

Governing Major Defense Capital Projects Under Uncertainty

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Agenda

01 Setting the Paradox

02 Case Study: Canadian Surface Combatant

03 Case Study: F-35 Fighter Program

04 Common Threads & Governance Recommendations

01

Setting the Paradox

Why do defence capital plans consistently outrun delivery?

Canadian Forces: Overview

Military Personnel of about 68,000 regular members and 26,000 reservists

- Persistent recruitment challenges

National Defence Budget of \$CAD 51.7 billion – or \$62.7 billion using NATO definition

- Equivalent to NOK 346 billion and NOK 420 billion, respectively
- Barely meeting NATO target of 2% of GDP for first time this year

Military Equipment

- Around 90 F-18s (built in the 1980s)
- 74 Leopard tanks, including 34 for training
- 12 Halifax-class frigates
- 4 Victoria-class submarines
 - only 1 is in active service

Governance of Major Projects

Cabinet sets policy directions. Funding decided by PM and Minister of Finance

Department of National Defence (DND)

- Defines the military requirement — what capability is needed and why. The CAF is the "end user."

Public Services and Procurement Canada (PSPC)

- Holds exclusive authority to actually contract and buy — runs the bid solicitation, evaluation, and contract award.

Innovation, Science and Economic Development Canada (ISED)

- Evaluates and enforces Industrial and Technological Benefits (ITB) — the requirement that winning bidders reinvest in Canadian industry.

Treasury Board

- Approves project scope and spending at each major gate; gives PSPC its contracting authority.

Our North Strong and Free

Announced in Budget 2022, weeks after Russian invasion of Ukraine

- Focus on Arctic and continental defence
- Clear need to increase defence spending

Overtaken by events, expanded by subsequent commitments

- Pressure from Canada's main economic and defence partner
- Meeting the NATO target of 2% of GDP (set in 2014, met in 2025-26)
- Rising to 5% of GDP by 2035

Three cases, one pattern

- The Canadian Surface Combatant, Joint Support Ships, and F-35 programs

Canada's Capital Plan at Scale

\$322.9B

20-Year Capital Envelope

Planned DND capital spending, 2024-25 to 2043-44, under Our North, Strong and Free (ONSAF).

\$25.7B

Peak Annual Spending

Projected peak in 2030-31 — versus \$3.8B-\$6.9B actual annual spend, 2017-18 to 2023-24.

\$108.1B

Increase vs. Prior Policy

Growth in the planned envelope from Strong, Secure, Engaged (\$214.8B) to ONSAF (\$322.9B).

02

Canadian Surface Combatant

Canada's largest-ever defence procurement — a case study in estimate drift



Canadian Surface Combatant: Overview

Canada's largest-ever procurement

- 15 *Type 26* warships replacing older frigates and destroyers
- Single largest purchase in Canadian government history

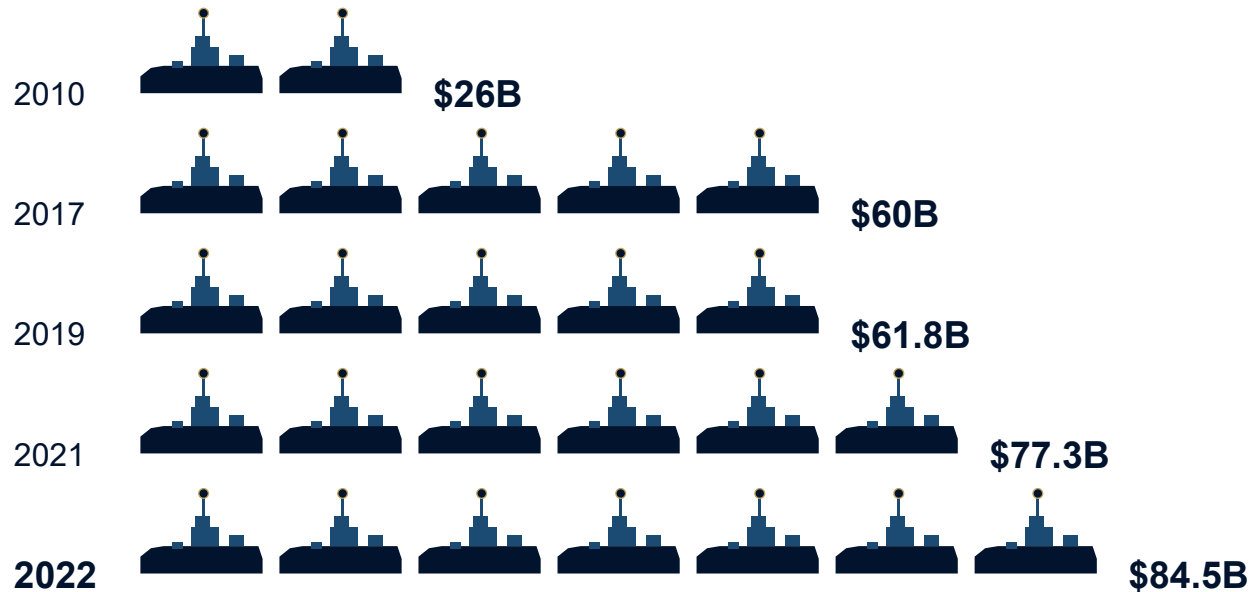
Prime contractor: Irving Shipbuilding

- Design and combat systems from Lockheed Martin / BAE
- *Type 26* was named 'preferred design' in October 2018
- Ahead of full cost certainty

Definition contract signed February 2019

- Construction schedule and cost estimates repeatedly revised since

Canadian Surface Combatant: Cost Estimate Growth



CSC: Governance Lessons

Independent costing forced transparency

- Parliamentary Budget Officer's (PBO) estimates repeatedly exceeded DND's public figures
- Prompted parliamentary scrutiny
- Doubts on Government's capacity to supervise project.

