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FILE NO. - DOSSIER N°

32460-100-005

VOLUME



Government
of Canada

Gouvernement
du Canada

MEMORANDUM

NOTE DE SERVICE

TO
A

Paul Hastings
Manager O.S. Group
AMES, Place du Portage, 7C1

FROM
DE

E.F. Chapman
Manager, Militia Light Armoured
Vehicle Project (MILLAV)

SECURITY - CLASSIFICATION - DE SÉCURITÉ
OUR FILE/NOTRE RÉFÉRENCE
YOUR FILE/VOTRE RÉFÉRENCE
DATE 1 August 1989

SUBJECT
OBJET

APPROVAL PROCESS FOR MILLAV PROJECT

Background

- In January 1989 the Department of National Defence produced its first draft of the Departmental Working Paper for the MILLAV. The subject of the paper was whether to and, how to acquire light armoured vehicles (LAVs) for use by Canada's Land Reserve.

The final draft dated 12 June 1989 was sent for Cabinet approval on 26 June 1989. The recommendation to Cabinet was that up to 221 LAVs be acquired for the Canadian Forces at a cost not to exceed \$201.3 current year dollars.

- The Department of National Defence produced a MILLAV project Brief dated 19 July 1989, seeking approval to purchase 221 LAVs at a cost of \$201.3 (BYs) and for the authorization of 68.6 DND incremental person-years.

- The Department of Supply and Services forwarded a submission to Treasury Board on 19 July requesting approval to contract with General Motors of Canada for 199 wheeled LAVs.

Approval Process

The DND MILLAV Working Paper was presented to the Privy Council Office on 26 June 1989. The House of Commons adjourned for summer recess on 29 June 1989 and it was decided by the Prime Minister's Office and the Privy Council Office to have the MILLAV Project submissions reviewed during Cabinet's July sittings.

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The Working Paper was presented to the Cabinet Operations Committee during the morning of 25 July and was then presented to the full Cabinet Committee during the afternoon of the 25 July as an Annex Case.

The MILLAV Project Brief Paper was presented to the Treasury Board Committee on the 26 July.

The DSS contract approval request was submitted to the Treasury Board Committee on the 26 July.

Approximately 10.30h on 26 July word filtered to the project office via DND and DIST that the project had received project and contract approval.

On the 27 July the DSS Project Manager called T.B. Secretariat for T.B. numbers.

A handwritten signature in black ink, appearing to be "A. Archambault", written in a cursive style.

cc: A. Archambault
Director
Procurement OPS Branch M&A 8C1

SECRET (CC)

ISSUE

Whether to purchase 221 Light Armoured Vehicles for the Land Reserves.

BACKGROUND

The 1987 White Paper on Defence emphasized that the personnel requirements for Canada's defence commitments could not be met solely by the Regular Force. Accordingly, the Total Force concept was created; merging Regular and Reserve personnel, units and tasks. Trained Reserve personnel will now undertake many of the tasks traditionally performed by the Regular Force.

Light armoured vehicles are urgently needed to train the Militia for territorial defence and readiness tasks in support of Canada's international commitments. The proposed acquisition would be seen as a significant step towards revitalizing the Reserves. It would also provide support to the Canadian industrial base.

DISCUSSION

Implementation of the Total Force concept ranks so high in the priorities of National Defence that the acquisition of the Light Armoured Vehicle was postponed only one year as a result of the Budget cuts. GM is prepared to let the Department postpone payments to the time of vehicle delivery which coincides with the availability of funds after the Budget delay.

A key element of the 1987 White Paper was the recognition that Canada should continue to strengthen its defence industrial base. The GM plant in London, Ontario is a significant component of this defence industrial base. It is the only manufacturer of armoured vehicles in Canada. GM reports good prospects for contracts with the United States, Australia and Saudi Arabia for a total of at least 1100 vehicles beginning in 1991. Production under the Company's current U.S. contracts ceases in June, 1989, however, and it faces a production hiatus of approximately two years. In addition, we have been told that losses approximate \$1M a month while the Company awaits an elusive Cabinet direction. As a result, the parent company, GM Corp, has discussed the possibility of closing the London plant and filling future contracts from the United States. This DND requirement would coincide with the production gap and allow the plant to stay open.

REGIONAL AND INDUSTRIAL BENEFITS

If this project were to go ahead 350 jobs could be retained and another 175 created at the London plant. This would provide over 1400 person years of employment. Moreover, a total of 30 percent of the contract value would be distributed equally between Atlantic and Western Canada in both direct and indirect industrial and regional benefits.

FUNDING

If this project is approved, funding would be allocated as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
	(current year \$ Millions)					
<u>Incremental Costs</u>	0.9	51.0	107.6	33.3	8.5	201.3
<u>DND PYs</u>						
Military	11.6	9.9	9.2	6.5	3.0	40.2
Civilians	8.5	7.4	7.4	3.4	1.7	28.4

SECRET

Memorandum to Cabinet

Mémoire au Cabinet

MILITIA LIGHT ARMoured VEHICLES

MILICE VEHICULES BLINDES
LEGERS

June 1989

le juin 1989

Minister of National Defence

Ministre de la Défense nationale

RECOMMANDATIONS MINISTÉRIELLES

OBJET

Opportunité et manière d'acquérir des véhicules blindés légers destinés à la Réserve terrestre.

RECOMMANDATIONS

Il est recommandé que :

1. jusqu'à 221 véhicules blindés légers et véhicules connexes soient acquis pour le compte des Forces canadiennes, au prix maximum de 201,3 millions de dollars;

2. la stratégie d'approvisionnement soit fondée sur la négociation de marchés appropriés pour l'acquisition d'un maximum de 199 véhicules de la Division Diesel de la General Motors, à London (Ontario), et d'un maximum de 22 véhicules de la FMC Corporation, à San José (Californie);

3. les objectifs soient les suivants, aux fins des retombées industrielles et régionales :

1) négocier la plus grande partie du marché à conclure avec la General Motors selon les principes suivants :

a) le contenu canadien constituera 60 pour cent de la valeur totale du marché;

b) le contenu étranger, soit 40 pour cent de cette valeur, sera entièrement compensé par des retombées industrielles et régionales indirectes à long terme et de haute qualité;

c) des retombées industrielles et régionales directes et indirectes totalisant 15 pour cent de la valeur totale du marché iront aux provinces de l'Atlantique, et d'autres avantages totalisant eux aussi 15 pour cent de cette valeur, à l'Ouest canadien;

2) négocier le marché à conclure avec la FMC Corporation de façon à obtenir des retombées industrielles et régionales à long terme et de haute qualité, totalisant 60 pour cent de la valeur dudit marché;

4. le financement soit obtenu comme suit, à même les niveaux de référence du ministère de la Défense nationale :

1989-90	1990-91	1991-92	1992-93	1993-94	Totaux
(en millions de dollars courants)					
0.9	51.0	107.6	33.3	8.5	201.2

A-P du MDN*

Militaires	11.6	9.9	9.2	6.5	3.0	40.2
Civiles	8.5	7.4	7.4	3.4	1.7	28.4

*Sous réserve de l'approbation du Conseil du Trésor. Les années-personnes supplémentaires visent la gestion du projet. Les frais qu'elles occasionneront sont compris dans le coût total du projet.

5. les ministres prennent note que les besoins supplémentaires en années-personnes d'autres ministères sont les suivants :

MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. up to 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$201.3M;
2. the procurement strategy be based on negotiating suitable contracts to acquire up to 199 vehicles from Diesel Division of General Motors, London, Ontario, and up to 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - 1) negotiating the General Motors contract substantially in accordance with the following principles:
 - a) 60 percent of the total contract value in Canadian content;
 - b) 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and
 - c) placement of direct and indirect industrial and regional benefits amounting to 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada; and
 - 2) negotiating the FMC Corporation contract to obtain high quality, long-term industrial and regional benefits totalling 60 percent of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
(Current Year \$ Millions)					
0.9	51.0	107.6	33.3	8.5	201.3

DND PYs*

Military	11.6	9.9	9.2	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

*Subject to Treasury Board approval. The incremental DND PYs are for Project Management. Their cost is included in the total project cost.

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	1	1	0.5	0.5	0.5	3.5
Supply and Services	3.7	5.5	4.3	2.0	0	15.5

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>Totaux</u>
	(en millions de dollars courants)					

Industrie, Sciences et Technologie	1.0	1.0	0.5	0.5	0.5	3.5
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Approvisionnement et Services	3.7	5.5	4.3	2.0	0	15.5
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JUSTIFICATIONS

6. Tenant compte du fait qu'il est à la fois inutile et inopportun pour le Canada de remplir ses engagements en matière de défense grâce à la Force régulière seulement, le Livre blanc de 1987 préconise l'instauration d'une force totale dans laquelle la Force de réserve effectuerait une foule d'opérations qui n'étaient auparavant exécutées que par la Force régulière. Le recours accru à la Réserve nécessiterait son expansion, pour permettre de répondre aux besoins accrus en main-d'oeuvre et en formation.

7. L'acquisition d'un maximum de 221 véhicules blindés légers permettrait à la Milice de s'entraîner à accomplir ses tâches primordiales au sein de la Force totale. La Milice a besoin de véhicules blindés légers pour assurer la défense territoriale et entraîner des troupes de relève grâce auxquelles le Canada pourra remplir ses engagements outre-mer. Les véhicules blindés légers à roues de la General Motors, qui constituent la plupart de ceux dont l'acquisition est proposée, n'ont pas leur pareil dans ces domaines, de même que pour le maintien de la paix et les secours en cas de désastre, à l'appui des pouvoirs publics.

8. À l'heure actuelle, deux genres de véhicules blindés seulement répondraient aux exigences de la Milice :

a. Les véhicules blindés légers de GM. Il s'agit de véhicules à huit roues d'une conception éprouvée, actuellement utilisés par le Corps des "Marines" des États-Unis. La stratégie d'approvisionnement proposée prévoit l'acquisition d'un maximum de 199 de ces véhicules. Elle a été établie par la Division Diesel de la General Motors, à London (Ontario).

b. Les véhicules blindés légers M113. Ces véhicules chenillés constituent actuellement le principal moyen de mobilité tactique dont dispose le Canada pour jouer son rôle auprès du Commandement allié en Europe. Ils sont produits par la FMC Corporation de San José (Californie). La stratégie d'approvisionnement proposée prévoit l'acquisition d'un maximum de 22 véhicules pour le génie de campagne et les opérations anti-blindés, car la General Motors ne construit aucun véhicule approprié.

9. Le ministre des Approvisionnements et Services a examiné la stratégie d'approvisionnement proposée et l'a approuvée.

10. Infrastructure industrielle de défense. Le Livre blanc sur la défense souligne la nécessité d'une bonne infrastructure industrielle à l'appui d'opérations soutenues. La Division Diesel de la General Motors est actuellement la seule qui soit en mesure de construire des véhicules blindés. Elle a produit 491 véhicules blindés d'utilisation générale pour les Forces canadiennes, et, plus récemment, 759 véhicules semblables pour le Corps des "Marines" des États-Unis. Elle prétend qu'elle a tout lieu d'envisager des ventes substantielles aux États-Unis, en Australie et en Arabie Saoudite au cours de la période de 1991 à 1996, ce qui semble raisonnable. Mais en l'absence de commandes en 1989 et 1990, la société mère, soit la General Motors du Canada, a indiqué

RATIONALE

6. Recognizing that it is both impractical and undesirable to meet Canada's defence commitments through the Regular Force alone, the 1987 White Paper calls for the establishment of a Total Force in which the Reserve Force would undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower and training requirements.

7. The acquisition of up to 221 light armoured vehicles would enable the Militia to train for its key tasks in the Total Force. The Militia requires light armoured vehicles for territorial defence and to train replacement troops for Canada's overseas commitments. The wheeled GM Light Armoured Vehicle, which comprises the majority of the proposed acquisition, is an ideal vehicle for these purposes, as well as for peacekeeping and disaster relief in aid of the civil power.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. The proposed procurement strategy calls for acquiring up to 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.

b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. The proposed procurement strategy calls for acquiring up to 22 vehicles for field engineering and anti-armour tasks, as GM does not produce suitable vehicles for these tasks.

9. The Minister of Supply and Services has reviewed and agreed to the proposed procurement strategy.

10. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated that the plant may be closed and the work force laid off, perhaps permanently. Future orders would then be met at a United States production facility. The company has also indicated that placing an early order for approximately 200 Militia vehicles with the Diesel Division of General Motors could assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until 1996. For this reason, and to obtain vehicles in a timely fashion for Militia training, it is important to proceed now with the proposed procurement. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: that is, no significant National Defence requirements would likely arise in the next five to six years at least which could help bridge a further production gap.

qu'elle songeait à fermer l'usine, ce qui signifierait la mise à pied du personnel, peut-être pour toujours. Les commandes ultérieures seraient alors remplies à une usine des États-Unis. La société a ajouté que si sa Division Diesel recevait sans délai une commande de quelque 200 véhicules pour la Milice, cela pourrait assurer l'exploitation continue de l'usine de London et le maintien de l'infrastructure industrielle de défense du Canada jusqu'en 1996. Pour cette raison, et pour obtenir les véhicules en temps opportun pour l'entraînement de la Milice, il importe de s'occuper maintenant de l'approvisionnement proposé. Si, d'ici 1996, les commandes prévues par la société n'aboutissaient pas ou ne se concrétisaient pas, celle-ci ferait face à la même situation que celle où elle se trouve maintenant, avec une différence primordiale : le ministère de la Défense nationale ne passerait probablement, au cours des cinq ou six prochaines années tout au moins, aucune commande importante qui pourrait aider à compenser un autre manque à produire.

11. Retombées industrielles et régionales. Les retombées industrielles et régionales visées dans le cas des véhicules à roues qui seraient achetés à la General Motors seraient les suivantes : le contenu canadien représenterait 60 pour cent de la valeur totale du marché; le contenu étranger de 40 pour cent serait entièrement compensé par des retombées industrielles et régionales indirectes à long terme, de qualité supérieure; 15 pour cent de la valeur totale du marché irait aux provinces de l'Atlantique, et 15 pour cent également, à l'Ouest canadien. Le marché créerait directement quelque 1 400 années-personnes sur une période de trois ans. Le fournisseur serait tenu de produire et de mettre en oeuvre tant un plan d'établissement de fournisseurs qu'un plan d'adjudication des travaux de sous-traitance à la petite entreprise.

12. En ce qui a trait aux véhicules chenillés de la FMC Corporation, l'objectif consiste en retombées industrielles et régionales à long terme de haute qualité, totalisant 60 pour cent de la valeur totale du marché.

13. Considérations budgétaires. Le budget a annoncé que l'exécution de ce projet d'acquisition allait être reportée, et qu'elle ne commencerait pas avant l'année financière (AF) 1990-91. Depuis cette annonce, la General Motors a indiqué qu'elle est disposée, sans pour autant augmenter ses prix, à construire les véhicules sans contrepartie financière avant le début de la livraison, c'est-à-dire avant l'AF 1990-91. Le coût du projet ne dépasse pas les niveaux de référence et de planification convenus et peut être absorbé par le budget. Le Ministère a déterminé que quel que soit le résultat définitif de l'actuel processus de développement des Forces, le projet serait compris dans le Programme des services de défense, et entièrement financé comme indiqué.

PROBLÈMES ET STRATÉGIES

14. Problème. Les entreprises d'autres régions du pays risquent de s'opposer à leur exclusion à un moment où elles tentent de se doter des installations nécessaires à la fabrication lourde.

15. Stratégie. L'usine de la General Motors est actuellement la seule au Canada à fabriquer un véhicule répondant aux exigences du MDN. En outre, le marché passé avec cette société aurait des retombées importantes pour les provinces de l'Atlantique et l'Ouest canadien.

16. En cas d'autres acquisitions de véhicules blindés légers au cours des 15 prochaines années, question toujours à l'étude, il faudrait entretenir les relations interministérielles habituelles

11. Industrial and Regional Benefits. The industrial and regional benefits objectives for the wheeled vehicles to be purchased from GM are: 60 percent of the total contract value in Canadian content; the 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and placement of 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada. The contract would result in approximately 1400 person-years of direct employment over a period of three years. The company will be required to produce and implement both a Supplier Development Plan and a Small Business Sub-Contracting Plan.

12. With respect to the tracked vehicles from the FMC Corporation, the objective is high quality, long-term industrial and regional benefits totalling 60 percent of the contract's total value.

13. Affordability. The budget announced that acquisition for this project was to be rescheduled and not commence prior to Fiscal Year (FY) 1990/91. Since the announcement, General Motors has indicated it is prepared to proceed, with no increase in price, on the basis of no payments until delivery commences, which will not occur until FY 1990/91. As a result, this project is affordable within agreed reference and planning levels. The Department has determined that, whatever the final outcome of the Force Development process now underway, this project would be included in the Defence Services Program and be fully funded as shown.

PROBLEMS AND STRATEGIES

14. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

15. Strategy. The General Motors plant is the only existing production facility in Canada currently manufacturing a vehicle that meets DND's requirements. In addition, the contract with General Motors will involve significant benefits for Atlantic and Western Canada.

16. In the event of any further light armoured vehicle acquisitions during the next 15 years, a matter still under review, there would be the normal interdepartmental liaison to formulate a procurement strategy for consideration by Ministers. The strategy would be based on all relevant factors, including the manufacturing capability of other companies.

POLITICAL CONSIDERATIONS

17. TBA

DEPARTMENTAL POSITIONS

18. The Departments and agencies supporting the recommendations include DSS, ISTC, DEA, WDO and ACOA. The Department of Finance and Treasury Board Secretariat have been consulted.

Minister of National Defence
Ministre de la Défense nationale

pour formuler une stratégie d'approvisionnement à soumettre aux ministres. Celle-ci serait fondée sur tous les facteurs appropriés, notamment la capacité de fabrication d'autres sociétés.

CONSIDÉRATIONS POLITIQUES

17. A compléter.

POSITIONS DES MINISTÈRES

18. Les ministères et les organismes qui approuvent les recommandations qui précèdent sont les suivants : ASC, ISTC, AffExt, DEOC et APECA. Le ministère des Finances et le Secrétariat du Conseil du Trésor ont été consultés.

Ministre de la Défense nationale
Minister of National Defence

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SYNOPSIS DES COMMUNICATIONS
 (Plan, voir page)

SECRET

1. Consultation BCP OUI CPM OUI	2. Date 8 juin 1989	3. Date de communication prévue Celle de la DCT
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4. Objectifs : Informer les médias, les parlementaires, l'industrie canadienne, les spécialistes de la défense, les habitants du sud de l'Ontario et le personnel du MDN de la décision d'acheter des véhicules blindés légers pour la Réserve.

5. Impact Intérêt fort faible Réaction pour 40%
 prévisible contre 20%
 des médias 5 4 3 2 1 de * autre 40%

Les Canadiens sont généralement conscients de la nécessité de moderniser et d'améliorer le matériel de la Réserve, bien que le besoin précis de véhicules blindés légers ne soit pas connu.

Il se peut qu'il y ait des critiques dans les médias par suite de l'annonce de nouvelles acquisitions par le ministère de la Défense si tôt après les efforts de réduction du déficit indiqués dans le budget.

Dans le sud de l'Ontario, la réaction sera peut-être favorable parce qu'on aura l'assurance que l'usine de la General Motors continuera à être exploitée à London, ce qui aura des retombées en matière d'emploi, et d'autres avantages économiques. Cette réaction risque toutefois d'être tempérée par le fait que le budget a annoncé la fermeture de la base des Forces canadiennes de London.

6. Grands titres possibles :	Favorable: Les Forces canadiennes améliorent le matériel de la Réserve.
	Défavorable: Le ministère de la Défense continue à dépenser malgré le budget.

7. Messages

La fourniture de véhicules blindés légers à la Réserve est une façon rentable et efficace d'accroître notre aptitude à défendre notre territoire, à mener des opérations de maintien de la paix, et à venir en aide aux autorités civiles à une époque de restrictions financières.

L'armée canadienne, qui comprend la Force régulière et la Force de réserve, est en train d'accroître son aptitude à assurer la sécurité du Canada.

Ces véhicules seront surtout construits au Canada, ce qui aura des retombées régionales et industrielles dans l'ensemble du pays.

Ces véhicules ont démontré leur efficacité.

8. Activités

Le MDN publiera un communiqué de presse pour annoncer sa décision.

Des fonctionnaires du MDN répondront aux demandes de renseignements.

9. Maintien du message

Le MDN surveillera les bulletins de nouvelles après l'annonce de sa décision, et prendra au besoin des mesures correctives. Il tiendra les médias au courant des étapes franchies, notamment du dénouement de cette initiative.

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 COMMUNICATIONS SYNOPSIS
 Plan, see page)

S E C R E T

1. Consultation PCO YES PMD YES	2. Date Drafted 8 Jun 89	3. Anticipated Announcement Date TBD
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4. Goals: To inform the media, parliamentarians, Canadian industry, defence specialists, inhabitants of southern Ontario and DND personnel of the decision to purchase light armoured vehicles for the Reserves.

5. Impact Anticipated a lot a little
 Media Reaction against other
 Attention 5 4 3 2 1 * 40% 20% 40%

Canadians are generally aware of the need to modernize and improve the capabilities of the Reserves although the specific need for light armoured vehicles is not known.

Some media criticism may be generated by the announcement of new defence acquisitions so soon after the deficit reductions announced in the budget.

Reaction in southern Ontario may be favourable due to the assurance of the continued operation of the General Motors plant in London and resulting employment and other economic benefits. This, however, will be tempered by the budget announcement to close Canadian Forces Base London.

6. Possible Headlines:	Positive: Canadian Forces improve Reserve equipment
	Negative: Defence spending continues in spite of budget.

7. Messages

Providing light armoured vehicles for the reserves is an affordable, effective way of improving our ability to defend our territory, conduct peacekeeping operations and provide assistance to civil authorities in a time of fiscal restraint.

The Canadian army, combining Regulars and Reserves, is improving its ability to ensure Canada's security.

These vehicles will be primarily built in Canada, resulting in regional and industrial benefits throughout the country.

The vehicle has proven capabilities.

8. Activities

News release by DND to announce the decision.

DND officials will be available to respond to queries.

9. Sustaining the Message

DND to monitor news content following announcement and take corrective action when warranted. DND will keep media advised of milestones such as the roll-out.

ANALYSE

CONTEXTE

1. Objet. Chercher à faire approuver l'acquisition de véhicules blindés légers qui serviront à l'entraînement de la Milice.
2. Politiques actuelles. Le Livre blanc de 1987 sur la défense reconnaissait que ce ne sont pas tous les besoins en personnel auxquels le Canada doit satisfaire pour remplir ses engagements qui peuvent être comblés par la Force régulière seulement. Pour que notre pays puisse se montrer à la hauteur, il faudra que bon nombre des tâches qui étaient effectuées par cette dernière le soient dorénavant par du personnel entraîné de la Réserve. Le Livre blanc a donc préconisé la mise sur pied d'une force totale qui regrouperait les membres du personnel, les unités et les tâches de la Force régulière et de la Réserve.
3. Dans cette force totale, la Réserve terrestre, ou Milice, contribuerait à la défense territoriale et entraînerait des troupes de préparation pour permettre au Canada de remplir ses engagements internationaux. Pour s'entraîner en vue de ces tâches, la Milice doit avoir accès à du matériel opérationnel. Une force totale bien entraînée contribuerait à la défense territoriale ainsi qu'à la paix et à la sécurité mondiales.
4. La Milice a besoin d'environ 380 véhicules blindés légers pour s'entraîner efficacement à jouer ce rôle. Étant donné le financement actuellement disponible, les acquisitions proposées dans le présent document en fourniraient jusqu'à 221. La plupart serviraient à transporter des troupes, et le reste consisterait en véhicules de poste de commandement et en véhicules d'entretien, en chars-mortiers, en véhicules de campagne au service du génie, et en véhicules blindés.
5. L'acquisition d'un maximum de 221 véhicules blindés légers répondrait aux besoins les plus pressants de la Milice.

POINTS À EXAMINER

6. Les facteurs pertinents comprennent la relation entre ce projet et d'autres du Programme des services de défense, ses répercussions nationales et internationales, les sources d'approvisionnement en véhicules blindés légers appropriés, l'interopérabilité, le soutien de l'infrastructure industrielle canadienne de défense, les coûts du cycle de vie et les possibilités de retombées industrielles et régionales.

Relation avec d'autres projets

7. L'acquisition proposée d'un maximum de 221 véhicules blindés légers vise directement la modernisation envisagée de la Réserve terrestre. Les plans dressés entraîneraient l'implantation d'un centre d'entraînement et de soutien de la Milice, à Meaford (Ontario) et peut-être à trois autres endroits, ainsi que l'acquisition de dispositifs de simulation divers.

Répercussions nationales ou internationales

8. Il y a un besoin urgent de véhicules blindés légers pour combler une lacune importante dans l'aptitude de la Milice à s'entraîner à exécuter des tâches de défense territoriale et de préparation à l'appui des engagements internationaux du Canada. Les Canadiens considéreraient l'acquisition proposée comme une étape importante vers la revitalisation de la Réserve et

ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training.
2. Current Policies. The 1987 White Paper on Defence recognized that not all of the personnel requirements for Canada's defence commitments can be met through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.
3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train readiness troops to meet Canada's international commitments. To train for these tasks, the Militia must have access to operational equipment. A fully trained Total Force will contribute to territorial defence and global peace and security.
4. The Militia requires approximately 380 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide up to 221. Most would serve to carry troops; the balance would consist of command post, maintenance, mortar-carrying, field engineering and anti-armour vehicles.
5. The procurement of up to 221 light armoured vehicles will meet the most pressing requirement for the Militia.

CONSIDERATIONS

6. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base, life cycle costs and the potential for industrial and regional benefits.

Relationship to Other Projects

7. The proposed acquisition of up to 221 light armoured vehicles is directly related to the planned modernization of the Land Reserve. These plans will result in the establishment of a Militia Training and Support Centre at Meaford, Ontario, and at other locations, and the procurement of various simulation devices.

National/International Implications

8. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for territorial defence and readiness tasks in support of Canada's international commitments. Canadians would recognize the proposed acquisition as a significant step toward revitalizing the Reserves and creating an effective territorial defence capability. Canada's Allies have underscored the need for effective reserve forces and would see this procurement as a positive development.

Suitable Light Armoured Vehicles

9. For reasons pertaining to interoperability and benefits to the defence industrial base, only two vehicles are primary contenders to meet the requirement: the Light Armoured Vehicle produced by

l'instauration d'une bonne capacité de défense territoriale. Les alliés du Canada ont souligné la nécessité de forces de réserve efficaces, et verraient d'un bon oeil l'acquisition de ces véhicules.

Véhicules blindés légers appropriés

9. Pour des raisons relatives à l'interopérabilité et aux retombées pour l'infrastructure industrielle de défense, deux types de véhicules seulement sont les plus en mesure de satisfaire aux exigences : le véhicule blindé léger produit par la Division Diesel de la General Motors, à London (Ontario), et le M113 construit par la FMC Corporation de la Californie. Le choix de tout autre véhicule n'est pas considéré comme une option valable, pour les raisons suivantes :

- 1) il ne serait pas compatible avec les stocks de véhicules actuels du Canada;
- 2) les fabricants étrangers n'établiraient probablement pas d'installations de production canadiennes, ou encore l'industrie canadienne n'aurait pas grand-chose à voir avec la construction d'un si petit nombre de véhicules;
- 3) la capacité de production actuelle du Canada pourrait être réduite à zéro, ce qui entraînerait le déclin de l'infrastructure industrielle de défense du Canada.

10. Le véhicule blindé léger à huit roues que la General Motors a produit pour le Corps des "Marines" des États-Unis constitue une amélioration par rapport au véhicule blindé à six roues d'utilisation générale qui est en service au sein des Forces canadiennes depuis 1979. Il est éminemment mobile sur route et hors route, nécessiterait des modifications minimums pour répondre aux exigences du Canada, et a un haut degré de compatibilité avec le parc canadien de véhicules blindés d'utilisation générale. Le véhicule blindé léger de la General Motors permettrait à la Milice de s'entraîner de façon réaliste et efficace aux opérations mécanisées. Comme il a des roues, il est bien adapté au transport routier rapide et, par conséquent, à la défense territoriale.

11. Le M113 chenillé est largement utilisé dans les forces armées des démocraties occidentales et de leurs alliés. Les Forces canadiennes en utilisent actuellement 1 200 exemplaires au Canada et en Europe. Son achat permettrait à la Milice de s'entraîner dans un véhicule auquel les Forces canadiennes auraient recours lors d'opérations réelles.

12. Parmi les rôles nombreux que les véhicules blindés légers permettent de remplir, il y en a deux auxquels ceux de la General Motors sont inadaptés. Pour ce qui est du besoin de petits véhicules de campagne au service du génie, les véhicules de la General Motors, qui ont des roues, n'ont pas la traction suffisante pour pousser une lame de bulldozer. Et pour produire des véhicules anti-blindés, cette société devrait entreprendre d'importants travaux de conception et de mise au point visant à monter une tourelle de tir appropriée, tâche peu rentable étant donné que seulement huit de ces véhicules sont nécessaires. Le Ministère pourrait éviter ces inconvénients en achetant des véhicules blindés du type M113, pour lesquels il existe des trousseaux qui permettent d'en faire des véhicules de campagne au service du génie et des véhicules anti-blindés.

Diesel Division of General Motors in London, Ontario, and the M113 produced by FMC Corporation of California. The selection of any other vehicle is not considered a viable option for the following reasons:

- 1) there would be no commonality with current Canadian inventory;
- 2) foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- 3) current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

10. The eight-wheeled Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, is a product improvement of the six-wheeled Armoured Vehicle General Purpose which has been in service with the Canadian Forces since 1979. The Light Armoured Vehicle has excellent mobility both on and off road, would require minimal modification to meet Canada's requirement and has a high degree of commonality with the existing Canadian Armoured Vehicle General Purpose fleet. The General Motors Light Armoured Vehicle would provide the Militia with realistic and effective training in mechanized operations. Because it is wheeled, it is well suited to rapid road transport and, therefore, to territorial defence.

11. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 M113s in service in Canada and Europe. Purchase of this vehicle would enable the Militia to train on a vehicle that the Canadian Forces would use in actual operations.

12. Of the many roles for which the light armoured vehicles are required, there are two for which the use of General Motors Light Armoured vehicles is impractical. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction to push a bulldozer blade. For the anti-armour vehicles, the company would have to undertake significant design and development work to mount a suitable weapon turret, a task that is not cost-effective in view of the fact that only eight such vehicles are required. These limitations can be avoided by purchasing the M113, for which Canadian field engineering and anti-armour modification kits exist.

Defence Industrial Base

13. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

14. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 Armoured Vehicle General Purpose for the Canadian Forces. It has also manufactured 759 Light Armoured Vehicles for the United States Marine Corps. It is now completing production of 12 electronic warfare vehicles for the U.S. and starting production of four vehicles on which the U.S. will later install 105mm guns.

15. As a result of the U.S. contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM reports to have good prospects for contracts with the United States, Australia and Saudi Arabia leading to

Infrastructure industrielle de défense

13. Le Livre blanc stipule qu'un élément primordial tant de l'état de préparation que de son maintien est l'aptitude à équiper et à réapprovisionner les forces militaires du Canada. Ce maintien exige une source de matériel assurée et, par conséquent, un état de préparation industrielle.

14. À l'heure actuelle, la General Motors est le seul fabricant de véhicules blindés au Canada. De 1979 à 1981, cette société a fabriqué 491 véhicules blindés d'utilisation générale pour les Forces canadiennes. Elle a également construit 759 véhicules blindés légers pour le Corps des "Marines" des États-Unis. Elle termine maintenant la construction de 12 véhicules de guerre électronique, également pour les États-Unis, et commence celle de quatre véhicules sur lesquels ce pays installera plus tard des canons de 105 mm.

15. Par suite des marchés qu'elle a conclus avec les États-Unis, la General Motors du Canada est maintenant reconnue internationalement comme faisant partie de l'infrastructure industrielle nord-américaine de défense. Elle signale qu'elle a de bonnes chances d'en passer d'autres avec les États-Unis, l'Australie et l'Arabie Saoudite, ce qui l'amènerait à construire au moins 100 véhicules au cours de la période de 1991 à 1996. Toutefois, ces marchés n'entraîneraient aucune production avant 1991. Comme celle qu'assure actuellement cette société canadienne en vertu de ses marchés en vigueur avec les États-Unis cesse en juin 1989, celle-ci fait face à un manque à produire d'une durée d'environ deux ans. C'est pourquoi la société mère, soit la General Motors, a mentionné la possibilité de fermer l'usine de London et d'exécuter les marchés futurs aux États-Unis, ce qui ferait perdre au Canada son seul constructeur de véhicules blindés, et provoquerait par conséquent l'érosion de son infrastructure industrielle de défense.

16. La General Motors du Canada indique qu'elle pourrait continuer à exploiter cette usine si l'État lui commandait quelque 200 véhicules pour compenser le manque à produire en 1989 et 1990. Une telle commande contribuerait grandement au maintien à court terme de l'infrastructure industrielle de défense du Canada. Si, toutefois, les commandes prévues étaient reportées ou ne se concrétisaient pas dans l'avenir, la société ferait face à la même situation que celle où elle se trouve actuellement, avec une seule différence primordiale : le ministère de la Défense nationale ne passerait probablement, au cours des cinq ou six prochaines années tout au moins, aucune commande importante qui pourrait aider à compenser un autre manque à produire.

Coûts du cycle de vie

17. Les véhicules à roues sont moins susceptibles de tomber en panne, et ils coûtent moins cher à exploiter et à entretenir que les véhicules chenillés. Compte tenu d'une période d'exploitation de 20 ans, les coûts du cycle de vie sont par conséquent moins élevés pour les véhicules à roues que pour les véhicules chenillés.

Retombées industrielles et régionales

18. En passant dès maintenant un marché avec la General Motors pour répondre aux besoins de la Milice, le MDN permettrait non seulement le maintien de l'infrastructure industrielle de défense du Canada, mais également celui des retombées industrielles et régionales des marchés conclus avec le Corps des "Marines" et des autres exportations que ladite General Motors prévoit effectuer après 1990.

production of at least 1100 vehicles during the period 1991 to 1996. However, these contracts would involve no production until 1991. Since production under the current U.S. contracts ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

16. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990. Such a contract would contribute significantly to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize, the company will again face the same situation it does now, with one key difference: no significant National Defence requirements are likely to arise in the next five to six years at least which could help bridge the new production gap.

Life Cycle Costs

17. Wheeled vehicles are less susceptible to failure and are cheaper to operate and maintain than tracked vehicles. Based on a 20-year operating period, total life cycle costs are therefore less for wheeled vehicles than for tracked vehicles.

Industrial and Regional Benefits

18. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian defence industrial base, but also for the continuation of the industrial and regional benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1990.

19. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration. In addition, the company would endeavour to increase Canadian content significantly in the production of: power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent of the contract value in Canadian content.

20. High quality, long-term indirect industrial and regional benefits offsetting the 40 percent foreign content would be achieved through transfers of technology and joint ventures, as well as Canadian sourcing of parts and components for future light armoured vehicle orders and other equipment.

21. A total of 30 percent of the contract value would be placed in two major regions. Fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial and regional benefits.

22. As noted in paragraphs 15 and 16, without an order to bridge the production gap in 1989 and 1990, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 350 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

19. Comme dans le cas de la commande passée avec le Corps des "Marines", la General Motors resterait chargée de l'ensemble de l'intégration interne des systèmes. En outre, elle tenterait d'augmenter sensiblement le contenu canadien en matière de production de pièces et de composants de bloc d'alimentation électrique; de faisceaux électriques, électroniques et de conducteurs; de transmissions ou d'entraînements marins; d'aménagements et d'équipements intérieurs; de bancs et de sièges; de pneus; de pièces de rechange; d'aides à la formation et à l'entretien, ainsi que de manuels. L'objectif recommandé est un contenu canadien équivalant à 60 pour cent de la valeur du marché.

20. Des retombées industrielles et régionales indirectes à long terme et de haute qualité, qui compenseraient le contenu étranger de 40 pour cent, résulteraient de transferts de technologie et de coentreprises, de même que de l'acquisition au Canada de pièces et de composants de véhicules blindés légers et d'autres équipements.

21. Au total, 30 pour cent de la valeur du marché viserait deux régions importantes. Quinze pour cent irait aux provinces de l'Atlantique, et 15 pour cent à l'Ouest canadien, sous forme de retombées industrielles et régionales directes et indirectes.

22. Comme nous l'avons vu dans les paragraphes 15 et 16, si elle ne reçoit aucune commande visant à compenser son manque à produire de 1989 et 1990, l'usine de la General Motors située à London (Ontario) risque de fermer ses portes. La conséquence directe d'une telle fermeture serait la perte immédiate d'environ 350 emplois dans cette région. Sa conséquence à long terme serait la perte des retombées des exportations éventuelles de véhicules GM vers d'autres marchés, car les véhicules seraient probablement construits aux États-Unis.

23. Si l'État devait acheter tous les véhicules à la FMC Corporation, les retombées précises feraient l'objet de négociations. En juillet 1988, cette société, répondant à une demande de renseignements officielle des Approvisionnements et Services, a recommandé de ne pas avoir recours à un constructeur canadien, et offert des avantages indirects qu'elle n'a pas précisés. En général, ceux-ci étaient de l'ordre de 60 à 70 pour cent de la valeur du marché. Plus récemment, dans une lettre qu'elle a adressée en janvier 1989 au ministre de la Défense nationale du temps, la FMC a proposé que les véhicules soient construits aux installations de la General Motors, en vertu d'un accord commun. Toutefois, le travail de production pourrait être n'importe quoi, depuis le simple assemblage des composants jusqu'à divers degrés de fabrication canadienne par la General Motors ou par des sous-traitants.

24. Par conséquent, la conclusion d'un marché avec la FMC Corporation pour l'acquisition d'un maximum de 22 véhicules de campagne au service du génie et véhicules anti-blindés ne contribuerait presque certainement pas beaucoup à affermir l'infrastructure industrielle de défense du Canada. Mais par ses retombées indirectes, elle aiderait les fabricants de pièces et de composants d'automobiles canadiens à soutenir la concurrence au chapitre des travaux de sous-traitance relatifs aux véhicules militaires et autres construits par cette société.

Interopérabilité

25. L'achat du véhicule blindé léger de la General Motors ou du véhicule M113 de la FMC Corporation aurait un résultat positif en matière d'interopérabilité avec le matériel actuel des Forces canadiennes et des forces alliées.

23. If the Crown were to purchase all of the vehicles from FMC Corporation, the specific benefits would be subject to negotiation. In July 1988, responding to a formal Supply and Services inquiry, the company recommended against Canadian manufacture and offered unspecified indirect benefits. Typically, these benefits have been in the order of 60 to 70 percent of the contract value. More recently, in a January 1989 letter to the then Minister of National Defence, FMC proposed production at General Motors' facilities under a teaming arrangement. However, production could mean anything from mere assembly of components to varying degrees of Canadian manufacture by General Motors or sub-contractors.

24. Almost certainly, contracting with FMC Corporation for up to 22 field engineering and anti-armour vehicles, therefore, would not contribute in a significantly positive fashion to Canada's defence industrial base. Through indirect benefits it would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

Interoperability

25. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result in terms of interoperability with existing Canadian Forces equipment and Allied fleets.

PROCUREMENT OPTIONS

26. There are three procurement options:

- 1) procure up to 221 FMC M113s;
- 2) procure up to 221 GM Light Armoured Vehicles; and
- 3) procure up to 199 GM Light Armoured Vehicles to meet the troop carrier, command post, mortar carrier and maintenance vehicle requirements, and procure up to 22 FMC M113s to meet the field engineering and anti-armour vehicle requirements.

27. Option 1. Purchase of FMC Corporation M113s only:

1) Advantages:

- a) the operational requirement would be met;
- b) capital costs would be the lowest of any option. Savings would be in the order of \$40M (\$89/90) if the vehicles were manufactured in the United States and \$10M if they were manufactured in Canada; and
- c) interoperability with the Canadian and Allied inventory would be achieved.

2) Disadvantages:

- a) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- b) establishment of an M113 production facility in Canada would involve a cost premium of about \$30M over manufacture in the United States and a delay of about 20 months caused by the necessity to build a new facility or reconfigure an existing one;

OPTIONS D'ACQUISITION

26. Il y a trois options d'acquisition :

- 1) se procurer jusqu'à 221 M113 de la FMC;
- 2) se procurer jusqu'à 221 véhicules blindés légers de la General Motors;
- 3) se procurer jusqu'à 199 véhicules blindés légers de la General Motors pour répondre aux besoins en véhicules de transport de troupes, en véhicules de poste de commandement, en chars-mortiers et en véhicules d'entretien, et jusqu'à 22 M113 de la FMC pour répondre aux besoins en véhicules de campagne au service du génie et en véhicules anti-blindés.

27. Option 1. N'acheter que des M113 de la FMC Corporation :

- 1) Avantages :
 - a) les besoins opérationnels seraient satisfaits;
 - b) aucune autre option n'entraînerait des coûts d'immobilisation plus faibles. Les économies réalisées seraient de l'ordre de 40 millions de dollars (de 1989-1990) si les véhicules étaient fabriqués aux États-Unis, et de 10 millions de dollars s'ils l'étaient au Canada;
 - c) il y aurait interopérabilité avec les stocks de véhicules canadiens et alliés.
- 2) Désavantages :
 - a) si la Division Diesel de la General Motors ne jouait pas un rôle important, son usine pourrait fermer, ce qui provoquerait la perte de la seule installation de fabrication de véhicules blindés légers au Canada;
 - b) l'implantation d'une installation de production de M113 au Canada occasionnerait une augmentation d'environ 30 millions de dollars par rapport aux frais de fabrication aux États-Unis, et un retard de quelque 20 mois causé par la nécessité de construire une nouvelle installation ou d'en modifier une existante;
 - c) si la FMC prenait les dispositions pour faire effectuer la construction des véhicules par la General Motors du Canada, ce retard signifierait qu'il n'y aurait aucune production en 1989 et 1990;
 - d) comme les véhicules chenillés sont plus coûteux à exploiter et à entretenir, cette option augmenterait d'environ 10 millions de dollars (de 1989-1990) les coûts du cycle de vie, par rapport à ceux qu'entraînerait l'option du véhicule à roues.

28. Option 2. N'acheter que des véhicules blindés légers de la General Motors :

- 1) Avantages :
 - a) l'installation de fabrication de blindés légers actuelle serait maintenue, au moins à court terme;

- c) if FMC were to arrange GM production in Canada, the delay mentioned above would result in no manufacturing in 1989 and 1990; and
- d) because tracked vehicles are more expensive to operate and maintain, this option would entail about \$10M (\$89/90) more in life cycle costs than the wheeled vehicle option.

28. Option 2. Purchase of GM Light Armoured Vehicles only:

1) Advantages:

- a) the existing light armoured manufacturing facility would be maintained, at least in the short term;
- b) life cycle costs would be approximately \$10M (\$89/90) less than for option 1;
- c) the operational requirement would be met in all but two applications (see sub-paragraph 2 below); and
- d) industrial and regional benefits would be maximized.

2) Disadvantages.

- a) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineering bulldozer vehicle; and
- b) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

29. Option 3. Sole source purchases of up to 199 Light Armoured Vehicles from GM Diesel Division and up to 22 M113 field engineering and anti-armour vehicles from FMC Corporation:

1) Advantages:

- a) the operational requirement would be met;
- b) the defence industrial base would be sustained;
- c) based on the operational requirement, optimal industrial and regional benefits would be achieved;
- d) life cycle costs would be approximately \$10M less than for option 1; and
- e) interoperability with current Canadian and Allied inventory would be achieved.

2) Disadvantage. Sole source procurement could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

30. Due to delays in consideration of this project as a result of the election and the federal budget, and due also to General Motors' critical production and employment situation, draft contracted terms and conditions have been negotiated with GM subject to approval by Ministers. The Department of Supply and Services would, however, rigorously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. As a result of the United States Marine Corps purchase, it also has available a solid data base for analysing the price quotations of

- b) les coûts du cycle de vie seraient inférieurs d'environ 10 millions de dollars (de 1989-1990) à ceux qu'entraînerait l'option 1;
- c) les exigences opérationnelles seraient satisfaites dans tous les cas, sauf deux (voir l'alinéa 2 ci-après);
- d) les retombées industrielles et régionales seraient maximisées.

2) Désavantages :

- a) comme le véhicule de la General Motors a des roues, sa force de traction n'est pas suffisante pour le rendre efficace en tant que bulldozer de campagne au service du génie;
- b) d'importants travaux de conception et de mise au point seraient nécessaires pour installer une tourelle de tir appropriée sur le petit nombre de véhicules anti-blindés nécessaires.

29. Option 3. Acheter à la Division Diesel de la General Motors uniquement jusqu'à 199 véhicules anti-blindés légers, et à la FMC Corporation seulement, jusqu'à 22 véhicules de campagne au service du génie et véhicules anti-blindés M113.

1) Avantages :

- a) les besoins opérationnels seraient satisfaits;
- b) l'infrastructure industrielle de défense serait maintenue;
- c) compte tenu des besoins opérationnels, il y aurait des retombées industrielles et régionales optimales;
- d) les coûts du cycle de vie seraient inférieurs d'environ 10 millions de dollars à ceux qu'entraînerait l'option 1;
- e) il y aurait interopérabilité avec les stocks canadiens et alliés actuels.

2) Désavantage. L'acquisition à un seul endroit pourrait supposément réduire l'effet de levier nécessaire pour assurer un prix optimal ainsi que les meilleures retombées industrielles et régionales possibles.

30. À cause de retards dans la prise en considération du projet, par suite de l'élection et du budget fédéral, ainsi que de la situation très précaire de la Général Motors en matière de production et d'emploi, des conditions et modalités provisoires du marché ont été négociées avec ladite Général Motors, sous réserve de l'approbation des ministres. Toutefois, le ministère des Approvisionnements et Services appliquerait rigoureusement sa politique sur les frais et les bénéfices admissibles en situation de marché négocié et conclu avec un seul fournisseur. Par suite de l'achat effectué par le Corps des "Marines" des États-Unis, il possède par ailleurs une solide base de données pour analyser les prix cotés par la General Motors. Enfin, les objectifs énoncés aux paragraphes 18 à 24 qui précèdent en matière de retombées industrielles et régionales seraient poursuivis vigoureusement lors des négociations relatives au marché.

General Motors. Finally, the industrial and regional benefit objectives at paragraphs 18 to 24 above would be vigorously pursued in contract negotiations.

Evaluation Criteria

31. Proposals will be evaluated on the basis of compliance with the following criteria:

- 1) the achievement of vehicle performance objectives;
- 2) completeness of set-up, production, sub-contracting and quality control plans;
- 3) completeness of logistic support data;
- 4) a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk and Canadian content; and
- 5) achievement of industrial and regional benefit objectives.

32. Draft terms and conditions have been negotiated with GM on the basis of these criteria, which will also be used in negotiations with FMC.

Defence Industrial Base Objectives

33. Canada should maintain the capability of producing light armoured vehicles. Emphasis would be placed on negotiating high quality, long-term industrial and regional benefits. Company proposals for the troop carriers, command post vehicles, mortar carriers, maintenance vehicles and associated support will have to demonstrate a reasonable commitment:

- 1) to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- 2) to provide for employment of a skilled work force of approximately 475 persons over an average of 3 years amounting to approximately 1400 person years of employment (the 475 jobs would consist of the 350 current jobs in the London plant plus an additional 125 jobs which would be created if 199 light armoured vehicles were acquired from General Motors); and
- 3) to produce and implement a Supplier Development Plan and a Small Business Sub-Contracting Plan.

Other Factors

34. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
July 1989	Treasury Board	Effective Project Approval and Contract Approval

Critères d'évaluation

31. Les offres seraient évaluées d'après leur conformité aux critères suivants :

- 1) l'atteinte des objectifs de rendement des véhicules;
- 2) l'intégralité des plans d'aménagement, de production, de sous-traitance et de contrôle de la qualité;
- 3) l'intégralité des données de soutien logistique;
- 4) un prix qui, conformément à la politique d'Approvisionnements et Services Canada sur les prix négociés, indique les frais admissibles et établit le mode de détermination des bénéfices en fonction du degré de risque commercial et de contenu canadien;
- 5) l'atteinte des objectifs en matière de retombées industrielles et régionales.

32. Des conditions et modalités provisoires ont été négociées avec la General Motors en fonction de ces critères, qui seraient utilisés également lors des négociations avec la FMC.

Objectifs touchant l'infrastructure industrielle de défense

33. Le Canada devrait maintenir sa capacité de produire des véhicules blindés légers. Il devrait mettre l'accent sur la négociation de retombées industrielles et régionales à long terme et de haute qualité. Et les offres des sociétés pour la fourniture des véhicules de transport de troupes, des véhicules de poste de commandement, des chars-mortiers, des véhicules d'entretien et des véhicules d'appoint devraient démontrer de façon satisfaisante l'engagement pris par leurs auteurs :

- 1) de maintenir des installations de fabrication de véhicules blindés légers à London (Ontario), et, dans le cas des composants dont la fabrication est confiée à des sous-traitants, ailleurs au Canada;
- 2) de prévoir l'emploi d'un effectif compétent d'environ 475 personnes sur une période moyenne de trois ans, soit quelque 1 400 années-personnes (les 475 emplois visés se composeraient des 350 emplois actuels à l'usine de London, majorés de 125 autres emplois qui seraient créés advenant l'achat de 199 véhicules blindés légers à la General Motors);
- 3) de dresser et de mettre en oeuvre un plan d'établissement de fournisseurs et un plan d'adjudication des travaux de sous-traitance à la petite entreprise.

Autres facteurs

34. Si ce projet était approuvé, la participation ministérielle serait la suivante :

<u>Date</u>	<u>Organisme</u>	<u>Décision demandée</u>
Juin 1989	Conseil du Trésor	Approbation du projet et approbation du marché

Financial Implications

35. Affordability. The \$201.3M allocated for this project is affordable within the revised planning levels. This amount will allow for purchasing up to the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

36. The DND funding proposed for implementation of the project is:

<u>Current Year \$M</u>						
<u>FY</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
	0.9	51.0	107.6	33.3	8.5	201.3

Incremental Person Years

Military	11.6	9.9	9.2	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

37. All incremental person years are subject to Treasury Board approval.

38. The proposed incremental person year requirements of other departments are as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	1	1	0.5	0.5	0.5	3.5
Supply and Services	3.7	5.5	4.3	2.0	0	15.5



Deputy Minister

Répercussions financières

35. Coût raisonnable. Le montant de 201,3 millions de dollars affecté à l'exécution du projet est raisonnable compte tenu des niveaux de planification indiqués. Il permettra l'achat de la totalité des 221 véhicules nécessaires, de même que des accessoires, des pièces de rechange, des munitions, des publications, des dessins et de la formation techniques.

36. Les fonds que le MDN se propose de verser pour la mise en oeuvre du projet sont les suivants :

En millions de dollars courants

AF	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>1994-94</u>	<u>Totaux</u>
	0.9	51.0	107.6	33.3	8.5	201.3
<u>Années-personnes supplémentaires</u>						
Militaires	11.6	9.9	9.2	6.5	3.0	40.2
Civiles	8.5	7.4	7.4	3.4	1.7	28.4

37. Toutes les années-personnes supplémentaires sont assujetties à l'approbation du Conseil du Trésor.

38. Les années-personnes supplémentaires dont auraient besoin d'autres ministères sont les suivantes :

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>Totaux</u>
Industrie, Sciences et Technologie	1.0	1.0	0.5	0.5	0.5	3.5
Approvisionnement et Services	3.7	5.5	4.3	2.0	0	15.5

Sous-ministre

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STRATÉGIE ET PLAN DE COMMUNICATION
VÉHICULES BLINDÉS LÉGERS POUR LA MILICE

BUT

1. Le présent document vise à préciser la stratégie de communication utilisée pour annoncer l'intention du gouvernement d'acquérir jusqu'à 221 véhicules blindés légers pour la Réserve, auprès de la General Motors et de la FMC Corporation.

CONTEXTE

2. Pour permettre au Canada de remplir efficacement ses engagements en matière de défense, des réservistes entraînés se chargeront d'une foule de tâches qui étaient auparavant effectuées par la Force régulière. La politique de défense actuelle prévoit par conséquent la mise sur pied d'une force totale qui regroupera la Force régulière et la Force de réserve.

3. Au sein de cette force totale, la Réserve (Milice) aura besoin de véhicules blindés légers pour remplir ses engagements en matière de défense du territoire canadien, d'aide aux autorités civiles en cas d'urgence ou de désastre naturel, et de maintien de la paix.

4. La Division Diesel de la General Motors est la seule société canadienne actuellement en mesure de construire des véhicules blindés répondant aux exigences du MDN. Les véhicules chenillés ne peuvent pas pour le moment être construits au Canada, de sorte qu'ils devront être commandés à la FMC Corporation des États-Unis.

5. En passant sans délai une commande de véhicules pour la Milice, le MDN permettra à l'usine de la General Motors située à London de poursuivre ses activités, et assurera le maintien d'un élément essentiel de l'infrastructure industrielle de défense du Canada. Même s'il n'achètera pas les véhicules chenillés à une société canadienne, son initiative vaudra au Canada des retombées industrielles à long terme et de haute qualité, qui totaliseront au moins 60 pour cent de la valeur du marché.

OPINION PUBLIQUE

6. Sondages. Les sondages d'opinion montrent constamment que la plupart des Canadiens appuient le gouvernement pour ce qui est de l'engagement qu'il a pris de moderniser les Forces canadiennes. Des études effectuées par le MDN ont établi que les Canadiens sont d'avis que leurs forces armées sont mal équipées et utilisent du matériel désuet. Toutefois, ils sont préoccupés par les frais connexes occasionnés au programme de défense.

7. En général, plusieurs facteurs semblent influencer sur l'appui éventuel accordé aux projets d'acquisition de matériel de défense. Le premier est la tendance croissante à délaissier les questions économiques au profit de la "qualité de la vie", en particulier des questions de santé et de sécurité, de protection de l'environnement et d'amélioration des programmes sociaux. Cette tendance s'accompagne habituellement de préoccupations accrues au sujet des dépenses fédérales et du déficit national.

8. Un autre facteur est que la situation semble moins menaçante et qu'il y a un optimisme accru au sujet de la conclusion éventuelle d'accords de contrôle des armements entre les superpuissances. Ces deux tendances renforcent la perception qu'il n'est plus nécessaire de dépenser autant pour la défense. Par ailleurs, une tendance nouvelle indique que les Canadiens désirent de plus en plus que le budget de la défense soit consacré à des activités exercées au Canada même plutôt qu'outre-mer. L'exception, bien sûr, sont les missions pacificatrices. C'est pourquoi le projet en question, qui correspond à cette tendance, recevra probablement l'appui de la population.

9. Médias. Actuellement dans les médias, le choc initial des récentes réductions budgétaires que le gouvernement fédéral a apportées au Programme des services de défense semble céder le pas à un échange de

COMMUNICATION STRATEGY AND PLAN
MILITIA LIGHT ARMoured VEHICLE

AIM

1. The aim of this document is to detail the communication strategy for announcing the government's intention to acquire up to 221 light armoured vehicles for the reserves from General Motors and FMC Corporation.

BACKGROUND

2. In order to meet Canada's defence commitments effectively many tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. Current defence policy consequently calls for the establishment of a Total Force, integrating the Regular and Reserve components.

3. Within the Total Force, the Army Reserve (Militia) requires wheeled and tracked light armoured vehicles to fulfill its commitments to the defence of Canadian territory, aid to the civil authorities in case of emergency or natural disaster, and peacekeeping.

4. Diesel Division of General Motors is the only Canadian company currently able to produce wheeled armoured vehicles that meet DND's requirements. Tracked vehicles cannot be produced in Canada at this time and will have to be ordered from FMC Corporation in the USA.

5. The placing of an early order for Militia vehicles will ensure the continued operation of General Motor's London Plant and the maintenance of an essential element of Canada's defence industrial base. Although the tracked buy is not from a Canadian company, Canada will receive long term and high quality industrial benefits totalling at least 60% of the contract value.

PUBLIC ENVIRONMENT

6. Public Opinion Polls. Public opinion surveys consistently show that the majority of Canadians support the Government in its commitment to modernize the Canadian Forces. Past DND studies have found that Canadians perceive the Canadian Armed Forces as in a situation of being improperly equipped and using outdated equipment. However, they are concerned with associated costs to the defence program.

7. In general, several factors appear to be affecting potential support for defence acquisition projects. The first is the development of the trend away from economic issues towards "quality of life" concerns, especially matters of health and safety, the preservation of the environment and better social programs. This is normally coupled with an increasing concern over federal spending and the national deficit.

8. A second factor is the declining perception of threat and increased optimism for future arms control agreements between the superpowers. Both of these tend to reinforce the perception of a declining need for defence spending. On the other hand, there is an emerging trend that indicates Canadians are increasingly inclined to want defence dollars to be spent on activities at home rather than overseas. The exception, of course, is peacekeeping missions. This project, therefore, which fits with this trend, can be expected to receive support.

vues animé au sujet de l'avenir probable ou souhaitable des Forces canadiennes. Par exemple, certains journalistes (et groupements d'intérêts spéciaux) préconisent la protection de l'environnement, la lutte contre la pollution et le terrorisme ainsi que le contrôle du trafic illégal des drogues, en tant que corollaires de la sécurité nationale et internationale. Le thème qui sous-tend les commentaires des organes d'information est que toute orientation de la politique de défense doit être conforme aux engagements du Canada et à ses ressources financières, c'est-à-dire logique et réaliste.

GROUPE VISÉS

11. Médias. Le Ministère s'attend à ce que les médias réagissent favorablement à cette annonce, c'est-à-dire à ce qu'ils la considèrent comme propre à augmenter le potentiel du Canada en matière de défense de son territoire et de maintien de la paix, et à rehausser le rôle joué par la Milice.

12. Parlementaires. Tous les partis politiques ont exprimé leur appui à l'égard des initiatives ayant trait à la Réserve, à la défense intérieure et au maintien de la paix, mais le fait de dépenser de l'argent si tôt après les réductions budgétaires risque d'entraîner des critiques.

13. Population canadienne. Elle aura une opinion favorable du projet, en particulier à la lumière d'autres projets supprimés.

14. Spécialistes de la défense. Certains journalistes bien au fait des questions de défense, de même que certains "experts" dans ce domaine, se demanderont peut-être si ce type de véhicule répond le mieux aux besoins de la Réserve et des Forces canadiennes. L'annonce du Ministère risque plutôt d'être perçue comme un moyen de continuer à exploiter l'usine de la General Motors dans le sud de l'Ontario. Il se peut par conséquent que ces spécialistes formulent des critiques au sujet de l'acquisition dudit véhicule.

15. Sud de l'Ontario. Les Canadiens du sud de l'Ontario tiendront ce marché pour une planche de salut devant permettre à l'usine de la General Motors de ne pas fermer ses portes, et par conséquent de ne pas diminuer le taux d'emploi dans la région. Cela est particulièrement important vu la fermeture de la BFC London. Ces deux événements susciteront probablement des réactions mitigées dans la région. Certains préféreront peut-être voir la base poursuivre ses activités plutôt que de voir le Ministère acheter du matériel neuf, alors que d'autres se réjouiront des perspectives économiques accrues engendrées par le marché conclu avec la General Motors.

