



Niobe Papers

The ‘Deal of the Century’ or ‘A Most Improbable Project’ Acquiring the Upholder Submarines

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In the spring of 1994, a naval staff officer wrote “I confidently believe we are ‘in extremis’ and need bold action soon to protect an opportunity deal in the near future. Anything less and the 2400s are gone and not to Canada.”¹ The 2400s to which he refers were the recently decommissioned Type 2400 *Upholder*-class submarines and the fear he expresses is in reference that some other country would snap up the submarines before Canada decided to make an offer on them.

In relation to the problems that the submarines have experienced since their introduction into the Royal Canadian Navy (RCN) in the early part of the last decade, the ‘deal of the century’ tag that was associated with them early in the negotiations with the British has often been used in an ironic sense. Indeed, Vice-Admiral Gary Garnett referred to the deal as “the most improbable project.”² The history of their acquisition by the RCN reflects both the sentiments of both these catch phrases. The situation at the time can be summed up as follows:

- The existing Canadian submarines were near the end of their useable operational lives;
- The Canadian government was engaged in a significant fiscal effort to balance its books;
- The end of the Cold War had caused many to consider military projects wasteful use of increasingly scarce government resources;
- Submarines suffered from image problems;
- Compounded by the inherent secrecy of their operations, the capability was poorly understood both in general by Canadians and even more narrowly within the Canadian Forces.

New submarines were beyond consideration for all these reasons.

The emotional language used by the above staff officer, thus, is entirely understandable. The Canadian submarine capability seemed clearly at risk. Hostility within the Canadian government to the replacement of the *Oberon*-class submarines was high despite their utility. The sudden appearance of the *Upholder*-class on the market, then, was like a lifeline for Canadian submariners. Nevertheless, it was clear to all involved that it would not be an easy deal to arrange. As Rear-Admiral S.M. Davis remarked on defence procurement,

[T]he decision process, like the Almighty, ‘moves in mysterious ways,’ and that it is not always easy to determine from the record, that there was a systematic process of reaching the best possible decision. It seems clear that the move to a major procurement decision is often somewhat erratic, not always clearly discernible, subject to marked (and perhaps unexpected) changes of direction, and certainly not always guided by what are considered to be military necessities.³

This was certainly true for the navy's attempt to replace its submarines. Despite the technical and strategic rationales for acquiring and maintaining a submarine capability, submarines have never followed a rational and straightforward process into the Canadian naval formation. The first submarines were purchased by British Columbia at the start of World War One, and throughout World War Two and the early part of the Cold War, Canadian submariners served aboard Royal Navy (RN) boats. The *Oberons* (O-boats) were ultimately procured for anti-submarine warfare training purposes in the surface fleet, but the navy was able to make them effective operational weapons under the Submarine Operational Update Project (SOUP) in the late 1970s and early 1980s. Most impressively, in 1985 the old Mk. 37C torpedoes were replaced with state-of-the-art Mk. 48 torpedoes, giving the submarines significantly increased lethality. Initially, there was some reticence to acquiring the Mk 48s for the O boats. At a million dollars a piece, the torpedo was extremely expensive, would have to be maintained by its American manufacturer. Furthermore, the Mk 48 would become the most lethal weapon in the Canadian navy's arsenal. It was questionable as to whether the money for this particular weapon system should be spent on an aging system like the O-boats, especially since collectively, they would be almost as expensive as the platforms that carried them. The debate was resolved by acquiring the torpedoes with the understanding that they were actually being acquired for the follow-on submarine to the O-boats.⁴

The statement of requirement (SOR) for the *Oberon* replacement was issued in July of 1980. What was entitled the Submarine Replacement Project⁵ later became known as the Canadian Submarine Acquisition Programme (CASAP). Legend has it that the project proposal had to be slipped into then Minister of National Defence (MND) Erik Nielsen's briefcase on his way to a Caribbean vacation. Later, it was Nielsen who raised the idea of acquiring nuclear submarines, a proposal that would be subsequently championed by his successor, Perrin Beatty. Given the denouement of the nuclear submarine proposal in 1989, it is interesting to reflect on the 'what might have beens' if Nielsen hadn't asked his question. Would the navy have successfully procured conventional submarines by the early 1990s without having been disastrously diverted by the nuclear option? Would the conventional boats have been subjected to the same fiscal pressures that led ultimately to the cancellation of the EH-101 helicopter? Perhaps even worse, would Canada have invested in Australia's *Collins*-class submarine program given the unsuitability of the short-range German options that were available on the market? Of course, none of these questions can be answered, but they point to the inherent uncertainty for the navy about the capability at the end of the twentieth century.

