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Canada's seven billion dollar war

The cost of Canadian forces operations in Afghanistan

In March 2008, parliament voted to extend Canadian military operations in Afghanistan through 2011. By July of that year, roughly 41,000 Canadians will have served in the Afghan theatre of operations, 15,000 more than fought in Korea. Given the seriousness of Canada's commitments, in terms of both blood and treasure, informed discussion of the Afghan war is vital to ensure the public understands the government's aims and motivations, as well as when Canadians can expect to see the forces return home. On these points, there has been significant discussion amongst the public, parliamentarians, and pundits which, while highly partisan, has included substantive reasoned debates. In contrast, there has been little analysis of the financial burden for the government of Canada—and the Canadian armed forces specifically. For a national military only recently emerging from a decade of budget cuts, the financial cost of such a substantial combat mission is significant.

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There has been little reasoned discussion of the short-term financial implications of the mission to date, and virtually no analysis of its long-term impact on the defence budget. To be fair, estimating the financial burden of an active war effort is made difficult by the ever-changing nature of combat operations, and tracking the finances of the Department of National Defence over time is complex. Even if one focuses on a specific area of defence spending, “it is extremely difficult for Canadians to know how their defence dollars are being spent because of reporting and tracking systems that are as opaque as they are clear.”¹

Although parliamentary committees and the Manley panel have issued reports on CF operations in Afghanistan, none dealt substantively with the financial implications, while the auditor general has only examined logistics support.² In the US, on the other hand, the congressional research service, congressional budget office, and government accountability office have produced detailed analyses of the cost of the “global war on terror,” including estimates for the future costs of operations. In comparison, no Canadian body provided a comparable financial analysis of Canada’s current commitment—or the prospective extension—that could have been incorporated into recent debates over extending the Afghan mission. Instead, the public is left with two nongovernmental analyses of past operations and scattered media reports.

The financial impact is vital to the debate over the mission itself, as well as future defence planning, and it is not subject to operational security concerns. Unfortunately, the government’s reporting does not allow easy assessments of the total costs, future projections, or detailed funding of operations. Thus, it is left to individuals to make their own calculations.

This article offers an initial examination of the cost of the Afghan mission focusing on the Department of National Defence, the Canadian forces,

1 David Bercuson, Aaron P. Plamondon, and Ray Szeto, “An opaque window,” Calgary, CDFAI, May 2006, iii.

2 A senate report quotes a figure of \$30 million a month for operations, well short of official estimates. The Manley panel simply listed the full DND costs of operations between FY 2000-01 and 2006-07. See “Canadian troops in Afghanistan: Taking a hard look at a hard mission,” Ottawa, standing senate committee on national security and defence, 2007; John Manley, “Final report,” Ottawa, independent panel of Canada’s future role in Afghanistan, 2008; and “Support for overseas deployments: National defence,” in “Report of the auditor general of Canada to the house of commons,” Ottawa, May 2008.

and Veterans Affairs Canada. In doing so, it will analyze the cost of operations—as estimated by DND—and provide projections for the remainder of the current mission. It then examines the cost of Canadian forces international operations since 1996 as a share of defence spending, so as to place current spending in Afghanistan in context, and reviews the funding provided by the government for the war. The American system of war funding is then briefly examined to illustrate an alternate system of war funding and suggest some future costs likely to accrue in Canada. Possible future costs associated with equipment replacement and veterans care are described, followed by an overview of some of the potential indirect costs related to the war. The article concludes by examining the probable impact of five-and-a-half years of combat operations in Afghanistan on the forces.

HOW DO WE KNOW WHAT THE MISSION IS COSTING?

To the author's knowledge, "Boots on the ground" and "More than the Cold War" are the only public assessments of the cost of Canadian military operations in Afghanistan. "Boots on the ground" calculated the costs of operations in Afghanistan to be approximately \$4.1 billion through March 2006, while "More than the Cold War" revised these estimates to \$7.2 billion through March 2008.³ Each report received national media coverage, and was subsequently criticized in some circles as an example of a left-leaning think tank distorting the figures. In fact, the authors did not misstate the data, but rather chose to emphasize the more substantial of DND's two cost estimates, the "full DND costs" of the operation, although their report listed "incremental DND costs" as well. And although they differ substantially, the media generally fail to distinguish between the two types of costs, as discussed below. In some cases, media coverage of the war's costs has been blatantly inaccurate, with March 2008 reports that the mission was \$1 billion over budget a case in point.⁴

3 Bill Robinson, "Boots on the ground: Canadian military operations in Afghanistan and UN peacekeeping missions," Ottawa, Polaris Institute, 2006; and Steven Staples and Bill Robinson, "More than the Cold War: Canada's military spending 2007-2008" Ottawa, Canadian Centre for Policy Alternatives, 2007.

4 *La Presse* misinterpreted data about "Incremental DND costs" to represent cost overruns and the story ran uncorrected prior to the 13 March 2008 vote extending the mission. See André Duchesne, "Le budget de la mission défoncé d'un milliard," *La Presse*, 11 March 2006; and The Canadian Press, "Afghan mission \$1B over budget," www.thestar.com, 12 March 2008.

