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Mr. Pat O'Brien

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Monday, November 29, 2004

• (1530)

[English]

The Chair (Mr. Pat O'Brien (London—Fanshawe, Lib.)): I would like to call to order the 11th meeting of the Standing Committee on National Defence and Veterans Affairs.

I am pleased to welcome to the standing committee today a former colleague of mine and a former Minister of National Defence, the Hon. Art Eggleton. In introducing Art—who needs no introduction really, especially at this committee—and in welcoming him back, I just want to say that the first time I chaired this committee, Mr. Eggleton was Minister of National Defence and he was extremely supportive of the work of this committee. He was not always in agreement with other ministers in the cabinet who didn't want us to look into certain topics, like missile defence and others.

However, I appreciated the support we had from you when you were minister, Art, as did all the other members on both sides of the table. So it's a great pleasure to see you and welcome you back today.

You know the subject is procurement of submarines from the British. You were a key individual in that, so we are very happy to have you here. Thanks for coming so quickly. I'll give you the chance, if you wish, to make an opening statement.

Thank you.

Hon. Art Eggleton (As an Individual): Thank you very much, Mr. Chair, and all of you. I appreciate the warm welcome today.

Yes, I am familiar with this committee. I've been before it many times in the past, but I come here today to prove the theory that there is life after politics, that there is life after elected office. I'm enjoying it immensely, and I'm looking forward to continuing to enjoy it without a lot of the stresses and strains that come with public office. But I still applaud all of you for continuing in this role that is so important for the people and the advancement of Canada.

I don't really have much to say in terms of an opening statement. I am here at your invitation. I'm here to answer your questions.

The submarine purchase and the investigation of the purchase went on over a number of years, some of which was before I was Minister of National Defence. I became Minister of National Defence in June 1997 and went five years in the position—longer than anybody had for a long period of time, in fact—completing that role in May 2002.

Not too long into the job of Minister of National Defence, I was faced with the procurement of the submarines from the U.K. It was a

process that had unofficially gone on since 1993, but it was officially sanctioned by the cabinet for negotiations under my predecessor, David Collenette, in the summer of 1995. I picked it up almost two years later and moved it through to conclusion, and I announced the purchase in April 1998, following cabinet approval. Very shortly thereafter, it went to Treasury Board for approval of the details, and the final negotiations of the contract were signed in July 1998.

I believe today, as I believed then, that this was an excellent opportunity for Canada, for our armed forces, and for our navy. It was a good purchase of submarines that were the best of their type at the time of the purchase. They were modern submarines that had capabilities beyond the ones we had in the day, ones that were nearing the end of their life and required replacement. I believe firmly that Canada, as a maritime nation with more coastline than any other country of the world, on some three oceans, and with an economic area equivalent to two-thirds of the land mass of this country, needs submarines. It needs the surveillance and the combat capabilities underwater, as we have with much of our other naval equipment, our ships on the surface, and with our Auroras and observation aircraft over the waters.

I'm hopeful that I can be of some help to you in answering the questions and the concerns you have respecting this matter, but the bottom line is that I think it was good for Canada, and it still is.

• (1535)

The Chair: Thank you very much, Mr. Eggleton.

I almost turned the clock back and said we'll have a ten-minute round for ministers, but it's for a former minister in this case, so we'll have an opening round of seven minutes for questions and answers.

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

Mr. Gordon O'Connor (Carleton—Mississippi Mills, CPC): Mr. Eggleton, welcome to our committee. It's nice to see you back in Ottawa.

Mr. Eggleton, an earlier witness told us there was an MOU between Minister Collenette and the U.K. as early as 1993. Do you have any knowledge of that MOU?

Hon. Art Eggleton: No, I do not. I know there were informal discussions going on from 1993, even under the Conservative government, but I do not know of any particular memorandum, any particular document. There was approval by the cabinet in 1995—I was a member of the cabinet at the time—of the request from the minister to proceed with negotiations, but I wasn't aware of any memorandum or any document, nor have I seen any document predating the documents that I was a party to and that resulted in the purchase.

