Government. Both groups argued that the ISSCF and its Single Point of Accountability model in particular, were negatively

²⁰⁴ Defence Industry Representative, conversation with the Author, CANSEC Tradeshow, Ottawa, May, 2014.

²⁰⁵ Canada. Public Works and Government Services Canada, *Fixed Wing Search and Rescue - Amendment 03. Solicitation W8475-130002/A* (Ottawa: 2013).

²⁰⁶ Canada. Office of the Auditor General of Canada, *Chapter 5: Maintaining and Repairing Military Equipment*.

²⁰⁷ Canada. Department of National Defence. Chief Review Services, *Evaluation of Aerospace Equipment Maintenance*.

impacting domestic suppliers.²⁰⁸ These examinations all pointed to several problems common to both the C-130J and CH-147 purchases: “Sole source, [Single Point of Accountability] through the OEM, limited ISS workshare in Canada, a heavy reliance on the [Industrial and Regional Benefits] program and the *possibility* of work in the future with no real involvement in the fleet support today.”²⁰⁹ The Aerospace Review, led by David Emerson, reflected a similar sentiment and recommended that “when the Government seeks to buy aircraft and aerospace-related equipment, each bidder be required to partner with a Canadian firm for in-service support.”²¹⁰

These reports have argued that, without an effort by the Canadian Government to direct that ISS be performed in Canada, as it has been in the past, Canadian firms have only been relegated low value work as part of the prime contractor’s Industrial and Regional Benefits obligations. Since the creation of Canada’s Industrial and Regional Benefits policy in the mid-1980s, ISS and Industrial Regional Benefits have been linked as a means of providing “a connection between procurement and the nation’s industry.”²¹¹ In addition to work secured directly the crown, the Industrial and Regional Benefits program, with a requirement for 100 percent economic offsets into the domestic economy, has often resulted in significant work for Canadian ISS firms as part of a prime contractor’s obligations. These arrangements have been largely focused on the aggregate dollar value of work performed under the arrangements. Under the old arrangements, the Canadian Government ensured domestic firms had access to the Technical Data Packaged and Intellectual Property needed to perform value added work and secure export opportunities. With the C-17, C-130J and

²⁰⁸ CADSI Marine Industries Working Group, *Sovereignty, Security and Prosperity*; Aerospace Industries Association of Canada, *Aerospace Perspectives on Defence Procurement Renewal* (Ottawa: 2009).

²⁰⁹ COGINT, *Approaches to in-Service Support (ISS): Final Report to the Aerospace Review Secretariat*, 19.

²¹⁰ David Emerson. *Beyond the Horizon* (Ottawa: Public Works and Government Services Canada, 2012).

²¹¹ Craig Stone, "Defence Procurement and Industry," in *Canada's National Security in the Post-9/11 World*, ed. David S. McDonough (Toronto: University of Toronto Press, 2012), 73.

CH-147 purchases, access to this data and Intellectual Property was not obtained, and thus Canadian firms were limited to performing work with little added economic value. The Defence Procurement Strategy is therefore attempting, in some respects, to revert back to the historical practice of mandating a role for Canadian firms in performing value added ISS work.²¹²

These changes all appear to be a response to pressure from the domestic defence industry. Whether this will be institutionalized remains to be seen. As of 2015, there are strong indications that the ISSCF and its automatic connection between the prime contractor and the provision of ISS, has been broken. This has already happened for the RCN's future fleet, and there are indications that this could shift for future air purchases.

Evaluation of Changes to the In-Service Support Contracting Framework

The changes to the ISSCF have been pursued for two broad reasons. Both the change to ISSCF for the National Shipbuilding Procurement Strategy projects and those brought about by the Defence Procurement Strategy have been enacted to meet political objectives. In the former instance, the shift to un-tie the acquisition and support contracts was intended to better distribute shipbuilding work. In the latter instance, this component of the Defence Procurement Strategy appears to be heavily influenced by a desire to support Canadian ISS firms, particularly those in the aerospace sector. Neither of these objectives provides any support or refutation of the explanations being tested here.

The changes occurring under Defence Renewal do however, suggest that the next evolution of ISS contracting in Canada can be best explained by the budget optimization

²¹² COGINT, *Approaches to in-Service Support (ISS): Final Report to the Aerospace Review Secretariat*.

explanation. Defence Renewal as a whole is the latest in a long standing series of attempts to improve the efficiency of the DND/CAF by improving the tooth to tail ratio of the armed forces. It is simply one more effort to do so that is placing heavy emphasis on decreasing the resources devoted to support and overhead of the Canadian military so that the remaining resources can be better prioritized towards operational capability.

Analysis of Findings

Over the last twenty years the role of commercial sector support for Canadian weapons systems has changed significantly. This shift has been most evident in the Canadian Army, which had traditionally relied on contractor support the least of all the branches of the CAF. For all three services, however, at least four shifts have been evident. First, the nature of commercial support has evolved from supporting parts or components, to assemblies or systems, and most recently to fleets of weapons systems. The scope of work contracted to industry has also increased to account for more lines of contracted maintenance and many more functions related to managing ISS that were previously performed in-house. Second, as part of the shift, contracts have become less numerous, but larger in scope to include multiple aspects of support. Third, these contracts have grown longer in duration, in some instances with contract awards of up to 20 years. Fourth, these contracts have become increasingly oriented towards performance outcomes.

The shifts outlined above were precipitated by the significant reductions to the defence budget in the 1990s. These financial decreases had two impacts. First, they led to an examination of new approaches to aircraft maintenance including contracting out of all three lines of work on the CH-149. While this move was facilitated by the aircraft's

operational characteristics, it was precipitated by a desire for cost savings. The second major impact of the defence budget reduction arose from the way in which it affected the internal budget allocation. After 1994, when faced with significant pressures to reduce Personnel in order to meet its financial reduction targets, DND opted to apportion these cuts most heavily to its support organizations. As a result, through initiatives like Operation *Exxcelerate*, the financial pressures were borne by DND's support personnel, both its front line maintenance positions as well as within the Materiel Group.

After these personnel cuts were made after 1994, driven by the budget cuts at the time, a lack of support personnel was the primary driver of further changes to ISS arrangements. The first arrangements to change were those for frontline maintenance. After the downsizing of the FMFs, the resulting lack of capacity led the RCN to increase the share of work it contracted to Canadian industry and to create its first ISS contract for the Maritime Coastal Defence Vessel fleet. In each case, it was acknowledged that the in-house organizations were unable to accommodate the full ISS requirements themselves. Similar capacity pressures led the Army to increase its use of commercial support as well, as its 202 Workshop Depot was downsized along with the FMFs.

The shortage of staff within the Equipment Program Management groups, also created by the budget cuts in the 1990s, was the critical driver behind the OWSM shift and heavily influenced the move to the ISSCF as well. In each case, one of the primary appeals of these new arrangements, which shifted much of the ISS management work to industry, was a lack of capacity. The new arrangements were seen as a means of allowing the Materiel Group to manage both existing and new fleets with a workforce significantly downsized during the mid-1990s.

Throughout there has also been a desire to achieve value for money. This was most evident in the desire to cut costs during the height of the budget cuts by increasing the scope of maintenance performed under contract for the RCAF. The primary focus with respect to cost concerns since those early days has actually been on improving the certainty of financial outlays for support and decreasing the amount spent on Operations and Maintenance over a weapon system's life-cycle. This led to changes to the way existing contracts with industry were structured, which was also intended to improve equipment availability.

While these changes have coincided with evolutions in technology, the increasing complexity of weapons systems was not as a significant motivating factor leading to these changed approaches. Even in the Army, which appears to be in the midst of the most significant technology shift amongst the three services, the primary motivations for its evolved approach towards contracting for ISS has been a desire to increase equipment availability, improve through-life costs, and above all else, mitigate capacity issues. The most important factor contributing to the Army's change in mindset was the operational experience in Afghanistan that demonstrated that the previous support paradigm was outdated. Afghan operations showed the Army that their desire to provide as much support as possible in-house was no longer feasible with the Director General Land Equipment Program Management's limited capacity.

In making one aspect of these changes, to enact Performance Based Logistics, Canadian officials drew on the experiences of their allies. However, this was only one small component of a much wider set of changes.

Finally, a number of changes are being proposed that might see a shift away from the ISSCF, although at the time of writing none of these were sufficiently advanced to fully evaluate. The evidence to date indicates that two of these, for naval ISS and the changes

under the Defence Procurement Strategy, were driven by domestic economic and political imperatives alone. A third, under Defence Renewal, is still nascent, but it appears to fit within the wider pattern of apportioning budget cuts on the support organizations, and thus provides additional evidence to support the budget optimization explanation.

In sum, the budget optimization explanation receives strong support. The increasing technological complexity of military equipment played little role in the changing arrangements with industry, nor did emulation of Canadian allies. Instead, a wide set of changes to providing ISS were initiated after 1994. These were driven in the first instance by the budget cutbacks, which drove an immediate search for financial savings through industrial approaches to aircraft maintenance. The financial reduction also directly precipitated a reduction in equipment support management staff as well as significant cuts to the frontline equipment maintenance organizations. Thereafter, further changes to ISS arrangements were driven above all else by a desire to allocate resources towards operational capability which resulted in a lack of front line maintainers and capacity shortfalls in the Materiel Group. The first dynamic led to increased maintenance activity being shifted to industry while the second led to new contractual arrangements through OWSM and the ISSCF to give industry a greater role in managing DND's actual maintenance activities.

Chapter 7: Operational Support Contracting

In light of the extensive contribution to the international military campaigns in Iraq and Afghanistan by PMSCs providing operational support contracts, a substantial literature has emerged on their work on behalf of the American and British militaries.¹ While operational support contractors contributed significantly to the Canadian missions in both Bosnia and Afghanistan, their contribution to Canadian military activities received comparatively little attention in the public record. As an example, none of the book length treatments of Canada's involvement in Afghanistan, for instance, have given any meaningful consideration to the role of private sector support.² Yet, despite this lack of broader attention, it is clear that the participation of private firms in Afghanistan was significant. According to Spearin, the use of contractors in support of the mission in Afghanistan was "unprecedented."³ This activity fell across four key categories: defensive security; equipment; training; and logistics and support. Of these components, the most extensive aspect of contractor involvement was for logistics and support, referred to hereafter as operational support contracting.

These operational support contracts differ from those examined in the previous two case studies. Unlike the contracts undertaken as part of ASD, they supplement, rather than replace DND or CAF provided services. And unlike ISS, which has always had some degree of private sector provision, contractor support on operations is an entirely recent phenomenon for the Canadian military.

¹ T. Christian Miller, *Blood Money* (New York: Little, Brown and Company, 2006).

² Brewster, *The Savage War*; Chris Wattie, *Contact Charlie* (Toronto: Key Porter Books, 2008); Christie Blatchford, *Fifteen Days* (Toronto: Doubleday Canada, 2007); Stein and Lang, *The Unexpected War*.

³Spearin, *Canada and Contracted War*, 525.

As this chapter outlines, this significant change has been driven above all else by a mismatch between the capacity of the CAF's combat support and combat service support organizations and the operational requirements of the Government of Canada. This mismatch led to the creation of the first operational support contract for the year 2000 operation. The same rationale led to subsequent programs for operations in Bosnia, and since then two contracts for worldwide support. The second of these, CANCAP II, was signed in 2013 for a period of up to 10 years.

This chapter provides strong evidence that the budget optimization explanation explains the full scope of operational support contracting. The resource constraints that resulted in the requirement to contract for operational support arose because of the deliberate choice to downsize the support forces. This move was predicted on the assumption that in doing so, future support would be provided by allies, host nations or contractors. Since this shift, when host nation support has not been available, as was the case in Bosnia and Afghanistan, support has been provided by Canada's allies or contractors. As discussed below, in reality, much of the support provided by allies was actually provided by contractors. Thus, the downsizing of the 1990s and high CAF operational tempo lead inexorably to contractor support for the CAF.

The Logistics Contractor Augmentation Support Contract for the Year 2000

While all of the other operational support contracts discussed here were created for missions overseas, the first contract for operational logistics support was for a domestic operation. Amidst concerns about nationwide problems related to computer malfunction as the year 2000 approached, the Canadian military was tasked with responding to a possible

request for aid to the civil power across the country. The envisioned potential response would have been an unprecedented operation, requiring the military to be available potentially anywhere in Canada in the event of significant system failure. Since the military had never been postured for such a domestic mandate, it had no capability to support such an operation on its own.⁴ To address this potential shortfall, the Logistics Contractor Augmentation Support contract to support Operation *Abbacus*, the military's year 2000 response, was created. The \$10 million contract, signed with Atco Frontec would have provided the military with food, fuel and accommodations across Canada, had the crisis materialized.⁵

At the time, this contract met with significant resistance within the military as many officers did not trust contractor support. Furthermore, since the ASD process described in Chapter 5 had been underway for several years at that point, there were concerns that this was yet another contracting effort that might threaten military support jobs. Without other alternatives, however, the senior departmental leadership overruled these concerns and established the contract. Ultimately, the support arrangements were not actually required, as the year 2000 crisis had been mitigated. But the experience of drawing up the contract as an insurance policy demonstrated to Canadian officials the utility of using contracted logistics as a means of adding additional capability to address shortfalls in logistics support.⁶ Within a few months this experience was heavily influential in leading DND to use contracted logistics to address a significant support deficiency in Bosnia.

⁴ Lashkevich, *Interview with the Author*.

⁵ Canada. Department of National Defence, *Access to Information Request A-2006-00250* (Ottawa: 1999).

⁶ Lashkevich, *Interview with the Author*.

Personnel Shortages

As with both of the two previous case studies, the origins of operational support contracting in Canada trace their roots to the resource reductions in the 1990s. As was the case with changed arrangements for ISS, the various initiatives in the 1990s including the Force Reductions, Operation *Excellerate* and ASD program created the conditions that led to this type of contracting. As Chapter 5 described, the 1990s change agenda concentrated the reduction pressures on support forces to prioritize operational military capability. As the Auditor General of Canada described “In 1994, in response to the government’s *1994 Defence White Paper*, National Defence embarked on a five-year renewal program to devote maximum resources to the Canadian Force’s combat capability by decreasing the cost of support activities.”⁷ Consequently, the support forces bore the brunt of these efforts, and downsized by between 30 and 50 percent.⁸ This situation was exacerbated by the closure of Canada’s base in Lahr, Germany. That facility had maintained a significant forward deployed logistics effort. Because these forces were prepositioned overseas, they had traditionally provided much of the CAF’s deployed operational support, since these assets were significantly closer to operational theatres than units in Canada. Lahr’s closure, on top of the other measures, increased the pressures on military logisticians significantly because it imposed new requirements to deploy personnel from Canada, rather than from overseas.⁹

In addition to this directed downsizing, by the late 1990s the CAF was facing the dual pressure of too few people joining the forces and too many leaving, resulting in

⁷ Canada. Office of the Auditor General of Canada, *Chapter 32: National Defence - Defence Support Productivity* (Ottawa: 2000), 32.8.

⁸ Perry, *Contractors in Kandahar*, Eb?, 1-23.

⁹ Lashkevich, *Interview with the Author*.

recruiting and attrition difficulties.¹⁰ A booming Canadian economy in the late 1990s was particularly problematic for military recruiting and retention. After peaking in 1993, at 11.4 percent, the national unemployment rate fell steadily through the 1990s to 6.8 percent in 2000. This was a significant problem for the military, as it was the lowest unemployment rate since 1976.¹¹ Concurrent with this improved economic climate, beginning in the late 1990s shifting demographics began impacting Canadian military recruiting. By this time, the share of visible minorities in the Canadian population had increased significantly. This was problematic because attracting recruits from this segment of the population had been, and remains, a challenge. This combined with increasingly negative attitudes towards military service in the 17-24 year old age group, from which the military traditionally recruited, led to disappointing recruiting results in 1999/2000 and 2000/2001.¹² As a result, “in the space of less than three years the CF went from paying qualified individuals to leave...to the point that it was suffering such acute shortages that it had to consider curtailing operations.”¹³ By 2001, 38 out of 107 Military Occupations were under staffed. This led to a significant downgrading of recruiting standards, the introduction of recruiting bonuses for recruits with training in key trades and a threefold increase in the advertising budget.¹⁴ All of these efforts were designed to combat what was described as “the most critical personnel shortage”¹⁵ in modern Canadian military history.

The recruiting and retention issues worsened the problems caused by the downsizing which was referred to as “the dismantling of resources necessary for operational support and

¹⁰ Spearin, *Not a "Real State"?*, 1093-1112; Christopher Ankersen, "The Personnel Crisis," in *Canada without Armed Forces?*, ed. Douglas L. Bland (Kingston: McGill-Queen's University Press, 2004), 65.

¹¹ Canada. Statistics Canada, *Labour Force Historical Review 2009* (Ottawa: 2010).

¹² Tasseron, *Military Manning and the Revolution in Social Affairs*, 56.

¹³ *Ibid.*, 54.

¹⁴ Canada. Office of the Auditor General of Canada. *Chapter 5: National Defence - Recruitment and Retention of Military Personnel* (Ottawa: Minister of Public Works and Government Services Canada, 2002).

¹⁵ Christopher Ankersen and Losel Tethong, "Birds in Hand," *Canadian Military Journal* 2, no. 2 (2001): 43.

sustainment.”¹⁶ A 2001 Auditor General of Canada report found that the military was experiencing “critical difficulties staffing 18 of the 36 military maintenance occupations.”¹⁷ These difficulties were most prominent in a number of technician trades, particularly vehicle and materials technicians for the Army, and the communications, engineering, and logistics trades across the CAF. A subsequent audit in 2002 found “3,000 positions are vacant, many of them in key occupations such as engineers, vehicle and weapons technicians.”¹⁸ This quickly put the Army’s desired sustainment ratio of four personnel in reserve for every one deployed at risk for key support positions.¹⁹

The four to one ratio of garrison to deployed time was predicated on the availability of a job for support personnel while they were home from deployments. By dramatically changing the support of military bases, through Operation *Excellerate*, contracting with industry, or instituting Most Efficient Organizations, by the late 1990s there were many fewer support personnel working in garrison. As a result, the number of positions available for an appropriate ‘ship to shore ratio’ was curtailed significantly. Maintaining the desired four to one rotation ratio would only be possible if a moderate operational tempo was maintained. This was what the *1994 Defence White Paper* had intended, stating, “Canada cannot, and need not, participate in every multilateral operation. Our resources are finite.”²⁰ The plan to employ the Canadian military judiciously, however, was quickly abandoned, leading to a “crisis in the areas of Combat Support and Combat Service Support.”²¹

¹⁶ Conference of Defence Associations Institute, *Caught in the Middle* (Ottawa: 2001), 4.

¹⁷ Canada. Office of the Auditor General of Canada, *Chapter 10: National Defence - in-Service Equipment*, 11.

¹⁸ Canada. Office of the Auditor General of Canada, *Chapter 5: National Defence - Recruitment and Retention of Military Personnel*, 1.

¹⁹ LCol W. J. McLean, *Strategic Human Resources in the Canadian Forces* (Toronto: 2004).

²⁰ Canada. Department of National Defence, *1994 Defence White Paper*, 31.

²¹ Conference of Defence Associations Institute, *Caught in the Middle*, 39.

Operational Tempo

Despite the planning assumptions that had been predicated on careful management of finite resources, the Canadian military's operational tempo increased sharply during the 1990s. DND's records indicate that from 1945 to 1989 the CAF participated in 25 international operations. In contrast, in one decade after 1989 the Canadian military participated in 65 missions abroad. The number of deployed personnel also doubled over the second half of the 1990s.²² In 1994 and 1995 roughly 6,000 personnel were deployed outside of Canada; by 1997, the number had more than doubled to 13,600 and nearly quadrupled by 1998 when 23,000 personnel were deployed.²³ As Figure 6 in Chapter 3 shows, this increase in tempo happened just as the CAF was reducing to its fullest extent.

Reflecting on the level of activity General Baril, Chief of the Defence Staff, stated that "The high operational tempo experienced in recent years, coupled with limited resources and personnel, have presented a serious challenge to the Canadian Forces. In fact, this intense level of activity has become unsustainable."²⁴ This extreme level of operational activity, despite the shortage of people is one of the factors that led to multiple criticisms of the Chrétien Government's defence record. According to one prominent military historian as a result of these pressures "The Canadian Forces had reached its breaking point."²⁵

In hindsight, it was not difficult to see that the combination of reduced resources and increased demand "would have an adverse effect on sustainability."²⁶ Overall, the wider change agenda of the 1990s, including ASD, was argued to have inflicted "strategic

²² Canada. Office of the Auditor General of Canada, *Chapter 5: National Defence - Recruitment and Retention of Military Personnel*, 1-19.

²³ Canada. Department of National Defence. *Performance Report: For the period ending March 31, 1999* (Ottawa: Minister of Public Works and Government Services Canada, 1999).

²⁴ General J. M. G. Baril. *Building on a Stronger Foundation: Annual Report of the Chief of the Defence Staff 1999 - 2000* (Ottawa: Department of National Defence, 2000).

²⁵ J. L. Granatstein, *Who Killed the Canadian Military?* (Toronto: Harper Flamingo Canada, 2004).

²⁶ McLean, *Strategic Human Resources in the Canadian Forces*, 20.

damage...to the institutional resiliency and health of [CF] logistics” leaving “little depth in the Canadian Forces to generate combat logistics units.”²⁷ As a result, by 2002 it was assessed that the “Canadian Forces Logistics System cannot sustain the requirements of the *1994 Defence White Paper*.”²⁸

The high rate of deployment was particularly problematic for Canadian support forces, as these were the most heavily tasked by operational demands. Even missions with few operational forces required a deployment of support personnel to sustain them. Thus, while not all of the 65 missions between 1989 and 1999 deployed a large overall force, they all required logistics support. Unsurprisingly, the Chief of Defence Staff’s 2002 *Annual Report* stated “the high operational tempo has had the greatest impact on particular support and specialist occupations, including ... engineers and logistics personnel.”²⁹ As a result, many came to the conclusion that “the logistical backbone of the Canadian Forces [was] crippled.”³⁰ The military was thus faced with a dilemma. According to one senior officer at the time, ‘How do you tell the government that we can’t deploy because we can’t support it, when we have all the operational force that we fought to keep so we could actually send it?’³¹ As a result, the military examined various options for improving its logistics support for operations. One of its largest efforts, the National Military Support Capability study, identified a need for a generic pre-facilitated contractor support arrangement for deployed operations.³² This was formalized in the military’s *Strategy 2020*, released in 1999, which

²⁷ Conrad, *What the Thunder Said*, 70.

²⁸ The Conference of Defence Associations Institute, *A Nation at Risk* (Ottawa: 2002), 32.

²⁹ General R. R. Henault. “An Honour To Serve,” *2001-2002 Annual Report of the Chief of Defence Staff* (Ottawa: Department of National Defence, 2002), 21.

³⁰ Howie Marsh, “The Gathering Defence Policy Crisis,” in *Canada without Armed Forces?*, ed. Douglas Bland (Kingston, ON: McGill-Queen’s University Press, 2004), 99.

³¹ Pennie, *Interview with the Author*.

³² Canada. Department of National Defence. “Contractors in Support of Deployed Operations,” , accessed April 18, 2006, www.forces.gc.ca.

recognized that “sustainment for long deployments will require support from the Reserves, host-nation support and contractors.”³³

In essence, the need for contracted logistics on operations was a direct corollary of the 1990s force reductions and efficiency initiatives and the decision to deliberately apportion these onto the support forces. This on its own might have been manageable were it not for the Chrétien government’s “wholly non-selective approach to deployments”³⁴ abroad which sent the CAF to participate in “nearly ever mission carried out by the UN and NATO.”³⁵ Refuting several authors who described the Chrétien period as one of objective military decline, Lagassé and Robinson instead argue that the CAF would have faced significantly fewer difficulties had it simply deployed less.³⁶ Because the government opted to deploy the military continually, the use of operational support contractors became a means of addressing one such difficulty.

