



House of Commons
CANADA

Standing Committee on National Defence and Veterans Affairs

NDDN • NUMBER 008 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Monday, November 15, 2004

—
Chair

Mr. Pat O'Brien

All parliamentary publications are available on the
"Parliamentary Internet Parlementaire" at the following address:

<http://www.parl.gc.ca>

Standing Committee on National Defence and Veterans Affairs

Monday, November 15, 2004

• (1535)

[English]

The Chair (Mr. Pat O'Brien (London—Fanshawe, Lib.)): I would like to call to order the eighth meeting of the Standing Committee on National Defence and Veterans Affairs.

We have two witnesses today that the committee is anxious to hear from. I'm proposing that we give each witness an opening statement. Gentlemen, if you could hold it to around ten minutes, that would be appreciated. We would then open it up to questions from the members for either or both of the witnesses.

I'm pleased to welcome and introduce Brigadier-General Darrell Dean, retired, and Mr. Ray Sturgeon, who is also retired from his position as a senior assistant ADM of materiel. Gentlemen, welcome to you both. Maybe we'll go as the names are on the order paper and start with Brigadier-General Darrell Dean, please.

BGen Darrell Dean ((Retired), As Individual):

Good afternoon, ladies and gentlemen. I served in the Canadian Armed Forces for 36 years. In the final four years of my service I was the commander of the Canadian defence liaison staff in London, England, from 1991 to 1995. My principal responsibility was to advise the high commissioner of military matters that affected or may affect Canada's foreign or defence policy. Liaison between the high commission's political and commercial staff was primary. My staff was composed of navy, army, and air force attachés, supported by an administrative staff, defence intelligence, defence scientists, and quality assurance staff seconded from the Associate Defence Minister Materiel staff. I was also responsible for the direct support of all Canadian military personnel in the United Kingdom who were on exchange duties or on course, including their dependants.

In the military chain of command I was responsible to and reported directly to the Chief of Defence Staff, General Jean de Chastelain. I had direct access to the commanders of the navy, army, and air force relating to matters that directly affected them. I also had, by nature of my duties as the commander of the defence liaison staff, direct access to their equivalent counterparts in the United Kingdom Ministry of Defence. As well, my duties required me to meet with the Ministers of National Defence and Veterans Affairs when they visited the United Kingdom and advise them of any issues of importance affecting both countries. I would make arrangements for discussions between the ministers of both countries, and I was responsible for recording the decisions or arrangements agreed upon at these meetings.

Later in 1992 I was advised by the quality assurance staff—those were the people seconded from ADM Materiel to my headquarters—

that the contract for the spare parts for the Oberon-class submarines was soon to reach a termination point and that there appeared to be only two options available: purchase the contract to produce the spares required in Canada, or retire the Oberon-class submarines due to their lack of spare parts and the age of these vessels. We purchased the submarines in the early 1960s. Canada and Australia at that time were the only two countries using the British-produced Oberon submarines. The Australians chose to replace their aging fleet with a new fleet of home-based manufactured submarines. I discussed this situation with the commander of the navy, Admiral Peter Cairns, and reported the situation to the naval staff at National Defence headquarters.

In 1992 the British government initiated the defence review called *Options for Change*, which affected all aspects of the defence systems in the United Kingdom. The United States was conducting a similar exercise of efficiency downsizing during this post-Cold-War timeframe. The resultant outcome was the cascading of surplus equipment to those NATO nations who wished to lease, loan to purchase, or purchase these excess stocks. The decision to delete the Victoria-class or, as we sometimes call it, the Upholder-class submarines from the Royal Navy inventory was a direct result of *Options for Change*.

In November 1983 the Ministry of Defence had contracted the first of four Upholder-class or Victoria-class submarines to be produced by Vickers. In 1986 the second, third, and fourth units were ordered from the Birkenhead-based suppliers, shipbuilders Cammell Laird. The first, *Upholder*, was commissioned in 1990, *Unseen* in 1991, *Ursula* in 1992, and *Unicorn* in 1993. Therefore, as these brand-new submarines were being commissioned for service, the British navy, under *Options for Change*, were required to make the decision between nuclear submarines and a non-nuclear submarine force. They chose the former, and the Upholder-class submarines were decommissioned. The last commissioned, *Unicorn*, spent just over 400 days in commissioned service.

Understandably, the British government was keen to sell these submarines, and in priority, to other NATO nations and then to acceptable nations not part of NATO.

In the fall of 1993 I was approached by the First Sea Lord, Admiral Sir Benjamin Bathurst, indicating to me that there were four of the Upholder-class submarines available and the Royal Navy would like Canada to have the first option to purchase. NATO partners Portugal and Greece had also indicated an interest in the purchase, and a non-NATO country, South Africa, was also showing interest. Three other countries were actively pressing the British government to purchase these submarines, much more so than the NATO countries. The British were not willing to sell to any of them. Really, in accordance with diplomatic protocol, I can't name these three countries in a public inquiry.

Admiral Bathurst indicated to me that the submarines could be purchased at a very reasonable price in exchange for a negotiated extension to the lease of the low-level flying training area in Labrador and for the British army land force training in Suffield, Alberta. I indicated that I would relay this information to National Defence headquarters and naval headquarters.

Shortly after this discussion with Admiral Bathurst, our defence minister, Mr. David Collenette, and the deputy minister, Mr. Robert Fowler, stopped over in London following a NATO ministers' conference in Brussels. I briefed the minister and the deputy on the British proposal. They discussed the fact that a defence review was about to be initiated. The national debt-deficit problem, coupled with the national health care situation, was also discussed as an area of grave concern to the government. It was very clearly a time when convincing cabinet and garnering Canadian public support would be most difficult.

The project would have to be very well timed and orchestrated and very clearly be part of the defence review. A project office would have to be established following government acquisition guidelines. I was to indicate to the British that we were very interested in their offer but that it would take considerable time to move this through the various levels of government, and only if the defence review indicated that Canada required submarines in a post-Cold-War period. The British indicated that they were more than willing to wait, but they requested a letter be sent from our minister of defence to Mr. Malcolm Rifkind, the newly appointed British minister of defence.

In 1994 the Upholder submarines were placed in dry dock and eventually mothballed. As well in 1994 a project management office was established at National Defence headquarters. Negotiations on financing and other aspects of the submarine purchase continued during the remainder of my tenure of command on a strictly navy-to-navy, government-to-government line of communication.

In 1995, I believe, the first of some of the Canadian crews arrived in Britain to commence training on the submarines. In April of 1998, three years after my retirement, the Minister of National Defence, Mr. Art Eggleton, announced publicly the lease-purchase for the four Upholder-class submarines to replace the aging Oberon-class submarines.

Ladies and gentlemen, that concludes my briefing, and questions obviously will follow Mr. Sturgeon's briefing.

• (1540)

The Chair: Thank you very much, General Dean.

Mr. Sturgeon, please, opening comments.

Mr. Ray Sturgeon (As Individual): Thank you, Mr. Chairman.

As was explained earlier, ladies and gentlemen, I'm Ray Sturgeon, and I served as a senior assistant deputy minister of materiel in the Department of National Defence during 1992, 1993, and 1994. I assume that is the reason why I have been invited to appear before you this afternoon.

Just by way of background, I think it's important to note that I served for 39 years and four months in the Department of National Defence. For most of that time I was responsible for activities in the field of materiel management and for a very broad range of acquisition projects and activities for the army, the navy, and the air force. Consequently, I was involved in the very early stages of acquiring the Upholder-class submarines from the U.K. government.