Mr. Gordon O'Connor: Mr. Eggleton, without giving away any cabinet secrets, why didn't the government proceed with the purchase of the submarines at an earlier date, since it seemed there was a high level of interest from 1993 onward? We ultimately ended up with the vessels only five years later.

Mr. Art Eggleton: Of course, as I think you've learned from people who have come here who are experts in the procurement end of things, the procurement of military equipment, complex equipment as it is in most cases, does take a longer period of time than a lot of other things might take in terms of purchase. In addition to that, in the initial stages of our government, we were looking to cut spending. We cut spending across the board in order to eliminate the deficit, which was successfully done, and part of the cuts were made in defence, at some 23% as I recall. There wasn't a lot of money around for buying things, so that was part of the problem as well.

In addition, the government decided it wanted to do a defence review. It started with a joint committee of the House and the Senate, and then it was completed in the white paper of 1994. Until the white paper of 1994, it would have been very difficult to proceed.

The joint committee of the House and the Senate, an all-party committee, indicated that they didn't think buying new submarines was feasible or affordable, but if there were some that were available—and it was starting to become known that there were some available—then they said that might be a route to go. The white paper then confirmed that this should be the route to go, that the examination of the Upholders and possible acquisition were worth proceeding with.

I take it that at that point in time there was further informal investigation—of course, I wasn't the minister at the time, so I don't know the details—further examination, with people going over and looking at the records—because all the records were made available by the U.K. for our naval experts to look at—and Mr. Collenette subsequently went to the cabinet in 1995 to get approval to proceed with formal negotiations.

During that period of time, there was still the challenge of finding the money to do it. Subsequently, when I became minister, that still was a challenge. But we were able to find a way of doing it by way of retiring some five of the existing surface ships, plus there was the retirement of two of the submarines at that point in time. That savings helped to put us in a position where we could afford to buy them within the existing budget, because that was clearly what was needed under the circumstances. The government was cutting back and it was very difficult to find the funds to purchase the submarines, but we were able to do it within the budget. That all finally came together when I became minister and pushed the matter through to a final conclusion and final negotiations.

• (1540)

Mr. Gordon O'Connor: Mr. Eggleton, around the time of your announcement of the purchase of the submarines, I think you told the public this was going to be done under a barter arrangement. Recently, we were told by today's ADM Materiel that it wasn't done by barter, that we in fact paid for the submarines. Could you explain what went on here?

Hon. Art Eggleton: The barter concept and the terminology are not something I initiated, but I certainly take responsibility for them as the minister of the time. It was brought forward at the time and was suggested to me that we could offset the expenditure to the U.K. by the incoming revenue we get from the U.K. for the use of our existing facilities. They train here at a couple of facilities, including Suffield and Wainwright, plus the Goose Bay low-level flying operations, and of course they subsequently also signed up for NATO flying training.

It was presented as a convenience by which we could offset this cost. Instead of us sending them a cheque and them sending us a cheque, we might have an account in Canada where it would be offset. In my thinking or in my presentation, this never was made out as anything that would cost us anything less. It would still have the same bottom line to the treasury. It was a convenience factor and nothing more.

Subsequently, they decided not to proceed with it. I frankly don't recall why, but I think what's important here is the fact that it had absolutely no impact on the treasury one way or the other whether or not they proceeded with that arrangement.

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

Mr. Eggleton, just for clarification before I go to the next member, did I hear you say it was in the summer of 1995 that then Minister Collenette sought and was given cabinet approval to proceed with formal negotiations for the subs? I just want to get the dates clear.

Hon. Art Eggleton: I don't have a specific date or a specific month, but it was the summer of 1995.

The Chair: Okay. Thank you for that clarification.

[*Translation*]

You have seven minutes, Mr. Bachand.

Mr. Claude Bachand (Saint-Jean, BQ): Thank you, Mr. Chairman. I want to welcome our former colleague. It's a pleasure, as always, to see him again.

I'd like to continue our discussion concerning the mandate to negotiate. Understandably, you stated that Mr. Collenette received a mandate to negotiate from Cabinet. Were you the one who recommended to Cabinet that the submarines be purchased and if so, when did you make that recommendation?