Bosnia

In 2000, the NATO Stabilization Force in Bosnia-Herzegovina undertook a significant restructuring of its forces in the former Yugoslavia, and the Canadian government used the occasion to review its own contribution. As part of this process, it once again contracted with Atco Frontec for logistics support, this time through the Contractor Support Project (CSP). This was the first time that support operations for an overseas mission had been provided by contract.³⁷ Under the three year, \$115 million contract, the company

³³ Canada. Department of National Defence, *Shaping the Future of Canadian Defence: A Strategy for 2020* (Ottawa: 1999) (un-paginated).

³⁴ Lagassé and Robinson, *Revising Realism in the Canadian Defence Debate*, 34.

³⁵ Ibid.

³⁶ Ibid.

³⁷ *Evidence*.

delivered a range of services that provided for the care and feeding of the Canadian contingent. These services included: warehousing; transportation; bulk fuel management; vehicle maintenance; food services; communications services; camp maintenance; electricity and water supply and distribution; waste management; facility operation and maintenance; fire services; and environmental protection.³⁸

Much like the contract for Operation *Abbacus*, this contract was designed primarily to address an insufficient supply of logistics personnel. Unlike the contract for year 2000, however, it was not intended to simply address a capability deficiency. Rather, according to Alan Williams, it was intended to help “over-extended soldiers.”³⁹ After multiple years of deployments in the Balkans since 1992, the high operational tempo left the military facing the unwelcome prospect of sacrificing its four to one rotation cycle if it was to continue providing support with military members alone. By that point in time, after eight years of operating in the Former Republic of Yugoslavia, some personnel in support positions had deployed on up to five rotations. Including training time, this amounted to up to 45 months of time away from home. Placed in perspective, this amounted to a longer absence than many WWII veterans experienced.⁴⁰

The immediate situation that led to the creation of the CSP contract was a serious support gap in the next rotation in the deployment cycle. The Quebec based unit could not staff their contribution without deploying a significant number of support soldiers who, given their recent time overseas, were scheduled to remain in Canada for a twelve month post-deployment period. Faced with the prospect of re-deploying soldiers who had recently

³⁸Canada. Department of National Defence. "Balkans Rationalization - Contract Support Project: BG-00.006a," last modified December 15, 2001, accessed September 8, 2010, <http://www.forces.gc.ca/site/news-nouvelles/news-nouvelles-eng.asp?cat=03&id=210>.

³⁹ *Evidence*, June 5, 2001.

⁴⁰ Lashkevich, *Interview with the Author*.

returned, DND instead opted for a mitigating solution. Discussing that measure, the CSP, Williams testified before SCNDVA that, “The aim of this project is to improve quality of life by providing necessary relief for support soldiers currently experiencing the stress of continuous operational deployments.”⁴¹ Hiring contractors was not anticipated to allow soldiers currently deployed to return home, but rather was intended to prevent them from being deployed in the first place.⁴² By doing so, the objective was to give support personnel more time at home before their next deployment.⁴³ By this measure, the contract was successful, allowing 152 soldiers per rotation, approximately 900 in total, to stay home instead of deploying.⁴⁴ This reportedly allowed the military to deploy 50 percent fewer support personnel to the theatre.⁴⁵

One additional objective of the CSP was to provide the military with additional operational flexibility in the event that they were asked to establish another line of operations. As Williams told the Committee, the contract would provide the government with “increased flexibility to respond to requests for support that our military forces might not otherwise be able to provide.”⁴⁶ With the military’s support forces already over-extended in Bosnia, they would have been hard pressed to provide support in any other theatre without the extra capability provided by the CSP. The military’s senior logistician at the time believes that the CAF would have found it extremely challenging to conduct the missions in Kosovo or Eritrea had the CSP program not been established for operations in Bosnia.⁴⁷

⁴¹ *Evidence*.

⁴² Major Yvonne Thompson, Interview with the Author, November 2, 2006.

⁴³ *Evidence*.

⁴⁴ Estimate based on the estimate of approximately 150 soldiers per six month rotation cited in Canada. Department of National Defence, *Balkans Rationalization - Contract Support Project: BG-00.006a*.

⁴⁵ The Conference of Defence Associations Institute, *A Nation at Risk*, i-C-V.

⁴⁶ *Evidence*, June 13, 2002.

⁴⁷ Lashkevich, *Interview with the Author*.

Cost savings played no role in the CSP's establishment. Asked if this was one of the program's objectives by a Member of Parliament, Williams stated "This is in fact not a cost-saving thing. It's costing us totally incremental money in order to do this."⁴⁸ This was because even if the contractor proved to be more cost effective at providing services, the military supporters already in uniform would still be retained in the military force structure. The CSP therefore incurred additional costs to DND. According to a briefing note prepared for the Minister of National Defence in 2001, defence officials stated that the Treasury Board had approved the contract "to address CF quality of life issues and increase CF flexibility to undertake operational commitments – not for cost savings."⁴⁹

A final motivation for the program came from the belief that Canada would be following in the footsteps of key allies by contracting for operational support. The former Vice Chief of the Defence Staff Vice Admiral (ret'd) Gary Garnett, in particular, is remembered by other senior leaders as being a strong proponent of using contractors on operations, frequently citing the American military's use of contracted logistics. Garnett was recalled to have often cited the American experience to refute the notion that the CAF could not employ them operationally too.⁵⁰ While the example set by the Americans may have influenced the top down direction to initiate the contract, others recall that American experiences were not all that transferable to what Canada was looking to create. Because they had no previous experience with operational contracting, senior officers did look to allies' experiences as potential models. In doing so they found the United States' example

⁴⁸ *Evidence*, June 13, 2002.

⁴⁹ Canada. Library and Archives Canada., *Briefing Note for the Minister: Balkans Rationalization - Contractor Support. Access to Information Request A-2014-00356_Stack03*. (Ottawa: 2014).

⁵⁰ Lagueux, *Interview with the Author*.

not very useful because their operations were of such a significantly larger scale. As a result, Canadian officials also looked at the UK experience in establishing their own program.⁵¹

At that time of the CSP, some in the military were still reluctant to employ contractors on operations. The dual pressures of an expeditionary mission and a desire to improve the quality of life for those in the support trades superseded this reluctance.⁵² The initial foray into operational support contracting came with some initial growing pains, however. The company was reported to have a significantly higher than anticipated attrition rate for its employees, due to the terms of their contract and working conditions.⁵³ There were also some tensions initially on the ground created by the fact that the contracting and technical authorities for the contract were back in Ottawa at PWGSC and DND respectively, while the day to day ‘client’ of the contract was the Commanding Officer on the ground. The contractors attempted to be responsive to operational needs as best they could, but this at times conflicted with the actual language of the contract, in which the officers actually serving in Bosnia were not well versed. While the contractors attempted to be operationally responsive, this sometimes resulted in their not being paid for services, when the contracting authorities at PWGSC later determined that they exceeded the scope of the actual contract.⁵⁴

Canadian Contractor Augmentation Program

While successful, the CSP was restricted solely to providing support services in the Balkans and the military desired a more flexible contract that could be deployed anywhere in

⁵¹ Lashkevich, *Interview with the Author*.

⁵² Ibid.

⁵³ Spearin, *Not a "Real State"?*, 1093-1112.

⁵⁴ Lagueux, *Interview with the Author*.

the world to support Canadian operations. Bosnia had demonstrated the utility of contracted support, but the CAF wanted to avoid having to contract on an “operation-by-operation basis.”⁵⁵ The officers putting together the new program drew on the broad construct of the American Army’s Logistics Civil Augmentation Program, an onibus contract that could be called upon anywhere, to construct their own. This American equivalent had by that time been in effect for a decade and deployed to Bosnia and Somalia in support of American troops.⁵⁶ The result was created in December 2002. SNC-Lavalin/PAE Government Services, a joint venture between Quebec based construction firm SNC-Lavalin and the American company PAE Government Services, won the five year contract in December 2002. The contract was valued at a maximum of \$200 million through December 2007, with options to renew for an additional five years at a further \$200 million. Building on the CSP initiative, under the CANCAP program, the CAF could call on the contractor to provide an expanded list of services, including: administration and management; food services; materiel management and distribution; communication and information systems; land equipment maintenance; health services; transportation; accommodation and support; construction engineering services; power supply and distribution; water supply and distribution; waste management; facilities operations and management; roads and grounds; fire services; geomatics support; environmental management; and ammunition support.⁵⁷ The contract was established as a pre-facilitated

⁵⁵ Spearin, *Canada and Contracted War*, 526.

⁵⁶ Donald Trautner, "A Personal Account and Perspective of the U.S. Army Logistics Civil Augmentation Program (LOGCAP)" Program Management Office of Logistics Civil Augmentation Program and Headquarters, U.S. Army Material Command Historical Office, July 14, 2004.

⁵⁷Canada. Department of National Defence. "Canadian Forces Contractor Augmentation Program: BG-04.010," last modified July 14, accessed September 8, 2010, <http://www.forces.gc.ca/site/news-nouvelles/news-nouvelles-eng.asp?cat=03&id=1409>.

contract intended to allow for contractor deployment on 90 days' notice following the activation of a Task Order.⁵⁸

Like the CSP, the CANCAP program was driven by a desire to improve the personnel situation in the support trades. As the Deputy Chief of the Defence Staff stated “The intent of CANCAP is to provide the CF with additional operational flexibility through enhanced support capacity. It will free up military personnel for employment where their military skills are most needed and allow more concentration on the preservation of support-to-war-fighting skills in our support forces.”⁵⁹ The program was described as ‘win-win’⁶⁰ because it eased the pressure on the CAF support community while allowing the government to continue deploying the military abroad as frequently as it had in the past. As a result, contractors came to be seen as another “tool in the toolbox” to be potentially employed, alongside the option of military support, allied logisticians, and host nation resources.⁶¹

Canadian Contractor Augmentation Program Evolution

Driven by operational need, the military had moved through a rapid evolution in its approach to operational contracting by 2002. The CSP contract was fast-tracked and let within six months, in May 2000, shortly after creating the Logistics Contractor Augmentation Support contract. Only six months into the CSP, DND was working on CANCAP. Not long after, in September 2003, the CANCAP contract was in effect in Bosnia, assuming responsibility for supporting Canadian Task Force Bosnia-Herzegovina

⁵⁸ Morrow, *CANCAP*, 74-85.

⁵⁹ Canada. Department of National Defence, *Contractors in Support of Deployed Operations*, (un-paginated).

⁶⁰ Pennie, *Interview with the Author*.

⁶¹ Lashkevich, *Interview with the Author*.

from the previous CSP program. At the height of its involvement in the Balkans, approximately 300 CANCAP employees supported the 1,200 soldiers in theatre, at a total cost of \$52 million.⁶²

Even before it began providing services in the former Yugoslavia, CANCAP was rushed to the field to provide support for the Canadian military in Afghanistan. On February 13, 2003, Defence Minister John McCallum announced that the Canadian military would deploy over 2,000 soldiers, including a support element, to the International Security Assistance Force mission in Kabul. At the time, the CANCAP contract has been signed only two months prior. It was designed to support operations in mature theatres and its services were supposed to be validated through a demonstration exercise before being used operationally. Despite these restraints, CANCAP was rushed into service in Kabul and its contractors were tasked with constructing and subsequently maintaining the Canadian bases of operations, Camps Julien and Warehouse.

This unique situation was created by the peculiarities of the deployment to Kabul, which had been planned over a very short time frame, largely under secrecy. Cabinet had approved the mission on February 4, 2003 after consultations with the military but the Prime Minister's Office directed that knowledge of this decision be highly restricted until it was announced in the House of Commons.⁶³ Consequently, prior to its public announcement, face to face meetings of operational and policy staff to plan the operation were not possible and senior logisticians were forced to examine logistics arrangements in a manner that would not draw attention to the possibility of deploying troops to Kabul.⁶⁴ Probably because of that, it was only after the public announcement that the CAF discovered that the site they

⁶² Canada. Department of National Defence, "*CANCAP Task Order Cash Phasing*," *Access to Information Request A-2003-01426, Document A0066734* (Ottawa: 2003).

⁶³ Stein and Lang, *The Unexpected War*.

⁶⁴ Lerhe, *At what Cost Sovereignty ?*; Lashkevich, *Interview with the Author*.

had believed would be available for their use had been given away to another nation.⁶⁵ As a result the military was faced with the prospect of building a military facility capable of housing 2,000 soldiers from scratch, on a mine covered parcel of unused land. This was a job that the military had no inherent capability to perform. The military's senior logistician at the time later reflected that the last time such a substantial construction project had been undertaken in support of an operation was likely during the Korean War. As a result, the construction capability required simply did not exist in the military's force structure.⁶⁶ Camp construction, however, did not fall directly within the contract's parameters, as construction of this type and scale had never been envisaged. The SNC-Lavalin/PAE joint venture, however, was essentially a construction firm, and hence had the capacity to build the camps. Its program manager therefore agreed to take on the project, since the request was an urgent operational requirement, it was within their capacity to execute, and the firm wanted to get going with its new relationship with DND.⁶⁷ Thus, the contract was rushed into use far earlier and in much different circumstances than originally envisioned.

Between April and August 2003 CANCAP employees worked to construct the Canadian facilities, deploying in advance of the Battle Group. They remained in Kabul supporting Operation *Athena*, until its closure November 2005. While supporting the operation, they provided the entire range of services eligible under the program, with the exceptions of geomatics, ammunition support and, health support.⁶⁸ At the height of the contract deployment, more than 400 CANCAP employees were supporting 2,400 troops,

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ Ian Malcolm, Interview with the Author, November 10, 2011.

⁶⁸ Morrow, *CANCAP*, 74-85.

and in August 2004 DND announced that the contractors were saving between 80 and 100 military billets per rotation.⁶⁹

Kandahar

After Operation *Athena* ended in Kabul, the CAF entered into short period where CANCAP services were not employed. When Canada deployed its Provincial Reconstruction Team to Kandahar in 2005, one of the primary considerations in choosing that location was the availability of American logistics support.⁷⁰ The deployment of the Provincial Reconstruction Team to Kandahar was predicated on the expectation that it, and the follow-on Battle Group, could tap into the existing American support arrangements at Kandahar Airfield. As a result, planners had anticipated receiving a full range of services from the American contractor KBR, which was providing base-wide support at Kandahar Airfield through the Logistics Civil Augmentation Program contract. Thus, in opting to base out of Kandahar Airfield, Canadian officials were effectively choosing to receive a significant degree of contracted support, since the base to which they were deploying relied extensively on contractors. The Canadians housed at Kandahar Airfield effectively became tenants on the base, paying a price per soldier, per day to the American Government under an acquisition cross servicing agreement.⁷¹

When deploying to Kabul the Canadian military had faced little choice but to employ contractors to build and support their camp. In choosing to deploy the military to Kandahar and station the forces at Kandahar Airfield, the officials faced no choice in whether they would be supported by contractors, since they were deploying to a previously established,

⁶⁹Canada. Department of National Defence. "Operation ATHENA: The Canadian Forces Participation in ISAF: BG-03.039f," last modified August 27, accessed September 8, 2010, <http://www.forces.gc.ca/site/news-nouvelles/news-nouvelles-eng.asp?cat=03&id=1228>.

⁷⁰Lerhe, *At what Cost Sovereignty?*

⁷¹Defence Officials, Interview with the Author, May 31, 2012.

contractor supported base.⁷² Interestingly, although caring and feeding services were contractor provided, because they were arranged through a Memorandum of Understanding with the American Government, they were not classified as contracts in the Canadian financial reporting framework. Thus, while the Canadian Government paid the American Government so that it could receive contracted operational support, these payments were not recorded as contracts.⁷³

In 2006 the key nations deployed in Regional Command South, including Canada, negotiated with NATO for the NATO Maintenance and Supply Agency to take over the base support services function at Kandahar Airfield. As a result of this effort, the NATO organization took over from the United States as the primary base support organization on 1 August 2007.⁷⁴ This transition saw the NATO Maintenance and Supply Agency assume the role of providing common support for items such as food and fuel services, and water treatment. Like the previous American arrangements, these were also provided by contractors. In essence these were the common base support functions, extended to the 'front door' of the Canadian compound. It was at that point that national contracts, once they were established, took over for national-unique items.⁷⁵ Thus, after August 2007, Canada's operations at Kandahar Airfield were supported by a variety of contractors arranged by the NATO Maintenance and Supply Agency. Like the arrangement with the United States, this contract involved a price per soldier. Unlike the arrangement with the Americans, these costs were considered contracts by the Canadian government. The total

⁷² Ibid.

⁷³ Defence Officials, *Interview with the Author*.

⁷⁴ Defence Officials, Interview with the Author, May 17, 2012.; Linda RAdm (ret'd) Bird. "NAMSA Supporting Multinational Logistics Requirements," Defense Technical Information Center, last modified April 2009, accessed September 6, 2013, <http://www.dtic.mil/ndia/2009logistics/Bird.pdf>; North Atlantic Treaty Organization. NATO Support Agency. "Organization," accessed September 6, 2013, <http://www.nspa.nato.int/en/organization/Logistics/LogSup/Planning.htm>.

⁷⁵ Defence Officials, *Interview with the Author*; Malcolm, *Interview with the Author*.

costs of these contracts were comparable to those incurred through the CANCAP program (see Table 2). Because the common base support at Kandahar Airfield was provided to all supported nations, no data break down was obtainable to indicate how many NATO Maintenance and Supply Agency contractors were specifically allocated to providing services to Canada. Consequently, the ratio of operational logistics contractors to deployed Canadian military members depicted in Table 3, only includes CANCAP employees. As a result, this data understates Canada's use of contractor provided services on operations.

The use of both American and NATO Maintenance and Supply Agency services in Kandahar highlights an important consideration regarding Canada's use of operational support contractors. As a perennial coalition partner, Canada has been a *de facto* user of other nations' contractors, even if no Canadian decision was taken to call up a CANCAP Task Order. Since NATO intends to use such an arrangement in the future, this will remain the case for any operation of a significant duration and scale.⁷⁶ Canada's deployment to Kandahar Airfield implicitly meant that the Canadian military would be paying for contracted support, even if the Government of Canada made no conscious decision to contract for it directly.

As it turned out, though, Canadian officials identified a requirement for a direct contract. Once Canada deployed its Battle Group to Kandahar in February 2006, the Canadian presence in the province dramatically increased. With approximately 2,300 Canadian troops in the region, and Canadian equipment and personnel stretched over a very substantial area of operations, logistics support shortfalls soon became apparent. Throughout 2006 as American forces reduced their presence at Kandahar Airfield, as they shifted forces to Iraq, the support available from the Logistics Civil Augmentation Program

⁷⁶ North Atlantic Treaty Organization. NATO Support Agency, *Organization*.

decreased. Over time this saw the American contract reduce to only providing those services common to all the multinational forces, primarily those related to common base life support. Thus, while the CAF continued to receive common multinational services from KBR, any additional services had to come from another provider.⁷⁷ Communications and engineering support, civilian vehicle maintenance and general labour were quickly identified as requirements, due to the changed arrangement with the Logistics Civil Augmentation Program.⁷⁸ Very early in the deployment it was also recognized that as the Battle Group began conducting operations ‘outside the wire’ these support shortfalls would be exacerbated.

Over the summer of 2006, military planners examined various options for increasing the level of support in Kandahar. Three primary factors weighed heavily on the various options under consideration. First, many of the needed support occupations remained distressed trades, as they were still under strength. Second, the possibility that the government would direct the military to undertake a second operation in another theatre was possible. In approving the mission in Afghanistan, Prime Minister Paul Martin had sought a guarantee from the Chief of Defence Staff Rick Hillier that doing so would not preclude operations elsewhere in the world.⁷⁹ To prepare for the possibility of a mission to the Sudan, a Martin priority, the military needed to retain a minimum military support capability which limited how many forces could be deployed to Kandahar Airfield. Third, while Kandahar province was itself highly dangerous, “inside the wire” at Kandahar Airfield was “relatively

⁷⁷ Canadian Army Contracting Officer, Telephone Interview with the Author, February 19, 2007.

⁷⁸ Canada. Department of National Defence, *Briefing Note to COS CEFCON: Addressing the Operational Support Capability Gap in TFA*, Access to Information Request A-2006-00837 (Ottawa: 2006).

⁷⁹ Stein and Lang, *The Unexpected War*.

secure.”⁸⁰ Ultimately, only two options were deemed viable; increasing the number of Canadian support troops or calling up a Task Order to employ an initial cadre of 80 CANCAP contractors. Increasing the number of support forces was evaluated as advantageous because they could provide the most operational flexibility, since they could deploy anywhere in theatre. Furthermore, compared to contractors, soldiers were the cheaper option. However, the military faced the same problem it had since the mid-1990s Force Reduction; a lack of support personnel. Additionally, to deploy more uniformed logisticians the military would need to either increase the overall number of deployed forces, or lower the deployed tooth to tail ratio, thereby reducing the proportion of combat troops. By that point, the government had been unwilling to increase the number of deployed troops and the CAF leadership had demonstrated an unwillingness to increase the number of deployed military support personnel, refusing to increase the 300 person ‘cap’ on the National Support Element.⁸¹ On the other hand, sending contractors cost roughly ten times more than deploying military forces and they would be far less flexible due to contract requirements governing their terms of work and an inability to deploy them outside of Kandahar Airfield. Nevertheless, CANCAP contractors were deployed because doing so would not exceed the established troop ceiling, would ease force generation pressures on the support trades, and would allow military support units to focus on directly supporting operations.⁸²

As Canadian operations in southern Afghanistan progressed, military officials continued to identify additional requirements for the CANCAP program. By the fall of

⁸⁰ Canada. Department of National Defence, *Briefing Note to COS CEFCON: Addressing the Operational Support Capability Gap in TFA*, Access to Information Request A-2006-00837, 18.

⁸¹ Lieutenant-Colonel John Conrad, "We Three Hundred," in *In Harm's Way*, ed. Colonel Bernd Horn (Kingston, ON: Canadian Defence Academy Press, 2007), 257-269.

⁸² Canada. Department of National Defence, *Briefing Note to COS CEFCON: Addressing the Operational Support Capability Gap in TFA*, Access to Information Request A-2006-00837.

2006, the number of contractors at Kandahar Airfield had increased to 120, and again to 190 in 2007. These increases were due to an increased pace of operations outside the wire, ongoing reluctance to increase the allowed troop ceiling, continuing force-generation challenges, and delivery gaps in the Kandahar Airfield -wide common support contracts.⁸³ On July 31, 2007, the base-wide, common support services transitioned from the Logistics Civil Augmentation Program to the NATO Maintenance and Supply Agency. This was the result of the partner nations deployed to Regional Command South, including Canada, deciding to transition their individual support requirements to the NATO organization in an effort to ensure that the various coalition contracting requirements were coordinated and as efficient as possible.⁸⁴ Even after the switch, the requirement for CANCEP services for Canadian specific support remained.⁸⁵ All told, according to an assessment by the Auditor General of Canada, between May 2006 and July 2007 the number of support staff in Afghanistan tripled, with much of the increase coming from the deployment of additional contract personnel.⁸⁶ By the fall of 2010, 313 CANCEP contractors were deployed in Afghanistan, the majority at Kandahar Airfield, with a small contingent at the Provincial Reconstruction Team base in Kandahar City. These contractors remained in place until Canada's combat mission came to an end in July 2011. Thereafter the number of contractors was gradually reduced although CANCEP continued providing support to Operation *Transition*, the mission repatriating Canadian equipment from Kandahar was complete.⁸⁷

⁸³ Perry, *Contractors in Kandahar, Eh?*, 1-23.

