

The Budget and Acquisition Challenges of Implementing *Strong, Secure, Engaged*

J. Craig Stone, PhD

Abstract: In June 2017, the Canadian government issued a new defense policy titled *Strong, Secure, Engaged: Canada's Defence Policy*. The policy is designed to indicate Canadian defense priorities during a 20-year horizon with increases in both defense spending and the size of the military. Since its release, commentary on the policy has varied across the spectrum, ranging from positive support to very negative criticism. Now more than a year later, the discussion focuses on the status of implementation based on the 20-year program articulated in the policy. This article highlights two specific aspects of the policy: the budget and acquisition challenges of its implementation. The article reviews the broad context and intentions of the policy, reviews the budget challenges followed by the acquisition challenges associated with implementing the policy, and concludes by arguing that it is much too early in a 20-year implementation time line to be negative about the future prospects.

Keywords: defense budgeting, defense acquisition, procurement, defense policy, Canada

In June 2017, the Canadian government issued a new defense policy called *Strong, Secure, Engaged*.¹ The policy was issued after significant consultation with allies, members of parliament, interest groups, and the Canadian public. The policy is presented as one that “offers clear direction on Canadian

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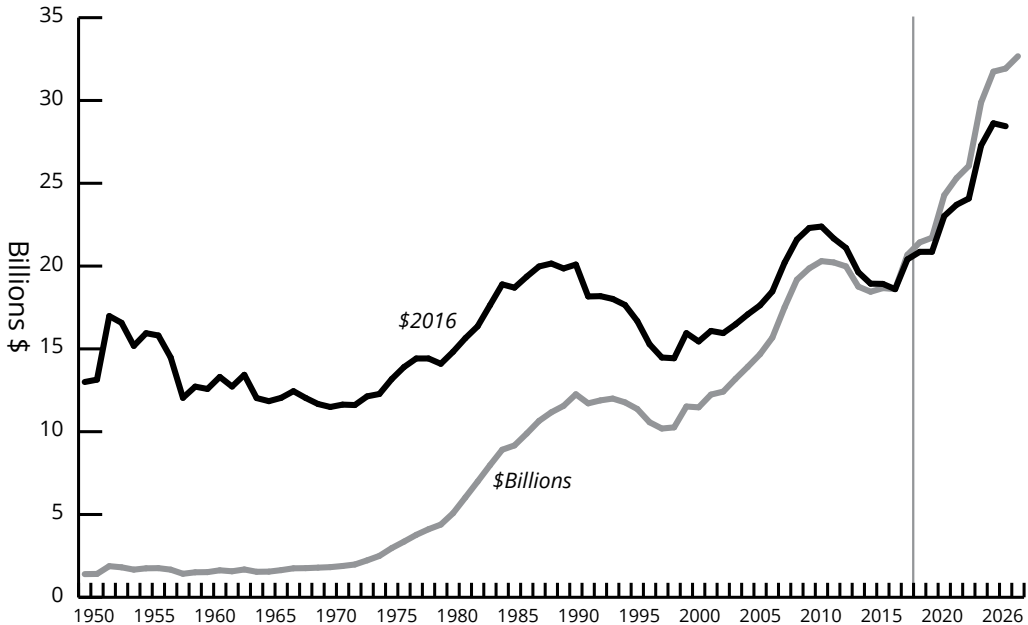
defence priorities on a 20-year horizon. It increases the size of the Canadian Armed Forces, affirms Canada's unwavering commitment to its long-standing alliances and partnerships, and provides vital new investments to ensure our women and men in uniform have the modern tools they need to succeed in—and return home safely from—operations.”² Since its release, commentary on the policy has varied, ranging from positive support to very negative criticism.

Now, more than a year later, the discussion focuses on where implementation is currently for the 20-year program articulated in the policy. The intent of this article is to highlight two specific aspects of the policy: the budget challenges of implementing *Strong, Secure, Engaged* (SSE) and the acquisition challenges of implementing SSE. A separate but related issue is the intended sequencing of implementation. The article will first review the broad context and intentions of the policy and then present some of the criticisms that have been identified more recently. Next, the article will review the budget challenges, followed by the acquisition challenges associated with implementing the policy, and conclude by arguing that it is much too early in the implementation process to be negative about the future prospects.