[*English*]

Hon. Art Eggleton: Yes, Mr. Collenette made the recommendation that we should enter into negotiations. He felt the case was strong for the purchase of the submarines, but I'm the one who ultimately completed the negotiations and made the recommendation as minister.

[Translation]

Mr. Claude Bachand: I see. A press release was issued on April 6, 1998. When did you recommend to Cabinet that it go ahead and purchase the submarines? Was it several months earlier?

[English]

Hon. Art Eggleton: No, I made the recommendation on March 31. There may have been some other discussions before cabinet prior to that, but I don't recall. But specifically on that date I made the recommendation to cabinet and received cabinet approval.

• (1545)

Mr. Claude Bachand: March 31, 1998.

Hon. Art Eggleton: Yes, and I subsequently made the announcement a week later.

[Translation]

Mr. Claude Bachand: The committee heard testimony from the two ADMs (Mat), one of whom was holding down this position when the submarines were in fact purchased. They explained to us how the procurement process was completely circumvented. As a rule, a call for tender goes out and so forth. You recommended the submarine purchase to Cabinet and most likely you told it that standard procedures would not be followed as the submarines were to be purchased directly from Great Britain. Correct?

[English]

Hon. Art Eggleton: No, I don't think I covered it in that language. What we had was an opportunity to purchase four almost new submarines at a quarter of the price, if not better, of building new submarines. We simply did not have the money to build new submarines. There was no money in the budget to do that. We couldn't have done it. It was either these or nothing. There was no other submarine fleet available at that point in time that would have met Canadian requirements—absolutely none. So it was either that these are suitable or we don't buy any submarines and we get out of the submarine business; we drop our submarine capability. That was the choice.

[Translation]

Mr. Claude Bachand: Therefore, the standard procurement process wasn't followed. The submarines were purchased directly from Great Britain. No tenders were received. You recommended to Cabinet that the submarines be purchased, while bypassing the procurement and tender process.

[English]

Hon. Art Eggleton: We weren't going to buy the submarines if they didn't suit our purposes and if they couldn't be brought up to a reactivation standard that we required. If they couldn't meet our needs, we weren't going to buy them. We felt they could meet our needs, so we decided to proceed.

You're talking about a procurement process that was irrelevant in this particular case, because we didn't have the money to buy new submarines. There were no other used submarines around, and certainly none that would meet our requirements. It was these or nothing at all. But that's still not a reason to purchase them unless they do meet our requirements, and we felt they could and do meet our requirements.

[Translation]

Mr. Claude Bachand: You were under the impression that the submarines were seaworthy, that is in working order. I understand that the government was facing some budgetary restrictions at the time and that these submarines looked like a bargain. That's what we were told as well.

You seem to have a great deal of faith in the Navy. However, in its haste to purchase these submarines, is it possible that the Navy may have neglected to check out the condition or service record of these vessels? Did you consider asking an independent inspector to check out these vessels or to award a contract to experts, instead of relying solely on the Navy's word? Did the thought ever cross your mind? Did you ever think of calling in an independent inspector, taking into account all the while the Navy's report? Could you have done so, or would this have been perceived as snubbing Canada's Navy?

[English]

Hon. Art Eggleton: First of all, you mentioned “in working order”. They were not in working order. They had been mothballed, so they were examined in light of that condition and the need to reactivate them.

Regarding faith in the navy, listen, any Minister of National Defence, any minister of any department, has to rely upon the people who are the experts in these areas and who work for him or her. If we don't have faith in those people, then we should replace them. If you decided you wanted to go buy a used car and you took your mechanic there, and if your mechanic, who you had faith in and who was knowledgeable, said it was good to buy, then I think you would give a lot of credibility to that position. I certainly believed our experts in the navy.

Yes, we talked about reviews by other people, but the situation that existed was such that there are many different countries with submarines. There are some 600 submarines and somewhere over 40 countries that have them. Each submarine is the responsibility of each national government. They bring in local companies and a wide variety of enterprises are involved. It's not as simple as getting somebody from one country or another who can come and examine the submarine of another country. They're quite different, so there really isn't that kind of third-party independent review possible.

