



House of Commons  
CANADA

# Standing Committee on National Defence and Veterans Affairs

---

NDDN • NUMBER 009 • 1st SESSION • 38th PARLIAMENT

---

EVIDENCE

**Monday, November 22, 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 22, 2004

• (1530)

[English]

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

We have two parts to today's meeting, colleagues. We have witnesses, of course, first. I'll introduce them in a moment.

There are several pieces of committee work to do following the witnesses. I'll let you think about whether at that time we may want to go in camera. Some of it involves potential future witnesses, and it's nice for them to hear their invitation in person before we discuss it here. We may want to go in camera. Although I don't like to except when it's necessary, I think that it is something we might want to do when we come to the meeting.

Now, to the most important business today, we have two witnesses joining us: Lieutenant-General Robert N. Fischer, and Mr. Pierre Lagueux. Welcome to you both. Both gentlemen, of course, are knowledgeable about the submarine program that is the subject of these hearings.

I trust all the members returned safely from Halifax. I don't think any of us are too quick to want to sign up for.... I know that Mr. Blaikie is less than thrilled about signing up for duty on those subs. It was a little cozy. But I think it was a very interesting and worthwhile trip to Halifax. I want to say that I think we were treated with great hospitality, which we've come to expect any time we visit Atlantic Canada. We had some interesting briefings. We had some questions, and still others remain, but it was a worthwhile trip.

I want to thank Mrs. Crandall, the committee clerk, for all the arrangements that she made. And I want to thank Michel Rossignol, who was our researcher. I know there's a lot of work by staff that goes into such a trip. I want to, on behalf of all colleagues, acknowledge that and thank you for your work on that trip.

With that, I'll turn to the witnesses and invite you, gentlemen, to make opening statements—I propose that you both make opening statements—and then we would turn to questions from committee members. Would that be all right? Maybe we'll take it in order as the names appear.

Lieutenant-General Fischer, would you like to begin, sir?

**Lieutenant-General (Retired) Robert Fischer (As Individual):** Thank you, Mr. Chairman.

Good afternoon, ladies and gentlemen.

I served in the Canadian armed forces for 37 years as an army officer. In the final two years of my career, I held the appointment of senior assistant deputy minister for materiel at National Defence Headquarters, until my retirement in April 1996.

Given the previous testimony of Mr. Alan Williams and Mr. Ray Sturgeon, I believe you have a good appreciation of the role of the ADM Materiel at National Defence Headquarters. When I assumed that role in 1994 from Mr. Ray Sturgeon, the four Upholder submarines were tied up alongside in the water, and remained as such until 1998, when a contract was let to acquire them and the reactivation process got under way.

From previous testimony, you will have heard that there was little, if any, substantive activity on the Upholder file during my tenure as ADM Materiel from July 1994 until April 1996. That notwithstanding, I'm not sure what I can contribute to the work this committee has already done and the testimony of previous witnesses. However, I will answer your questions to the best of my ability.

Thank you.

• (1535)

**The Chair:** Thank you very much.

Mr. Lagueux, would you like to make some opening comments?

**Mr. Pierre Lagueux (As Individual):** Thank you, Mr. Chairman.

Good afternoon, ladies and gentlemen.

As you know, my name is Pierre Lagueux. I appear before you today at your request as a private citizen, albeit one with a significant past involvement with the Department of National Defence. Most relevant to this committee, and I assume it is why you asked me to appear before you today, was my tenure as the assistant deputy minister for materiel from April 1996 to July 1999.

I'm aware that you already heard from my successor in that position, Mr. Alan Williams, a few weeks ago. Given the previous testimony from Mr. Williams, and indeed from my own several previous appearances before SCNDVA many years ago now, I believe you have some understanding of the role of the ADM Materiel within the defence organization. The position is normally held by a civilian, although there has been an exception to that, reporting to the deputy minister of the department. Its prime function and responsibility is to ensure that the Canadian Forces obtain the equipment and support they need to carry out the roles assigned to them. The ADM Materiel does not determine operational requirements or the operational specifications for the equipment; operational authorities within the Canadian Forces do that.

Once the requirement is defined in operational terms it is then up to the ADM Materiel group, in concert with other government departments, to deliver and ensure the support of the equipment that satisfies the requirement—in other words, to develop and implement procurement structures and processes that enable attainment of the defined products and services in the manner that is consistent with Treasury Board and government policy, rules, and protocols.

The procurement of the four Upholder class submarines was a somewhat unique procurement, at least in my experience. I think that Mr. Williams described it as innovative. I would characterize it as an opportunity too good to pass up. Normally for such large procurements, once the operational requirements have been agreed to by the appropriate operational commanders, engineering staff of the materiel group would translate these into an engineering specification. Then an interdepartmental procurement strategy would be developed, a request for proposal would be issued to industry, and evaluation done of the respondent bids. Finally, a winner would be selected and a contract would be negotiated and awarded. I've simplified it, but generally this is the process that would occur. The aim of this lengthy and complex process is at all times to control the project risk.

However, in the case of the Upholder, as the submarines were already built, on the shelf as it were, much of this standard process was not necessary. Canada would not take delivery of the boats until they had been certified, post-reactivation, to Royal Navy standards by the Royal Navy. By and large, this was seen as a very low-risk proposition. The U.K. navy had operated the boats before, all the appropriate documentation on the boats was available for review, and the boats were inspected by our own naval engineers. In other words, this was not vapourware; we could actually go and kick the tires on the real thing. Most importantly, any problems found during reactivation would be the responsibility of the U.K. government and were to be resolved before acceptance and payment.

Clearly, the process of reactivation has been much more complex and lengthy than expected. Again let me echo Mr. Williams as to my own admiration of the U.K. government in fulfilling their end of the deal, at no doubt considerable unexpected extra cost.

Is this a good procurement by Canada? In my opinion, absolutely. Compared to buying new, we paid about 25¢ on the dollar. The subs were among the newest technology in the world at that time and fully met the operational requirement. The U.K. government accepted all the risk in the reactivation.

Why would anybody in April 1998 think it was a bad deal? I haven't even mentioned the potential for a barter arrangement to pay for the subs at the time or the several hundred million dollars in industrial benefit offsets that Canada obtained as part of the deal.

• (1540)

So why didn't things work out as expected, with the long delays and problems that we now know of? Frankly, I think we all, including the U.K. participants, very much underestimated, very much, what would be required to return the boats to operational status and then to do the Canadianization work.

That said, while there is, without a doubt, significant delay, I personally have yet to hear anyone who is knowledgeable about submarines say that it was a bad decision to procure those boats.

Mr. Chairman, ladies and gentlemen, I would now be pleased to answer your questions.

**The Chair:** Thank you very much, Mr. Lagueux.

Now we'll go to a first round of questions—questions and answers, I remind colleagues. The first round is seven minutes.

We'll start with Mr. O'Connor, please.

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

General Fischer, I believe you were the ADM Materiel or senior ADM Materiel from 1994 to 1996. Is that correct?

What I'd like you to do is relate to us, if possible, how you were involved with the submarines during that period. How did you first become aware of it, and what was your involvement as ADM Materiel?

**LGen Robert Fischer:** To be quite honest with you, as I said in my opening remarks, during my tenure submarines were not a preoccupation of mine. A lot of discussion on submarines preceded 1994. Of course, the file got rather active after I left. My colleague can speak to that era.

I personally was aware of the department's interest in these submarines for some time, going back to prior appointments I held within the national defence headquarters. Your question pertains to my tenure as ADM Materiel during 1994-96. While I was aware that dialogue was ongoing with the Royal Navy and at various levels of government, there was no major personal activity. For example, I personally never undertook any travel to the United Kingdom in connection with the Upholder submarines.

**Mr. Gordon O'Connor:** It's our understanding from a previous witness that Minister Collenette signed some memo of understanding with the U.K. government, which we're trying to access right now.