16. Industrie canadienne. Comme le gouvernement sera perçu comme prenant des mesures pour assurer le maintien des activités de l'usine de la General Motors et celui de l'infrastructure industrielle de défense du Canada, il y a tout lieu de croire que les entreprises réagiront favorablement, surtout à la lumière de l'annulation de tant d'autres projets.

OBJECTIFS DE COMMUNICATION

Stratégie d'affaires publiques

17. Démontrer aux groupes visés que le gouvernement est sérieux et qu'il a pris la résolution de faire de la Réserve une partenaire efficace au sein de la Force totale, et de lui fournir le matériel moderne dont elle a besoin.

18. Démontrer que cette acquisition est un moyen économique de donner à la Milice les instruments qui lui permettront de remplir son mandat.

19. Démontrer que la stratégie d'acquisition assurera l'excellence du matériel, des retombées industrielles, des possibilités d'emploi et du rapport qualité-prix.

9. Media. Currently in the media, initial shock reaction to the recent federal budget cuts to the Defence Services Program appears to be giving way to a varied discussion as to what the future role of the Canadian Forces will or should be. For example, some journalists (and special interest groups) are advocating environmental protection, pollution control, the handling of terrorists and control of illegal drug trafficking as logical extensions of national and international security. The underlying theme in media commentary is that any defence policy orientation must be consistent, logical and realistic in terms of Canada's commitments and available financial resources.

TARGET AUDIENCES

10. Media. The media is expected to react positively to this announcement, seeing it as increasing Canada's capabilities for domestic defence and peacekeeping and enhancing the roles of the Militia.

11. Parliamentarians. All political parties have expressed support for initiatives dealing with the Reserves, domestic defence and peacekeeping, however, spending money so soon after budget cuts may generate some criticism.

12. Internal Audience. This project will be viewed positively, particularly in light of other projects being cut.

13. Defence Specialists. Some journalists well-versed in defence matters, as well as some defence "experts" may question whether or not this vehicle is the best choice for the needs of the Reserves and the Canadian Forces. The announcement may instead be perceived as a means of maintaining operation of the General Motors plant in Southern Ontario. There may therefore, be some criticism from this sector.

14. Southern Ontario. Canadians in Southern Ontario will view this contract as a means of ensuring the continued operation of the General Motors plant, and by extension, the assurance of employment in the area. This is particularly important in light of the closure of CFB London. These two factors combined are likely to generate mixed feelings towards the announcement in the local area. Some may prefer to see the base continue operation, rather than a new equipment buy, while others will see greater economic prospects resulting from the contract with GM.

15. Canadian Industry. Since the government will be seen as taking measures to ensure the continuation of the General Motors plant and the maintenance of the Canadian defence industrial base, this group is likely to respond favourably, particularly in light of the cancellation of so many other projects.

COMMUNICATIONS OBJECTIVES

Public Affairs Strategy

16. To demonstrate to the target audiences that the government is serious in its resolve to make the Reserves a viable partner in the Total Force and to provide them with modern equipment.

17. To demonstrate that this acquisition is an affordable way of giving the Militia the tools to carry out its mandate.

18. To demonstrate that the procurement strategy will ensure excellence of equipment, industrial benefits, employment opportunities and value for money.

MESSAGES

19. "Ce projet constitue un moyen économique d'accroître notre aptitude à défendre notre territoire, à mener des opérations de maintien de la paix, et à venir en aide aux autorités civiles à une époque de restrictions financières."
20. "Grâce à ce projet, l'armée canadienne, qui regroupe, la Force régulière et la Force de réserve, sera plus apte à assurer la sécurité du Canada."
21. "Les véhicules seront surtout construits au Canada, ce qui aura des retombées régionales et industrielles dans l'ensemble de ce dernier."
22. "Les véhicules choisis ont démontré leur efficacité."

TACTIQUES DE COMMUNICATION
CONSIDÉRATIONS STRATÉGIQUES

23. La population canadienne appuiera probablement le projet s'il lui est présenté comme un moyen économique de donner à la Réserve un rôle durable, et de moderniser l'armée.
24. Ce projet s'insère dans un ensemble d'acquisitions de matériel de défense d'une valeur de plusieurs millions de dollars, instauré tout de suite après de rigoureuses mesures de réduction du déficit. C'est pourquoi il y aura peut-être certaines critiques dans les médias, car toutes dépenses gouvernementales seront signalées à la lumière du budget d'austérité. Le Ministère devra souligner qu'il s'est engagé à moderniser les Forces armées canadiennes de la façon la plus rentable et la plus économique possible.
25. D'autres critiques formulées dans les médias découleront peut-être de la décision de n'avoir recours qu'à un seul fabricant. En outre, on sera peut-être d'avis que les véhicules sont imposés aux militaires pour des raisons économiques plutôt qu'opérationnelles. Le Ministère devra mettre l'accent sur le fait que ce type de véhicules est d'une conception éprouvée, et qu'il satisfait aux exigences du Canada en matière de défense territoriale, de maintien de la paix et d'entraînement de la Réserve.

STRATÉGIE D'ANNONCE

26. Aucune initiative préalable à l'annonce n'est envisagée.
27. Un communiqué de presse annoncera la décision du gouvernement d'exécuter le projet. Des fonctionnaires du MDN seront disposés à répondre aux demandes de renseignements.
28. Le MDN distribuera des copies du communiqué de presse.

PARTICIPATION MINISTÉRIELLE

29. Il n'y aura pour le moment aucune participation ministérielle. Le MDN ou le MDN Associé saisira peut-être les occasions de prendre la parole pour annoncer les étapes de l'exécution du projet.

COORDINATION INTERMINISTÉRIELLE

30. Le MDN, à titre de promoteur du projet, coordonnera les activités d'affaires publiques avec les ministères et organismes suivants : ASC, BCP, ISTC, DÉOC et APECA.

INFORMATION DU CAUCUS

31. Tous les renseignements pertinents seront fournis aux députés.

BUDGET

32. Aucun montant supplémentaire n'est nécessaire pour mettre en oeuvre cette stratégie.

MESSAGES

19. "This project provides an affordable way to improve our ability to defend our territory, conduct peacekeeping operations and provide assistance to civil authorities in a time of fiscal restraint."

20. "Through this project the Canadian army, combining Regulars and Reserves, is improving its ability to ensure Canada's security."

21. "These vehicles will be primarily built in Canada, resulting in regional and industrial benefits, and employment opportunities throughout the country."

22. "The vehicle chosen has proven capabilities."

COMMUNICATIONS TACTICS

STRATEGIC CONSIDERATIONS

23. Canadian publics can be expected to be supportive of this project if it is presented in the context of an affordable means of providing a viable role to the Reserves and modernizing the army.

24. This project is part of a package of defence acquisitions worth several million dollars, introduced just after severe deficit reduction measures. Consequently some criticism may emerge in the media as government spending of any kind will be reported on in light of the tight budget. The department will need to emphasize that it is committed to the modernization of the Canadian Armed Forces in the most cost-effective and fiscally responsible way.

25. Additional media criticism may emerge due to the decision to sole source. There could also be a perception that the vehicle is being forced on the military due to economic rather than operational considerations. The department will need to emphasize that the vehicle is of proven design and that it meets Canada's requirements for territorial defence, peacekeeping, and training the Reserves.

ANNOUNCEMENT STRATEGY

26. No pre-announcement initiatives are planned.

27. A news release will be used to announce the government's decision to proceed with this project. DND officials will be available to respond to queries.

28. Copies of the news release will be distributed by DND.

MINISTERIAL INVOLVEMENT

29. There will be no ministerial involvement at this stage. The MND/Assc MND may use speaking opportunities to announce future project milestones.

INTERDEPARTMENTAL COORDINATION

30. DND as the lead department for this project, will coordinate public affairs activities with SSC, PCO, ISTC, WD and ACOA.

CAUCUS BRIEFING

31. All information released on this subject will be provided for Members of Parliament.

BUDGET

32. No additional funds are necessary to implement this strategy.

EVALUATION

33. DND will monitor and evaluate news media content and any significant statements made by special interest groups, including the shipbuilding industry, taking corrective action as required.

ÉVALUATION

33. Le MDN surveillera et évaluera le contenu des bulletins de nouvelles et toutes déclarations importantes faites par des groupements d'intérêts spéciaux, notamment l'industrie de la construction maritime, et il prendra au besoin des mesures correctives.

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SECRET

ANNEXE B
DES RM

TABLEAU 1

PROJET D'ACQUISITION DE VÉHICULES BLINDÉS LÉGERS POUR LA MILICE

DOCUMENTS À PRÉSENTER AUX MINISTRES

<u>PÉRIODE</u>	<u>ORGANISME</u>	<u>DÉCISION DEMANDÉE</u>
Juin 1989	Conseil du Trésor	Approbation du projet et approbation du marché

SECRET

ANNEX B
TO THE MR

TABLE 1
MILITIA LIGHT ARMoured VEHICLE PROJECT
FUTURE SUBMISSIONS TO MINISTERS

<u>PERIOD</u>	<u>FORUM</u>	<u>DECISION SOUGHT</u>
June 1989	Treasury Board	Effective Project Approval and Contract Approval

SECRET

MEMORANDUM

3136-5-2460 (DPSL 2)

29 Jun 89

Distribution List

AMENDMENTS
TO DEPARTMENTAL WORKING
PAPER FOR MILLAV

Ref: Telecon D Cab Ln/DPSL 2, 26 Jun 89

1. As per your request at Ref, I've prepared a suggested paragraph (see Annex A) briefly explaining the place of M113 acquisition in the MILLAV project.
2. Also in Annex A, I suggest a change to the Ministerial Recommendations dealing with DND's PY requirements.

P. Verney
P. Verney
DPSL 2
994-9435

DISTRIBUTION LIST

<u>Action</u>	<u>Information</u>
D Cab Ln	CS DG Proc S DPSL PM MILLAV PD LRMP

SECRET

SECRET

ANNEX A
TO 3136-5-2460 (DPSL 2)
DATED 25 JUN 89

PROPOSED CHANGES
TO MILLAV DEPARTMENTAL
WORKING PAPER

1. In the Analysis section, I recommend that the following be added after para 16:

With regard to the tracked M113, there are no pressing industrial based considerations for proceeding with their acquisition. However, they would also be used for Militia training and are therefore included as part of the same project. They would be procured as normal lead times for contract award and delivery permit.

2. Para 4 of the Ministerial Recommendations should be revised. At present, it misleadingly indicates that DND's PY requirements will be provided from within the reference levels. I recommend that DND's incremental PYs be included as part of para 5 (along with the annotation that they are subject to Treasury Board approval).

SECRET



Supply and Services Canada / Approvisionnement et Services Canada

Aerospace, Marine & Electronics Systems
Place du Portage, Phase III, 7C1
11 Laurier Street
Hull, P. Q. K1A 0S5

Your file / Votre référence

Our file / Notre référence

MILLAV 7463-1

June 16, 1989

①

Rear Admiral Boyle
Chief Engineering and Maintenance
Department of National Defence
101 Colonel By Drive
Ottawa, Ontario K1A 0K2

PMO	-	TANK
SECTION		
JUN 22 1989		
P.A. TO FILE NO: _____		
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Dear Rear Admiral Boyle:

Thank you for the 12 June 1989 copy of the revised draft of your Departmental Working Paper, Militia Light Armoured Vehicles.

We have reviewed the revised draft and find it generally satisfactory.

H. T. Webster
Director General
Aerospace, Marine &
Electronics Systems

② PM MILLAV
→ for info
SU/COM
20 Jun 89

Handwritten signature
28 JUN 89
PM MILLAV

Canada



National Defence

Défense nationale

National Defence Headquarters
Ottawa, Canada
K1A 0K2

Quartier général de la Défense nationale
Ottawa, Canada
K1A 0K2

3136-5-246Q (DPSL)

15 June 1989

Distribution List

MILITIA LIGHT ARMoured
VEHICLE (MILLAV) PROJECT

1. National Defence has assessed and confirmed the affordability of the subject project in light of post-budget indicative planning levels.
2. Since the project has a high priority, it is important to finalize the documentation so that we can seek approvals at the earliest opportunity.
3. To this end, the departmental working paper has been updated. Enclosed is a copy of the version that we will proceed with when the opportunity offers.
4. The main changes are:
 - a. amended cash flow to reflect the budget announcement that acquisition be delayed one year. This means that deliveries and payments will not occur until Fiscal Year 1990/91. However, in the meantime, I proposed to seek all necessary approvals up to and including contract award;
 - b. inclusion of a statement of affordability in the Ministerial Recommendations section;
 - c. emphasis throughout on the fact that Militia training will now be for territorial defence, readiness, peacekeeping and aid to the civil power as well as training for augmentation of our forces in Europe;
 - d. deletion of reference to four Militia Training and Support Centres. While there will be at least one, at Meaford, the precise number will be determined during Defence Review '89. It should be noted, of course, that the requirement for Militia training vehicles remains; and

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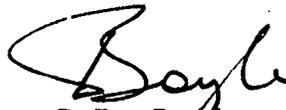
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e. deletion of reference to the Light Armoured Vehicle Project, which is now on hold until further notice.

5. Annex A attached provides further details on the changes.

6. In closing, I request the co-operation of all members in moving this project forward as quickly as possible now that it has been re-activated. Achievable goals are Cabinet consideration and Treasury Board effective and contract approvals this month.



D.R. Boyle
Rear Admiral
Chief Engineering and
Maintenance
Chairman of the Interdepartmental
Senior Review Board

Attachments: Annex A - Summary of Changes to
Departmental Working Paper

Enclosures: 2

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ANNEX A
TO 3136-5-2460 (DPSL)
DATED JUN 89

SUMMARY OF CHANGES

TO DEPARTMENTAL WORKING PAPER

I Ministerial Recommendations

1. Para 4. The cash phasing has been amended to reflect the decision to delay acquisition until at least FY 90/91. It also includes \$2M for DSS revenue dependency, which is now charged to the account of Major Crown Projects.
2. The number of DSS person-years has been amended to reflect that department's current estimate, which is considered reasonable.
3. Para 7. As the number of Militia Training and Support Centres is under review, this para now simply states that the vehicles are required for Militia training. //
4. Para 9. This is a new paragraph added at the request of DSS.
5. Para 13. This para is new and provides assurance that the project is affordable in light of post-budget indicative planning levels.
6. Previous Para 14. This para has been deleted because it is problematic if and when the future Light Armoured Vehicle Project will be implemented.
7. Para 16 (previously para 15). This para has been reworded because of the uncertainty about any future Light Armoured Vehicle acquisitions.

II ANALYSIS

8. Para 1. There is no longer reference to Militia Training and Support Centres (MTSCs). Also, the para indicates that, in addition to training, the vehicles would also be used for territorial defence, peacekeeping and aid to the civil power as required.
9. Previous Para 4. This para has been deleted since the number of MTSCs has not been finalized.

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ANNEX A
TO 3136-5-2460 (DPSL)
DATED JUN 89

10. Para 7 (previously para 8). This para has been reworded to reflect the uncertainty about the number of MTSCs. Also for the same reason, there is no longer reference to the Tank and Northern Terrain Vehicle projects.

11. Previous Para 9. This para is deleted because of the "on hold" status of the Light Armoured Vehicle Project.

12. Previous Para 10. This para is deleted in view of the fact that any further light armoured vehicle acquisitions during the next 15 years is under review.

13. Paras 30-32 (previously paras 33 to 35). The paras now reflect the fact that DSS has negotiated draft terms and conditions with GM for the approval of Ministers.

14. Para 34 (previously para 37). The target date for TB effective approval and contract approval is now Jun 89 vice Apr 89.

15. Para 36 (previously para 39). The cash flow has been updated per para 4 of the Ministerial Recommendations.

16. Para 38 (previously para 40). The DSS person-year requirements reflect the new figures in para 5 of the Ministerial Recommendations.

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DRAFT

DEPARTMENTAL WORKING PAPER

MILITIA

LIGHT ARMoured VEHICLES

12 JUNE 1989

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MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. up to 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$201.3M (current year dollars);
2. the procurement strategy be based on negotiating suitable contracts to acquire up to 199 vehicles from Diesel Division of General Motors, London, Ontario, and up to 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - 1) negotiating the General Motors contract substantially in accordance with the following principles:
 - a) 60 percent of the total contract value in Canadian content;
 - b) 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and
 - c) placement of direct and indirect industrial and regional benefits amounting to 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada; and
 - 2) negotiating the FMC Corporation contract to obtain high quality, long-term industrial and regional benefits totalling 60 percent of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
(Current Year \$ Millions)					
0.9	51.0	107.6	33.3	8.5	201.3

DND Pys*

Military	11.6	9.9	9.2	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

*Subject to Treasury Board approval. The incremental DND Pys are for Project Management. Their cost is included in the total project cost.

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	1	1	0.5	0.5	0.5	3.5
Supply and Services	3.7	5.5	4.3	2.0	0	15.5

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RATIONALE

6. Recognizing that it is both impractical and undesirable to meet Canada's defence commitments through the Regular Force alone, the 1987 White Paper calls for the establishment of a Total Force in which the Reserve Force would undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower and training requirements.

7. The acquisition of up to 221 light armoured vehicles would enable the Militia to train for its key tasks in the Total Force. The Militia requires light armoured vehicles for territorial defence and to train replacement troops for Canada's overseas commitments. The wheeled GM Light Armoured Vehicle, which comprises the majority of the proposed acquisition, is an ideal vehicle for these purposes, as well as for peacekeeping and disaster relief in aid of the civil power.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. The proposed procurement strategy calls for acquiring up to 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.

b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. The proposed procurement strategy calls for acquiring up to 22 vehicles for field engineering and anti-armour tasks, as GM does not produce suitable vehicles for these tasks.

9. The Minister of Supply and Services has reviewed and agreed to the proposed procurement strategy.

10. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated that the plant may be closed and the work force laid off, perhaps permanently. Future orders would then be met at a United States production facility. The company has also indicated that placing an early order for approximately 200 Militia vehicles with the Diesel Division of General Motors could assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until 1996. For this reason, and to obtain vehicles in a timely fashion for Militia training, it is important to proceed now with the proposed procurement. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: that is, no significant National Defence requirements would likely arise in the next five to six years at least which could help bridge a further production gap.

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11. Industrial and Regional Benefits. The industrial and regional benefits objectives for the wheeled vehicles to be purchased from GM are: 60 percent of the total contract value in Canadian content; the 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and placement of 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada. The contract would result in approximately 1400 person-years of direct employment over a period of three years. The company will be required to produce and implement both a Supplier Development Plan and a Small Business Sub-Contracting Plan.

12. With respect to the tracked vehicles from the FMC Corporation, the objective is high quality, long-term industrial and regional benefits totalling 60 percent of the contract's total value.

13. Affordability. The budget announced that acquisition for this project was to be rescheduled and not commence prior to Fiscal Year (FY) 1990/91. Since the announcement, General Motors has indicated it is prepared to proceed, with no increase in price, on the basis of no payments until delivery commences, which will not occur until FY 1990/91. As a result, this project is affordable within agreed reference and planning levels. The Department has determined that, whatever the final outcome of the Force Development process now underway, this project would be included in the Defence Services Program and be fully funded as shown.

PROBLEMS AND STRATEGIES

14. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

15. Strategy. The General Motors plant is the only existing production facility in Canada currently manufacturing a vehicle that meets DND's requirements. In addition, the contract with General Motors will involve significant benefits for Atlantic and Western Canada.

16. In the event of any further light armoured vehicle acquisitions during the next 15 years, a matter still under review, there would be the normal interdepartmental liaison to formulate a procurement strategy for consideration by Ministers. The strategy would be based on all relevant factors, including the manufacturing capability of other companies.

POLITICAL CONSIDERATIONS

17. TBA

DEPARTMENTAL POSITIONS

18. The Departments and agencies supporting the recommendations include DSS, ISTC, DEA, WDO and ACOA. The Department of Finance and Treasury Board Secretariat have been consulted.

Minister of National Defence
Ministre de la Défense nationale

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ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training, and to be used in territorial defence, peacekeeping and aid to civil authorities as required.
2. Current Policies. The 1987 White Paper on Defence recognized that not all of the personnel requirements for Canada's defence commitments can be met through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.
3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train readiness troops to meet Canada's international commitments. To train for these tasks, the Militia must have access to operational equipment. A fully trained Total Force will contribute to territorial defence and global peace and security.
4. The Militia requires approximately 380 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide up to 221. Most would serve to carry troops; the balance would consist of command post, maintenance, mortar-carrying, field engineering and anti-armour vehicles.

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5. The procurement of up to 221 light armoured vehicles will meet the most pressing requirement for the Militia.

CONSIDERATIONS

6. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base, life cycle costs and the potential for industrial and regional benefits.

Relationship to Other Projects

7. The proposed acquisition of up to 221 light armoured vehicles is directly related to the planned modernization of the Land Reserve. These plans will result in the establishment of a Militia Training and Support Centre at Meaford, Ontario, and at other locations, and the procurement of various simulation devices.

National/International Implications

8. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for territorial defence and readiness tasks in support of Canada's international commitments. Canadians would recognize the proposed acquisition as a significant step toward revitalizing the Reserves and creating an

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effective territorial defence capability. Canada's Allies have underscored the need for effective reserve forces and would see this procurement as a positive development.

Suitable Light Armoured Vehicles

9. For reasons pertaining to interoperability and benefits to the defence industrial base, only two vehicles are primary contenders to meet the requirement: the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario, and the M113 produced by FMC Corporation of California. The selection of any other vehicle is not considered a viable option for the following reasons:

- 1) there would be no commonality with current Canadian inventory;
- 2) foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- 3) current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

10. The eight-wheeled Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, is a product improvement of the six-wheeled Armoured Vehicle General Purpose which has been in service with the Canadian Forces since 1979. The Light Armoured Vehicle has excellent mobility both on and off road,

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would require minimal modification to meet Canada's requirement and has a high degree of commonality with the existing Canadian Armoured Vehicle General Purpose fleet. The General Motors Light Armoured Vehicle would provide the Militia with realistic and effective training in mechanized operations. Because it is wheeled, it is well suited to rapid road transport and, therefore, to territorial defence.

11. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 M113s in service in Canada and Europe. Purchase of this vehicle would enable the Militia to train on a vehicle that the Canadian Forces would use in actual operations.

12. Of the many roles for which the light armoured vehicles are required, there are two for which the use of General Motors Light Armoured vehicles is impractical. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction to push a bulldozer blade. For the anti-armour vehicles, the company would have to undertake significant design and development work to mount a suitable weapon turret, a task that is not cost-effective in view of the fact that only eight such vehicles are required. These limitations can be avoided by purchasing the M113, for which Canadian field engineering and anti-armour modification kits exist.

Defence Industrial Base

13. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

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14. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 Armoured Vehicle General Purpose for the Canadian Forces. It has also manufactured 759 Light Armoured Vehicles for the United States Marine Corps. It is now completing production of 12 electronic warfare vehicles for the U.S. and starting production of four vehicles on which the U.S. will later install 105mm guns.

15. As a result of the U.S. contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM reports to have good prospects for contracts with the United States, Australia and Saudi Arabia leading to production of at least 1100 vehicles during the period 1991 to 1996. However, these contracts would involve no production until 1991. Since production under the current U.S. contracts ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

16. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990. Such a contract would contribute significantly to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize in the future, the

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company will again face the same situation it does now, with one key difference: no significant National Defence requirements are likely to arise in the next five to six years at least which could help bridge the new production gap.

Life Cycle Costs

17. Wheeled vehicles are less susceptible to failure and are cheaper to operate and maintain than tracked vehicles. Based on a 20-year operating period, total life cycle costs are therefore less for wheeled vehicles than for tracked vehicles.

Industrial and Regional Benefits

18. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian defence industrial base, but also for the continuation of the industrial and regional benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1990.

19. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration. In addition, the company would endeavour to increase Canadian content significantly in the production of: power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent of the contract value in Canadian content.

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20. High quality, long-term indirect industrial and regional benefits offsetting the 40 percent foreign content would be achieved through transfers of technology and joint ventures, as well as Canadian sourcing of parts and components for future light armoured vehicle orders and other equipment.

21. A total of 30 percent of the contract value would be placed in two major regions. Fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial and regional benefits.

22. As noted in paragraphs 15 and 16, without an order to bridge the production gap in 1989 and 1990, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 350 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

23. If the Crown were to purchase all of the vehicles from FMC Corporation, the specific benefits would be subject to negotiation. In July 1988, responding to a formal Supply and Services inquiry, the company recommended against Canadian manufacture and offered unspecified indirect benefits. Typically, these benefits have been in the order of 60 to 70 percent of the contract value. More recently, in a January 1989 letter to the then Minister of National Defence, FMC proposed production at General Motors' facilities under a teaming arrangement. However, production could mean anything from mere assembly of components to varying degrees of Canadian manufacture by General Motors or sub-contractors.

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24. Almost certainly, contracting with FMC Corporation for up to 22 field engineering and anti-armour vehicles, therefore, would not contribute in a significantly positive fashion to Canada's defence industrial base. Through indirect benefits it would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

Interoperability

25. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result in terms of interoperability with existing Canadian Forces equipment and Allied fleets.

PROCUREMENT OPTIONS

26. There are three procurement options:

- 1) procure up to 221 FMC M113s;
- 2) procure up to 221 GM Light Armoured Vehicles; and
- 3) procure up to 199 GM Light Armoured Vehicles to meet the troop carrier, command post, mortar carrier and maintenance vehicle requirements, and procure up to 22 FMC M113s to meet the field engineering and anti-armour vehicle requirements.

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27. Option 1. Purchase of FMC Corporation M113s only:

1) Advantages:

- a) the operational requirement would be met;
- b) capital costs would be the lowest of any option.
Savings would be in the order of \$40M (\$89/90) if the vehicles were manufactured in the United States and \$10M if they were manufactured in Canada; and
- c) interoperability with the Canadian and Allied inventory would be achieved.

2) Disadvantages:

- a) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- b) establishment of an M113 production facility in Canada would involve a cost premium of about \$30M over manufacture in the United States and a delay of about 20 months caused by the necessity to build a new facility or reconfigure an existing one;

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- c) if FMC were to arrange GM production in Canada, the delay mentioned above would result in no manufacturing in 1989 and 1990; and
- d) because tracked vehicles are more expensive to operate and maintain, this option would entail about \$10M (\$89/90) more in life cycle costs than the wheeled vehicle option.

28. Option 2. Purchase of GM Light Armoured Vehicles only:

1) Advantages:

- a) the existing light armoured manufacturing facility would be maintained, at least in the short term;
- b) life cycle costs would be approximately \$10M (\$89/90) less than for option 1;
- c) the operational requirement would be met in all but two applications (see sub-paragraph 2 below); and
- d) industrial and regional benefits would be maximized.

2) Disadvantages.

- a) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineering bulldozer vehicle; and

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- b) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

29. Option 3. Sole source purchases of up to 199 Light Armoured Vehicles from GM Diesel Division and up to 22 M113 field engineering and anti-armour vehicles from FMC Corporation:

1) Advantages:

- a) the operational requirement would be met;
- b) the defence industrial base would be sustained;
- c) based on the operational requirement, optimal industrial and regional benefits would be achieved;
- d) life cycle costs would be approximately \$10M less than for option 1; and
- e) interoperability with current Canadian and Allied inventory would be achieved.

- 2) Disadvantage. Sole source procurement could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

30. Due to delays in consideration of this project as a result of the election and the federal budget, and due also to General Motors' critical production and employment situation, draft

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contracted terms and conditions have been negotiated with GM subject to approval by Ministers. The Department of Supply and Services would, however, rigourosly apply its policy for allowable costs and profits in a sole source, negotiated contract situation. As a result of the United States Marine Corps purchase, it also has available a solid data base for analysing the price quotations of General Motors. Finally, the industrial and regional benefit objectives at paragraphs 18 to 24 above would be vigourosly pursued in contract negotiations.

Evaluation Criteria

31. Proposals will be evaluated on the basis of compliance with the following criteria:

- 1) the achievement of vehicle performance objectives;
- 2) completeness of set-up, production, sub-contracting and quality control plans;
- 3) completeness of logistic support data;
- 4) a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk and Canadian content; and
- 5) achievement of industrial and regional benefit objectives.

32. Draft terms and conditions have been negotiated with GM on the basis of these criteria, which will also be used in negotiations with FMC.

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Defence Industrial Base Objectives

33. Canada should maintain the capability of producing light armoured vehicles. Emphasis would be placed on negotiating high quality, long-term industrial and regional benefits. Company proposals for the troop carriers, command post vehicles, mortar carriers, maintenance vehicles and associated support will have to demonstrate a reasonable commitment:

- 1) to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- 2) to provide for employment of a skilled work force of approximately 470 persons over an average of 3 years amounting to approximately 1400 person years of employment (the 475 jobs would consist of the 350 current jobs in the London plant plus an additional 125 jobs which would be created if 199 light armoured vehicles were acquired from General Motors); and
- 3) to produce and implement a Supplier Development Plan and a Small Business Sub-Contracting Plan.