Parliamentary debate on this issue has also been abysmal, with few MPs asking educated questions and the government dismissing substantive inquiries out of hand. For example, during an April 2006 take-note debate, only Peter Stoffer of the NDP raised the issue of the mission's cost:

The previous Liberal government, when we were serving in the Balkans, took an awful lot of money out of the capital defence budget and moved it into operations, thus starving the military of equipment purchases.... What is the government doing about the financing of this mission in Afghanistan and any future involvement that we might have? Where is the money coming from? Is it coming from the capital expenditures of the military or is it new moneys so we do not starve our military in terms of training and equipment purchases for the future? Could he give us at least us an estimate of the financial cost of our mission in Afghanistan?⁵

Public Safety Minister Stockwell Day replied with a generic, non-specific answer:

Mr. Chair, I suppose I could start by saying what price freedom. I can say that these are estimates that are being very carefully thought out.... Those have been cost accounted and laid out very clearly and independently audited.⁶

Similarly, during the debate prior to the March 2008 vote extending the mission through 2011, Liberal Roger Thibault asked:

We also have the question of the cost. I read in the paper this week...that we were \$1 billion over budget on the Afghan effort... We need to know the ongoing cost, whether we have prepared and budgeted for it and what we will need to do in the future to sustain these

⁵ Hansard, no. 006, 39th parliament, Ottawa, 10 April 2006.

⁶ Ibid.

activities. They will not get cheaper by 2011 and 2012. Do we have the resources? I saw the budgets lately.... Do we have the ability to finance this further? Do we have the ability to finance supplies? Can this lead us toward a deficit?⁷

In response, Laurie Hawn, parliamentary secretary to the minister of national defence, ignored the questions about the mission's financing and did not refute the inaccurate comment about the \$1 billion overrun. In not answering substantive questions about the mission costs and failing to correct inaccuracies, the government confuses the issue, leaving Canadians to answer these questions on their own.

THE COST OF AFGHANISTAN

DND reports the costs of "International operations" in its reports on plans and priorities and departmental performance.⁸ These costs are listed by operation and reported as both full and incremental DND costs. Essentially, incremental costs describe what each operation costs over and above the cost of maintaining the same forces and equipment in Canada, whereas full costs capture *all* costs related to conducting an operation. As incremental costs represent the net financial cost of operations, they will be the focus of the article.

The costs of operations in Afghanistan have been significant (see table 1, at the end of the article), especially since the deployment of the Canadian battle group to Kandahar in February 2006. Operation *Apollo*, from fiscal years 2001-02 to 2005-06 and operation *Athena*, in Kabul from fiscal years 2003-04 to 2005-06, together cost \$1,453.8 million. In contrast, the costs of operations in Kandahar have been far higher. Taken together, DND estimates the incremental cost of all operations in Kandahar—operations *Archer* and

7 Hansard, no. 066, 39th parliament, Ottawa, 13 March 2008.

8 See "Estimates for the government of Canada and other supporting documents," Treasury Board of Canada, 23 February 2006, www.tbs-sct.gc.ca, 15. For a full overview of the government of Canada's financial cycle, see "Financial procedures," in "Compendium: House of commons procedures online," www.parl.gc.ca, 15 September 2007; and "The reporting cycle," in "Tools and resources for parliamentarians," Treasury Board of Canada, 20 September 2006, www.tbs-sct.gc.ca.

Athena to be \$3,203.1 million by 31 March 2009. Finally, several smaller missions, operations *Altair*, *Accius*, *Foundation*, and *Argus* account for a further \$124 million, for a total estimated incremental cost of all CF operations in Afghanistan through 31 March 2009 of \$4,782.4 million. For the sake of comparison, the estimated full cost of all operations for this time period is \$11,218.6 million. As this demonstrates, distinguishing between incremental and full costs is highly significant.

However, with the extension of the Canada's mission to July 2011, incremental costs for operations will accrue for at least four more fiscal years. While official government projections have not been made public, it is possible to estimate these costs, making the assumption that force levels remain constant. For 2009-10 and 2010-11 we assume the cost of operations *Athena*, *Archer*, *Foundation*, and *Argus* will equal the cost of these operations in 2008-09—\$1,011.7 million. Since the mission extension was contingent upon the deployment of unmanned aerial vehicles and helicopters, the actual costs for *Athena* will surely be higher, so this should be taken as a minimum estimate.

Calculating the costs of operations in 2011-12 is more complicated, given the somewhat ambiguous wording of the motion extending Canada's mission.⁹ We assume *Archer*, *Foundation*, and *Argus* continue for the full fiscal year, as they are not located in Kandahar. For the sake of simplicity we assume that *Athena* continues for the first four months of 2011-12, and ends completely 31 July 2011. This would therefore cost one third of the previous year's estimate, or \$337.2 million, bringing the total estimate for 2011-12 to \$340.9 million. This estimate does not account for the possibility that the CF could be redeployed within Afghanistan or attempt to calculate the cost of withdrawing from Kandahar, so it is also considered conservative. Adding these totals for 2009-10 and 2011-12 brings the total estimate for the current mission to \$7,146.7 million through fiscal year 2011-12.

9 The motion reads, "this extension of Canada's military presence in Afghanistan is approved...on the condition that: ...(c) the Government of Canada notify NATO that Canada will end its presence in Kandahar as of July 2011, and, as of that date, the re-deployment of Canadian Forces out of Kandahar and their replacement by Afghan forces start as soon as possible, so that it will have been completed by December 2011..."; "Revised Conservative motion on Afghanistan," *CBC News In Depth: Afghanistan*, 14 March 2008, www.cbc.ca.