Was Minister Collenette the minister while you were the ADM Materiel?

**LGen Robert Fischer:** Yes, he was, for most of the period I was there. That's correct.

**Mr. Gordon O'Connor:** Were you aware of this document, some memo of understanding between the Canadian defence department and the MOD with respect to our intention to purchase submarines?

**LGen Robert Fischer:** I'm not aware of the document, or at least I can't recollect it. I would think I would be aware of that type of document, and I have no recollection of such a document.

**Mr. Gordon O'Connor:** Did you send any teams during your period? To your knowledge, were any teams sent from your staff to the U.K. to train on submarines or to inspect these submarines?

**LGen Robert Fischer:** I'm aware that there were individuals, or small groups of individuals, who went to the U.K. in the furtherance of gathering information for the purpose of eventually reaching some decision on the submarines, but I personally did not commission a group of individuals to go. I was aware of individuals going back and forth within my group, but nothing more.

**Mr. Gordon O'Connor:** Do you recall at the time whether there was any funded project for submarines in the department?

**LGen Robert Fischer:** When you say “funded”.... I'd have to take a look at documentation to see whether, in that period, the project office was actually funded. We had established a project office and we were paying people to be part of it, so I guess to some degree there was funding to back that up.

I'm not sure what your precise definition is of a “funded” project.

**Mr. Gordon O'Connor:** Okay.

Mr. Lagueux, you were the ADM Materiel or senior ADM Materiel following General Fischer, from 1996 to 1999. Is that correct?

**Mr. Pierre Lagueux:** That's correct, yes.

**Mr. Gordon O'Connor:** Would you relate to us your involvement with the submarine?

**Mr. Pierre Lagueux:** As I said in my opening comments, this was a rather unique project in the sense that we were not going through the normal process of a major crown project, which I think you're familiar with, in terms of developing specifications, going out for a request for proposal, evaluating, and all the rest of that. We were looking specifically at submarines that were in fact off the shelf. We'd spoken a lot in the past about buying things off the shelf, and these submarines were off the shelf. So the process was quite different.

Obviously, there were people from the ADM Materiel world and from the operational world who were busy negotiating with the various British authorities. There were people who were there inspecting the boats. There were people looking at what spare parts we should buy. There were people looking at the training and so on.

My own personal involvement, as in all the projects that were going on at the time, was to provide oversight in terms of what was going on with respect to the ADM Materiel people and to ensure that we were in fact doing the proper negotiations with respect to spares, ongoing support, and so on. My involvement was also interdepartmental, making sure that other government departments, as with all large procurements, were involved, briefing other people in other government departments, and dealing with those kinds of issues.

• (1545)

**Mr. Gordon O'Connor:** Who was the minister or ministers during your time?

**Mr. Pierre Lagueux:** During my time I went through three ministers. At the end it was Minister Collenette, just before he resigned. Minister Doug Young was there for a short period of time, less than a year. Then there was the election in 1997, when Minister Eggleton came.

**Mr. Gordon O'Connor:** Are you aware of any document—I'm referring to it at the moment as a memo of understanding, because that's what we're led to believe it was—that was signed earlier by Minister Collenette with the U.K. government?

**Mr. Pierre Lagueux:** I can't directly recall that document, so I'm not aware of it. I'm not saying it does or doesn't exist, I just cannot recall that particular document being signed at the time. That would have been before I was ADM Materiel.

**Mr. Gordon O'Connor:** When you took office, do you recall if the submarine project had funding in it? Were there funds planned to acquire submarines when you took office?

**Mr. Pierre Lagueux:** If you look at the departmental estimates, the first time a capital project line appears for a submarine project is in the 1999-2000 estimates. The prior estimates don't have a line for capital projects for submarines. I know that because I checked it this afternoon.

Previously, as you know, there had been other submarine projects. We were looking at buying conventionals before, then nuclear submarines, and so on. So there may have been other expenditures related to submarines prior to that.

In terms of this particular project, there was nothing in the 1998-99 estimates. So the first estimates that showed capital spending, although there may have been O and M money, were the 1999-2000 estimates.

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

Monsieur Bachand.

[*Translation*]

**Mr. Claude Bachand (Saint-Jean, BQ):** Thank you, Mr. Chairman.

I'd like to thank the witnesses for appearing before the committee today.

Naturally, you're aware that the Canadian Navy is conducting its own inquiry, but we want to do one of our own. The Bloc Québécois is rather unhappy that an independent commission of inquiry hasn't been called, since the Navy was the party that recommended these submarines be purchased and that undertook to retrofit them. The Navy has ordered an inquiry of its own to ascertain what truly happened.

In my opinion, it's important for members to do their own investigation and to draw their own conclusions. I also understand that you were Mr. Williams' predecessor. Therefore your position is somewhat similar to his.

Mr. Lagueux, I believe you work for CFN Consultants. Correct? And Mr. Fischer, you're with General Dynamics.

It's important for me to know if either of your companies has a direction relationship with the companies involved in the retrofitting or modernization of the submarines.

Could you start by answering that question?

• (1550)

**LGen Robert Fischer:** You're correct to say that I work for General Dynamics. While my company would have like to be involved in the submarine modernization program because it does have the technology to offer, I have to say that it is not connected in any way with the project, or with companies such as BAE Systems which oversee the project.

**Mr. Claude Bachand:** And what about you, Mr. Lagueux?

**Mr. Pierre Lagueux:** As you know, Mr. Bachand, I work for CFN Consultants. I've been employed by this company since leaving the Department of National Defence five years ago. Our group represents BAE Systems here in Canada.

**Mr. Claude Bachand:** I see.

Both of you have at one time served as Assistant Deputy Minister (Materiel). In your estimation, is this the first time that the equipment procurement process has been circumvented in the case of a major acquisition such as this? Are you aware of other comparable projects where the tender process was so completely circumvented, where normal procedures were set aside and where a decision was made to go with a product that was already in stock, so to speak?

**LGen Robert Fischer:** Speaking from experience, it was the first time that to my knowledge, the department or the government was making such a substantial acquisition in this manner. However, I have to say that given the circumstances, the process normally followed for major acquisitions of this nature did not apply in this case.

**Mr. Claude Bachand:** Do you agree with that, Mr. Lagueux?

**Mr. Pierre Lagueux:** Yes, my answer would be the same. However, as I stated earlier in my opening remarks, this was truly an opportunity too good to pass up. The possibility of purchasing new submarines had already been discussed, but the cost was truly exorbitant. Then this one-of-a-kind opportunity presented itself. As noted in the 1994 report of the Special Joint Committee on Canada's Defence Policy and in the 1994 White Paper on Defence, this opportunity warranted further study.

**Mr. Claude Bachand:** You say that the acquisition process didn't need to be followed because the decision had already been made to acquire a certain class of submarines. Given that fact, did you still have a role of some kind to play, for example in evaluating the product or the quality of the product to verify whether the submarines Canada was about to acquire conformed to our standards? Was there anything left for you to do after the government decided to do an end-run around the tender process and purchase the submarines directly? Was your job done at that point in time, or were you responsible for doing some kind of follow-up?

**Mr. Pierre Lagueux:** If your question pertains directly to the role of the ADM (Mat), then the answer is yes. As I indicated in my opening remarks, our operations experts, who do not report to the Deputy Minister (Mat), did their own investigation, naturally. On the materiel side, equipment and engineering experts did their own inspections and visited the Upholder submarines on several occasions.

**Mr. Claude Bachand:** I have one last question for you, Mr. Lagueux. In your opening statement, you said that you had considerable admiration for the UK government for fulfilling its end of the deal, at no doubt considerable unexpected cost.

What is the basis for that assertion on your part? Do you know what the cost will be to the UK government? Do you know if the UK government has already put out a substantial sum of money? You seemed to be quite sure about this in your presentation. Perhaps you are party to some information that we do not have. If that's the case, would you be willing to share that information with the committee?