While I'm not sure what I can add to the work of this committee, I am prepared, of course, to provide clarification to the best of my ability and recollection—bearing in mind it was some time ago. That said, however, as a private citizen and a taxpayer, I must say I'm somewhat puzzled that the committee has undertaken this inquiry.

I have to tell you that I agree with my former Defence colleague, Vice-Admiral Cairns, who also wondered during his testimony before you recently why this inquiry was underway at the same time that a military board of inquiry has been convened to determine what caused the recent incident on HMCS *Chicoutimi*.

I have every confidence that the military board of inquiry will get to the bottom of the *Chicoutimi* incident, the results of which will surely be made public. It is, of course, regrettable that the *Chicoutimi* incident caused the death of a naval officer, but that too will be investigated by the board of inquiry.

As I understand it, this committee's inquiry is focusing on the rationale for and the processes that were followed leading up to the government-to-government agreement between Canada and the United Kingdom for Canada to acquire the used Upholders. While I can provide some insight into those processes, I would point out that my understanding of the situation is fairly accurately articulated in the David Pugliese article that appeared in the *Ottawa Citizen* on November 13, 2004.

I wonder, therefore, if the committee is conducting this inquiry to determine if the cost of the submarines is justified vis-à-vis the operational capability that the fleet provides to the navy, the Canadian Forces, and the country, why the committee has not focused as well on some other questionable government defence procurement decisions. An example is the cancellation of the EH-101 helicopter contract in 1993 for what was obviously, to all observers, political reasons. That politically motivated decision cost the taxpayers hundreds of millions, perhaps billions, of dollars, when one takes into consideration the sunk costs expended by the Crown, the penalties incurred for the cancellation of the contract, and the increased costs of operating and extending the service life of the ancient Sea King fleet, which, as now predicted by some observers at least, will not be replaced before 2010 or beyond.

I recognize that you are more interested today in the acquisition of the Upholder/Victoria-class submarines. As a general statement, in my view, the acquisition of the submarines from the U.K. government was a great deal for Canada. Second, while there have been difficulties in the extensive reactivation undertaking of the submarines, I'm confident that these either have been or will be overcome. Finally, the Victoria-class submarines will provide the navy with the capability necessary to meet its related roles and missions assigned by the government.

I'm prepared, as General Dean is, to answer any questions you might have.

● (1545)

The Chair: Thank you, Mr. Sturgeon.

We're solely interested today in talking about the purchase of the four submarines from the British government. I was about to ask you to come back to that, and you did so. As I pointed out to Vice-Admiral Cairns, as he was at the time, and will reiterate for the record, the committee decided that possibly there have been an inordinate number of problems with these four submarines. It wants to see if in fact that is the case, it wants to probe the terms under which the decision was taken by the Canadian government, and it wants to probe the interplay between the advice of the naval experts to the various governments and ministers who have been part and parcel of it. I have to tell you, as chair of the committee, there was very broad consensus on both sides of the table that these are valid questions for elected members of Parliament to ask, and we certainly make no apologies for asking them.

We appreciate your being here. We understand yours is the perspective of someone who was involved on the military side of this, and we want to hear exactly what you said. If you feel this was a great deal, that's very good. We feel, given the number of problems that have occurred with these particular submarines, most importantly HMCS *Chicoutimi* and the tragic loss of life we experienced there, the death of Lieutenant Saunders, that these are valid questions, and we intend to ask them as a committee. We'll get into doing just that now.

I'll just remind colleagues that it is question and answer, so I'd ask both the questioner and the answerer to be as succinct as they can. It's a seven-minute question and answer session.

We'll start with Mr. O'Connor.

Mr. Gordon O'Connor (Carleton—Mississippi Mills, CPC): Thank you, Mr. Chairman.

I will start with a comment. To reiterate, we're not pursuing the incident on HMCS *Chicoutimi*. It's a technical issue to decide what caused the fire, etc. As the chairman said, we're pursuing other issues, the procurement process and the training process. There are a number of processes we're checking out to see if the systemic problems with the submarines are caused by poor decisions or just the nature of submarines.

General Dean, as you were running through the years there, I think you said the first issue that arose was in 1992, when the U.K. government indicated that spare parts were running out for Oberons, so some decision had to be made. Sir, one of the dates surprised me.

I think you mentioned that in 1995 we sent naval crews over to train on the submarines.

● (1550)

BGen Darrell Dean: There was a constant movement of Canadian Forces officers and men through the U.K. for various training courses. There were quite a number of naval courses run at Faslane. We had submariners passing through CDLS London going to Faslane, particularly after the project office was set up. They went through in twos, threes, fours, going up there on courses. I assumed, being the commander of the defence liaison staff, but not being told why they were going there, that they were going up there, being submariners, to start looking at these Upholders. I assumed in 1995, shortly after I'd left office and retired, that there were still people going up to start looking at the Upholders.

Mr. Gordon O'Connor: All right. I'm just trying to clarify whether they were going for training or inspection. Did Canadian naval personnel go in either a training capacity or an inspection capacity with regard to these submarines prior to 1995?

BGen Darrell Dean: Prior to 1995 there were probably people over there inspecting them or looking at them for one reason or another. I think the training started after I left in 1995, as crews started to go over there to do some work on these things.

Mr. Gordon O'Connor: It may be beyond your knowledge area, but I find it strange that we have crews training on the Upholder submarines if we haven't decided to acquire them.

BGen Darrell Dean: I can't answer that question. I know there were naval people going to Faslane to do training. Faslane was where submarines were. They certainly weren't going over to train on the Oberons.

Mr. Gordon O'Connor: Okay.

Mr. Sturgeon, during the time you were ADM Materiel, at the beginning of this process, were you called upon at all to send any teams over to the U.K. to inspect the submarines from a technical point of view?

Mr. Ray Sturgeon: Yes. I think it was in the summer of 1993. Again, I haven't talked to General Dean since he retired, but my recollection is that we did send teams over in 1993 to talk about the possibility of acquiring the submarines. Indeed, in March 1993 Admiral Cairns and I went to the U.K., with the consent of the minister of defence, to launch preliminary discussions on whether or not Canada might be interested in acquiring the submarines.

Mr. Gordon O'Connor: In these preliminary discussions what were the sorts of things you discussed?

Mr. Ray Sturgeon: It was, first of all, to determine when the submarines would be available, bearing in mind that they had only just announced they were going to be laid up and decommissioned, and second, to express an interest, if they were available at the right cost, indicating that Canada might be able to sit down and start negotiations.

Mr. Gordon O'Connor: Were you given any indication at that time that there were potential competitors for these submarines?

Mr. Ray Sturgeon: Not in 1993.

Mr. Gordon O'Connor: Okay.

General Dean, I'm just trying to recall your testimony at the beginning. When were you first aware that there were other nations potentially involved in this?

BGen Darrell Dean: When I discussed the issue with the First Sea Lord, Benjamin Bathurst, he indicated to me that South Africa, Greece, and Portugal were interested in purchasing these submarines. That was in late 1993, I believe October or November.

Mr. Gordon O'Connor: Did he give you any indication that he preferred Canada to buy these submarines?

•(1555)

BGen Darrell Dean: Yes, he did. As I mentioned earlier, there were three other nations that were very actively pushing to purchase these submarines. Clearly, the Brits did not want to sell to them. They knew that like Australia, we had been using the British training bases in Faslane to train our submariners, and we had a good working relationship with them. So obviously, we were a first choice for them once they had realized that options for change were going to drive them into a nuclear or a non-nuclear fleet.