I think what's important here is that we made sure we had the protection for the Canadian government and for the Canadian people by saying they had to be reactivated to our acceptance, they had to go through sea trials, and they had to go through certification to dive, so that we would be sure we had the kind of protection for this purchase that we required. Out of that also came, from the navy, an assessment as to the risk, which was deemed to be very low.

• (1550)

[Translation]

Mr. Claude Bachand: I have one last question concerning the logs. I promise to be very brief, Mr. Chairman. Questions have already been put to you about each submarine's log book. At the time of the purchase, in response to questions, you stated you were prepared to table these logs in the House of Commons. To your knowledge, were they in fact ever tabled?

[English]

Hon. Art Eggleton: I don't know. I do know that the logs or any records were made available by the British. They made anything available that we required to ensure that this was in fact an appropriate purchase.

[Translation]

The Chair: Thank you, Mr. Bachand.

[English]

When you're referring to the logs, do you mean the logs from the British for the work that was done?

Mr. Claude Bachand: Yes, each of the logs from the British for the four submarines. He had declared that he would deposit them in the House of Commons, but I don't think it was done.

The Chair: Right, and the question was whether or not they were tabled. We can find that out through our researchers and pursue that another way.

Thank you very much.

Mr. Blaikie, please, for seven minutes.

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

To the minister, welcome back.

Actually, I never worked with him as the Minister of National Defence, but I recall being his critic for awhile when he was Minister of International Trade.

I wonder if you could tell us what the extent of the knowledge was about some of the problems this particular class of submarines had. Was this a factor in the negotiations, in the decision ultimately to acquire the submarines? What kinds of provisions were written into the agreement to purchase in order to make sure some of the problems that were already known...?

I guess I'm assuming you knew. There were already reports from a committee of Parliament in Westminster about some of the problems the Upholder class had, and particularly HMS *Upholder*, which eventually became HMCS *Chicoutimi*.

I'm just wondering about the extent to which these kinds of problems were on the table. I'm not suggesting—because we don't know—that any of those problems that might have been identified at that point are relevant to what actually happened on *Chicoutimi*. Nevertheless, just in terms of the purchase, what sorts of problems were you aware of, and what kinds of steps did the government take to deal with those problems?

Hon. Art Eggleton: I was aware of the torpedo tube problem that existed on *Upholder*, but I was aware of the corrective action that had been taken by the Royal Navy. Subsequently, that became part of how they constructed the other submarines to rectify that problem. But our expert people were given full access to submarines. We had teams of people going over there and inspecting them and inspecting the records, and they were fully knowledgeable of the situation. We of course had people in the High Commission office and military attachés who were knowledgeable about discussions and media coverage of this. So we had full access and full knowledge of all of

these things, but we were also aware of the corrective action that had been taken.

Of course, we also wanted to ensure that the Canadian position was well looked after in terms of the requirement for reactivation, the requirement to put them back into the water in full operational condition, to have sea trials, to have certification to dive, and to have our people involved with the Royal Navy in doing all of that, following it every step of the way.

• (1555)

Hon. Bill Blaikie: Do you recall mention at any time of this whole question of what seems to have become an issue now, that being this whole question of the quality of the insulation and the wiring of the subs?

I must say we haven't had a chance to discuss this as a committee, but one of the things that strikes me as odd is that we've had many experts in front of us, yet we keep having to learn from the CBC that there was a difference in the quality of the new wiring and the new insulation that was put into the other three subs but not into *Chicoutimi*. As I say, this was a report in the media, not something that ever even came up in terms of the fact that there was a difference in *Chicoutimi*, in spite of all the expertise we've had in front of us here. There were other differences identified in terms of it being the last one, etc., but this was news to us—or at least news to me anyway. I don't want to speak for anybody else, but it certainly never came up in the work of the committee.

So I'm wondering if you were aware of any problems with insulation on wiring. If you were aware and remedial steps were ordered, why wasn't this done on *Chicoutimi*, as well as on the other three?

Hon. Art Eggleton: I don't recall anything specific about the wiring, and indeed, you have a board of inquiry that's dealing with the issue of the *Chicoutimi* and the fire, and perhaps that will enlighten everyone as to the situation.