●(1555)

**Mr. Pierre Lagueux:** Mr. Bachand, as I indicated in my opening statement, neither the British nor the Canadian government anticipated such a protracted and complex reactivation process. However, as I also said, Canada committed to acquiring the submarines once they had been checked out and certified by the Royal Navy. In order to restore the submarines to satisfactory working order so that they could be certified by the Royal Navy, the British needed to do considerably more work and spend considerably more time on them than originally anticipated. And that cost money. It was something that they hadn't anticipated.

I know that some measures were taken and some discussions held after I left the department. The UK government wanted to discuss whether or not it was responsible for covering certain expenses or whether the negotiations could be re-opened. As I understand it, the Canadian government held firm and maintained that according to the terms of the signed contract, the Upholder submarines were to be delivered once they had been certified by the Royal Navy and that consequently, the British government was responsible for assuming any costs associated with the certification process. That was the basis for the statement I made.

[English]

**The Chair:** Merci, Monsieur Bachand.

Just for clarification, Mr. Lagueux, I think my colleague was inquiring as to whether or not you have any knowledge of the price tag—

**Mr. Pierre Lagueux:** No, I have no specific knowledge of specific sums or costs, but as I said, given that it took a lot longer and that a lot more effort was spent on reactivating the boats, I think it's a fair conclusion to say that it cost somebody a lot more money, and it wasn't the Canadian government.

**The Chair:** No, there's no doubt about that. We may want to pursue other avenues to find out the final price tag of those repairs.

We go to Mr. Blaikie, please, for seven minutes.

**Hon. Bill Blaikie (Elmwood—Transcona, NDP):** Mr. Chairman, I have a couple of questions.

First of all, Mr. Lagueux, you mentioned in your presentation the fact that the barter aspect of it was attractive. Yet when Mr. Williams was here, he said—contrary to what everybody believed, and what had been in the paper, and what had been widely reported in the media and never contradicted by the government—that actually the barter thing never happened. Do you know at what point that sort of broke down?

I mean, the committee was kind of surprised at this. The week before Mr. Williams came here and told us it never happened, there had been actually a big story on CBC explaining how it happened—when it didn't, according to Mr. Williams.

**Mr. Pierre Lagueux:** Mr. Blaikie, the first time I found out that we were not using barter to pay for the submarines was when Mr. Williams was before this committee. When I left the defence department in 1999, I was certainly under the impression that's what we were doing. Obviously, there was no need to inform me of any change after I left the department, and I was not aware of any change.

Certainly, as you said, when the announcement was made back in April of 1998, that was a central part of the press release, and certainly one of the issues that the press widely reported on, and so on. So I was under the impression that the barter was still going on, and I have no information on why that is not the case or on what has happened, and nor should I necessarily have any information about that.

**Hon. Bill Blaikie:** No, I just thought....

And you're probably in the same position, I would assume.

**LGen Robert Fischer:** Yes.

**Hon. Bill Blaikie:** You talked about obviously having some information from the U.K. on the state of the submarines, what it would take to bring them up to speed, and then beyond that, of course, the Canadianization or modernization. Do you remember anything at all about insulation, about the insulation of wires? This is relevant to what "may" have happened; we don't want to second-guess or come to any premature conclusions, but it seems there may have been problems with the insulation of the wiring, particularly around the captain's cabin, where the water came in on the *Chicoutimi*. In fact, if I understand correctly, that problem is being rectified now in the other submarines. That's one of the reasons why they're not sailing at the moment.

Do you recall whether, in that period when Canada was considering buying the submarines, this was ever highlighted as something that was a possible problem with them?

•(1600)

**Mr. Pierre Lagueux:** No, I do not recall, and I'm quite certain that was never an issue discussed as being potentially a problem area. Obviously, our naval engineers inspected the boats beforehand.

I come back to the main guarantee we had in this particular procurement. As I said earlier, the boats had to be brought back up to Royal Navy standards and be certified by the Royal Navy before we would accept and pay for them. To me at least, this was a pretty good guarantee that whatever had to be done to the boats to have them fully reactivated and in a safe operational state would be done.

The Royal Navy is known for its stringent safety standards in terms of their operational boats, so they would have to be fully inspected. This was not just a contractor saying the boats were fit to go; this was the Royal Navy, which would then inspect the boats and, along with our own inspection, certify the boats safe to dive.

**Hon. Bill Blaikie:** The other thing on which we've gotten conflicting views was whether or not there was an early decision not to buy them and then a later decision to buy them, during which time, of course, the subs grew older and were out of use; or whether or not—and this may be relevant to Mr. O'Connor's question, when he was talking about an early memorandum of understanding—there was a commitment made at the time when Mr. Collenette was Minister of Defence.

We got the impression at one point that there was this early decision not to buy them, and then interest revived later on and a decision was made to buy them. But when we heard other witnesses—Mr. Darrell Dean and someone else—they talked about an ongoing process whereby, in between the time when we thought an initial decision had been made not to buy them and the ultimate

decision was made to buy them, people were going over there and were looking at the subs. There was even some suggestion that people may even have been training or at least getting to know the subs, although I think that wasn't confirmed. We're puzzled as to whether or not there's a continuum there, or whether there were two different eras or periods, whatever you want to call them.

**Mr. Pierre Lagueux:** Mr. Blaikie, I would characterize it perhaps not as a decision not to buy, but a lack of a decision to buy. Throughout the whole period, there was a lot of interest in the submarines, but I do not recall a decision that was made to buy them and then a decision not to buy them. I certainly recall a lot of discussion about buying the submarines, the potential to buy them, and the desire to buy them by the department over several years, which finally culminated in the actual buying in 1998.

I think you have to put it in context. Throughout the 1994 to 1997 period, the defence department was not only looking at buying submarines, there were several other projects of high importance for the department at the time. We talked throughout the department about a four-pack of projects. There were the armoured personnel carriers, the LAVs that we bought. There were the search-and-rescue helicopters, there were the maritime helicopters, and there were the submarines.

At the time, these four projects were all being considered. We were looking at how one should move on these four projects that, when you totalled the cost of all four projects, carried a fairly significant cost at a time when some significant budgetary reductions were being made throughout government. Within that context, the submarines were only part of what we were trying to move forward.

As you'll recall, the decision was first made to procure armoured personnel carriers, then a decision was made to go ahead with the search-and-rescue helicopters, then the decision was made to go with the submarines, and finally with the maritime helicopter project.

•(1605)

**The Chair:** Thank you.

Just for the record, Mr. Blaikie was referring to Brigadier-General Dean, retired, and Mr. Sturgeon, who was the other witness. We had an inconsistency about who took the initiative, so we're interested in pursuing that.

Thank you very much, Mr. Blaikie.

Mr. Bagnell, please, for seven minutes.

**Hon. Larry Bagnell (Yukon, Lib.):** Thank you for coming.

Mr. Chair, following up on the discussion with Mr. Perron, I would appreciate it if you would ask the military if they might pursue, through the British military, the approximate cost of that refitting that we did.

**The Chair:** Absolutely.

**Hon. Larry Bagnell:** Thank you.

As you know, we went to Halifax on Thursday and had a full day of meetings. That was very helpful to me. I had a lot of questions related to the submarines, training, and equipment. From the information I obtained there—and I just want to see if you disagree with any of these points—it seems to me that these are state-of-the-art submarines, probably second to none in the world, at least under certain of their abilities.

We have an excellent repair facility in Halifax, which does not only our navy ships, but also other NATO ships on occasion. We have an excellent new training facility that can actually put the training through a lot quicker simulations, which is why it has sped up. Some people criticize that we can do the training so fast now, but now we have these simulators that we didn't have with our previous class of submarines.