Mr. Gordon O'Connor: Mr. Sturgeon, when you held those initial discussions with the U.K., did they give you any sense of the dollars or pounds that were involved?

Mr. Ray Sturgeon: Not in the initial discussions. They just said they would be more than willing to sit down and conduct negotiations. You need to bear in mind that these were very preliminary negotiations to let them know we might be interested. In fact, we had no idea of the basic parameters within which we would enter into negotiations. We later assigned a team to carry out detailed discussions.

Mr. Gordon O'Connor: Okay.

Thank you.

The Chair: Thank you, Mr. O'Connor.

[Translation]

Mr. Perron, you have seven minutes.

Mr. Gilles-A. Perron (Rivière-des-Mille-Îles, BQ): Good afternoon, Mr. Chairman, and a good day to you gentlemen. Welcome. I will try to be as brief and as direct as possible. My questions will be short, and answers would need to be even shorter.

Here is what I think happened. If you believe I am wrong, do not hesitate to interrupt me. Let us begin.

If memory serves me right, in the mid-1980s, the military as well as the government had decided to be rid of the Oberon class. Without having made a final decision, they were inclined to go for the nuclear submarine. In other words, they wanted to be rid of the three Oberon submarines and to buy six modern nuclear submarines of the Trafalgar class made in Great Britain.

Around 1989, the end of the Cold War meant it was no longer necessary to buy nuclear submarines. Am I right in thinking that Great Britain's marine industry, which had just lost the sale of six nuclear submarines, was not very happy with the Canadian decision?

•(1600)

[English]

Mr. Ray Sturgeon: May I just intervene? I don't think anybody really knows whether the nuclear submarines were going to be bought from Great Britain or from France. As everybody knows, there were two contenders, but it was never announced who the winner was. So whether it was Great Britain or France, I don't know. I was in the procurement business at the time, and I did not know the results of the evaluation at the time the government decided to get out of that particular project.

[Translation]

Mr. Gilles-A. Perron: According to my research, the majority of reporters or marine experts were then saying that the chances we would opt for the English submarine were eight to two, compared to two to ten for the French submarine. The probabilities were therefore quite good.

[English]

Mr. Ray Sturgeon: But I would submit to you that that's purely speculation on the part of the journalists, and—

[Translation]

Mr. Gilles-A. Perron: Let us move on. The British government had just lost the sale of six nuclear submarines, and the Canadian government had decided to invest in four Upholder-class diesel-electric submarines. As it had just lost sales, did the British government not exert somewhat undue pressure on the military or the Government of Canada or did we, because of our past relationship with Great Britain, naturally go for the Upholder submarines?

[English]

BGen Darrell Dean: From my time as the commander of the defence liaison staff, I was never aware of any pressures put on me or my staff with regard to the Upholders. It came about clearly as the result of *Options for Change*, when the British navy was downsized considerably, and they were given the choice of either a nuclear or a non-nuclear fleet. Their experience with a nuclear submarine during the Falklands War was an indication to them that they needed the strategic value of a nuclear submarine. The four Upholders were still being produced at that time, and as I say, there was never any pressure, certainly through my staff and my naval staff, requiring us to buy these submarines. We were given the first option, but I don't think there was ever any pressure, certainly not on me or my staff.

[Translation]

Mr. Gilles-A. Perron: One could also have made indirect suggestions to the government and the military, telling them that they could no longer get spare parts for their old Oberons. That could have been another way to get you to buy the Upholders.

[English]

BGen Darrell Dean: I will answer the first part, and then I'd like to turn to Mr. Sturgeon.

My staff in the early nineties were seconded and were purchasing spare parts for the Upholders, and the British gave us and the Australians a warning order that the contract for the production of these spare parts was coming to a termination point. The British were out of the Oberon-class submarines at this time, and the contract for the production of the spare parts was coming to an end. I was told we could be given the option to purchase the contract to produce more spare parts, should we so desire. I passed that information to navy headquarters and to NDHQ.

I think Mr. Sturgeon can probably answer in a little more detail. He was ADM Materiel at the time, and it was his staff who were over there purchasing those spare parts.

Mr. Ray Sturgeon: I think, Mr. Perron, rather than it being arm-twisting by the British, the initial overture was made by us. We in the Department of National Defence recognized that there was an opportunity to take advantage of the situation in the U.K., and we actually made the first overture in March 1993 towards the British government. In fact, I personally, as I mentioned earlier, went to the U.K. with Admiral Cairns, and I did not, given the circumstances at the time, as is normal, go through CDLS to conduct those preliminary discussions, as they were very preliminary. We had direct instructions from the Minister of National Defence on to how to conduct those discussions. It was not at the behest of the British government.

• (1605)

[Translation]

Mr. Gilles-A. Perron: How old were the four Upholders when you bought them? They had been in dry dock since 1994, unless I misunderstood. How old were they in 1994? When were they built?

[English]

Mr. Ray Sturgeon: While the General is looking at his notes, my recollection is that not all of the four boats were put into operation. At the time I think one of them was still coming off the production line. The *Upholder* was already in service. I think one or two of the other ones might have been, but not all of the boats were in service, as I recollect.

BGen Darrell Dean: The first order the British put in was in 1983 to commence the construction of the four submarines. *Upholder*, which is the name of the first one, was commissioned in 1990; *Unseen*, the second one, was commissioned in 1991; *Ursula* was commissioned in 1992; and *Unicorn*, the last one to come off the line of production, was commissioned in 1993. So they were basically new submarines.

Mr. Gilles-A. Perron: And the year after they put them in dry dock just because they didn't like those submarines, or...?

BGen Darrell Dean: No. Under *Options for Change* for the British forces, all three services had been reduced drastically. We had been offered tanks, artillery pieces. The Americans were doing the same thing. With the submarines, the British navy had to make a choice between strategic nuclear submarines or diesel-electric, and they chose to go with the strategic nuclear.

The Chair: Thank you.

[Translation]

Thank you, Mr. Perron.

[English]

Mr. Blaikie, please, for seven minutes.

Hon. Bill Blaikie (Elmwood—Transcona, NDP): Thank you, Mr. Chairman.

I'll begin by saying that I don't know whether this should be regarded as odd or not, but it seems to me that this is the first time Brigadier-General Dean knows that six months prior to his being approached by the U.K., and thinking that he was being approached by the U.K., the other witness here, along with someone else, had already been to the U.K. and made an approach from the Canadian government. It's a long time to find this out. It just goes to show that maybe the inquiry is kind of worthwhile after all, to find out how the government works on this. Our people over there think they're being approached by the U.K. government, and in the meantime, something else happened six months earlier that they don't even know about, and for which no particular reason has been offered at the moment.

One thing that struck me is that we had the impression—correct me if I'm wrong, fellow members of the committee—that there were two decisions. Canada at one point was going to buy these subs and then decided not to, but later on decided to buy them. The way we heard it was that this may have—I emphasize “may” have—complicated things, because when you buy them later, they've been in dry dock longer, which means that whatever happens to boats in dry dock just happens for that much longer.

The impression I get from both of you in various ways is that there was a continuum. There wasn't a decision at some point—I think this is the way we heard it, perhaps from Collette—to not buy them, and then a decision from Eggleton to buy them. The way I hear it from you guys is that whenever this started, whether it started in the fall of 1993 when they approached you or in March of 1993 when you approached them, there was a process, during which time there may even have been some training going on. I'm following up on the question of my Conservative colleague.

At any rate, it just sounded as if there was a continuum from whenever this started, and there weren't the two decisions. Can you help us on that? This is certainly the kind of evidence that we've had to date.