Other Factors

34. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

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<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
June 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

35. Affordability. The \$201.3 M allocated for this project is affordable within the indicative planning levels. This amount will allow for purchasing up to the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

36. The DND funding proposed for implementation of the project is:

Current Year \$M

<u>FY</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
	0.9	51.0	107.6	33.3	8.5	201.3

Incremental Person Years

Military	11.6	9.9	9.2	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

37. All incremental person years are subject to Treasury Board approval.

38. The proposed incremental person year requirements of other departments are as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	1	1	0.5	0.5	0.5	3.5
Supply and Services	3.7	5.5	4.3	2.0	0	15.5

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ANNEX B
TO THE MR

TABLE 1

MILITIA LIGHT ARMoured VEHICLE PROJECT

FUTURE SUBMISSIONS TO MINISTERS

<u>PERIOD</u>	<u>FORUM</u>	<u>DECISION SOUGHT</u>
June 1989	Treasury Board	Effective Project Approval and Contract Approval

B-1

COMMUNICATIONS SYNOPSIS
 Plan, see page)

S E C R E T

1. Consultation PCO YES PMD YES	2. Date Drafted 8 Jun 89	3. Anticipated Announcement Date TBD
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4. Goals: To inform the media, parliamentarians, Canadian industry, defence specialists, inhabitants of southern Ontario and DND personnel of the decision to purchase light armoured vehicles for the Reserves.

5. Impact Anticipated a lot a little
 Media Attention 5 4 3 2 1
 Anticipated for 40%
 Reaction against 20%
 * other 40%

Canadians are generally aware of the need to modernize and improve the capabilities of the Reserves although the specific need for light armoured vehicles is not known.

Some media criticism may be generated by the announcement of new defence acquisitions so soon after the deficit reductions announced in the budget.

Reaction in southern Ontario may be favourable due to the assurance of the continued operation of the General Motors plant in London and resulting employment and other economic benefits. This, however, will be tempered by the budget announcement to close Canadian Forces Base London.

6. Possible Headlines:	Positive: Canadian Forces improve Reserve equipment.
	Negative: Defence spending continues inspite of budget.

7. Messages

Providing light armoured vehicles for the reserves is an affordable, effective way of improving our ability to defend our territory, conduct peacekeeping operations and provide assistance to civil authorities in a time of fiscal restraint.

The Canadian army, combining Regulars and Reserves, is improving its ability to ensure Canada's security.

These vehicles will be primarily built in Canada, resulting in regional and industrial benefits throughout the country.

The vehicle has proven capabilities.

8. Activities

News release by DND to announce the decision.

DND officials will be available to respond to queries.

9. Sustaining the Message

DND to monitor news content following announcement and take corrective action when warranted. DND will keep media advised of milestones such as the roll-out.

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COMMUNICATION STRATEGY AND PLAN
MILITIA LIGHT ARMoured VEHICLE

AIM

1. The aim of this document is to detail the communication strategy for announcing the government's intention to acquire up to 221 light armoured vehicles for the reserves from General Motors and FMC Corporation.

BACKGROUND

2. In order to meet Canada's defence commitments effectively many tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. Current defence policy consequently calls for the establishment of a Total Force, integrating the Regular and Reserve components.

3. Within the Total Force, the Army Reserve (Militia) requires light armoured vehicles to fulfill its commitments to the defence of Canadian territory, aid to the civil authorities in case of emergency or natural disaster, and peacekeeping.

4. Diesel Division of General Motors is the only Canadian company currently able to produce armoured vehicles that meet DND's requirements. The placing of an early order for Militia vehicles will ensure the continued operation of General Motor's London Plant and the maintenance of an essential element of Canada's defence industrial base.

PUBLIC ENVIRONMENT

6. Public Opinion Polls. Public opinion surveys consistently show that the majority of Canadians support the Government in its commitment to modernize the Canadian Forces. Past DND studies have found that Canadians perceive the Canadian Armed Forces as in a situation of being improperly equipped and using outdated equipment. However, they are concerned with associated costs to the defence program.

7. In general, several factors appear to be affecting potential support for defence acquisition projects. The first is the development of the trend away from economic issues towards "quality of life" concerns, especially matters of health and safety, the preservation of the environment and better social programs. This is normally coupled with an increasing concern over federal spending and the national deficit.

8. A second factor is the declining perception of threat and increased optimism for future arms control agreements between the superpowers. Both of these tend to reinforce the perception of a declining need for defence spending. On the other hand, there is an emerging trend that indicates Canadians are increasingly inclined to want defence dollars to be spent on activities at home rather than overseas. The exception, of course, is peacekeeping missions. This project, therefore, which fits with this trend, can be expected to receive support.

9. Media. Currently in the media, initial shock reaction to the recent federal budget cuts to the Defence Services Program appears to be giving way to a varied discussion as to what the future role of the Canadian Forces will or should be. For example, some journalists (and special interest groups) are advocating environmental protection, pollution control, the handling of terrorists and control of illegal drug trafficking as logical extensions of national and international security. The underlying theme in media commentary is that any defence policy orientation must be consistent, logical and realistic in terms of Canada's commitments and available financial resources.

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TARGET AUDIENCES

11. Media. The media is expected to react positively to this announcement, seeing it as increasing Canada's capabilities for domestic defence and peacekeeping and enhancing the roles of the Militia.

12. Parliamentarians. All political parties have expressed support for initiatives dealing with the Reserves, domestic defence and peacekeeping, however, spending money so soon after budget cuts may generate some criticism.

13. Internal Audience. This project will be viewed positively, particularly in light of other projects being cut.

14. Defence Specialists. Some journalists well-versed in defence matters, as well as some defence "experts" may question whether or not this vehicle is the best choice for the needs of the Reserves and the Canadian Forces. The announcement may instead be perceived as a means of maintaining operation of the General Motors plant in Southern Ontario. There may therefore, be some criticism from this sector.

15. Southern Ontario. Canadians in Southern Ontario will view this contract as a means of ensuring the continued operation of the General Motors plant, and by extension, the assurance of employment in the area. This is particularly important in light of the closure of CFB London. These two factors combined are likely to generate mixed feelings towards the announcement in the local area. Some may prefer to see the base continue operation, rather than a new equipment buy, while others will see greater economic prospects resulting from the contract with GM.

16. Canadian Industry. Since the government will be seen as taking measures to ensure the continuation of the General Motors plant and the maintenance of the Canadian defence industrial base, this group is likely to respond favourably, particularly in light of the cancellation of so many other projects.

COMMUNICATIONS OBJECTIVES

Public Affairs Strategy

17. To demonstrate to the target audiences that the government is serious in its resolve to make the Reserves a viable partner in the Total Force and to provide them with modern equipment.

18. To demonstrate that this acquisition is an affordable way of giving the Militia the tools to carry out its mandate.

19. To demonstrate that the procurement strategy will ensure excellence of equipment, industrial benefits, employment opportunities and value for money.

MESSAGES

19. "This project provides an affordable way to improve our ability to defend our territory, conduct peacekeeping operations and provide assistance to civil authorities in a time of fiscal restraint."

20. "Through this project the Canadian army, combining Regulars and Reserves, is improving its ability to ensure Canada's security."

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21. "These vehicles will be primarily built in Canada, resulting in regional and industrial benefits throughout the country."

22. "The vehicle chosen has proven capabilities."

COMMUNICATIONS TACTICS
STRATEGIC CONSIDERATIONS

23. Canadian publics can be expected to be supportive of this project if it is presented in the context of an affordable means of providing a viable role to the Reserves and modernizing the army.

24. This project is part of a package of defence acquisitions worth several million dollars, introduced just after severe deficit reduction measures. Consequently some criticism may emerge in the media as government spending of any kind will be reported on in light of the tight budget. The department will need to emphasize that it is committed to the modernization of the Canadian Armed Forces in the most cost-effective and fiscally responsible way.

25. Additional media criticism may emerge due to the decision to sole source. There could also be a perception that the vehicle is being forced on the military due to economic rather than operational considerations. The department will need to emphasize that the vehicle is of proven design and that it meets Canada's requirements for territorial defence, peacekeeping, and training the Reserves.

ANNOUNCEMENT STRATEGY

26. No pre-announcement initiatives are planned.

27. A news release will be used to announce the government's decision to proceed with this project. DND officials will be available to respond to queries.

28. Copies of the news release will be distributed by DND.

MINISTERIAL INVOLVEMENT

29. There will be no ministerial involvement at this stage. The MND/Assc MND may use speaking opportunities to announce future project milestones.

INTERDEPARTMENTAL COORDINATION

30. DND as the lead department for this project, will coordinate public affairs activities with SSC, PCO, ISTC, WD and ACOA.

CAUCUS BRIEFING

31. All information released on this subject will be provided for Members of Parliament.

BUDGET

32. No additional funds are necessary to implement this strategy.

EVALUATION

33. DND will monitor and evaluate news media content and any significant statements made by special interest groups, including the shipbuilding industry, taking corrective action as required.

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MEMORANDUM

8055-22 (LRMP)

10 Apr 89

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Distribution List

DRAFT DEPARTMENTAL WORKING PAPER
MILITIA LIGHT ARMoured VEHICLE

Ref: 8055-22 (LRMP), 28 Mar 89

1. Industry, Science and Technology Canada has revised its estimate of the direct industrial benefits which would accrue from the Militia Light Armoured Vehicle Project. The current estimate is considerably better than that reflected in the former Draft Departmental Working Paper.
2. The Draft Departmental Working Paper has been amended accordingly at paragraph 10 of the Ministerial Recommendation and paragraphs 25 and 36b of the Analysis. The revised Departmental Working Paper, dated 7 Apr 89, is enclosed.
3. The former Draft Departmental Working Paper enclosed under cover of reference should be discarded.

W.J. Fulton
LCol
PD LRMP
995-9245

Enclosure: 1

DISTRIBUTION LIST

Action

Info

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Amendments will affect the ministers Info Book and latest TB Project Brief. These must be amended.

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DRAFT

DEPARTMENTAL WORKING PAPER

MILITIA

LIGHT ARMOURED VEHICLES

7 APRIL 1989

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MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. up to 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$199.3M (current year dollars);
2. the procurement strategy be based on negotiating suitable contracts to acquire up to 199 vehicles from Diesel Division of General Motors, London, Ontario, and up to 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - a. negotiating the General Motors contract substantially in accordance with the following principles:
 - (1) 60 percent of the total contract value in Canadian content;
 - (2) 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and
 - (3) placement of direct and indirect industrial and regional benefits amounting to 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada; and
 - b. negotiating the FMC Corporation contract to obtain high quality, long-term industrial and regional benefits totalling 60 percent of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
	(Current Year \$ Millions)					
	29.1	70.7	55.2	25.2	19.1	199.3
<u>DND PYs*</u>						
Military	11.6	9.85	9.25	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

*Subject to Treasury Board approval. The incremental DND PYs are for Project Management. Their cost is included in the total project cost.

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	0	4.5	3	1.5	0.5	0	9.5

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RATIONALE

6. Recognizing that it is both impractical and undesirable to meet Canada's defence commitments through the Regular Force alone, the 1987 White Paper calls for the establishment of a Total Force in which the Reserve Force would undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower and training requirements.

7. The procurement of up to 221 light armoured vehicles would enable the Land Reserve, or Militia, to conduct realistic and effective training in mechanized operations. The training would be conducted at the four planned Militia Training and Support Centres, that is, one in each of Canada's Land Force geographical areas: Western, Central, Secteur de l'Est, and Atlantic. The centres are scheduled to become operational at the rate of one a year commencing in 1989. Effectiveness in mechanized operations is essential to enable the Militia to contribute to the collective defence of NATO, as well as for Territorial Defence operations, where these vehicles will also play a vital part if operations must be launched within Canada.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

- a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. The proposed procurement strategy calls for acquiring up to 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.
- b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. The proposed procurement strategy calls for acquiring up to 22 vehicles for field engineering and anti-armour tasks, as GM does not produce suitable vehicles for these tasks.

9. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated that the plant may be closed and the work force laid off, perhaps permanently. Future orders would then be met at a United States production facility. The company has also indicated that placing an early order for approximately 200 Militia vehicles with the Diesel Division of General Motors could assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until 1996. For this reason, and to obtain vehicles in a timely fashion for the Militia Training and Support Centres, it is important to proceed now with the proposed procurement. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: that is, no significant National Defence requirements could help bridge a further production gap.

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10. Industrial and Regional Benefits. The industrial and regional benefits objectives for the wheeled vehicles to be purchased from GM are: 60 percent of the total contract value in Canadian content; the 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and placement of 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada. The contract would result in approximately 1400 person-years of direct employment over a period of three years. The company will be required to produce and implement both a Supplier Development Plan and a Small Business Sub-Contracting Plan. (GMP)

11. With respect to the tracked vehicles from the FMC Corporation, the objective is high quality, long-term industrial and regional benefits totalling 60 percent of the contract's total value.

PROBLEMS AND STRATEGIES

12. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

13. Strategy. The General Motors plant is the only existing production facility in Canada currently manufacturing a vehicle that meets DND's requirements. In addition, the contract with General Motors will involve significant benefits for Atlantic and Western Canada.

14. Problem. Concern could be expressed that the procurement of vehicles from General Motors will influence the selection of vehicles for the future Light Armoured Vehicle Project, which aims to replace as many as possible of the existing fleet of M113s and upgrade the balance.

15. Strategy. The purchase of vehicles from General Motors is to meet a near term, specific requirement, i.e. Militia training. The future Light Armoured Vehicle Project will not involve deliveries until 1995 and beyond. Consequently, the currently proposed purchase will have no anticipated influence on the future project, which, subject to future Cabinet decision, is expected to follow the normal competitive process.

POLITICAL CONSIDERATIONS

16. TBA

DEPARTMENTAL POSITIONS

17. The Departments and agencies supporting the recommendations include SSC, ISTC, DEA, WDO and ACOA. The Department of Finance and Treasury Board Secretariat have been consulted.

Minister of National Defence
Ministre de la Défense nationale

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COMMUNICATIONS SYNOPSIS
 Plan, see page)

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1. Consultation PCO NO FMD NO	2. Date Drafted 14 Feb 89	3. Anticipated Announcement Date TBD
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4. Goals: To inform the media parliamentarians, Canadian industry, defence specialists, youth and DND personnel of the decision to purchase light armoured vehicles for the Reserves.

5. Impact Anticipated a lot a little
 Media Reaction against * other
 Attention 5 4 3 2 1 40% 20% 40%

Canadians are generally aware of the need to modernize and improve the capabilities of the Reserves although the specific need for light armoured vehicles is not known.

There is some concern that funding the White Paper budget may not be possible in light of an anticipated government-wide deficit-reduction program.

and other areas of Canada, that will receive a benefit,

Reaction in southern Ontario, is likely to be favourable due to the assurance of the continued operation of the General motors plant in London and resulting employment and other economic benefits.

6. Possible Headlines:	Positive: Canadian Forces improve Reserve equipment
	Negative: Defence spending increases deficit

7. Messages

This is a positive step in the development of a modern, efficient Total Force as promised in the White Paper on Defence.

X The army, consisting of Regulars and Reserves, is improving its ability to protect Canada's sovereignty.

The vehicle chosen has proven capabilities and meets all requirements.

This demonstrates the government's resolve to support Canadian industry.

Providing light armoured vehicles for the reserves is a cost-effective way of meeting defence commitments in a time of fiscal restraint.

8. Activities

News conference at Toronto Reserve Armoury by MND.

Commander of the army and Central Militia area to be present.

Speaking notes, background material, fact sheets will be provided by DND.

9. Sustaining the Message

DND to monitor news content following announcement and take corrective action when warranted. DND will keep media advised of milestones such as the roll-out.

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ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training at Militia Training and Support Centres.

2. Current Policies. The 1987 White Paper on Defence recognized that not all of the personnel requirements for Canada's defence commitments can be met through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.

3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train augmentation and readiness troops to meet Canada's international commitments. To train for these tasks, the Militia must have access to equipment that is the same as, or similar to, the equipment it would use in actual operations. A fully trained Total Force will contribute to East-West deterrence, territorial defence and global peace and security.

4. The Department proposes to establish training facilities which the Militia will use to train for its Total Force roles. Specifically, there is a requirement for four Militia Training and Support Centres, one for each of the four military areas in

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Canada. The light armoured vehicles to be acquired as a result of this project will be physically located at these Militia Training and Support Centres.

5. The Militia requires approximately 380 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide up to 221. Most would serve to carry troops; the balance would consist of command post, maintenance, mortar-carrying, field engineering and anti-armour vehicles.

6. The shortfall between the total requirement of approximately 380 vehicles and the proposed acquisition of up to 221 will be met, to the extent possible, through redistribution of existing vehicles and, subject to the availability of funding, acquisition in the 1995-2000 period as part of the future Light Armoured Vehicle Project described in paragraph 9. The procurement of up to 221 light armoured vehicles will meet the most pressing requirement.

CONSIDERATIONS

7. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base, life cycle costs and the potential for industrial and regional benefits.

Relationship to Other Projects

8. The proposed acquisition of up to 221 light armoured vehicles is directly related to the planned modernization of

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the Land Reserve. These plans will result in:

- a. distinct projects for the construction of Militia Training and Support Centres (where training with the light armoured vehicles will occur) and for the procurement of various simulation devices; and
- b. inclusion of tank and Northern Terrain Vehicle requirements within the scope of the Tank Replacement and Northern Terrain Vehicle Projects, respectively.

9. There is a future Light Armoured Vehicle Project which aims at a combination of replacing and upgrading the aging fleet of armoured vehicles currently in service. The current project is not expected to influence the selection of vehicles for the future project, since its purpose is to meet a near term, specific requirement for Militia training. The future project will not be implemented until the period 1995-2000 and, subject to future Cabinet decision, will follow the normal competitive process.

10. The present project would not adversely affect the Understanding in Principle concluded between the Crown and Bear Head Industries Ltd, a wholly-owned subsidiary of Thyssen AG of West Germany. Under the agreement, the Crown will assist in the establishment, in Cape Breton, of a heavy-industry plant capable of producing parts and components for both civilian and military products. The Bear Head plant should be in a position to compete for the requirements of the Light Armoured Vehicle Project in the mid-1990s.

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National/International Implications

11. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for territorial defence and augmentation and readiness tasks in support of Canada's international commitments. Canadians would recognize the proposed acquisition as a significant step toward revitalizing the Reserves and creating an effective territorial defence capability. Canada's Allies have underscored the need for effective reserve forces and would see this procurement as a positive development in terms of burden-sharing.

Suitable Light Armoured Vehicles

12. For reasons pertaining to interoperability and benefits to the defence industrial base, only two vehicles are primary contenders to meet the requirement: the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario and the M113 produced by FMC Corporation of California. The selection of any other vehicle is not considered a viable option for the following reasons:

- a. there would be no commonality with current Canadian inventory;
- b. foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- c. current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

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13. The eight-wheeled Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, is a product improvement of the six-wheeled Armoured Vehicle General Purpose which has been in service with the Canadian Forces since 1979. The Light Armoured Vehicle has excellent mobility both on and off road, would require minimal modification to meet Canada's requirement and has a high degree of commonality with the existing Canadian Armoured Vehicle General Purpose fleet. The General Motors Light Armoured Vehicle would provide the Militia with realistic and effective training in mechanized operations.

14. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 M113s in service in Canada and Europe. Purchase of this vehicle would enable the Militia to train on the vehicle Canada's forces will be using in actual operations for some time.

15. Of the many roles for which the light armoured vehicles are required, there are two for which the use of General Motors Light Armoured vehicles is impractical. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction to push a bulldozer blade. For the anti-armour vehicles, the company would have to undertake significant design and development work to mount a suitable weapon turret, a task that is not cost-effective in view of the fact that only eight such vehicles are required. These limitations can be avoided by purchasing the M113, for which Canadian field engineering and anti-armour modification kits exist.

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Defence Industrial Base

16. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

17. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 Armoured Vehicle General Purpose for the Canadian Forces. It has also manufactured 759 Light Armoured Vehicles for the United States Marine Corps. It is now completing production of 12 electronic warfare vehicles for the U.S. and starting production of four vehicles on which the U.S. will later install 105mm guns.

18. As a result of the U.S. contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM reports to have good prospects for contracts with the United States, Australia and Saudi Arabia leading to production of at least 1100 vehicles during the period 1991 to 1996. However, these contracts would involve no production until 1991. Since production under the current U.S. contracts ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

19. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990.

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Such a contract would contribute significantly to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize in the future, the company will again face the same situation it does now, with one key difference: no significant National Defence requirements could help bridge the new production gap.

Life Cycle Costs

20. Wheeled vehicles are less susceptible to failure and are cheaper to operate and maintain than tracked vehicles. Based on a 20-year operating period, total life cycle costs are therefore less for wheeled vehicles than for tracked vehicles.

Industrial and Regional Benefits

21. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian defence industrial base, but also for the continuation of the industrial and regional benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1990.

22. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration. In addition, the company would endeavour to increase Canadian content significantly in the production of: power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent of the contract value in Canadian content.

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23. High quality, long-term indirect industrial and regional benefits offsetting the 40 percent foreign content would be achieved through transfers of technology and joint ventures, as well as Canadian sourcing of parts and components for future light armoured vehicle orders and other equipment.

24. A total of 30 percent of the contract value would be placed in two major regions. Fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial and regional benefits.

25. As noted in paragraphs 18 and 19, without an order to bridge the production gap in 1989 and 1990, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 350 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

26. If the Crown were to purchase all of the vehicles from FMC Corporation, the specific benefits would be subject to negotiation. In July 1988, responding to a formal Supply and Services inquiry, the company recommended against Canadian manufacture and offered unspecified indirect benefits. Typically, these benefits have been in the order of 60 to 70 percent of the contract value. More recently, in a January 1989 letter to the then Minister of National Defence, FMC proposed production at General Motors' facilities under a teaming arrangement. However, production could mean anything from mere assembly of components to varying degrees of Canadian manufacture by General Motors or sub-contractors.

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27. Almost certainly, contracting with FMC Corporation for up to 22 field engineering and anti-armour vehicles, therefore, would not contribute in a significantly positive fashion to Canada's defence industrial base. Through indirect benefits it would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

Interoperability

28. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result in terms of interoperability with existing Canadian Forces equipment and Allied fleets.

PROCUREMENT OPTIONS

29. There are three procurement options:

- a. procure up to 221 FMC M113s;
- b. procure up to 221 GM Light Armoured Vehicles; and
- c. procure up to 199 GM Light Armoured Vehicles to meet the troop carrier, command post, mortar carrier and maintenance vehicle requirements, and procure up to 22 FMC M113s to meet the field engineering and anti-armour vehicle requirements.

30. Option 1. Purchase of FMC Corporation M113s only:

a. Advantages:

- (1) the operational requirement would be met;

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- (2) capital costs would be the lowest of any option. Savings would be in the order of \$40M (\$89/90) if the vehicles were manufactured in the United States and \$10M if they were manufactured in Canada; and
- (3) interoperability with the Canadian and Allied inventory would be achieved.

b. Disadvantages:

- (1) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- (2) establishment of an M113 production facility in Canada would involve a cost premium of about \$30M over manufacture in the United States and a delay of about 20 months caused by the necessity to build a new facility or reconfigure an existing one;
- (3) if FMC were to arrange GM production in Canada, the delay mentioned above would result in no manufacturing in 1989 and 1990; and
- (4) because tracked vehicles are more expensive to operate and maintain, this option would entail about \$10M (\$88/89) more in life cycle costs than the wheeled vehicle option.

31. Option 2. Purchase of GM Light Armoured Vehicles only:

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a. Advantages:

- (1) the existing light armoured manufacturing facility would be maintained, at least in the short term;
- (2) life cycle costs would be approximately \$10M (\$88/89) less than for option 1;
- (3) the operational requirement would be met in all but two applications (see paragraph 31b); and
- (4) industrial and regional benefits would be maximized.

b. Disadvantages.

- (1) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineering bulldozer vehicle; and
- (2) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

32. Option 3. Sole source purchases of up to 199 Light Armoured Vehicles from GM Diesel Division and up to 22 M113 field engineering and anti-armour vehicles from FMC Corporation:

a. Advantages:

- (1) the operational requirement would be met;

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- (2) the defence industrial base would be sustained;
- (3) based on the operational requirement, optimal industrial and regional benefits would be achieved;
- (4) life cycle costs would be approximately \$10M less than for option 1; and
- (5) interoperability with current Canadian and Allied inventory would be achieved.

- b. Disadvantage. Sole source procurement could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

33. The Department of Supply and Services would, however, rigorously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. As a result of the United States Marine Corps purchase, it also has available a solid data base for analysing the price quotations of General Motors. Finally, the industrial and regional benefit objectives at paragraphs 21 to 27 above would be vigorously pursued in contract negotiations.

Evaluation Criteria

34. Proposals will be evaluated on the basis of compliance with the following criteria:

- a. the achievement of vehicle performance objectives;

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- b. completeness of set-up, production, sub-contracting and quality control plans;
- c. completeness of logistic support data;
- d. a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk, Canadian content and contracting; and
- e. achievement of industrial and regional benefit objectives.

35. Any shortcomings in proposals would be the basis of negotiations.

Defence Industrial Base Objectives

36. Canada should maintain the capability of producing light armoured vehicles. Emphasis would be placed on negotiating high quality, long-term industrial and regional benefits. Company proposals for the troop carriers, command post vehicles, mortar carriers, maintenance vehicles and associated support will have to demonstrate a reasonable commitment:

- a. to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- b. to provide for employment of a skilled work force of approximately 475 persons over an average of three years amounting to approximately 1400 person years

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of employment (the 475 jobs would consist of the 350 current jobs in the London plant plus an additional 125 jobs which would be created if 199 light armoured vehicles were acquired from General Motors); and

- c. to produce and implement a Supplier Development Plan and a Small Business Sub-Contracting Plan.

Other Factors

37. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
April 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

38. Affordability. The \$199.3 M allocated for this project is affordable within the indicative planning levels. This amount will allow for purchasing up to the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

39. The DND funding proposed for implementation of the project is:

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<u>FY</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
	<u>Current Year \$M</u>					
	29.1	70.7	55.2	25.2	19.1	199.3

Incremental Person Years

Military	11.6	9.85	9.25	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

40. The proposed incremental person year requirements of other departments are as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	1	1	0.5	0.5	0.5	3.5
Supply and Services	4.5	3	1.5	0.5	0	9.5

41. All incremental person years are subject to Treasury Board approval.

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ANNEX A TO THE MR

COMMUNICATION STRATEGY AND PLAN
MILITIA LIGHT ARMoured VEHICLES

AIM

1. The aim of this document is to detail the communication strategy for the announcement of the decision to purchase light armoured vehicles for the Reserves from General Motors and FMC Corporation.

BACKGROUND

2. In order to meet Canada's defence commitments effectively many tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The 1987 White Paper on Defence consequently calls for the establishment of a Total Force, integrating the Regular and Reserve components.

3. Within the Total Force, the Land Reserve (Militia) requires 221 light armoured vehicles to fulfill its commitments to the defence of Canadian territory, peacekeeping, and reinforcement of Canadian troops overseas.

4. Diesel Division of General Motors is the only Canadian company currently able to produce armoured vehicles. The placing of an early order for approximately 200 Militia vehicles will assure the continued operation of General Motors' London Plant and the maintenance of an essential element of Canada's defence industrial base until at least 1996.

PUBLIC ENVIRONMENT

Media Commentary

5. Canadian media are very supportive of increasing the size and role of the Reserves. The need for updated equipment for these forces is also widely recognized. Although this is not a well-known project, other current equipment acquisitions having a Reserve connection, such as minecountermeasures vessels, are receiving favourable commentary.

6. In the past, some skepticism has been expressed by the media as to whether the government will fulfill its Reserve commitments outlined in the White Paper. Since December, 1988, this attention has focused more on the potential future difficulties of recruiting and retaining reservists, than on the government's commitment to fulfilling its White Paper promises for new equipment for the Reserves. However, as recently as 3 February, 1989, Fred Cleverley of the Winnipeg Free Press wrote that: "The key to achieving Army 2002 is enough money to attract reservists and enough equipment to keep their interest. It is a job at which neither the defence bureaucracy nor the generals have had much practice."

7. The need for fiscal responsibility on the part of the government in order to contain the national deficit is also being highlighted in the media. As the upcoming budget is anticipated, it is generally considered that there will be spending cuts throughout government departments.

Canadian Publics

8. Canadians have consistently supported an expansion in the size and role of the Reserve Force. A March 1988 DND study found that 61% of Canadians thought that Canada should greatly increase the size of its Reserves. A January 1989 study found that 66% supported increased defence spending when put in the context of modernization.

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9. Several factors, however, such as attitudes toward defence spending and the perceptions toward changing East-West relations, could adversely influence Canadian response to this announcement. During the past year, support for defence spending in general, has decreased. In the January, 1989 study, 41% of Canadians opted for increased spending, as compared to 47% in March, 1988. These figures reflect a trend in recent months regarding the higher priority being attached by Canadians to environmental and social issues, coupled with concern over federal government spending and the national deficit. Recent Soviet announcements of unilateral arms cuts and optimism over future cuts is also adversely affecting perceptions of defence.

10. Overall, in light of the existing support for modernization of the Reserves as a cost-effective means of meeting defence commitments to Canadians, and the recognition of the need to replace outdated Reserve equipment, national public reaction to the announcement is likely to be neutral while the response in Southern Ontario is likely to be positive for economic considerations.

Regional Perspective

and other areas of Canada, that will receive a benef.

11. Canadians in Southern Ontario, will view this contract as a means of ensuring the continued operation of the General Motors plant, and by extension, the assurance of employment in the area. The announcement therefore is likely to be received favourably.

Defence Specialists

12. Some journalists well-versed in defence matters, as well as some defence "experts" may question whether or not this vehicle is the best choice for the needs of the Reserves and the Canadian Forces. The announcement may instead be perceived as a means of maintaining operation of the General Motors plant in Southern Ontario. There may therefore, be some criticism from this sector.

Canadian Industry

13. Since the government will be seen as taking measures to ensure the continuation of the General Motors plant and the maintenance of the Canadian defence industrial base, this group is likely to respond favourably.

TARGET AUDIENCES

14. Target audiences are:
- a. media;
 - b. parliamentarians;
 - c. Canadian industry;
 - d. defence specialists;
 - e. youth; and
 - f. internal DND personnel.

