

Flying right finally!

by Brad Latta



Partners iron out problems to get fliers off the ground

When it officially opened in July 2000, the NATO Flying Training in Canada (NFTC) program appeared to have the makings of an ideal public-private partnership: complimentary expertise provided by the Department of National Defence (DND) and Bombardier Inc.; sufficient long-term funding; and a ready-made market. But by mid-2002, the Office of the Auditor General (OAG) was describing it as something else entirely – a program that cost DND \$65 million for training not obtained – implying that at least some of this money was permanently lost.

Not so, say the primary participants in the contract. “It was an investment in training that we are still owed,” says LCol. David Hughes, DND’s acting project manager for

NFTC. “Bombardier has committed to deliver. From our perspective, that was never in doubt.”

Zev Rosenzweig, vice president of military aviation training for Bombardier Defence Services, concurs. “The contract was clear that training commitments not met need to be made up during the life of the program.”

But neither partner would disagree with the Auditor General’s assessment of the serious start-up problems. Was the contract itself at fault? That’s debatable. In some areas, they agree that there was room for improvement, but in one key area they do not.

But first a little background. The NFTC arrangement marks the largest ever long-term service agreement between a government department and the private sector: a 20-year,

\$2.8-billion contract between DND and a Bombardier-led consortium to provide military flight training to Canadian pilots, and others, primarily from NATO countries. The training is offered at Moose Jaw, Saskatchewan, and Cold Lake, Alberta, using the latest aircraft (the Harvard II and Hawk) and state-of-the-art flight simulators and training tools.

Bombardier Inc., as prime contractor, is responsible for providing and supporting the required aircraft and the simulators, some phases of ground school training, classroom training systems and maintenance services. DND is responsible for, among other things, overall program management including operational control of training; providing flying instructors, infrastructure and facilities; providing the design, development and conduct

of flight training; and providing some phases of ground school training. Some responsibilities are shared. Costs for the program are recovered by charging for flight training slots.

As government ventures go, the program operates in new territory, “outside the box” so to speak. Therein may lie part of its problem with the OAG, which in its 1999 report expressed concern that the contract had been awarded without competition, that the profit mark-up was not consistent with guidelines or supported by adequate analysis of contractor risk, and that the chosen financial arrangements increased some risks.

In her 2002 report, the Auditor General criticized the contract for the large amount of money paid in fixed payments by DND before any training was received and that the payments were not tied to performance.

Both Bombardier and DND maintain that it couldn't have been done any other way. “It's important to understand, that continued payments are essential to keep a project like this, with so many fixed costs, running,” says Jim Richardson, the program's procurement director.

Richardson, Hughes and Rosenzweig all agree that to do otherwise would have been catastrophic. Hughes adds that in assessing the arrangement, one must appreciate that Bombardier initially took a great deal of risk, laying out millions for planes and infrastructure. “Bombardier knew only that Canada would participate and had to accept on faith that other countries would commit to training,” he explains.

And, almost immediately, things went wrong. First and foremost, the Harvard II aircraft were delivered six months late due to two factors: the US government's application of its International Trade in Arms Regulations and an engine turbine issue. And when the planes finally arrived, unpredictable serviceability limited their use.

“We were the first users of these new aircraft,” says Rosenzweig. “Every new aircraft has design difficulties that have to be addressed and in this case we were the victim of every single one.”

Problems such as these are a fact of aviation life, confirms Hughes. “And in this case it was further complicated by a shortage of replacement parts.”



Photos by Mike Reyno

In the end, whole courses were delayed, and then cancelled, creating a large training backlog.

Richardson has some sympathy for Bombardier's situation. “They worked very diligently to fix the problems but the aircraft's availability to fly was much less than we expected.”

By October 2002, shortly after the release of the Auditor General's report, the program began to meet its training targets. For the first time, over 90 percent of the available aircraft were flight-ready. In fact, Bombardier had provided two more aircraft than was required by the contract, proof of its commitment to make up for lost time.

DND expects to make its formal report public by March 31, 2003. In the meantime, Richardson offers some hints. “We underestimated the complexity of this undertaking and the number of complex issues that could arise,” he says. “We now have a better understanding of the expertise required in a private financing initiative that requires collaboration with industry when they are required to acquire substantial assets in order to deliver the service. It's essential to seek specialized professional assistance early on in the process.”

And lastly, both he and Hughes caution against underestimating the effort required during startup to establish operational relationships and to sort out new equipment.

For Bombardier, many of the lessons learned have revolved around differences in corporate cultures.

“Operationally, it has been a difficult marriage,” says Rosenzweig. “First, there is a question of perceptions. We are not a subcontractor, but a risk-sharing partner and I don't think the air force was prepared for that.”

Second, Rosenzweig says there are issues surrounding decision-making. “Government is multi-headed, and this means long waiting periods for decisions. In industry, decisions rise to their responsibility level very quickly, but in the military this just isn't the case. The military needs to solve the problem of disbursed authority.” Their first step, he says, should be “to designate someone with the authority to deal with the private sector project leader as an equal. A way has to be found to do this, while still maintaining the necessary checks and balances.”

But overall, Rosenzweig says it been an interesting and productive project and that Bombardier is committed to the concept as a business model – in fact, it's using the experience gained to strengthen its bid on a similar project with Britain's Royal Air Force. And, according to Rosenzweig, Bombardier will continue to invest more that contractually required in NFTC with the expectation that business from foreign countries will continue to increase.

But was it a good contract for DND? “Yes, we think so,” says Rosenzweig. “It is unfair to look at only the first or second year of a contract like this. DND has gained state-of-the-art flight training that it can deliver in Canada, that otherwise wouldn't have been affordable, using the newest aircraft, and state-of-the-art simulators and courseware. Everybody can come out a winner from this project. And in the process we will both learn to do it better.”

Richardson agrees. “The best indicator of success of the program is that we have sold over \$1 billion in training to other countries [who] look at a program such as this very critically. They are obviously impressed.”

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