• (1610)

BGen Darrell Dean: To my knowledge, Mr. Blaikie, it was a continuum. I never heard of a break in it at all. When Kim Campbell was Prime Minister and she came to the U.K., she and I never talked about this, but certainly this was discussed between Mr. Collette and Mr. Robert Fowler and I. When they left, they gave me pretty straightforward instructions about what I was to do, which was to indicate to the British that this was going to be a long process but we were definitely interested.

The problem, and I think this relates to Mr. Sturgeon's comments, was there was a change of government, which caused a delay period at that point in time. As well, the deficit problem and the health care problem were still very high priorities for the government at the time. My directions were that I was to go back to the British and tell them, yes, we were interested, but this was going to take time to work its way through cabinet and have the support of the Canadian public when the decision was finally made. At no time was I ever aware that there was a break. That may have happened after I retired, but certainly not during the time I was in London.

Hon. Bill Blaikie: The other thing we've received conflicting views on is this whole notion of what some people have called the barter or trade or whatever—the initial packaging, if you like. It had to be well-orchestrated so that it would be accepted by the Canadian public. It seems to me that perhaps there was this whole notion that we were bartering, getting the subs cheap, not getting money up front, extending the contract in Labrador, or in Suffield, or wherever. Can you help us out on that? We had Mr. Williams, who said it was a cash deal right from the beginning; all this barter stuff, he didn't know where it came from.

Again, as you can see, there are things we need to sort out that the board of inquiry isn't going to be looking into.

Mr. Ray Sturgeon: That's true.

Again, I'm not sure where Mr. Williams is coming from. I think I can say that with all frankness, since he is one of my successors. I fully understood, at the time the government announced the bartering system and the fact that you probably would not have an exchange of funds between the two countries, that you'd just balance the books for training, Suffield training and in Goose Bay, and any other type of transactions you'd want to have.

From my way of thinking, and from my broad experience in the defence department, it's bookkeeping; it's mechanics. I have no idea why the bartering system announced as part of the original deal didn't take place, but to my way of thinking, it ought to have been easy for anybody to have done it. Why they changed their minds, I have no idea. You'd have to ask Mr. Williams and other folks who are currently in the defence department today.

Hon. Bill Blaikie: You were in London from 1991 to 1995, right? I think it was in 1991 that a parliamentary committee looked into the Upholder-class submarines and made a report. Were you aware of that at the time, and did it figure in any way in your...? They had identified some problems then.

BGen Darrell Dean: That's right. In simplistic terms, just from what I've read...and I'm not a naval officer, I'm an army officer. There are three weapons systems that can be fired out of the torpedo tubes, and they were having problems launching the torpedoes out of the torpedo tubes. They had also had some contract problems with one of the companies, I think the second company they had ordered through. These were contract problems, not completing certain phases at times. I don't know any of the details of that. The one thing I do know is that they had problems with the submarine tubes. That was on an Upholder, the first one that went to sea. They corrected those, and they corrected the problem in the other three as they were being produced.

On any technicalities, I'm sorry, I can't help you with that. That's what I read about the Upholder problem, which was certainly public news at that time.

• (1615)

Hon. Bill Blaikie: I have just one final question, Mr. Chairman.

I notice in our notes here, Mr. Sturgeon, that you're with a consulting group called CFN Consultants. According to the information provided to us, one of your clients is BAE Systems. That's one of the consortiums that's done some of the work on the submarines in Britain.

We also had some mention at one meeting that there were two BAEs, one there and one here. Can you help us with that? How does that work? Which one is doing what to the submarines?

Mr. Ray Sturgeon: BAE Systems is a large multinational corporation, as you know, and BAE Systems Canada has been set up to support Canadian submarines. They have offices here in Ottawa, and they have an office and work in the FMF, the fleet maintenance facility, in Halifax, and they have people on the west coast to support—

Hon. Bill Blaikie: So this is a Canadian company that was set up specifically because of the purchase of these submarines. It didn't exist beforehand.

Mr. Ray Sturgeon: That's right.

The Chair: Thank you, Mr. Blaikie.

Just for the record—I'm not sure Mr. Blaikie was at that particular part of the meeting, and I think it's important that we recall this—I think it was commonly felt or understood, and reported, that this was a barter...training facilities for these subs at a nominal price. It was Mr. Williams at a meeting who very clearly told us that this was not the case—I remember personally pressing him on it, and you were there—that Canadian taxpayers' money went into a certain account, he knew the account, and British pound sterling went into another account. I'm not sure Mr. Blaikie was there.

The minister was before the committee recently, as colleagues will recall, and he addressed that. He said that the idea of the bases for the subs was an option, and at the end point they decided not to go that option but to have this exchange of funds. I'm not sure we totally understand why, and I think that's a valid point.

I also think that a couple of—

Hon. Bill Blaikie: And why they allowed that perception to hang in there, long after they knew—

The Chair: For sure the perception was there. It seemed to be very big news the day that this committee heard from Mr. Williams that it was done one way and not the other. I think we've heard some inconsistencies.

Just for your information, and because you questioned why we're into this study, frankly, the more we look at it, the more it begins to become pretty clear to us that there needs to be some answers, and some consistent answers, that so far we're not getting the way we'd like. So I have to tell you, we're going to press this issue. I think it's important we understand why we purchased major pieces of equipment for the Canadian Forces and how we purchased them, and be very clear on those points.

With that announcement from your chair, I want to go to Mr. Bagnell now for seven minutes.

Hon. Larry Bagnell (Yukon, Lib.): Thank you for coming, gentlemen. I'm the one committee member from the north, so don't mind me if I'm defending my interests.

I have a question for Mr. Sturgeon first. The largest portion of the Canadian coastline is in the arctic, assuming we maintain our sovereignty over that area. It is in the arctic part of the country with all those islands and everything. Why would you have purchased submarines that could not go into that area?

Mr. Ray Sturgeon: In answer to that question, Mr. Chairman, it is something you ought to ask operators. We are simple procurement folks who, once the requirements are defined, then go out and buy equipment to meet those requirements. I think it relates to why Canada originally intended to buy nuclear-powered submarines. It was because nuclear-powered submarines could patrol all three coasts of this country, including the arctic coast.

As you know, there was a plan to have air-independent propulsion as part of the mid-life refit of the Upholder submarines, which was to be in—I forget the exact dates—2008 or 2010, somewhere around there. That would give them greater capability to patrol the arctic coast as well.

I think the commander of the navy and the CDS have been here before, and perhaps they'll come back again, but I think it's better to pose those types of questions to them.

• (1620)

Hon. Larry Bagnell: I did, actually.

In 1994 and 1995 the estimates had some money for research for air-independent propulsion systems. Can you comment any further on that?

Mr. Ray Sturgeon: I'm not sure of the years they had it, but certainly while I was ADM Materiel we did have a research and development contract with Ballard Power Systems in Vancouver to develop a fuel cell generator—I think it was a 40-kilowatt generator—and it was a successful program.

The objective was to be able to put an air-independent plug into whatever submarine we ended up purchasing. I think that investment in technology paid off. The 40-kilowatt generator was successful. It's just a question of how the department and the government intend to proceed, or if they intend to proceed, with air-independent propulsion in the future. If they do decide to proceed with it, certainly a Canadian company has the technology that could provide the plug that would provide air-independent propulsion. I think in the marketplace there are other fuel cell generators that could also do the same thing. Clearly, Ballard Power Systems proved it is capable of providing a generator to do that.