COMMUNICATIONS OBJECTIVES

Public Affairs Strategy

16. To demonstrate to the target audiences that the government is serious in its resolve to make the Reserves a viable partner in the Total Force and to provide them with modern equipment.

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17. To demonstrate that the procurement strategy will ensure that the Canadian taxpayer will be well served by a fair and equitable system, ensuring excellence of equipment, industrial benefits, employment and value for money.

MESSAGES

18. This project is a positive step forward in the development of a modern, efficient Total Force as promised in the White Paper on Defence.

19. The Canadian army, consisting of Regulars and Reserves, is improving its ability to protect Canada's sovereignty.

20. The vehicle chosen has proven capabilities. It is well suited to territorial defence and peacekeeping operations, as well as being suitable for training troops for other operational tasks.

21. This project demonstrates the government's resolve to support Canadian industry.

22. Providing light armoured vehicles for the Reserves is a cost-effective way of meeting defence commitments in a time of fiscal restraint.

COMMUNICATIONS TACTICS

STRATEGIC CONSIDERATIONS

23. Canadian publics can be expected to be supportive of this project if it is presented in the context of providing a viable role to the Reserves and modernizing the army.

24. Some criticism may emerge in the media as government spending of any kind will be reported on in light of the need to reduce the deficit. The department will need to emphasize that it is committed to the modernization of the Canadian Armed Forces in the most cost-effective way. X

25. Additional media criticism may emerge due to the decision to sole source. There could also be a perception that the vehicle is being forced on the military due to economic rather than operational considerations. The department will need to emphasize that the vehicle is of proven design, having stood up to the rigorous requirements of the U.S. Marine Corps, and that it meets Canada's operational requirements for territorial defence, peacekeeping, and training the Reserves.

ANNOUNCEMENT STRATEGY

Pre-Announcement Initiatives

26. Because of the short timeframe prior to introducing this project for approval and the announcement of approval, no pre-announcement initiatives are recommended.

Announcement Day Activities

27. In light of a generally supportive public environment with regard to revitalization of the Reserves, a high profile, assertive public information approach is recommended.

28. It is recommended that a news conference be held by the MND to announce the signing of the contract. One of the Militia Armouries in Toronto is recommended as the location for the news conference. It would be readily accessible to the national media, close to the General Motors plant and focus on the Reserves in the heart of the largest Reserve recruiting area.

29. The Commander of the army (Mobile Command) and Commander Central Militia Area should also be present at the news conference.

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30. Supporting materials for the news conference will include a backgrounder, news release, photographs, fact sheets, video stock footage, speaking notes and questions and answers. Backdrops for the conference at the Armoury should include existing equipment and reservists in parade uniform.

MINISTERS INVOLVEMENT

31. (see announcement strategy)

CAUCUS BRIEFING

32. Support material for the news conference will be provided to members of parliament.

BUDGET

33. No additional funds are necessary to implement this strategy.

INTERDEPARTMENTAL COORDINATION

34. DND has coordinated with SSC, DIST, DEA, DWED, Treasury Board and ACOA. The Department of Finance has been consulted.

EVALUATION

35 DND will monitor and evaluate news media content as a result of the announcement and take corrective action as required.

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ANNEX B
TO THE MR

TABLE 1

MILITIA LIGHT ARMOURED VEHICLE PROJECT

FUTURE SUBMISSIONS TO MINISTERS

<u>PERIOD</u>	<u>FORUM</u>	<u>DECISION SOUGHT</u>
April 1989	Treasury Board	Effective Project Approval and Contract Approval

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PM MIL LAV

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MEMORANDUM

PMO	TASK
SECTION	
3246010205	
8055-22 (LRMP)	
FILE NO:	
28 Mar 89	
DISCARD	

D Cabinet Ln

DRAFT DEPARTMENTAL WORKING PAPER
MILITIA LIGHT ARMoured VEHICLE

1. Subject working paper, dated 28 Mar 89, is enclosed for your action. The paper has been reviewed by DND Group Principals and by Assistant Deputy Ministers in the other concerned government departments. Their comments have been incorporated into the paper.
2. It would be appreciated if a copy of the final version of the paper would be forwarded to this PMO upon completion.

W.J. Fulton
LCol
PD LRMP
995-9245

Enclosure: 1

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DRAFT
DEPARTMENTAL WORKING PAPER
MILITIA
LIGHT ARMoured VEHICLES

28 MARCH 1989

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MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. up to 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$199.3M (current year dollars);
2. the procurement strategy be based on negotiating suitable contracts to acquire up to 199 vehicles from Diesel Division of General Motors, London, Ontario, and up to 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - a. negotiating the General Motors contract substantially in accordance with the following principles:
 - (1) 60 percent of the total contract value in Canadian content;
 - (2) 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and
 - (3) placement of direct and indirect industrial and regional benefits amounting to 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada; and
 - b. negotiating the FMC Corporation contract to obtain high quality, long-term industrial and regional benefits totalling 60 percent of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
	(Current Year \$ Millions)					
	29.1	70.7	55.2	25.2	19.1	199.3
DND PYs*						
Military	11.6	9.85	9.25	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

*Subject to Treasury Board approval. The incremental DND PYs are for Project Management. Their cost is included in the total project cost.

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	0	4.5	3	1.5	0.5	0	9.5

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RATIONALE

6. Recognizing that it is both impractical and undesirable to meet Canada's defence commitments through the Regular Force alone, the 1987 White Paper calls for the establishment of a Total Force in which the Reserve Force would undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower and training requirements.

7. The procurement of up to 221 light armoured vehicles would enable the Land Reserve, or Militia, to conduct realistic and effective training in mechanized operations. The training would be conducted at the four planned Militia Training and Support Centres, that is, one in each of Canada's Land Force geographical areas: Western, Central, Secteur de l'Est, and Atlantic. The centres are scheduled to become operational at the rate of one a year commencing in 1989. Effectiveness in mechanized operations is essential to enable the Militia to contribute to the collective defence of NATO, as well as for Territorial Defence operations, where these vehicles will also play a vital part if operations must be launched within Canada.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

- a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. The proposed procurement strategy calls for acquiring up to 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.
- b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. The proposed procurement strategy calls for acquiring up to 22 vehicles for field engineering and anti-armour tasks, as GM does not produce suitable vehicles for these tasks.

9. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated that the plant may be closed and the work force laid off, perhaps permanently. Future orders would then be met at a United States production facility. The company has also indicated that placing an early order for approximately 200 Militia vehicles with the Diesel Division of General Motors could assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until 1996. For this reason, and to obtain vehicles in a timely fashion for the Militia Training and Support Centres, it is important to proceed now with the proposed procurement. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: that is, no significant National Defence requirements could help bridge a further production gap.

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10. Industrial and Regional Benefits. The industrial and regional benefits objectives for the wheeled vehicles to be purchased from GM are: 60 percent of the total contract value in Canadian content; the 40 percent foreign content entirely offset by high quality, long-term indirect industrial and regional benefits; and placement of 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada. The contract would result in approximately 640 person-years of direct employment. The company will be required to produce and implement both a Supplier Development Plan and a Small Business Sub-Contracting Plan.

11. With respect to the tracked vehicles from the FMC Corporation, the objective is high quality, long-term industrial and regional benefits totalling 60 percent of the contract's total value.

PROBLEMS AND STRATEGIES

12. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

13. Strategy. The General Motors plant is the only existing production facility in Canada currently manufacturing a vehicle that meets DND's requirements. In addition, the contract with General Motors will involve significant benefits for Atlantic and Western Canada.

14. Problem. Concern could be expressed that the procurement of vehicles from General Motors will influence the selection of vehicles for the future Light Armoured Vehicle Project, which aims to replace as many as possible of the existing fleet of M113s and upgrade the balance.

15. Strategy. The purchase of vehicles from General Motors is to meet a near term, specific requirement, i.e. Militia training. The future Light Armoured Vehicle Project will not involve deliveries until 1995 and beyond. Consequently, the currently proposed purchase will have no anticipated influence on the future project, which, subject to future Cabinet decision, is expected to follow the normal competitive process.

POLITICAL CONSIDERATIONS

16. TBA

DEPARTMENTAL POSITIONS

17. The Departments and agencies supporting the recommendations include SSC, ISTC, DEA, WDO and ACOA. The Department of Finance and Treasury Board Secretariat have been consulted.

Minister of National Defence
Ministre de la Défense nationale

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COMMUNICATIONS SYNOPSIS
 Plan, see page)

S E C R E T

1. Consultation PCO NO FMO NO	2. Date Drafted 14 Feb 89	3. Anticipated Announcement Date TBD
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4. Goals: To inform the media parliamentarians, Canadian industry, defence specialists, youth and DND personnel of the decision to purchase light armoured vehicles for the Reserves.

5. Impact Anticipated a lot a little
 Media Reaction against other
 Attention 5 4 3 2 1 * 40% 20% 40%

Canadians are generally aware of the need to modernize and improve the capabilities of the Reserves although the specific need for light armoured vehicles is not known.

There is some concern that funding the White Paper budget may not be possible in light of an anticipated government-wide deficit-reduction program.

and other areas of Canada, that will receive a benefit,

Reaction in southern Ontario, is likely to be favourable due to the assurance of the continued operation of the General motors plant in London and resulting employment and other economic benefits.

6. Possible Headlines:	Positive: Canadian Forces improve Reserve equipment
	Negative: Defence spending increases deficit

7. Messages

This is a positive step in the development of a modern, efficient Total Force as promised in the White Paper on Defence.

X The army, consisting of Regulars and Reserves, is improving its ability to protect Canada's sovereignty.

The vehicle chosen has proven capabilities and meets all requirements.

This demonstrates the government's resolve to support Canadian industry.

Providing light armoured vehicles for the reserves is a cost-effective way of meeting defence commitments in a time of fiscal restraint.

8. Activities

News conference at Toronto Reserve Armoury by MND.

Commander of the army and Central Militia area to be present.

Speaking notes, background material, fact sheets will be provided by DND.

9. Sustaining the Message

DND to monitor news content following announcement and take corrective action when warranted. DND will keep media advised of milestones such as the roll-out.

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ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training at Militia Training and Support Centres.

2. Current Policies. The 1987 White Paper on Defence recognized that not all of the personnel requirements for Canada's defence commitments can be met through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.

3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train augmentation and readiness troops to meet Canada's international commitments. To train for these tasks, the Militia must have access to equipment that is the same as, or similar to, the equipment it would use in actual operations. A fully trained Total Force will contribute to East-West deterrence, territorial defence and global peace and security.

4. The Department proposes to establish training facilities which the Militia will use to train for its Total Force roles. Specifically, there is a requirement for four Militia Training and Support Centres, one for each of the four military areas in

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Canada. The light armoured vehicles to be acquired as a result of this project will be physically located at these Militia Training and Support Centres.

5. The Militia requires approximately 380 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide up to 221. Most would serve to carry troops; the balance would consist of command post, maintenance, mortar-carrying, field engineering and anti-armour vehicles.

6. The shortfall between the total requirement of approximately 380 vehicles and the proposed acquisition of up to 221 will be met, to the extent possible, through redistribution of existing vehicles and, subject to the availability of funding, acquisition in the 1995-2000 period as part of the future Light Armoured Vehicle Project described in paragraph 9. The procurement of up to 221 light armoured vehicles will meet the most pressing requirement.

CONSIDERATIONS

7. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base, life cycle costs and the potential for industrial and regional benefits.

Relationship to Other Projects

8. The proposed acquisition of up to 221 light armoured vehicles is directly related to the planned modernization of

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the Land Reserve. These plans will result in:

- a. distinct projects for the construction of Militia Training and Support Centres (where training with the light armoured vehicles will occur) and for the procurement of various simulation devices; and
- b. inclusion of tank and Northern Terrain Vehicle requirements within the scope of the Tank Replacement and Northern Terrain Vehicle Projects, respectively.

9. There is a future Light Armoured Vehicle Project which aims at a combination of replacing and upgrading the aging fleet of armoured vehicles currently in service. The current project is not expected to influence the selection of vehicles for the future project, since its purpose is to meet a near term, specific requirement for Militia training. The future project will not be implemented until the period 1995-2000 and, subject to future Cabinet decision, will follow the normal competitive process.

10. The present project would not adversely affect the Understanding in Principle concluded between the Crown and Bear Head Industries Ltd, a wholly-owned subsidiary of Thyssen AG of West Germany. Under the agreement, the Crown will assist in the establishment, in Cape Breton, of a heavy-industry plant capable of producing parts and components for both civilian and military products. The Bear Head plant should be in a position to compete for the requirements of the Light Armoured Vehicle Project in the mid-1990s.

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National/International Implications

11. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for territorial defence and augmentation and readiness tasks in support of Canada's international commitments. Canadians would recognize the proposed acquisition as a significant step toward revitalizing the Reserves and creating an effective territorial defence capability. Canada's Allies have underscored the need for effective reserve forces and would see this procurement as a positive development in terms of burden-sharing.

Suitable Light Armoured Vehicles

12. For reasons pertaining to interoperability and benefits to the defence industrial base, only two vehicles are primary contenders to meet the requirement: the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario and the M113 produced by FMC Corporation of California. The selection of any other vehicle is not considered a viable option for the following reasons:

- a. there would be no commonality with current Canadian inventory;
- b. foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- c. current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

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13. The eight-wheeled Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, is a product improvement of the six-wheeled Armoured Vehicle General Purpose which has been in service with the Canadian Forces since 1979. The Light Armoured Vehicle has excellent mobility both on and off road, would require minimal modification to meet Canada's requirement and has a high degree of commonality with the existing Canadian Armoured Vehicle General Purpose fleet. The General Motors Light Armoured Vehicle would provide the Militia with realistic and effective training in mechanized operations.

14. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 M113s in service in Canada and Europe. Purchase of this vehicle would enable the Militia to train on the vehicle Canada's forces will be using in actual operations for some time.

15. Of the many roles for which the light armoured vehicles are required, there are two for which the use of General Motors Light Armoured vehicles is impractical. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction to push a bulldozer blade. For the anti-armour vehicles, the company would have to undertake significant design and development work to mount a suitable weapon turret, a task that is not cost-effective in view of the fact that only eight such vehicles are required. These limitations can be avoided by purchasing the M113, for which Canadian field engineering and anti-armour modification kits exist.

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Defence Industrial Base

16. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

17. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 Armoured Vehicle General Purpose for the Canadian Forces. It has also manufactured 759 Light Armoured Vehicles for the United States Marine Corps. It is now completing production of 12 electronic warfare vehicles for the U.S. and starting production of four vehicles on which the U.S. will later install 105mm guns.

18. As a result of the U.S. contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM reports to have good prospects for contracts with the United States, Australia and Saudi Arabia leading to production of at least 1100 vehicles during the period 1991 to 1996. However, these contracts would involve no production until 1991. Since production under the current U.S. contracts ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

19. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990.

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Such a contract would contribute significantly to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize in the future, the company will again face the same situation it does now, with one key difference: no significant National Defence requirements could help bridge the new production gap.

Life Cycle Costs

20. Wheeled vehicles are less susceptible to failure and are cheaper to operate and maintain than tracked vehicles. Based on a 20-year operating period, total life cycle costs are therefore less for wheeled vehicles than for tracked vehicles.

Industrial and Regional Benefits

21. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian defence industrial base, but also for the continuation of the industrial and regional benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1990.

22. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration. In addition, the company would endeavour to increase Canadian content significantly in the production of: power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent of the contract value in Canadian content.

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23. High quality, long-term indirect industrial and regional benefits offsetting the 40 percent foreign content would be achieved through transfers of technology and joint ventures, as well as Canadian sourcing of parts and components for future light armoured vehicle orders and other equipment.

24. A total of 30 percent of the contract value would be placed in two major regions. Fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial and regional benefits.

25. As noted in paragraphs 18 and 19, without an order to bridge the production gap in 1989 and 1990, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 170 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

26. If the Crown were to purchase all of the vehicles from FMC Corporation, the specific benefits would be subject to negotiation. In July 1988, responding to a formal Supply and Services inquiry, the company recommended against Canadian manufacture and offered unspecified indirect benefits. Typically, these benefits have been in the order of 60 to 70 percent of the contract value. More recently, in a January 1989 letter to the then Minister of National Defence, FMC proposed production at General Motors' facilities under a teaming arrangement. However, production could mean anything from mere assembly of components to varying degrees of Canadian manufacture by General Motors or sub-contractors.

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27. Almost certainly, contracting with FMC Corporation for up to 22 field engineering and anti-armour vehicles, therefore, would not contribute in a significantly positive fashion to Canada's defence industrial base. Through indirect benefits it would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

Interoperability

28. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result in terms of interoperability with existing Canadian Forces equipment and Allied fleets.

PROCUREMENT OPTIONS

29. There are three procurement options:

- a. procure up to 221 FMC M113s;
- b. procure up to 221 GM Light Armoured Vehicles; and
- c. procure up to 199 GM Light Armoured Vehicles to meet the troop carrier, command post, mortar carrier and maintenance vehicle requirements, and procure up to 22 FMC M113s to meet the field engineering and anti-armour vehicle requirements.

30. Option 1. Purchase of FMC Corporation M113s only:

a. Advantages:

- (1) the operational requirement would be met;

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- (2) capital costs would be the lowest of any option. Savings would be in the order of \$40M (\$89/90) if the vehicles were manufactured in the United States and \$10M if they were manufactured in Canada; and
- (3) interoperability with the Canadian and Allied inventory would be achieved.

b. Disadvantages:

- (1) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- (2) establishment of an M113 production facility in Canada would involve a cost premium of about \$30M over manufacture in the United States and a delay of about 20 months caused by the necessity to build a new facility or reconfigure an existing one;
- (3) if FMC were to arrange GM production in Canada, the delay mentioned above would result in no manufacturing in 1989 and 1990; and
- (4) because tracked vehicles are more expensive to operate and maintain, this option would entail about \$10M (\$88/89) more in life cycle costs than the wheeled vehicle option.

31. Option 2. Purchase of GM Light Armoured Vehicles only:

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a. Advantages:

- (1) the existing light armoured manufacturing facility would be maintained, at least in the short term;
- (2) life cycle costs would be approximately \$10M (\$88/89) less than for option 1;
- (3) the operational requirement would be met in all but two applications (see paragraph 31b); and
- (4) industrial and regional benefits would be maximized.

b. Disadvantages.

- (1) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineering bulldozer vehicle; and
- (2) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

32. Option 3. Sole source purchases of up to 199 Light Armoured Vehicles from GM Diesel Division and up to 22 M113 field engineering and anti-armour vehicles from FMC Corporation:

a. Advantages:

- (1) the operational requirement would be met;

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- (2) the defence industrial base would be sustained;
- (3) based on the operational requirement, optimal industrial and regional benefits would be achieved;
- (4) life cycle costs would be approximately \$10M less than for option 1; and
- (5) interoperability with current Canadian and Allied inventory would be achieved.

- b. Disadvantage. Sole source procurement could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

33. The Department of Supply and Services would, however, rigorously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. As a result of the United States Marine Corps purchase, it also has available a solid data base for analysing the price quotations of General Motors. Finally, the industrial and regional benefit objectives at paragraphs 21 to 27 above would be vigorously pursued in contract negotiations.

Evaluation Criteria

34. Proposals will be evaluated on the basis of compliance with the following criteria:

- a. the achievement of vehicle performance objectives;

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- b. completeness of set-up, production, sub-contracting and quality control plans;
- c. completeness of logistic support data;
- d. a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk, Canadian content and contracting; and
- e. achievement of industrial and regional benefit objectives.

35. Any shortcomings in proposals would be the basis of negotiations.

Defence Industrial Base Objectives

36. Canada should maintain the capability of producing light armoured vehicles. Emphasis would be placed on negotiating high quality, long-term industrial and regional benefits. Company proposals for the troop carriers, command post vehicles, mortar carriers, maintenance vehicles and associated support will have to demonstrate a reasonable commitment:

- a. to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- b. to maintain employment for a skilled work force of approximately 370 persons over an average of 21 months amounting to approximately 640 person years

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of employment (the 370 jobs would consist of the 170 current jobs in the London plant plus an additional 200 jobs which would be created if 199 light armoured vehicles were acquired from General Motors); and

- c. to produce and implement a Supplier Development Plan and a Small Business Sub-Contracting Plan.

Other Factors

37. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
April 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

38. Affordability. The \$199.3 M allocated for this project is affordable within the indicative planning levels. This amount will allow for purchasing up to the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

39. The DND funding proposed for implementation of the project is:

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<u>FY</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
<u>Current Year \$M</u>						
	29.1	70.7	55.2	25.2	19.1	199.3

Incremental Person Years

Military	11.6	9.85	9.25	6.5	3.0	40.2
Civilian	8.5	7.4	7.4	3.4	1.7	28.4

40. The proposed incremental person year requirements of other departments are as follows:

	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	1	1	0.5	0.5	0.5	3.5
Supply and Services	4.5	3	1.5	0.5	0	9.5

41. All incremental person years are subject to Treasury Board approval.

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ANNEX A TO THE MR

COMMUNICATION STRATEGY AND PLAN
MILITIA LIGHT ARMoured VEHICLES

AIM

1. The aim of this document is to detail the communication strategy for the announcement of the decision to purchase light armoured vehicles for the Reserves from General Motors and FMC Corporation.

BACKGROUND

2. In order to meet Canada's defence commitments effectively many tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The 1987 White Paper on Defence consequently calls for the establishment of a Total Force, integrating the Regular and Reserve components.

3. Within the Total Force, the Land Reserve (Militia) requires 221 light armoured vehicles to fulfill its commitments to the defence of Canadian territory, peacekeeping, and reinforcement of Canadian troops overseas.

4. Diesel Division of General Motors is the only Canadian company currently able to produce armoured vehicles. The placing of an early order for approximately 200 Militia vehicles will assure the continued operation of General Motors' London Plant and the maintenance of an essential element of Canada's defence industrial base until at least 1996.

PUBLIC ENVIRONMENT

Media Commentary

5. Canadian media are very supportive of increasing the size and role of the Reserves. The need for updated equipment for these forces is also widely recognized. Although this is not a well-known project, other current equipment acquisitions having a Reserve connection, such as minecountermeasures vessels, are receiving favourable commentary.

6. In the past, some skepticism has been expressed by the media as to whether the government will fulfill its Reserve commitments outlined in the White Paper. Since December, 1988, this attention has focused more on the potential future difficulties of recruiting and retaining reservists, than on the government's commitment to fulfilling its White Paper promises for new equipment for the Reserves. However, as recently as 3 February, 1989, Fred Cleverley of the Winnipeg Free Press wrote that: "The key to achieving Army 2002 is enough money to attract reservists and enough equipment to keep their interest. It is a job at which neither the defence bureaucracy nor the generals have had much practice."

7. The need for fiscal responsibility on the part of the government in order to contain the national deficit is also being highlighted in the media. As the upcoming budget is anticipated, it is generally considered that there will be spending cuts throughout government departments.

Canadian Publics

8. Canadians have consistently supported an expansion in the size and role of the Reserve Force. A March 1988 DND study found that 61% of Canadians thought that Canada should greatly increase the size of its Reserves. A January 1989 study found that 66% supported increased defence spending when put in the context of modernization.

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ANNEX A TO THE MR

9. Several factors, however, such as attitudes toward defence spending and the perceptions toward changing East-West relations, could adversely influence Canadian response to this announcement. During the past year, support for defence spending in general, has decreased. In the January, 1989 study, 41% of Canadians opted for increased spending, as compared to 47% in March, 1988. These figures reflect a trend in recent months regarding the higher priority being attached by Canadians to environmental and social issues, coupled with concern over federal government spending and the national deficit. Recent Soviet announcements of unilateral arms cuts and optimism over future cuts is also adversely affecting perceptions of defence.

10. Overall, in light of the existing support for modernization of the Reserves as a cost-effective means of meeting defence commitments to Canadians, and the recognition of the need to replace outdated Reserve equipment, national public reaction to the announcement is likely to be neutral while the response in Southern Ontario is likely to be positive for economic considerations.

Regional Perspective

and other areas of Canada, that will receive a benefit

11. Canadians in Southern Ontario, will view this contract as a means of ensuring the continued operation of the General Motors plant, and by extension, the assurance of employment in the area. The announcement therefore is likely to be received favourably.

Defence Specialists

12. Some journalists well-versed in defence matters, as well as some defence "experts" may question whether or not this vehicle is the best choice for the needs of the Reserves and the Canadian Forces. The announcement may instead be perceived as a means of maintaining operation of the General Motors plant in Southern Ontario. There may therefore, be some criticism from this sector.

Canadian Industry

13. Since the government will be seen as taking measures to ensure the continuation of the General Motors plant and the maintenance of the Canadian defence industrial base, this group is likely to respond favourably.

TARGET AUDIENCES

14. Target audiences are:

- a. media;
- b. parliamentarians;
- c. Canadian industry;
- d. defence specialists;
- e. youth; and
- f. internal DND personnel.

COMMUNICATIONS OBJECTIVES

Public Affairs Strategy

16. To demonstrate to the target audiences that the government is serious in its resolve to make the Reserves a viable partner in the Total Force and to provide them with modern equipment.

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ANNEX A TO THE MR

17. To demonstrate that the procurement strategy will ensure that the Canadian taxpayer will be well served by a fair and equitable system, ensuring excellence of equipment, industrial benefits, employment and value for money.

MESSAGES

18. This project is a positive step forward in the development of a modern, efficient Total Force as promised in the White Paper on Defence.

19. The Canadian army, consisting of Regulars and Reserves, is improving its ability to protect Canada's sovereignty.

20. The vehicle chosen has proven capabilities. It is well suited to territorial defence and peacekeeping operations, as well as being suitable for training troops for other operational tasks.

21. This project demonstrates the government's resolve to support Canadian industry.

22. Providing light armoured vehicles for the Reserves is a cost-effective way of meeting defence commitments in a time of fiscal restraint.

COMMUNICATIONS TACTICS

STRATEGIC CONSIDERATIONS

23. Canadian publics can be expected to be supportive of this project if it is presented in the context of providing a viable role to the Reserves and modernizing the army.

24. Some criticism may emerge in the media as government spending of any kind will be reported on in light of the need to reduce the deficit. The department will need to emphasize that it is committed to the modernization of the Canadian Armed Forces in the most cost-effective way. X

25. Additional media criticism may emerge due to the decision to sole source. There could also be a perception that the vehicle is being forced on the military due to economic rather than operational considerations. The department will need to emphasize that the vehicle is of proven design, having stood up to the rigorous requirements of the U.S. Marine Corps, and that it meets Canada's operational requirements for territorial defence, peacekeeping, and training the Reserves. ✓

ANNOUNCEMENT STRATEGY

Pre-Announcement Initiatives

26. Because of the short timeframe prior to introducing this project for approval and the announcement of approval, no pre-announcement initiatives are recommended.

Announcement Day Activities

27. In light of a generally supportive public environment with regard to revitalization of the Reserves, a high profile, assertive public information approach is recommended.

28. It is recommended that a news conference be held by the MND to announce the signing of the contract. One of the Militia Armouries in Toronto is recommended as the location for the news conference. It would be readily accessible to the national media, close to the General Motors plant and focus on the Reserves in the heart of the largest Reserve recruiting area.

29. The Commander of the army (Mobile Command) and Commander Central Militia Area should also be present at the news conference.

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ANNEX A TO THE MR

30. Supporting materials for the news conference will include a backgrounder, news release, photographs, fact sheets, video stock footage, speaking notes and questions and answers. Backdrops for the conference at the Armoury should include existing equipment and reservists in parade uniform.

MINISTERS INVOLVEMENT

31. (see announcement strategy)

CAUCUS BRIEFING

32. Support material for the news conference will be provided to members of parliament.

BUDGET

33. No additional funds are necessary to implement this strategy.

INTERDEPARTMENTAL COORDINATION

34. DND has coordinated with SSC, DIST, DEA, DWED, Treasury Board and ACOA. The Department of Finance has been consulted.

EVALUATION

35. DND will monitor and evaluate news media content as a result of the announcement and take corrective action as required.

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ANNEX B
TO THE MR

TABLE 1

MILITIA LIGHT ARMOURED VEHICLE PROJECT

FUTURE SUBMISSIONS TO MINISTERS

<u>PERIOD</u>	<u>FORUM</u>	<u>DECISION SOUGHT</u>
April 1989	Treasury Board	Effective Project Approval and Contract Approval

B-1

SECRET



Supply and Services -- Approvisionnement et Services
Canada Canada
Assistant Deputy Minister Sous-ministre adjoint

② PM LRMP

MAR 20 1989

①

Mr. E.J. Healey
Assistant Deputy Minister (Materiel)
Department of National Defence
National Defence Headquarters
101 Colonel By Drive,
Ottawa, Ontario
K1A 0K2

ADM (MAT)
SECRETARIAT
~~29806~~ 32460 10005
MAR 21 1989
SECRETARIAT du
SMA (MAT)

Dear Mr. Healey:

Thank you for the March 8, 1989 copy of the revised draft of your Departmental Working Paper, Militia Light Armoured Vehicles.

We have reviewed the revised draft and find it generally satisfactory; however, two comments although minor points, are appended herewith.

I congratulate the LRMP team on their dedication and most expeditious approach of getting the job done.