Strong, Secure, Engaged

The new defense policy is a significant policy statement by the government. SSE provides a commitment to grow the budget on a cash basis from \$18.9 billion in 2016–17 to \$32.7 billion in 2026–27.³ SSE indicates that the policy is rigorously costed, transparent, and fully funded.⁴ This is a 70 percent increase in the budget in the next 10 years. As Eugene Lang has observed, the government did not campaign on increasing defense spending and “the coalition of voters that elected the Trudeau Liberals was not calling for an increase in military spending.”⁵ The Liberal Party, lead by Justin Trudeau, defeated then-prime minister Stephen Harper and the Conservative Party in the fall election of 2015. As the leader of the Liberal Party, Justin Trudeau campaigned on growing the middle class and on increasing spending for more traditional social policy issues such as education and health care. The only significant references to defense were that he would not buy the Lockheed Martin F-35 Lightning II and that he would return to United Nations peacekeeping missions. Upon election, the new government committed to launching a defense policy review. This was consistent with past practices for Canada when ruling parties change. New governments have generally conducted defense policy reviews and issued a defense policy document.

The growth in funding for SSE is even more significant when one acknowledges that Canadian governments have generally not significantly increased defense spending when running deficits. Typically, when revenue shrinks and deficits increase, defense spending is reduced to help return to a balanced

Figure 1. Canadian defense expenditures, 1950–2025 (billions)

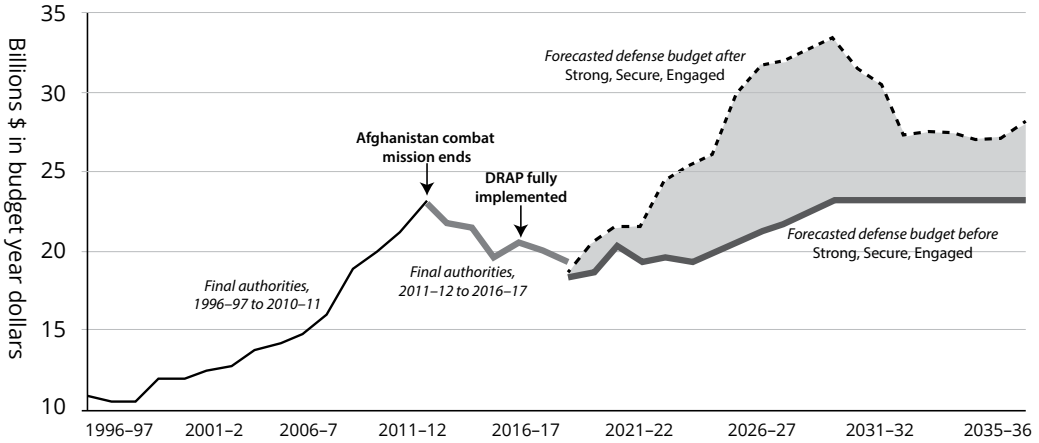
Source: *Public Accounts of Canada and Strong, Secure, Engaged*

budget. SSE breaks with this tradition. The defense budget is growing while the government runs a deficit with no immediate plan to return to a balanced budget.

Figure 1 shows historical defense spending in Canada with the projected spending that is articulated in SSE. SSE suggests significant budget increases on a cash basis out to FY 2026–27. Figure 2 provides the budget forecast that is advocated in SSE and shows an expected decrease of almost \$5 billion a year in funding post 2026–27, “reflecting the completion of major capital projects” that are expected between 2017 and 2027.⁶ The assumption is that, once the large capital investments are made between 2017 and 2027, defense will then be recapitalized and will not require as much money to sustain whatever missions and tasks the government is asking them to fulfill. The difficulty with this notion is that no one can predict the security environment and subsequent military capabilities that will be required that far into the future.