Although the current mission in Kandahar will end completely in December 2011, there will be at least one further cost (in addition to the cost of returning equipment and personnel to Canada) once operations cease. DND calculates an incremental cost for the repair and overhaul of any equipment damaged in theatre to return it to a serviceable condition. This cost is counted in the fiscal year in which the equipment is expected to return to Canada.¹⁰

For *Athena* in Kabul, the repair and overhaul of CF equipment was estimated to cost \$60 million, roughly 7.3 percent of the total incremental cost of the operation.¹¹ As Canadian forces personnel in Kandahar have been involved in combat operations over a significantly longer timeframe and substantially larger area of operations than in Kabul, repair and overhaul costs for equipment returning from Kandahar will in all likelihood be more substantial. Hence, a calculation for the repair and overhaul costs associated with operations in Kandahar based on 7.3 percent of incremental costs is judged to be conservative. When applied to the estimated \$5,556.3 million total incremental cost of operations in Kandahar through July 2011, we can predict, at minimum, \$405.6 million worth of repair and overhaul costs. For the sake of simplicity, this is listed in fiscal year 2012-13 in table one. This figure can then be added to the earlier estimates produced above, of \$5,556.3 million for operations in Kandahar and \$7,146.7 million for all Canadian military involvement in Afghanistan. This would produce a total incremental cost of operations in Kandahar of roughly \$5,961.9 million and a total cost of all operations in Afghanistan of \$7,552.3 million, assuming that force levels remain constant until they are withdrawn in July 2011.

10 Ross Fetterly, "The Canadian peacekeeping cost estimate process," in *Resource Management*, first quarter (2005): 31. As discussed below, it appears that some equipment has already been returned to Canada, and may well have incurred repair and overhaul costs. However, no costs for repair and overhaul have been made public to date for operations in Kandahar. Thus, a simplified assumption is made that repair and overhaul costs will be charged in full at the mission's end.

11 DND calculates the cost of repair and overhaul using analyses of equipment operating costs and detailed assessments of usage in theatre. Such calculations are beyond the scope of this paper. A rough calculation is instead made as a percentage of total incremental costs. The RPP 2004-05 included \$60 million for the "Provision of repair and overhaul of equipment after *Operation Athena*." The same document estimated the incremental cost of *Operation Athena* for FYs 2003-04 and 2004-05 to be \$820 million, excluding the amount for repair and overhaul. The repair and overhaul figure was therefore 7.3 percent of the estimated incremental cost.

Clearly, costs exceeding \$7.5 billion are significant. To put this spending in perspective, table 2 reflects the incremental costs of Canada's largest international theatre of operations as a percentage of overall DND spending for each fiscal year. Given the scope of Canada's mission in Afghanistan, operations there clearly constitute the largest international theatre of operations for the forces since 2001, so the data for 2001-09 represents operations in Afghanistan. For the sake of further comparison, table 2 also lists the largest theatre of operations for 1996-2001. During that time, various deployments in and around the former Yugoslavia made the Balkans the forces' largest theatre of international operations. Although comparing financial data over time ordinarily requires adjusting to constant year dollars, the intent here is to demonstrate how the cost of international operations as a share of overall defence spending has changed over time on a relative basis. Accordingly, no adjustments have been made.

Table 2 demonstrates that, as a share of defence spending, the cost of Afghanistan has risen from less than two percent in 2001-02 to average 5.67 percent since combat operations began in Kandahar in 2006-07. Even considering the roughly \$4 billion increase in defence spending between 2005-06 and 2008-09, the cost of Afghanistan has clearly increased significantly since the start of combat operations in February 2006. Furthermore, when compared to past operations in the Balkans, the cost of operations in Afghanistan is even more significant. Operations in the Balkans averaged 1.56 percent of total defence spending for the years in which data is available. In comparison, Afghan operations have averaged 3.8 percent of all defence spending, and this share has increased significantly over the last three years. Thus, the cost of Afghanistan is significant compared to past operations, even accounting for substantial increases to the defence budget. The \$7,552.3 million cost of all operations in Afghanistan, and especially the \$5,961.9 million cost of operations in Kandahar, is therefore significant in both absolute monetary terms and as a share of defence spending. Afghanistan is expensive and consuming a significant share of the defence budget.

FUNDING FOR AFGHANISTAN

Having established a workable figure for the incremental cost of operations, we can examine how operations in Afghanistan are being funded. Although international operations incur significant costs, there is no actual budget for international operations. Rather, multiple Canadian forces organizations support international operations, including the Canadian expeditionary force

command, Canadian special operations forces command, Canadian operational support command, chief military personnel, and the environmental chiefs of staff (air, land, and maritime).¹² With this scattering of fiduciary responsibility, the overall budgetary impact of international operations is difficult to capture.

What is most significant is an operation's "incremental funding," monies that cover the incremental costs DND would not otherwise incur. Essentially, incremental funding can come from one of two sources—DND's budget or the central agencies of the federal government: the Privy Council Office, the Department of Finance, and Treasury Board. The source of this funding is significant, for if it is provided from the central agencies, DND is significantly less affected by the incremental cost of operations. If DND does *not* receive central agency funding, it must fund operations from within the defence budget, thereby affecting other priorities. Although DND maintains records of central agency funding for international operations, it will not release this information under the access to information and privacy act.

Analyzing the incremental funding for operations is therefore difficult using publicly available documents. One source of funding is through allocations in the federal budget documents, either specifically for an operation or as contingency funding. Both types of allocations have been used for operations in Afghanistan. However, funding via budget allocation requires that decisions regarding international operations be known and releasable to the public when the budget is tabled.