I can say in a general context that you have changes in standards and requirements at all times. Military equipment that is state of the art one day needs a retrofit another day because standards have changed or there are new things, higher technology, better technology, better standards of wiring, or whatever.

But I'm not aware that there was anything at that time.

I understand the standards have changed in that regard. They've changed in the course of the time between the purchase and where we are today. That's what I've learned in the media, and I'm not surprised that's the case. But I think you should wait for the board of inquiry to tell you a little bit more about how that affected the *Chicoutimi*.

Hon. Bill Blaikie: I think the board of inquiry can tell us whether or not the installation of the wiring was a problem and contributed to the incident. What we're trying to find out as well is what the Canadian government knew beforehand about the wiring, whether it actually contributed to it or not. In this case, there seems to have been remedial work or upgrading done on three subs and not on the other.

As I say, this fact is brand new before the committee, so I'm probably being unfair to push you on that.

Hon. Art Eggleton: I don't recall anything to that effect, but it was six years ago.

Hon. Bill Blaikie: Does it seem odd to you that the *Chicoutimi* was sent on its way home from Faslane without escort? Do you remember there being any sort of protocols for how these submarines were to come home when they were ultimately ready? There has been some criticism as to why there were no Canadian ships available when they got into trouble, that they were without escort.

Do you recall any protocols on that?

Hon. Art Eggleton: I don't recall the protocols.

The Chair: This is the last question, Mr. Blaikie.

Hon. Bill Blaikie: You say that in the end the barter didn't affect the treasury one wit—I forget the exact phrase. Yet it seems to us that at the time, the barter image in what was going on may have been used as a selling point to make the deal look more attractive—we don't really have to come up with any money, that kind of thing. Was that an element of what was going on at the time? It certainly seems to me that right up until this inquiry, and even in the early parts of it, when the media were still reporting that there was a barter thing happening and that at the end there would only be one dollar or one pound exchanged, the governments didn't seek to correct this impression until we had the deputy minister of materiel here to say otherwise.

I'm just asking why that was stressed, when in the end it was so easily eliminated from the deal?

• (1600)

Hon. Art Eggleton: As I indicated, I'm not the originator of the word—I take responsibility for it. It was very clearly followed by verbiage that indicated it related to existing use. If it had said “new use” or “additional use”, that would be a different matter. But it didn't say that. It talked about “current use”. I've examined the documentation and it does talk about current use of the facilities. As I recall from the time, it was presented as a convenience factor, as an offset factor. I certainly never presented it as something that made it cheaper or even free.

I spent most of my remarks talking about the fact that this would be about a quarter—we'd be saving a lot of money—of the cost of new submarines. That's where I put my emphasis.

The Chair: Thank you.

Thank you, Mr. Blaikie.

Mr. Eggleton, I have just one question for clarification. If a particular improvement to the used subs was required, who would have made the decision and ordered the improvement, whether it be about wiring or anything else? I assume it wouldn't have been you as minister.

What would your involvement have been, and who would have made that determination and ordered that improvement to the equipment?

Hon. Art Eggleton: How much detail I would have come across personally as the minister would have depended on whether it would have affected the cost and how major a repair it was. Everything was divided into the initial purchase, which involved the reactivation, and that was to be done by the British, putting it into full operating standards. We then had an additional requirement over and above that to Canadianize—for example, putting in the communications system, the sensor systems, and the Mark 48 torpedo system. That was our responsibility.

I'm not aware of any extraordinary costs. I was aware of the one item Mr. Blaikie mentioned about the torpedo tubes, particularly on the first submarine, the *Upholder*, but not of a lot of other major difficulties at all. In fact, the costs would seem to, as they do today, bear out that they were pretty much in line with the budget of the day.

The Chair: Thank you very much.

We'll come to this side. Mr. Rota, please, seven minutes.

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): Thank you, Mr. Chair.

Mr. Eggleton, there are some public sources out there that claim that after your visit to the United Kingdom back in June 1997, there was no real clear indication of which way Canada was going, whether they were going to purchase the submarines or they were looking at other options. There wasn't any clear decision made as of then. Then I guess by October things had changed.