⁸⁴ Defence Officials, *Interview with the Author*.

⁸⁵ Canadian Army Contracting Officer, *Telephone Interview with the Author*.

⁸⁶ Canada. Office of the Auditor General of Canada. *Chapter 2: Support for Overseas Deployments - National Defence* (Ottawa: Minister of Public Works and Government Services Canada, 2008).

⁸⁷ Defence Officials, *Interview with the Author*; Malcolm, *Interview with the Author*.

The Extent of Operational Support Contracting

Given the data limitations described above, a full assessment of the cost of operational support contracts used by Canada is impossible to obtain, since the arrangements with the United States were not considered to be actual contracts. Data is therefore only available for contracts engaged by Canada directly and those provided by the NATO Maintenance and Supply Agency, and this is presented in Table 2. The CSP incurred annual costs of roughly \$40 million a year in Bosnia.⁸⁸ At the height of Canada's reliance on these programs, when both the CSP and CANCAP were in effect in both Bosnia and Kabul (2002-2004) the Canadian military paid a total of slightly more than \$300 million for privately contracted logistics. The total incremental cost of international operations over the same time period was cumulatively about \$1.34 billion. Thus, the Canadian military devoted a little over 22 percent of the total cost of operations abroad towards contracted logistics.⁸⁹

The use of contractors in Kandahar, however, was proportionally less costly. The first two years of CANCAP operations were estimated to cost a total of \$56 million between July 2006 and July 2008.⁹⁰ Over the same timeframe, the incremental cost of operations was just under \$2 billion, meaning that CANCAP logistics amounted to less than three percent of incremental costs. By 2010/2011, the cost of CANCAP support had risen to \$48 million per year, while the overall cost of operations was \$1.3 billion, increasing CANCAP costs to just over three and a half percent of operational expenses. As Table 3 shows, when accounting for the costs of NATO Maintenance and Supply Agency support as well,

⁸⁸ Canada. Department of National Defence. "Increase to Defence Support Contract: NR-04.020," last modified July 14, accessed February 25, 2007, <http://www.forces.gc.ca/site/news-nouvelles/news-nouvelles-eng.asp?cat=02&id=1407>.

⁸⁹ Perry, *Contractors in Kandahar, Etc?*, 1-23.

⁹⁰ Canada. Department of National Defence, "CANCAP Task Order no. TFA-KAF Moo1 Amd. no. 009," *Access to Information Request A200700826, Document A0245352* (Ottawa: 2007).

between five and seven percent of the total cost of CAF operations was devoted to contracted logistics during this time period. The higher proportional share of contract expenditure in Kabul is likely the result of the significant costs incurred in support of the initial rotation as well the costs of constructing the Canadian camp.

(Partial) Emulation

To a greater extent than with ASD initiatives, operational contracting was modelled after American practices. Several former officials interviewed for this chapter recall that the Vice Chief of the Defence Staff from October 1997 to September 2001, Vice Admiral Gary Garnett often pointed to the American military's use of operational contractors as an example Canada could follow.⁹¹ Despite this inclination by Garnett in particular at National Defence Headquarters, there was a significant degree of early caution about following the American model. The military was initially mistrustful of contractors and the Logistics Contractor Augmentation Support contract, for instance, was opposed by operational commanders.

⁹¹ Lagueux, *Interview with the Author*.

Table 2

Logistics Contract Costs							
	Cost (\$M)	Logistics Contracts (\$M)			% of Cost of Operations		
Fiscal Year	Total*	CANCAP	NAMSA**	Total	CANCAP	NAMSA	Total
2008/2009	1319	24	44	68	2%	3%	5%
2009/2010	1471	43	45	88	3%	3%	6%
2010/2011	1308	48	44	92	4%	3%	7%
2011/2012	803	29	31	59	2%	2%	5%

*Included Operations: Athena, Altair, Foundation, Argus, Attention and Transition

** NATO Maintenance and Supply Agency (NAMSA)

Table 3

Ratio of Contractors to Troops			
Theatre	Contractors	CAF	Ratio
Balkans	300	1,200	1/4
Kabul	450	2,400	1/5.3
Kandahar	372	2830	1/7.6

This opposition was overruled, however, because the senior defence leadership believed that the contract was the only way to enable the military’s response. The CAF were furthermore cautious in establishing the CSP and CANCAP contracts that they not replicate American contracts too closely. Specifically, the military did not want to extend their use of contractors to the point where their core military capabilities would be endangered. The American experience, where many Canadian officers saw contracting lead to a reduction of

in-house capacity, was one the CAF did not want to replicate.⁹² As a result, the Canadian military has been cautious in its approach to operational support contracting, although there have been exceptions as noted earlier, driven by operational need.

The Canadian experience has also been unique because of the corporate culture of the company that won the CANCAP contract. SNC-Lavalin has retained significant concern about ensuring the security of its personnel and preventing any adverse reaction to its corporate position that might arise from employee casualties. Thus, unlike comparable American arrangements, CANCAP has not been used to provide “forward” support to the front lines. Instead the company has declined to take on some activities proposed by the military, due to the security risk. In comparison other firms, including American ones, are more risk tolerant and would use their employees to provide “forward delivery” of support which CANCAP would not. Thus, in the similar operating environment of southern Afghanistan, American contractors supported American Forward Operating Bases, while CANCAP did not support comparable CAF installations.⁹³

A final reason why Canada’s emulation of American activities was only partial is due to the significant difference in the scale of contracting conducted by the Canadian and American militaries. Canada contributes relatively small Battle Group sized formations of up to a maximum of 2,500 personnel.⁹⁴ In contrast, the United States provides whatever forces are required for a task. In Afghanistan, this meant tens of thousands of troops and all aspects of support up to the theatre level. This requires more extensive support, much of which is provided by contract.⁹⁵ It is precisely because the United States provides a much

⁹² Lashkevich, *Interview with the Author*.

⁹³ Malcolm, *Interview with the Author*.

⁹⁴ Canada. Department of National Defence and the Canadian Forces, *Statement of Work: CANCAP II - Access to Information Request A-2014-00232*. (Ottawa: 2014).

⁹⁵ Malcolm, *Interview with the Author*.

broader scope of support and makes that available to coalition partners that Canada was able to rely on American contractor support in Kandahar and later Kabul.

Canadian Contractor Augmentation Program I – Post-Kandahar

After Canadian forces were withdrawn from Kandahar the CANCEP were not deployed again, despite two significant international operations. After Canada's contribution in Kandahar was withdrawn, the Canadian military was quickly deployed back to Kabul, in support of the NATO Training Mission Afghanistan. In November 2010, the government announced that Canada would participate in Operation *Attention*, which would see up to 1,000 Canadian trainers deployed to the Afghan capital through March 2014.⁹⁶ Shortly thereafter, in February and March of 2011, the government became progressively involved in a military operation in Libya. Operation *Mobile*, a sustained air campaign conducted as part of a NATO operation, continued through to the end of October 2011.⁹⁷ In neither case were CANCEP services called upon, however.

The non-use of CANCEP was driven by two primary factors: the availability of other support options and the lengthy process for activation a CANCEP Task Order. As outlined in Chapter 3, the process of service contracting requires significant interdepartmental collaboration. Consequently, it is time intensive. Although the CANCEP contract called for the company to be able to respond relatively quickly to a request for support, within 90 days, that process can only commence once an official request is made. Due to the need for inter-governmental collaboration, the full process for calling up a

⁹⁶ Meghan Spilka-O'Keefe and George Petrolekas. *Canada and the NATO Training Mission in Afghanistan* (Ottawa: Conference of Defence Associations Institute, 2012).

⁹⁷ David Perry. *Leading From Behind is Still Leading* (Ottawa: Conference of Defence Associations Institute, 2012).

CANCAP Task Order for a significant mission generally takes 18 months.⁹⁸ This entails obtaining government approvals, writing the Task Orders, allowing the contractor time to recruit and train staff, and obtain any required security clearances. This 18 month long process was problematic for Operation *Attention* because the CANCAP contract itself was set to expire in December 2012. Although at that point DND was already planning to proceed with CANCAP II, a second iteration of the contract, at that point in time it had not been awarded. Had CANCAP I been employed, the CAF might have faced the challenge of transitioning between two different contractors mid-mission. As a result, they opted to receive support through a logistics cross-serving agreement with the American military.⁹⁹ This agreement allowed the Canadian trainers to simply pay a price per soldier for their support and accommodations on the Kabul Base Cluster. This entire complex of bases and installations throughout Kabul was supported by a network of American contractors that took care of the accommodations, cleaning, feeding and laundry, amongst other services for all forces on the base. Simply adding their 1,000 person contingent to this existing infrastructure and support arrangement meant Canada did not have to set up any independent facilities or arrangements. Since this mission was being planned as the resource intensive operation to repatriate Canadian troops and equipment from Kandahar was occurring, this was considered to be a significant benefit.¹⁰⁰

The extended time frames that would have been required for a deployment also played a factor in the Canadian decision to not employ CANCAP to provide support for Operation *Mobile*. As the initial mission was only deployed for six months, planners doubted

⁹⁸ Defence Officials, *Interview with the Author*.

⁹⁹ Canada. Parliament. House of Commons. Standing Committee on National Defence, *Evidence*, 1st sess., 41st Parliament, Meeting No. 13, November 17, 2011.

¹⁰⁰ Author's observations on a DND arranged stakeholder trip to Kabul, June 2012.

that arrangements could be put in place in a timely manner.¹⁰¹ Since Canada also had the option of basing its Air Task Force at existing Italian and American air installations in Trapani and Sigonella, and accommodating air personnel in hotels, there was less pressure to try and rush unique contracted arrangements. The Canadian contingent was therefore able to use previously signed mutual logistics support arrangements with NATO to support its forces on a cost recovery basis.¹⁰²

As these examples indicate, due to the lengthy timelines for calling up the contracted workforce, the CANCAP contract was essentially only conducive to use in circumstances where the CAF have a reasonable degree of planning certainty about how long they would remain in a theatre of operations. Lacking a long enough planning forecast, Canadian planners are more likely to use integral military resources because of the complexities of trying to put the contract in place in a timely and successful way.¹⁰³ Where the appropriate conditions exist, however, the availability of contracted support is highly desirable due to restrictions on the deployment of soldiers abroad. Therefore, the fact that CANCAP I was not used again after Canadian troops left Kandahar does not indicate a move away from contracted operational support. Rather, it reflected the nature of the operations that occurred subsequently and the availability of other support options.

The Deployed Force Structure Cap Incentive

As the decision to deploy CANCAP to Kandahar in 2006 demonstrates, one of the most important factors leading to the use of operational support contractors are ceilings on

¹⁰¹ Defence Officials, *Interview with the Author*.

¹⁰² *Evidence*, November 17, 2011.

¹⁰³ Defence Officials, *Interview with the Author*; Defence Officials, *Interview with the Author*.

troop deployments. When the Canadian military is deployed on operations the size of that deployment is set by the government, providing an upper limit on how many troops can be deployed. This in turn creates an incentive to use operational support contractors to maximize the tooth to tail ratio within the deployed forces. While the overall number of deployed forces can increase during a mission, as happened in Afghanistan, each time the force is increased the military is provided with a revised upper limit on the total number of troops than can be sent overseas. Thus, while these troop ceilings can be revised to increase the size of the deployed contingent, military planners must always make decisions about the makeup of their deployed forces within the troop ceiling in effect at the time. Just as the military could advise the Government of Canada that an increase to the overall size of the armed forces is needed to properly execute defence policy, the military can make similar arguments about the size of a deployed force. In each case, however, the Government of Canada determines if, and by how much, the force can grow, and the military cannot exceed that force size.

The availability of contractor support can influence the size and composition of deployed force packages in two ways. First, it can help shape initial assessments of the requirement for support forces since contracted support operations are one of the support options considered by military planners as they conduct the operational planning process for a mission.¹⁰⁴ For the 2003 deployment to Kabul, for instance, the availability of contractors at the very beginning of the mission meant that deploying Canadian military forces did not require a large military support component. Thus, from the outset of a mission, the

¹⁰⁴ Canada. Department of National Defence and the Canadian Forces, *Statement of Work: CANCAP II - Access to Information Request A-2014-00232*.

availability of contractors shaped the composition of the deploying force, allowing for a higher than otherwise possible tooth to tail ratio.¹⁰⁵

Contractors can also influence the deployed tooth to tail ratio once the size of the force package is established. In preparing force packages between 1997 and 2004, the military planners were guided by an assessment of operation requirement and the required troops to tasks. Officially, these force packages were not ‘capped.’¹⁰⁶ However, in securing policy coverage for an operational deployment, Memorandums to Cabinet include estimates of troop numbers as part of the departmental submission to the Government.¹⁰⁷ At the most senior levels of DND and the CAF these force levels were not viewed to be immutable. A former chief of staff to two Ministers of National Defence during Canadian operations in Afghanistan contends that at the political level these force levels were never considered fixed and the former Chief of the Defence Staff during this time echoes that view.¹⁰⁸ Below these most senior levels, however, the perceptions regarding the adjustability of the troop numbers are different. Lieutenant General (ret’d) Andrew Leslie, the former commander of the Canadian mission in Kabul, for instance, stated that once it was established, a mission’s Table of Organization and Equipment, the specific translation of the missions force cap into specific equipment and personnel became ‘locked.’¹⁰⁹ This established an upper limit on the number of deployable troops. Similarly, within the military’s support community there is a firm belief that the size of a deployed force is finite and not open to adjustment once established.¹¹⁰ Thus, just as the Government establishes a

¹⁰⁵ Lieutenant General (ret'd) Andrew Leslie, Telephone Interview with the Author, August, 2013.

¹⁰⁶ General (ret'd) Ray Henault, Email Correspondence with the Author, July, 2013.

¹⁰⁷ Eugene Lang, Interview with the Author, March 13, 2014.

¹⁰⁸ Ibid.; Henault, *Email Correspondence with the Author*.

¹⁰⁹ Leslie, *Telephone Interview with the Author*.

¹¹⁰ Temple, *Interview with the Author*.

ceiling on the size of the overall CAF, it also establishes a *de facto* ceiling on the size of an expeditionary force.

Within the deployed force package, just as is the case within the overall military, the CAF attempts to maximize its tooth to tail ratio. As a result, operational planners always attempt to maximize the number of operational forces on a deployment, placing downward pressure on the number of support forces. Logisticians argue that the pressure to minimize the number of uniformed logisticians deployed on operations is ‘perennial.’¹¹¹ The situation was the case in Bosnia, where the ‘operational ceiling’ on the number of deployed forces meant that any constraints on deployed numbers were imposed on the support forces.¹¹² Similar dynamics drove the use of contractors in Afghanistan. While the combat elements of Task Force Kandahar nearly doubled in size during pre-deployment planning, the National Support Element was not allowed to increase its numbers.¹¹³ When Canada’s military commitment to Afghanistan changed to the training mission in Kabul, the pressure simply switched to maximizing the number of deployable trainers. The result was the same, a desire to minimize the number of deployed military logisticians and maximize the use of contractors to facilitate the delivery of support.¹¹⁴

These troop ceilings did not include contractor positions, however.¹¹⁵ Consequently, using contractors “provides additional flexibility to commanders should a cap be placed on the number of uniformed personnel that may be deployed to a given theatre.”¹¹⁶ As a result, the military can minimize the number of uniformed support positions deployed by substituting soldiers for contractors in its support package. Describing the situation to

¹¹¹ Defence Officials, *Interview with the Author*.

¹¹² Lashkevich, *Interview with the Author*.

¹¹³ Conrad, *What the Thunder Said*.

¹¹⁴ Defence Officials, *Interview with the Author*.

¹¹⁵ Buck, *Interview with the Author*.

¹¹⁶ Morrow, *CANCAP*, 77.

Parliament, Alan Williams testified that “without question, the key advantage is that if you have a fixed number of military resources, allowing them to focus on those things on which they have to focus, and not on other things, is why we would undertake these kinds of activities.”¹¹⁷ The program was not designed to replace military capabilities, but rather provide the CAF with an additional force multiplier that could deliver necessary, but non-military, functions in the field. By doing so, the more limited military resources could be preserved for performing only those functions that the military themselves could perform.¹¹⁸ From the perspective of the contractors themselves, their ability to help the military maximize its deployed tooth to tail ratio is one of the main benefits of operational support contracting.¹¹⁹

The Incremental Funding Incentive

Caps on the size of deployed personnel create a dynamic where using contractors can help military planners maximize the tooth to tail ratio on international missions. The manner in which the Government of Canada has funded international military deployments provides planners with an additional incentive to use contractors on operations as a way of maximizing the tooth to tail ratio in the overall CAF. As Chapter 3 discusses, when significant expeditionary operations are directed by Government, the military receives incremental funding to offset their costs. Although this process is a negotiation and the central agency officials often dispute the extent to which some costs are incremental, the end

¹¹⁷ Canada. Parliament. House of Commons. Standing Committee on National Defence and Veterans Affairs, *Evidence*, 1st sess., 37th Parliament, Meeting 31, November 5, 2001.

¹¹⁸ Williams, *Telephone Interview with the Author*.

¹¹⁹ Rooke, *Interview with the Author*; Malcolm, *Interview with the Author*.

result is that DND is provided additional funding.¹²⁰ Regardless of the precise amount, the government policy in the early 2000s was that DND would receive incremental funding for operations.¹²¹

This incremental funding, it should be recalled, is supplied over and above DND's baseline budget, which had started to increase in 1999. Yet, as Chapter 3 shows, DND did not receive the authorization to start increasing the size of the Regular Forces until 2005. Further, due to recruiting and attrition issues, the size of the employable Regular Force did not increase until 2008/2009. Thus, for the first eight years of the Canada's history of operational support contracting, from 2000 until 2008, DND had significantly more fiscal flexibility than it did human resources. Reflecting on this dynamic as it related to the use of operational support contractors, a military logistician reflected that 'ironically, money isn't really the issue. The government has been relatively forthcoming; it's the PY that are the limiting factor.'¹²²

While both the defence budget and military establishment are controlled by the government, the controls on military establishment are more stringent. In contrast, DND has significantly more latitude to use the funds in its Operations and Maintenance budget as it sees fit. As a result, it has made more sense to employ people, the 'more limited resource'¹²³ on activities that only they could perform, and use its budget, the less controlled resource, to compensate.¹²⁴

The availability of this incremental funding therefore makes contractors appealing from a force structure and budgetary perspective. It is from 'operational bumps' of

¹²⁰ Lang, *Interview with the Author*; Buck, *Interview with the Author*.

¹²¹ Lang, *Interview with the Author*.

¹²² Defence Officials, *Interview with the Author*.

¹²³ Williams, *Telephone Interview with the Author*.

¹²⁴ *Ibid.*

incremental funding that the costs of operational support contracts are accounted for.¹²⁵ According to the Deputy Chief of Defence Staff, the senior officer at the time responsible for military operations, the fact that CANCAP was an additional capability that the military could fund by obtaining extra funding for deployments was an additional factor contributing to the decision to pursue the contract.¹²⁶ Contract forces can provide a surge capacity funded by incremental operational funding when needed, without adding costly, permanent military forces, with recurring long term expenses.¹²⁷ In essence, this provides a mechanism for providing support when and as needed that disappears when a mission ends.¹²⁸ When a CANCAP Task Order is closed, aside from a small overhead staff, no significant annual costs are borne by DND. After CAF operations in Kabul ceased, for instance, the number of contractors employed by CANCAP dropped from a high of 450, to just three in the project office in Kingston.¹²⁹ When this occurs, in effect, the program remains on the shelf and can be called upon when needed, but is not ‘burning much money.’¹³⁰ Contractors can be added, as needed, to the deployable force structure, and then withdrawn once a contingency is over. They therefore offer significant flexibility in their use, without long term resource commitments.¹³¹

In contrast, military forces deploy for six-month rotations overseas, on a two-year deployment cycle, thus ideally requiring roughly the four to one ratio of total forces for those deployed discussed earlier. Because of restrictions to their workday, which is shorter than it would be for uniformed military personnel, contractors do not substitute for military

¹²⁵ Pennie, *Interview with the Author*.

¹²⁶ Henault, *Email Correspondence with the Author*.

¹²⁷ Defence Officials, *Interview with the Author*.

¹²⁸ Buck, *Interview with the Author*.

¹²⁹ Malcolm, *Interview with the Author*.

¹³⁰ Buck, *Interview with the Author*.

¹³¹ Macdonald, *Interview with the Author*.

personnel on a one for one basis, and roughly 1.5 contractors are required to replace a single soldier. Replacing the over 300 CANCAP contractors deployed in Afghanistan, at a cost of approximately \$44-48 million a year, from the summer of 2008 to 2011 would have required the deployment of 200 additional soldiers per rotation. These personnel could have been sourced within the military establishment, once again imperiling their quality of life, or the military ranks could have been expanded to add additional personnel. Rough order of magnitude calculations suggest that adding that number of troops to the sustainment base would incur annual costs of roughly \$120 million annually.¹³² Furthermore, whereas the costs of employing contractors in theatre can be paid for with the deployment's incremental funding, were additional military personnel recruited, they would have to be funded within the baseline defence budget, and their costs for pension and medical liabilities, would stretch over multiple years.¹³³ These estimates indicate that over the long term, employing contractors can be cheaper than adding additional military forces. However, until 2005 this type of calculation would have been purely hypothetical, since DND was not authorized to increase above the *1994 Defence White Paper* 60,000 troop ceiling. Instead, as detailed below, having the option of contracting for operations allowed the military to have fewer support personnel in the Regular Forces than would otherwise have been the case, yet still perform operational tasks.¹³⁴

¹³² Canada. Department of National Defence, *Canada First Defence Strategy*.

¹³³ Defence Officials, *Interview with the Author*.

¹³⁴ *Ibid.*

Evaluation of the early Operational Contractor Support

The contracts for Logistics Contractor Augmentation Support, the CSP and CANSAP I were all driven by a mismatch between the CAF's capacity and operational demands. In the year 2000 operation and deployment of CANSAP I to Kabul, this was the result of highly unique operations, for which the CAF simply did not have the resident capability. For the year 2000, the type of mission that was planned, had never been contemplated. In the case of the Kabul mission, given the short notice, CANSAP provided the only way for the military to achieve the government's deployment timelines. As Spearin writes, for Afghanistan, operational support contracting was simply "a function of operational demands."¹³⁵ The creation of the CSP reflected a slightly different problem. The CAF had sufficient support personnel to deploy on operations, open the theatre and provide the initial support. The difficulty lay in sustaining the mission over time. By 2004, 15 different six month rotations had cycled through Operation *Palladium* alone.¹³⁶ Combined, a total of 40,000 Canadian soldiers served in the Former Republic of Yugoslavia between 1992 and 2004.¹³⁷ The creation of CANSAP I and the decision to deploy CANSAP I to Kandahar were the result of slightly different capacity problems once again. The support forces remained stressed and the military needed to retain a cadre of military support forces in reserve in case the government deployed the CAF on another mission, so an augmentation capability was desired. The fact that these capacity shortfalls were created

¹³⁵ Spearin, *Canada and Contracted War*, 526.

¹³⁶ Canada. National Defence and the Canadian Armed Forces. "ARCHIVED - Operation PALLADIUM," , accessed September 23, 2014, <http://www.forces.gc.ca/en/operations-abroad-past/op-palladium.page>.

¹³⁷ Canada. National Defence and the Canadian Armed Forces. "ARCHIVED - Canadian Forces Operations in Bosnia-Herzegovina," accessed September 23, 2014, <http://www.forces.gc.ca/en/news/article.page?doc=canadian-forces-operations-in-bosnia-herzegovina/hnps1u07>.

to help DND optimally allocate its resources provides strong support for the budget optimization explanation.