Since the end of the Cold War, multiple international operations were unplanned and therefore unfunded at budget time. The incremental costs of unforeseen operations—or changes to an existing operation—are frequently funded later in the fiscal year via the supplementary estimates that provide a second source of funding.¹³ DND has frequently received substantial funding for the incremental costs of international operations in the supplementary estimates and this has repeatedly been the case for Afghanistan. If incremental funding for operations does not appear in the supplementary es-

12 Ross Fetterly, "The cost of peacekeeping to the defence budget from 1989-99 to 2002-03," Toronto, Canadian Forces College, 28 April 2004. The author updated Fetterly's breakdown to incorporate CF transformation.

13 Ross Fetterly, "The cost of peacekeeping: Canada," *The Economics of Peace and Security Journal* 1, no. 2 (2006): 48.

timates, it would have de facto been provided supply via the main estimates, primarily as operating expenditures, with smaller portions accruing from capital expenditures. Unfortunately, the main estimates do not delineate funding for international operations.

In reviewing the funding for operations in Afghanistan since 2001 in successive federal budget plans, and the supplementary estimates for 2001-02 and 2007-08, two trends are striking.¹⁴ First, while in some instances funding was linked to a specific operation, in many it was provided “for Canada’s military mission in Afghanistan.” Therefore, table 1’s costs include both land and naval operations. Second, with the exception of \$31 million in 2001-02, \$132.8 million in 2004-05, and \$89.4 million in 2005-06, operations in Afghanistan were funded via a budget allocation or the supplementary estimates through 31 March 2006. Thus, despite Stoffer’s concerns about Liberal governments robbing the capital accounts to fund international operations, the Liberals effectively funded operations in Afghanistan over and above the defence budget between 2001-02 and 2005-06, with the exception of \$253.2 million out of a total incremental cost of \$1,794.4 million.

This funding arrangement appears to have changed, however, beginning in 2006-07. In that year, only \$203 million of the \$816.2 million incremental cost of the mission was funded via the supplementary estimates. Similarly, in 2007-08, only \$340.9 million of the \$1,086.5 million cost was supplied in the supplementary estimates. Thus, \$610 million in 2006-07 and \$745.6 million in 2007-08 was provided via the main estimates. None of the budgets of 2005, 2006, 2007, or 2008 provided funding for operations in Afghanistan, however. This change in the mission’s funding is even more significant in lieu of the data in table 2. Between fiscal years 2001-02 and 2005-06 the Liberals provided funding in a budget allocation or the supplementary estimates for 85 percent of the total incremental cost of \$1,794.4 million. During this same time period, the costs of operations in Afghanistan averaged roughly 2.69 percent of all defence spending. In contrast, in fiscal

14 “Budget info by year,” Department of Finance Canada, 24 August 2007, www.fin.gc.ca; “Supplementary estimates (a) 2001/2002—supplementary estimates (b) 2007/2008,” Treasury Board of Canada, 2002-07. Depending upon the sequence of the federal budget and supply processes, budget allocations are sometimes provided supply through the supplementary estimates. In the years where this was the case, the funding supplied via the supplementary estimates alone is counted.

years 2006-07 and 2007-08, when the Conservative government provided funding for operations in the supplementary estimates for less than 29 percent of the combined cost of \$1,902.7 million, the operations accounted for an average of 5.67 percent of all defence spending. Thus, the Conservatives appear to have provided less additional funding for operations in Afghanistan than the Liberals, while simultaneously devoting a greater proportion of overall defence spending to the mission.

Where then, did the \$1,355.6 million in incremental funding for 2006-08 come from? It must first be noted that the significant cost of operations in Kandahar is accruing concurrently with substantial increases in the defence budget. The governments of Paul Martin and Stephen Harper pledged to increase the defence budget by \$12.3 billion and \$5.3 billion, respectively, between fiscal years 2006-07 and 2010-11. As an excellent series of analyses by the Conference of Defence Associations outlines, the majority of this money, some \$10.9 billion and \$4.2 billion, is slated for disbursement in 2008-11. The CDA furthermore assesses that as of the spring of 2008, the Harper government has adhered to the combined budgets' 2005 and 2006 spending plans, but not assigned significant additional funding.¹⁵

However, the combined \$17.6 billion budget increase provided no funding specifically for operations in Afghanistan, and much of this money was provided for specific equipment purchases and expanding the forces. As the significant costs of operations in Afghanistan in 2006-07 and 2007-08 has not occasioned a corresponding additional increase in the defence budget, it stands to reason that some of the budget's 2005-06 increase has been redirected from other priorities to provide incremental funding for operations.

The reports on plans and priorities for fiscal years 2007-08 and 2008-09 would seem to support this assertion, alluding to the need to reallocate funding to support the incremental cost of operations. This was articulated explicitly in the report for 2008-09:

The incremental cost of CF participation in the Afghanistan mission will continue to affect defence planning in fiscal year 2008-2009.

15 See Brian MacDonald, "Waiting for defence budget 2008," in "CDA commentary 1-2008"; "Budget 2007" in "CDA commentary 5-2007"; "Waiting for budget 2007," in "CDA commentary 4-2007"; and "Budget 2006" in "CDA commentary 5-2006," Ottawa, Conference of Defence Associations, www.cda-cdai.ca.