Sincerely,

Charles Stedman
Charles Stedman
Supply Operations Sector

Attachment



Government of Canada

Gouvernement du Canada

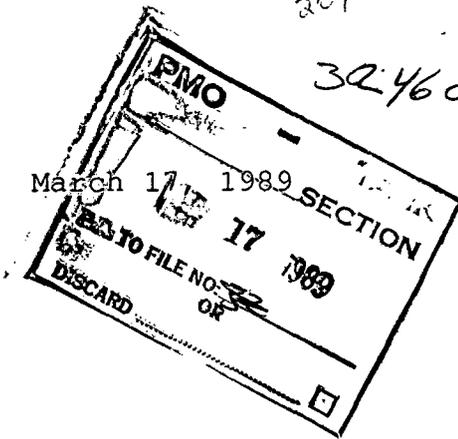
Western Economic Diversification

Diversification de l'économie de l'Ouest

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② DPSL
ATTN: Mr. JERNEY
Flon nsee astion
R. J. H. G.
EA/ADM (M.A.T.)
20/03
89-1741



32460 100 65

Mr. E.J. Healey
Assistant Deputy Minister
(Material)
National Defence Headquarters
101 Colonel By Drive
Ottawa, Ontario
K1A 0K2

Dear Mr. Healey:

In response to your March 13, 1989, letter on the departmental working paper for the Militia Light Armored Vehicle Project (LRMP), I would offer the following suggestions:

1. All references to the offset of foreign content (i.e. "indirect industrial benefits") in both the Ministerial Recommendation and the Analysis, should be amended to read "indirect industrial and regional benefits of similar quality to the foreign content". (See paragraphs 3.a.2, 3.a.3, 3.b, 10 and 11 of the Ministerial Recommendations as well as paragraphs 23, 24 and 27 of the Analysis.)

2. There is no reference in the Ministerial Recommendation or the Analysis stating DDGM's obligation to produce and implement a Supplier Development Plan as well as the Small Business Sub-Contracting Plan noted in the text. You will recall that as a result of the government's approval of the Small Business Access Program in June 1988, all bids for contracts with a value over \$100 million are now required to provide such plans. (See paragraphs 10 and 36.c.). Since the purchase of 22 vehicles from FMC is small, it is probably not necessary to require such plans from that company.

/// indirectly in contract

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Canada

- 2 -

3. In paragraph 12.a. of the supporting analysis, as part of the rationale advanced for considering only two vehicles as primary contenders, one of the reasons cited is that, " there would be no commonality with current Canadian or Allied inventory." As there appears to be a number of Light Armoured Vehicle designs currently used by NATO countries, you may wish to amend the statement.

I hope you find these comments useful.

Sincerely yours,



Art Silverman
Senior Assistant
Deputy Minister



Government
of Canada

Gouvernement
du Canada

Regional Industrial
Expansion

Expansion industrielle
régionale

Ottawa, Canada
K1A 0H5

(2) PM LRMF

Your file Votre référence

Our file Notre référence

MAR 16 1989

(1)

Mr. E.J. Healey
Assistant Deputy Minister
(Materiel)
National Defence Headquarters
Ottawa, Canada
K1A 0K2

ADM (MAT)
SÉCRETARIAT
~~8055~~ 32460
MAR 21 1989
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SMA (MAT)

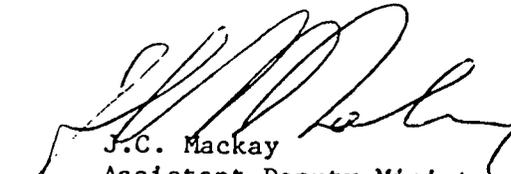
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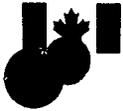
Dear Mr. Healey:

Reference is made to your letter of file 8055-22 dated March 13, 1989 enclosing the Draft Departmental Working Paper, Militia Light Armoured Vehicles, 8 March, 1989 and requesting our comments.

Please amend the acronym "DIST" to read "ISTC" in paragraph 17 of the Ministerial Recommendation section. Otherwise, we concur with the document as written.

Yours sincerely


J.C. Mackay
Assistant Deputy Minister
Industry and Technology



Atlantic Canada
Opportunities Agency

Agence de promotion économique
du Canada atlantique

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② DPSL
ATTN: MR P. VERNET
For m/c action
EA/ADM(MAT)
20/03

MAR 16 1989

①
Mr. Ed Healey
Assistant Deputy Minister
(Materiel)
National Defence Headquarters
101 Colonel By Drive
Ottawa, Ontario
K1A 0K2

Dear Mr. Healey:

In keeping with your request for comment by March 17th on the "Militia, Light Armoured Vehicle" Memorandum to Cabinet, I would recommend that the document be amended very slightly to reflect GM's agreement to provide indirect benefits of high quality, consistent with the direct industrial and regional benefits to be obtained from the project.

Specifically, I would be grateful if the following paragraphs were amended:

- paragraph 3 a.(3)
"placement of direct and indirect industrial benefits, of similar quality, amounting to 15 percent ..."; and
- paragraph 3 b.
"negotiating the FMC Corporation to obtain high-quality long-term industrial and regional benefits".

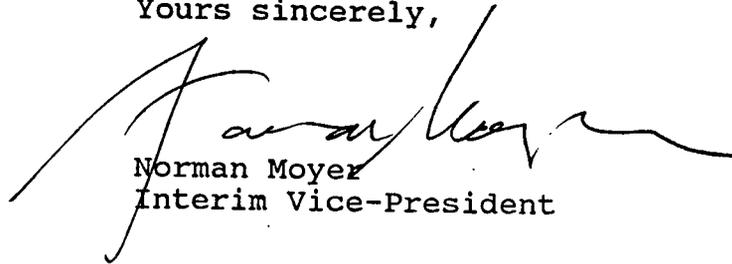
" of generally similar quality .../2

Canada

- 2 -

As far as process is concerned, when a firm date for Cabinet's consideration of this matter is established, I would appreciate your staff getting in touch with either Paul Bernier or John McDowell.

Yours sincerely,



Norman Moyer
Interim Vice-President

c.c.: A. Silverman
C. MacKay

Department of External Affairs



Canada

Ministère des Affaires extérieures

② PM LRMP

For nec action

[Signature]
L.G. / ADM (MAT)
EA / ADM (MAT)
21/03

ADM (MAT)
SECRETARIAT
~~32460~~
MAR 20 1989 100 05
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SMA (MAT)

Ottawa, Ontario
K1A 0G2

March 15, 1989

SECRET

①

Ed.

Mr. E.J. Healey
Assistant Deputy Minister (Materiel)
Department of National Defence
MGen G.R. Pearkes Building
Ottawa, Ontario
K1A 0K2

Dear Mr. Healey:

I refer to your letter 8055-22 dated March 13, 1989 in which you requested my review of your draft departmental working paper on Militia Light Armoured Vehicles, dated March 8, 1989.

The following comments are made on the draft working paper:

N:

- a. Paragraph 2 of the Ministerial Recommendation should state that the 22 vehicles from FMC Corporation will consist of fourteen field engineer and eight anti-armour variants;
- b. In both paragraphs 8 of the Ministerial Recommendation and 15 of the Analysis, it should be made clear that the current GM LAV family does not include the field engineer and anti-armour variants. The wheeled LAV has insufficient traction for the field engineer role and the design and development costs to convert the LAV to the anti-armour variant are not warranted for a quantity of eight. These inadequacies and additional costs can be avoided by purchasing the M113, for which Canadian field engineer and anti-armour modification kits exist; and

.../2

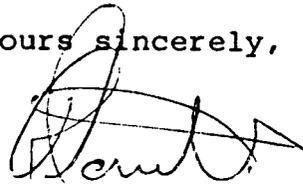
- 2 -

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- c. One editorial point - in line three of paragraph 26 of the Analysis, the date should be July 1988 vice 1989.

From the international trade development point of view, it is agreed that existing Canadian industrial capabilities should be preserved and supported. In the case of Diesel Division of General Motors of Canada, a contract for 199 light armoured vehicles could result in substantial future exports for that company. Therefore I support your Departmental Working Paper.

Yours sincerely,



Reg H. Dorrett
Assistant Deputy Minister
International Trade Development

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classified with Enclosures removed

SECTION
17 1239
E& TO FILE NO: 32460
OR
DISCARD

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Défense nationale

Assistant Deputy Minister (Material)

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8055-22

13 March 1989

Distribution List

MILITIA LIGHT ARMOURED VEHICLE PROJECT

- References:
- A. Draft Departmental Working Paper, Militia Light Armoured Vehicles, 8 March 1989 (enclosed)
 - B. 8055-10-2 (LRMP) 3 January 1989

1. The purpose of this correspondence is to seek addressees' comments on the departmental working paper for the Militia Light Armoured Vehicle Project.

2. The objective of the project is to acquire up to 221 light armoured vehicles for the Militia at a cost not to exceed \$199.3M (Budget Year Dollars). An Interdepartmental Senior Review Board held on 20 December 1988 (Reference B) approved a procurement strategy based upon the acquisition of up to 199 wheeled vehicles from Diesel Division of General Motors, London, Ontario and up to 22 tracked vehicles from FMC Corporation, San José, California.

3. The Interdepartmental Senior Review Board also granted approval-in-principle to the draft departmental working paper providing that certain amendments be made to it. These amendments have been incorporated into the current draft paper, enclosed, and are as follows:

- a. incorporation of industrial benefit objectives under the ministerial recommendations;

.../2

②
NTF
When all returns are received and incorporated the diskette is to be passed to Mr Bond "Cabinet Liaison Staff" for reformatting. Also copy to Mr Verney.
14 March 1989
PM MILLAR

~~SECRET~~

(Unclassified with Enclosures Removed)

Canada

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- 2 -

- b. indication that if future orders expected by General Motors either slip or fail to materialize, then the Department of National Defence has no other significant orders to bridge a production gap;
- c. a statement as to why we want to proceed now with the proposed procurement;
- d. a statement that the proposed procurement will have no anticipated impact on the future Light Armoured Vehicle Project, which, in the 1995-2000 timeframe, aims to replace existing vehicles as far as funding permits and to upgrade the balance; and
- e. a streamlining of the discussion of options in the analysis portion.

3. Since this project remains on the "fast-track" approval process within the Department of National Defence, I am circulating the departmental working paper now for your review. I would appreciate your comments by 17 March 1989.


E.J. Healey

Enclosure: 1

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DRAFT

DEPARTMENTAL WORKING PAPER

MILITIA

LIGHT ARMOURED VEHICLES

8 MARCH 1989

SECRET

SECRET

MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. up to 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$199.3M (current year dollars);
2. the procurement strategy be based on negotiating suitable contracts to acquire up to 199 vehicles from Diesel Division of General Motors, London, Ontario, and up to 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - a. negotiating the General Motors contract substantially in accordance with the following principles:
 - (1) 60 percent of the total contract value in Canadian content;
 - (2) 40 percent foreign content entirely offset by indirect industrial benefits; and
 - (3) placement of direct and indirect industrial benefits amounting to 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada; and
 - b. negotiating the FMC Corporation contract to obtain industrial and regional benefits totalling 60 percent of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
	(Current Year \$ Millions)						
	20.0	9.1	70.7	55.2	25.2	19.1	199.3
<u>DND PYs*</u>							
Military	0	11.6	9.85	9.25	6.5	3.0	40.2
Civilian	0	8.5	7.4	7.4	3.4	1.7	28.4

*Subject to Treasury Board approval. The incremental DND PYs are for Project Management. Their cost is included in the total project cost.

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	0	4.5	3	1.5	0.5	0	9.5

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RATIONALE

6. Recognizing that it is both impractical and undesirable to meet Canada's defence commitments through the Regular Force alone, the 1987 White Paper calls for the establishment of a Total Force in which the Reserve Force would undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower and training requirements.

7. The procurement of up to 221 light armoured vehicles would enable the Land Reserve, or Militia, to conduct realistic and effective training in mechanized operations. The training would be conducted at the four planned Militia Training and Support Centres, that is, one in each of Canada's Land Force geographical areas: Western, Central, Secteur de l'Est, and Atlantic. The centres are scheduled to become operational at the rate of one a year commencing in 1989. Effectiveness in mechanized operations is essential to enable the Militia to contribute to the collective defence of NATO, as well as for Territorial Defence operations, where these vehicles will also play a vital part if operations must be launched within Canada.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

- a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. The proposed procurement strategy calls for acquiring up to 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.
- b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. The proposed procurement strategy calls for acquiring up to 22 vehicles for field engineering and anti-armour tasks.

9. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated that the plant may be closed and the work force laid off, perhaps permanently. Future orders would then be met at a United States production facility. The company has also indicated that placing an early order for approximately 200 Militia vehicles with the Diesel Division of General Motors could assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until 1996. For this reason, and to obtain vehicles in a timely fashion for the Militia Training and Support Centres, it is important to proceed now with the proposed procurement. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: that is, no significant National Defence requirements could help bridge a further production gap.

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10. Industrial and Regional Benefits. The industrial and regional benefits objectives for the wheeled vehicles to be purchased from GM are: 60 percent of the contract value in Canadian content; an overall 15 percent of the contract value to be placed in Atlantic Canada and another 15 percent in Western Canada; and the 40 percent foreign content to be offset entirely by indirect industrial benefits. The contract would result in approximately 640 person-years of direct employment. The company would be required to produce and implement an acceptable plan for the involvement of small businesses.

11. With respect to the tracked vehicles from the FMC Corporation, the objective is industrial and regional benefits totalling 60 percent of the contract value.

PROBLEMS AND STRATEGIES

12. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

13. Strategy. The General Motors plant is the only existing production facility in Canada currently manufacturing a vehicle that meets DND's requirements. In addition, the contract with General Motors will involve significant benefits for Atlantic and Western Canada.

14. Problem. Concern could be expressed that the procurement of vehicles from General Motors will influence the selection of vehicles for the future Light Armoured Vehicle Project, which aims to replace as many as possible of the existing fleet of M113s and upgrade the balance.

15. Strategy. The purchase of vehicles from General Motors is to meet a near term, specific requirement, i.e. Militia training. The future Light Armoured Vehicle Project will not involve deliveries until 1995 and beyond. Consequently, the currently proposed purchase will have no anticipated influence on the future project, which, subject to future Cabinet decision, is expected to follow the normal competitive process.

POLITICAL CONSIDERATIONS

16. TBA

DEPARTMENTAL POSITIONS

17. The Departments and agencies supporting the recommendations include SSC, DIST, DEA, WDO and ACOA. The Department of Finance and Treasury Board Secretariat have been consulted.

Minister of National Defence
Ministre de la Défense nationale

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ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training at Militia Training and Support Centres.

2. Current Policies. The 1987 White Paper on Defence recognized that not all of the personnel requirements for Canada's defence commitments can be met through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.

3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train augmentation and readiness troops to meet Canada's international commitments. To train for these tasks, the Militia must have access to equipment that is the same as, or similar to, the equipment it would use in actual operations. A fully trained Total Force will contribute to East-West deterrence, territorial defence and global peace and security.

4. The Department proposes to establish training facilities which the Militia will use to train for its Total Force roles. Specifically, there is a requirement for four Militia Training and Support Centres, one for each of the four military areas in

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Canada. The light armoured vehicles to be acquired as a result of this project will be physically located at these Militia Training and Support Centres.

5. The Militia requires approximately 380 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide up to 221. Most would serve to carry troops; the balance would consist of cargo-carrying, maintenance, mortar-carrying, field engineering and anti-armour vehicles.

6. The shortfall between the total requirement of approximately 380 vehicles and the proposed acquisition of up to 221 will be met, to the extent possible, through redistribution of existing vehicles and, subject to the availability of funding, acquisition in the 1995-2000 period as part of the future Light Armoured Vehicle Project described in paragraph 9. The procurement of up to 221 light armoured vehicles will meet the most pressing requirement.

CONSIDERATIONS

7. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base, life cycle costs and the potential for industrial and regional benefits.

Relationship to Other Projects

8. The proposed acquisition of up to 221 light armoured vehicles is directly related to the planned modernization of

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the Land Reserve. These plans will result in:

- a. distinct projects for the construction of Militia Training and Support Centres (where training with the light armoured vehicles will occur) and for the procurement of various simulation devices; and
- b. inclusion of tank and Northern Terrain Vehicle requirements within the scope of the Tank Replacement and Northern Terrain Vehicle Projects, respectively.

9. There is a future Light Armoured Vehicle Project which aims at a combination of replacing and upgrading the aging fleet of armoured vehicles currently in service. The current project is not expected to influence the selection of vehicles for the future project, since its purpose is to meet a near term, specific requirement for Militia training. The future project will not be implemented until the period 1995-2000 and, subject to future Cabinet decision, will follow the normal competitive process.

10. The present project would not adversely affect the Understanding in Principle concluded between the Crown and Bear Head Industries Ltd, a wholly-owned subsidiary of Thyssen AG of West Germany. Under the agreement, the Crown will assist in the establishment, in Cape Breton, of a heavy-industry plant capable of producing parts and components for both civilian and military products. The Bear Head plant should be in a position to compete for the requirements of the Light Armoured Vehicle Project in the mid-1990s.

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National/International Implications

11. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for territorial defence and augmentation and readiness tasks in support of Canada's international commitments. Canadians would recognize the proposed acquisition as a significant step toward revitalizing the Reserves and creating an effective territorial defence capability. Canada's Allies have underscored the need for effective reserve forces and would see this procurement as a positive development in terms of burden-sharing.

Suitable Light Armoured Vehicles

12. For reasons pertaining to interoperability and benefits to the defence industrial base, only two vehicles are primary contenders to meet the requirement: the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario and the M113 produced by FMC Corporation of California. The selection of any other vehicle is not considered a viable option for the following reasons:

- a. there would be no commonality with current Canadian or Allied inventory;
- b. foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- c. current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

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13. The Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, has excellent mobility both on and off road and would require minimal modification to meet Canada's requirement. This wheeled vehicle would provide the Militia with realistic and effective training in mechanized operations.

14. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 M113s in service in Canada and Europe. Purchase of this vehicle would enable the Militia to train on the vehicle Canada's forces will be using in actual operations for some time.

15. Of the many roles for which the light armoured vehicles are required, there are two for which the use of General Motors Light Armoured vehicles is impractical. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction to push a bulldozer blade. For the anti-armour vehicles, the company would also have to undertake significant design and development work to mount a suitable weapon turret, a task that is not cost-effective in view of the fact that only eight such vehicles are required.

Defence Industrial Base

16. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

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17. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 light armoured vehicles for the Canadian Forces. It has also manufactured 759 light armoured vehicles for the United States Marine Corps. It is now completing production of 12 electronic warfare vehicles for the U.S. and starting production of four vehicles on which the U.S. will later install 105mm guns.

18. As a result of the U.S. contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM reports to have good prospects for contracts with the United States, Australia and Saudi Arabia leading to production of at least 1100 vehicles during the period 1991 to 1996. However, these contracts would involve no production until 1991. Since production under the current U.S. contracts ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

19. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990. Such a contract would contribute significantly to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize in the future, the company will again face the same situation it does now, with one key difference: no significant National Defence requirements could help bridge the new production gap.

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Life Cycle Costs

20. Wheeled vehicles are less susceptible to failure and are cheaper to operate and maintain than tracked vehicles. Based on a 20-year operating period, total life cycle costs are therefore less for wheeled vehicles than for tracked vehicles.

Industrial and Regional Benefits

21. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian defence industrial base, but also for the continuation of the regional and industrial benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1990.

22. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration. In addition, the company would endeavour to increase Canadian content significantly in the production of: power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent of the contract value in Canadian content.

23. Indirect industrial and regional benefits offsetting the 40 percent foreign content would be achieved through transfers of technology and joint ventures, as well as Canadian sourcing of parts and components for future light armoured vehicle orders and other equipment.

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24. A total of 30 percent of the contract value would be placed in two major regions. Fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial benefits.

25. As noted in paragraphs 18 and 19, without an order to bridge the production gap in 1989 and 1990, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 170 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

26. If the Crown were to purchase all of the vehicles from FMC Corporation, the specific benefits would be subject to negotiation. In July 1989, responding to a formal Supply and Services inquiry, the company recommended against Canadian manufacture and offered unspecified indirect benefits. Typically, these benefits have been in the order of 60 to 70 percent of the contract value. More recently, in a January 1989 letter to the then Minister of National Defence, FMC proposed production at General Motors' facilities under a teaming arrangement. However, production could mean anything from mere assembly of components to varying degrees of Canadian manufacture by General Motors or sub-contractors.

27. Almost certainly, contracting with FMC Corporation for up to 22 field engineering and anti-armour vehicles, therefore, would not contribute in a significantly positive fashion to Canada's defence industrial base. Through indirect benefits it would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

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Interoperability

28. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result in terms of interoperability with existing Canadian Forces equipment and Allied fleets.

PROCUREMENT OPTIONS

29. There are three procurement options:

- a. procure up to 221 FMC M113s;
- b. procure up to 221 GM Light Armoured Vehicles; and
- c. procure up to 199 GM Light Armoured Vehicles to meet the troop carrier, cargo carrier, mortar carrier and recovery vehicle requirements, and procure up to 22 FMC M113s to meet the field engineering and anti-armour vehicle requirements.

30. Option 1. Purchase of FMC Corporation M113s only:

a. Advantages:

- (1) the operational requirement would be met;
- (2) capital costs would be the lowest of any option. Savings would be in the order of \$40M (\$89/90) if the vehicles were manufactured in the United States and \$10M if they were manufactured in Canada; and
- (3) interoperability with the Canadian and Allied inventory would be achieved.

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b. Disadvantages:

- (1) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- (2) establishment of an M113 production facility in Canada would involve a cost premium of about \$30M over manufacture in the United States and a delay of about 20 months caused by the necessity to build a new facility or reconfigure an existing one;
- (3) if FMC were to arrange GM production in Canada, the delay mentioned above would result in no manufacturing in 1989 and 1990; and
- (4) because tracked vehicles are more expensive to operate and maintain, this option would entail about \$10M (\$88/89) more in life cycle costs than the wheeled vehicle option.

31. Option 2. Purchase of GM Light Armoured Vehicles only:

a. Advantages:

- (1) the existing light armoured manufacturing facility would be maintained, at least in the short term;
- (2) life cycle costs would be approximately \$10M (88/89) less than for option 1;

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- (3) the operational requirement would be met in all but two applications (see paragraph 31b); and
- (4) industrial and regional benefits would be maximized.

b. Disadvantages.

- (1) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineer bulldozer vehicle; and
- (2) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

32. Option 3. Sole source purchases of up to 199 Light Armoured Vehicles from GM Diesel Division and up to 22 M113 field engineer and anti-armour vehicles from FMC Corporation:

a. Advantages:

- (1) the operational requirement would be met;
- (2) the defence industrial base would be sustained;
- (3) based on the operational requirement, optimal industrial and regional benefits would be achieved;

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(4) life cycle costs would be approximately \$10M less than for option 1; and

(5) interoperability with current Canadian and Allied inventory would be achieved.

b. Disadvantage. Sole source procurement could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

33. The Department of Supply and Services would, however, rigorously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. As a result of the United States Marine Corps purchase, it also has available a solid data base for analysing the price quotations of General Motors. Finally, the industrial and regional benefit objectives at paragraphs 21 to 27 above would be vigorously pursued in contract negotiations.

Evaluation Criteria

34. Proposals will be evaluated on the basis of compliance with the following criteria:

- a. the achievement of vehicle performance objectives;
- b. completeness of set-up, production, sub-contracting and quality control plans;
- c. completeness of logistic support data;

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- d. a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk, Canadian content and contracting; and
- e. achievement of industrial and regional benefit objectives.

35. Any shortcomings in proposals would be the basis of negotiations.

Defence Industrial Base Objectives

36. Canada should maintain the capability of producing light armoured vehicles. Emphasis would be placed on negotiating good quality industrial and regional benefits. Company proposals for the troop carriers, cargo carriers, mortar carriers, recovery vehicles and associated support will have to demonstrate a reasonable commitment:

- a. to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- b. to maintain employment for a skilled work force of approximately 370 persons over an average of 21 months amounting to approximately 640 person years of employment (the 370 jobs consist of the 170 current jobs in the plant plus an additional 200 jobs which would be created if 199 light armoured vehicles were acquired from General Motors); and

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- c. to produce and implement a plan for the involvement of small business.

Other Factors

37. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
March 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

38. Affordability. The \$199.3 M allocated for this project is affordable within the funding level of GNE plus two percent. This amount will allow for purchasing up to the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

39. The DND funding proposed for implementation of the project is:

<u>FY</u>	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
<u>Current Year \$M</u>							
	20.0	9.1	70.7	55.2	25.2	19.1	199.3
<u>Incremental Person Years</u>							
Military	0	11.6	9.85	9.25	6.5	3.0	40.2
Civilian	0	8.5	7.4	7.4	3.4	1.7	28.4

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40. The proposed incremental person year requirements of other departments are as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	0	4.5	3	1.5	0.5	0	9.5

41. All incremental person years are subject to Treasury Board approval.

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ANNEX A
TO THE MR

TABLE 1

MILITIA LIGHT ARMoured VEHICLE PROJECT

FUTURE SUBMISSIONS TO MINISTERS

<u>PERIOD</u>	<u>FORUM</u>	<u>DECISION SOUGHT</u>
March 1989	Treasury Board	Effective Project Approval and Contract Approval

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32460-100-05

APPENDIX

COMMENTS ON DRAFT DEPARTMENT WORKING PAPER - MILITIA LIGHT ARMoured
VEHICLES DATED 8 MARCH 1989

Mr. E. J. Healey's covering Letter and Ministerial Recommendation Section

Paragraph 1. Reference is made to 199.3M (current year dollars).

Mr. Healey's letter makes reference to 199.3M (Budget Year Dollars)

Analysis Section

Paragraph 37, and Annex A to the MR make reference to March 89 as a future Ministerial involvement for contract approval. In light of the Approval-in-Principle for the project not being granted as of mid-March the date forecast for contract approval is exceedingly optimistic. The date should possibly be April or May 1989.

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(Unclassified with Enclosures Removed)

PMO	SECTION
17 1989	
EAS TO FILE NO: 22460-100-05	
OR	
DISCARD	

MEMORANDUM

8055-22 (LRMP-2-2)

14 Feb 89

CS

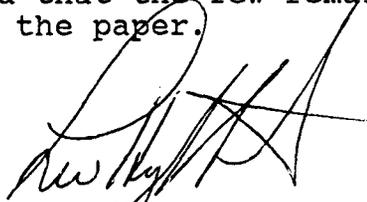
MILITIA LIGHT ARMoured
VEHICLE PROJECT L2460

Ref: Telecon CS/DPSL 2, 9 Feb 89

1. Subsequent to Ref, D Cabinet Liaison has advised DPSL 2 that final DND Group Principle review of the departmental working paper for this project be sought, primarily as a matter of courtesy.

2. The draft working paper and memoranda to obtain such review are enclosed.

3. It should be noted that departmental and interdepartmental consensus on the working paper has been reached except for recent verbal objections from the staffs of D Cabinet Liaison and DG Info. They recommend that all reference to Canada's forces in Europe be eliminated from the paper and replaced with the phrase "Canada's international commitments", or words to that effect. To a large extent, these objections have already been accommodated but phrases referring to ACE remain in para 8 of the Ministerial Recommendation and paras 3, 11 and 14 of the Analysis. Since the primary operational reason for acquiring these vehicles is to train Militia for mechanized operations in ACE, it is recommended that the few remaining references to this function be left in the paper.



L.W. Hyttenrauch
LCol
PM Mil LAV
995-2194



W.J. Fulton
LCol
PD LRMP
995-9245

Enclosures: 3

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(Unclassified with Enclosures Removed)

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(Unclassified with Enclosures Removed)

MEMORANDUM

8055-22 (LRMP 2-2)

Feb 89

ADM(Mat)

MILITIA LIGHT ARMoured
VEHICLE PROJECT L2460

Ref: Draft Departmental Working Paper, Militia Light
Armoured Vehicles, 14 Feb 89 (enclosed).

1. On 20 Jan 89, the subject project was approved by DMC.
2. In view of the fact that PCB has endorsed a "fast-track" approval process, it is timely to seek DND Group Principal review.
3. It should be noted that the latest draft of the document has been reviewed and agreed to by ISRB members.
4. We recommend you sign the memo underleaf.

R.D. Gillispie
CS
992-6523

D.R. Boyle
RAdm
CEM
992-3676

Enclosures: 2

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(Unclassified with Enclosures Removed)

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MEMORANDUM

8055-22 (LRMP 2-2)

Feb 89

Distribution List

MILITARY LIGHT ARMoured
VEHICLE PROJECT L2460

Ref: Draft Departmental Working Paper, Militia Light Armoured Vehicles, 14 Feb 89 (enclosed).

1. The purpose of this correspondence is to seek addressees' comments on the departmental working paper for the subject project.
2. The primary objective of the project is to acquire up to 221 light armoured vehicles for the Militia at a cost not to exceed \$199.3M (\$BY). Based on the ISRB approved procurement strategy, up to 199 wheeled vehicles will be procured from the Diesel Division of General Motors, (DDGM) London, Ontario and up to 22 tracked vehicles from FMC Corporation, San José, California.
3. DMC approved the project on 20 Jan 89.
4. It should be noted that the previous draft of the document has been reviewed by ISRB members and D Cabinet Ln staff. Their comments have been incorporated in the current draft.
5. The current draft differs in the following respects from an earlier draft circulated to PCB members:
 - a. incorporation of industrial benefit objectives under ministerial recommendations;
 - b. indication that if future orders expected by DDGM either slip or fail to materialize, then DND has no other significant order to bridge a production gap;
 - c. a statement as to why we want to proceed now with the proposed procurement;

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- d. a statement that the proposed procurement will have no anticipated impact on the future Light Armoured Vehicle Project, which, in the 1995-2000 timeframe, aims to replace existing vehicles as far as funding permits and to upgrade the balance; and
- e. a streamlining of the discussion of options in the analysis portion.

6. Since PCB endorsed a "fast-track" approval process, I am circulating the departmental working paper now for Group Principal review and request your comments by 24 Feb 89. A nil response will be taken as concurrence.