Two further incentives made operational support contractors appealing, the availability of incremental operational funding and a cap on the number of deployed forces. The limit on the size of the deployed force created another desire to maximize the tooth to tail ratio, this case within the overall allocation of forces that were deployed. Because contractor personnel did not count towards the deployed force ceiling, by employing them the military could deliver the needed support with fewer uniformed logisticians, maximizing the number of operational forces that could be deployed under the troop cap. Furthermore, DND could pay for these additional forces using incremental funding provided by the Government to conduct the operation. As demonstrated below, this appears to have provided the DND and CAF a strong incentive to contract for operational support as needed using these extra funds. By doing so, this has allowed the tooth to tail ratio in the military to remain as high as possible, yet still achieve the operational effects desired because the deployed tooth to tail ratio was maximized.

In none of these experiences was a desire to save costs apparent, and in fact, in most there was a recognition that using contractors would actually incur additional costs. There was more support for the notion that other military's experience with operational contractor support was influential in leading to its adoption in Canada. Despite this, there are noted differences between Canadian approaches to these services and those of the allies Canada initially looked to as an example to follow. From this earlier inspiration, however, Canada has continued to find operational contractor support desirable, as a second contract, CANCAP II, was signed that could run until 2023 if all options for extension are exercised.

Canadian Contractor Augmentation Program II

The creation of the Logistics Contractor Augmentation Support, CSP and CANCAP I contracts can be construed as a stop-gap measure. Although the mismatch between available forces and operational activity was the result of a deliberate attempt to decrease the size of the support forces, it can be argued that the CAF's activity rates were impossible to forecast in advance. Given the difficulty in quickly adjusting the size of the military to compensate, an unexpected capacity gap arising in the early 2000s that required contractor mitigation is understandable. However, by 2010, the CAF's circumstances had changed significantly. By that point in time, the Regular Forces had expanded by 8,000 positions overall, a significant increase over the 60,000 ceiling that had been in effect after 1994. The Canadian military remained operationally deployed between 2000 and 2010 but the activity rate over this time period changed much less substantially than it had between 1990 and 2000. Yet Canada's use of operational support contracts persists.

In August 2013, SNC-Lavalin/PAE won the CANCAP II contract, a slightly changed version of its predecessor. It resembles the former contract in that it has an initial five year award period, valued up to a maximum of \$425 million, with possible extensions of another five years in total. Its scope has been amended somewhat, removing some services such as health services, geomatics support and ammunition management that had never been called upon. The new contract includes new services such as explosives disposal, airfield and aircraft services, mortuary affairs, and security services.¹³⁸ CANCAP II can be used on any expeditionary CAF mission as well as in support of overseas training.

The rationales for creating CANCAP II were similar to those for the original contract. The contract provides the CAF with additional operational support capability that

¹³⁸ Spearin, *Canada and Contracted War*, 525-541.

can be called upon when needed, almost like an insurance policy.¹³⁹ According to a senior military officer:

“it allows us to maintain a level of capability that is essentially on the shelf, so that if we were in a scenario where the government asked us to deploy to a number of missions at the same time, and we needed additional flexibility to augment existing support relations, then this contract is a venue, or a tool, that we could use.”¹⁴⁰

Finally, like all previous operational support contracts, CANCAP II was created because of a continued shortage of logistics resources.¹⁴¹ The shortfalls that were identified when the CSP was created in 2000 were simply never rectified. In 2005, the Army, RCN, and RCAF had shortages in 17 of their 33 support occupations, and both logistics officers and ammunition technicians, in particular remained under staffed.¹⁴² Two years later, shortfalls in the same occupations were even more widespread. In addition to persistent understaffing in the aforementioned military occupations, by 2007 material technicians were also significantly under strength.¹⁴³

Canadian Contractor Augmentation Program Alternatives?

In the subsequent decade since DND’s capacity-demand gap was identified, two options other than operational support contracting were available to address the identified support shortfalls. The size of the Regular Forces could have been increased as a means of increasing the size of support units or the internal composition of the Regular Forces could have been adjusted to allocate more positions to support forces. Until 2005, however, the

¹³⁹ Defence Officials, *Interview with the Author*.

¹⁴⁰ *Evidence*, November 17, 2011.

¹⁴¹ Defence Officials, *Interview with the Author*.

¹⁴² Canada. Office of the Auditor General of Canada, *Chapter 2: National Defence - Military Recruiting and Retention* (Ottawa: 2006).

¹⁴³ Canada. Department of National Defence, *Access to Information Request A-2007-00610* (Ottawa: 2007).

Government did not authorize an increase in the CAF, so an internal reallocation was the only one of these options that could have been implemented, but there is no indication that this occurred. After 2005, however, the force expansion to 68,000 could have been used to rectify these support shortfalls.

This too did not happen. A breakdown of the CAF Regular Forces according to military occupational specialty from 2002 to 2010 demonstrates that the expansion of the military was not used to rectify the shortfall in support forces. Over the time in question, according to the internal data, the size of Regular Forces grew by 12.68 percent, or almost 9,000 members.¹⁴⁴ Despite this sizable increase, several of the military support trades that have been cited as under strength since the late 1990s failed to benefit from the CAF's expansion. Figure 9 shows the percentage change between 2002 and 2010 in 27 military occupations that provide services which were outsourced under the CANCEP program. Seven of these occupations, including cooks, vehicle technicians, and construction technicians, saw their staffing levels actually shrink. A further nine occupations increased less than the CAF as a whole. Three more increased by roughly the same order of magnitude as did the rest of the Regular Forces. Considering that most of these occupations were undermanned before this force expansion occurred, they would have needed to increase substantially more than the average to increase their relative strength. Interestingly, of the 11 occupations performing services covered by the CANCEP I contract that did increase at a rate higher than the CAF average, over half of those were for medical services, and geomatics or ammunitions support. These were the three categories of services never called upon during the course of CANCEP I, because the CAF found it too difficult for

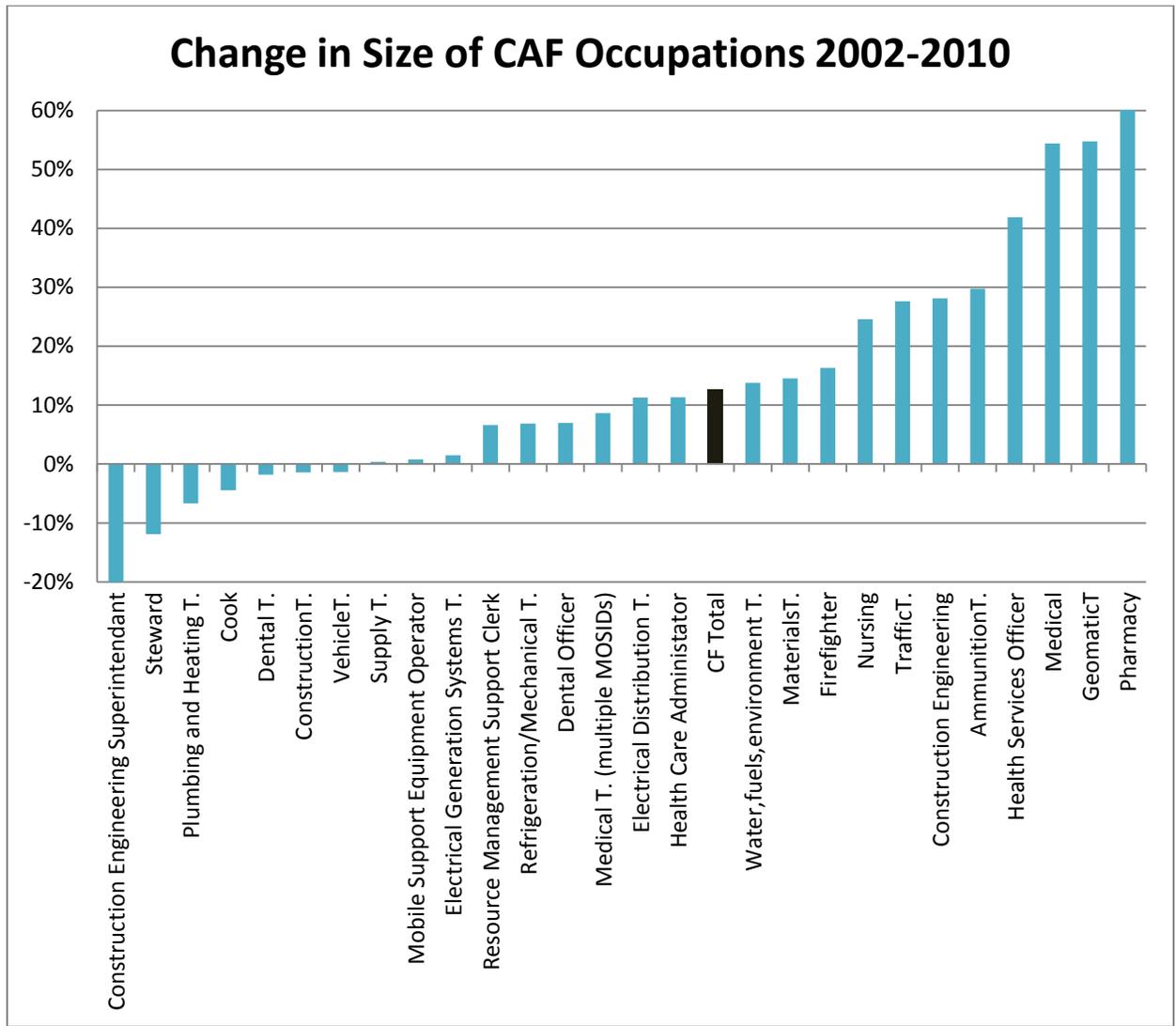
¹⁴⁴ Note: This data obtained from DND does not match that reported publically. Thus the expansion discussed here does not match exactly that detailed in Chapter 2 in terms of specific numbers of military members.

legal or practical reasons to do so.¹⁴⁵ These services were subsequently dropped from the CANSAP II contract. When factoring out these occupations, five of which increased the most of the occupations in Figure 10, the change over time was even starker for the support trades contracted for under both CANSAP I and II. The majority of these occupations shrank as a percentage of the CAF. In contrast, over the same time period, the Army's combat arms occupations (armour, artillery and infantry) increased by 21 percent, well above the CF average.¹⁴⁶ This data demonstrates empirically the tooth to tail shift in the Canadian military since 2000. Despite a significant force increase, no serious effort was made to use the extra troops to rectify the decade-old support deficiency, and instead the new positions were used to grow the ranks of the Army combat force.

¹⁴⁵ Defence Officials, *Interview with the Author*.

¹⁴⁶ Canada. Department of National Defence, *Access to Information Request A201100142: CF Regular Force Members by Year, MOSID* (Ottawa: 2011).

Figure 10



General (Ret'd) Ray Henault, who was the Deputy Chief of the Defence Staff and then Chief of the Defence Staff, during the first half of Canada's experience with operational support contracts explained why this was the case. As he recalls, there was "little scope for rapidly increasing the required logistics footprint" and similarly "little appetite for reducing the tooth-to-tail ratio with a very high operational tempo."¹⁴⁷ Vice Admiral (ret'd) Ron Buck, the Vice Chief of the Defence Staff from 2004-2006, echoed this view. He stated that

¹⁴⁷ Henault, *Email Correspondence with the Author*.

increasing the size of the support force by further expanding the CAF or altering the tooth to tail ratio were “not viable as they ran in the face of Government policy to have a smaller force but with a greater tooth to tail ratio.”¹⁴⁸ Interestingly, the Chief of Staff to the Minister of National Defence during this same period does not recall there having been government direction about the specific allocation of the Martin Government’s force expansion. That 5,000 increase was intended to implement the 2005 Defence Policy Statement, by devoting 80 percent of the increase to the Army, so that it could sustain the deployment of two Battle Groups indefinitely. Beyond that objective, there was no direction from the Government regarding how that increase would be apportioned.¹⁴⁹ Whether the CAF acted in support of what it believed to be government direction in using the troop increase to maximize the tooth to tail ratio, or of its own volition, the outcome was the same. Despite increasing to 68,000 troops, the Canadian military still lacks sufficient support personnel to enable the support of a significant military operation overseas without operational support contractors.

Evaluation of Canadian Contractor Augmentation Program II

By 2013 the CAF was several years removed from the impact of the force reductions that started in 1989 and continued until 1999. Similarly, by that point in time, the CAF was no longer in the midst of an unexpected period of intense operational deployment. While the CAF activity rate has remained high, it is implausible to construe this as unexpected since the period of higher operational activity is now roughly two decades old. Although the operational tempo stayed roughly the same, the size of the forces has not; they have increased substantially. While they have not, and likely never will, return to 1989 levels, the

¹⁴⁸ Buck, *Email Correspondence with the Author*.

¹⁴⁹ Lang, *Interview with the Author*.

Regular Forces has benefited from a growth in 8,000 positions. That shortages of logistics personnel persist despite this growth indicates a conscious choice by the DND and CAF leadership to continue relying on contracted operational support. Even with additional funding and political direction from two governments to increase the size of the CAF, the bulk of this increase was directed to other priorities. Furthermore, by 2011 an internal review was recommending that, once again, the size of the DND/CAF support organization be reduced and personnel billets in support positions be reallocated to operational units.¹⁵⁰ It therefore appears that there is no prospect of these support deficiencies ever being rectified and the availability of operational support contracts explains why this is the case. The CAF has support forces that are and will remain too small to keep a large force indefinitely sustained overseas, because the military plans to use operational support contracts to augment their in-house capability when needed.

Analysis of Findings

In none of the instances of operational support contracting outlined above was there any attempts to realize cost savings. Since operational support contracts have been used to add capability, not replace it, they come with additional costs. Furthermore, compared to the alternative of deploying additional troops, they are actually more costly.

There is some evidence that comparable contracts in the United States and the United Kingdom served as templates for Canadian officials in the early days. This supports the notion that, at least initially, the example of other country's use of operational support contractors was a factor contributing to Canada's decision to employ them. However, as

¹⁵⁰ Leslie, *Report on Transformation 2011*.

outlined briefly, Canada did not copy all of the practices used by other countries, and rather adapted their use to the specific circumstances of Canadian requirements and the corporate culture of the company that held the contract. More broadly, while the example set by others was one Canada did partially emulate, this was not the primary appeal of operational support contracts.

Rather, these contracts provided a solution for the mismatch between military capabilities and operational need. When examined in their broader context, these deficiencies support the budget optimization perspective. The lack of support personnel was not simply the result of the military downsizing and the increase in operational tempo. Rather, it was the result of an explicit decision to apportion the reduction in troops on support personnel. Had the reduction in the 1990s been apportioned more equitably, it is unlikely that the shortages in key support trades would have been as severe. Thus the desire to maximize the tooth to tail ratio in the overall Regular Forces led directly to the use of contractors on operations in its first instance. The appeal of doing so was further increased because it allowed military planners to then maximize the tooth to tail ratio within a deployed force package. Furthermore, DND could use incremental funding provided specifically for the operation to offset their costs. As the initial shift to contracted support happened several years before the size of the Regular Force increased, it occurred at a time when DND and the CAF had easier access to money than it did to people. By contracting on operations, the defence establishment could use available funds to compensate for a shortage of people, which were more strictly controlled by the government than the defence budget.

Since the initial shift to employing contractors on operations, the circumstances at DND changed significantly. The combined Martin and Harper government budget increase

in 2005 and 2006 allowed the full time military to grow to 68,000 positions, a sizeable increase. This increase could have been used to rectify long standing shortages in the support trades, yet this did not occur. The creation of the CANCAP II contract can therefore be construed as part of a permanent reallocation of resources. Over the decade since Canada first started contracting on operations, there has been ample opportunity to adjust the CAF's force structure to provide for a more sustainable support force, but this has simply not happened. This would appear to have been influenced by an assumption that contracted operational support will be available on future long-duration operations.¹⁵¹ As a result, the force increase after 2005 has served to further maximize the tooth to tail ratio in the Canadian military.

Examined holistically, operational support contractors are not simply a reaction to a capacity shortfall. Rather, they are both the outcome of and a means of perpetuating the CAF's constant search for more teeth and less tail. Since 2000, contracting for additional tail when the CAF deploys on operations has been a key part of this shift. Within its baseline force structure and budget, as high a share of DND's resources as possible are devoted to operational forces on the assumption that the incremental funding provided to the military to conduct operations can be used to hire contractors for additional support. Without the option of contracting on operations, the military would need to allocate more of its 68,000 positions to support occupations, lowering the number of operational troops in the ranks. By contracting when it needs to, the CAF helps to further its long standing goal of maximizing the amount of useful coercive force it can generate within the number of military positions allocated by the government.

¹⁵¹ Lashkevich, *Interview with the Author*.

Chapter 8: The 2012 Service Contracting Cuts

Each of the previous case studies has examined an increase in the use of service contracting. In different contexts adding additional service contractors has allowed DND to best allocate its resources, both human and financial. In 2012, however, the Government announced a \$1.1 billion cut to the defence budget. The single largest category of cuts to enact this change was a \$445 million reduction in “contracting.”¹ This represents a unique change to the use of service contractors by DND as it is the first instance in which their use was reduced. This change has been noted in the literature, with Spearin, for instance remarking that “with austerity measures upon us, attention has gone towards cutting professional services, consultants, and contractors.”² This shift has not been explained, however.

It should be stated at the outset that this appears to be unrelated to any of the changes to the ISSCF discussed at the end of the previous chapter. Further, as Chapter 7 outlined, the use of operational support contracting has decreased significantly since combat operations in Afghanistan ceased, but this was due to changed operational requirements and the availability of other support. With operational support contracts ending along with Afghan operations, there would be no reason to announce a decision to decrease their use. Further, since these contracts and their attendant costs would have ended on their own when the mission came to an end, it is unlikely that the Treasury Board would have accepted a reduction in Afghan related contractor use as a valid budget reduction measure.

On its face, the 2012 decision is puzzling. Chapter 5 demonstrated that during the 1990s, increasing the use of contractors provided a means of cost effectively coping with

¹ DND Public Affairs Officer, Email to the Author: RE DRAP Query, November 13, 2012.

² Spearin, *Canada and Contracted War*, 540.

financial reduction. Further, at that time private contractors were found to be cheaper than public sector employees, although these savings were less than originally forecast and achieving them under Government of Canada human resources policies was difficult. Thus, the decision to cut contracting in 2012 would actually increase the costs to DND if the activities previously performed by contractors were brought in-house.

There is some evidence to suggest that DND may have looked to the American military in making this decision, since it has reduced its use of service contractors recently. The *2010 Quadrennial Defense Review*, for instance, pledged a significant reduction in the use of support service contractors.³ After more than a decade of steady increase in the use of service contractors, the United States is attempting to cut back on contractors. This shift may have therefore been influential over the current effort at DND.

The budget optimization explanation, though, is also well positioned to explain this recent shift to reduce contracting. The adoption of accrual accounting is believed to have changed the underlying resource allocation dynamics at DND. Previously the manner in which the major components of DND's budget were controlled and allocated left Capital spending the residual budget category. The adoption of accrual accounting changed this practice, making Operations and Maintenance the new default residual budget category. If this is the case, this would provide DND with an incentive to cut its use of service contracts since DND no longer has the flexibility to cut Capital spending. This incentive would be even stronger if the government exercised tight control over Personnel allocations, as this would apportion the bulk of any cuts onto Operations and Maintenance spending. If tight control was exercised over Personnel, and Operations and Maintenance is in fact now the budget residual, the pressure to apply cuts to service contracts would likely be strong.

³ United States of America. Department of Defense, *Quadrennial Defense Review Report*.

Reducing the use of service contracts would therefore provide DND with one of the few options available for cutting its budget. In fact, since service contracts comprise a sizable portion of the total Operations and Maintenance category, it would be difficult to cut this spending substantially without reducing DND's use of contractors.

To test this explanation, this chapter proceeds as follows. It first provides the context for the recent defence budget cuts by situating them within the recent fiscal experience in Canada. This is followed by a detailed examination of the budget cuts enacted since 2010 and the most recent round of Canadian defence transformation which started that same year. The objectives of this review are twofold. The first is to examine the actual structure of the budget changes that have taken place since 2010. A detailed review of these changes is necessary, because as noted below, the transparency regarding the budget cuts since 2010 has been low, and few official details have been made public. Second, the review of the combined budget cuts and transformation agenda is needed to reveal the rationale behind the contracting reduction outlined above, which must be situated within the context of these earlier changes. Again, a detailed review is necessary, because little information has been made public about these changes. As part of this review specific attention is given to the recent changes to Capital spending. Since the switch to accrual accounting happened during DND's resource recovery after 1999, this is the first budget reduction in which the changed budget dynamics would apply. There has to date been no examination of whether, in fact, Capital remains a residual budget category or not. As there is some indication that it may still be, this is examined in some detail. This will demonstrate that in fact, Capital no longer appears to be the residual budget category.

The Impact of the Great Recession

When the Harper government released the *Canada First Defence Strategy* in May 2008 the timing of this plan, which promised “predictable, long-term funding,”⁴ was unfortunate. Only four months later, the Lehman Brothers’ bankruptcy signaled the onset of a global recession. At first the Harper Government was slow to react to this global financial retraction. The November 2008 fiscal and economic update, for instance, contained no stimulus measures for the Canada economy despite comparable action being initiated elsewhere. That document did include a plan to end a key subsidy received by political parties, however.⁵ Combined, the threat to their party finances and the lack of stimulus created significant political controversy and led to a short lived coalition by the three opposition parties that threatened the minority Conservative government.⁶ In the face of these pressures, the government moved to enact stimulus spending.⁷

Because of this, the 2009 budget was rebranded as *Canada’s Economic Action Plan* and launched a \$49.4 billion stimulus program.⁸ In combination with lower federal revenues as a result of the shrinking economy this pushed the federal deficit to almost \$54 billion in 2009/2010. Consequently, the ratio of total government debt to Gross Domestic Product, which had been steadily declining for years, rose from 23.5 percent in 2007 to 36 percent in 2010.⁹ To deal with this deficit a federal austerity program was initiated in 2010. This represented an abrupt change for DND’s fiscal position. To that point in time, DND had

⁴ Canada. Department of National Defence, *Canada First Defence Strategy*, 1.

⁵ Canada. Department of Finance Canada, *Economic and Fiscal Statement* (Ottawa: 2008).

⁶ CBC News. "Won't Change Economic Update: Flaherty," CBC.ca, , accessed October 23, 2014, <http://www.cbc.ca/news/business/won-t-change-economic-update-flaherty-1.728696>.

⁷ G. Bruce Doern and Christopher Stoney, "Double Deficit," in *How Ottawa Spends 2010-2011*, eds. G. Bruce Doern and Christopher Stoney (Montreal: McGill-Queen's University Press, 2010), 6.

⁸ Canada. Department of Finance Canada, *Canada's Economic Action Plan: Budget 2009*.

⁹ Canada. Department of Finance Canada, *Budget Plan 2011* (Ottawa: 2011); Canada. Department of Finance Canada, *Budget Plan 2010*.

enjoyed a decade of budget growth and *Canada First Defence Strategy* had pledged that this would continue for another 20 years. As a result of Budget 2010, the growth in Canadian defence spending stopped in 2010/2011 (see Figure 6 in Chapter 3). Thereafter, it has declined every year since in real terms.

Budget 2010

Budget 2010 initiated the end of the stimulus package and the shift to austerity in the federal government. The budget had several implications for DND. The most significant direct impact was its announcement that “as part of measures to restrain the growth in overall government spending and return to budget balance in the medium term, the Government will slow the rate of previously planned growth in the National Defence budget.”¹⁰ This meant that the defence budget would be reduced by \$525 million in 2012/2013 and \$1 billion in 2013/2014 (see Table 4). After 2013/2014, the \$1 billion reduction would be applied to DND’s funding on a recurring basis, removing it indefinitely. The cut was announced two years before it was to take effect for two reasons. First, it would allow operations in Afghanistan to end before the period of austerity set in. Second, it was intended to give DND sufficient time to adjust its long term plans to its new funding line. The Budget furthermore noted that National Defence had already started working on a “comprehensive strategic review”¹¹ to align its shrunken resources with the *Canada First Defence Strategy*.