More importantly, the government has clarified the funding allocations between accrual and cash allocations so that “the management and planning of capital assets will be on a purely accrual basis.”⁷ This is a significant improvement over the previous system that had two separate capital budgets governed by different rules—one was accrual and the other was a modified cash basis.⁸ The government has indicated that it will allocate an additional \$48.9 billion during the next 20 years on an accrual basis with \$33.8 billion allocated to

Figure 2. Actual and forecasted defense budget (cash basis)



Note: DRAP = deficit reduction action plan.

Source: Strong, Secure, Engaged, 98

Table 1. Defense funding (millions)

Fiscal year	Accrual basis	Cash basis	Fiscal year	Accrual basis	Cash basis
2016-17	\$17,148	\$18,908	2022-23	\$20,870	\$26,048
2017-18	\$17,174	\$20,683	2023-24	\$22,092	\$29,879
2018-19	\$17,636	\$21,428	2024-25	\$23,278	\$31,741
2019-20	\$18,677	\$21,714	2025-26	\$23,899	\$31,931
2020-21	\$19,464	\$24,276	2026-27	\$24,551	\$32,673
2021-22	\$20,015	\$23,315			
		Accrual basis		Cash basis	
10-year total		\$207,654		\$265,688	
20-year total		\$497,012		\$553,003	

Source: Strong, Secure, Engaged, 43

capital assets and \$15.1 billion allocated to operating requirements.⁹ Table 1 provides the funding identified in SSE for both cash and accrual during the next 20 years.

Although there are a number of significant policy issues in SSE, what is of concern for this discussion are the budget and acquisition issues. SSE clarifies a considerable number of capability initiatives, and it indicates that forecasted funding for the next 20 years will be \$497 billion on an accrual basis and \$553 billion on a cash basis.¹⁰ This is a significant allocation of money for the government, particularly because they did not campaign on increasing the defense budget. Nevertheless, there have been several criticisms both when the policy was first released and more recently as the first-year anniversary of its release has passed.

Criticisms related to the budget generally address whether the promised funding will actually happen and whether the Department of National Defence (DND) is actually capable of spending the money. Three specific issues are relevant to the first broad area of criticism on whether the promised funding will actually happen: the dependability of funding, the state of the economy and the business cycle, and whether the numbers really add up.

Is the Money Really Available Long Term?

A review of past Canadian defense policies illustrates that governments will often blame or imply blame to the previous government for what ails the Canadian DND and then promise long-term, stable funding only to alter the course when the circumstances change. For example, the 1987 defense policy referenced “decades of neglect and a significant commitment capability gap,” implying the previous government had not provided the requisite funding to defense.¹¹ The 2008 defense strategy indicated that “through stable and predictable defence funding, the Canada First Defence Strategy provides the planning certainty required to allow the Government to continue rebuilding the Canadian Forces into the state-of-the-art military that Canada needs and deserves.”¹² Again, the implication was that the previous government had failed to provide adequate funding.

The current government’s SSE indicates “that it is the most rigorously costed ever developed and fully funded.”¹³ The reality is that these promises are generally overtaken by events and the promised long-term funding never happens. The promised increases in the 2008 *Canada First Defence Strategy* never really happened because the financial crisis of 2008–9 led to a \$2.5 billion reduction in defense funding. When Canadian governments face fiscal challenges, defense funding is often reduced because it is the largest portion of discretionary spending. A separate but related issue is whether it is realistic to expect a defense policy to last 20 years without being changed—and the answer is no. That is not to imply that senior leaders do not appreciate this fact—they do, but they also realize that this is the policy today that they need to implement, and they will deal with adjustments along the way as they occur.