E.J. Healey
ADM(MAT)
992-6622

Enclosure: 1

DISTRIBUTION LIST

<u>Action</u>	<u>Information</u>
VCDS	D Cabinet Ln
DCDS	
ADM(POL)	
ADM(PER)	
ADM(FIN)	
C Prog	
PPT/SPP 3	

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DRAFT

DEPARTMENTAL WORKING PAPER

MILITIA

LIGHT ARMoured VEHICLES

14 FEBRUARY 1989

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MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. up to 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$199.3M (current year dollars);
2. the procurement strategy be based on negotiating suitable contracts to acquire up to 199 vehicles from Diesel Division of General Motors, London, Ontario, and up to 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - a. negotiating the General Motors contract substantially in accordance with the following principles:
 - (1) 60 percent of the total contract value in Canadian content;
 - (2) 40 percent foreign content entirely offset by indirect industrial benefits; and
 - (3) placement of direct and indirect industrial benefits amounting to 15 percent of total contract value in Atlantic Canada and 15 percent in Western Canada; and
 - b. negotiating the FMC Corporation contract to obtain industrial and regional benefits totalling 60 percent of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
	(Current \$ millions)						
DND PYs*	20.0	9.1	70.7	55.2	25.2	19.1	199.3
Military	0	11.5	10.0	9.5	6.5	3.0	40.5
Civilian	0	8.5	7.5	7.5	3.5	2.0	29.0

*Subject to Treasury Board approval

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	0	4.5	3	1.5	0.5	0	9.5

RATIONALE

6. Recognizing that it is both impractical and undesirable to meet Canada's defence commitments through the Regular Force

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alone, the 1987 White Paper calls for the establishment of a Total Force in which the Reserve Force would undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower and training requirements.

7. The procurement of up to 221 light armoured vehicles would enable the Land Reserve, or Militia, to conduct realistic and effective training in mechanized operations. The training would be conducted at the four planned Militia Training and Support Centres, that is, one in each of Canada's Land Force geographical areas: Western, Central, Secteur de l'Est, and Atlantic. The centres are scheduled to become operational at the rate of one a year commencing in 1989.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

- a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. The proposed procurement strategy calls for acquiring up to 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.
- b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. The proposed procurement strategy calls for acquiring up to 22 vehicles for field engineering and anti-armour tasks.

9. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated the possibility of plant closure and layoffs. Closure could be permanent and mean that future orders are met at a United States production facility. The company has also indicated that placing an early order for approximately 200 Militia vehicles with the Diesel Division of General Motors would assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until at least 1996. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: National Defence does not have any significant requirements that would bridge a further production gap.

10. Industrial and Regional Benefits. The industrial and regional benefits objectives for the wheeled vehicles to be purchased from GM are: 60 percent of the contract value in Canadian content; the 40 percent foreign content to be offset entirely by indirect industrial benefits; of these benefits, an overall 15 percent of the contract value to be placed in Atlantic Canada and another 15 percent in Western Canada. Also, the contract would result in approximately 640 person

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years of direct employment. The company will be required to produce and implement an acceptable plan for the involvement of small businesses.

11. With respect to the tracked vehicles from the FMC Corporation, the objective is industrial and regional benefits totalling 60 percent of the contract value.

12. To contribute to the maintenance of the defence industrial base and obtain vehicles in a timely fashion for the Militia Training and Support Centres, it is important to proceed now with the proposed procurement.

PROBLEMS AND STRATEGIES

13. Problem. The lack of competition inherent in a sole source decision may arguably result in higher prices.

14. Strategy. The Department of Supply and Services will rigourously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. In addition, as a result of the United States Marine Corps purchase, the Department of Supply and Services has a sound basis for analysing the price quotations of General Motors.

15. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

16. Strategy. The General Motors plant is the only existing production facility in Canada currently manufacturing a vehicle that meets DND's requirements. In addition, the contract with General Motors will involve significant benefits for Atlantic and Western Canada.

17. Problem. Concern could be expressed that the procurement of vehicles from General Motors will influence the selection of vehicles for the future Light Armoured Vehicle Project, which aims to replace as many as possible of the existing fleet of M113s and upgrade the balance.

18. Strategy. The purchase of vehicles from General Motors is to meet a near term, specific requirement, i.e. Militia training. The future Light Armoured Vehicle Project will not involve deliveries until 1995 and beyond. Consequently, the currently proposed purchase will have no anticipated influence on the future project, which, subject to future Cabinet decision, is expected to follow the normal competitive process.

POLITICAL CONSIDERATIONS

19. TBA

DEPARTMENTAL POSITIONS

20. The Departments and agencies supporting the recommendations include SSC, DIST, DEA, DWED and ACOA. The Department of Finance and Treasury Board Secretariat have been consulted.

Minister of National Defence
Ministre de la Défense nationale

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ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training at Militia Training and Support Centres.

2. Current Policies. The 1987 White Paper on Defence recognized that it is both impractical and undesirable to meet all of the personnel requirements for Canada's defence commitments through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.

3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train augmentation and readiness troops for Canada's land forces deployed overseas to Allied Command Europe. To train for these tasks, the Militia must have access to equipment that is the same as, or similar to, the equipment it would use in actual operations. A fully trained Total Force will contribute to East-West deterrence, territorial defence and global peace and security.

4. The Department proposes to establish training facilities which the Militia will use to train for its Total Force roles. Specifically, there is a requirement for four Militia Training and Support Centres, one for each of the four military areas in

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Canada. The light armoured vehicles to be acquired as a result of this project will be physically located at these Militia Training and Support Centres.

5. The Militia requires approximately 380 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide up to 221. Most would serve to carry troops; the balance would consist of cargo carrying, maintenance, mortar carrying, field engineering and anti-armour vehicles.

6. The shortfall between the total requirement of approximately 380 and the proposed acquisition of up to 221 will be met, to the extent possible, through redistribution of existing vehicles and, subject to the availability of funding, acquisition in the 1995-2000 period as part of the future Light Armoured Vehicle Project described in paragraph 9. The procurement of up to 221 light armoured vehicles will meet the most pressing requirement.

CONSIDERATIONS

7. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base, life cycle costs and the potential for industrial and regional benefits.

Relationship to Other Projects

8. The proposed acquisition of up to 221 light armoured vehicles is directly related to the planned modernization of

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the Land Reserve. These plans will result in:

- a. distinct projects for the construction of Militia Training and Support Centres (where training with the light armoured vehicles will occur) and for the procurement of various simulation devices; and
- b. inclusion of tank and Northern Terrain Vehicle requirements within the scope of the Tank Replacement and Northern Terrain Vehicle Projects, respectively.

9. There is a future Light Armoured Vehicle Project which aims at a combination of replacing and upgrading the aging fleet of armoured vehicles currently in service. The current project is not expected to influence the selection of vehicles for the future project, since its purpose is to meet a near term, specific requirement, ie, Militia training. The future project will not be implemented until the period 1995-2000 and, subject to future Cabinet decision, will follow the normal competitive process.

10. It is relevant to note specifically that the present project would not affect adversely the Understanding in Principle concluded between the Crown and Bear Head Industries Ltd, a wholly-owned subsidiary of Thyssen AG of West Germany. Under the agreement, the Crown will assist in the establishment, in Cape Breton, of a heavy-industry plant capable of producing parts and components for both civilian and military products. The Bear Head plant should be in a position to compete for the requirements of the Light Armoured Vehicle Project in the mid 1990s.

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National/International Implications

11. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for territorial defence and augmentation and readiness tasks in support of the Canadian commitment to Allied Command Europe. Canadians would recognize the proposed acquisition as a significant step toward revitalizing the Reserves and creating an effective territorial defence capability. Canada's Allies have underscored the need for effective reserve forces and would acknowledge this procurement as a worthwhile step in the implementation of the White Paper.

Suitable Light Armoured Vehicles

12. Only two vehicles are considered suitable to meet the Militia requirement: the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario, and the M113 produced by FMC Corporation of California.

13. The Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, has excellent mobility both on and off road and would require minimal modification to meet Canada's requirement. This wheeled vehicle would provide the Militia with realistic and effective training in mechanized operations.

14. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 in service in Canada and Europe. Purchase of this vehicle would enable the Militia to

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train on the vehicle Canada's forces will be using in actual operations for some time.

15. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction to push a bulldozer blade. For the anti-armour vehicles, the company would also have to undertake significant design and development work to mount a suitable weapon turret, a task that is not cost-effective in view of the fact that only eight such vehicles are required.

Defence Industrial Base

16. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

17. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 light armoured vehicles for the Canadian Forces. It has also manufactured 759 light armoured vehicles for the United States Marine Corps. It is now completing production of 12 electronic warfare vehicles and starting production of four vehicles on which the US will later install 105mm guns.

18. As a result of the US contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM claims to have good prospects for

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contracts with the United States, Australia and Saudi Arabia leading to production of at least 1100 vehicles during the period 1991 to 1996. These claims seem well founded, but the contracts would involve no production until 1991. Since production under the current US contracts ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

19. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990. Such a contract would significantly contribute to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize in the future, the company will again face the same situation it does now, with one key difference: National Defence would then have no significant requirements to meet that could help bridge the new production gap.

Life Cycle Costs

20. Wheeled vehicles are less susceptible to failure and are cheaper to operate and maintain than tracked vehicles. Based on a 20 year operating period, total life cycle costs are therefore less for wheeled vehicles than for tracked vehicles.

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Industrial and Regional Benefits

21. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian Defence Industrial Base, but also for the continuation of the regional and industrial benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1990.

22. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration. In addition, the company would endeavour to increase Canadian content significantly in the production of: power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent of the contract value in Canadian content.

23. Indirect industrial and regional benefits offsetting the 40 percent foreign content would be achieved through transfers of technology and joint ventures, as well as Canadian sourcing of parts and components for future light armoured vehicle orders and other equipment.

24. A total of 30 percent of the contract value would be placed in two major regions. Fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial benefits.

25. As noted in paragraphs 18 and 19, without an order to bridge the production gap in 1989 and 1990, the GM plant in

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London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 170 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

26. If the Crown were to purchase all of the vehicles from FMC Corporation, the specific benefits would be subject to negotiation. In July 1989, responding to a formal Supply and Services inquiry, the company recommended against Canadian manufacture and offered unspecified indirect benefits. Typically, these benefits have been in the order of 60 to 70 percent of the contract value. More recently, in a January 1989 letter to the then Minister of National Defence, FMC proposed production at General Motors facilities under a teaming arrangement. However, production could mean anything from mere assembly of components to varying degrees of Canadian manufacture by General Motors or sub-contractors.

27. Almost certainly, contracting with FMC Corporation for up to 22 field engineering and anti-armour vehicles, therefore, would not contribute in a significantly positive fashion to Canada's defence industrial base. Through indirect benefits it would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

Interoperability

28. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result

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in terms of interoperability with existing Canadian Forces equipment and Allied fleets.

PROCUREMENT OPTIONS

29. There are four procurement options:

- a. procure vehicles other than the General Motors Light Armoured Vehicles or FMC Corporation M113s;
- b. procure up to 221 FMC M113s;
- c. procure up to 221 GM Light Armoured Vehicles; and
- d. procure up to 199 GM Light Armoured Vehicles to meet the troop carrier, cargo carrier, mortar carrier and recovery vehicle requirements, and procure up to 22 FMC M113s to meet the field engineering and anti-armour vehicle requirements.

30. Option 1. Purchase of vehicles other than GM Light Armoured Vehicles or FMC Corporation M113s:

a. Advantages:

- (1) a vehicle could be selected to meet the operational requirement; and
- (2) it is possible, but unlikely, that costs could be less than for GM Light Armoured Vehicles or FMC Corporation M113s.

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b. Disadvantages:

- (1) there would be no commonality with current Canadian or Allied inventory;
- (2) foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- (3) current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

31. Option 2. Purchase of FMC Corporation M113s only:

a. Advantages:

- (1) the operational requirement would be met;
- (2) capital costs would be the lowest of any option. Savings would be in the order of \$40M (\$89/90) if the vehicles were manufactured in the United States and \$10M if in Canada; and
- (3) interoperability with the Canadian and Allied inventory would be achieved.

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b. Disadvantages:

- (1) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- (2) establishment of an M113 production facility in Canada would involve a cost premium of about \$30M over manufacture in the United States and a delay of about 20 months caused by the necessity to build a new facility or reconfigure an existing one;
- (3) if FMC were to arrange GM production in Canada, the aforementioned delay would result in no manufacturing in 1989 and 1990; and
- (4) because tracked vehicles are more expensive to operate and maintain, the life cycle costs would be about \$10M (\$88/89) more than for wheeled vehicles.

32. Option 3. Purchase of GM Light Armoured Vehicles only:

a. Advantages:

- (1) the existing light armoured manufacturing facility would be maintained, at least in the short term;
- (2) life cycle costs would be approximately \$10M (88/89) less than for option 2;

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- (3) the operational requirement would be met in all but two applications (see paragraph 34b); and
- (4) industrial and regional benefits would be maximized.

b. Disadvantages.

- (1) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineer bulldozer vehicle; and
- (2) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

33. Option 4. Sole source purchases of up to 199 Light Armoured Vehicles from GM Diesel Division and up to 22 M113 field engineer and anti-armour vehicles from FMC Corporation:

a. Advantages:

- (1) the operational requirement would be met;
- (2) the defence industrial base would be sustained;
- (3) based on the operational requirement, optimal industrial and regional benefits would be achieved;

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(4) life cycle costs would be approximately \$10M less than for option 2; and

(5) interoperability with current Canadian and Allied inventory would be achieved.

- b. Disadvantage. Sole source procurement could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

34. On the last point, however, the Department of Supply and Services would rigourously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. In addition, as a result of the United States Marine Corps purchase, the Department of Supply and Services has a sound basis for analysing the price quotations of General Motors. Finally, the industrial and regional benefit objectives at paragraphs 21 to 27 above would be vigourously pursued in contract negotiations.

Evaluation Criteria

35. Proposals will be evaluated on the basis of compliance with the following criteria:

- a. the achievement of vehicle performance objectives;
- b. completeness of set-up, production, sub-contracting and quality control plans;
- c. completeness of logistic support data;

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- d. *a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk, Canadian content and contracting; and
- e. achievement of industrial and regional benefit objectives.

36. Any shortcomings in proposals would be the basis of negotiations.

Defence Industrial Base Objectives

37. It is desirable that Canada should maintain the capability of producing light armoured vehicles. Emphasis would therefore be placed on negotiating good quality industrial and regional benefits. Company proposals for the troop carriers, cargo carriers, mortar carriers, recovery vehicles and associated support will have to demonstrate a reasonable commitment:

- a. to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- b. to maintain employment for a skilled work force of approximately 370 persons over an average of 21 months (ie, approximately 640 person years); and

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- c. to produce and implement a plan for the involvement of small business.

Other Factors

38. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
March 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

39. Affordability. The \$199.3 M allocated for this project is affordable within the funding level of GNE plus two percent. This amount will allow for purchasing ^{up to} the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

40. The DND funding proposed for implementation of the project is:

<u>FY</u>	<u>Current Year \$M</u>						<u>TOTAL</u>
	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	
	20.0	9.1	70.7	55.2	25.2	19.1	199.3
<u>Incremental Person Years</u>							
Military	0	11.5	10.0	9.5	6.5	3.0	40.5
Civilian	0	8.5	7.5	7.5	3.5	2.0	29.0

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41. The proposed incremental person year requirements of other departments are as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	0	4.5	3	1.5	0.5	0	9.5

42. All incremental person years are subject to Treasury Board approval.

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National Defence

Défense nationale

National Defence Headquarters
Ottawa, Canada
K1A 0K2

Quartier général de la Défense nationale
Ottawa, Canada
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PMO - TANK
 SECTION 8055-22 (PD LRMP)

JAN 17 1988

P.A. TO FILE NO: 32460-00-05
 OR

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8055-22 (PD LRMP)

16 January 1989

Distribution List

MILITIA LIGHT ARMoured VEHICLES PROJECT

Reference: Interdepartmental Senior Review Board Meeting,
20 December 1988

1. In accordance with the decisions reached at reference, the Departmental Working Paper has been amended and is herewith distributed for your secretarial review.

2. The main amendments are as follows:

- a. agreed-on industrial and regional benefit objectives for the GM vehicles are included in the Ministerial Recommendations;
- b. the Ministerial Recommendations and the Analysis incorporate industrial and regional benefit objectives for the M113 vehicles;
- c. the fact that there is no anticipated impact of the proposed Militia procurement on the future Light Armoured Vehicle Project is now reflected;
- d. also incorporated is the point that DND has no further significant requirements to assist Diesel Division of General Motors in the event that expected orders slip or fail to materialize; and
- e. the documentation contains a streamlined options analysis.

3. The document has also been amended to include the comments of National Defence's Directorate of Cabinet Liaison. The resultant changes primarily involve: streamlining the ministerial recommendations, putting the options analysis in proper format, and clarifying several sections.

4. I request that your comments be submitted by Friday, 20 January 1989.

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5. As I indicated at reference, any major difficulties with the Departmental Working Paper could mean another meeting of the Interdepartmental Senior Review Board (ISRB). However, I hope that at this time all substantive points have been reconciled.

6. It should be noted that the document will shortly be reviewed by Group Principals within National Defence. ISRB members will be apprised if any significant changes result.

7. Thank you for your co-operation in this matter.



D.R. Boyle
Rear-Admiral
Chairman of Interdepartmental
Senior Review Board

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DRAFT

DEPARTMENTAL WORKING PAPER

MILITIA

LIGHT ARMOURED VEHICLES

12 JANUARY 1989

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MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that:

1. 221 light armoured vehicles and associated support be acquired for the Canadian Forces at a cost not to exceed \$199.3M (current year dollars);
2. the procurement strategy be based on negotiating suitable contracts to acquire 199 vehicles from Diesel Division of General Motors, London, Ontario, and 22 vehicles from FMC Corporation, San José, California;
3. industrial and regional benefits objectives be as follows:
 - a. negotiating the General Motors contract substantially in accordance with the following principles:
 - (1) 60% Canadian content in deliverables,
 - (2) 40% foreign content entirely offset by indirect industrial benefits,
 - (3) placement of 15% of total contract industrial benefits in Atlantic Canada and 15% in Western Canada;
 - b. negotiating the FMC Corporation contract to obtain industrial and regional benefits totalling 60% of the contract's value;
4. funding be arranged as follows from within the reference levels of the Department of National Defence:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
	(Current \$ millions)						
DND PYs*	20.0	9.1	70.7	55.2	25.2	19.1	199.3
Military	0	12	12	12	10	6	52
Civilian	0	2	4	3.5	3	1	13.5

*Subject to Treasury Board approval

5. Ministers note the incremental person year requirements of other departments as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>Total</u>
Industry, Science & Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	TBA						

RATIONALE

6. The 1987 Defence White Paper recognized that it is both impractical and undesirable to meet the personnel requirements for our defence commitments through the Regular Force alone. The White Paper consequently called for the establishment of a Total Force in which the Reserve Force would undertake many

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operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower requirements and an increase in their level of training so that, if called upon, they will be able to perform their operational tasks without additional conversion or refresher training.

7. The procurement of 221 light armoured vehicles would enable the Land Reserve, or Militia, to conduct realistic and effective training in mechanized operations. The training would be conducted at the four planned Militia Training and Support Centres. Plans call for the establishment of a centre in each of the land force geographical areas in Canada: Western, Central, Secteur de l'Est, and Atlantic. The centres are scheduled to become operational at the rate of one a year commencing in 1989.

8. At this time, only two light armoured vehicles would meet the Militia requirement:

- a. GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight-wheeled vehicle of proven design currently in service with the United States Marine Corps. It has excellent cross-country mobility and reliability. It would permit the Militia to train in mechanized operations. The proposed procurement strategy calls for procuring 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.
- b. M113 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. It is produced by the FMC Corporation of San José, California. Under the proposed procurement strategy, procurement of this vehicle would be limited to the 22 vehicles for field engineer and anti-armour tasks.

9. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors is the only Canadian company able to produce armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. The company claims good prospects for substantial export sales to the United States, Australia and Saudi Arabia during the period 1991 to 1996. These claims seem reasonable. However, in the absence of production orders in 1989 and 1990, the parent company, General Motors of Canada, has indicated the possibility of plant closure and layoffs. Closure could be permanent and mean that future orders are met at a United States production facility. The company has also indicated that placing an early order for 199 Militia vehicles with the Diesel Division of General Motors would assure the continued operation of the London plant and the maintenance of Canada's defence industrial base until at least 1996. If, between now and 1996, orders anticipated by the company either slip or fail to materialize, it would face the same situation as it does now with a key difference: National Defence does not have any significant requirements that would bridge a further production gap.

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10. Industrial and Regional Benefits. With respect to industrial and regional benefits for the 199 vehicles to be purchased from GM, the proposal calls for negotiating a contract substantially in accordance with the following principles: 60 percent Canadian content in the deliverable items; the 40 percent foreign content in the deliverable items to be offset entirely by indirect industrial benefits; of these benefits, an overall 15 percent of the total contract value to be placed in Atlantic Canada and another 15 percent in Western Canada. Also, it is anticipated that the contract will provide direct employment for 370 persons (representing approximately 640 person years of employment). The company will be required to produce and implement an acceptable plan for the involvement of small businesses.

11. With respect to the 22 vehicles from the FMC Corporation, the proposal calls for a contract involving indirect industrial and regional benefits totalling 60 percent of the deliverable contract price.

12. To contribute to the maintenance of the defence industrial base and obtain vehicles in a timely fashion for the Militia Training and Support Centres, it is important to proceed now with procurement of 221 light armoured vehicles.

PROBLEMS AND STRATEGIES

13. Problem. It could be argued that the lack of competition inherent in a sole source decision may result in higher prices.

14. Strategy. The Department of Supply and Services will rigourously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. In addition, as a result of the United States Marine Corps purchase, the Department of Supply and Services has a sound basis for analysing the price quotations of General Motors.

15. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

16. Strategy. The GM plant is the only existing light armoured vehicle design and production facility in Canada. To be economically viable, any new facilities must be aimed at larger vehicle requirements with longer lead times.

17. Problem. Concern could be expressed that the procurement of vehicles from General Motors will influence the selection of vehicles for the future Light Armoured Vehicle Project, which aims to replace as many as possible of the existing fleet of M113s and upgrade the balance.

18. Strategy. The purchase of vehicles from General Motors is to meet a near term, specific requirement, i.e. Militia training. The future Light Armoured Vehicle Project will not involve deliveries until 1995 and beyond. Consequently, the currently proposed purchase will have no anticipated influence on the future project, which, subject to future Cabinet decision, is intended to follow the normal competitive process.

POLITICAL CONSIDERATIONS

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DEPARTMENTAL POSITIONS

TBA

Minister of National Defence
Ministre de la Défense nationale

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ANALYSIS

BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training at Militia Training and Support Centres.

2. Current Policies. The 1987 White Paper on Defence recognized that it is both impractical and undesirable to meet all of the personnel requirements for Canada's defence commitments through the Regular Force alone. In order to address Canada's commitments effectively, many of the tasks that were performed by the Regular Force are to be undertaken by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.

3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence and train augmentation and readiness troops for Canada's land forces deployed overseas to Allied Command Europe. To train for these tasks, the Militia must have access to equipment that is the same as or similar to the equipment it would use in actual operations. A fully trained Total Force will contribute to East-West deterrence, territorial defence and global peace and security.

4. The Department proposes to establish training facilities which the Militia will use to train for its Total Force roles. Specifically, there is a requirement for four Militia Training and Support Centres, one for each of the four military areas in

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Canada. The light armoured vehicles to be acquired as a result of this project will be physically located at these Militia Training and Support Centres.

5. The Militia requires 379 light armoured vehicles to effectively train for its tasks. Based upon currently available funding, the acquisitions proposed in this submission would provide 221. Most (149) would serve to carry troops; the balance of 72 would consist of a combination of cargo (18), maintenance (16), mortar carrying (16), field engineering (14), and anti-armour (8) vehicles.

6. The shortfall between the total requirement of 379 and the proposed acquisition of 221 will be met, to the extent possible, through redistribution of existing vehicles and future acquisition, should funds become available. The procurement of 221 light armoured vehicles will meet the most pressing requirement.

CONSIDERATIONS

7. Among the factors addressed are the relationship of this project to other projects in the Defence Services Program, its national and international implications, sources of suitable light armoured vehicles, interoperability, support of the Canadian defence industrial base and the potential for industrial and regional benefits.

Relationship to Other Projects

8. The proposed acquisition of 221 light armoured vehicles is directly related to the planned modernization of the Land Reserve. These plans will result in:

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- a. distinct projects for the construction of Militia Training and Support Centres (where training with the light armoured vehicles will occur) and for the procurement of various simulation equipments; and
- b. inclusion of tank and Northern Terrain Vehicle requirements within the scope of the Tank Replacement and Northern Terrain Vehicle Projects, respectively.

9. There is a future Light Armoured Vehicle Project which aims at a combination of replacing and upgrading the aging fleet of armoured vehicles currently in service. The current project is not expected to influence the selection of vehicles for the future project, since its purpose is to meet a near term, specific requirement, ie, Militia training. The future project will not be implemented until the 1995-2000 timeframe and, subject to future Cabinet decision, is intended to follow the normal competitive process.

10. It is relevant to specifically note that the present project would not adversely affect the Understanding in Principle concluded between the Crown and Bear Head Industries Ltd, a subsidiary of Thyssen AG of West Germany. Under the agreement, the Crown will assist in the establishment, in Cape Breton, of a plant capable of producing parts and components and assembling armoured vehicles. However, Bear Head would not be in a position to produce vehicles in Canada until 1992. It will be in a position to compete for the requirements of the future Light Armoured Vehicle Project.

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National/International Implications

11. Light armoured vehicles are urgently needed to remedy a major deficiency in the ability of the Militia to train for its territorial defence and augmentation and readiness tasks in support of the Canadian commitment to Allied Command Europe. Canadians will recognize the proposed acquisition as a significant step toward revitalization of the Reserves and establishing an effective territorial defence capability. Our Allies have underscored the need for effective reserve forces and will acknowledge this procurement as a worthwhile step in the implementation of the White Paper.

Suitable Light Armoured Vehicles

12. Only two equipments are considered suitable to meet the Militia requirement: the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario, and the M113 produced by FMC Corporation of California.

13. The Light Armoured Vehicle, which General Motors has produced for the United States Marine Corps, has excellent mobility both on and off road. This wheeled vehicle would provide the Militia with realistic and effective training in mechanized operations. The GM Light Armoured Vehicle, as manufactured for the Marine Corps, would require minimal modification to meet Canada's troop carrying requirement of eight (vice six) riflemen along with two crewmen. The cargo, maintenance and mortar carrying models would need no modification.

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14. The tracked M113 is in widespread use in the armed forces of the Western democracies and their allies. The Canadian Forces currently have 1,200 in service in Canada and Europe. Purchase of this vehicle would enable the Militia to train on the vehicle our forces will be using in actual operations for some time.

15. With regard to the small field engineering vehicle requirement, the General Motors vehicles, being wheeled, lack sufficient traction. For the anti-armour vehicles, the company would also have to undertake significant design and development work to mount a suitable weapon turret: a task that is not cost-effective in view of the fact that only eight such vehicles are required.

The US has one

Defence Industrial Base

16. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply Canada's military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness.

Does not do anything as a if was in the

17. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 light armoured vehicles for the Canadian Forces. It has also manufactured 759 light armoured vehicles for the United States Marine Corps. It is now completing production of an additional 12 electronic warfare vehicles for the US.

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18. As a result of the US contracts, GM Canada is now internationally recognized as part of the North American Defence Industrial Base. GM claims to have good prospects for contracts with the United States, Australia and Saudi Arabia which could lead to production of at least 1100 vehicles during the period 1991 to 1996. These claims seem well founded, but the contracts would involve no production until 1991. Since production under the current USMC contract ceases in June 1989, the company faces a production hiatus of approximately two years' duration. As a result, the parent company, General Motors Corporation has mentioned the possibility of closing the London plant and filling future contracts out of the U.S. This would entail the loss of Canada's only armoured vehicle manufacturing capability, and, consequently, the erosion of Canada's defence industrial base.

19. GM Canada indicates that the plant could be kept in operation if the Crown were to place an order for approximately 200 vehicles to bridge the production gap in 1989 and 1990. Such a contract would significantly contribute to the maintenance of the Canadian defence industrial base in the near term. If, however, anticipated orders either slip or fail to materialize in the future, the company will again face the same situation it does now, with one key difference: National Defence would then have no significant requirements to meet that could help bridge the new production gap.

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Industrial and Regional Benefits

20. Contracting now with GM for the Militia requirement would allow not only for the maintenance of the Canadian Defence Industrial Base, but also for the continuation of the regional and industrial benefits associated with the Marine Corps contracts and other potential exports expected by GM after 1991.

21. As with the Marine Corps order, GM would continue to be responsible for in-house total systems integration but the company would endeavour to increase Canadian content significantly in the production of: the hulls; power pack parts and components; electrical, electronic and wire harnesses; marine drives; interior lay-out and equipment; benches and seats; tires; spares; training and maintenance aids; and manuals. The recommended objective is 60 percent Canadian content in deliverable items.

22. The 40 percent indirect industrial and regional benefits (offsetting the foreign content in the deliverables) would be achieved through transfers of technology and joint ventures, as well as sourcing of parts and components for future light armoured vehicle orders and other equipment.

23. A total of 30 percent of the contract value would be placed in two major regions; fifteen percent would accrue to Atlantic Canada and another 15 percent to Western Canada in the form of both direct and indirect industrial benefits.

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24. As noted in paras 17 and 18, without an order to bridge the production gap in 1989 and 1990, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 170 jobs in the London area. The longer-term impact would be the loss of benefits associated with GM's prospective export sales to other markets, since those vehicles would probably be manufactured in the U.S.