CASAP was ultimately stood down on 31 March 1990, and replaced by the Canadian Patrol Submarine Project (CPSP),⁶ although the project's Statement of Capability Deficiency (SCD) was dated to January of the same year and approved later in July.⁷ According to the 'turnover book,' "[a]fter over 10 years of dedicated staff effort, the process for acquisition of new submarines ... effectively started all over again."⁸ The SCD made it clear that the status quo was unsupportable given the age of the Canadian *Oberons* and the absence of any submarine presence on the West Coast of the country. Worryingly, it noted "[i]n view of the severe fiscal constraints envisaged in the future, there may be budget related concerns associated with the potential acquisition of those forces and maritime capability need to meet operational requirements."⁹ Six submarines were envisaged to be delivered by 2001, with the service of the *Oberons* extended to 2004 in order to cover any gap in service.¹⁰ Three 'overriding operational requirements' were established, none of which shifted in the subsequent years: the ability to fire the Mk. 48 torpedoes acquired under the SOUP; an "acceptably low radiated noise signature"; and suitability for an air-independent propulsion (AIP) retrofit.¹¹

However, the earlier warning of ‘severe fiscal constraints’ proved prescient. By 1994, the CPSP Project Direction noted the following:

The current political, military and socio-economic situations call for a review of this project with a view to aligning it more closely with today’s realities. While the ultimate aim of CPSP, that of maintaining the Navy’s core submarine capability, should not change, the means of achieving this aim should offer greater flexibility.¹²

Both the Special Joint Committee on Defence and the 1994 Defence White Paper had offered considerable support (given the tenor of the times) to the maintenance of a submarine capability in the navy. But both had offered the caveat that such a capability had to be affordable within the already established budget, something that was clearly impossible.¹³ In 1990, Saint John Shipbuilding/Vickers Shipbuilding and Engineering Ltd. issued an unsolicited proposal to build four *Upholders* in Canada optimistically priced at C\$2.75 billion dollars; and RDM of Holland had proposed building three *Walrus*-class submarines with a Canadian company for C\$1.4 billion dollars. Neither offer, however, included costs such as “training, provisioning, documentation, engineering support and other project costs to introduce them into operational service,” which would have effectively doubled the costs of these proposed initiatives to the navy.¹⁴

The end of the Cold War was also having a significant impact on the Royal Navy’s submarine inventory and future plans as well. At the end of 1990, the British Ministry of Defence (MOD) announced in its Green Paper, *Options for Change*, that the Royal Navy (RN) would get rid of its remaining *Oberon*-class submarines and cease production of its *Upholder*-class submarines. The RN would maintain four *Trident* armed ballistic missile submarines (SSBNs), but shrink its attack flotilla from 27 hulls to 16. This number would be comprised of 12 nuclear-powered attack submarines (SSNs) and the four *Upholder* diesel-electric submarines (SSKs).¹⁵

The MOD offered two of its decommissioned *Oberons*, HMS *Otter* and *Ocelot*, to Canada. The navy’s assessment, however, was that both submarines were older than any of the Canadian boats and if Canada were to acquire any more used *Oberons*, then Australian submarines would be a better choice as they were 10 years younger than any Canada operated. The response to Britain was ‘thanks, but no thanks.’¹⁶

While the British fleet reductions were ostensibly occasioned by the end of the Cold War, there was considerable speculation that the cuts were, in fact, being driven by budgetary considerations.¹⁷ The case for retaining the *Upholders*, in budgetary terms, must have rested entirely on their recent introduction into the fleet, rather than on any cost-effectiveness rationale, then. While the *Upholders* shared approximately 65% of the same technology with Britain’s *Trafalgar*-class submarines, the remaining difference entailed the maintenance of separate shore facilities for their ongoing support and training of their crews. This was a significant extra cost for the RN for just four submarines.¹⁸

Thus, there is a certain inevitability to British Defence Minister Malcolm Rifkin’s announcement in Parliament on 5 July 1993 in the annual statement on Defence Estimates that the four *Upholders* would be shortly decommissioned. According to one branch of the Submariners’ Association,

To many serving in the fleet, it now appeared that anything which was not cost effective or productive was a potential candidate to be retired or sold-off. The exception everyone presumed was, of course, new vessels including the *Upholders* – but even they fell victim....