Complicating this generalized observation about resource constraints, the Canadian economy is likely approaching the end of its current business cycle if past experience is considered.¹⁴ Gross domestic product (GDP) and employment has been growing since the last downturn in the Canadian economy after the financial crises in 2008–9. The current trade uncertainty that exists globally, including whether the recent North American trade agreement is actually ratified and the broader global challenges based on U.S. priorities, adds to the uncertainty and increases the likelihood that growth in the Canadian economy will be at a slower pace. The government’s most recent budget in February 2018

indicates that planning for the fiscal environment based on average private sector forecasts will be 2.2 percent for 2018 and less than 2.0 percent from 2019 to 2022. Their fall update remains consistent with this planning forecast and is a reduction from their planning in the 2017 budget that was utilized for the development of the SSE.¹⁵

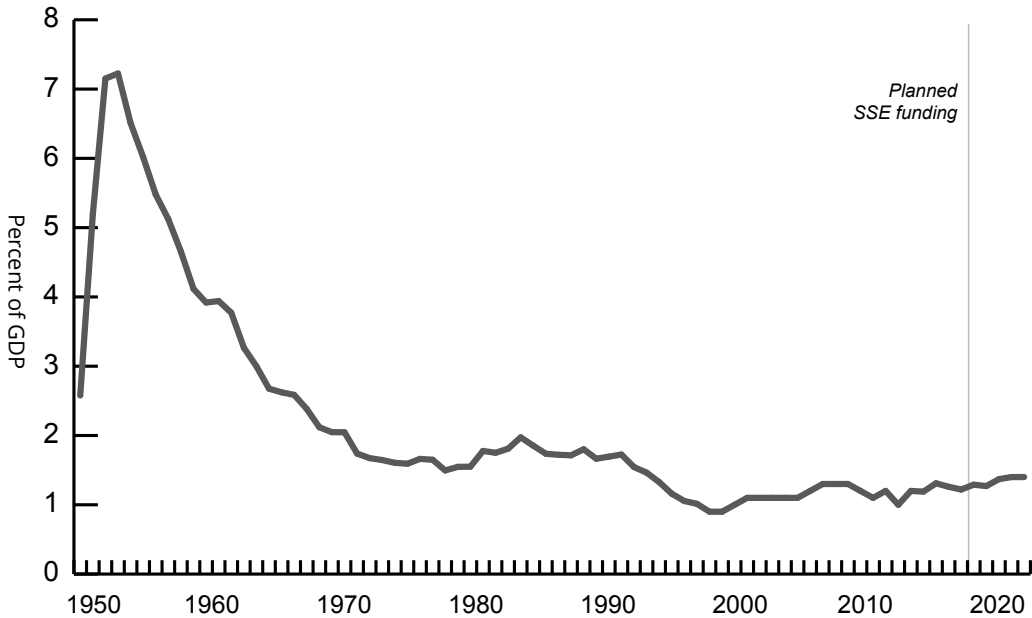
The last criticism is how dependable the government’s numbers are, particularly because they have claimed it is the most rigorously costed defense policy ever released. *Rigorously costed* means that a number of different organizations have agreed to the expected costs for the defense policy. It might very well be rigorously costed, but the government’s percentage of GDP data does not add up. The author notes that the government’s own projected growth data in its 2017 budget would have allocated 1.4 percent of GDP on defense at \$35 billion versus \$32.7 billion, a difference of slightly more than \$2 billion. More recent 2018 budget documents indicate that GDP will be \$20 billion larger in 2022 than expected in 2017, so 1.4 percent of GDP will be even larger. Although the intention is not to make a case for establishing defense budgets based on GDP, the focus on GDP is important in the context of SSE because the government also has changed how it is defining defense expenditures.¹⁶ SSE indicates that the government is going to include other expenditures that are allowed under the North Atlantic Treaty Organization (NATO) definition but have not been part of Canadian reporting prior to this year. What that implies is that the data in table 2 can be interpreted differently depending on what line in the table you want to focus on. Spending on defense will actually decrease to 0.79 percent of GDP and individuals will need to have confidence the table’s “Changes to Defense Policy” line, which indicates a spending increase of 0.43 percent of GDP, will actually come to fruition to achieve the 1.4 percent of GDP level.¹⁷

There is nothing fundamentally wrong with the government articulating spending data in accordance with the NATO definition. It does not meet the targeted 2 percent of GDP agreed to by NATO nations, but it does meet the 20 percent of defense spending target for investment in capital equipment. Never-

Table 2. Forecasted defense spending as a percentage of GDP (cash basis)