While additional government funding is anticipated to cover a significant portion of the total incremental expense, some costs will be absorbed within Defence's current reference levels...Funding requirements for all operations that exceed incremental funding provided from government or current internal Defence allocations will continue to be managed through DND business planning and governance processes to prioritize and redirect financial resources from lower priority activities as needed. As in past years, any reprioritization will direct funding away from routine equipment and infrastructure maintenance and will affect the Department's ability to address operating budget pressures.¹⁶

Based on this description, the required incremental funding may have been obtained from the \$3.2 billion pledged by the Liberals for 2005-10 to address operational sustainability issues such as operating budgets, military medical care, and infrastructure repairs. Reports of budgetary shortfalls for operations and maintenance in the navy and air force would seem to corroborate the notion that resource shifting of this nature is already occurring. These pressures will become more severe if a December 2007 Canadian Press report that DND will no longer receive extra incremental funds through the supplementary estimates proves true.¹⁷

The Unexpected War, by Janice Gross-Stein and Eugene Lang, may offer an explanation for how this funding situation has arisen. The authors describe chief of the defence staff General Rick Hillier as having been adamant about the value of deploying the multinational headquarters to Kandahar, despite unease on the part of the central agencies about the initiative's cost. As they put it, "The Prime Minister's only objection was cost, so Hillier decided that the Canadian Forces would find a way to fit the headquarters assignment within the funding envelope that the Finance Ministry was offering."¹⁸ Hillier deemed the headquarters component too important to be

16 "Reports on plans and priorities 2008-2009," Department of National Defence, 2008, 29-30.

17 David Pugliese, "Air force needs \$540 million to keep flying," *Ottawa Citizen*, 17 April 2008. Murray Brewster, "DND told to keep war costs down in coming budget year," *Canoe Network*, CNEWS, 2 December 2007.

18 Janice Gross-Stein and Eugene Lang, *The Unexpected War* (Toronto: Viking Canada, 2007), 195.

hampered by financial considerations, so the eventual deployment of the “full package option” was made despite doubts about the military’s ability to find the required funding. This account indicates that Hillier was, at least initially, willing to sacrifice other priorities to deploy a more robust force to Kandahar.

AN ALTERNATIVE APPROACH TO WAR FINANCING

In contrast to the Canadian system, where only the immediate costs of war are counted and funding is difficult to discern, the US financing of the war on terror is arguably more transparent. Each year, congress votes on a special war appropriation, in addition to each service’s regular annual request. While this funding mechanism, in effect, reduces congressional control of the actual spending, the use of special appropriations serves to make the war’s costs more apparent, as witnessed by the American debate over war funding. Furthermore, the US system appears to go much further in anticipating future costs associated with the war. In fact, the congressional research service contends that the Department of Defense has gone too far in attempting to account for the full, long-term impacts of operations, citing a 2006 directive for the US military to submit requests reflecting the “longer war on terror,” rather than its immediate requirements. This new policy has resulted in Defense’s war requests for a much broader range of requirements, including US\$124 billion for procurement, the expansion of ground forces, equipment modernization, and recruitment and retention costs. In particular, the research service has accused Defense of “front loading” its requirement for reset funding, defined as returning equipment and personnel to full readiness. According to a recent report, “the front loading of requirements may be an attempt by the services to avoid being in the position of requesting funds after US troops...withdraw.”¹⁹ It appears that the Department of Defense intends to acquire the funding now when it is politically inconvenient for congress to deny it, rather than risk being denied when the money is actually needed. While the congressional research service has concerns over this practice, the process at least acknowledges that the war has both immediate and long-lasting financial implications. In contrast, in Canada, any future costs are yet to be determined or funded.

19 Amy Belasco, “The cost of Iraq, Afghanistan, and other global war on terror operations since 9/11,” congressional research service, Washington, DC, 2008, 32.

FUTURE CANADIAN COSTS

In the preceding section, the financial impact of Canadian forces operations in Afghanistan through July 2011 was calculated, which provides a good minimum estimate of the costs of the war. Future costs are certain to accrue from the mission for both equipment and personnel, judging from the experience of our American allies.

US ground forces have experienced significant strain on their vehicle fleets from operations in Iraq. Some reports describe rates of equipment use between four and 10 times normal peacetime usage, with the Marine Corps estimating the life expectancy of their light armour vehicles has been reduced from 30 years to six.²⁰ To return this equipment to pre-invasion levels, the Marines and army estimate they will require a combined \$18 billion for each year the war continues.²¹

In an April 2007 interview with Graeme Smith, Lieutenant General Andrew Leslie, chief of the land staff, stated that all of Canada's LAV III armoured personnel carriers in Kandahar would need replacing within six to eight months due to unexpectedly harsh operating conditions.²² A year later, a leaked copy of the army's 2008 business plan notes that "[a]ll of our equipment is either deployed, being reset, used in training or broken and waiting either labour or spare parts."²³ In combination, these claims suggest the Canadian army is experiencing equipment problems as acute as those of our American allies. There are no publicly available estimates, however, of what it will cost to restore the Canadian army's equipment when the Afghan mission ends.

20 Lawrence J. Korb, Loren B. Thompson, and Caroline P. Wadhams, "Army equipment after Iraq," Center for American Progress and Lexington Institute, April 2006; and Lawrence J. Korb, Max A. Bergmann, and Loren B. Thompson, "Marine Corps equipment after Iraq," Center for American Progress and Lexington Institute, August 2006; Michal Hagee, "Statement of General Michael W. Hagee, commandant of the Marine Corps, United States Marine Corps, before the house armed services committee," Washington, house of representatives house armed services committee, 27 June 2006, www.armedservices.house.gov.