But nobody, including Admiral Sir Sandy Woodward, could understand why the brand new *Upholder* submarine squadron was withdrawn from service and listed for sale in what must surely be the most ‘questionable’ Government decision in respect of equipment procurement for the Royal Navy in the past 50 years.¹⁹

The announcement seems to have been anticipated by the Naval Staff at the Canadian High Commission in London as a flurry of meetings and telephone conversations took place between the naval advisor and a variety of British MOD officials and high-ranking RN officers shortly thereafter.²⁰ The implications of the announcement for the RCN’s predicament were clearly obvious to both the London Naval Staff and to the MOD as well. The naval advisor indicated to the British that Canada had an “on-going interest” in the fate of the submarines, and was, in turn, sought out by the Royal Navy’s Admiral of the Fleet, Sir Julian Oswald. Captain (N) Davie, the Canadian naval attaché at the High Commission, passed along Oswald’s suggestion and stated that Canada “needed to get involved if we were interested in the submarines.”²¹

The MOD was in as tight a spot as the Canadian navy in terms of the ultimate fate of the *Upholders*. The MOD needed to realize some return on investment for the four submarines which were being paid off after less than three years of operation.²² For Canada, they represented the only solution to the problem of acquiring submarines within the narrow confines of the existing budget. Both sides clearly looked to exploit this tight situation: the British by approaching a variety of customers; and Canadian naval officers by emphasizing the risk of delay on Canada’s part.

The British immediately launched a series of sales efforts led by ministerial delegations to Saudi Arabia, Egypt and Malaysia.²³ How serious these efforts were, however, is not at all clear. Even the RN Flag Officer Submarines noted that if the Saudis were to purchase the submarines, the only way that the deal could work was if they were “operated in the Gulf by the RN under the white ensign at Saudi Arabian expense.”²⁴ Furthermore, the attractiveness of such an option would be limited given the fact that the trades associated with conventional boats were to be made redundant with the decommissioning of the *Upholders*, and the opportunity to work in Saudi Arabia was limited in its attractiveness to British crews.

The problem faced by the British was the commonality between the *Upholders* and the *Trafalgar*-class. Both classes contained significant amounts of US technology, which the Americans were unwilling to share even with other NATO allies, much less other countries.²⁵ Canada, within the confines of the ‘Five Eyes’ group of countries, was clearly the preferred customer as it would allow the British to dispose of the submarines with minimal alterations. Nevertheless, both the Royal Navy and the Royal Canadian Navy used the threat of sales to third parties (including Pakistan, South Africa, Chile and Portugal) over the next four years of the dance between Canada and Britain. The submarines were forever on the verge of being sold to another party.

The initial meetings between Canadian Defence Liaison Staff in London and the MOD were followed up by an investigation on the submarines’ suitability for Canada which included a voyage by a Canadian naval officer aboard HMS *Unicorn* in October of 1994 as it transited back to the UK after having done a tour of duty in the Persian Gulf. The Canadian officer joined the submarine at Gibraltar as it returned to its base in the UK.

Despite the exciting possibility that the *Upholders* represented for the future of submarines in the Canadian navy, the resulting report is surprisingly dispassionate and objective in its assessment of *Unicorn*. While the duration of the trip was too short to permit extensive operations of the vessel, to the Canadian passenger, the submarine “seemed very quiet.” He remarked that the control room

was well laid out, the crew quarters “acceptable,” and the weapons handling system “excellent.” However, he was unimpressed with a variety of other systems. The hull resonated at high speeds necessitating the bow caps be left open, it had a high hotel load which necessitated frequent trips to the surface (‘snorts’).²⁶ The fire control system was not as capable of that already installed on Canadian O-boats, and the sonars were of questionable quality (the Type 2400 was described by *Unicorn*’s own crew as “basically useless”). The diesel generators were problematic, and their exhaust valves subject to flooding. The submarine was fuel inefficient and it operated at less range than advertised. Of the problems that the *Upholders* were later to face once they had been accepted by Canada, this initial visit seems to have highlighted all of them.²⁷

The problematic aspects with which the submarines would likely confront the navy, was re-emphasized by the Canadian naval attaché. The absence of any storage plan, the looming redundancies in RN SSK trades, the need for new batteries in some of the older boats all meant that “the boats (were) far from perfect and even fall short of our stated requirements for range and habitability.” However, they “represent[ed] the only known and affordable option to maintain a Canadian submarine capability.”²⁸

Canada formally entered into negotiations for the submarines with Britain in early 1995 and concluded them in April of 1995.²⁹ The results of these negotiations were discussed in an inter-departmental Special Procurement Advisory Committee Meeting on 18 May 1995. Along with the submarines, the committee also discussed armoured personnel carriers, the Maritime Helicopter Project and the Canadian Search and Rescue Helicopter Project. These four projects were described as being “the highest priority in the department and that they are *affordable* in the current budget.”³⁰ At this point, the deal amounted to a lease-to-buy approach that was to cost not more than C\$800 million dollars and included approximately C\$145 million of service support with Vickers Shipbuilding and Engineering Ltd in the UK, which “would provide an opportunity for some (industrial) offsets to be negotiated.”³¹ At this point, it is also clear that the Canadian government was considering using a form of barter arrangements with the United Kingdom in terms of training costs for the British Army using the ranges at Suffield and Gander for army and air force training respectively. There were also considerations for the then-proposed NATO pilot training project to be run in Moosejaw.³²