¹⁰ Ibid., 158.

¹¹ Ibid., 159.

Table 4

Impact of Budget Cuts (\$M)			
Budget Cut	2012/2013	2013/2014	2014/2015
Budget 2010	(525)	(1,000)	(1,000)
Budget 2012	(327)	(706)	(1,120)
Cumulative Impact	(852)	(1,706)	(2,120)

A second direct impact of Budget 2010 for DND was a complicated set of operating budget freezes. The first portion of this meant that for 2010/2011, federal department’s operating budgets would not be increased as they normally would to offset the impact of a 1.5 percent wage increase negotiated in the last round of collective bargaining. Because the Public Service (and therefore the CAF since their compensation is linked to that of the Public Service) was still owed this boost in compensation, departments were required “to reallocate from the remainder of their operating budgets to fund these increases.”¹² In other words, because the workforce was still contractually entitled to its raise, but no extra money was forthcoming, the funding had to be reallocated from within DND’s overall Vote 1 allocation. Hence, as a result of these freezes, after 2010/2011, departmental operating budgets would essentially be held at their 2010/2011 levels. This move was significant for DND, since Personnel expenditures represent roughly half of its budget. According to the *Report on Transformation 2011*, the source of much of the data reviewed in the chapter, Personnel accounted for 51 percent of defence expenditures in 2009/2010.¹³ While this measure was not a direct cut, it meant that the department was forced to reallocate a substantial portion of its Operations and Maintenance budget to bolster its Personnel budget. The impact of this measure was not published in Budget 2010, or thereafter.

¹² Ibid., 161.

¹³ Leslie, *Report on Transformation 2011*.

According to data subsequently obtained from DND's Public Affairs branch, by the end of the three year freeze in 2012/2013 this measure had created a \$355 million recurring loss of Operations and Maintenance funds.¹⁴

The third impact of Budget 2010 was its statement that the Government would “continue with and augment a number of review processes, including strategic reviews.”¹⁵ These initiatives were originally introduced as part of the government's revised Expenditure Management System in 2007. This new system, applicable to the entire federal government, mandated full reviews of all departments' operations on a rotating basis. The objective of these rolling reviews was to “better focus programs and services, streamline internal operations and transform the way they (the departments) do business and achieve better results for Canadians.”¹⁶ The framework for this process required that the lowest performing five percent of each department's operations be identified across three categories: increasing efficiencies and effectiveness; focusing on core roles; and meeting the priorities of Canadians. As originally conceived, strategic reviews were not intended to be budget cutting exercises, since departments were requested to identify reallocation programs to shift the funding towards new budget priorities. Rather, they were a continuous improvement exercise designed to ensure the government spending was used to best effect.

Budget 2010 changed this objective, however. As part of the effort to return to fiscal balance, it stated that “departments will no longer be asked as a matter of course to suggest reinvestments of strategic review savings.”¹⁷ In essence, this meant that the next

¹⁴ Perry, *The Growing Gap between Defence Ends and Means*.

¹⁵ Canada. Department of Finance Canada, *Budget Plan 2010*, 156.

¹⁶ Canada. Treasury Board of Canada Secretariat. "Strategic Reviews," , accessed October 3, 2014, <http://www.tbs-sct.gc.ca/sr-es/index-eng.asp>.

¹⁷ Canada. Department of Finance Canada, *Budget Plan 2010*, 162.

round of strategic reviews would, in fact, be a budget cutting exercise. This was important for DND since its review was slated for 2011.

Fourth, Budget 2010 also announced that “the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.”¹⁸ This commitment, designed to eliminate the deficit by 2014/2015, turned into the Strategic and Operating Review of direct program spending, otherwise known as the Deficit Reduction Action Plan.

Finally, the budget announced one additional measure that was beneficial for DND, but which makes assessing the impact of the budget cuts extraordinarily difficult to track with any precision. The budget stated that “While the Department of National Defence will be subject to the overall operating budget constraint, the Defence escalator will continue to apply over those years, such that the Defence budget will continue to increase.”¹⁹ The *Canada First Defence Strategy* had announced a change to DND’s funding that saw its budget’s annual rate of increase move from 1.5 percent a year to 2 percent annually in 2011/2012.²⁰ As Table 5 shows, this meant that while DND’s budget was being cut, it simultaneously continued to grow.²¹ This peculiar state of affairs has made it essentially impossible to track the impact of the budget cuts in 2010 and 2012 by analyzing expenditure data since this includes the net impact of the budget cuts, reallocations and the increases from the escalator. The Department of Finance officials at the federal budget lockups have been unable to offer any means of reconciling these contradictory fiscal measures. Thus, while a detailed review

¹⁸ Ibid., 156.

¹⁹ Ibid., 161.

²⁰ Canada. Department of National Defence, *Canada First Defence Strategy*.

²¹ Canada. Minister of Public Works and Government Services Canada, *2014-15 Estimates* (Ottawa: 2014); Canada. Minister of Public Works and Government Services Canada, *2013-14 Estimates* (Ottawa: 2013); Canada. Minister of Public Works and Government Services Canada, *2012-13 Estimates* (Ottawa: 2012); Canada. Minister of Public Works and Government Services Canada, *2011-12 Estimates* (Ottawa: 2011).

of how spending cuts were apportioned was possible between 1989 and 1999, a comparable effort is much more difficult to produce for the post-2010 reductions.

Table 5

Impact of the 2% <i>Canada First Defence Strategy</i> Escalator (\$M)				
Escalator Year	2011/2012	2012/2013	2013/2014	2014/2015
2011/2012	281.4	281.4	281.4	281.4
2012/2013		333.6	333.6	333.6
2013/2014			340.2	340.2
2014/2015				347.0
Cumulative Impact	281.4	615	955.2	1302.2

After the March 4, 2010 budget, DND faced significantly changed fiscal circumstances. As Figure 6 in Chapter 3 shows, by 2010 defence spending has been increasing for a number of years and the *Canada First Defence Strategy* plan had indicated this growth would continue uninterrupted until 2028. The 2010 Budget changed all of this. It would reduce the defence budget by \$1 billion annually beginning in 2013/2014 and furthermore forced the department to devote \$355 million a year from funds previously earmarked for Operations and Maintenance towards its Personnel expenditures. After years of continual growth, this was a significant reduction. The operating budget freeze alone meant that after 2010, hundreds of millions of dollars in Operations and Maintenance spending would be removed each year. The Budget also indicated that more cuts would be forthcoming. Notable for its absence, was any indication of how DND should adjust to this reduction in resources. As Chapter 3 showed, during the reductions starting in 1989, the annual budgets provided significant detail regarding how DND would adjust its force structure, Capital expenditure plans and infrastructure holdings in the face of less funding. In the 2010 Budget, no such information was forthcoming, setting a precedent for the next four years.

The 2011 Strategic Review

By the time Budget 2010 was published, DND's Strategic Review was actually well underway. The process involved an 18 month examination of all of National Defence's activities, to identify the least relevant five percent for divestment. This review was undertaken objectively and in great detail, led by a senior military officer and a senior public servant. The list identified the five percent of the department's least relevant activities in accordance with Treasury Board direction for the conduct of Strategic Reviews. That list proved to be politically challenging, as some of the proposed divestments were politically sensitive, and was also thought to potentially put at risk the integrity of some military capabilities. As such, several hundred million dollars' worth of divestments was removed from the original list, forcing a last minute effort to identify other low priority departmental activities that were politically acceptable to meet DND's reduction target.²² The results of this effort were published in Budget 2011, and the specific initiatives mentioned are itemized as originally listed, in Table 6. As the table reveals, the published list was unedifying and provided little real indication of the Strategic Review's impact.

²² Commodore (ret'd) Kelly Williams, Interview with the Author, January 5, 2014.

Table 6

Budget 2011 Strategic Review Divestments \$(M)	
Efficiency in the delivery of programs and services	220.3
Finding efficiencies through the use of technology	63.3
Increasing efficiency through modernization of education and training programs	37.8
Eliminating outdated and redundant equipment	58
Procurement processes	10.2
Infrastructure	43.2
Aligning programs with core mandate	307.3
Increasing efficiency through consolidation activities	5.3
Modernize and refocus policies to reflect current priorities	164.1
Subtotal	909.5
Savings not yet Identified	90.5
TOTAL	1,000

To provide greater detail, a full list of all divestments was requested from DND Public Affairs by the author. The information provided indicates that the Strategic Review resulted in 56 individual divestments, but details on only 10 of these were available. This breakdown shows a variety of initiatives across the major categories of defence spending. Some of these were related to Personnel costs, as they included a reduction in full time reserve employment (\$82 million) and military compensation and benefits (\$70 million). There were also divestments to the Grants and Contributions category, by virtue of withdrawing from the NATO Airborne Warning and Control System (\$81.6 million) and Alliance Ground Surveillance programs (\$34.4 million). A smaller proportion were related to Capital expenses, including minor divestments related to equipment acquisition and disposal (\$45.9 million), real property (\$45.5 million) and DND information technology (\$50 million). The single largest category of reductions, though, was to Operations and Maintenance spending. Here, there was a reduction of land training programs (\$127 million) and both aerospace and maritime readiness (\$72 million combined).²³

²³ Canada. Department of National Defence, *DND Public Affairs Official, Email to the Author*.

The breakdown by DND left \$400 million, or 40 percent of the total, unaccounted for, without explanation. Interestingly, DND's *Departmental Performance Report 2013-2014* indicated that as of March 2014, when the Strategic Review was supposed to be fully complete, only 60 percent of the total activities had been fully completed. This was because "due to complexity and dependency on external factors, some of the initiatives have experienced delays."²⁴ It seems likely that this is the same 40 percent of the reduction that were not accounted for by DND Public Affairs. While there remains significant uncertainty about how the Strategic Review cut was applied, the largest share of the reductions was applied to Operations and Maintenance spending. Thus, Budget 2010 established two pressures on DND's Operations and Maintenance spending. The first was the operating budget freeze, the second the Strategic Review cuts. As a result, prior to Budget 2012, there had already been a sizeable cut to DND's Operations and Maintenance account.

The Report on Transformation 2011

Shortly after Budget 2010 was released, the CAF initiated a significant effort to adjust to this new fiscal reality. On April 30, 2010 the Minister of National Defence announced that Lieutenant General Andrew Leslie would be appointed as Chief of Transformation effective June 22 and lead a group hereafter referred to as the Transformation Team. The announcement of this appointment indicated that Leslie would "act as the driving force behind organization changes and re-positioning the Canadian

²⁴ Canada. Department of National Defence, *Departmental Performance Report 2013-2014* (Ottawa: 2014), footnote 17.

Forces for the future. Specifically, the Chief of Transformation will be responsible for increasing organizational efficiency and effectiveness.”²⁵

At the time of Leslie’s appointment, DND and the CAF was already in a state of significant flux. A Defence Force Structure Review tasked with considering an optimal command and control arrangement and evaluating joint capability development and force generation models had been created in 2009.²⁶ This appears to have been an early attempt by the CAF to realign the force structure created by former Chief of the Defence Staff General Rick Hillier’s 2005 Transformation. Whereas virtually every other change initiative since 1964 was an attempt to “do more with less,”²⁷ this objective was noticeably absent from Hillier’s effort. It, in contrast, had been “clearly focused on improving operational effectiveness.”²⁸ Inheriting the office of Chief of the Defence Staff at a time when Canada was stepping up its efforts in Afghanistan, Hillier intended to transform a military that had become a “bureaucratic, process-focused organization.”²⁹ Hillier wanted to make the armed forces more effective, relevant and responsive and place “*operations primacy* at the center of all decisions.”³⁰

To achieve this intent, Hillier launched two sets of reforms. The first aimed to reorient the military towards joint operations while the second focused on reorganizing the CAF’s headquarters to bolster its operational command and control capabilities. The first initiative ultimately failed.³¹ The second, however, was successful. Working with Prime Minister Paul Martin and Defence Minister Bill Graham’s support, Hillier established a more

²⁵ Leslie, *Report on Transformation 2011*, Appendix 1, Annex A.

²⁶ Lieutenant General (ret'd) Andrew Leslie. "The Big Idea," TVO, accessed February 19, 2013, Available at <http://ww3.tvo.org/video/186813/lt-general-ret-andrew-leslie-lessons-afghanistan>.

²⁷ Rostek, *Managing Change within DND*, 220.

²⁸ Brigadier-General Daniel Gosselin, "From Minister Hellyer to General Hillier," *Canadian Military Journal* 6, no. 4 (2005-2006): 10.

²⁹ General Rick Hillier, *A Soldier First* (Toronto: Harper Collins Publishers Ltd., 2009).

³⁰ Daniel Gosselin, "Navigating the Perfect Wave," *Canadian Military Journal* 8, no. 4 (2007-2008): 84.

³¹ Phillippe Lagassé, "A Mixed Legacy," *International Journal* 64, no. 3 (2009): 605-623.

operationally focused command structure by creating a new suite of national level command and control headquarters as well as regionally oriented organizations across Canada. The former were established as Canada Command, Canadian Expeditionary Forces Command, Canadian Operational Support Command, and Canadian Special Operations Forces Command. The latter change created a series of Regional Joint Task Forces to support Canada Command.³²

The new command and control arrangements and their associated overhead were critical to enabling the scope and scale of military operations in Afghanistan. These new arrangements were not fiscally sustainable, however.³³ This fact was first observed in an internal assessment of Hillier's Transformation in 2007 which raised concerns about the impact of the revised structure on the allocation of departmental resources.³⁴ As one commentator subsequently described it, the effort produced "an empire-building spree"³⁵ as resources accrued to the new headquarters organizations.

Leslie was thus appointed to adjust this expanded headquarters arrangement as part of a proactive effort by then Chief of the Defence Staff General Walter Natynczyk to "reduce the tail of today, while investing in the teeth of tomorrow."³⁶ The direction to maximize the tooth to tail ratio was echoed by Prime Minister Harper in November of 2010 in a meeting with Leslie about the transformation effort.³⁷ The initiating directive for the Transformation Team gave the new Chief of Transformation "a broad mandate to propose

³² Allan English, "Outside CF Transformation Looking in," *Canadian Military Journal* 11, no. 2 (2011): 12-20.

³³ Lieutenant-General (ret'd) Michael K. Jeffery, "Inside Canadian Forces Transformation," *Canadian Military Journal* 10, no. 2 (2010): 9-18.

³⁴ Lieutenant General R. R. (ret'd) Crabbe, Vice Admiral L. G. (ret'd) Mason and Lieutenant General F. R. (ret'd) Sutherland. *A Report on the Validation of the Transformed Canadian Forces Command Structure* (Ottawa: Department of National Defence, 2007).

³⁵ English, *Outside CF Transformation Looking in*, 16.

³⁶ "CDA Institute Roundtable on Defence Transformation" (Ottawa, Conference of Defence Associations, October 5, 2011).

³⁷ Leslie, *Report on Transformation 2011*, Appendix 4b, Annex N.

changes aimed at increasing CF organizational efficiency and effectiveness.”³⁸ In doing so, the organization was to optimize the command and control arrangement, increase the integration of the CAF’s force development, force employment and force generation, clarify the authorities for joint force generation and CF readiness, and review the scope of the Vice Chief of Defence Staff’s authorities. The team was furthermore directed to reduce DND and the CAF’s presence in the National Capital Region and produce both Personnel and Operations and Maintenance savings.³⁹

Within that broad mandate, however, his team was actually heavily constrained in its options. The recommendations proposed by the Transformation Team “were to be shaped by Strategic Review outcomes.”⁴⁰ This meant that, by definition, they could not work on eliminating the least efficient activities of DND and the CAF, since these had already been addressed by the Strategic Review. Further, the Transformation Team would also have to work within the assigned funding of Budget 2010 and ensure that any options developed were aligned with *Canada First Defence Strategy* objectives.⁴¹ Although not included in his written directions, Leslie was directed verbally to propose no changes to any of the DND and CAF’s infrastructure holdings.⁴² The transformation team was therefore directed to make significant changes, yet leave the *Canada First Defence Strategy* Capital plan and force structure untouched, and not suggest reductions to the CAF’s infrastructure. Reflecting on these restrictions, the Deputy Chair of the Standing Senate Committee on National Security

³⁸ Ibid., Appendix 3, Annex A.

³⁹ Ibid., Appendix 3, Annex A.

⁴⁰ Ibid., 1.

⁴¹ Ibid.

⁴² Leslie, *Telephone Interview with the Author*.

and Defence noted that by protecting both Personnel and Capital spending, the changes would “have to come out of the O&M.”⁴³

Senior officials would later state that Leslie had been asked “to think outside the box” and that they had “asked him to take a sheet of paper and say if you could do anything you wanted, how would you reorient things so as to give us options for delivering on the future.”⁴⁴ Given the mandate to propose significant change, the team was certainly charged with thinking creatively. But given the constraints it was directed to work within, it is inaccurate to state that they were able to do anything they wanted. They had to respect the *Canada First Defence Strategy* Personnel numbers and Capital program, leave DND’s infrastructure footprint untouched, and only recommend changes that the Strategic Review had not. This direction heavily constrained the options available for consideration. It meant the exercise would be directed purely towards finding efficiencies, as they had no remit to suggest any changes to the size of the military, Capital plans or infrastructure holding. During the last round of downsizing after 1989, National Defence conducted multiple efforts to improve efficiency but these were done in conjunction with numerous other efforts to reduce its military and civilian personnel, rationalize infrastructure and alter its Capital plans to reflect a reduced budget.

For the Transformation Team, however, DND was significantly restricted in its flexibility. Out of expenditures of roughly \$20 billion prior to launching the Transformation Team, half of these were effectively off limits, because they were related to Personnel costs. Excluding infrastructure and the Capital program removed an additional 17 percent combined from the potential reduction pool. The remaining expenses were all Operations

⁴³ Canada. Parliament. Senate. Standing Senate Committee on National Security and Defence, *Evidence*, 1st sess., 41st Parliament, Issue No. 13, March 18, 2013.

⁴⁴ Canada. Parliament. Senate. Standing Committee on National Security and Defence, *Evidence*, 1st sess., 41st Parliament. Meeting No. 2, October 17, 2011.

and Maintenance, which amounted at the time to only 35 percent of total spending. Notably, spending on service contracts represented roughly 40 percent of the total pool of Operations and Maintenance funds.⁴⁵ Additionally, within the Operations and Maintenance expenditures there were also many limits on how much of DND's expenses were actually discretionary. As an example, because the Team was precluded from recommending any infrastructure reductions, the sizeable share of Operations and Maintenance funds that support infrastructure through fixed costs like payments in lieu of taxes and utilities bills could not be eliminated. Additionally, Budget 2010 had already just removed a sizeable portion of DND's Operations and Maintenance budget. As a result of many other similarly unchangeable expenses, Leslie stated that out of the DND's \$20 billion in expenditures, only about \$4 billion was truly discretionary.⁴⁶ As a result of all of these restrictions, the Transformation Team exercise was therefore quite limited in what it could propose to achieve significant savings.

Working within that context, the Transformation Team had three goals. The first was finding savings to contribute to the deficit reduction exercise known as the Deficit Reduction Action Plan. At the time the Transformation Team was launched, the specific targets were unknown, but were assumed to be roughly \$1 billion. A second goal was finding 3,500 Regular Force positions and several thousand reservists and civil servants to reallocate to new defence priorities. This was driven by a recognition that the *Canada First Defence Strategy* had not adequately accounted for a number of new priorities such as arctic, cyber, space, special operations forces capabilities. DND therefore wanted to find additional staff to devote to these activities. The third goal was to find further financial savings to

⁴⁵ Leslie, *Report on Transformation 2011*, , Appendix 4c, Annex F.

⁴⁶ Leslie, *Telephone Interview with the Author*.

make the *Canada First Defence Strategy* “more achievable within assigned resources.”⁴⁷ The target of this objective was finding approximately \$1 billion in financial efficiencies to reallocate towards the Capital program. This was to be a mix of both Vote 5 Capital and Vote 1 National Procurement to bolster the RCN’s shipbuilding program in particular. This last assumption officially confirmed the long-held belief that the *Canada First Defence Strategy* recapitalization plan was inadequately funded.⁴⁸

In conducting their study, the Transformation Team first set out to quantify DND and the CAF’s actual use of resources and how this had evolved over time. This effort demonstrated that a disproportionate share of the increased resources allocated to defence after 2003/2004 had actually been devoted to headquarter units, while the resources devoted to some operational forces actually shrank.⁴⁹ While operational units experienced personnel growth of 10 percent, headquarters and non-operational units increased by 40 percent. Further grounded in data that backed their mandate to reduce the defence tail, the Transformation Team proposed a complete overhauling of DND’s command and control arrangements and support structure.

Two interrelated reorganizations were proposed to free up the desired personnel. First, the CAF’s headquarters structure would be completely revamped. The command and control structure would be rationalized into a single force employment organization and the Regional Joint Task Forces would be reorganized. Further, the Army, RCN and RCAF force generation organizations would be rationalized, and the Chief of Force Development organization would be restructured. Together, these changes would liberate 25 percent of the staff in headquarters and overhead units for employment elsewhere. The second

⁴⁷ Leslie, *Report on Transformation 2011*, viii.

⁴⁸ Lieutenant-General (Ret'd) George Macdonald. *The Canada First Defence Strategy - One Year Later* (Calgary: Canadian Defence & Foreign Affairs Institute, 2009).

⁴⁹ Leslie, *The Big Idea*.

proposed change called for centralizing DND's support functions in a single organization responsible for providing all logistics support, oversight of select enablers (such as health support and military policing) and recruiting, training and education of military personnel. These changes were estimated to be capable of reducing costs by 12 percent and allowing 12 percent of the associated staff to be reallocated. In addition to helping facilitate the reinvestment of the desired 3,500 Regular Force members, these two efforts would also contribute a small portion of the additional \$1 billion sought to make the *Canada First Defence Strategy* affordable.⁵⁰

The most significant source of reduced overhead that would permit a reinvestment in the future, though, was to come from a major reduction in the use of service contractors. The Report recommended "Reducing by up to 30% over several years the \$2.7B spent on contractors, consultants and professional service providers and investing the funds in future capital programs as outlined in [*Canada First Defence Strategy*]."⁵¹ This effort alone was to provide \$900 million of the \$1 billion in savings desired to make the *Canada First Defence Strategy* affordable.

In the short term, the *Report on Transformation 2011* also offered suggestions for making administrative efficiencies that would contribute to deficit reduction. The proposed changes afforded savings ranging from \$750 million to a maximum of \$3.1 billion. These recommendations included: the adoption of new enterprise resource management programs; improving information management and information technology delivery; rationalizing base support; reducing military moves and travel; and reducing the number of full time reservists employed. Finally, one of the most significant potential sources of administrative cost savings recommended was a reduction in the use of contracted services. Here the report

⁵⁰ Leslie, *Report on Transformation 2011*.

⁵¹ Leslie, *Report on Transformation 2011*, xiii.

indicated that costs could be cut by between \$100 and \$445 million in the immediate term.⁵² The report's 'realistic' savings target of \$1 billion only included \$100 million worth of these savings.

