

**HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE
PRESENTATION BY
THE CONFERENCE OF DEFENCE ASSOCIATIONS**

EXECUTIVE SUMMARY

- The purpose of a sound economy is to be able to deliver important public goods, one of which is the security of citizens. With security, economic life can proceed in peace and freedom; without it, economic life is subject to constant disruption and sustained economic growth is no more than a distant hope. Governments must improve how they plan for national security and its expenditures.
- Defence spending managed on a multi-year basis helps to make best use of the funds allocated for defence. In times of peace, it allows rational decision-making about the size, composition, and equipping of military forces. It encourages due process and optimal outcomes in procurement. It helps ensure Canadian industry remains at the leading edge of the high technology required for modern weapons systems and sustains the high-quality jobs Canada wants and needs. And it generates the highest domestic returns on the defence dollar. It also helps to maintain the vital connection between the military and the citizenry. In times of trouble, it provides the country with the military capabilities it needs with the least disruption to public finances. Governments must get in the habit of long-term defence planning, including removing the obstacles to effective and timely equipment replacement.
- Governments must avoid the temptation of financing the current force at the expense of the future force. Capital spending must not again be allowed to fall below 25% of the defence budget.

Chair, Members of the Committee:

Thank you for the opportunity to appear before you.

The Conference of Defence Associations (CDA) is the oldest and most influential advocacy group in Canada's defence community, representing 51 associations from all parts of the country. The Conference of Defence Associations was established in 1932 to study the problems of defence and security and to promote the efficiency and well-being of Canada's Armed Forces. More than 75 years later, the CDA is still the leading national voice on those original issues which have expanded to include national sovereignty, individual liberty and freedom, and developments around the globe which affect the peace and security of Canada.

The Committee has posed four questions: (a) how to achieve sustained economic growth in Canada, (b) how to create quality sustainable jobs, (c) how to ensure relatively low rates of taxation, and (d) how to achieve a balanced budget.

We have three recommendations to make:

First: *Governments must improve how they plan for national security and its expenditures.*

The purpose of a sound economy is to be able to deliver important public goods, one of which is the security of citizens. In the global age in which we live, this requires military capabilities to serve a variety of purposes: in defence of the sovereignty and people of Canada, as a last resort in response to a national calamity, as protection from external attack – whether by other states or transnational terrorist organizations -- and as an expeditionary force sent abroad to help deal with any number of security threats before they reach our shores.

Too often, we have looked on defence spending as a diversion of scarce resources which could be better devoted to schools and hospitals. Training and equipping our armed forces are no more a “drain” on the economy than training and equipping our firefighters, paramedics and police services. We count on all of them when we get into trouble, and we owe it to ourselves to prepare all of them to deal with trouble before the trouble descends on us.

With security, economic life can proceed in peace and freedom; without it, economic life is subject to constant disruption and sustained economic growth is no more than a distant hope.

It is one thing, however, to appreciate the need to invest in our armed forces, and another to know what you need by way of specific military capabilities. Unlike some of our major allies, Canada lacks an over-arching national security strategy to provide the strategic context for defence spending. Importantly, such a strategy would also help to provide purpose, coherence and direction to our diplomatic and foreign aid efforts – and ensure that all three dimensions of our international engagement operate in sync. They often do not.

We note with interest that in May the Prime Minister announced the creation of a Cabinet Committee on National Security “to provide broad strategic direction for security and foreign policy”. We encourage the Government to articulate a clear and unambiguous national strategy encompassing all facets of Canada’s international engagement.

Second: *Governments must get in the habit of long-term defence planning, including removing the obstacles to effective and timely equipment replacement.*

Defence spending managed on a multi-year basis helps to make best use of the funds allocated for defence. In times of peace, it allows rational decision-making about the size, composition, and equipping of military forces. It encourages due process and optimal outcomes in procurement. It helps ensure

Canadian industry remains at the leading edge of the high technology required for modern weapons systems and sustains the high-quality jobs Canada wants and needs. And it generates the highest domestic returns on the defence dollar. It also helps to maintain the vital connection between the military and the citizenry.

In times of trouble, it provides the country with the military capabilities it needs with the least disruption to public finances.

It is noteworthy that the Harper government's Canada First Defence Strategy laid out a 20-year defence budget including an improved defence inflation formula. The CFDS made four promises to Canadians:

- a. To increase the annual defence budget from \$18 billion in FY 2008 to over \$30 billion by FY 2027, an investment of close to \$490 billion over 20 years;
- b. To deliver a military with the right training and equipment;
- c. To strengthen the Canadian Forces readiness to deploy and their ability to sustain operations once deployed; and
- d. To forge a partnership with industry to enable Canadian companies to aspire to global excellence and to compete for defence contracts at home and abroad.