The meeting fully illustrates the governmental challenge that the navy confronted in its quest to replace the submarines. The navy clearly conveyed that this was the best possible deal imaginable, in terms of the comparison between procuring new submarines and acquiring the *Upholders*. The Industry Canada representative raised the RDM proposal to build *Walrus*-class submarines in Canada. The navy’s spokesman highlighted that under that proposal, Canada would get three submarines, not four, and that the *Upholder* deal included training, life cycle support and other project costs. The difference was between C\$800 million for the four *Upholders* and C\$3 billion for the three *Walrus* boats.³³

Despite the apparent value, the other government representatives pushed back in a significant manner. One noted that “the real issue is whether Ministers will spend even \$1 on submarines.” Others pushed for greater industrial benefits to come with the deal. Some members thought the price was too high, and “believed that the UK would probably rather get something for the boats rather than scrap them; consequently, Canada must have some leverage.” Others noted that “[w]hile the *Upholders* may be a great deal [for] DND ... it was not a great deal for Canadian industry.” The navy countered that in the long term, having a submarine capability in the navy would preserve important technology and industrial skills in Canadian shipyards, other

representatives turned the question around and asked “do we really want to maintain the infrastructure for these boats?”³⁴

The Special Committee meeting revealed deep divisions within the Canadian government on the wisdom of proceeding further with the British. These divisions were apparent even with the military itself: in one briefing note covering the project, a discussion on a potential communication plan stressed the following:

Note: for public consumption (*Army and Air Force too*), it is important to stress that CSCLEP phase one is a humble solution which does nothing more than replace four old *Oberon*'s (sic) with four almost new *Upholders*. In order not to cloud the issue, other operational initiatives, such as the deployment of one or more of these submarines to the west coast, or the operation of these submarines using two crews, should be sold on their own merits, and at another appropriate time.³⁵

Defence Minister David Collenette took the details on the submarine deal in an omnibus report on the four projects considered by the Special Procurement Advisory Committee (the so-called ‘4 pack’) to Cabinet on 6 July of that year.³⁶ However, the government would not further consider the acquisition for another two full years.³⁷

Government spending at the time was under considerable scrutiny. In October 1992, the bond-rating agency Standard and Poor's had cut its rating on Canadian debt from AAA to AA-plus. The Liberal Party led by Jean Chretien was elected in February of 1994 on a deficit-cutting agenda, but that did not prevent Moody's, another bond-rating agency, from cutting its rating from Aaa to Aa1 the following June. *The Wall Street Journal* suggested that Canada might be joining the Third World in a January 1995 editorial and later in February, Finance Minister Paul Martin issued a budget that deeply cut government spending. Clearly, the ‘optics’ of spending any money on a poorly understood military capability were not good under these circumstances, despite the navy's efforts to indicate creative approaches to financing the procurement.

An interesting development emerged in the spring of 1996. A series of articles appeared in the Canadian media on submarines in May of that year, where it was suggested that “Canada may soon be out of the submarine business altogether.”³⁸ The British Secretary of State for Defence, Michael Portillo had visited Canada in that month during which the *Upholder* deal had been raised. At that point, Defence Minister Collenette stated that “Canada was not prepared to make a decision ‘at this time.’”³⁹ The US naval attaché approached the Director of Maritime Force Development to discuss options in which the US Navy might be able to assist Canada in “consummating the *Upholder* deal.” These discussions were later supported through a telephone conversation held between the Canadian Chief of Defence Staff and the US Chairman of the Joint Chiefs of Staff.⁴⁰ The US Secretary of Defense, William J. Perry, had previously written to Canadian Defence Minister Douglas Young indicating his support for the deal. His letter includes subtle indications that the United States was concerned about the technology in the submarines: “As I indicated to David [Collenette] ..., the United States strongly supports this initiative. Transfer of the *Upholders* to the Canadian Navy will ensure they remain NATO warfighting and training assets.” Perry also made reference to “formalizing arrangements for regular training opportunities for USN and *Upholder* submarines and other joint operational training activities of mutual interest.”⁴¹

This letter marked the beginning of an interesting campaign on the part of the United States to get Canada to act in what the Americans perceived as Canada's own best interests. Among other things, this included a visit by Secretary Perry to Ottawa on the 20-22 June 1996 in which “the key

issue discussed was CN-USN MOU for U-Class sub services.”⁴² As well there was significant discussion of the issue at the meeting of the Permanent Joint Board on Defence on 15-17 October 1996, in which the “US Chairman made a special point in his opening remarks to underscore the importance for the Canadian Navy to acquire *UPHOLDER* submarines,”⁴³ and a further letter from Perry’s replacement as Secretary of Defense, William S. Cohen, on 25 March 1997.⁴⁴ In November 1996, the Canadian Ambassador to the United States, Raymond Chretien described the growing concern within Washington on the declining health of Canada’s military, as well as the puzzlement (and alarm) that Canada would not commit to purchasing the submarines.