Based on talking to the crew and the fact that we have a log for each crew member, the crew was well trained. In fact, the ones I talked to said the damage could have been much worse had they not been so well trained. In fact, the press reports from Britain suggested that, indeed as I had suspected—which is why I ask the question—some of the British people and some of their submariners were a little upset that they spent all that money for state-of-the-art submarines and then sold them to us at maybe less than 20¢ on the dollar if you include the costs they put into reactivation. That's why I asked for a follow-up on that.

Do either of you disagree with any of those general comments or conclusions that I've reached from what I've heard so far?

**LGen Robert Fischer:** I would generally agree with what you said, perhaps with one exception.

I think we need to remember that these submarines were built in the U.K. in the late eighties. In order to build submarines of this type, the design that went into these submarines would go back quite a few years. If you want to draw a line in the sand as to when this technology was first committed to paper for design purposes, it must go back certainly to the early eighties, I would think, if not earlier.

My only exception to the way you characterize the submarine fleet would be not to be as positive about stating that this is state of the art. As far as I know—and I would just remind you that I served in the army, I'm not a sailor—they're certainly good. It strikes me that from an engineering perspective, while these are extremely good boats that serve our purposes, from everything I've been able to glean technologically—as I'm sure we'll see in years to come—there are a number of areas where technological insertion is appropriate to bring these to a point where they would be state of the art. I think they are good submarines, but “state of the art” may be a little bit of a stretch.

**Mr. Pierre Lagueux:** Perhaps I can quote from the press release of April 1998 that announced the acquiring of the submarines. Of course, this press release was vetted by the operational people in the department. I quote, “The Upholder submarines are the most modern vessels of their type in the world.” Certainly at the time when we procured the submarines, from the operators' point of view, I think they would agree that they were state-of-the-art submarines at that time.

I would certainly also agree with you that with respect to the maintenance facilities we have in Halifax and the simulators we now have in Halifax, the simulators were part of the buy of the submarines. We bought the simulators at the same time we bought the submarines, to ensure that the training could be done here in Canada, and the trainers were moved from the U.K. to Canada.

● (1610)

**Hon. Larry Bagnell:** Thank you.

Mr. Fischer, we seem to have a slight difference in view between the view of Mr. Lagueux and the conclusion I present, so I want to ask another question on “state of the art”. It's a three-part question.

First of all, I assume they're better than some subs that some navies have. Second of all, I assume that when we Canadianized the subs, we also increased some of those technologies that you're talking about to more modern technology. And the third point is, on the day we purchased them, what other diesel-electric subs were available in the world that we could have purchased instead?

**LGen Robert Fischer:** In regard to your last question, I think several people sat here and provided a response to the effect that there were submarines potentially available from the Dutch, in the Walrus-class submarine, I believe. There were also German submarines available under the right circumstances. And one could argue that once the sixth—it was a fleet of six, anyway—and last Collins-class submarine had been delivered, I'm sure the Australian government and the Australian Submarine Corporation would have been delighted to sell the Collins class to Canada.

So, yes, there were some possibilities of submarines being available, but in all of those cases I think the costs would certainly have been higher than we ended up paying for the Upholders. I would limit my response that way to your third question.

Can you remind me what your second question had to do with?

**Hon. Larry Bagnell:** Canadianization.

**LGen Robert Fischer:** Canadianization?

**Hon. Larry Bagnell:** Upgrading of some of the technology.

**LGen Robert Fischer:** I don't believe Canadianization per se will have improved the technology in those submarines. As I recall, the Canadianization was to change the weapons system to be able to use the MK-48 torpedo. That was really a change to allow us to use the weapons that were already in inventory. By virtue of bringing these submarines across the Atlantic, we wanted to make sure the cryptology that we'd be using aboard the boats was our cryptology. Third, I believe we inserted some electronic support measures aboard the submarine, and that third piece arguably improved the technology base on the submarine.

And now I have to ask you to remind me what the first question was.

**Hon. Larry Bagnell:** Are there not navies in the world that have submarines that are less—

**LGen Robert Fischer:** Indeed there are, and I didn't mean to belittle the capability of the subs by any means, except to say there are several other submarine types running around the world whose designs are more current, more advanced, than the Upholder.

**The Chair:** Thank you, Mr. Bagnell.



Just as a quick clarification from the chair, I thought we heard on this trip to Halifax that the Canadianization involved an amelioration, an improvement of the communications system and the fire system as well. Maybe we can pursue that with some other witnesses, unless you have a comment on it, Mr. Fischer.

**LGen Robert Fischer:** No, you're correct, Mr. Chair. The fire control system that was on the Oberon boats and was in the process of being transferred to the Upholders did receive significant improvement.

**The Chair:** Okay.

And I just want to be clear, but I heard you both say to Mr. Blaikie that the first time you were aware or learned that this barter deal wasn't really true—and I think most of the country, including MPs, thought it was going to take place or had taken place—was when Mr. Williams appeared before this committee recently. What are the ramifications of there being no barter deal, and do you have a brief comment on that either way?

**LGen Robert Fischer:** Like my colleague, I too learned of the fact that we had diverted from what we thought the original course was to be: a barter-type arrangement. But notwithstanding that, at the end of the day, it may well turn out that the money Great Britain was sending to Canada for the use of our training facilities would net out with the money we're sending to the U.K. for the lease-buy purchase of these submarines. It may well prove that the current financial arrangements that Mr. Williams described could well result in the same endgame that a barter arrangement would have.

•(1615)

**The Chair:** Okay, I just wanted to be clear on that. Thank you.

We now go to a second round of questions and answers, and it's a five-minute round. We alternate, with someone on each side, back and forth.

We'll start with Mr. MacKenzie, for five minutes, please.

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

General Fischer, is there some subtle difference in this between a barter and where we're paying? Where does the money go to now that the British pay for training facilities—into the military budget?

**LGen Robert Fischer:** Actually, I would ask my colleague to answer that question. He's probably more equipped than I. I don't know if it goes to the Receiver General or whether it goes into the departmental budget.

Can you offer...?

**Mr. Pierre Lagueux:** That's a very good question, and I don't know the answer either. Certainly if it was going to be a barter-type arrangement, one would assume the money would go to the defence department budget to offset the cost of the submarines that would go out of the defence department budget.

If that is what is in fact happening or what happened, I don't know.

**Mr. Dave MacKenzie:** Is it fair to say that if the money does not go to the defence department from the British but the defence department is paying for the submarines, it's not quite the same deal to the defence department as it was?

**Mr. Pierre Lagueux:** As far as the Government of Canada is concerned, the money does come to the Government of Canada. If it doesn't come to the defence department, it goes to the central revenue fund. So as far as the government is concerned, it is a net deal.

Interestingly, in part III of the estimates, which the department tables every year, there is always a line there for expenditures on the submarines.

**Mr. Dave MacKenzie:** Since when?

**Mr. Pierre Lagueux:** Since the 1999-2000 ones, which were the first estimates after the contract was signed in 1998.

**Mr. Dave MacKenzie:** But in 1998, the community as a whole was sold on the barter.

I think one of the other witnesses we had here used the term "smoke and mirrors". Would that be appropriate?

**Mr. Pierre Lagueux:** I think that was Mr. Sturgeon, but I'm not sure if it was smoke and mirrors. I think if you're referring to when the press release was done and so on, it was not smoke and mirrors at the time, in my mind. I was there when we made the announcement. I was there with Minister Eggleton. You'll have to ask him, because I can't speak for him, but I don't think Mr. Eggleton viewed it as smoke and mirrors. I think we certainly viewed it as an innovative way to reduce the cost on the defence department. However, in the end, if there was to be a barter, then the money that the Brits would have paid for the training wasn't going to come. So there was really, at the bottom line, a net balance here.

**Mr. Dave MacKenzie:** Except that the military may end up paying for one side and the other money goes to general revenue.

**Mr. Pierre Lagueux:** I don't know that for sure.

**Mr. Dave MacKenzie:** No, okay, and neither do we.

General Fischer, I got the sense early on in your testimony that this particular project may have been driven from some other area than in your office.