25. If the Crown were to purchase all or most of the vehicles from FMC Corporation, benefits would most likely be in the form of indirect industrial benefits for foreign content. FMC Corporation has, itself, recommended against Canadian production to meet the current requirement because of the relatively small quantity. Also in the past, the company has provided only indirect benefits.

26. Contracting with FMC Corporation for 22 field engineering and anti-armour vehicles will not contribute in a significantly positive fashion to Canada's defence industrial base. It would, however, assist Canadian automotive parts and component manufacturers to compete for sub-contract work on FMC Corporation's military vehicle and other business.

Interoperability

27. Purchase of either the General Motors Light Armoured Vehicle or the FMC Corporation M113 would have a positive result in terms of interoperability with existing CF and Allied fleets.

28. The GM vehicle is interoperable with the 491 Armoured Vehicles General Purpose purchased from that company between 1979 and 1981. Engines, transmissions and drive-line components (suspension, wheels, tires and shock absorbers) are common to both vehicles.

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29. Purchase of the FMC vehicle would provide interoperability with Canada's current fleet of 1,200 M113s.

PROCUREMENT OPTIONS

30. There are four procurement options:

- a. procure vehicles other than the General Motors Light Armoured Vehicles or FMC Corporation M113s;
- b. procure 221 M113s;
- c. procure 221 GM Light Armoured Vehicles; and
- d. procure, on a sole source basis, 199 GM Light Armoured Vehicles to meet the troop carrier, cargo carrier, mortar carrier and recovery vehicle requirements; and procure, also on a sole source basis, 22 M113s to meet the field engineering and anti-armour vehicle requirements.

31. Option 1. Purchase of vehicles other than GM Light Armoured Vehicles or FMC Corporation M113s:

a. Advantages:

- (1) a vehicle could be selected to meet the operational requirement; and
- (2) it is possible, but unlikely, that costs could be less than for GM Light Armoured Vehicles or FMC Corporation M113s.

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b. Disadvantages:

- (1) there would be no commonality with current Canadian or Allied inventory;
- (2) foreign manufacturers would be unlikely to establish Canadian production facilities or significant Canadian industrial participation for such a small quantity of vehicles; and
- (3) current Canadian production capability could disappear with resultant degradation of Canada's defence industrial base.

32. Option 2. Purchase of FMC Corporation M113s only:

a. Advantages:

- (1) the operational requirement would be met;
- (2) capital costs would probably be the lowest of any option if the vehicles were obtained from the existing FMC Corporation plant in San José, California; and
- (3) interoperability with the Canadian and Allied inventory would be achieved.

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b. Disadvantages:

- (1) if GM's Diesel Division were not a major participant, its plant could close, thus causing the loss of Canada's only existing light armoured vehicle manufacturing capability;
- (2) industrial and regional benefits would be indirect unless an M113 production facility could be established in Canada;
- (3) establishment of an M113 production facility anywhere in Canada would involve a substantial cost premium and a production delay of many months resulting from building a new facility or reconfiguring an existing one; and
- (4) even in the unlikely event that production of M113s at GM's Diesel Division could be arranged, reconfiguring the plant would entail a production delay and lay-off of approximately 150 persons for 6-8 months.

33. Option 3. Purchase of GM Light Armoured Vehicles only:

a. Advantages:

- (1) the existing light armoured manufacturing facility would be maintained, at least in the short term;

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- (2) the operational requirement would be met in all but two applications (see para 32b); and
- (3) industrial and regional benefits would be maximized.

b. Disadvantages.

- (1) the GM vehicle, being wheeled, lacks sufficient traction to be effective as a field engineer vehicle; and
- (2) extensive design and development work would be required to mount a suitable anti-armour turret on the small number of anti-armour vehicles required.

34. Option 4. Sole source purchases of 199 Light Armoured Vehicles from GM Diesel Division and 22 M113 field engineer and anti-armour vehicles from FMC Corporation:

a. Advantages:

- (1) the operational requirement would be met;
- (2) the defence industrial base would be sustained;
- (3) based on the operational requirement, optimal industrial and regional benefits would be achieved; and

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(4) interoperability with current Canadian and Allied inventory would be achieved.

b. Disadvantages:

(1) sole source procurements could arguably reduce the leverage necessary to ensure optimal price and industrial and regional benefits.

35. On the last point, however, the Department of Supply and Services would rigourously apply its policy for allowable costs and profits in a sole source, negotiated contract situation. In addition, as a result of the United States Marine Corps purchase, the Department of Supply and Services has a sound basis for analysing the price quotations of General Motors. Finally, the industrial and regional benefit objectives at paras 20 to 25 above would be vigourously pursued in contract negotiations.

Evaluation Criteria

36. Proposals will be evaluated on the basis of compliance with the following criteria:

- a. the achievement of vehicle performance objectives;
- b. completeness of set-up, production, sub-contracting and quality control plans;
- c. completeness of logistic support data;

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- d. a price which, in accordance with Supply and Services Canada policy on negotiated prices, identifies allowable costs and establishes the basis for determining profit according to the degree of business risk, Canadian content and contracting; and
- e. achievement of industrial and regional benefit objectives.

37. Any shortcomings in proposals will be the basis of negotiations.

Defence Industrial Base Objectives

38. It is desirable that Canada should maintain the capability of producing light armoured vehicles. Emphasis would therefore be placed on negotiating good quality industrial and regional benefits. Company proposals for the troop carriers, cargo carriers, mortar carriers, recovery vehicles and associated support will have to demonstrate a reasonable commitment:

- a. to maintain a light armoured vehicle manufacturing capability in London, Ontario, and, with respect to subcontracted components, elsewhere in Canada;
- b. to maintain employment for a skilled work force of approximately 370 persons over an average of 21 months (ie, approximately 640 person years); and

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- c. to produce and implement a plan for the involvement of small business.

Other Factors

39. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
March 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

40. Affordability. The \$199.3 M allocated for this project is affordable within the funding level of GNE plus two percent. This amount will allow for purchasing the required 221 vehicles together with ancillary equipment, spare parts, ammunition, publications, engineering drawings and training.

41. The DND funding proposed for implementation of the project is:

<u>FY</u>	<u>Current BY \$M</u>						<u>TOTAL</u>
	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	
	20.0	9.1	70.7	55.2	25.2	19.1	199.3

Incremental Person Years

Military	0	12	12	12	10	6	52
Civilian	0	2	4	3.5	3	1	13.5

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42. The proposed incremental person year requirements of other departments are as follows:

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	<u>93/94</u>	<u>TOTAL</u>
Industry, Science and Technology	0	1	1	0.5	0.5	0.5	3.5
Supply and Services	TBA						

43. All incremental person years are subject to Treasury Board approval.

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National Defence

Défense nationale

National Defence Headquarters
Ottawa, Canada
K1A 0K2

Quartier général de la Défense nationale
Ottawa, Canada
K1A 0K2

PA
8055-10-2 (DPSL)

13 December 1988

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INTERDEPARTMENTAL SENIOR
REVIEW BOARD MEETING

1. An Interdepartmental Senior Review Board (ISRB) will be held at 1430 on Tuesday, December 20th, 1988 in the Program Control Board Conference Room, 17th Floor, North Tower, 101 Colonel By Drive.
2. The purpose of this meeting is to consider the project to provide the Militia with light armoured vehicles. Specifically, the ISRB will review the:
 - a. background to the project;
 - b. proposed procurement approach; and
 - c. draft Memorandum to Cabinet.
3. Enclosed is a draft of the Memorandum to Cabinet.

D.R. Boyle
D.R. Boyle
Rear-Admiral
Chief of Engineering and Maintenance

Enclosure: 1

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DEPARTMENTAL WORKING PAPER

LAND RESERVE

LIGHT ARMoured VEHICLES

13 DECEMBER 1988

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MINISTERIAL RECOMMENDATION

ISSUE

Whether and how to acquire light armoured vehicles for use by the Land Reserves.

RECOMMENDATIONS

It is recommended that approval be given to:

1. acquire 221 light armoured vehicles and associated support for the Canadian Forces at a cost not to exceed \$175M to be funded from within the reference levels of the Department of National Defence;
2. a procurement strategy based upon negotiating a suitable contract to acquire 199 vehicles from Diesel Division of GM Canada, London Ontario and 22 from FMC Corporation of San José, California.
3. Funding be arranged as follows:

<u>FY</u>	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>TOTAL</u>
			Current	\$M	

Incremental PYs*

Military

Civilian

*Subject to approval by Treasury Board

RATIONALE

4. The 1987 Defence White Paper recognized that it is both impractical and undersirable to meet the personnel requirements for our defence commitments through the Regular Force alone. The White Paper consequently called for the establishment of a Total Force in which the Reserve Force will undertake many operational tasks which were formerly carried out solely by the Regular Force. The increased reliance on the Reserves necessitates their expansion to meet increased manpower requirements and an increase in their level of training so that they, if called upon, will be capable of performing their wartime tasks without additional conversion or refresher training.

5. The Canadian Forces Development Plan was produced to address the initiatives of the White Paper. Within the Total Force planning, specific tasks are assigned to each element of the Regular and Reserve forces. The Land Reserve, or Militia is tasked to contribute to territorial defence and to train augmentation and readiness troops for our land forces deployed overseas to Allied Command Europe. Warfare in Northwest Europe would be characterized by high intensity, mobile mechanized operations in which the primary means of tactical mobility would be the light armoured vehicle. However, the Militia currently lacks the proper types and quantities of armoured vehicles it needs to train for its Allied Command Europe tasks.

6. To enable the Militia to assemble and train the units and sub-units in these tasks the Canadian Forces Development Plan includes the establishment of one appropriately equipped

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Militia Training and Support Centre for each of the land force geographical areas in Canada: Western, Central, Secteur de l'Est and Atlantic. Each of these four centres would be equipped to provide role-oriented equipment. As far as training for territorial defence is concerned, plans such as those for the Northern Terrain Vehicle acquisition are already underway to provide suitable operational and training equipment. The vehicles required to support training for the Allied Command Europe tasks will come from a number of sources; some will be redistributed from existing Canadian Forces holdings; a portion will be acquired and funded by other projects within the Defence Services Program; and, the remainder will be acquired and funded by this project.

7. Alternatives. At this time, there are only two alternatives that would meet the Militia light armoured vehicle requirement:

- a. Acquisition of M113 A2 Light Armoured Vehicles. The M113 family of tracked vehicles currently provides the primary means of tactical mobility for Canadian contributions to Allied Command Europe. This vehicle is capable of completely meeting the operational and training requirements. It is produced by the FMC Corporation of San Jose, California. With the proposed procurement strategy, procurement of this vehicle would be limited to the 22 vehicles for field engineer and anti-armour tasks.
- b. Acquisition of the GM Light Armoured Vehicles. The GM Light Armoured Vehicle is an eight wheeled vehicle of proven design that is currently in service with the United States Marine Corps. It has cross-country mobility comparable to that of the M113 and excellent reliability. It would permit the Militia to train in mechanized operations. The proposed procurement strategy calls for procuring 199 of these vehicles. It is produced by Diesel Division of General Motors in London, Ontario.

8. Defence Industrial Base. The White Paper on defence stresses the need for a sound industrial base to support sustained operations. Currently, Diesel Division of General Motors has the only Canadian capability for producing armoured vehicles. It has produced 491 Armoured Vehicles General Purpose for the Canadian Forces and, more recently, 759 similar vehicles for the United States Marine Corps. By virtue of the latter, the company has become part of the North American defence industrial base as well as the Canadian. The company indicates good prospects for substantial export sales during the period 1991 to 1996. However, in the absence of orders involving any production in 1989 and 1990, the parent company, General Motors of Canada, threatens plant closure and layoffs. Closure could be permanent and mean that future orders are met at a United States production facility. Placing an early order for 199 Militia vehicles with the Diesel Division of General Motors would virtually assure the continued operation of the London plant until at least 1996, thus maintaining our defence industrial base. I and the Minister of State, Finance, have indicated to General Motors our support of awarding a contract to its Diesel Division.

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9. Industrial/Regional Benefits. With procurement of light armoured vehicles from General Motors, the following objectives are attainable: 60 percent Canadian content, 15 percent of the total contract value placed with sub-contractors in Atlantic and Western Canada, jobs for 370 persons (representing approximately 640 person years of employment), and 100 percent offsets for non-Canadian content. Also, the company will be required to produce and implement an acceptable plan for the involvement of small businesses as sub-contractors.

10. If we were to procure the bulk of the vehicles from FMC Corporation, the nature and extent of any industrial and regional benefits is unknown. The company itself recommends against Canadian production of such a relatively small quantity.

11. The consequence of not proceeding with the acquisition of light armoured vehicles would be that the Militia would be unable to train for one of its major roles in the Total Force.

PROBLEMS AND STRATEGIES

12. Problem. It could be argued that the lack of competition inherent in a sole source decision could result in higher prices than otherwise.

13. Strategy. The Department of Supply and Services will rigorously apply its policy for allowable costs and profits in a sole source, negotiated contract situation.

14. Problem. Industries in other regions of the country may object to being excluded at a time when they are attempting to establish heavy manufacturing capabilities.

15. Strategy. The GM plant is the only extant light armoured vehicle design and production facility in Canada. To be economically viable, any new facilities must be aimed at larger vehicle requirements with longer lead times.

POLITICAL CONSIDERATIONS

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DEPARTMENTAL POSITIONS

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Minister of National Defence
Ministre de la Défense nationale

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ANALYSIS

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BACKGROUND

1. Object. To seek approval for the acquisition of light armoured vehicles to be used for Militia training at Militia Training and Support Centres.

2. Current Policies. The 1987 White Paper on Defence recognized that it is both impractical and undesirable to meet all of the personnel requirements for Canada's defence commitments through the Regular Force alone. In order to effectively address our commitments, many of the tasks for which we have formerly called upon the Regular Force to undertake must instead be carried out by trained Reserve personnel. The White Paper consequently called for the establishment of a Total Force, in which Regular and Reserve personnel, units and tasks would be merged.

3. In the Total Force, the Land Reserve, or Militia, will contribute to territorial defence, and will train augmentation and readiness troops for our land forces deployed overseas to Allied Command Europe. This proposed acquisition of light armoured vehicles addresses a deficiency associated with the training of augmentation and readiness troops for Allied Command Europe. Augmentation troops are required to bring our fighting formations up to war strength since they are manned far below that level in peacetime. Readiness troops are required to replace battle casualties during the first 30 days of hostilities. The nature of warfare in which Allied Command Europe would likely engage is characterized by high intensity,

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mobile, mechanized operations in which the primary means of battlefield mobility is provided by light armoured vehicles. The short warning time associated with augmentation and readiness tasks dictates that the Militia must be fully trained in peacetime to perform their tasks at short notice in the event of the threat of war. To train for these tasks, the Militia must have access to the same or similar equipment it would use during wartime operations. A fully trained Total Force will contribute to deterrence and NATO security.

4. The Department proposes to establish centralized training facilities which the Militia will use to train for its Total Force roles. Specifically, there is a requirement for four Militia Training and Support Centres, one for each of the four military areas in Canada. The light armoured vehicles to be acquired by this project will be physically located at these Militia Training and Support Centres.

5. The Militia requires 379 light armoured vehicles to train effectively for its tasks. Based upon currently available funding, the acquisitions proposed in this submission will provide 221. The majority of these (149) will be troop carrying vehicles, and the balance a combination of cargo (18), maintenance (16), mortar carrying (16), field engineering (14), and anti-armour (8) vehicles. With regard to the field engineer and anti-armour vehicles, General Motors would have to undertake extensive design and development work to produce such vehicles. The resultant cost of such a small number of vehicles would probably be very high. Also, the

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Canadian Forces would end up with a handful of vehicles substantially different from in-service field engineer and anti-armour vehicles. FMC Corporation, on the other hand, already produces such vehicles. Consequently, the proposed procurement strategy is to procure these two variants from FMC Corporation.

6. The shortfall between the total requirement of 379 and the proposed acquisition of 221 will be met, to the extent possible, through redistribution of existing vehicles and future acquisition, should funds become available. The quantity of 221; however, meets the most pressing requirement.

RELATIONSHIP TO OTHER PROJECTS

7. The proposed acquisition of 199 light armoured vehicles is directly related to the aforementioned plans for the modernization of the Land Reserve. These plans will result in:

- a. distinct projects for the construction of Militia Training and Support Centres (where training with the light armoured vehicles will occur) and for the procurement of various simulation equipments;
- b. inclusion of tank and Northern Terrain Vehicle requirements within the scope of the Tank Replacement and Northern Terrain Vehicle Projects respectively.

8. The separate Light Armoured Vehicle Project aims at a combination of replacing and upgrading the aging fleet of

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armoured vehicles currently in service. As this project will not start acquiring vehicles until post-1995, it would not provide any vehicles by the early 1990's, when the Militia Training Centres will become operational and require vehicles.

National/International Implications

9. This equipment is urgently needed to close a fundamental capability gap in the requirement to train the Militia for augmentation and readiness tasks in support of the Canadian commitment to Allied Command Europe. Proceeding with this acquisition now will emphasize Canada's will and preparedness to meet its international commitments. Our Allies and the Canadian public will see a positive decision as another significant step in the implementation of the White Paper initiatives and revitalization of the Reserves. The creation and maintenance of an effective Militia is a well-recognized concept amongst our allies.

Light Armoured Vehicle Sources

10. With regard to the Militia requirement, only two sources are suitable: the M113 produced by FMC Corporation of California and the Light Armoured Vehicle produced by Diesel Division of General Motors in London, Ontario.

11. The M113 is in widespread use throughout the world. The Canadian Forces themselves have 1,200 in service in Canada and Europe. Purchase of this vehicle would enhance interoperability in that the Militia would train on the same vehicle that its soldiers would use in combat in the near

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term. However, FMC Corporation does not have in place any firm arrangements for Canadian manufacture of M113s, in whole or in part. It is not feasible to establish a Canadian capability for the current small requirement. If FMC Corporation were to transfer such a capability to Canada, the Company has indicated the price premium would likely be in the order of 15 to 40 per cent for unspecified levels of Canadian content.

12. The eight-wheeled Light Armoured Vehicle currently manufactured by GM is interoperable with the 491 six-wheeled Armoured Vehicles General Purpose which we purchased from the company between 1979 and 1981. In particular, it has interchangeable power packs (engine and transmission) and drive-line components (suspension, wheels, tires and shock absorbers). The GM Light Armoured Vehicle, as manufactured for the United States Marine Corps, will require some modifications to meet our troop carrying requirement. These modifications involve removal of the gun and turret and accommodation of eight vice six riflemen along with the two crewmen. The cargo, maintenance and mortar carrying vehicles are suitable as is. The vehicle can perform most of the required battlefield tasks performed by an M113 and thus is suitable for tactical training of the Militia.

13. The purchase of any vehicle other than the M113 or the GM Light Armoured Vehicle would result in no interoperability and, even presuming Canadian production could be arranged, displacement and elimination of GM's defence manufacturing capability in London, Ontario would likely ensue.

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Defence Industrial Base

14. The White Paper states that a key element of both readiness and sustainment is the ability to equip and resupply our military forces. Sustainment requires an assured source of materiel and, therefore, industrial preparedness should be pursued by the Government to enhance the responsiveness of the industrial base.

15. Currently, GM is the only manufacturer of armoured vehicles in Canada. Between 1979 and 1981, the company manufactured 491 light armoured vehicles for the Canadian Forces. It has also manufactured 759 light armoured vehicles for the United States Marine Corps and good potential exists for further sales to the armed forces of the U.S. and other countries. GM has therefore become a significant part of the Canadian defence scene and also an internationally recognized part of the North American Defence Industrial Base.

16. GM claims to have good prospects for contracts with the United States, Australia and Saudi Arabia which could lead to production of approximately 1100 vehicles during the period 1991 to 1996. However, GM's potential future contracts would not involve production until 1991. Since production for the current USMC contract ceased in 1988, the company faces a two-year production hiatus. As a result, the parent company, General Motors Corporation, is seriously considering closure of the London plant and performing work on future contracts in the U.S. Closure would mean the loss of Canada's only armoured vehicle manufacturing capability, the loss of several hundred

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jobs, the erosion of Canada's Defence Industrial Base and the elimination of domestic competition in future Canadian armoured vehicle acquisition.

17. The plant could be kept in operation if the Crown were to place an order to bridge the production gap between 1989 and 1991. GM has confirmed that an order for 199 vehicles would be sufficient to ensure continuous operation of the plant during that period. A contract award to GM consequently would contribute significantly to the maintenance of the Canadian Defence Industrial Base.

18. The Crown has concluded an Understanding in Principle with Bear Head Industries Ltd, an affiliate of Thyssen AG of West Germany, to assist in the establishment in Cape Breton of a plant capable of producing armoured vehicles in addition to heavy industry products such as airport loading bridges, boilers, mixers, industrial automation equipment and tank components. Awarding the contract for Militia vehicles to GM would not adversely affect the Bear Head venture since Thyssen AG would not be in a position to produce vehicles in Canada until 1992. Bear Head will be in position to compete in the Light Armoured Vehicle Project which aims to augment the current fleet of Canadian Forces light armoured vehicles with a next-generation vehicle in the 1995 to 2000 timeframe.

Industrial and Regional Benefits

19. The light armoured vehicles manufactured by GM for the United States Marine Corps are acceptable, with some modifications, for the Militia requirement. Contracting with

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GM for the Militia requirement would result not only in the maintenance of the Canadian Defence Industrial Base, but also the continuation of the regional and industrial benefits associated with Marine Corps and other potential foreign orders expected by GM after 1991. Negotiations with the company should enhance these benefits. The particular objectives are:

- a. a minimum of 60 percent Canadian content of the total contract. Canadian content in the United States Marine Corps vehicles averages about 45 percent. This level can be increased by the use of Canadian steel, the fact that there is no requirement for the US manufactured gun and turret, and greater use of Canadian sub-contractors;
- b. 15 percent of total contract value in Atlantic and Western Canada; and
- c. 100 percent offset for foreign content.

20. As noted, without an order to bridge the production gap between 1989 and 1991, the GM plant in London, Ontario may be closed. The direct impact of closure would be the immediate loss of approximately 250 jobs in the London area. The future impact would be the loss of benefits associated with GM's prospective contracts for export sales to other markets since the vehicles for these orders would probably be manufactured in the U.S.

OPTIONS

22. Given that the status quo does not meet Government policy and that Militia light armoured vehicles must be

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acquired, there are only four options, namely: a competitive procurement involving a choice between M113s and GM Light Armoured Vehicles; a sole source procurement of M113s but letting FMC Corporation select its Canadian partner(s); a sole source procurement of M113s from GM assuming that a cooperative venture between GM and FMC Corporation could be arranged; or a sole source procurement of GM Light Armoured Vehicles.

22. Competitive sourcing would have the following advantages:

- a. with either the M113 or GM vehicle, we will obtain a vehicle that meets our operational requirement;
- b. competition would encourage contenders to minimize prices and maximize industrial and regional benefits;
- c. it is possible that either vehicle could be manufactured in Canada, however, only GM currently has a production line in place in Canada now; and
- d. either vehicle would provide the kinds of interoperability described in paragraphs 12 and 13.

23. The disadvantages of competition are:

- a. in the event that GM is unsuccessful, the London armoured vehicle plant could close, resulting in the loss of an important component of the Canadian Defence Industrial Base, the immediate loss of 250 jobs in the London area and the future loss of any industrial and regional benefits associated with future export sales;

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- b. in the event that FMC Corporation were successful, the nature and extent of any resultant industrial and regional benefits are unknown at this time. The company has submitted an unsolicited proposal in which it lists several Canadian suppliers with whom it has Letters of Agreement. Its proposal however, was based on a sole source contract for not only this requirement but also the Light Armoured Vehicle Project and replacement and upgrade of existing vehicles;
 - c. if FMC Corporation were to agree to any significant level of direct Canadian participation, then the Defence Industrial Base and industrial/regional benefits would, at best, merely displace those that would be afforded to GM's existing armoured vehicle manufacturing capability in London; and
 - d. if FMC were successful, there is no guarantee that it would maintain any Canadian manufacturing involvement beyond the duration of the immediate contract.
24. The advantages of a sole source procurement of M113s are:
- a. the Militia would obtain a vehicle which meets its current operational requirements in all respects;
 - b. the vehicle procured would be identical to the armoured personnel carrier currently in service in Allied Command Europe; and

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c. the capital cost of M113's is less than the GM vehicles; ie: \$150 million for 221 vehicles and associated support vice \$175 million. However, the advantage only pertains if there is no significant Canadian manufacture of the M113's. According to FMC, the premium could be 15 to 40 percent, depending on the extent of Canadian participation.

25. The disadvantages of a sole source acquisition of M113s are identical to those for the competitive sourcing plus the additional difficulty, with reduced leverage, of having FMC Corporation minimize prices and maximize defence industrial base and industrial/regional benefits.

26. A sole source procurement of M113s from GM would involve the following advantages:

- a. we will obtain a vehicle which meets our operational requirement;
- b. there will be defence industrial base benefits resulting from continued operation of the GM London plant, which will put GM in a position to remain in operation in Canada, satisfy future potential export orders and content for future Canadian LAV requirements;
- c. the vehicle procured would be identical to the armoured personnel carrier currently in service in Allied Command Europe.

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27. The disadvantages of this option are:

- a. the extent of industrial and regional benefits is unknown at this time as FMC Corporation has made no commitments in this area;
- b. FMC Corporation considers GM as a competitor in the world market for light armoured vehicles and therefore may not be supportive of maintaining the latter's manufacturing capability. Discussions thus far have not been fruitful;
- c. a major dislocation and restructuring of GMs facilities would be required to accommodate production of M113s rather than its Light Armoured Vehicles. The reorganization would in large part be due to the different processes and equipment needed for aluminum instead of steel welding. It would mean at least six to eight months delay and the layoff of about 200 people for the duration. In addition, it would disrupt and possibly compromise their subsequent reconversion to Light Armoured Vehicle production for United States, Australian, Saudi Arabian and any other orders that may materialize; and
- d. our leverage to obtain low prices and high industrial/regional benefits would be compromised by the specification of both a particular vehicle and a particular source.

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28. Sole source procurement of the GM LAV has certain advantages:

- a. the Militia will obtain a vehicle which adequately meets the operational requirement;
- b. there will be defence industrial benefits resulting from continued operation of the GM London plant which will put GM in a position to remain in operation in Canada, satisfy future potential export orders and contend for future Canadian LAV requirements;
- c. based upon United States Marine Corps and National Defence data, the GM LAV has lower operating and maintenance costs than the M113. The average annual operating and maintenance cost for 200 LAV's would be \$5.7 million (\$88/89) versus \$7.2 million for a similar quantity of M113's. Over the anticipated 20 year life of both vehicles, the total operating and maintenance costs would be 114 million versus 144 million, a saving of 30 million dollars; and
- d. there would be support and training advantages resulting from the interoperability with our in-service Armoured Vehicles General Purpose described in paragraph 13.

29. The disadvantage of sole source procurement of GM vehicles is that it has the potential to reduce our leverage to obtain low prices and higher benefits than the company already

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provides with the manufacture of vehicles for the U.S. Marines. Supply and Services Canada may, however, be trusted to apply its costing policy rigorously against any attempted price escalations. Specific industrial and regional benefit targets, as proposed in paragraph 31 below, will be established against which any proposal from GM will be evaluated.

Selection/Evaluation Criteria

30. Any proposal from GM will be evaluated on the basis of its compliance with the following criteria, it being understood that any shortcomings in the proposal will be the basis of negotiations with the company:

- a. the achievement of vehicle performance objectives;
- b. completeness of set-up, production, sub-contracting and quality control plans;
- c. completeness of logistic support data;
- d. a price, in accordance with Supply and Services Canada policy on negotiated prices, which identifies allowable costs and establishes the basis for determining profit according to the degree of business risk, Canadian content and contracting; and
- e. achievement of industrial/regional benefit objectives.

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Industrial/Regional Benefit Objectives

31. In the absence of competition, specific industrial and regional benefit objectives must be established as a basis for evaluation of the GM proposal and subsequent negotiations with the company. These objectives are:

- a. to maintain a light armoured vehicle manufacturing capability in London, Ontario;
- b. where not already established, to develop sources of supply in Canada for major vehicle sub-systems (the prime contractor will be encouraged to seek out sub-contracting opportunities in Atlantic and Western Canada);
- c. to maintain employment for a skilled workforce of approximately 300 persons over two years (ie, 600 person years);
- d. to produce and implement an acceptable plan for the involvement of small business as subcontractors;
- e. to achieve Canadian content of at least 60 percent (involving Canadian produced steel, radiators, control panels, miscellaneous components and hardware, and labour);
- f. to achieve additional industrial and regional benefits over and above direct content. The value of these offsets would vary according to their quality. They would, as a minimum, have to be

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manufactured goods of at least equivalent technology. These offsets could take the form of Canadian component manufacturers supplying parts for light armoured vehicles destined for military markets outside Canada during and beyond the lifetime of the contract; and

- g. if applicable, to obtain from GM, as part of their proposal, a business plan specifically addressing the future use of any incremental vehicle production capacity generated by this purchase.

Other Factors

32. If approval of this project is granted at this time, future Ministerial involvement will be as follows:

<u>Date</u>	<u>Forum</u>	<u>Decision Sought</u>
March 1989	Treasury Board	Effective Project Approval and Contract Approval

Financial Implications

33. Affordability. The \$___ M allocated for this project is affordable within the funding level of GNE plus two percent. This amount will allow for purchasing the requirement of 221 vehicles.

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34. The funding proposed for implementation of the project is:

<u>FY</u>	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>TOTAL</u>
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Incremental PYS

Military

Civilian

35. The PYS are conditional on Treasury Board approval.

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