It is clear that both our US and UK allies believe that the acquisition by CDA of the four surplus *Upholder* subs represents the preservation of an important naval capacity that directly contributes to the security of NAMERICA and the transAtlantic region. Given the ingenious financing arrangements which I understand will reduce cash outlays to a minimum, I suspect our allies will view a CDA refusal to acquire the subs as a strange act (in light of the defence White Paper) and a shirking of responsibility for the common defence. A maritime capability considered essential by even modest-sized states (EG Netherlands, Norway, Australia) will be lost and CDA’s stature as a serious political-security partner will be diminished.⁴⁵

The US proposal included three aspects:

1. an Operational Memorandum of Understanding (MOU) exchanging fleet services;
2. Concurrent Canadian provision of *Upholder* services and US provision of research, development, test and evaluation (RDT&E) information; and
3. Canadian provision of *Upholder* services and a matching US contribution of funds and/or services as part of cooperative RDT&E program.⁴⁶

Such arrangements would, it was estimated, contribute up to C\$300 million dollars over the proposed eight year lease-to-buy arrangement under discussion between Canada and the UK.⁴⁷

The United Kingdom may have also attempted to kickstart negotiations with Canada. In the summer of 1997, Lord Gilbert of Audley, the UK Minister of Defence Procurement, met with the Canadian High Commissioner Roy McLaren. At this meeting, he made a suggestion that “a £20 M rebate [on the submarine costs] would not be out of the question,” which would have the effect of lowering the purchase price by C\$50 million.⁴⁸ It is not clear if this offer cleared the log jam on the submarine file within the Canadian government, however, by the following November, Canada was certainly back at the negotiating table with the British.

As of September of 1997, the deal stood at C\$660 million, which included C\$529 million for the main contract and C\$131 million for the support contract, as well as C\$111 million for other project costs. Together with a contingency fund estimated at 3.75% of the total project cost (an additional C\$29 million), the whole package was valued at C\$800 million dollars. This would deliver for the Canadian navy

- four fully operational *Upholder* submarines with up to date ‘safe to dive’ certificates and essential modifications to accept Canadian weapons and communications systems;
- four full systems trainers, including a combat systems trainer, a ship control trainer, a machinery control trainer, and a torpedo handling and discharge trainer;

- a technical data package of manuals, design data, trials reports and maintenance/configuration records;
- initial spares; and
- training for four crews and shore support staff necessary to maintain and operate the submarines.⁴⁹

The deal included an agreement “to waive UK IRB [industrial regional benefit] requirements for Canadian companies bidding on military contracts and on civilian high technology contracts over the 8 year lease period.” Together with an offer by GEC Marine to “provide additional industrial offsets,” some C\$275 million in industrial benefits were in play for Canada.⁵⁰

Two meetings were held in November and December in London, and another in Barrow in January 1998. The November meeting sought to clear the decks in order to explore the existing agreement in terms of what may have changed in the years since it was last formally discussed, as well as to raise a series of ‘what if’ options. Clearly, the earlier concern that had been raised about industrial benefits had been heard as “it was recognised that the fundamental issue to resolve ... was whether Canada wished to acquire all 4 submarines reactivated in the UK or whether they wished to undertake some form of ‘2+2’ option i.e. up to 2 submarines being reactivated in Canada.” For the British team, it was at pains to point out the costs that the British state had been forced to pay because the Canadian decision had been so long in coming. Furthermore, the time lines for reactivating the submarines had slipped considerably since 1995 given the amount of time the boats had been tied up alongside.⁵¹ Similar issues were also discussed in December.⁵²

Pricing was discussed during the meetings in Barrow. While the unofficial ‘rebate’ that had been discussed in June became the official position of Canada, the UK was unwilling to commit to this price figure at that time. What had been worth £300 million in 1995, was now being negotiated for £200 million after currency rate fluctuations had been taken into account. In effect, Canada was proposing that the UK suffer a significant fiscal haircut on the deal.