In sum, the recommendations from the Transformation Team fell into two efforts. The first were those to free up people and money to resource new priorities and make the *Canada First Defence Strategy* affordable. The second were the administrative reforms designed to help contribute to deficit reduction. Reducing expenditures on service contracts was a key feature of both, although a more significant contributor to the former. Leslie would later refer to the recommendation to cut contracting as "probably the strongest recommendation"⁵³ made by the Transformation Team. Since this was the only effort that would contribute to both the short and long term goals, it is not hard to see why. As presented in the report, cutting contracted spending was designed to provide much of the savings that would enable DND to contribute to deficit reduction in the short term and also the bulk of the savings intended to make the *Canada First Defence Strategy* affordable in the long term.

Why Contracting?

In both the report itself and Leslie's subsequent comments afterwards it became clear that reducing DND's use of service contractors was a major focus of the Transformation Team. Several reasons were cited for this. First, this area had seen dramatic growth. According to the analysis conducted by the Transformation Team, this spending had increased by 30 percent over three years rising from \$2.13 billion 2007/2008 to \$2.77

⁵² Ibid.

⁵³ Anonymous *The House, The House*, 2013 CBC Radio.

billion in 2009/2010. It therefore represented one of the fastest growing components of defence spending. This rapid recent increase in costs led the Transformation Team to state that “Gaining control of expenditures in this critical area is essential for DND/CF to retain financial sustainability.”⁵⁴ On this basis it became a target simply because of its significant recent growth.⁵⁵

Beyond its significant recent increase, contractor spending became a target because the Transformation Team believed contractor spending was discretionary. Leslie stated that the Team’s mindset was that if the roles and activities undertaken by contractors were insufficiently important to have them performed by the uniformed military troops or public servants than they were by definition low priorities.⁵⁶ Discussing the activities performed by contractors before the Standing Senate Committee on National Security and Defence, however, Leslie offered a more nuanced characterization of this spending: “they are all doing stuff that we needed them to do. The question is, where does that fit into the priority list as compared to getting crews on frigates?”⁵⁷ While relative to other priorities these activities were viewed to be discretionary, the Transformation Team was under no illusions that cutting these costs would be easy. The report itself acknowledged that some of this spending was “directed at achieving mission outcomes.”⁵⁸ As a result achieving the upper target for efficiency savings of \$445 million was acknowledged to be “very difficult.”⁵⁹

The Transformation Team further recognized that not all contracting activity was completely discretionary, noting that Assistant Deputy Minister, Materiel was the largest

⁵⁴ Leslie, *Report on Transformation 2011*, Annex C, Appendix 1A.

⁵⁵ Leslie, *Telephone Interview with the Author*.

⁵⁶ *Ibid.*

⁵⁷ Canada. Parliament. Senate. Standing Committee on National Security and Defence, *Evidence*, 1st sess., 41st Parliament, Meeting No 1, October 3, 2011.

⁵⁸ Leslie, *Report on Transformation 2011*, 68.

⁵⁹ *Ibid.*, Annex B.

single user of contracted services. In 2009/2010 the Materiel Group accounted for \$879 million, or 32 percent of the total expenditures, and the Team noted that a significant portion of contractor spending was devoted to activities such as contracted maintenance of aircraft. Since the ISS contracts discussed in Chapter 6 are funded through the Materiel Group's National Procurement funds, this is not surprising. Reflecting on the fact that much of the overall contract spending went to activities that supported the military's 'tooth,' Leslie stated "There are different types, different priorities within consultants, professional services and contractors. You have to identify that which you want to keep and that which you want to really cut back on so you can better position the CF for the future."⁶⁰ The Transformation Team therefore recommended further study on this area, as it had "been able to gain only preliminary insight into the expenditure make up."⁶¹

These preliminary inquiries, however, had identified three areas to focus the reduction. First, the analysis had revealed that a significant portion of contracted service expenditures was directed towards "individuals who use DND working space, have a DWAN [DND email] account and a DND telephone account."⁶² These individual augmentees were identified as one target area. A second focus was recommended on cuts to "consultant type services."⁶³ This category had witnessed a noticeable recent increase and was therefore recommended for a reduction by 80 percent. Finally, as part of the wider efforts to reduce the resources devoted to command and control and overhead, there was also a significant emphasis placed on apportioning the cuts on service contracts that supported "various levels of headquarters."⁶⁴

⁶⁰ *Evidence*, October 3, 2011.

⁶¹ Leslie, *Report on Transformation 2011*, Annex C, Appendix 1A.

⁶² *Ibid.*, 68.

⁶³ *Ibid.*, Annex C, Appendix 4D.

⁶⁴ *Ibid.*

This assessment that contractors were *de facto* performing low priority activities was shaped by Leslie's personal experience with contractors during his time as the Army Commander. In the course of his tenure in that position, he had reduced the Army's use of service contracts by 10 percent, but noticed little impact. Based on that personal experience, he believed a more substantial reduction could be achieved across DND and the CAF.⁶⁵

Finally, as indicated above, the entire Transformation Team activity occurred within strict budgetary constraints, so the recommendation to cut a substantial amount of contract expenditures must be considered in that light. The Transformation Team was not allowed to suggest changes to the size of the military ranks, infrastructure or the Capital plan. Further, it could only examine activities not previously affected by the Strategic Review or the operating budget freeze. Combined with other non-discretionary items in Operations and Maintenance spending, that left only about one fifth of the DND budget eligible for reductions.⁶⁶ The choice to apportion a major cut on contracting was therefore heavily influenced by the fact that it was considered discretionary spending within a pool of potential reduction expenses that was relatively small.

Evaluation of the Report on Transformation 2011

The Report on Transformation 2011 stated that the Transformation Team spent considerable effort examining the transformation efforts of as many as 30 of Canada's allies. This included personal meetings with individuals leading similar efforts in the United Kingdom, United States and other NATO nations.⁶⁷ The report itself reflected such interaction, quoting three times from American Secretary of Defence Bob Gates and once

⁶⁵ Leslie, *Telephone Interview with the Author*.

⁶⁶ Perry, *The Growing Gap between Defence Ends and Means*.

⁶⁷ CDA Institute Roundtable on Defence Transformation.

from Lord Levene, who had led Britain's defence reform. This might suggest the replicating allied efforts was a factor in the Transformation Team's recommendation to reduce contracting, given the aforementioned efforts in the United States to do so. No evidence was found to support this assertion, however. The cuts to contracting elsewhere were not mentioned as a motivation for targeting contractor spending for reduction. The report itself makes no linkage to allied efforts on this issue and Leslie did not make such a connection in an interview with the author or in any of his public appearances to discuss the report.⁶⁸

Rather, the rationale for the contracting cuts proposed in the *Report on Transformation 2011* support the budget optimization explanation. The direction given to the Team, supported by the Prime Minister, was that the effort would focus on the defence tail and not its teeth. Thus, Personnel and the Capital plan, could not be touched. Whether Capital funding was placed off limits by political direction or because it was no longer a residual budget category, is not known. Regardless, the impact was the same. The share of the budget dedicated to Capital, 17 percent at that time, which in previous budget cuts was slashed to help lower spending, was off limits. Furthermore, Leslie was instructed that cutting infrastructure was also not acceptable. The Transformation Team therefore had to search for savings within the remainder of the budget that did not directly support operations. Within this pool of potential savings, contractor spending was targeted because it had recently increased significantly. The Team also believed that precisely because contracted activities were performed by contract, rather than in-house resources, they were discretionary in nature. In sum, the Transformation Team was directed to produce substantial savings, to contribute to deficit reduction and allow a reallocation of resources towards operational capability. In so doing it was precluded from making any of the

⁶⁸ *The House*; Leslie, *The Big Idea*; Leslie, *Telephone Interview with the Author*.

adjustments to operational capability that have historically occurred in Canada when the defence budget is cut. Therefore, they had few options. Given these constraints on the allocation of defence resources, cutting service contracts provided one of the few means available of meeting the fiscal targets set out for the exercise.

Budget 2012

Once tabled, the *Report on Transformation 2011* proved to be highly controversial, sitting on the Minister of National Defence's desk until a media leak led to its release.⁶⁹ Leslie subsequently retired from the military and has since been critical of the Government's failure to implement his recommendations.⁷⁰ The Transformation Team's most disruptive recommendations, those aimed at finding the people and funding to resource new priorities and make the *Canada First Defence Strategy* affordable have not been enacted. Many of its recommendations for improving administrative efficiencies, however, including a major reduction in contracting, were incorporated into DND's Deficit Reduction Action Plan.

The results of the Deficit Reduction Action Plan were announced in Budget 2012. Government wide these amounted to a \$5,141.5 million reduction in operating expenses to be phased in over a period of three years, by 2014/2015 (See Table 6). DND's contribution of \$1,119.8 million was by far the largest single departmental cut. In eliminating 7.4 percent of the spending base reviewed, this reduction was proportionally less than many other departments, but exceeded the government-wide average of a 6.9 percent drop in operational funding.⁷¹

⁶⁹ Douglas Bland, "The Leslie Report in Context," *On Track* 16, no. 3 (2011): 8-9,12.

⁷⁰ *The House*.

⁷¹ Canada. Department of Finance Canada, *Budget Plan 2012* (Ottawa: 2012).

Like the Strategic Review, the details of how these reductions would be achieved were sparse. The 2012 Budget noted that “Going forward, defence contracting and internal processes will be streamlined to achieve savings. However, Canadian Forces regular and reserve force strength will be maintained at 68,000 and 27,000, respectively.”⁷² The document further elaborated that “To improve the efficiency and effectiveness of the organization, the Department of National Defence and the Canadian Forces will improve contracting processes, streamline the procurement of support equipment and spare parts, centralize real property management, and centralize and enhance human resources management to achieve better value for money.”⁷³ These changes at National Defence were to fit within the wider program of cuts which were intended to make “government operations leaner and more efficient” by focusing the cuts on “Modernizing and reducing the back office.”⁷⁴ Clearly, these changes were intended to improve efficiency.

The budget, however, went on to also announce that “In order to ensure that funding for major capital equipment procurements is available when it is needed, the Government is adjusting the National Defence funding profile to move \$3.54 billion over seven years into the future period in which purchases will be made.”⁷⁵ While not evident from this statement, the accompanying Budget Table showed that this measure was in fact removing these funds from DNDs budget. This move might appear to indicate that the Capital budget was once again being cut in a time of austerity despite assurances to the contrary. This was in fact not the case, however. Given the importance of establishing this fact to the analysis presented here, the nature of the Capital spending shift in 2012 will be examined before moving on to fully analyze the implementation of Budget 2012.

⁷² Ibid., 212.

⁷³ Ibid., 274.

⁷⁴ Ibid., 226.

⁷⁵ Ibid., 223.

Capital – No Longer the Residual

One of the key tenants of the hypothesis being tested in this study is that the switch to accrual accounting at DND changed the way DND makes budget allocations. Specifically, Solomon and Stone postulated that the switch to accrual accounting and budgeting would mean that DND's Capital budget no longer serves as the residual defence budget category.⁷⁶ Because of the switch involved in moving away from budgeting for large, cash based investments under the old accounting system, to budgeting for a series of smaller annual accrual charges, the authors contend that the inter-temporal trade-offs previously involved in allocating funds to the Capital budget had been changed. Instead, they posited that Operations and Maintenance would become the new residual budget category for DND. This, in turn, could be expected to significantly change the defence budgeting dynamic. Whereas previously, budget reductions lead inexorably to a reduction in the procurement of defence goods, instead, under accrual budgeting, budget cuts to DND would be expected to lead to a reduction in Operations and Maintenance funds. Since this budget category includes service contracts, it is expected that this shift in budget allocation could make the procurement of defence services, rather than defence goods, an appealing target during a budget reduction. While Stone and Solomon suggested that the move to accrual would change the residual budget category, this was not tested empirically. The actual state of Capital expenditure during the post 2008 defence reduction must therefore be examined carefully.

At first glance, the 2012 Budget announcement that \$3.54 billion in Capital funding would be removed from DND's fiscal envelope appears to refute the argument advanced by Stone and Solomon. So too does a similar announcement made in Budget 2014 that “[t]o

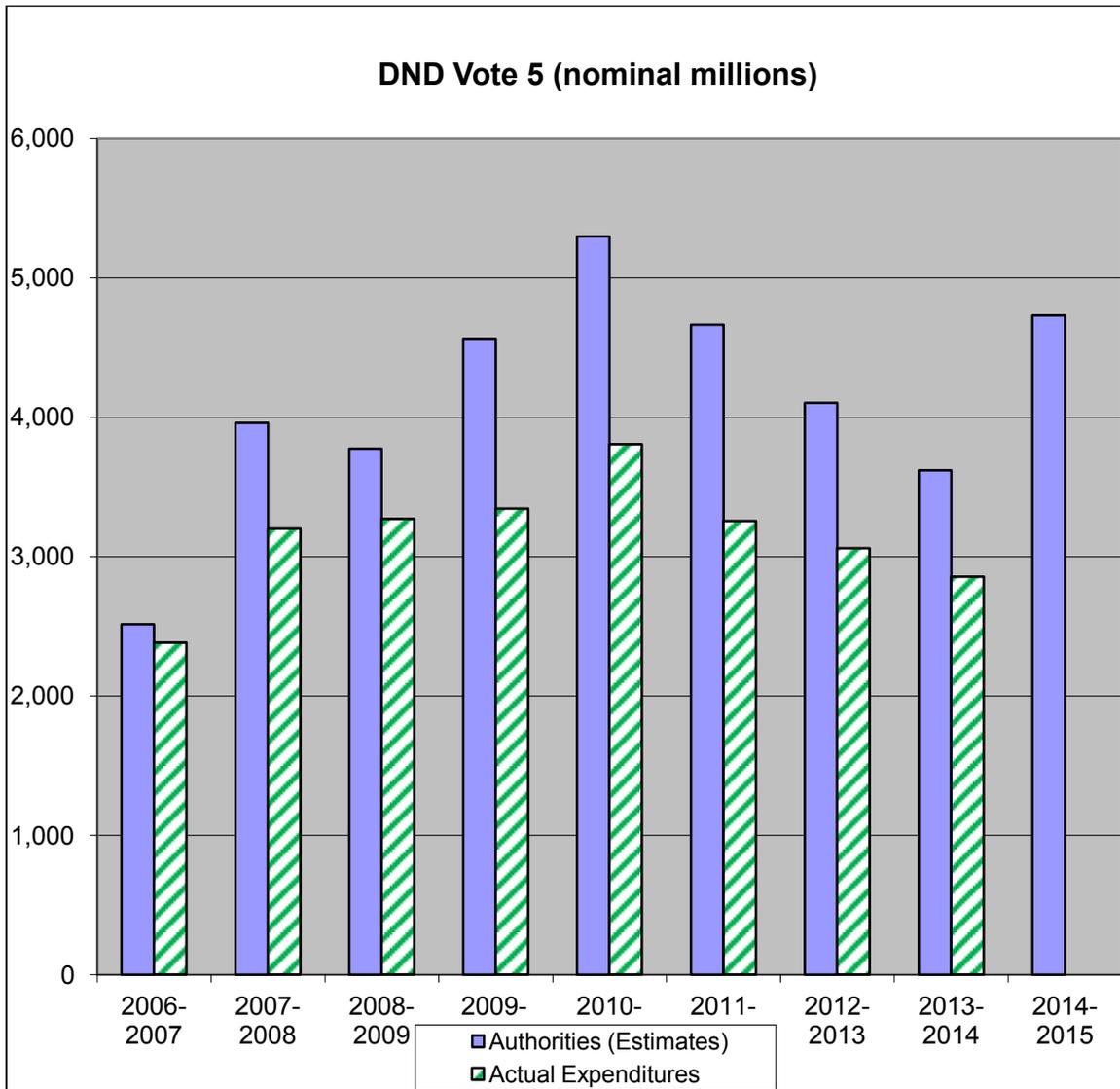
⁷⁶ Solomon and Stone, *Accrual Budgeting and Defence Funding*, 211-227.

ensure that funding is available when needed for planned procurements, the Government is moving \$3.14 billion in National Defence funding for major capital procurements from the 2013-14 to 2016-17 period to future years in which key purchases will be made.”⁷⁷ Like the 2012 announcement, the tables in Budget 2014 showed that this funding was being removed from DND’s fiscal allotment. This provided 25 percent of the measures enacted in that budget to eliminate the deficit. Furthermore, between 2010 and 2014 there was a significant drop in the share of expenditures devoted to Capital, to 14 percent of spending. This is the lowest spending percentage devoted to Capital since the mid-1970s (See Figure 3 in Chapter 3).

While this would suggest that Capital spending has remained the budgetary residual category, a closer look at this phenomenon indicates that this is not the case. Rather, a historically unique set of circumstances surrounding Capital expenditures has emerged since 2007/2008. Since that time, an average of \$1 billion of the Vote 5 funds made available to DND has gone unused. As Figure 11 shows, this has resulted in a substantial difference between the Vote 5 funds made available in the Estimates and those actually spent. Because of these under-expenditures, since 2007/2008 the share of DND’s Vote 5 funds not spent as intended at the beginning of the fiscal year has increased dramatically, to an average of 23 percent.

⁷⁷ Canada. Department of Finance Canada, *The Road to Balance* (Ottawa: 2014), 255.

Figure 11



To put this in perspective, the use of these funds historically was examined and presented in Figure 11. This shows that from 1973/1974 to 2006/2007 DND did not spend as intended an average of only two percent of its Vote 5 allocation. Historically, DND essentially spent all of the Vote 5 it was provided. As a result reviewing actual expenditures provided an accurate reflection of DND’s budget priorities since the department spent the funds it was allotted. Since 2007/2008, this has not been the case. Examining the actual

funding allotted to Capital in the Estimates is therefore required to understand whether Capital has remained the residual budget category or not.

Figure 12

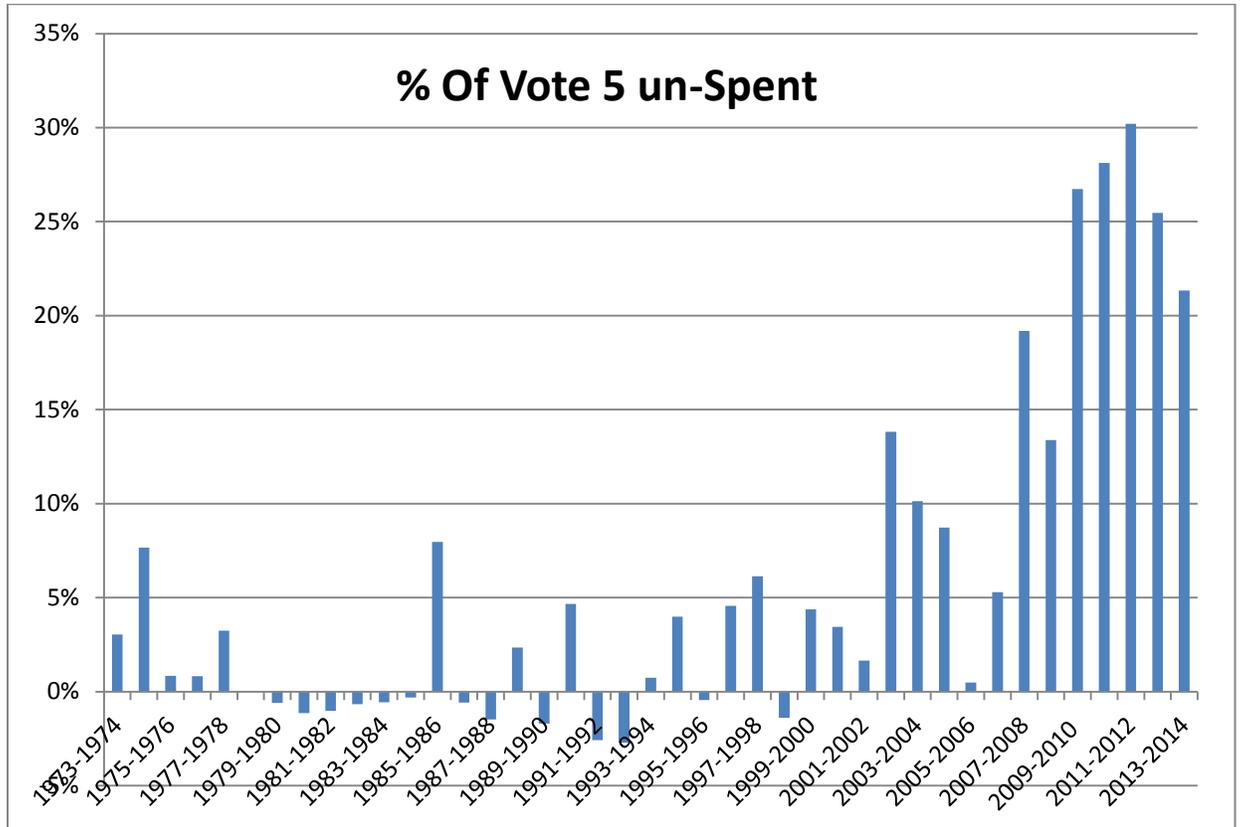
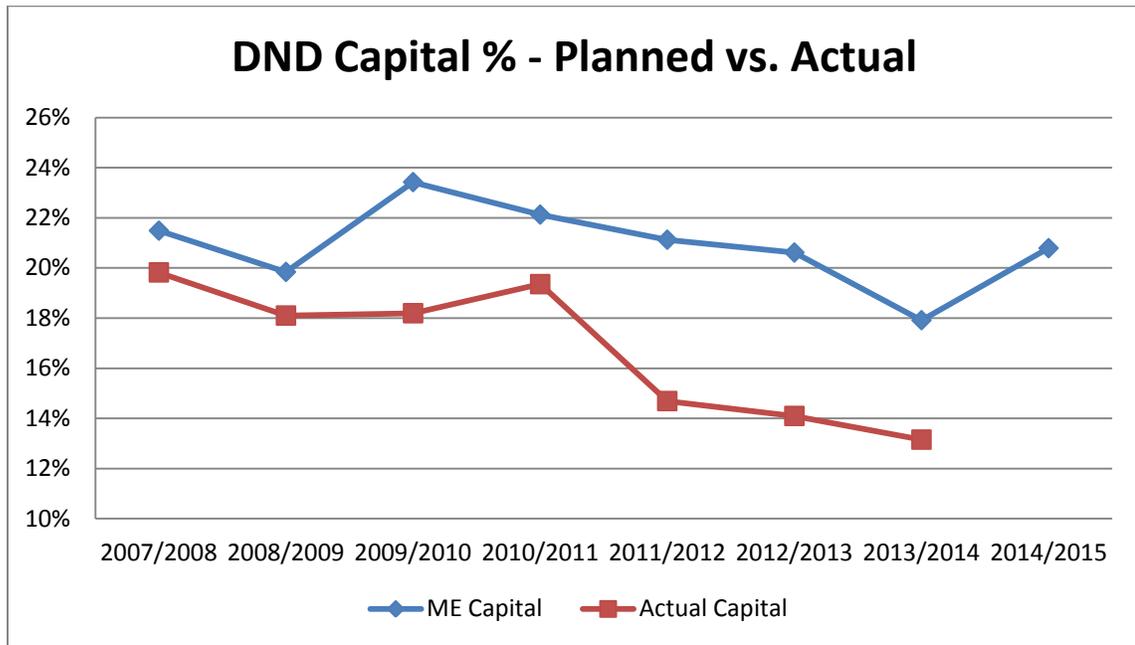


Figure 12 provides such an analysis. It shows that DND’s capital percentage has dropped, both in terms of actual expenditures and in the funds made available in the Estimates. The drop reflected in actual expenditures is substantial and the trend continues to decline. The reduction in the share of funding available in the Estimates, however, has been marginal, only falling below 20 percent in 2013/2014. Furthermore, in 2014/2015 the actual allocation of Vote 5 increased by \$1.1 billion over the previous year. This has pushed the share of the budget allocated to Capital to 21 percent. Despite the fact that the impact of the Budget cuts will reach their maximum extent in 2014/2015, the allocation to Capital that year has increased.