21 Belasco, "The cost of Iraq."

22 Graeme Smith, "All LAV III's to be replaced within the year," *Globe and Mail*, 3 April 2007. A1.

23 David Pugliese, "Army pushed to the 'breaking point': Leslie," *The Ottawa Citizen*, 19 April 2008.

Determining the cost of war-related equipment replacement in Canada is complex. The first step is that any equipment destroyed in theatre has its net book value counted as an incremental cost in the year it is damaged. Based on estimates as of February 2008, this might include up to 54 vehicles, including 23 LAV IIIs, other armoured personnel carriers, and two Leopard tanks.²⁴

In addition to the vehicles damaged in combat or accidents, additional force protection measures have army vehicles carrying more armour and running faster than anticipated in a desert environment for which they were not originally designed. Leslie's comments about the LAV fleet suggest that they can only operate for roughly 22 months in theatre before succumbing to operating conditions, which would mean two additional replacements will be required before July 2011. Based on the Marines' estimates, and assuming there are approximately 100 LAV III variants in theatre at a time, roughly half of Canada's LAV fleet will have its life expectancy reduced to about six years by war's end. Two other armoured personnel carriers are deployed to Kandahar in significant numbers. According to Graeme Smith, roughly 150 M113 out of a fleet of 289, were deployed in 2007, and we can assume that roughly 60 of the CF's 200 Bisons are currently in theatre, based on the disposition of forces. Assuming these vehicles are experiencing the same added stress as the LAVs, all of the army's troop carriers will have significantly reduced life spans by 2011.

The cost of replacing these vehicles earlier than expected, however, is not captured as an incremental cost of operations. Canada's LAV fleet cost \$2 billion in 1995-96 dollars, and recent army procurement suggests that costly force protection measures will be a prerequisite for any new vehicles.²⁵ Thus, the costs associated with replacing any equipment may well be significantly higher—and arrive earlier—than previously anticipated.

As previous studies demonstrate, a few years ago the navy and air force were facing full-scale fleet replacements while the army was in relatively good condition, but this is no longer the case. The brief analysis provided here predicts that, exclusive of the navy's maritime coastal defence vessels and the army's armoured vehicle general purpose and capital replacement

24 Stephen Priestley, "Canadian forces vehicular casualties in southern Afghanistan by vehicle type," *Canadian American Strategic Review*, 22 August 2007, www.sfu.ca.

25 "Armoured personnel carrier replacement," in Department of National Defence backgrounder BG-97.004, 9 January 1997, www.forces.gc.ca.

programs that are already underway, by 2017 virtually the entire inventory of Canadian forces' equipment will need replacing as a result of the stress Afghanistan is placing on army vehicles.²⁶

VETERANS

The long-term care of Afghan veterans will be another significant cost to DND and VAC. An estimated 20,000 Canadian forces' members served in the Afghan theatre of operations between 2002 and 31 December 2007, and seven additional six-month rotations will be required between February 2008 and July 2011. Recognizing that 3000 personnel are really required to staff each rotation, by July 2011 there will be approximately 41,000 Canadian military veterans of Afghanistan. At the time of writing, 88 soldiers and one civilian had been killed and over 675 injured, the majority since February 2006.²⁷ These calamities will be accompanied by long-term survivor's benefits, disability pensions, and long-term health care costs.

In particular, preliminary estimates indicate that 27 percent of Kandahar veterans will experience mental health problems, including post-traumatic stress disorder, significant depressive issues, and hazardous drinking behaviour.²⁸ With a total of 11 rotations or 33,000 troops required to fulfill our combat role in Kandahar, this suggests almost 9000 forces personnel may experience some form of mental health problems. To date, budget 2007 pledged \$20 million in 2007-08 and 2008-09 to establish five operational stress injury clinics to assist CF members, veterans, and their families in dealing with service-related stress injuries, and this move was described as "particularly helpful to those returning from Afghanistan."²⁹ Beyond this initial outlay, however, it is unclear what it will cost to care for Canada's Afghan veterans.

DND initially provides care for forces members injured on operations, but this responsibility moves to Veterans Affairs Canada once personnel have

26 MacDonald, "Waiting for budget 2007."

27 CBC, "In the line of duty: Canada's casualties," *In Depth: Afghanistan*, 17 March 2008, www.cbc.ca; and "Evidence," standing committee on national defence, 7 February 2008.

28 "Evidence," house of commons standing committee on national defence, 7 February 2008.

29 "Chapter 6: A safer Canada: Building a stronger Canada in a modern world," in "Budget plan 2007," Department of Finance Canada, 2007, 255.

been released. Veterans Affairs' client base is divided unevenly between war service veterans and their survivors, and former Canadian forces and RCMP members. As the average age of World War II service veterans will soon be 86, the number of war service veterans was projected to decline by 20 per cent over the next three years, and the total number of Veterans Affairs clients was expected to decline accordingly.³⁰ However, due to the projected addition of 8000 Canadian forces members to the Veterans Affairs client base by 2011, previously forecast reductions are no longer valid. As the average age of currently released forces members is 37, the addition of thousands of Afghan veterans to the client base will substantially increase future demands on the department for decades to come.³¹ The costs associated with treating these injuries will be directly attributable to operations in Afghanistan but are not captured in DND cost estimates.

Differences between the Canadian and American military healthcare systems notwithstanding, without comparable Canadian data, estimates for the cost of American treatment can be a starting point for estimating the cost of veterans care in Canada. A recent study predicts that it will cost the United States some US\$590 billion to cover the lifetime costs of care for an estimated 2.1 million veterans of the war on terror.³² If we make the broad assumption that Canadian forces veterans will incur long-term health care and disability costs at a rate and cost proportional to American veterans, the lifetime care for 41,000 Canadian Afghanistan veterans could cost around \$11.5 billion. While Canadian data on veterans' care is not available to verify this estimate, Canadians should at least be thinking about costs for long-term care on this scale.