Was there any pressure put on by the U.K., at your level or at the prime ministerial level, to purchase the subs, that you know of?

Hon. Art Eggleton: No, I wouldn't say there was pressure put on by the U.K. to purchase the subs. They wanted us to purchase the subs. They wanted to deal with a country that was part of NATO, a country that was also part of the Commonwealth. Indeed, the interoperability between the Royal Navy and the Royal Canadian Navy is as good as it gets—the Royal Navy was the parent of the Royal Canadian Navy. So it made a lot of sense that they wanted to sell them to us, there's no doubt about it.

I think if they were anxious for anything—I wouldn't call it pressure—it was for us to make a decision, because they had other countries that were interested in the purchase. And remember, it was post-white paper, so we'd already said yes, that we wanted to proceed with this, and Mr. Collenette had received the go-ahead in the summer of 1995. Our problem at that point in time was to come up with the money.

Remember, we were going through downsizing; we were going through the program review, as it was then called, to cut the budget. We were coming toward the end of it when I became minister, but we were still going through it. To suddenly come up with additional money to go out and purchase new submarines wasn't the easiest thing to do. Many colleagues in cabinet, and indeed in caucus, questioned whether with all of our cuts and pressures in health care and many other programs this was a priority, to go out and buy submarines. A lot of people questioned that.

I think we knew that in order to sell this to the cabinet, to caucus, and to Parliament we would have to find a financial solution to it. So while we were still investigating, kicking the tires or whatever you want to call it, looking at the logs and other things, we were at the same time trying to come up with a financial package that would work. And we were finally able to do that.

• (1605)

Mr. Anthony Rota: Very good.

As well as signing a contract on July 2, 1998, with the U.K. Minister of Defence for the Victoria class, Canada, and you as Minister of Defence, also entered into a contract with BAE Systems.

What sorts of expectations did you have from that contract? What was BAE to deliver to Canada?

Hon. Art Eggleton: I can't remember the specifics of that contract, but BAE was obviously significant to putting them back into operational condition, because they built them in the first place under the name of Vickers. Vickers had been the builders of the Oberons before that. We'd had a long history with them, and they were at one time located in Canada. They were the logical company to reactivate and do a lot of the work that needed to be done.

I can't recall exactly where it split between what they were doing for the British government and what they were doing for us, but certainly they were key to getting it back into operation.

Mr. Anthony Rota: So the idea with BAE was that here was someone who knew the sub very well who was going to be bringing them to a level where Canada would be able to operate them.

Hon. Art Eggleton: Yes.

Mr. Anthony Rota: In your opinion, has that come through? Have they delivered on their end of the bargain?

Hon. Art Eggleton: As far as I know, they have. There's obviously some question now about the *Chicoutimi* and about additional work that might have to be done, and I think we have to make sure the contract with them and the British government is honoured. It's taken longer to do this than was anticipated.

But if I may say a side comment, looking at it in context, we see this is a very complex platform. The British first ordered the Upholders in 1983, and it took seven years before they got the first one; they were built brand new. Look at the Australians. They ordered their first Collins class submarine in 1987, and they've got through to a status that's similar to where we are now, 17 years later. It was just earlier this year that they were in fact able to put the full six into an acceptance standard, and at much more cost because they had them built brand new. They're very complex pieces of equipment and they do take a fair bit of time, as I think the Australians and the British found in their purchases.

Mr. Anthony Rota: This is something that was controversial at the time, and I'll throw it out now and see what comes out of it, namely the controversy of the EH 101 helicopters in the mid-1990s. That resulted in about \$200 million in fines and what not. You talked about the financial restraints that were there at the time. Did that penalty have anything to do with us hedging or holding back on making a decision on the purchase of the submarines—or any submarines, for that matter?

Hon. Art Eggleton: No. That arrangement, which was made with industry, some of which was British in origin, was out of the way by the time I became minister and by the time we got into discussions about the submarines.

• (1610)

The Chair: There's one minute. Does someone want one minute?

Mr. Martin.

Hon. Keith Martin (Esquimalt—Juan de Fuca, Lib.): Thank you.

Nice to see you here, Mr. Eggleton, once again on the Hill.