Figure 13



Reviewed in its wider context, the drop in the share of the budget actually spent on Capital appears to be the result of a dysfunctional acquisition system rather than a lack of funding. Many explanations have been offered to account for these problems, although there is no need to discuss these here.⁷⁸ The key import of this empirical evidence is that it suggests that the hypothesized change in budget behavior put forward by Stone and Solomon was accurate. As Vice Admiral Donaldson informed the Standing Senate Committee on National Security and Defence, neither the Strategic Review nor Deficit Reduction Action Plan affected DND's Capital program.⁷⁹ The extent to which this was the result of changed budget dynamics or political direction is not known. Regardless of which factor was more influential, the outcome has been the same. For the first time during a budget cut, DND's budget allocation to Capital has not shrunk significantly. The share of

⁷⁸ Perry, *Putting the 'Armed' Back into the Canadian Armed Forces*; Lagassé, *Recapitalizing the Canadian Forces' Major Fleets*; Sloan, *Something has to Give*.

⁷⁹ Canada. Parliament. Senate. Standing Committee on National Security and Defence, *Evidence*, 1st sess., 41st Parliament, Meeting No. 10, April 30, 2012.

actual expenditures on Capital has fallen noticeably. But the apportionment of the budget to this category in the Estimates has decreased only marginally and the share earmarked for Capital increased significantly in 2014/2015. While the share of capital spending has dropped this is not because of a lack of funds, rather an inability to use them. As a result, DND has not reduced Capital funding as a means of saving money.

Implementing the Deficit Reduction Action Plan

Based on the forgoing, it is reasonably clear that the impact of Budget 2012 did not fall on DND's Capital program. Similarly, based on the explicit statements in Budget 2012, neither has it fallen on the military ranks either since DND was directed to retain 68,000 regular and 27,000 reserve troops. Determining what has been cut, however, has proven more challenging. Several months prior to the budget's release the government directed departments not to include details of their reduction plans in their Reports on Plans and Priorities for 2012/2013. As a result, analysts expected that these details would emerge only in "drips and drabs over the course of months."⁸⁰ This state of affairs was confirmed the week before the budget speech by Finance Minister Jim Flaherty who indicated that the details of the forthcoming cuts would not actually be presented in the document itself.

Since Budget 2012's release, the government has subsequently refused to provide details about the impact of these cuts. This state of affairs led the Parliamentary Budget Officer to take the federal government to court in November 2012 over its refusal to release

⁸⁰ G. Bruce Doern and Christopher Stoney, "The Harper Majority, Budget Cuts, and the New Opposition," in *How Ottawa Spends 2012-2013*, eds. G. Bruce Doern and Christopher Stoney (Montreal: McGill-Queen's University Press, 2012), 13.

information about Deficit Reduction Action Plan.⁸¹ Discussions about the impact at Budget 2012 to DND fit this wider pattern. In his first appearance before a parliamentary committee after the budget's release, Minister of National Defence Peter McKay answered questions about the impact of the budget by essentially obfuscating. Having just seen the cumulative cut to his department's bottom line increase to a combined \$2.1 billion, he replied stating that DND's funding had risen "by over \$1 billion in the last six years, consistently, every year."⁸² Thereafter, the Minister of National Defence persistently declined to discuss the impact of the defence cuts in favour of repeating how much the Harper Government had increased defence spending.⁸³

Over time, these details slowly emerged. In June 2012, the Vice Chief of the Defence Staff Vice Admiral Bruce Donaldson, stated that DND would achieve its budget reductions through two efforts, one of which would be a reduction in the use of full time reservists. The primary effort would focus elsewhere, however. According to Donaldson:

First and foremost, the focus is on contracting. Over the past several years, the department resorted to a lot of this because we could –we had to move a greatly expanded budget, and had a lot of flexibility in terms of how we could do so; so contracting was an avenue to execute a lot of programs.⁸⁴

The full details of DND's budget cuts were not made public until a story by the *Ottawa Citizen's* David Pugliese on November 12, 2012.⁸⁵ The author requested the data made available to Pugliese from DND Public Affairs and the information from their reply is compiled in Table 7.⁸⁶ This data shows that of the nine reduction measures, the largest was a \$445 million cut in contracting expenditures which comprised 40 percent of the total

⁸¹ Julian Beltrame, "Budget Watchdog Takes Harper Government to Court Over Information Request," *The Globe and Mail*, November 21, 2012.

⁸² *Evidence*, April 30, 2012.

⁸³ Canada. Parliament. House of Commons. Standing Committee on National Defence, *Evidence*, 1st sess., 41st Parliament, Meeting No. 58, November 27, 2012.

⁸⁴ "Interview with Vice-Admiral Bruce Donaldson, Vice Chief of the Defence Staff, June 19, 2012," *On Track* 17, no. 2 (2012): 19-21.

⁸⁵ David Pugliese, "Defence Cuts are no Cuts at all: Critics," *The Ottawa Citizen*, November 12, 2012.

⁸⁶ DND Public Affairs Officer, *Email to the Author: RE DRAP Query*.

reduction.⁸⁷ The information provided to the author stated that DND was reforming its use of contracting “with the goal of reducing the number of contracts, contractors, and resources expended on contracting.”⁸⁸ The targets of the exercise would be “discretionary contracts that are not in direct support of operations such as travel, transportation, training, professional services, and infrastructure maintenance and repair.”⁸⁹ This appears to echo the Transformation Teams assertion that cuts to contracting would have to be applied judiciously in an effort to protect those that provided support for the military’s teeth.

A cut of \$445 million is notable as it represented the upper range of the contracting decrease recommended for short term deficit reduction measures in the *Report on Transformation 2011*. Given the timing of this recommendation, which would have been submitted at the end of the Deficit Reduction Action Plan process in the summer of 2011, it appears to have been made without the benefit of the further study recommended by the Transformation Team. The information from DND indicates that this cut applied more broadly than the Transformation Team had intended. Whereas they had intended the cut to fall on Standard Object 04 only, the cut imposed in 2012 did not, as DND stated that in 2010/2011, “contracted services accounted for approximately \$4 billion.”⁹⁰ That year, Standard Object 4 expenditures accounted to only \$2.896 billion.⁹¹ Clearly, DND had expanded the definition of service contracts beyond the one used by the Transformation Team, but no information is available to indicate what this expanded range of spending included.

⁸⁷ Ibid.

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Canada. Department of National Defence, *DND Public Affairs Official, Email to the Author*.

⁹¹ Canada. Minister of Public Works and Government Services Canada, *Public Accounts of Canada*.

Table 7

Budget 2012 Implementation (\$M)	
Contracting	445
National Procurement	75
Canadian Forces Growth	305
Civilian Work Force Cost Savings	128
Rationalization of Corporate Accounts	78.5
Reduction of Full-Time Reservists	40
Centralized Service Delivery - Real Property	15
Centralized Service Delivery - Civilian HR Support	9.2
Grants and Contributions	0.411
Total	1,096

Why a Contracting Cut?

A dearth of information surrounding the 2012 defence budget cuts precludes a definitive account of how they were apportioned. The evidence available, however, suggests that the reduction in contracting was influenced by many factors. First, the Deficit Reduction Action Plan exercise borrowed extensively from the *Report on Transformation 2011*. The latter document was being completed just as the Deficit Reduction Action Plan exercise was underway in the late summer of 2011. Compared to the 18 months afforded to the Strategic Review and 12 month Transformation Team exercise, the Deficit Reduction Action Plan exercise was completed in a very compressed timeframe with the substantive work performed in July and August 2011.⁹² It therefore not surprising that some of the recommendations from the Transformation Team were reflected in DND's Deficit Reduction Action Plan proposal, given the compressed timelines for completing that study.

That there was overlap between the Deficit Reduction Action Plan and the *Report on Transformation 2011* is furthermore unsurprising since both efforts were undertaken with the same set of budget constraints. Neither exercise was permitted to reduce the military ranks

⁹² *Evidence*, October 3, 2011.

nor adjust DND's Capital program. Each also had to be implemented within the constraints imposed by a significant reduction in Operations and Maintenance funds as a result of Budget 2010. As such, it operated within the same major constraints as the Transformation Team had, and had to produce roughly the same degree of administrative efficiencies. Given the directive to find roughly a billion dollars with the same constraints it is not surprising that there was commonality in the two efforts recommendations.

As well, it also became clear that DND had been given explicit direction to use the *Report on Transformation 2011* to shape its Budget 2012 reductions. This direction was revealed in a letter from the Prime Minister's Office to the Minister of National Defence Peter Mackay, dated June 15, 2012 which was leaked to the press.⁹³ The letter from Harper stated: "thus far, your [Deficit Reduction Action Plan] proposals have not sufficiently addressed corporate and institutional support and services."⁹⁴ Noting the imbalance in the apportionment of defence funds towards the "ready force" and "institutional support," the Prime Minister directed MacKay to provide proposals "with a view to avoiding budgetary reductions that impact on operational capabilities, the part-time reserves, training within Canada, and the promotion and protection of our national sovereignty. You will need to demonstrate that all internal efficiencies have been identified and pursued, in addition to those in the 2011 Transformation Report."⁹⁵ While the letter did not mention a reduction to contracting specifically, it did reiterate that DND was to meet its budget cut by becoming more efficient.

Two months after this letter was sent, in August 2012 DND launched yet another efficiency study, Defence Renewal. This effort was directed to "minimize inefficiency,

⁹³ Murray Brewster, "Harper Letter to MacKay," *The Globe and Mail*, October 25, 2012.

⁹⁴ Stephen Harper, "Letter to MND Peter Mackay" June 15 2012.

⁹⁵ Ibid.

streamline business processes and maximize the operational results.”⁹⁶ Two months after that, Harper reiterated his desire to see a more efficient military. At the change of command ceremony appointing General Tom Lawson as Chief of the Defence Staff, the Prime Minister stated “The Canada First Defence Strategy must continue to advance, as I’ve said before, with the constant search for more teeth and less tail.”⁹⁷ As this demonstrates, DND was instructed not only to implement the *Report on Transformation 2011*, but directed by the Prime Minister not to reduce its operational capability. Rather, any needed cuts were to come from within its administration and overhead. Whereas in the past the desire to maximize the tooth to tail ratio may have originated within the military bureaucracy, after 2010 it was clear that this direction also originated from the Prime Minister’s Office.

A final factor leading to the reduction in contractors as part of Budget 2012 was the belief that they were, by default, performing tasks that were non-essential. Commenting on the issue, General Lawson noted in November 2012:

There will be a trimming of contracting, which we have to be very careful about. Of course, that contracting has come about over the recent 10 or 15 years, as we have transformed over the past couple of decades. Many of the capabilities that were carried out before by those in uniform but that weren’t truly combat-type capabilities were handed off to contractors.⁹⁸

A few months later, Lawson again noted this past experience when discussing the attempt to cut contractors only a decade and half after having made a significant increase in their use. Reflecting on that increase, he noted “That relieved our members in uniform from those duties that were not clearly operational so that they could focus on operational

⁹⁶ Canada. National Defence and the Canadian Armed Forces. "Defence Renewal Overview," accessed October 8, 2013, <http://www.forces.gc.ca/en/about/defence-renewal.page>.

⁹⁷ Canada. Prime Minister of Canada. "Statement by the Prime Minister of Canada at the Chief of Defence Staff Change of Command Ceremony," accessed October 30, 2012, <http://www.pm.gc.ca/eng/node/25039>.

⁹⁸ Canada. Parliament. House of Commons. Standing Committee on National Defence, *Evidence*, 1st sess., 41st Parliament, Meeting No. 59, November 29, 2012.

duties.”⁹⁹ The budget pressures facing the department were forcing DND to examine those contracts as they came up for “renewal, refinement or perhaps cancellation.”¹⁰⁰ The previous effort to maximize DND’s tooth to tail ratio had resulted in non-operational activities being turned over to industry. These comments indicate that some of the activities turned over to the private sector because they were considered non-core during the ASD process in the 1990s would be eliminated completely, because they were not operationally essential. DND’s attempt to further increase its tooth to tail ratio after 2010 therefore led to it eliminating completely some of the non-operational activities it had previously turned over to the private sector through ASD.

Evaluation of the 2012 Contracting Cut

The direction given to DND as it undertook its Deficit Reduction Action Plan process was similar to that given to the Transformation Team. DND was to leave its force structure and Capital plans untouched and instead apply its Deficit Reduction Action Plan cuts to administrative efficiencies. This strongly supports the budget optimization explanation. National Defence was faced with a significant reduction target, but was unable to cut money as it had in the past by reducing Capital and was unable to reduce Personnel by government direction. DND was therefore forced to apportion its cuts on Operations and Maintenance. Service contracts comprised a large share of this spending and some of these were considered by their very nature to be discretionary, since they did not contribute directly to military operations. With few other options available for meeting the cuts, service contracts could be eliminated as needed.

⁹⁹ *Evidence*, March 18, 2013.

¹⁰⁰ *Ibid.*

Analysis of Findings

After 2010 the Prime Minister provided explicit direction to DND that it needed to find internal efficiencies before it could proceed to renewing the *Canada First Defence Strategy*.¹⁰¹ This implied that before any possible adjustments could be made to either the Personnel or the Capital components of the DND or CAF, significant savings would have to be found within its Operations and Maintenance spending. After failing to implement the *Report on Transformation 2011*, DND spent more than a year working on a new efficiency effort, Defence Renewal. On October 7, 2013 DND published the Defence Renewal Charter, which outlined a plan for reallocating thousands of personnel and up to \$1.2 billion in efficiency savings.¹⁰² The government's Speech from the Throne, published just over a week later, announced that the Canada First Defence Strategy would be renewed.¹⁰³ As of 2015, this effort was still ongoing.

At the same time, since 2003, the baseline budget constraint at DND had changed to make Operations and Maintenance the residual budgetary category. This changed the past budgeting dynamic that had made Capital the residual budget category, and therefore a source of savings budget cutbacks. It is therefore not clear to what extent the fact that Capital was not reduced was a factor of a changed budget allocation dynamic or simply the Prime Minister's preferences. It is possible that the changed dynamics brought about by the switch to accrual accounting may have simply provided Harper with an accounting system amenable to his own preferences for retaining his existing spending plans for Capital.

Regardless of whether the funding dynamics or the Prime Minister's instructions were more influential, the impact was the same; since 2010 DND did not achieve its budget

¹⁰¹ Ibid.

¹⁰² Canada. Department of National Defence and the Canadian Forces, *Defence Renewal Plan*, 6.

¹⁰³ Canada. Governor General, *Speech from the Throne* (Ottawa: 2013).

cuts by reducing the share of the budget devoted to Capital. At the same time, after 2010, DND was prohibited from reducing its troop strength below 68,000 Regular and 27,000 Reserve Forces. In combination, these two factors have been instrumental in shaping DND's budget cuts. It has meant the post-2010 defence budget reduction is the first since WWII that did not result in a loss of operational capabilities.¹⁰⁴

This also meant that DND had to find the majority of its reduction in its Operations and Maintenance spending. Given how significant service contracts were as a share of this spending, a reduction to this category was inevitable. This was especially so because by 2012 previous measures had already eliminated a significant portion of DND's Operations and Maintenance budget. In sum, the pressure to eliminate spending and constraints that limited how this could be achieved resulted in a decision by DND to reduce its use of service contracts. This provides strong evidence to support the budget optimization explanation.

In contrast, no evidence was found to support the emulation explanation, the only other explanation that might have offered some insight into this contracting cut. Although the Transformation Team examined the transformation efforts of Canada's allies extensively, there is no indication that this contributed to their recommendation to heavily reduce the use of contractors. With respect to the Budget 2012 cut in defence spending, there is no indication whatsoever that allied activities shaped the Canadian response, but ample evidence to suggest that the imperative to cut tail and invest in teeth did.

¹⁰⁴ Perry, *A Return to Realism*, 338-360.

Chapter 9: Conclusion

This chapter concludes this dissertation. It begins by reiterating the Research Question examined in this study and the Hypothesis which was tested. It provides a summary of the key findings and highlights the contribution this work makes to the literature. It then discusses the policy implications of this research and suggests areas for future research.

Research Question and Hypothesis

The research question posed in this study was: Why has Canadian defence privatization varied over time? The hypothesis tested was that variation in the use of PMSCs by the Canadian military has been driven by changes to the size and the internal allocation of the defence budget. Referred to throughout as the budget optimization explanation, this hypothesis posited that when defence spending has varied, DND's use of PMSCs has varied significantly. Whether that variation has been to increase or decrease the use of service contracts has been determined by the constraints imposed by the government on the allocation of the defence budget between its primary spending components: Personnel, Operations and Maintenance, and Capital.

Two independent variables were therefore proposed to influence the extent of service contracts, the dependent variable. The first independent variable, was the size of the defence budget, operationalized as actual defence spending either increasing, or decreasing, in constant dollars. The second independent variable, internal budget allocation, was operationalized by assessing the constraints on the allocation of the budget between Personnel, Operations and Maintenance, and Capital expenditures.

The first variable, the defence budget went through three shifts over the time period reviewed in detail in this study. From 1989 until 1998, the defence budget decreased progressively in constant dollars. It then entered a decade long increase from 1999 until 2010. Since 2011 the defence budget has been declining, in real terms. The second independent variable, the internal budget allocation has two components: the residual budget category and how tightly the Personnel component of the defence budget is constrained. The first of these is which budget category acted as the residual budgetary allocation. From 1989 until 2002, this was the Capital component. From 2003 until 2014, after accrual accounting was adopted, the residual budget category shifted to Operation and Maintenance. The second component of the allocation constraint on the defence budget is how tightly Personnel is constrained. From 1989 until 1993, this was assessed as loose, as DND had the freedom to make multiple changes to its Regular Force establishment as needed to adapt to its changing budgetary circumstances. After 1994 and until 2004, Personnel were tightly constrained, as the size of the military was limited to the 60,000 full time members specified in the *1994 Defence White Paper*. Between 2005 and until 2010, the military was directed to expand its ranks, but this expansion was slow and the growth in Personnel was significantly smaller than the growth in the defence budget. As a result, this period is classified as one of medium constraints on Personnel. Finally, from 2011 through 2014 during another period of budget reductions, DND has been unable to adjust its full time military numbers, resulting in another period of tight constraints on Personnel.

Over the time period studied the dependent variable changed in two phases. From 1997/1997 until 2010/2011 expenditures on service contracts, measured in constant dollars, increased at an annual rate of eight percent, after a previous period of only minor variation.

Since 2011/2012, these expenditures have decreased for two consecutive years (See Figure 2).

Summary of Findings

The variation in defence service contracting between 1997/1998 and 2013/2014 depicted in Figure 2 is explained by changes to the independent variables in a manner consistent with the hypothesis proposed in this study. Throughout this time period, DND varied its use of service contracting to allocate its resources in a way that maximized the military's tooth to tail ratio. The case studies in Chapters 5, 6, and 7 help explain increases to service contracting while the case study in Chapter 8 explains the decrease in service contracting in recent years.

Increased Service Contracting from 1997/1998 to 1999/2000

The initial significant increase in DND's spending on service contracts from 1997/1998 until 1999/2000 can be attributed to two changes. The first was the ASD program launched in 1995. This program was initiated in the midst of significant cuts to the defence budget and immediately after the *1994 Defence White Paper* imposed tight constraints on Personnel by establishing a 60,000 member ceiling for the Canadian military. This program was initially guided in part by a desire to achieve cost savings at the height of DND's budget cutting pressures. Fiscal savings alone were not the reason for ASD's appeal to DND, however. Rather the program allowed National Defence to prioritize combat capabilities and structure its change activities around reducing the expenditure of financial and human resources on support activities. ASD was thus appealing because it allowed

scarce human resources to be prioritized on generating military capability and equally scarce budget dollars to be spent on Capital purchases. The tight constraints on Personnel created by the troop ceiling were instrumental in making ASD appealing to DND. So too was the fact that the baseline budget constraint at the time left Capital as the residual budget category. In some cases ASD provided a direct substitution of service contracts for Capital funds. As well, the belief that ASD could save money offered the prospect of reallocating funds to bolster Capital spending.

Similarly, changes to DND's arrangements for ISS between 1994/1995 and 1999/2000 also increased spending on service contracts. Historically, DND has always received some support for ISS through service contracts. During the 1990s, however, these arrangements evolved significantly. Several projects were initiated that extended contracted support arrangements beyond the traditional role of providing only third line maintenance. A significant motivation for these changes was a desire to save money in the face of the budget cuts at that time, although this was not the case in every instance. These moves were also driven by constraints on Personnel. Multiple initiatives had decreased the size of the military and civil servant support community by the mid-1990s which cut the size of both the front line maintenance workforce and the ranks of the fleet managers in the Materiel Group. These reductions were the result of the same dynamics outlined above, the 60,000 cap on the military and the desire to maximize the military's tooth to tail ratio. These pressures led to increases in the type of ISS performed by industry and an increase in the share of maintenance performed through service contracts.

During this time period, the interaction of the two independent variables led to a sharp increase in service contract spending, after several years of minimal change. In 1998/1999, service contract spending increased 18 percent over the year before, followed by

a 21 percent increase the subsequent year. This significant change to the trajectory of service contract expenditures required both the internal budget allocation constraints examined above as well as significant cuts to the defence budget. The most substantial budget cuts during this period occurred in 1994 and 1995, but these did not take full effect, and reduce defence spending to its maximum extent, until a few years later. As discussed in Chapter 2, the phenomenon of constrained optimization becomes most acute during periods of budget cuts. Thus, the internal budget allocation constraints that existed from 1994 until 2005 were amplified by the budget cuts which sharply reduced the size of the defence budget. The financial reductions reached their peak in the late 1990s, provoking a significant change in spending on service contracts in 1998/1999 and 1999/2000.

Increased Service Contracting from 1999/2000 to 2011/2012

After 1999/2000, service contracting continued to increase at a reduced rate of eight percent annually. This occurred during a period of budget increases, because of continued restrictions on Personnel. Thus, a continued increase in contracting, although at a slower rate, was driven by the internal budget allocation variable alone. Two significant shifts occurred for ISS: OWSM and the ISSCF. The restrictions on Personnel that had led to a heavy downsizing of the Materiel Group were the primary contributor to each change. OWSM was also influenced by a desire to improve equipment availability, but this was primarily driven by a desire to reduce the contract management burden on the Materiel Group, which was the result of staffing shortages. Similarly, while the ISSCF was also shaped by a desire to maximize through-life costs, improve equipment availability, and

improve contractor accountability, the overriding factor in its creation was a lack of staff capacity in the Materiel Group.

By 2008, the human resources of the DND and CAF had been increasing for a number of years, but these increases had substantially lagged the expansion in DND's budget. Furthermore, DND allocated little of its additional human resources to the Materiel Group. Thus, managing DND's equipment fleets through the ISSCF was appealing because DND had more money than people to allocate to ISS. As a result, under the ISSCF DND began paying OEMs to manage some aspects of ISS that had previously been managed by the Materiel Group and awarded these same firms support contracts to further reduce the management burden on equipment program managers.

During this same time period DND's use of service contracts continued to increase after DND began employing operational support contractors in 2000. These contracts were all motivated by a lack of operational capability in the CAF because of insufficient Personnel, and were therefore driven by the Internal Budget Allocation. In some instances, this was because the nature of the operations created unexpected requirements for support capabilities that the CAF could not provide. Thus, a changed operational environment is an additional variable that contributed to the increase in service contracting over this period. In other cases, the use of operational support contracts was driven by the overuse of the Canadian military and its support forces specifically. Contractors were seen as a way to improve the quality of life for an over-extended workforce and still deliver operational effects.