Hon. Larry Bagnell: I have one last question. I'd like Brigadier-General Dean first and then Mr. Sturgeon to answer this question.

I think what my colleagues in the opposition want to know is why we bought these subs and the process that led to buying them. In very simple terms, without getting into a long explanation, in your opinion, from what you know and have heard all along the way, what was the process that led to purchasing these subs? For instance, was it the fact that the first thing that happened in the progression was that we heard these subs were surplus, you let them know back in Ottawa, then Ottawa looked at that and said they had to fit in with our plan, and subsequently it did fit in with our plan? Or, Mr. Sturgeon, do you think it came from the higher-ups first when they asked, are you looking for subs?

I would like to know, leaving all the bureaucracy aside, what was the actual process—what happened and the progression of why we bought them.

BGen Darrell Dean: Do you want me to answer first?

The way you've described it initially is exactly the way it happened. As the defence adviser and commander of the liaison staff, it was my responsibility to make the department, and subsequently the government, aware of activities that were going on in the U.K. with respect to their forces that would be of benefit or whatever to Canada.

As such, I was approached by not only the navy but by the army. I know that my counterpart in Washington was being approached by the Americans. All of these NATO nations were starting to downsize as a result of the end of the Cold War. They were cascading equipment downward to NATO nations that for one reason or another couldn't afford to keep their equipment as high-tech as the U. S. We essentially were picking up some of their more high-tech equipment that they couldn't maintain because of the downsizing process they were going through.

That, in fact, happened in the U.K. The commander of the army indicated to me that he was not interested in what the U.K had to offer to us.

Hon. Larry Bagnell: Sure.

In 1992?

BGen Darrell Dean: In 1993-94. A number of tanks—for example, Challenger tanks—came on the market, artillery pieces, and so on.

The air force never came to me, but the British navy certainly did. It was my job simply to take that information and pass back through National Defence headquarters that there was this equipment that was cascading down. We were looking for ways to improve and buy new pieces of equipment. These were basically new submarines. It worked out well that the defence minister at the time, Mr. Collenette, and his deputy minister came through. It was shortly after I had been approached by the Brits that I spoke to Mr. Collenette and Mr. Fowler and said we had a very good offer on the table.

The barter for purchase was certainly indicated to me at that time. The British were looking for smart ways to downsize and save themselves money as well, so it fit in quite nicely.

As you described it is the way it happened. It then went back to NDHQ. A project management office was established. The defence review was on at the same time. When I say a project management office was initiated, we're talking one or two people at this time, clearly waiting for the defence review to be completed.

It was completed. It did indicate that we would want some form of underwater capability. Therefore, it went on from there. The purchasing process continued. The changes that happened during that five-year period, of course...that is what you're searching for answers to, and it happened after my time. So I can't help you with some of those changes.

• (1625)

The Chair: Thank you, Mr. Bagnell.

Hon. Bill Blaikie: Those Brits were having a garage sale; so were the Americans.

The Chair: That's right.

Very briefly, Mr. Sturgeon, on the same question, because I think it's important to the committee. The time's up, but I think the committee wants to hear your brief summary.

Mr. Ray Sturgeon: Actually, since it took so long for that answer, I'm not sure what the question is.

The Chair: The chronology of the purchase of these subs.

Mr. Ray Sturgeon: Again, I think in 1993, certainly the Conservative government was interested in the submarines. I think in that continuum, the new government that came in, in late 1993, was also interested. We'd had a project on the books to replace the submarine capability for quite some time. It was an opportunity that everybody thought ought to be pursued, that it would be a good deal if we could make arrangements.

Politics being politics, there were a number of reasons why cabinet couldn't make a decision. I think we've touched briefly on the fact a little bit earlier that as defence ministers changed and they had to be brought up to speed.... I think there's always been an interest in taking advantage of what appeared to be a good deal, which, in my view, in the end, turned out to be an excellent deal for Canada.

The Chair: Thank you.

Now we go to a second round, again question and answer in this timeframe. We start with Mr. Casson, please, for five minutes.

Mr. Rick Casson (Lethbridge, CPC): Thank you, Mr. Chairman.

Mr. Sturgeon, I think you indicated in your opening comments that in March 1993 when the first contact was made, you were under direct instruction from the minister to hold these discussions. You indicated that probably wasn't the usual way things were done when you initiated a purchase.

Mr. Ray Sturgeon: It certainly wasn't usual. As Mr. Blaikie pointed out, it's unusual that I would go to the U.K. without touching base with Admiral Dean beforehand.

I'm not sure how best to characterize the situation. It was clear that the government of the time, in March 1993, and the defence minister recognized that there was good potential in this deal. I'm sure all of you are aware that, at the same time, there was a lot of controversy over another large acquisition—\$5.4 million for EH 101 helicopters

—and my sense is that the government of the time did not want to raise expectations that there was going to be another major acquisition in the near future. We were instructed to let the U.K. government know at our level, without it appearing on the front page of *The Globe and Mail*, that we had an interest in opening discussions as to the availability of the submarines, the cost, and all of that.

Mr. Rick Casson: So the idea of the way you went about it was to just have a preliminary discussion with anybody, with not even the military knowing what was going on.

Mr. Ray Sturgeon: That's what happened, yes.

• (1630)

Mr. Rick Casson: Was the idea of the contra, the swap, the barter, initiated by the Brits or by us?

Mr. Ray Sturgeon: I had left the department by then. My understanding of it is that it was an initiative by us, but I could be wrong. It makes a lot of sense in that the U.K. was already paying for certain levels of training in Canada, and I suspect they had wanted to increase it. In fact, they did increase it for NATO flying training in Canada, and that type of arrangement could work out so that there would be no requirement for cash to change hands at that time. What happened after that, I have no idea.

Mr. Rick Casson: I want to try to get to the relationship between the two factions of defence, where we have the bureaucracy, the purchasing people, and then we have the military indicating they want submarines. Who makes the final decision? Does it come from the cabinet table ultimately? There has to be an awful lot of work that goes into something like this beforehand to get a handle on what it's going to cost. You keep saying it's a good deal, and possibly it is, but we don't know the parameters of the deal yet. We're still paying for these submarines, and as we go through this, there seem to be more problems arising than initially thought.

So when we say we're going to purchase these submarines for *x* number of dollars—whatever it is in a barter or with cash—and then subsequently these issues keep arising, whether it's a dent or rust or whatever it is, this all adds cost to the ultimate purchase. How are things like that handled, and how do you foresee down the road, or is there just one huge contingency put into every contract to handle this?

Mr. Ray Sturgeon: Again, I think you're going to have to ask some of the current custodians of those types of issues, but I think it's part of the public record that the original deal was for \$750 million, barter or whatever, and that there have been increases associated with it. Reports are they went back to Treasury Board and said it was going to cost a bit more for this or a bit more for that, and it's somewhere around \$800 million. Whatever it is, I still feel confident it is a good deal for Canada. There are minor increases or there are increases in capability that the Canadian government wanted to acquire in addition to that original deal, but in all fairness, you have to ask the current custodians of those types of activities within the defence department, within Treasury Board, and within the rest of government, like PWGSC.

Mr. Rick Casson: Mr. Dean, on the issue of value-for-dollar—and we can go round and round on that if we wish—at some point in time, we were looking to purchase up to six submarines to replace what we had. There had been talk about nuclear, and then it went away from that with the change of position by the government. But when it was decided that Canada was going to end up with these four submarines, where would the final decision have come from? Was it made in your tenure? Did it come in after that? Or do you believe that decision was made as early as March 1993 and we just worked through it? When was it decided we were going to end up with those submarines from Britain?