Design selected before cost certainty

- Preferred design named in 2018
- Contract negotiation followed — commitment ahead of full costing.

Schedule risk is directly monetizable

- PBO modelling: a one-year delay adds \$2.3B; a two-year delay adds \$4.8B
- Delay is a cost, not an afterthought.

03

F-35 Fighter Program

Cost growth meets geopolitical uncertainty



The Saga of the F-35

1997 - Canada joined the Joint Strike Fighter Program

2010 - Government announces plans to purchase 65 F-35As

2012 - Government hits pause due to cost overruns, delays and mechanical problems

- Reopens consideration of other options

2015 - Newly-elected government cancels the F-35s

2017 - Open competition launched

- Second-hand F-18s purchased from Australia to bridge capability gap

2023 - Canada commits to procuring up to 88 F-35As, firm order for 16.

March 2025 - A review of the deal, possibility of a mixed fleet with F-35s and Gripens

- Still underway

F-35: Cost Trajectory

Government estimate (2010)

- \$9 billion to acquire 65 jets
- Over **\$18 billion** to acquire and maintain/support.

PBO (2011)

- \$9.7 billion to acquire the jets
- Around \$20 billion for maintenance and support, total of **\$29 billion**
- Auditor General's estimate one year later will be in the same range

PBO (2023) – for 88 jets

- Acquisition phase estimated at \$19.8 billion (in line with government's estimate)
- Lifetime cost of **\$74 billion** (also in line with government's)

Auditor General (June 2025)

- \$27.7 billion acquisition cost

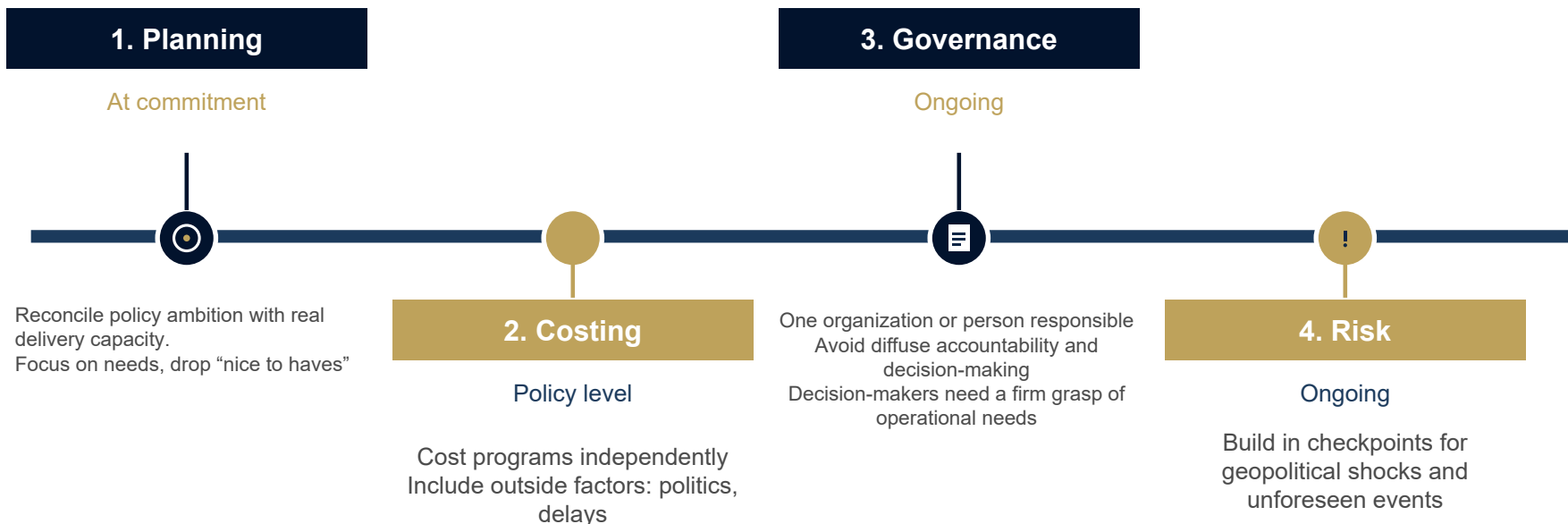
F-35: Cost Estimate Growth



04 Common Threads & Recommendations

What the these cases share — and what could be done differently

Reflections for Governance Frameworks



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“It doesn’t matter whether the cat is black or white, as long as it catches mice.”

Deng Xiaoping

Thank You

For questions, please reach out

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