**LGen Robert Fischer:** No, I hope I didn't...well, I obviously left you with that impression.

What I was trying to convey was that during the two years when I was in the position of ADM Materiel, the project did not have the degree of activity, for example, that it enjoyed when Mr. Lagueux was there. It actually got some traction and went to contract, and the rest is history.

I would characterize the period from 1994 to 1996 as a period when, as Mr. Lagueux pointed out earlier, we in the department were trying to manage the major procurements that he described—the search-and-rescue aircraft, the light armoured vehicles, MHP, and submarines—against a difficult cashflow situation. While we hadn't lost interest by any means with respect to these submarines, we were trying to buy some time in order to prosecute these other programs.

I might say as well that I can recall being at meetings where we were very conscious of the fact that there was interest being shown on the part of other nations for these submarines, and there was a concern that this opportunity just might slip away if we didn't manage to get this approved.

Again, remember the role of the materiel group, which is acquisition. Until the project is approved for acquisition, the degree of activity within the materiel group is somewhat lower. Once the contract's awarded in a conventional kind of procurement, where we go with requests for proposal, all of those procedures fully engage members of the materiel group.

I was suggesting that during the 1994 to 1996 period as it pertains to the acquisition of submarines, it was not my personal, major preoccupation. Certainly there were people in the materiel group involved with it, but not to the degree that they were subsequent to 1996.

• (1620)

**Mr. Dave MacKenzie:** Just as one final, little question, do you think the fact that these are not serviceable after six years would indicate that we have not done due diligence?

**LGen Robert Fischer:** When you say they are not serviceable, do you mean...?

**Mr. Dave MacKenzie:** Well, we bought them in 1998, and they're not in service right now. Did we as Canadians not do due diligence on the submarines when we purchased them?

**LGen Robert Fischer:** That's a legitimate question. I quite honestly don't know the answer to that. I can tell you that if you check the records in terms of the numbers of people who went across to look at these submarines, I think you'll be astounded by the talent and the variety of expertise that we sent to look at these boats.

Could we have done more? I guess intuitively I would say probably, but there's always a limit to the degree to which you can look at this. I think we and the Brits, as evidence now suggests, were actually quite surprised at some of the things that subsequently happened and contributed to the delay, the eight years you're referring to.

**Mr. Dave MacKenzie:** Thank you.

**The Chair:** Thank you, Mr. MacKenzie.

We welcome to the committee Mr. Anderson, who is substituting today.

Mr. Anderson, please. You have five minutes.

**Hon. David Anderson (Victoria, Lib.):** Thank you very much. It's a pleasure to be here.

Thank you, gentlemen, for coming.

If I could characterize the interest that was expressed in submarines over the last, we could probably say, close to twenty years—and this follows up your comment, General Fischer, when you said we have not lost interest by any means—it has been in fact continuous. In their report in 1994, the special joint committee of the House of Commons and Senate expressed interest. The special committee looked at submarines prior to that time. In fact, at one point we were even considering a proposal of the Mulroney government for nuclear submarines, with a total cost of \$10 billion in the late 1980s.

Then, of course, ever since 1994, the only real concern was lack of revenue, lack of funds to purchase submarines. There has never been

any question, has there, about whether we needed submarines in that period?

As I understand your comments and my reading of the earlier committee reports and the earlier government white papers on defence, there has been continuous interest in acquiring submarines by Canada to replace the Oberons. Am I correct in that assessment?

**LGen Robert Fischer:** Absolutely. Again, I can't profess to be a submariner—I'm not, I'm an army officer—but I, like so many people who have appeared before you and who we represent, have no doubt that the Canadian navy requires submarines.

There is no doubt in my mind that the big concern on the part of our navy during this period of 1994-96, as I was describing, was the possibility that we would in fact be forced to exit the submarine service. We would lose the capability, and having lost that capability....

I would submit that we came pretty close to that, and I have nothing but admiration for the folks who were able to ensure that the skill sets survived until the Upholders finally came across the Atlantic. The forces, and the navy in particular, had no doubt about the requirement, but the real threat was that we would reach a situation where we would come to lose that capability, and that wouldn't be good for Canada, and certainly wouldn't be good for the Canadian Forces, much less the navy.

• (1625)

**Hon. David Anderson:** Then I'll take you one step further than the navy itself and say, from the reports of the special joint committee of Parliament, from the white papers of the government itself and other documents issued by the government on military policy, there was never a question that submarines were a desired component of our military capability.

**LGen Robert Fischer:** The short answer would be "Not at all."

**Hon. David Anderson:** Thank you.

Moving on to the Upholder class itself, are there any vessels, other than the four purchased by Canada, currently in service in the world?

**LGen Robert Fischer:** Of that type, Upholder class?

**Hon. David Anderson:** Yes, the Upholder.

**LGen Robert Fischer:** No. There four built, and we now own them.

**Hon. David Anderson:** All right.

The third question then would be, have you any experience or do you know of any experience that was acquired by the department on reactivation of naval vessels such as submarines by other navies? For example, the United States navy at Bremerton has a very extensive fleet that is mothballed—that's the term used. Has there been a reactivation of submarines by the United States or other countries that would give some experience that we could have used, or maybe did use, in the case of the Upholder?

**LGen Robert Fischer:** Personally, I have no knowledge of any allied navy having to reactivate submarines. Perhaps Mr. Lagueux might. I don't.

**Mr. Pierre Lagueux:** There's no question that when we bought the submarines they had to be reactivated. They were reactivated in the U.K. by, at the time, VSEL, which is now BAE, owned by BAE, in the U.K. So it was not a Canadian reactivation; it was a British reactivation.

**The Chair:** Mr. Lagueux, I think the member is asking whether other countries have had the experience of reactivating.

**Mr. Pierre Lagueux:** No, not that I'm aware of, but I think the question was whether we were doing reactivation. I'm just trying to make it clear that we didn't do the reactivation.

**Hon. David Anderson:** No. The question was about experience on reactivation by other countries or other navies.

**Mr. Pierre Lagueux:** But if I may interject, the contractor that was doing the reactivation was the original manufacturer of those submarines. So they knew the submarines, having built them new in the first place.

**Hon. David Anderson:** Moving, then, to the Canadianization, I understand from your reply that.... Maybe I should preface this by saying you made much of bringing the ships up to Royal Navy standards. I guess that's bringing ships up to Royal Navy standards of seaworthiness, because we did modify the submarine's torpedo system. I understand that we modified its firing system and its communication system, but as far as actual seaworthiness as a vessel went, we did not make any changes to the Royal Navy standards it was brought up to.

**Mr. Pierre Lagueux:** Not that I'm aware of. The boats were brought to Royal Navy standards in terms of their fit-to-dive or certified-to-dive standards. As was said earlier, the Canadianization changed the fire control system and the ability to fire different torpedos, because the British have different torpedos from what we have, and it was thought to be cheaper to change the submarine than buy a whole new fleet of torpedos. The towed array system that we have is a different towed array sonar system from what the British have, so the submarine, as part of the Canadianization process, was modified to do that. And the crypto has to do with Canadian cryptology, as opposed to British cryptology. But the basic submarine, in terms of its operational capability, certified safe to dive, was done as part of the reactivation process.

**Hon. David Anderson:** Thank you.

**The Chair:** Thank you, Mr. Anderson.

As I go to Mr. Perron, I'll just remind colleagues that it's five minutes for the question and answer, so maybe you can bear that in mind. I ask the witnesses to try to be succinct.

[*Translation*]

You have five minutes, Mr. Perron.

**Mr. Gilles-A. Perron (Rivière-des-Mille-Îles, BQ):** Thank you, Mr. Chairman.

I would like to review the saga of the submarines with you briefly. In 1989, we reneged on a promise to the British to purchase nuclear submarines. In 1993, we cancelled a contract with the Italians and the British to purchase the EH-101 helicopters. Around the same time, the UK started putting some pressure on Canada, leading Canada to believe and even going so far as to say that other

countries, even non-NATO countries, were interested in acquiring their submarines.