THE INDIRECT COSTS

Far more difficult to account for are the indirect costs Afghanistan is imposing on the military as personnel and resources are shifted from other activities to support operations in southwest Asia. A prime example is the March 2007 announcement that the expansion of the Canadian forces, a priority of both Liberal and Conservative governments, would be delayed due to ongoing operational requirements. The 2008-09 priorities and planning report

30 "2004-2005 report on plans and priorities," Veterans Affairs Canada, 2004, 7.

31 "2008-2009 report on plans and priorities," Veterans Affairs Canada, 2008, 9.

32 Joseph E. Stiglitz and Linda J. Bilmes, *The Three Trillion Dollar War* (New York: W. W. Norton, 2008).

outlined further delays due to financial constraints that are likely partly attributable to the Afghan mission. Beyond the lost opportunity to expand the forces, the resulting increased operational tempo and attrition rates for those currently in uniform will ultimately be costs related to the mission.

Further challenges are apparent in the forces' administration and planning. An official assessment of CF transformation found the operational tempo at expeditionary force command was unsustainable, while Canada command is chronically under-resourced. According to the report, transformation, force expansion, and capital renewal have combined with Afghanistan to produce an "organizational perfect storm."³³ As Leslie has put it, the practical impact of this focus on operations is that "the bright skilled staff that should be looking out 10 or 15 years are now in ever-increasing numbers focused on dealing with today's and tomorrow's problems."³⁴ In addition to Afghanistan's direct financial impacts, resultant veterans, and equipment costs, it appears the war is exerting a considerable drain on the forces' human capital.

PROCUREMENT

Of all the indirect costs of Afghanistan, the longest lasting may be the millions of dollars worth of capital equipment procured for the mission. The amortization of capital equipment purchased and used in an operation is counted as a full DND cost but is not listed as an incremental cost unless purchased specifically for a mission and not returned to Canada. Under previous peace support scenarios, this was logical. Assuming that equipment was not destroyed in theatre, it would return to the Canadian forces' inventory, and only a value for accelerated depreciation and attrition was counted as an incremental cost. However, it is not clear that this reporting procedure is still valid, as the forces have spent millions on war procurement, notably the 2005 purchase of \$234 million worth of army equipment for operation *Archer*, including Nyala patrol vehicles and M-777 howitzers.³⁵ Other pro-

33 David Pugliese, "Mission has created an 'organizational perfect storm'," *Ottawa Citizen*, 4 September 2007.

34 "Proceedings of standing senate committee on national security and defence," 26 February 2007.

35 "Army equipment for operation Archer," Department of National Defence backgrounder BG—05.036, 29 November 2005, www.forces.gc.ca.

curement, such as the \$87 million purchase of heavy trucks were “immediate operational requirements” for operation *Athena*, while others, including 25 additional Nyalas for \$31 million, mine clearing vehicles for \$29.6 million, and the \$1.3 billion purchase of 100 Leopard II tanks, were justified for their value in Afghanistan. Finally, the extension of the mission until 2011 was contingent upon the acquisition of medium lift helicopters by February 2009. While the forces were already procuring these helicopters, the February deadline is more than four years ahead of planned initial operating capability. As a result, the government is reportedly proceeding with a rush purchase of six Chinook helicopters at an estimated cost of \$375 million.³⁶ All told, including the tank acquisition, more than \$2 billion worth of equipment has been purchased for operations in Afghanistan.

While the full cost of this procurement should not be attributed to the war, there are unknown costs involved in rushing these operational requirements through the procurement system at the expense of longer-standing priorities. The ongoing delays in the fixed-wing search-and-rescue replacement project, for example, are being attributed to Afghan-related budget pressures.³⁷ With significant capital expenditures flowing to satisfy operational requirements in Afghanistan, it remains to be seen what the long-term impact will be of reallocating capital expenditures and project management teams away from planned acquisitions to the procurement of needed war equipment.

THE FUTURE FORCE STRUCTURE OF THE CANADIAN FORCES?

Operations in Afghanistan, and Kandahar in particular, have taken a heavy toll on the Canadian forces, specifically the army. While the military has gained immeasurable combat experience, it has come with significant costs. Based on the calculations in this paper, the incremental DND cost of all operations in Kandahar will be roughly \$6 billion, and the cost of all operations will be at least \$7.5 billion. More critically, some \$1.6 billion may have been

36 “Table 10: Status report on major crown projects,” in “Reports on plans and priorities 2007/2008,” Department of National Defence, 2007, 23. “Protection the top priority with tank acquisition,” Department of National Defence news release, 12 April 2007, www.forces.gc.ca; Jim Wolf, “Update 1-US eyes potential \$375 mln helicopter sale to Canada,” *Market News Reuters*, 23 April 2008, www.reuters.com.

37 David Pugliese, “Afghan War leaves forces unable to buy new rescue planes,” *Ottawa Citizen*, 26 April 2007.

redirected to fund operations as of 31 March 2008, with up to \$1.3 billion redirected in fiscal years 2006-07 and 2007-08 alone.