The availability of incremental operational funding and a cap on the number of deployed forces made operational support contractors appealing. Limits on the size of the deployed force created another constrained optimization problem that led the CAF to

maximize the tooth to tail ratio of its deployed forces, whose size was constrained by the Government. Contractor personnel did not count towards deployed force ceilings so employing them allowed the military to provide the required support while maximizing the deployment of operational troops. Furthermore, DND could pay for these additional forces using extra funds provided by the Government to conduct the operation. This created another scenario where DND has greater access to money than it did people, which led to an increased use of service contracts.

DND continued to employ operational support contracts even after an expansion of the military was announced in 2005 which resulted in it growing by 8,000 positions because it continues to have a shortage of logistics personnel. This is the result of allocating the force increase to operational troops and continuing to rely on contracted operational support. The CAF has support forces that remain too small to fully support its expeditionary operations because the military plans to use operational support contracts to augment their in-house capability when needed. By contracting as required, the CAF helps to further its long standing goal of maximizing the amount of useful coercive force it can generate within the number of military positions allocated by the government.

Service Contracting Cuts after 2011/2012

In 2012, after years of increasing its use of service contracts, DND announced that cutting this spending would be the single largest component of its 2012 Budget cut, which took effect in 2012/2013. As a result, service contracting dropped ten percent, and reduced for two consecutive fiscal years for the first time since 1994/1995. This cut to service contracting stemmed from four factors. First, in response to the changed fiscal

environment, beginning in 2011, DND was required to implement \$2.1 billion in budget cuts over three years. Second, in 2003, the baseline budget constraint at DND changed to make Operations and Maintenance the residual budgetary category when DND adopted accrual accounting practices. The past baseline budget constraint had made Capital the residual budget category. As a result, during past budget cuts, DND would slash spending on Capital procurement. After 2003, the appeal of this option was significantly decreased. Instead, any budget cut after that year would be apportioned much more heavily on the Operations and Maintenance budget which provides the funds for service contracting. Third, since 2010 DND has faced tight constraints on Personnel as it has been prohibited from reducing its troop strength below 68,000 Regular and 27,000 Reserve Forces. Fourth, DND has consistently been directed since 2010 to reduce its spending by allocating its resources in a manner that maximizes its tooth to tail ratio.

This combination of factors meant that after federal austerity was announced in 2010, DND was unable to make reductions by cutting Capital spending, reducing Personnel, or eliminating other capability. The department therefore had no other choice but to apportion its cuts on Operations and Maintenance spending and service contracts comprised a major share of this spending. With few other options available for meeting the budget cuts, spending on service contracting was reduced because constraints on the allocation of its budget left DND with no other alternative.

Cross Case Comparisons

Across the four case studies presented in this study there were a number of changes to Canada's military and defence circumstances. The most significant changes affecting the

variation in the use of service contracting were to DND's budgetary circumstances. As Chapter 3 demonstrated, DND's budget declined between 1989 and 1999, then increased until 2010, and declined thereafter. As a result, only the 2012 Service Contracting Cuts case occurred exclusively during consistent budgetary circumstances, since those cuts happened during the budget cuts after 2010. The ASD case, on the other hand, spanned both the period of defence cuts after 1989 as well as the post 1999 budget growth. The Operational Support Contracting case spanned both the post 1999 period of budget increases as well as the budgets cuts after 2010. Finally, the ISS case spanned the post 1989 budget cuts, the budget growth after 1999 as well as the reduction to defence spending after 2010. The most significant variation observed in the extent of service contracting occurred during the two periods of budget reductions; increasing sharply during the budget cuts from 1989 to 1999 and decreasing noticeably after the post-2010 budget cuts. The fact that a sustained increase in service contracting continued in the ISS Operational Support Contracting cases after the defence budget began to increase demonstrates the importance of budget allocation variable in addition to the size of the defence budget in shaping the changes observed.

In part, the varying budgetary dynamics are attributable to significantly different time periods covered by the respective cases. The 2012 Service Contracting Cuts case stretches over only four years, covering the 2010 to 2014 time period. In contrast, the Operational Support Contracting case covered the period from 2000 until 2014, the ASD case covered the period between 1994 and 2007 while the ISS case spans a twenty year range between 1994 and 2014. The discrepancy between the length of each case in some respects limits the conclusiveness of the findings, particularly for the 2012 Service Contracting Cuts case. In the ASD case, that initiative effectively ceased to cause an increase in service contracting after roughly a decade had passed, due to factors unrelated to the budgetary dynamics that

initially increased the use of service contracting through ASD. This suggests that similar changes might also occur over time with the other cases.

Over the 20 year period covered in this dissertation's cases, there were several other changes at National Defence including three different Prime Ministers, and multiple Ministers of National Defence from two political parties and both minority and majority governments, factors which might have played some role in the cases examined here.¹ The change in Prime Minister from Jean Chrétien to Paul Martin played no direct role in the cases studied here, and Chrétien himself was not involved other than by precipitating the wider reduction to DND's resources that peaked in 1994 and 1995. Prime Minister Harper, on the other hand, not only initiated the budget cuts after 2010, but also provided clear direction that DND was to structure its cuts in a way that created more teeth and less tail. As this served to reinforce the military's own organizational inclination, it is difficult to ascertain how much this direction shaped the ultimate decision to cut contracting, but it may have played some role in that case.

In contrast, there was no evidence that any of the nine respective Ministers of National Defence who served during the time period studied played any meaningful part in those cases. This appears to be partly attributable to the fact that the first three of these cases involved logistical issues, and these matters are the purview of the military and civilian bureaucracy, not elected officials. In the 2012 Service Contracting Cuts case, it seems that the Prime Minister played a more involved role in the decision making than the Minister of National Defence.

¹ Brian Bow, "Parties and partisanship in Canadian defence policy," *International Journal* 64, no. 1 (Winter, 2008): 67-88; Adam Chapnick and Chris Kuchucka, eds. *Canadian International Policy 2006-2015* (Vancouver: UBC press, forthcoming).

The most notable difference between the cases related to the type of change involved with the variation in service contracting examined in each case. In the ASD case, the increases in service contracting came as a result of using PMSCs to take over the performance of services previously provided by members of the military or civil servants. This case saw private actors replace public ones in the provision of services, which proved both controversial and incongruent with wider Government of Canada policies. In contrast, the Operational Support Contracting case involved the use of service contracts to supplement, rather than replace, the services provided by public actors. In the ISS case, the first changes saw service contractors provide support for newly acquired capabilities. While the workforce that provided similar services was being downsized at the same time, the service contracts acquired did not appear to directly replace any service provision by the military or civil servants. Later, some of the contracts examined in the ISS case resulted in a shift over time to see existing service contracts combined into larger and longer contractual vehicles. Again, this did not directly replace the provision of public services. The fact that both the ISS and Operational Support Contracting cases supplemented, instead of replacing, the services provided by the military and civil servants and did not conflict with other Government of Canada policies likely contributes to the continued salience of those types of service contracting. In contrast, ASD type contracts fell out of favour because those factors were not present, in addition to the budget optimization dynamics that were most influential. Finally, the 2012 Service Contracting Cuts case saw a contracting reduction applied to a broad swath of service contracts. While this was intended to be narrowly applied to specific types of services, data limitations precluded a definitive assessment of whether or not this was the case. This variation across the cases suggests that for changes to the use of service contracting to be sustained, they must align with other Government of Canada policies. It

also indicates that further variation in service contracting is unlikely to occur if that change would see either military or civil servant service providers replaced by private firms.

Variation in Service Contracting

As the forgoing demonstrates, significant changes to DND's use of service contracting required both a cut to the defence budget and internal budget allocation constraints that placed tight limits on Personnel. In 1997/1998 and 1998/1999 these dynamics led DND to increase its use of service contracting significantly. After 1999/2000, DND's use of service contracts continued to rise at a reduced pace. During this period in time, this was driven primarily by continuing constraints on Personnel, even though the defence budget was increasing. While constraints on Personnel were the primary driver, other factors contributed to the increase as well. These included changed operational requirements and the desire to improve equipment availability and contractor accountability as well as maximize the through life cost of military equipment. After 2011/2012 another budget cut, tight constraints on Personnel, and a new baseline budget constraint that made Operations and Maintenance the new residual budget category led to a significant reduction in service contracting. These changes provide strong evidence to support the hypothesis proposed in this study.

Contribution to the Literature

Several contributions have been made to the literature on defence privatization. First, this research's main contribution is to provide a more comprehensive explanation for

the variation in the use of service contracting. The existing literature offered different explanations for discrete types of defence privatization, several of which were not generalizable and some of which were contradictory.² The explanation advanced here provides a common explanation for the use of defence privatization that appears to be applicable to changes in the use of contracted services in Canada. The generalizability of this explanation extends to its ability to explain *variation* in the use of service contracting, not simply its increase. As a result, an additional contribution of this research to the defence privatization literature is to offer an explanation for decreases in the use of service contracts. It therefore offers an explanation for variation in the use of service contracting that can be used to examine any future changes.

Second, this research better connects the use of PMSCs to the literature on strategic studies and defence policy. It demonstrates that decisions about employing PMSCs, at least in Canada, are not taken in isolation. Rather they are part of a wider set of strategic choices made regarding the allocation of constrained resources in order to produce the maximum military capability possible. Defence privatization is therefore not a phenomenon related simply to decisions to use more or less contracted services, as is sometimes reflected in the literature.³ Increasing or decreasing the amount of service contracting is a decision to spend resources in one way, rather than another, in order to achieve desired outcomes. Thus, the use of PMSCs by the Canadian military is fundamentally tied to matters of Canadian defence policy.

The study provides additional contributions to the literature on Canadian defence privatization specifically, by providing an empirical examination of the use of contracted

² Spearin, *Not a "Real State"?*, 1093-1112; Singer, *Corporate Warriors*.

³ Deborah Avant, "The Mercenary Debate," *The American Interest* 4(2009): 32-36.; Max Boot, "The Mercenary Debate," *The American Interest* 4(2009): 37-42.; Jorg Friedrichs and Cornelius Friesendorf, "The Mercenary Debate," *The American Interest* 4(2009): 43-48.

services by the Canadian military. The four empirical chapters add extensive primary research to the study of Canadian defence privatization.

This study also makes significant contributions to the literature on Canadian defence policy. Both Chapters 3 and 5 provide additional insight into the resource reductions to the Canadian defence establishment after the Cold War. While this period has received significant study,⁴ some accounts disproportionately attribute the cuts made to DND to the Chrétien Government.⁵ Similarly, there has been an acknowledgement that DND has received substantial resource increases since 2000,⁶ yet some still attribute this primarily to the Harper Government.⁷ As demonstrated in Chapter 3, these changes were, in reality, a bipartisan effort with both Conservative and Liberal administrations contributing to defence resource decreases and increases. By providing a more fulsome examination of these changes, the study contributes to efforts to understand the role of political parties in Canadian defence policy.⁸ In addition, Chapter 8 makes a significant contribution by exploring the impact of fiscal restraint since 2010 on DND. The impact of the reductions has not been widely acknowledged but their impacts have been significant. Due to changed budget allocation constraints, these impacts have been substantially different than during past periods of fiscal restraint.

The dissertation contributes to the literature on Canadian defence procurement by expanding the focus beyond the purchase of major weapons systems, which has dominated

⁴ Lagassé and Robinson, *Revising Realism in the Canadian Defence Debate*; Andrew Cohen, *While Canada Slept* (Toronto: McClelland & Stewart, 2003).

⁵ Granatstein, *Who Killed the Canadian Military?*

⁶ Andrew Richter, "A Defense Renaissance?" *American Review of Canadian Studies* 43, no. 3 (2013): 424-450.

⁷ J. L. Granatstein, "Tories Making a Mess in Defence?" Canadian Defence & Foreign Affairs Institute, accessed December 15, 2014, <http://www.cdfai.org/monthlycolumn/december2012column.htm>.

⁸ B. Bow and D. Black, "Does Politics Stop at the Water's Edge in Canada? Party and Partisanship in Canadian Foreign Policy," *International Journal* 64, no. 1 (2008): 7-27.; Bow, *Parties and Partisanship in Canadian Defence Policy*, 67-88.

discussions in the past.⁹ Chapter 6 indicates that the discussion of major weapons systems should increasingly examine the arrangements for supporting new equipment once acquired. While most focus has been placed on the acquisition phase of procurements, the costs of providing ISS can actually exceed by a considerable margin those of the initial purchase itself. The acquisition of military goods and military services are increasingly linked, yet the procurement of the former has frequently been discussed as a discrete activity.

The dissertation also adds to the literature on defence management in Canada. Defence budgeting in Canada has long been acknowledged to play a key role in shaping defence policy by translating Government direction into actual military capabilities.¹⁰ This work expands on that understanding in multiple ways. First, it adds greater fidelity to the understanding of the influence of budget changes on the conduct of Canada's defence by examining in detail changes to the three major components of defence expenditure. Second, it highlights the importance of human resources to resource allocation decisions. Much of the literature has focused on the impact of changes to the defence budget alone. This research demonstrates the importance of changes to human resources, and the size of the military in particular, in shaping defence behavior. Third, while it has long been acknowledged that the size of the defence budget strongly shaped expenditures on Capital, it was recently posited that this dynamic had changed.¹¹ This research provides empirical evidence that this change was effected, and Operations and Maintenance is now the residual budget category.

⁹ Middlemiss, *Defence Procurement in Canada*, 391-412.

¹⁰ Middlemiss, *Canadian Defence Funding*, 13-20.

¹¹ Solomon and Stone, *Accrual Budgeting and Defence Funding*, 211-227.

Policy Implications

Multiple policy implications emerge from this work. Previously, the acquisition of defence goods declined whenever the defence budget was cut. Consequently, procurement spending on equipment closely mirrored that of the defence budget overall and could confidently be expected to suffer when the defence budget was reduced. As Chapter 8 demonstrates, this is no longer the case. This has two important implications for defence policy.

First, the military should have greater stability when planning its long term Capital replacements which should help allow more sustained Capital investment. At the same time, the budget cuts to service procurement will have significant negative impacts on military readiness, as they will likely lead to reductions in contracts for ISS. Such cuts will make the military less operationally useful in the short term. This may make the impact of budget cuts more apparent to policymakers than in the past. Previously, by placing much of the reduction burden on Capital spending, the real impact of budget cuts was deferred into the future in the form of reduced Capital stocks and capability gaps years into the future. Now, the impact of defence budget cuts will be felt almost immediately on military readiness, more quickly reducing the utility of military force as a policy instrument. Stated otherwise, historically when Government's cut the defence budget future administrations felt the impacts, but now the same administrations that decrease spending will feel the consequences. This has the potential to change the way the Government of Canada approaches defence budgeting by increasing its short term sensitivity to these changes.

A second important policy consideration of the change just described is that the impact of the budget cuts will be much harder for the public and Parliament to discern. As this study shows, the Government of Canada's fiscal reports make tracking expenditures on

the procurement of goods relatively easy. In contrast, there is very limited visibility into expenditures on services. Parliament's review of defence spending has previously been judged to be highly limited.¹² This change will further limit the effectiveness of Parliamentary scrutiny of the defence budget, reducing Parliament's ability to hold government to account. As a result, this will increase the executive's already preeminent authority over matters of National Defence in Canada at the expense of the legislature.

Chapter 7 adds some important perspective to the discussion of Canada's ability to conduct expeditionary military operations independently. This chapter revealed that in some instances the use of operational contractor support proved necessary to Canadian international deployments and in others provided it with additional flexibility to conduct multiple military deployments simultaneously. This demonstrates that since operational support contractors came into use after 2000, Canada's ability to conduct operations abroad independently has increased. To be sure, this will not entirely replace Canada's reliance on other nations for support on future operations, as Canada continues to require significant allied support for substantial missions.¹³ It does demonstrate, however, that increasing the use of that type of defence service contract has provided the Government of Canada with an expanded range of military options in support of Government policy.

The increasing importance of the private sector to military operations abroad, as well as the functioning of military equipment around the world, suggests that Canada should consider adopting an approach to managing the employees of service contractors in a manner similar to military members and civil servants. This would indicate the utility of instituting a policy similar to the American military's Total Force Policy which counts full

¹² Jean Dupuis, *Appropriations and the Business of Supply* (Ottawa: 2004); Douglas L. Bland and Roy Rempel. *A Vigilant Parliament* (Montreal: IRPP, 2004).

¹³ Stephen M. Saideman. *Afghanistan as a Test of Canadian Politics* (Waterloo: The Centre for International Governance Innovation, 2012).

time and reserve members of the armed forces, defence civil servants and contractors as part of one overall workforce.¹⁴ This dissertation indicates that such an approach would be beneficial in Canada as this same mix of human resources has been employed by DND and the CAF, but without a holistic management approach. As discussed below, further research examining the optimal allocation of the different types of human resources available for Canada's defence should inform a revised approach to defence human resource management.

This research also has significant implications for the Defence Procurement Strategy, one of the most significant defence policy initiatives of the last decade. This new strategy is attempting to both improve the delivery of military procurement as well as better leverage it for domestic economic impact.¹⁵ This new strategy was grounded in an external report that suggested Key Industrial Capabilities should be the focus of these leveraging efforts.¹⁶ Given the importance of both operational support contracts as well as those for ISS to military capability, both of these services should be considered for inclusion as a Key Industrial Capability.

Chapter 6, however, indicates potential policy challenges associated with making ISS a Key Industrial Capability. The common thread that drove two significant changes in ISS after 1999 was DND's attempt to manage procurement with increasingly scarce human resources. The ISSCF was also influenced by a desire to maximize total life cycle costs and improve equipment performance and availability. In sum, these shifts were driven by a desire to improve the delivery of military capability and ensure best value for money. In contrast, the current reforms envisioned under the Defence Procurement Strategy were

¹⁴ United States of America, *Quadrennial Defense Review Report* (Washington, DC: 2006).

¹⁵ Canada. Public Works and Government Services Canada, *Defence Procurement Strategy*.

¹⁶ Jenkins, *Canada First*.

launched in part because of dissatisfaction with these same arrangements on the part of the Canadian defence industry, which is opposed to awarding lifetime support to OEMs.¹⁷ It will therefore be extremely difficult to change ISS arrangements in order to better leverage military acquisitions, while also improving the delivery of military capability. In fact, it seems likely that any changes will increase the burden on the staff in the Materiel Group. This could actually reduce DND's ability to deliver new military procurements in the midst of an extensive period of recapitalization.

Chapter 8 demonstrated that making any type of service contract a Key Industrial Capability in the current fiscal environment will present a policy challenge, since spending on these contracts is currently being reduced. The Government thus launched an effort to reform defence procurement at the same time that its budget cut was reducing the funds available for procuring defence services. Further, this dissertation shows that a reduction in the use of service contracts will be the likely result of any future budget cut at DND if tight constraints are placed on Personnel. This suggests that the Defence Procurement Strategy's economic leveraging goals will be difficult to achieve for the defence service sector in the event of future defence budget cuts.

Areas for Future Research

Five key areas of future research emerge from this dissertation. The first line of inquiry suggested by this work is to extend the defence budget allocation explanation advanced here to other countries. It seems plausible that the budget optimization explanation might help explain variation in the use of defence services in other nations as

¹⁷ Emerson, *Beyond the Horizon*, 65; CADSI Marine Industries Working Group, *Sovereignty, Security and Prosperity*.

wells. Expanding this analysis to other countries would require significant work to first understand the budget allocation dynamics elsewhere, but there are some initial indications that some of the resource allocation dynamics could be applicable elsewhere and might help explain some of the variation in national approaches to service contracting. In the United States, for instance, Congress provided the Pentagon with significantly more incremental operational funding for operations in Afghanistan and Iraq than the Canadian military received.¹⁸ As Chapter 7 outlined, the availability of incremental operational funding created an incentive to use operational support contractors in Canada. It is plausible that the availability of more of this funding in the United States might help explain why the American military's use of operational support contractors is more extensive. In addition to helping to understand variation in the use of PMSCs, the budget optimization explanation may also provide greater clarity regarding the American military's decision to decrease its use of contractors in 2010. Analyzing other country's use of defence service contracts through this lens could provide a better understanding of what role PMSCs might play in future conflict zones.

A second area for future research should examine the efficacy and cost effectiveness of service contracts in comparison to uniformed military and civilian human resources. Defence budget cuts and the management of military positions through PY controls were the most significant factors contributing to the increase in defence service contracting between 1994 and 2010. Similarly, the new budget constraints created by Operations and Maintenance becoming the new residual budget category, those same PY controls, and budget cuts after 2011 combined to lead to a reduction in service contracting. These changes were driven by the phenomenon of constrained optimization and a desire to

¹⁸ Aaron L. Martin, "Paying for War" (PhD Dissertation, Pardee RAND Graduate School).

maximize the military's tooth to tail ratio by extracting the maximum coercive force possible from a limited defence budget.

This research did not uncover any effort to comprehensively examine the efficiency or cost implications of these resource constraints themselves. In other words, there was no evidence of systematic and comprehensive analysis to compare the relative total costs to Canada or the relative efficacy of various options for providing the services examined here. As a result an optimal allocation within a total military, civil servant and contractor workforce based on the relative costs and efficacy of each component of human resources was not considered. Chapter 8 demonstrated how service contracts were cut after 2011 because DND could do so, and had few other options to meet its reduction targets. There is no evidence to suggest an analysis was ever conducted to examine whether reducing the size of the military establishment or the defence civilian workforce instead would have been more or less cost effective or whether it would have allowed for more or less efficient service delivery. Such an analysis of the relative costs and efficiency of contractors, civil servants, and armed forces members is needed and should support future resource allocation decisions.

Third, a detailed empirical analysis of the relative merits of various arrangements for providing ISS for new equipment is warranted as well. This is especially the case given the rapid shifts in approach for providing this crucial service over a relatively short period of time, with little chance to observe the implications of these changes before adopting new approaches. As Chapter 6 showed, beginning in 2005 with the contract for Maritime Helicopters DND decided to combine the purchase of military equipment and its maintenance and support. Three years later, in 2008, the ISSCF was adopted as a policy for all major defence procurements. Only two years later this construct was dropped for new

naval procurements and in 2013 a potential change away from this arrangement was considered under the Sustainment Initiative. Thus within a decade, ISS was combined with acquisition, mandated as policy, abandoned for ships and further changes may be coming. Despite all of these changes, only one fleet acquired under the combined acquisition and support approach, the C-17, has actually achieved Full Operational Capability as of January 2015.¹⁹ As a result, these major changes in approach have not benefited from any detailed analysis to determine their relative life-cycle cost implications or impacts on equipment availability. As Chapter 6 detailed, these changes had other benefits, notably alleviating capacity problems and providing greater long term cost certainty. But absent any analysis about their actual impacts on equipment costs and availability, it is impossible to assess the relative merits of these approaches. A detailed examination is warranted to shape future Canadian defence procurements.

A fourth area for future research could extend the argument employed in this study to more cases. One potential area of particular interest, should sufficient data become available, is the provision of armed security by PMSCs. This would make an appropriate future case because this facet of the private delivery of military services has been the most controversial and also resulted in the most negative consequences for the military.²⁰ In addition, this would provide a further test of the argument advanced here, which contends that the variation in the use of service contracting is linked the Canadian military's organizational culture which prioritizes operational teeth in favour of logistical tail. It is not clear whether armed services would be considered teeth or tail by the CAF, but could more

¹⁹ Canada. Department of National Defence, *Estimates Part III - Report on Transformational and Major Crown Projects*.

²⁰ Singer, *Can't Win With 'Em, Can't Win Without 'Em*.

easily be construed as teeth than the services examined in this dissertation's case studies, and thus this subject warrants further study.

Finally, this dissertation has developed a data rich account of service contracting variation in Canada that has added significantly to the empirical record on Canada's use of PMSCs. This expanded empirical record can now be used in follow on studies. In particular, the data generated through this research could be used in efforts to further develop other theoretical interpretations of Canada's use of service contracting and in multi-country studies.

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