	2016–17	2018–19	2020–21	2022–23	2024–25
National defense spending	0.97	0.98	0.91	0.85	0.79
Defense spending: other departments	0.22	0.22	0.19	0.18	0.17
Subtotal	1.19	1.20	1.10	1.04	0.97
Changes to defense policy	0	0.06	0.19	0.24	0.43
Forecasted defense spending	1.19	1.26	1.29	1.23	1.4
Major equipment as a percentage of defense spending	10.84	19.77	21.83	23.15	32.17

Source: Strong, Secure, Engaged, table 2, 46

Figure 3. Canadian defense expenditures as a share of GDP (%), 1950–2025

Source: *Public Accounts of Canada, Department of Finance Fiscal Reference tables, and Strong, Secure, Engaged*

theless, Canadians need to realize that not all this significant growth in defense spending as a percentage of GDP is actually going to the Canadian Armed Forces.

Of note, the 2 percent target is likely never to be achieved in the Canadian context. Figure 3 shows defense spending as a percentage of GDP from 1950 out to the forecasted growth in 2025. Canadian defense spending has not been at 2 percent since the early 1970s. In discussing what 2 percent of GDP might look like in terms of growth over time to reach that target, the author noted that the defense budget in 2016 would have needed to be approximately \$40 billion rather than the \$18.66 billion it was.¹⁸ The author also considered growing the budget to 2 percent of GDP using increments of 0.1 percent or 0.05 percent per year over time with 2 percent being achieved in 2026 or 2036, depending on the growth option selected. That translated to a defense budget of \$46 billion in 2026 if growth is 0.1 percent a year and \$56.9 billion by 2036. Absent a global war, the Canadian public would likely not support these levels of defense expenditures. Even Canada's lengthy engagement in Afghanistan with people in harm's way did not lead to the government increasing defense spending to 2 percent of GDP.

Despite the concerns mentioned above, the increases articulated in the SSE are substantial and must be viewed as an opportunity moving forward. The government has provided policy guidance, formulated a funding plan, and the

money is currently available. DND and the Canadian Armed Forces (CAF) need to plan on it being available, which leads to the second area of criticism—can they actually spend the increase in funding?

Can the Department of National Defence Actually Spend the Money?

Criticism in this area deals with whether the DND can hire the people with needed skills required to implement the SSE and whether the DND can move the acquisition and capability projects identified in SSE in a timely manner to match when the funding is available in the government's fiscal framework.

Ross Fetterly notes that the “five primary challenges within Defence in implementing the direction in the 2017 Defence Policy are personnel, experience, sustaining defence as a government funding challenge, support from other government departments and addressing the long-standing legacy of underfunding capital equipment procurement,” and then goes on to note that “the vexing issue of enduring military and civilian vacant positions needs to be addressed.”¹⁹ The CAF has had difficulty in recent years with recruiting the number of individuals required to match attrition rates and now must also grow the force size by 3,500 to include such specialties as space and cyber, two areas where the private sector offers significantly more money.

Different but equally challenging issues exist for the civilian workforce. Recent reductions in the number of public servants as part of the previous government's deficit reduction action plan (DRAP) have created gaps in the experience level for people to manage complex major capital acquisitions. DND is dealing with this issue, as are other government departments, but it takes time to provide the necessary education and experiential opportunities. In addition, the significant number of initiatives in SSE will create external challenges within the federal system with the other departments that are major players in the acquisition system.²⁰ As Fetterly notes, similar increases in public servants within the three key departments will “also be required in order to develop the enlarged internal capacity to support the defence capital equipment program on a sustained basis.”²¹

Without resolving the personnel issues, improving the speed and effectiveness of the actual acquisition process will be difficult. This is a recognized issue and SSE highlights that the priority in the early years of implementation will focus on workforce issues, both military and civilian. Unlike previous defense policy documents that began with a chapter on the international or global context, the first chapter of SSE begins with a focus on people and the global security environment is found in chapter 4.²² In the 111 new initiatives listed in SSE, the first 28 deal with people issues, while a number of the remaining 83

have people aspects that will influence implementation.²³ For example, “grow and professionalize the defence procurement workforce . . . the addition of new procurement specialists and enhanced training and professional accreditation for defence procurement personnel” is one of the initiatives listed under Improving Defense Procurement but is a personnel-related issue.²⁴