In your opinion, did the British put pressure on our politicians or on our Navy to purchase their submarines?

• (1630)

**Mr. Pierre Lagueux:** Mr. Perron, there's no question that the British had a surplus of submarines and were keen on finding a buyer for them. I don't doubt that Canada was a preferred customer, given the long history of relations between Canada and the UK. That being said, while both countries were interested in the transaction, I don't believe any political pressure of the kind you're implying was brought to bear on Canada. Obviously, the British were hoping that the Canadian government would buy their submarines. However, since the acquisition process took almost six years, if any pressures were brought to bear, they weren't that effective.

**Mr. Gilles-A. Perron:** On July 2, 1998, the day the Canadian and UK governments signed the contract, the Canadian government also signed a contract with VSEL, now known as BAE Systems.

Why did the Government of Canada sign this contract with BAE Systems?

**Mr. Pierre Lagueux:** As part of the submarine procurement process, two contracts were signed. The first contract was concluded with the British government and provided for the acquisition of submarines and simulators. The second contract was awarded to VSEL, now BAE Systems and involved the purchase of replacement parts, technical documents and the training of Canadian sailors. Two contracts were concluded, because the submarines were the property of the British government, while replacement parts, technical documents and training were to be provided by VSEL. These facts were clearly stated in the press release issued when the announcement was first made.

**Mr. Gilles-A. Perron:** Earlier, Mr. Lagueux, you drew a logical picture of the equipment procurement process. The question I continue to ask myself is why some kind of barter arrangement was made during the submarine procurement process. Putting it another way, services were bartered. Was this done to hide the cost? I may be way off base on this, but...

**Mr. Pierre Lagueux:** As you well know, during the 1990s, DND went through some very difficult times when its budget was slashed. Clearly the government was looking for ways to follow through with projects while minimizing the budgetary implications. As I said earlier, we had already come forward with proposals for tanks and search and rescue helicopters. These two projects had already had a significant impact on DND's budget. It was important to find some way to minimize the financial impact and this seemed to be a good solution to this problem. That's why we favoured this type of barter arrangement with the British government.

**Mr. Gilles-A. Perron:** Was this the only time that such an approach was taken, or is this a common way for the government to do business? I'm a political novice and I'd like to know...

**Mr. Pierre Lagueux:** This is certainly not a common approach to doing business. As I said in my opening statement, this was truly an opportunity too good to pass up. First of all, not all countries provide training in Canada. Not all countries are in a position to enter into this kind of agreement. Furthermore, as I said before, the fact that the British had four submarines...

• (1635)

**Mr. Gilles-A. Perron:** falling into a state of disrepair.

**Mr. Pierre Lagueux:** I wouldn't say that. However, they were certainly available to us, because the British had already made a strategic decision not to have any conventional submarines in service.

This was truly a once-in-a-lifetime opportunity for us and we felt, that is the department and the government, that the idea of having training here in Canada in exchange for the submarines was one way of minimizing the impact of this acquisition on DND's capital budget.

[English]

**The Chair:** Merci, Monsieur Perron.

Ms. Longfield, please, for five minutes.

**Hon. Judi Longfield (Whitby—Oshawa, Lib.):** Thank you, Mr. Chair.

Coming this late in the questioning, a number of the questions that I had wanted to ask have been raised.

The member opposite, in one of his questions—I am not going to suggest it was intentional—indicated that these were not serviceable, and then later said, “Well...they're not in service”. There is a big difference between not serviceable and not in service.

At any time, was there any suggestion that any of these submarines would not be serviceable?

**LGen Robert Fischer:** I make the distinction that when we looked at the submarines, what precipitated the interest in these submarines was when the British government announced that the Royal Navy was exiting the diesel-electric submarines in favour of an all-nuclear fleet and would subsequently retire the Upholder submarines. To use my colleague's expression, when we went across to kick the tires, over a number of years, these submarines were no longer in service.

**Hon. Judi Longfield:** That's correct.

**LGen Robert Fischer:** That's correct. They were not in service.

I think that in the ensuing years, a longer period of time than we had first contemplated, there was a period of what I would call graceful degradation. From the first day they were taken out of service, the service ability of these submarines began to gradually degrade, to the point where, clearly, for whoever came along to buy these submarines, there would be a requirement on the part of either the buyer or, as it turns out in our case, the Royal Navy and the U.K. government to reactivate the submarines—in other words, to make them serviceable.

At the time we did the deal with the U.K., I would submit, they were out of service and not serviceable for the most part. They weren't fit to dive. There was a reactivation process, which my

colleague can describe in more detail. He was involved in that. As he said earlier, it turns out it was a good thing that the deal was for the U.K. to shoulder the cost of the reactivation, because there was more reactivation, and not surprisingly, they were in the water for an extended period of time.

**Hon. Judi Longfield:** When I hear the words “not serviceable”, for instance, when a repair man comes to my house to fix an appliance and tells me it's not serviceable, he's telling me that I should trash it.

That was never the case with these. I think you've explained that they needed service, and the condition they were in when we bought them meant they wouldn't be serviceable, but they were never not serviceable in terms of suggesting that they were worthless, useless, or should only be used for scrap.

**Mr. Pierre Lagueux:** Perhaps I can add to what General Fischer has said.

Because the boats had been taken out of operational service, they were then in a preservation state. Things had been done to them to preserve them to ameliorate the deterioration. They were not in a state to operate when we bought them and had to be reactivated, but they were certainly not in a state where they should be trashed, absolutely not.

**Hon. Judi Longfield:** Okay. I didn't want any suggestion that they were.

The other question I wanted to ask is this. In the latter years of the Oberon, we had actually done some work retrofitting and adding additional equipment, which we subsequently moved to the Upholders. Did we experience any difficulty in moving the equipment over to the Upholder, and was it more costly than we might initially have anticipated?

• (1640)

**Mr. Pierre Lagueux:** You're correct. In the latter years of the Oberons, obviously, there was work done to modernize the Oberons. As General Fischer said, it's not unusual. Throughout the life of any equipment, you tend to do some upgrades, modernization, and so on, particularly when you keep a piece of equipment for 20 or 30 years.

In particular, the fire control system to fire the Mark-48 torpedoes had been installed on the Oberons. As I said earlier, it was decided to keep the Mark-48 torpedos. Therefore, the fire control system was taken out of the Oberons, where it had been previously installed, and was going to be installed in the Upholder submarines.

I think your question asked if it took longer and whether there were unexpected delays. As the reactivation took longer and was more complex than most people thought, both Canadians and British, the Canadianization was more complex and took longer than what was expected by Canadians.

Perhaps it was not fully appreciated at the time, but one has to understand that there was a significant increase in the level of technology when going from the old Oberon submarines to the new Upholder submarines. There was a significant difference in the way the maintenance, care, and serviceability of the submarines had to be done compared to the old Oberon submarines. Therefore, it took the fleet maintenance facility that did the Canadianization work some time to be able to adapt to the new procedures and new processes that had to be put in place. There was a significant learning curve for the fleet maintenance facility. Certainly the first submarine took significantly longer than was expected in terms of doing the Canadianization work.

**The Chair:** Thank you, Ms. Longfield.

Now we come to Mrs. Hinton, please, for five minutes.

**Mrs. Betty Hinton (Kamloops—Thompson—Cariboo, CPC):** Thank you. I'm going to share my time with my colleague.

I want to encapsulate what I've heard so far. You both confirmed this was the first time an acquisition of equipment had ever been handled in this particular way. You both confirmed that in 1999 you were under the impression there was a barter system in place. You saw it in press releases, and you saw nothing to contradict that. You both also confirmed that the ships in question were brought up to Royal Navy standards before Canada paid. I shouldn't call them ships; they're submarines. I just had a crash course last week on submarines, and I learned a great deal. I now know what a snortball is; I had never heard of it before.