BGen Darrell Dean: To my knowledge, in 1994, a letter of agreement was written between Mr. Malcolm Rifkind, the British minister of defence, and our minister of defence, indicating that we were going to purchase those submarines on a lease-barter agreement.

I never saw a copy of that letter—nor should I have seen it, for that matter—but it was my knowledge at that time, serving in London and talking to the British and the project management office here in Ottawa, that the letter in fact was drafted and signed and that an agreement was made. It was in 1994 that the lease-for-purchase barter was set in place. I never heard anything more about it after that.

The Chair: Thanks, Mr. Casson. We're over your time.

Just as one point for clarification, Mr. Sturgeon, you mentioned that you travelled to the U.K. in March 1993 to inquire about the submarines.

Mr. Ray Sturgeon: That's right.

The Chair: Did you state, or could you repeat, specifically who directed you to do that?

Mr. Ray Sturgeon: I'm not sure "direction" is the right word.

• (1635)

The Chair: Whatever word you want, who asked you to do it?

Mr. Ray Sturgeon: It was certainly with the consent of the minister at the time, the deputy minister, and the CDS.

The Chair: You wouldn't normally make that trip on your own accord.

Mr. Ray Sturgeon: It is unusual, yes.

The Chair: You didn't just decide to pick up and go to the U.K. without someone asking you to do that—"directing", "asking", or whatever verb you like.

Mr. Ray Sturgeon: No, I think I articulated quite well that the minister gave us direction.

The Chair: The minister being whom?

Mr. Ray Sturgeon: The minister was Kim Campbell.

The Chair: All right. I thought you said that, but I wanted to be sure.

Mr. Ray Sturgeon: She made it quite clear.

The Chair: She asked you to go.

Mr. Ray Sturgeon: Yes, exactly.

The Chair: Okay. Thank you very much.

Mr. Rota for five minutes.

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): This question is for Mr. Sturgeon.

The navy cancelled this decision to go with nuclear submarines back in 1989, from what I understand.

Mr. Ray Sturgeon: No, I'm sorry, the navy didn't. The government did.

Mr. Anthony Rota: I'm sorry. That's right, the government decided.

Was anyone instructed to actively go out and look for replacements for the old Oberon submarines or the new nuclear submarines they were initially looking at?

Mr. Ray Sturgeon: For a period after the cancellation of the nuclear submarine project there was instituted a submarine replacement project that looked at conventionally powered submarines, and, yes, a project office was set up. The nuclear project office was closed down and we were looking at how we would replace the Oberon submarines.

Mr. Anthony Rota: So this was about a five-year process then. It was not like you got up one day and thought, "Oh, these are nice submarines. I'm going to pick them up."

Mr. Ray Sturgeon: It's longer than a five-year process, because dating back to the late seventies and early eighties we were looking at what we were going to do about replacing the Oberon submarines. As it turned out, the government decided in 1988 that we would pursue nuclear-powered submarines. When that was cancelled, we looked at alternatives.

Mr. Anthony Rota: It was well thought out.

My next question is for General Dean.

When you look at submarines and you look at most major purchases, whether it be a destroyer or an aircraft, they're not something you just walk in and pick up off a shelf. Would it be fair to say that for most of them, regardless of how many you buy, whether it's two or six or four, you're basically buying prototypes and they're being refined as you go through?

BGen Darrell Dean: I wouldn't say you're purchasing a prototype. What you're purchasing is a piece of equipment that has proven its operational usefulness to the country that is selling it to you. Whatever we wish to add to it as part of an enhancement program to fit Canadian standards or if new equipment or systems have come on line, we would add them. For example, at one time—and I'm an armoured corps officer—we had the British Centurion tank. We started off with the Mark 2, I believe, or Mark 3, and we were up to Mark 15 or Mark 16 by the time we finished. Those were all Canadian enhancements that came on as new technologies were produced.

So, yes, you're buying a piece of equipment, but it's not a prototype. In fact, if you're buying off the shelf from another country, as was the case with the submarines, normally these have been proven as operational ships. It was not for very long that they had been proven as operational ships, but they had been proven as operational ships up to the British standard. Whatever we chose to do with them afterwards—and the navy can answer that for you; I certainly can't, nor should I. Whatever the navy wanted to put in them was up to them.

Mr. Anthony Rota: I guess what I'm hearing is that when we look at the Victoria-class submarines, we're not looking at a class-wide range of problems. They are fairly functional.

What is your opinion on those submarine purchases?

BGen Darrell Dean: Well, remember that I'm an armoured corps officer, so I can't really comment on the technicalities of the submarine, other than what I've read—like you've read—in the newspapers.

Certainly, when I was in the U.K., I read that when they were being built they had contractual problems in one case, and that was a time contractual problem. They had a problem with the launching of torpedoes, and that was with the first Upholder—in fact, it was called HMS *Upholder*. They corrected that problem, and when the next three came on line they didn't have that particular type of problem.

Mr. Anthony Rota: So we have something that was fairly functional and pretty good.

•(1640)

BGen Darrell Dean: And brand new.

Mr. Anthony Rota: And brand new.

So what we have now, then, is basically one fire on one sub. And I'm not minimizing that, because there was a loss of life. It was fairly serious. But we have one fire on one sub, and it's causing us to look at pretty well everything.

What's your opinion on that?

BGen Darrell Dean: It's no different from when you have a problem with an aircraft. When the Skybus went down off the east coast, it was a wiring problem, because they put in new types of Game Boys or whatever in the back of the seats, and that's where the fire started. They grounded the whole fleet until they sorted that problem out, to see if it was a systemic problem within the aircraft.

We do this with all of our fleets, be they tanks, trucks, or submarines. It's natural that we want to stop and say we have a piece of kit here, we've had a problem here. In this case, tragically, we had a death on board ship, and an inquiry is looking into that. As responsible leaders, we would want to make sure our soldiers, sailor, airmen, airwomen, are well protected. Therefore, you ground whatever you have, have a quick look at it, and correct any faults. It's the same thing as winterizing your car here in Ottawa, making sure it's functioning properly.

The Chair: Thank you, Mr. Rota

And you might want to be winterizing in Halifax today, from what I understand.

[*Translation*]

Mr. Perron, do you have any questions?

Mr. Gilles-A. Perron: My question is very simple and very brief. I am convinced that Brigadier-General Dean will tell me that it was necessary and that it still is.

Like everyone else, you seem to say that when you decided to buy the submarines and to put them in service, it was necessary. Whether it is a fantasy or a rather bizarre vision, I wonder if it is still necessary in 2004 for Canada to have submarines.

[*English*]

BGen Darrell Dean: I would suggest, sir, that the best person to talk to with regard to that would be the chief of maritime operations. I'm not a submariner. I don't think I have the technical capability nor the operational experience to address that particular question. If you want to ask me something about land-based battles and tanks, I'm quite willing to answer that. But clearly, that response should be from the chief of naval operations on the requirement for submarines.

[*Translation*]

Mr. Gilles-A. Perron: And you, Mr. Sturgeon, as an individual and as an ex-civil servant, are you convinced that we still need submarines?

[*English*]

Mr. Ray Sturgeon: As the lead person, and having looked at all the statements of operational requirements over the years—be they for nuclear submarines or conventional submarines—and in looking at the operational requirements of today, yes, in my view, we do need submarines. As I said earlier, we have the capability, and it will prove to be a good deal for Canada.

The Chair: Mr. Martin, please, for five minutes.