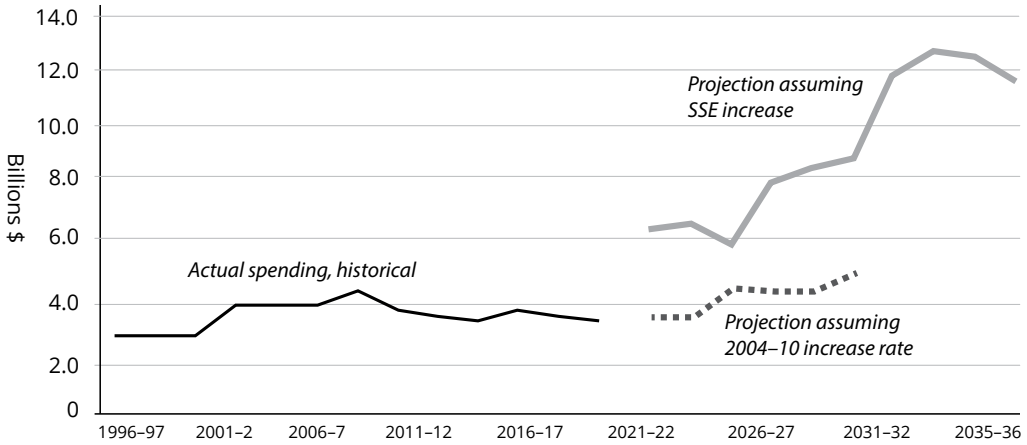
Can Acquisition Plans Be Achieved?

Much has been written about improving the procurement process, and defense procurement reforms have been the subject of reports and studies for decades, including among many of our traditional allies. For example, Bernard Gray in his October 2009 review for the United Kingdom’s secretary of state for defense noted that the problem of “Acquisition Reform, as it is generally known, is a subject only about five minutes younger than the acquisition of military equipment itself.”²⁵ Ross Fetterly’s study of acquisition reforms in other nations begins with a reference to Stephen V. Reeves and his observation that “during the past 50 years, defense acquisition reform panels, studies, reviews, and commissions occurred with such frequency that they could virtually provide lifetime employment.”²⁶ Many of Canada’s allies have conducted reviews of their procurement processes and implemented reforms. Unfortunately, most of its allies remain in the same position as Canada in terms of not achieving the speed and effectiveness they would like to achieve with military procurement. It is not the intention to discuss procurement reform here because much has already been written on this subject but rather to deal with a couple of specific challenges as it relates to implementing SSE.²⁷

In the context of acquisition challenges, the macro-level critique has been the inability of DND to actually spend the money that has been allocated for major acquisitions. David Perry’s *Strong, Secure, Engaged So Far* notes that capital spending is falling well short of the planned spending in SSE, with the 2018–19 main estimates identifying \$3.7 billion for capital. This is well short of the \$6.6 billion identified in SSE.²⁸ Importantly, Perry makes the point that DND increased its capital spending by 60 percent during Canada’s engagement in Afghanistan and that a similar increase now during a peacetime environment would still not achieve the level of funding identified in SSE.²⁹ Figure 4 demonstrates the challenge emphasized by Perry. The requirement to move a significant number of large capital investment projects also highlights the importance of getting the people issues, which includes the number of people and also their qualifications and skill sets, sorted out first.