**A voice:** Are you ready to sign up?

**Mrs. Betty Hinton:** No, I won't sign up. That would be the last job in the world I would take, thank you.

Because I don't have a background in this, I have to try to relate it to something I can understand. For example, I'll relate it to the purchase of a car. If I buy a car from someone, make the arrangements, then throw a tarp over the car and let it sit there for eight years and don't do anything to it, I shouldn't be surprised to find out that the battery is dead, the wiring isn't any good any more, and maybe something's made a nest in the seat of the car. In the case of the submarines, we add the element of water. How fast do machines like submarines deteriorate under those conditions?

Second, when Mr. Anderson asked a question he said something about changing the torpedo tubes, because we use a different size of torpedos from what the British navy uses. But we also heard you say earlier that the Brits did all of the retrofitting, which was part and parcel of the deal before Canada paid for them. Is it possible that in the changing of the torpedo tubes, a leakage issue could have occurred?

**Mr. Pierre Lagueux:** In terms of how fast the boats deteriorate, it would certainly depend upon how well the boats were preserved in the first place. Clearly, I think the British government hoped they would be able to find a customer for those boats much more quickly than they did. They did undertake preservation of the boats. Obviously the result was that when we concluded a deal to buy the boats in 1998, we discovered, and I think the British also discovered, there was significantly more to be done to reactivate the boats than was previously thought.

How fast does deterioration occur? There are a number of different factors, including how well the preservation was done, to what extent it was done, how long they thought the boats were going to be there, and so on. Perhaps General Fischer, who is an engineer—I'm not—can add a comment to that after.

In terms of changing the torpedo tubes, the boats sailed to Canada with the existing British torpedo tubes—not with the torpedos, but with the torpedo tubes, the handling system, and the British fire control system. The change to the torpedo tubes, the torpedo handling system, and the fire control system was done in Canada as part of the Canadianization. We received the first boat after I left the department, but I'm not aware of any problems with leakage as a result of that change-over to the American torpedos, which we use, as opposed to British torpedos. That was done in Canada.

● (1645)

**Mrs. Betty Hinton:** Thank you. It was just a curiosity question.

I will share the rest of my time with Ms. Gallant.

**The Chair:** You can have one brief question, Ms. Gallant, but there's another time slot for the Conservatives too.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Do you recall the company Serco? Does or did any relationship exist between Serco and VSEL Ltd., pecuniary or otherwise?

**Mr. Pierre Lagueux:** I'm not aware of that. I don't recall any relationship between the two. They're both British companies, both involved in defence contracting, but I'm not aware of any relationship that exists. I don't know if General Fischer's aware of any, but I don't recall any.

**The Chair:** General Fischer.

**LGen Robert Fischer:** As far as I know, BAE and Serco are two separate entities. They may well have cooperated in business opportunities, both in the U.K. and abroad, but they're two separate entities, as far as I know.

**The Chair:** Thank you, Ms. Gallant. That's the time.

As I said, there will be another time slot over here.

Right now, it's Mr. Bagnell's turn for five minutes.

**Hon. Larry Bagnell:** Thank you, Mr. Chair.

I just want to ask a question on the reactivation and the rigour of it. I know one of the advantages of diesel-electric subs is that they are sometimes quieter than nuclear subs because they don't have pumps going constantly. So I want to know, how rigorous was the reactivation? Were there both British and Canadian personnel on the subs during sea trials?

Are you aware of any problems during those sea trials that have not subsequently been fixed, anything related to water in the escape towers, any problem with the submerged signal ejector system, any problem with electricity, or anything else that came up in those sea trials that hasn't subsequently been fixed?

**Mr. Pierre Lagueux:** First, let me preface the answer to that question by saying that the actual reactivation and sea trials of the submarines took place after I left the department. Certainly, to my knowledge, the reactivation process is a very rigorous one. As I said earlier, the boats had to be brought up to Royal Navy standards and be certified by active Royal Navy officers that they were safe.

There were Canadian crews on board the boats with British naval officers during the reactivation. As to what problems were found during the sea trial, I presume you do find some minor problems in any sea trial. That's why you do trials, to find the problems. They would have been fixed before the Royal Navy gave its seal of approval or certification that it was safe to dive.

As I said, I have no direct knowledge of that, since I had left the department.

• (1650)

**Hon. Larry Bagnell:** Just changing track completely, as the only northern member on this committee, I'd just like to ask you why, in your purchasing roles for the military, you didn't purchase anything that would help defend the coasts or our sovereignty, or interdict whatever on the largest part of our coast, the ice-covered Arctic, using either air-propulsion submarines without air, or at least a boat that could go on the surface and withstand some ice?

**LGen Robert Fischer:** I believe Admiral MacLean, when he spoke to you a few weeks back, explained that only fully nuclear-capable submarines would be able to operate under the Arctic cap. Even at that, there's no doubt some risk. Clearly, there's an acknowledgment by the navy, by anyone who knows about these matters, that the Upholder class is not capable of that kind of transit.

There has been, I believe, in this committee, some discussion with witnesses with respect to the longer-term potential of inserting air-independent propulsion in the Upholder submarines, which would give them a degree of capability to operate around the Arctic perimeter, if I can put it that way. But certainly, number one, the Upholders are not capable as far as patrolling our Arctic waters is concerned—at least under the ice. While that is a shortcoming, it is only if you have fully nuclear-capable submarines that you can undertake patrolling under the ice.

I think every option, short of acquiring nuclear submarines, wouldn't have given you the capability in any respect.

**Mr. Pierre Lagueux:** I think, sir, your question was why we procurement people have not bought submarines that can go under the ice.

**Hon. Larry Bagnell:** Or any ship, on top or bottom.

**Mr. Pierre Lagueux:** In fact, as I pointed out earlier, the operational authorities determine the operational requirements. At that particular time, they did not specify the need to go under the ice.

However, as General Fischer said, there was certainly work being done with respect to air-independent propulsion—with Ballard Power Systems in Vancouver, for example—looking at the potential of retrofitting those subs later on for some limited capability.

But, as I said, the reason was that it was not part of the operational requirement specified at that time.

**Hon. Larry Bagnell:** Thank you.

**The Chair:** Thank you, Mr. Bagnell.

I think what you just saw there would fall in the category of lobbying by the member for his riding of Yukon. We all understand that and engage in it sometimes.

The last time slot is over here. I don't see Mrs. Gallant. Did anybody want to ask a question, until maybe she returns?

Mr. O'Connor—otherwise I'm going to go to phase two.

**Hon. Larry Bagnell:** Yes, you have to go to phase two.

**The Chair:** Okay, we have to go.

I'm assuming the committee does not want a third round of questions. We have other work to do. If we're going to have questions, then we have to do a full third round.

It's here, then there, then back and forth.

**Mr. Claude Bachand:** How much time would that take?

**The Chair:** Five minutes per member. Not every member needs to use their time slot, but it would be Conservative, Liberal, Bloc, Liberal, Conservative, Liberal, NDP.

If everybody used their time, the meeting would be pretty tight.

**Hon. Larry Bagnell:** Mr. Chair, it's okay with us if he has one question.

**The Chair:** Mr. O'Connor, is it okay with you if we let Mr. Bachand have a question?

**Mr. Gordon O'Connor:** And Mr. Blaikie has a question.

**The Chair:** And we'll have Mr. Blaikie. All right.

So we'll agree that Mr. Bachand will have one question, then Mr. Blaikie, then maybe Mrs. Gallant will be back and we'll give her a final question, and then we'll go to the next.

Monsieur Bachand.

[*Translation*]

**Mr. Claude Bachand:** I'd like to thank my colleagues for allowing me to ask one last question.

As far as the barter arrangement is concerned, I seem to recall Mr. Williams saying that in fact no bartering took place and that a cheque was even deposited every month, either in an account with the Bank of England or the Bank of Scotland — I'm not sure which it is — but in any event, a payment was made monthly to Great Britain.