Thus, operations in Afghanistan appear to have already affected the projected revitalization of the Canadian forces by consuming significant portions of the funding increases in budgets 2005 and 2006. Furthermore defence planners can expect to feel the financial burden of operations for years to come, particularly with regard to equipment. While acknowledging the requirement to properly equip troops engaged in combat, one wonders how recent army acquisitions will fit into future capital plans. Given the looming need to finish recapitalizing the army, at a minimum, it seems that all three services will be fighting for scarce procurement dollars in the coming years. The government will also incur significant costs for the care of Afghan veterans that could amount to several billion dollars worth of lifetime health care costs. The costs for equipment and veterans will be borne by future governments, however, as Canadian planning only accounts for the immediate costs of war. Finally, the immense effort required to sustain the war effort is drawing resources away from other priorities. One hopes that the long-term future of the Canadian forces is not being sacrificed to support the immediate demands of the Afghan conflict.

A WAY FORWARD

Given the challenges in accurately assessing the cost of Canadian forces operations in Afghanistan, what steps might be taken to improve our understanding of the financial implications of Canada's international operations? As a first step, the Department of National Defence should produce a public estimate of the total incremental cost of operations in Afghanistan, through the current mandate. Second, a detailed analysis of the incremental funding for operations should also be provided. In combination, a full estimate of the costs and account of provided funding would give the public a much better understanding of the true financial impact of Canadian operations in Afghanistan, and allow for more accurate defence planning.

Third, the newly created parliamentary budget office should make a financial analysis of the Afghan war a top priority. The 2006 federal accountability act created the position of parliamentary budget office to provide parliament with cost estimates for private members bills or any other proposals within parliamentary jurisdiction, but at the time of writing the office has produced no reports. Fourth, the auditor general should examine the financial impact of the mission in Afghanistan on the Canadian government. At

minimum, an audit of a recent operation, such as *Athena* in Kabul, would provide a framework of analysis for current or future missions, to assess whether current costing and funding practices are valid. Fifth, as the Manley panel argued, more frequent, complete, and frank reporting to parliament by government and senior officers empowered to speak candidly about the overall impact of operations—financial and otherwise—would significantly advance public discussion and debate. The next time parliament is called to debate or approve such a significant operation, it should do so armed with estimates of what the immediate and long-term financial impacts will be. Finally, the government should provide incremental funding for operations in Afghanistan for the remainder of the war, including any requirement for repair and overhaul, over and above the combined budget 2005-06 increases. The governments of Paul Martin and Stephen Harper identified significant funding shortfalls and personnel and equipment deficiencies in the forces and increased defence spending commensurately. These resource needs did not disappear when the cost of operations in Afghanistan grew to over a billion dollars a year; if anything, they became more acute. For the Canadian military to be viable when the army returns home from Kandahar, the government needs to start paying the full tab for operations now, and start planning immediately to fund the long-term costs.

Table 1 lists the incremental cost of all CF operations in Afghanistan since fiscal year 2001-02.³⁸ The figures for fiscal years 2002-03 and 2006-07 are taken from successive departmental performance reports, and those for fiscal years 2001-02, 2007-08, and 2008-09 from DND's plans and priorities, while the figures for fiscal years 2009-10 to 2012-13 are the author's estimates. The estimated total cost of all operations in Afghanistan is provided in the bottom right corner.

Table one

Incremental DND Cost (\$M) of CF International Operations								
Fiscal Year	Apollo	Athena	Archer	Altair	Accius	Foundation	Argus	Year's Total
2001/2002	216							216
2002/2003	233.5				0.1			233.6
2003/2004	163	430		7.5	0.1	0.3		600.9
2004/2005	17.4	297		6.9	0.1	0.4		321.8
2005/2006	9.4	87.5	314.2	10.5		0.5		422.1
2006/2007		535.6	267.8	10.9		0.6	1.3	816.2
2007/2008		1077	1	6.5		0.5	1.5	1086.5
2008/2009		1008	1	73.6		0.5	2.2	1085.3
2009/2010		1008	1			0.5	2.2	1011.7
2010/2011		1008	1			0.5	2.2	1011.7
2011/2012		337.2	1			0.5	2.2	340.9
2012/2013		405.6						405.6
Afghanistan Total								7,552.3

³⁸ For a description of CF operations, past and present, see DND, "Operations," in "National defence and the Canadian forces," 25 February 2008, www.forces.gc.ca.

Data in table 2 are taken from departmental performance reports, with the exception of fiscal years 2001-02, 2007-08, and 2008-09, for which they are taken from the reports on plans and procedures. In 2006-07, the performance report adopted a new method of calculating “actual defence spending” under the program activity architecture. For the sake of continuity with past years, the previous method—which did not incorporate non-respendable revenue or account for the cost of services received without charge—is used. In reports on plans and priorities 2008-09, this is listed as “total planned spending.”

Table two

Theatre of Operations	Fiscal Year	Incremental Cost of Operations (\$M)	Total Defence Spending*	Operations as percent of Total Defence Spending
Balkans	1996/1997	76.2	10,573	0.72 percent
	1997/1998	92.7	10,187	0.91 percent
	1998/1999	119	10,256	1.16 percent
	1999/2000	357.8	11,522	3.11 percent
	2000/2001	219.6	11,470	1.91 percent
Afghanistan	2001/2002	216	12,243	1.76 percent
	2002/2003	233.6	12,415	1.88 percent
	2003/2004	600.9	13,022	4.61 percent
	2004/2005	321.5	13,922	2.31 percent
	2005/2006	422.1	14,682	2.87 percent
	2006/2007	816.2	15,682	5.20 percent
	2007/2008	1086.5	18,000	6.04 percent
	2008/2009	1085.3	18,852	5.76 percent