An additional complicating factor is that the initiatives outlined in SSE to improve the process are incremental in nature and only really apply to DND and not the other departments involved in the process. Initiatives 94 through

Figure 4. Projected capital spending under SSE compared to a projection assuming spending increases at the same rate as between 2005–6 and 2010–11



Source: Strong, Secure, Engaged So Far, 8

100 are designed “to streamline defence procurement, better meet the needs of the military, and deliver projects in a more timely manner.”³⁰ These are summarized by Perry as:

reducing project development and approval timelines by at least 50 percent; increasing DND’s delegated contracting authority to \$5 million by 2018; increasing transparency with defense associations; providing regular project updates; growing and professionalizing the procurement workforce; incentivizing Canadian research and development; and ensuring procurement adheres to environmental standards.³¹

As Eugene Lang notes, most of these “are holdovers from the 2014 Defence Procurement Strategy of the previous government” and “suggests it [DND] sees the responsibility for defence procurement problems lying largely outside its domain and inside the realms of the other departments involved in the process.”³² Although this may be more critical than required, since there are problems in the other departments as well, Lang’s broader point that the other departments “face no pressure to improve or streamline their part of the process to help DND spend its capital” is true.³³ Until the prime minister actually tells the ministers that they need to care and the deputy ministers have supporting DND as part of the performance bonuses, there will be no incentive for a whole-of-government priority for implementing all of the initiatives in SSE. It is up to DND to lead this process and make it happen.³⁴

Conclusion

Despite the criticism that exists about where DND is with the implementation of SSE, this can also be considered a very positive time to be in Canadian defense. SSE has actually prioritized people first and has a stated intention to get both the numbers of people and the skill sets and qualifications sorted out so that it can actually get on with all of the other initiatives articulated in SSE. Capital spending will remain a challenge but changes within the internal governance process, a more deliberate focus on business analytics and measurable performance criteria, combined with more top down direction on what to prioritize when will help. It remains early in the implementation process, particularly when one considers that only a limited number of people inside the department had any knowledge of SSE until it was released to the public, and it is a 20-year plan. Consequently, much of this time has been spent with staff getting familiar with all of the initiatives and developing the plans for implementation and approval by the leadership. A more valid assessment of the future longevity of SSE will be required in the coming year as the government moves into an election cycle and wants to start making decisions and force the bureaucracy to keep up.

Notes

1. *Strong, Secure, Engaged: Canada's Defence Policy* (Ottawa, ON: Department of National Defence, 2017), hereafter SSE.
2. SSE, 11.
3. All values are in Canadian dollars unless otherwise indicated.
4. SSE, 11.
5. Eugene Lang, *Use It or Lose It: SSE and DND's Chronic Underspending Problem* (Ottawa, ON: Canadian Global Affairs Institute, 2018), 1. The Liberal Party defeated Prime Minister Stephen Harper and the Conservative Party in fall 2015.
6. SSE, 98. See figure 2 of actual and forecasted defense budget spending on a cash basis in SSE.
7. SSE, 43–44. This is a significant improvement from the previous system that had two separate capital budgets governed by different rules. One was accrual and the other was a modified cash basis. A more detailed discussion on the differences between accrual and cash accounting practices is outside of the scope of this article. For more information on the subject, the reader should see LtCol Ross Fetterly and Maj Richard Groves, *Accrual Accounting and Budgeting in Defence* (Kingston, ON: School of Policy Studies, Queen's University, 2008). For a line definition of the differences between accrual and cash accounting as it relates to an example for buying a ship, see SSE, 99–100.
8. See David Perry, *Following the Funding in Strong, Secure, Engaged* (Calgary, AB: Canadian Global Affairs Institute, 2018).
9. SSE, 44.
10. SSE, 43.
11. *Challenge and Commitment: A Defence Policy for Canada* (Ottawa, ON: Department of National Defence, 1987), 43.
12. *Canada First Defence Strategy* (Ottawa: Department of National Defence, 2008), 3.
13. SSE, 11.
14. For a discussion of Canada's business cycles and definitions, see Philip Cross and Phil-