Hon. Keith Martin (Esquimalt—Juan de Fuca, Lib.): Thank you, Mr. Sturgeon and General Dean, for being here today.

Mr. Sturgeon, at the time the subs were purchased, where did the subs rank in terms of the relative importance as an operational platform for the navy?

Mr. Ray Sturgeon: Are you talking about 1998?

Hon. Keith Martin: That's correct. When you had limited resources and you were trying to make sure you were getting the best bang for our buck, I'm sure you assessed the relative importance that one platform would have compared to others. Where did the subs rank in terms of the operational platforms available at the time?

Mr. Ray Sturgeon: I'm not sure whether you mean 1998, when the decision was made by the government to acquire the subs, or when we first launched off into discussions about acquiring the used submarines.

Hon. Keith Martin: In the early to mid-nineties.

Mr. Ray Sturgeon: In the early to mid-nineties, the priority was to get maritime search and rescue helicopters. Subs were secondary, which was why, at the time in early 1993, people were sensitive to the political issues of the time, of that large acquisition of helicopters, and then considering putting submarines on top of that.... I think that's why it took so long to make that decision.

From my perspective, I can't speak for the requirements staff of the navy or the Canadian Forces, but my sense was that helicopters were first and submarines were next.

• (1645)

Hon. Keith Martin: With respect to the other sub options that were on the market at the time, why were the Upholders chosen versus the other options that were available?

Mr. Ray Sturgeon: I think it was mostly availability and cost. Everybody thought the submarine program that was underway in Australia was too expensive and had too many technical risks, since the subs were a new build of a different type of submarine. In the end, I think the Australian experience was proven to be extremely expensive. I think they still haven't gotten over all of the technical problems they've experienced as well.

So we had the opportunity to get off-the-shelf submarine capability that was proven, that met the operational needs of the navy, and that gave the navy the tools they needed for those particular roles and missions.

Hon. Keith Martin: The other point you mentioned in your introductory comments was the fact that the equipment on board the Upholders...as an ally of Canada...it was very important to us in terms of our interoperability. Is that true?

Mr. Ray Sturgeon: Yes, absolutely. There's certainly that, and the fact that when *Upholder* was in service, I think we had naval officers on exchange serving on *Upholder* and maybe one of the other submarines generally. I forget, but certainly we did have people who were cross-trained on *Upholder*.

Hon. Keith Martin: General Dean, did you want to add anything to that?

BGen Darrell Dean: Yes.

To my knowledge, we didn't have anybody on their nuclear subs, but we did have people going up. As I mentioned to Mr. O'Connor in response to one of his questions earlier, there was a continual flow of naval officers checking in through my headquarters, going the fast lane for submarine training.

Remembering that all initial training in submarines is land-based to begin with, they're just working functions and systems there and learning how they're being done before they go operational at sea. At that point in time, they did have both types of submarines at sea, both nuclear and non-nuclear. But to my knowledge, it was only probably the Upholder class that our servicemen were on. I don't recall hearing of any of them being on nuclear subs.

Hon. Keith Martin: To basically summarize what I think I've heard encapsulating the bottom line for both of you, these subs were good subs, a good buy, a good value, and added a significant operational value to our military.

BGen Darrell Dean: Correct.

Mr. Ray Sturgeon: Absolutely.

Hon. Keith Martin: Thank you.

The Chair: Thank you, Mr. Martin.

We now come to Mr. MacKenzie, please, for five minutes.

Mr. Dave MacKenzie (Oxford, CPC): Thank you, Mr. Chair.

General Dean, in 1993, those subs were inspected. They were good subs. They had just come out of the water. Were those the same submarines we ended up getting in 1998?

BGen Darrell Dean: Yes, they were. The four produced, the first one coming on line in 1990—

Mr. Dave MacKenzie: Were they in the same condition in 1998? My understanding is—

BGen Darrell Dean: In the same condition in 1998? Oh, they had gone from being operational ships to being taken back in and being mothballed during the process that was going....

The British had to cut down on their defence expenditures. They could not afford to keep those four Upholders at sea. They took them out of service in 1994 and went completely to a strategic nuclear fleet. Those four submarines were taken up into dry dock and were consequently mothballed after that.

Mr. Dave MacKenzie: Had we taken possession of them in 1993, would they have been a different submarine, physically, than we got in 1998?

My question is, since they didn't get better, did they deteriorate in that period of time?

BGen Darrell Dean: I'm not technically competent to answer that type of question. I don't know at what rate the capabilities of the systems of a submarine decay.

I can only speak from my point of view as an army officer. If we have trucks and tanks that we don't run for weeks on end, unless they're properly mothballed.... Then there are procedures that you have to go through once you've mothballed them to ensure that the systems within those vehicles are turned on to keep them from decaying even further. That was indeed necessary.

I assume—that's me speaking—that the British navy, knowing they were going to sell these submarines, maintained them. Once you put them in mothballs, they still have to be maintained and systems have to be worked. There were crews on them—I know the British had crews on them—to maintain them even while in the mothball state.

Technically, I think you have to ask a naval officer, once you take them out of mothballs, what you are likely to have in the way of problems.

• (1650)

Mr. Dave MacKenzie: I think Mr. Sturgeon indicated a newspaper article today in his testimony. I think there was some indication in there that fuel tanks were filled with water for storage.

Mr. Ray Sturgeon: Perhaps to clarify for the committee, when people talk about the boats being in dry dock and being mothballed and all that stuff, these boats were in the water, sitting alongside, being preserved, and, as the general pointed out, they did have crews who maintained them regularly. But the fact remains that from late 1992 or early 1993 they were sitting alongside in the water and they did not start reactivation until approximately five years later.

I think the general is quite right. If you ask our maritime engineering staff as to the impact of that, you'd probably get a different answer than you would from us lay people. But you don't need to be a rocket scientist to figure out that if you leave them in the water for five years, there's going to be corrosion and there's going to be difficulty in getting them back up and reactivated. I think that's what we're experiencing.

Mr. Dave MacKenzie: I think that's fair enough.

Would the barter system have met Treasury Board guidelines?

Mr. Ray Sturgeon: Treasury Board approved it, so I guess the answer to that would be yes. Treasury Board, as I understand it, approved the process and the deal that was made.

Mr. Dave MacKenzie: Ordinarily we would think of barter terms as being "I have something here, you have something there, and we trade". But in this case, in fact, we were getting revenue from the British government for training.

Mr. Ray Sturgeon: Sure.

Mr. Dave MacKenzie: Were we going to give up that revenue?

Mr. Ray Sturgeon: Are you implying there's smoke and mirrors involved here?

Mr. Dave MacKenzie: A little bit.

Mr. Ray Sturgeon: I think so. They were getting training in Suffield and they were getting training in Goose Bay.

I think the concept was that instead of them paying for that type of training, we would take the submarines in return, which I think is what everybody would call a bartering system. Why it didn't work in the end, I have no idea.

Mr. Dave MacKenzie: Is that still going on, to your knowledge?

Mr. Ray Sturgeon: The training is going on, yes.

Mr. Dave MacKenzie: But in fact we did forego revenue. If we'd gone ahead with the barter, we would have foregone revenue from the British government in place of this.

Mr. Ray Sturgeon: Yes, sure, one way or another. You'd pay for the subs by changing off the money. That's what the bartering system is all about.

Mr. Dave MacKenzie: Okay. When we looked at those subs in 1993, they were operational. Did any of our people go on sea trials with them? Was it offered to us?

Mr. Ray Sturgeon: I'm not sure about sea trials because they were standing them down. But as I mentioned earlier, I am aware that we did have exchange officers, that is, Canadian naval officers, submariners, on at least *Upholder* and maybe others of the ships. There were people who had experience on *Upholder* who were serving naval officers.