Given the lack of any alternative open to the Canadian navy for replacing the submarines, what is remarkable was the level of risk that the Canadian negotiation position was willing to take. The revised price of C\$610 million (from the original C\$660 million noted above) was “considered to be of strategic importance in getting the deal through.” It was recognised that the industrial and regional benefits waivers for Canadian industry might be at risk and that the UK might counter offer with the original price, again given the favourable exchange rate the Canadian dollar was enjoying against the British pound in the winter of 1998.⁵³

Negotiations continued between Canadian Minister of Defence Doug Young and the British Secretary of Defence George Robertson on the sidelines at the Wehrkunde Conference in Munich on 7-8 February 1998. At this point, the British still had not accepted the bid for a reduced price, particularly since the costs for reactivation had grown in the meantime, and given the maintenance costs in the three years they had been waiting for Canada to make up its mind.⁵⁴ It also appears that at this time or perhaps slightly earlier, Canada requested that the agreement to purchase the submarines be made in Canadian dollars, rather than pounds sterling, an additional concession which would favour the Canadian position over the British given the constant flux in exchange rates.

Nevertheless, Robertson wrote on 17 February that “I am glad to say, that we can accept your proposal subject to the points set out below.” First, formal commitment of the offer would have to be made in March, so that the UK could safely disengage from its negotiations with other suitors for the submarines. Furthermore, some reduction in the support material and the supplies that had

been discussed would be necessary. Industrial and regional benefits should be waived, and that a £20 million contingency fund be established “to cover unplanned emergent work associated with the reactivation.”⁵⁵

Yet, despite the British acceptance, the negotiations were not entirely finished. Canadian Defence Minister Art Eggleton, who took over from Young in 1997, replied to Robertson’s letter on 4 March. He thanked Robertson for his understanding on the C\$610 figure and that the contracts be quoted in Canadian currency. He also noted that he was prepared to review the revised spares package. However, he rejected that a contingency fund be established.

I trust you will understand that I will not be able to accommodate additional financial expenditure beyond the C\$610 million fixed price and the supplementary contract for in-service support. Such a contingency would present considerable difficulty and, more than likely would not enable a move forward. Equally, you will appreciate the importance to Canada of reasonable and tangible industrial and regional benefits. Perhaps a good start point, in this context, would be the benefits framework which our officials and corporate staff from Vickers Shipbuilding and Engineering Ltd. Developed in 1995. I would be prepared to support a reduction to this framework, proportional to the reduction in price to which you have so kindly agreed.⁵⁶

At the same point, a British team had arrived in Ottawa to continue discussions on these issues. The meeting reconfirmed the acceptance of the revised price figures but noted that only C\$100 million in IRB waivers would be available to Canadian industry. Further, Vickers would only be offering an additional C\$150 million in IRBs as well. At that point, reactivation of two submarines in Canadian yards was still under consideration, but “the costs of implementing such a proposal have not yet been determined nor factored into the project’s budget.” Finally, the spares issue was still under examination by Vickers.⁵⁷

Clearly, if the British were going to be forced to accept a lower price for the submarines, then that would be offset by a reduction of benefits within the deal. The C\$250 million in total IRBs proposed in the revised deal was lower than the £150 million offered as late as February (worth at the time, roughly C\$350 million).⁵⁸

There is much to suggest that some of the problems later associated with making the submarines operational in Canada stemmed from the extraordinarily tight-fisted approach adopted by Canada on the final price of the systems. The reasons for the level of risk assumed by Canadian negotiators (they were haggling over 1/16 of the total contract value) is not entirely clear. At the time of the final negotiations, the British were using the offer of the *Upholders* as a ‘sweetener’ to South Africa in a large defence equipment contract negotiation.⁵⁹ How serious this negotiation remains to be seen, as the threat of a sale to another country had been raised continuously in the three years the submarines were under consideration by Canada. A sale to South Africa would clearly have raised significant concerns surrounding American security requirements for transfer of its technology, and thus any South African acceptance of the offer would have had to have been contingent on extensive work on the submarines. The choice for the British may have been limited to a sale to Canada or outright scrapping of the boats. How sensitive Canadian officials, outside of the navy, were to the limits of British flexibility on the sale of the *Upholders* to other countries, and whether that was a factor in Canada’s hardline position with them would be interesting to determine.

This high-stakes negotiation came to an end at the close of March, when Minister Eggleton presented the deal to the Cabinet. The navy had secured its submarines and would not have to worry about them for at least another three decades. The whole process had been a ‘near death experience’ for the Canadian submarine community, amplified by the clear lack of interest on the part of the Canadian government. Despite the risk to the navy, Canadian negotiators had hammered out a remarkable deal for the four submarines through hard-nosed bargaining both with the British and the Americans, as well as around the Cabinet table in Ottawa. The deal had only been possible by the odd convergence of strategic environmental factors and a poor fiscal climate. The end of the Cold War and the economic recession of the early 1990s had created the climate in which the British needed to eliminate their conventional submarines and the Canadians needed to replace their conventional submarines. Technological policy had made the British subs relatively unsellable outside the confines of the Five Eyes group (Australia, Britain, Canada, New Zealand and the United States). This, together with significant pressure to realise some return on the investment made in the boats, limited the flexibility of Britain’s negotiation with Canada. Canada, in turn, could bide its time for the announcement of the deal. While it would later pay a penalty for waiting so long, no one can doubt that the tough position adopted by Canada in the winter of 1998 secured the best possible price for the submarines. In all of this, Canada had truly secured a ‘deal of the century.’