I have here a copy of the Estimates, Report on Plans and Priorities, 1999-2000. Moreover, Mr. Chairman, this question may be for you as well. A certain number of documents have been requested, including the contract. Knowing what I know now, I think the contract with VSEL should also be on the list of requested documents. It would be interesting for us to see that contract as soon as possible. You can get back to me later on this.

You were on hand when the contract was signed, since the lead department on this deal was DND. The report also notes that on July 2, Canada entered into an agreement with the British Defence Department to acquire four operational Upholder class submarines certified “safe to dive”, as you stated earlier.

Under the terms of a lease-to-own agreement - and I stress this lease-to-own component — if a person leases a vehicle with the intention of later purchasing it, that person can also choose not to purchase the vehicle if he becomes dissatisfied with it after a few years.

Since you were on the job at the time, can you confirm if this was in fact a lease-to-own or full equity lease agreement? As I see it, this is an important consideration at this stage of our discussions.

• (1655)

**Mr. Pierre Lagueux:** There's no question, Mr. Bachand, that this was a full equity lease agreement. The contract covered a period of eight years, interest free. At the end of this period, we would be required to pay the nominal sum of one pound sterling for the final acquisition of each submarine. Therefore, it was indeed a full equity lease arrangement, as stipulated in the contract, providing for the purchase of the submarines upon the expiration of the lease.

**Mr. Claude Bachand:** Does the contract contain a clause that we could invoke to terminate this leasing arrangement, on the grounds that we have paid for six years — starting in 1998 — and that we no longer wish to purchase the submarines? To your knowledge, is there such a clause in this contract?

**Mr. Pierre Lagueux:** No, not to my knowledge. It was a full lease equity arrangement, not a leasing arrangement per se. Canada's intent was clearly to purchase the submarines at the end of this period.

**Mr. Claude Bachand:** I understand. I have no further questions. Thank you.

**The Chair:** Thank you, Mr. Bachand.

[*English*]

We'll ensure that the information you just mentioned is going to be included in the information we're awaiting.

Could we now get an update on that from the clerk? A number of documents were requested by the committee through various members.

**The Clerk of the Committee (Ms. Angela Crandall):** I contacted the department today and was informed that they are working on getting the documents for us. I have stressed that as soon as they have any of them to make them available to the committee, that we would like to have anything we have in that request. I've asked them as well to put a priority on the letter we heard about from Brigadier General Dean. The process is ongoing, and I hope to have some documents for the committee as soon as possible.

**The Chair:** Okay, thank you very much.

Mr. O'Connor.

**Mr. Gordon O'Connor:** Mr. Chair, on a point of clarification, I understand that most of the documents are available but they're in for translation and that's what is delaying the thing. Is that correct?

**The Clerk:** That's probably where the documentation is, yes.

**The Chair:** And that would be, of course, consistent with the practice of the standing committees, which we all agreed—reiterated—unanimously. That's how we have to proceed. All members have to get the information at the same time, available to them in both of the nation's official languages.

We're stressing the urgency and we'll get that information very soon.

Mr. Blaikie, I'm going to give you a chance for a couple more. Then we'll give Mrs. Gallant the final word and then we're going to go to the next phase.

Mr. Blaikie, please.

**Hon. Bill Blaikie:** I think one of the things that has emerged this afternoon, Mr. Chairman, certainly from the two witnesses we have here today, is that both sides—both the U.K. and Canada—seem to have underestimated how long it would take to get these subs reactivated. As a result, it may well be, as you've claimed, Mr. Lagueux, that the U.K. has had to spend money in order to keep up their end of the contract. I wonder how we could find out how much more money they have had to spend than they anticipated they would in order to keep up their end of the contract. I don't expect you to have that at your fingertips, but that would be something interesting for us to know. If you know how that might be determined, we'd appreciate your help in that.

Secondly, how much of a discrepancy was there between when you expected the subs to be reactivated and ready for Canadianization and back on this side of the Atlantic—between the time you expected the first one would be ready and when the first one actually was ready? How much of a delay was there? In the meantime, they haven't even got to the other subs yet, so they're degrading, sitting there waiting for the first one to be ready.

• (1700)

**Mr. Pierre Lagueux:** In terms of how much more it would have cost the British government to reactivate the subs, I guess one would first have to know how much they thought they were going to spend to reactivate the subs to know what the delta is. I presume they had some idea of that when they agreed to the price for the subs, but I really have no knowledge of what they expected the cost to be and what the final outcome was. Obviously my assumption is it probably cost them a lot more than what they expected, or somewhat more than they expected, since it took a lot longer in the midst of some of the problems.

On your second question, when we expected the submarines to be reactivated and here in Canada, I can't remember off the top of my head the exact timetable. I think there was a timetable given in the press release. I can't remember what it was. But certainly the delay is not only in months, but at least, I think, in years, in terms of the final delivery of the final submarine that was originally expected when the contract was signed in April 1998. Actually the announcement was made April 1998 and the contract was signed in July 1998. So it was several months longer than expected.

**The Chair:** Mr. Blaikie, I just might indicate, if colleagues will recall, that we certainly considered whether we would want to invite the British high commissioner to come to the committee and share the British perspective on this. If in fact we decide to do that, we could request that he ascertain the costs and ask that he share it with the committee. I'll leave that with members for your consideration.

I'm going to give the last question to Mrs. Gallant and then we're going to excuse the witnesses and go to some other important committee business.

The last word is to you, Mrs. Gallant, please.

**Mrs. Cheryl Gallant:** There were two different contracts involved, one between the government and one with BAE Systems. Was there an agent acting on behalf of BAE Systems or its predecessor at the time?

**Mr. Pierre Lagueux:** I'm not sure I know what you mean by agent. If you mean the contract was let through somebody else, no, the contract was let by the Government of Canada directly with VSEL.

**Mrs. Cheryl Gallant:** So there was no lobbyist or consultant interfacing on behalf of BAE systems.

**Mr. Pierre Lagueux:** At the time, I don't recall. BAE Systems certainly had people, Canadians, working for them at the time, but the contract was certainly not let through them. The contract was let directly with the government and with VSEL. The contract was negotiated directly with VSEL and negotiated directly with the Government of Canada.

In the case of VSEL, there was a commercial contract negotiated by Public Works and Government Services Canada.

**Mrs. Cheryl Gallant:** I'm still trying to get at the heart of why there was the change from the barter to the actual cash purchase.

Even if we had gone through with the barter, it still would have been cash out of the budget for DND. The training going on at

Goose Bay by the British was the only thing keeping that base alive, really. Is it possible that what the government was trying to do was make the purchase more palatable to Canadians by—

**The Chair:** I don't think, with all due respect, that it's appropriate to ask the witnesses, who are here to share their expertise of past experience, Mrs. Gallant, to speculate on the political motives of a government, any particular government. If you have a final factual question, I'm going to let you ask it, but I don't think that's a fair question for them, with all due respect.

• (1705)

**Mrs. Cheryl Gallant:** I didn't ask the question.

**The Chair:** You didn't have to. It was pretty obvious where you were going with the word "possible". So please give a final factual question and then I'm going to excuse the witnesses.

**Mrs. Cheryl Gallant:** I have no further questions.

**The Chair:** All right, thank you very much.

I want to thank you very much, gentlemen, for being here and sharing the information that you did share with us and giving us the benefit of your experience. We appreciate it very much.

Now I think maybe the committee... Given what we have to discuss, some of this would perhaps be appropriate to do in camera. As reluctant as I am to do that, I think it's appropriate.

May I have a motion to go in camera for the rest of this particular...?

**Mr. Gordon O'Connor:** I so move.

(Motion agreed to)

**The Chair:** The committee will suspend now and reconvene in a moment.

[*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.**