It is no small matter that some of Canada's military capabilities today are world-class, if modest in scale. The reason has been the doubling of defence spending in the last ten years, beginning with the last Liberal government and continued and expanded by the current Conservative government. The Martin and Harper governments deserve the thanks of Canadians for seeing this through despite the slings and arrows they have had to suffer.

The results of our re-investing in the Canadian Forces are well known to Canadians:

- The performance of the Canadian Forces in Afghanistan has been outstanding -- fighting insurgents, training the Afghan National Security Forces, and working alongside the civilian community in improving the everyday lot of citizens in that war-torn society. Also deeply impressive has been the Canadian Forces' enhanced capacity to respond to humanitarian crises, notably the earthquake which devastated Haiti.
- The new level of defence spending has not only helped the Canadian Forces to sustain the highest operational tempo Canadians have asked of them in two generations, but it has also helped to begin re-equipping the Forces after the long period of neglect in the immediate post-Cold War period. Key acquisitions have included four C-17 strategic airlifters, 16 C-130J tactical airlifters, 16 CH-47 Chinook helicopters, howitzers, main battle tanks and armoured personnel carriers.

This is not the end, however, more like the end of the beginning – to re-employ a phrase from Churchill.

Re-equipping the Canadian Forces will, according to the CFDS, require the acquisition of three new replenishment ships, 15 surface combatants to replace destroyers and frigates, six to eight Arctic/offshore patrol ships, ten to twelve maritime patrol aircraft, 17 fixed-wing search and rescue aircraft, 65 next generation fighter aircraft, and a fleet of land combat vehicles and systems.

This is only to upgrade and refurbish what we have – and does not take into consideration investments required for future capabilities such as satellite surveillance of our north, UAVs to help monitor border regions, and a more robust seaborne amphibious and command and control capability.

Paying for all this is only part of the challenge. Even when the money has been allocated, our procurement system – slow and convoluted, with responsibility spread among several departments -- has not been able to advance projects within the desired timeframes. One result is well known to most Canadians: ships which are rusting out and aircraft which are being kept in the air well past their due dates. Another result is not so well understood: funds for new equipment are being returned to the Treasury because they could not be spent before the end of the year. Two years ago, unspent capital funds totalled \$1.6 billion, or 33% of total planned capital spending for FY 2009. Last year, in FY 2010, it was \$2.3 billion unspent.

Procurement reform is obviously overdue. So is revisiting the rule allowing DND to carry-forward only 1% of surplus funds. In the spring of 2009, the Auditor General drew attention to the anomaly that the limit for other government departments is 5%, noting as a result that “National Defence must manage financially within tighter parameters”. Since uncontrolled slippages, whether due to delays in approvals or other factors, can never be entirely eliminated, multi-year management of the defence budget with less restrictive carry-forward rules would seem to make sense.

Third: Governments must avoid the temptation of financing the current force at the expense of the future force. Capital spending must not again be allowed to fall below 25% of the defence budget.

National defence is an expensive business and requires a sound economy to finance. You can't have the first without the second, at least not for very long. So restoring health to the public finances will help sustain the right level of defence spending in the years to come. If that requires close scrutiny of current defence spending, finding economies, and eliminating unnecessary or low-priority programs, those who support the Canadian military should help.

Looking at the estimates, it is clear that the government's deficit reduction efforts have impacted the Department of National Defence as it has every other department's share of the federal budget. Budget 2010-11 scales back planned spending by \$525 million in FY 2012 and by \$1 billion annually beginning in FY 2013, the cumulative reduction totalling approximately \$15 billion over 20 years. In the early years, the biggest cuts will obviously be to planned spending on operations and readiness related to Afghanistan. Defence spending will continue to grow, but more slowly than previously planned.

If planned spending for the next three years is maintained at the \$21-plus billion a year level announced in Budget 2010-11 and subsequently returned to the growth track promised in the CFDS with 25% of the budget dedicated to capital renewal, there is reason to be encouraged that Canada's military capability will not soon atrophy again.

In conclusion, we wish to leave you with two final thoughts.

1. Defence and security are not discretionary activities. Neither recent history nor the international outlook suggests the world is suddenly going to become a less dangerous place. After the sacrifices made in Afghanistan and the casualties taken there because we weren't ready, let us never again find ourselves having to rebuild essential military capabilities which we should have kept up all along.

2. The Canadian Forces constitute this country's last best hope when things go wrong. When the lawful application of force is our final resort, we ask our men and women in uniform to put themselves in harm's way on the understanding they may suffer grievous injury or forfeit their lives. This unlimited liability of theirs must be matched by the unlimited obligation of the Government and people of Canada to provide them the best tools available to do their dangerous jobs. So let us never again approve a defence budget which does not honour this social contract.