Notes

1. Captain (N) E.E. Davie, “Briefing Note for VAdm. P.W. Cairns on 2400 Submarines,” 10 March 1994, p. 1/5.
2. Interview, Vice-Admiral Gary Garnett, National Defence Headquarters (NDHQ), 24 November 1998.
3. Rear-Admiral S. Mathwin Davis (RCN Ret.d). “It has All Happened Before: The RCN, Nuclear Propulsion and Submarines - 1958-68,” *Canadian Defence Quarterly*, Autumn 1987, p. 40.
4. Julie Ferguson. *Through a Canadian Periscope: The Story of the Canadian Submarine Service* (Toronto: Dundurn Press, 1995), p. 298.
5. Department of National Defence (DND), “Statement of Requirement (Preliminary): M1837 Submarine Replacement Project,” 31 March 1980.
6. Lieutenant-Commander S.W. Larsen, “Briefing Note: CMDO Turnover Book – The Canadian Patrol Submarine Project (CPSP) – M2549,” 20 June 1991, p. 1/2.
7. Captain (N) D. Harrison. “Statement of Capability Deficiency M2549 – Canadian Patrol Submarine Project,” 24 July 1990.
8. Larsen, “Briefing Note: CMDO Turnover Book,” p. 1/2.
9. Harrison, “Statement of Capability Deficiency M2549,” p. 2A.
10. Larsen, “Briefing Note: CMDO Turnover Book,” p. 2/2.
11. DND, “Annex A to 3645-M2549 (DGMEM) CPSP Overriding Operational Requirements and Summary of Operational Evaluation Criteria”, 8 November 1991, p. A-1/12.
12. Commodore J. King, “Canadian Patrol Submarine Project (CPSP) – M2549 Project Direction,” 4 February 1994, p. 1/2.
13. DND, “3136-5-M2459(DNR) Synopsis Sheet – M2459 Submarine Capability Life Extension (SCLE) – Upholder Acquisition,” 17 May 1996, p. 3/8.

14. *Ibid.*, p. 5/8.
15. Message: *Oberon* Class Submarines out of Service Date, 1 August, 1990.
16. Letter from Captain (N) P.J. Boothstone DSC (RN) British Defence Liaison Staff (Navy), British High Commission Ottawa, to Commander L.W. Barnes, Director Submarine Requirements, 29 April 1991; Commander L.W. Barnes, "Minute 2: DGMDO Acquisition Used RN Submarines," 30 April, 1991.
17. Captain (N) E.E. Davie, "CDL: 1901-3 (NA) Memo: Royal Navy Aspects of *Options for Change*," 28 December 1990, pp. 3 & 6.
18. Captain (N) E.E. Davie, "11905-3(NA) Memo: *Upholder* Submarines," 13 July 1993, p. 1/4.
19. Barrow in Furness Branch, Submariner's Association, "*Upholder* Class," available at <http://www.rnsubs.co.uk/Boats/BoatDB2/index.php?id=2&BoatID=650&flag=class>.
20. "In *anticipation* of [the Secretary of State for Defence's 5 July 1993 announcement], a meeting had been organized immediately after the announcement with senior DESO staff." Emphasis added. Davie, "11905-3(NA) Memo: *Upholder* Submarines," p. 1/4.
21. Quoted in Davie, "11905-3(NA) Memo: *Upholder* Submarines," p. 4/4.
22. The Defence Equipment Sales Organization (DESO) was reportedly tasked to sell the boats by 1 April 1994, approximately the date that funds ran out for their operation and maintenance. Captain (N) E.E. Davie, "Briefing Note for VAdm. P.W.A. Cairns on 2400 Submarines," 10 March 1994, p. 1/5.
23. Davie, "11905-3(NA) Memo: *Upholder* Submarines," p. 2/4; Davie, "Briefing Note for VAdm. P.W.A. Cairns on 2400 Submarines," p. 1/5.
24. Quoted in Captain E.E. Davie, "11905-3(NA) Memo: *Upholder* Update," 16 July 1993, p. 2/2.
25. DND, "Analysis: Acquisition of Conventionally-Powered Submarines," 5 June 1997, p. 5.
26. Hotel load is the electricity necessary to preserve the life support functions aboard a submarine, beyond that required for propulsion and other mission critical functions such as sensors.
27. DND, Annex B: 1630-1(CDR) "*Upholder* Capabilities and Associated Support Requirements," 25 October 1994.
28. Davie, "Briefing Note for VAdm. P.W. Cairns on 2400 Submarines," pp. 2-5/5.
29. As discussed later, the negotiations started in 1995 were allowed to expire by the government of Canada. Negotiations were restarted in 1998.
30. Emphasis in the original document. Government of Canada, "Special Advisory Committee Meeting to Discuss Omnibus Package of DND Major Capital Projects," 18 May 1995, p. 2/19.
31. *Ibid.*, p. 6/19.
32. *Ibid.*, p. 8/19.
33. *Ibid.*, p. 7/19.
34. *Ibid.*
35. Emphasis added. DND, "Canadian Submarine Life Extension Project," undated, p. 3.
36. DND, "3136-5-M2549 (DNR) Synopsis Sheet – M2549 Submarine Capability life Extension (SCLE) *Upholder* Acquisition," 17 May 1996, p. 3/8.
37. Captain (N) R.D. Murphy, "Briefing Note for the Deputy Minister: Aspects of the Submarine Capability Life Extension (SCLE) Project," 16 January 1998, p. 1/3.
38. Captain (N) D.G. McNeil, "Briefing Note for the Minister: United States Proposal to Support the *Upholder* Acquisition," 10 June 1996, p. 1.
39. Captain (N) S.B. Embree, "Briefing Note for Minister of National Defence," 5 October 1996, p. 3/4.