- lippe Bergevin, *Turning Points: Business Cycles in Canada since 1926*, Commentary no. 366 (Toronto: C. D. Howe Institute, 2012).
15. *Equality + Growth: A Strong Middle Class* (Ottawa, ON: Department of Finance, 2018), 300.
 16. There is no economic reason to establish a defense budget as a percentage of GDP. It does not provide any indication of actual military capability. It is a useful measure that compares how much a burden a nation is putting on its citizens in relation to other nations. The focus on percentage of GDP in SSE is more likely a function of President Donald J. Trump's call for NATO nations to meet the target of 2 percent and the particular way he has done that, combined with other Canada-U.S. relationship issues.
 17. SSE, 46. The data in table 2 captures some of the actual table 2 data from SSE. The actual SSE table 2 contains yearly defense spending data from FY 2007–8 to FY 2024–25.
 18. J. Craig Stone, *Growing the Defence Budget: What Would Two Percent of GDP Look Like?* (Ottawa, ON: Canadian Global Affairs Institute, 2017), 4.
 19. Ross Fetterly, *Implementing Strong, Secure, Engaged: The Challenges Ahead* (Ottawa, ON: Canadian Global Affairs Institute, 2018), 6, 7. Fetterly also has dealt with the personnel issue more directly in *The Importance of People in Defence* (Calgary, AB: Canadian Global Affairs Institute, 2018) as has Lindsay Rodman in *Modernizing the Military Personnel System: Lessons from the Force of the Future* (Calgary, AB: Canadian Global Affairs Institute, 2018).
 20. Although there can be any number of federal departments involved in a procurement, the major players are Innovation, Science and Economic Development Canada; Public Services and Procurement Canada; and the Treasury Board of Canada Secretariat.
 21. Fetterly, *Implementing Strong, Secure, Engaged*, 7.
 22. For example, the 2008 *Canada First Defence Strategy* began with the “strategic environment”; the 2005 policy statement began with “the international security environment at the beginning of the 21st century”; the 1994 policy statement began with “international environment”; and the 1987 policy began with “the international environment.” It is also important for the reader to realize that in Canada the fundamental roles of the Canadian Armed Forces have not changed since the end of World War Two—every defense policy document has articulated roles that basically say the Canadian Armed Forces are to defend Canada, defend North America, and do something by choice such as NATO and the UN.
 23. See annex D of SSE, which summarizes the list of 111 initiatives in the policy. SSE, 106–13.
 24. SSE, 75. Note the summary of initiatives at annex D actually indicates 60 procurement specialists rather than an addition of new procurement specialists on p. 75.
 25. Bernard Gray, *Review of Acquisition for the Secretary of State for Defence: An Independent Report* (London: Bernard Gray, 2009), 15.
 26. LtCol Stephen V. Reeves (USA), *The Ghosts of Acquisition Reform: Past, Present and Future* (Washington, DC: National Defense University, 1996), 25, quoted in Ross Fetterly, *Defence Procurement Reform in Other Nations* (Kingston, ON: School of Policy Studies, Queen's University, 2009), 3.
 27. For example, Fetterly's study on *Defence Procurement Reform in Other Nations* covers the United States, United Kingdom, and Australia; and Stone's *Improving the Acquisition Process in Canada* deals with the Canadian system.
 28. David Perry, *Strong, Secure, Engaged So Far* (Ottawa, ON: Canadian Global Affairs Institute, 2018), 6–7.
 29. Perry, *Strong, Secure, Engaged So Far*, 7. The significance of this in terms of procurement during Canada's engagement in Afghanistan is that sole source procurements were the norm due to the operational urgency of the requirement. Competitive processes are the norm now and that involves many other players and balancing multiple requirements, particularly economic benefits to Canadian industry.
 30. SSE, 75.

31. Perry, *Following the Funding in Strong, Secure Engaged*, 10.
32. Eugene Lang, *Use It or Lose It: SSE and DND's Chronic Underspending Problem* (Ottawa, ON: Canadian Global Affairs Institute, 2018), 3. A discussion on the Defence Procurement Strategy is available from J. Craig Stone, *Implementing the Defence Procurement Strategy: Is It Working?* (Ottawa, ON: Canadian Global Affairs Institute, 2016).
33. Lang, *Use It or Lose It*, 3.
34. Although beyond the scope of this article, there are multiple departments inside the Canadian government that may be involved with a military procurement depending on the nature of the procurement. Three departments, including Defence; Public Services and Procurement Canada; and Innovation, Science and Economic Development Canada are the main departments and their respective ministers have legal obligations with respect to procurement that may not be consistent with the priorities for defense.