Mr. Dave MacKenzie: Could it have been tied up at the time, or was that in...?

Mr. Ray Sturgeon: No, I think it was operational.

The Chair: Thank you.

Mr. Ray Sturgeon: You'd have to check with the naval operators, but that's my recollection of it.

The Chair: Thanks, Mr. MacKenzie.

There are two more speakers in this round. I will just indicate to colleagues that we have some other committee business. Unless there are other questions for a third round, we'll excuse the witnesses, perhaps go in camera, and look at details of the trip to Halifax and a couple of other items.

Let's continue and finish the second round.

Mr. Bagnell, please, five minutes.

Hon. Larry Bagnell: Thank you.

Mr. Sturgeon, I'm just looking for a quick answer to this. We paid roughly \$800 million. If we had bought the same sub brand new, what would the rough estimate be? I don't want an exact figure, just a quick answer.

Mr. Ray Sturgeon: Off the top of my head, and based on my experience, probably \$4 billion.

● (1655)

Hon. Larry Bagnell: Four billion, wow. Good deal.

Mr. Dean, I just want a couple of impressions from you since you were in England. At any time, did you see any reports on these subs, while they were operational or, as you said, when they were mothballed? For example, did the British military do a report on mothballing? If you saw any reports, were there any things the subs had problems with while they were operating, particularly related to wiring?

BGen Darrell Dean: No. I saw nothing of that at all.

Hon. Larry Bagnell: Working in England, did you hear from the British military there, people who had worked on the subs or had been on the subs, that they had any problems with them? Did they like them? Did they say there was a problem with them, any types of problems?

BGen Darrell Dean: No, I didn't get any of that feedback, myself personally, nor did I get it through my naval attachés who worked for me. I also, as Mr. Sturgeon said, looked after a number of naval officers who were on exchange with the British navy. There was never any word that I heard certainly during my tenure of command of problems with *Upholder*, and *Upholder* was the first one that went out to sea. But, no, nothing.

Hon. Larry Bagnell: And what was the reaction of the British in the press when they sold these? If our government sold for \$800 million something they had just bought a couple of years earlier for \$4 billion, the opposition here would be on our case big time. There would be huge political consequences of spending money, like the fast ferry thing.

Did the British public or the opposition, anyone, raise a big hue and cry that they were selling these high-class subs for less than a quarter of what they paid for them? They spent all that taxpayers' money for a very good submarine—this wasn't nuclear, but a very good submarine—and then they just sold them right away for a very low price.

BGen Darrell Dean: My impression of the British public response to *Options for Change* was they were outraged at the reduction of the armed forces. They had gone through the Falklands War. They were totally unprepared for that war and had to take ships like the *Queen E* and outfit her as troop carrier, and things like that.

The public of Britain is very, very defence-conscious. When *Options for Change* came out, there were quite a number of drastic measures that took place—reductions of very old regiments, amalgamations of old regiments, reduction in air wings, and a great reduction in the naval fleet.

My recollection, now almost 11 years later, was that the public was outraged. They weren't outraged at them selling off equipment, because they saw a way of balancing that, for example, by getting the extension to the training areas, low-level flying training and to Suffield—that's my impression—but more outraged in that they didn't think the forces should be chopped as bad as they were.

Hon. Larry Bagnell: Thank you, Mr. Chairman.

The Chair: Mr. Bagnell, thank you.

Now, the last questioner, I assume, is Mrs. Hinton. Five minutes, please.

Mrs. Betty Hinton (Kamloops—Thompson—Cariboo, CPC): I'm just going to make a couple of statements first.

I personally believe we should have bought the helicopters before we went after submarines, but I suppose that's neither here nor there.

You keep saying it's a good deal for Canada. Let me tell you, with all honesty, in my private life I can justify any sale purchase. Ask my husband—

Some hon. members: Oh, oh!

Mrs. Betty Hinton: —but I would not be able to justify this particular purchase. I'm very concerned that we left things sitting for so long without actually running them and doing what we had to do if we were in fact going to buy them.

But I go back to something you said earlier, General Dean. You were talking about three countries outside NATO pressing to purchase. We're talking now about 1993—

• (1700)

BGen Darrell Dean: It was 1993-94.

Mrs. Betty Hinton: Okay. You also stated that in 1994 there was a letter of agreement written. So here's the question. Do you think, in your opinion, we purchased these submarines to prevent one of these other three non-NATO countries from doing so? Do you think that may have entered...?

BGen Darrell Dean: No.

Mrs. Betty Hinton: Okay. When we did purchase these, going back to Mr. Bagnell's question, we knew full well that we couldn't patrol the Arctic, which is our largest coastline. Why would—I guess you can't answer, but maybe I can get your opinion—we purchase something that we knew wouldn't run under the biggest part of our coastline?

BGen Darrell Dean: My own personal opinion is that there were air propulsion systems that could be fitted onto those Upholder-class submarines that would allow us to do that. A simple answer.

Mrs. Betty Hinton: Okay. In April 1992 the Department of National Defence issued a policy statement entitled “Canadian Defence Policy”, which among other things indicated that the navy would replace the three Oberon-class submarines with up to six

modern, conventional submarines. When this policy statement was issued, was the department preparing for the acquisition of six new submarines built to Canadian specifications, rather than the purchase of used submarines?

BGen Darrell Dean: I think I'd have to turn to Mr. Sturgeon to answer that one.

Mr. Ray Sturgeon: You said 1992?

Mrs. Betty Hinton: Yes, 1992, the Department of National Defence policy statement, and it was called the “Canadian Defence Policy”.

Mr. Ray Sturgeon: Are you sure it's not 1994?

Mrs. Betty Hinton: I could stand corrected, but according to my research it's 1992.

The Chair: What does this refer to?

Mrs. Betty Hinton: It's called the “Canadian Defence Policy”, and it indicated that the navy would replace the three Oberon-class submarines with up to six modern, conventional submarines.

Mr. Ray Sturgeon: I think it was 1994, but that doesn't matter. I think the answer to the question is that they had recommended that if they could find the right deal, then they could purchase up to six submarines, whether they were new or used, or whatever. I don't think this was clearly delineated in that policy.

Mrs. Betty Hinton: But was that purchase based on submarines being built to Canadian specifications, rather than the purchase of used submarines?

Mr. Ray Sturgeon: Gee, I don't know.

Mrs. Betty Hinton: Okay, that's a fair answer. If you don't know, you don't know.

Thank you.

The Chair: I want to ask Mr. Rossignol—because in fact you're correct, Mrs. Hinton, with your 1992 date—to clarify for the record.

Mr. Michel Rossignol (Committee Researcher): It was an April 1992 policy statement by the Department of National Defence. There's a reference to the submarines on page 25 of the English version of that document. It wasn't the white paper. It was a policy statement.

The Chair: As opposed to the 1994 white paper. Okay.

I don't see other questions and we have other work to do, so I want to thank Brigadier-General Dean and Mr. Sturgeon.

Thank you very much for attending, for your presentations, and for your candid answers to questions. Maybe you see a little bit more why the committee wants to pursue this. Anyhow, we do and we're going to continue on. We thank you very much for your contribution.

Now I think maybe it would be an idea to have a motion to go in camera, as some of the things we want to talk about are personnel matters.

Mr. MacKenzie moves, seconded by Mr. Rota, to go in camera.

(Motion agreed to)

[*Proceedings continue in camera*]

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

**Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.