40. *Ibid.*, p. 1.
41. William J. Perry, Letter to Douglas Young, 5 October 1995.
42. Vice-Admiral J. Paul Reason (USN), "Memorandum for Acting Chief of Naval Operations: *Upholder* (U-Class) Submarines for Canada – IMPORTANT MEMORANDUM," 28 June 1996.
43. Jesse Flis, Letter to Jean Chretien, 30 October 1996.
44. William S. Cohen, Letter to Douglas Young, 25 March 1997.
45. Raymond Chretien, "Message to NDHQ/MND/CDS/DM – PCO/DFAIT/ –LDN: Acquisition of *Upholder* Subs," 4 November 1996.
46. United States Navy, "Analysis of Alternative Means by Which the US Could Provide Credit or Services in Exchange for Canadian *Upholder* Submarine Services," 7 June 1996.
47. McNeil, "Briefing Note for the Minister: United States Proposal to Support the *Upholder* Acquisition," p. 2.
48. Commodore J.R. Sylvester, "Briefing Note for the Minister: Current Status of *UPHOLDER* Discussions," 4 February 1998, p. 1/2.
49. DND, "3136-5-M2549 (DMPPD) Synopsis Sheet – M2549 Submarine Capability Life Extension (SCLE) – *Upholder* Acquisition," 8 September 1997, pp. 1-2/8.
50. Murphy, "Briefing Note for the Deputy Minister: Aspects of the Submarine Capability Life Extension (SCLE) Project," p. 2/3.
51. DND, "Minutes of a Meeting Held 13th & 14th November 1997 in Metropole Building London to Discuss the Acquisition of the *Upholder* Class Submarines by Canada," 26 November 1997.
52. DND, "Programme: Visit by Canadian Delegation 3rd – 4th December to Discuss the Acquisition of the *Upholder* Class Submarines," undated. A fax cover sheet, attached to the program document, sent on 4 December from London to Captain (N) Murphy, then the Director of Naval Requirements, notes that the trip report would be only a verbal report to the Chief of Maritime Staff.
53. Sylvester, "Briefing Note for the Minister: Current Status of *UPHOLDER* Discussions."
54. Commodore J.R. Sylvester, "11900-M2549 Briefing Note for the Minister *Upholder*," 13 February 1998.
55. Letter from George Robertson to Art Eggleton, 17 February 1998.
56. Letter from Art Eggleton to George Robertson, 4 March 1998.
57. Commodore J.R. Sylvester, "Briefing Note for the Minister, Update on Progress Achieved with GUK/VSEL Officials in Ottawa 4-6 March 1998," 9 March 1998.
58. IRB figures taken from *ibid.* Based on an average exchange rate of 2.35 between the pound sterling and the Canadian dollar in the month of March 1998, as calculated by www.oanda.com.
59. Sylvester, "Briefing Note for the Minister: Current Status of *UPHOLDER* Discussions," 4 February 1998, p. 2/2; Sylvester, "Briefing Note for the Minister," 22 February 1998, p. 3/4.

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