



National Defence

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2017 JAN 31

Mr. Jean-Denis Fréchette
Parliamentary Budget Officer
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Ottawa ON K1A 0A9

Parliamentary Budget Officer

FEB 06 2017

Directeur parlementaire
du budget

Dear Mr. Fréchette,

I am writing in response to your 8 December 2016 request and subsequent extension of 10 January 2017 with regard to the following information:

- Cost estimating data and analysis used by the department to estimate the total lifecycle cost (acquisition, sustainment, less proceeds from disposal) of the government's proposed acquisition of 18 F-18 Super Hornet fighter jets.
- Data and analysis used for the cost estimate of the incremental costs of acquiring and sustaining the Super Hornet jets relative to maintaining and operating an equivalent number of the existing fleet of the CF-18 fighter jets.

As you know, on 22 November 2016, the Government announced its plan to replace Canada's fighter aircraft fleet. A modern fighter fleet is essential for defending Canada and Canadian sovereignty, and makes a vital contribution to our partnership with the United States in defending the continent, and to our Allies abroad in advancing international peace and security.

To ensure the Canadian Armed Forces have a modern fighter capability over the long term, the Government will launch, within its current mandate, an open and transparent competition for a permanent replacement of the current fleet of CF-18 fighter aircraft. This competition will ensure that the Government gets the right aircraft to meet Canada's future defence needs at the right price – while maximizing economic benefits for Canadians.

Informed by the results of the upcoming new defence policy, the Government will develop its purchasing requirements for the permanent replacement fleet, including capabilities, the number needed to defend Canada and meet our international commitments, in-service support requirements, economic benefits, and estimated time of delivery. A bid solicitation process will follow, where companies and/or governments will be formally invited to submit proposals to meet Canada's requirements. The contract will be awarded to the bidder(s) that are best able to meet Canada's requirements over the long term. Public Services and Procurement Canada estimates the full competitive process could take up to five years to complete.

Canada's CF-18 fighter aircraft fleet is now more than 30 years old and down from 138 to 76 aircraft. The remaining number of aircraft mean that Canada's Armed Forces (CAF) are unable to provide sufficient mission-ready aircraft (excluding, for example, fighters in maintenance or required for training) to simultaneously meet both its NORAD and international commitments. Further, this would leave insufficient aircraft to respond to new and emerging global needs or unpredictable crises in the world. Additionally, it leaves little capacity should the size of the remaining fleet be reduced further. Consequently, on 22 November 2016 the Government announced several measures.

First, implementing the existing \$404 million CF-18 Structural Life Extension program will extend the ability of all existing CF-18 fighter aircraft to fly until 2025. The life of each CF-18 will then be managed to coincide with the transition to the permanent replacement fighter aircraft. Individual CF-18 aircraft will be retired when either their safe structural life has expired or they are no longer required given the delivery of new aircraft.

Second, additional investment in sustainment (parts) will be made to fly the CF-18 fleet from 2025 to when the last aircraft would be retired, in order to manage the transition from the CF-18 fleet to the permanent replacement fleet.

Third, the Government of Canada announced that it would enter into discussions with the United States government and Boeing Inc. to explore the possible acquisition of 18 new Super Hornet aircraft and in-service support for use over an interim period, to supplement the CF-18 fighter aircraft fleet until the permanent replacement is fully operational. Generating an interim capacity through the purchase of new Super Hornet aircraft would reduce the risk associated with relying exclusively on the aging CF-18 fleet or if there are unforeseen schedule delays during the competition or in the delivery of the permanent replacement aircraft. This would provide assurance that Canada can generate sufficient mission ready aircraft to meet its domestic and international obligations until the permanent replacement is fully operational.

The Government has recently initiated discussions with the United States Government and Boeing, Inc. on the potential acquisition. To be clear, the Government has not yet made a decision to acquire interim aircraft. A decision will only be made if discussions demonstrate that an interim solution can be provided at a cost, time, level of capability, and economic value that is acceptable to Canada.

As these discussions remain in their early stages, the cost data and analysis to estimate the total lifecycle cost of the potential acquisition of 18 Super Hornet aircraft is not yet available. Moreover, preliminary cost data on the Super Hornet aircraft obtained from Boeing and governments as part of the Government's summer 2016 engagement process is not yet complete and cannot be shared as it was provided by the United States Government and Boeing in confidence, and marked as proprietary, commercially sensitive information. Indeed the purpose of the Government's discussions with Boeing

and the US government is to obtain reliable costing information, prior to making a final decision on whether to purchase the interim aircraft.

With respect to part two of your request, enclosed please find information pertaining to the costs of maintaining and operating the existing fleet of CF-18 fighter aircraft.


- Annex A: Legacy Hornet – Cost Per Flying Hour; and
- Annex B: Cost Breakdown Structure (CBS) for Fighter Capability, outlining the cost elements of Life Cycle Cost (LCC).

To further assist with your analysis, I am providing some other information related to costing of fighter aircraft:

- *Annex C: Development of Cost Breakdown Structure for Defence Acquisition Projects*, Defence Research and Development Canada;
- Annex D: Inflation assumptions typically used in DND cost estimating – Excerpts from the DND/CAF Economic Model; and
- Annex E: Cost Factors Manual FY 2015-2016: Volume I – Personnel Costs.

We would be pleased to meet with your officials to discuss our costing process, assumptions, and methodologies. I look forward to continue working with you.

Sincerely,



John Foyster

Enclosure: (6)

c.c.: Ms. Katharine Rechico, Assistant Secretary to the Cabinet, Privy Council Office,
Liaison Secretariat for Macroeconomic Policy