I have a quick question. The bottom line in most Canadians' minds is simply, were these lemons or were they not? Did their operational capabilities meet our needs at the time this decision was made? This is mostly a comment, but every person who's come to this committee has basically said these were the right subs at the right price to meet the needs of our country, which has the longest coastline in the world. I assume you would agree with that assessment.

Hon. Art Eggleton: Count me in with that same group.

Hon. Keith Martin: Thank you.

The Chair: That's good. That took just about exactly the minute to get the statement and the agreement from the former minister.

Now we come to the second round. The time goes faster, colleagues, as we all remember. It's questions and answers both, and it's five minutes this time. We start with Mr. Casson.

Mr. Rick Casson (Lethbridge, CPC): Good to see you here, Mr. Eggleton.

With respect to the money for training that other countries pay Canada to use our facilities, where does that money end up? Does it go into the defence budget, or are you aware of how it's distributed?

Hon. Art Eggleton: Generally, it goes to consolidated revenue, but at the time I was minister that was a sore point of discussion with the Department of Finance. I believe that revenues gained by the Department of National Defence should come back to the Department of National Defence. We subsequently worked out varying arrangements of sharing, some fifty-fifty, some where we could get it all, and some where we had difficulty getting much back directly.

Now, I can't tell you the formulas that specifically worked on training; I don't recall them. But when I became minister, most of it was going to consolidated revenue and I certainly wanted us to get it. I wanted to make sure our department got it to use for other purposes. If we were capable enough, entrepreneurial enough, or whatever you want to call it to generate those revenues, I thought we should have got the credit for those revenues.

Mr. Rick Casson: Are you aware of how far that's gone as to how much of that money that comes in from foreign countries to use our facilities is presently going to the department of defence or was going there when you left that portfolio?

Hon. Art Eggleton: No, I can't recall. As I said, there was some development of funding formulas that did involve sharing. We still didn't at the end of the day get as much as we wanted to get, but we were improving our situation as to getting the money credited more directly to our department.

Mr. Rick Casson: I just want to get back to this barter system, because it is mentioned in a couple of press releases that came out, one in April of 1998 and one in July. This was a creative way—and you use a different term, “convenience factor”—to mix lease and purchase and to barter and trade off training facilities or training exercises against the cost of these submarines.

Also, we've been told that this proposal went to cabinet many times, and you can verify this, I suppose. It was turned down, came back, was turned down, and finally came back and was accepted. Part of the reason it was accepted was that it was made to look like it was going to be part of this bartering system.

And I totally agree with you. If the armed forces are spending the money and using their personnel to train other countries' forces, then certainly that's an expense to them and they should receive those funds.

But this cabinet process intrigues me as to how many times it was brought forward and the reasoning for turning it down. You've mentioned some of them, but then finally it seems it was portrayed as such a rosy picture that it was approved.

Hon. Art Eggleton: I don't think it was brought to cabinet many times at all. I don't believe I brought it more than the one time. Any other times would have been progress reports. I can tell you that it was never turned down by cabinet. There would have been progress reports. There was certainly the authorization that was given to Mr. Collenette in the summer of 1995, and there may have been one or two other reports; I don't recall. I don't think I brought it forward any other time than at the end of March of 1998.

I've looked over my notes with respect to my presentation to cabinet on March 31, 1998, and yes, there is a mention of barter for current services, but it's a passing reference. It wasn't emphasized. The points I emphasized were based on the cost being a quarter of the cost of new submarines, which was based upon the innovation of an eight-year lease-to-purchase arrangement where at the end of the day one pound sterling would in fact change hands.

There is a mention of the barter, but it was not the selling point. It was not, as I recalled when I reviewed my notes, the selling point, and I know I would not have emphasized it to any great degree. It was a convenience factor, as it was described to me by the procurement people in the Department of National Defence, and I bought it on that basis. I agreed to sustain it in the notes on that basis, but that's it.

• (1615)

Mr. Rick Casson: There has as well been discussion and mention of the fact that we use our submarines in training sessions with the Americans. Are you aware if the U.S. pays us any kind of fee to take part in those? Was any part of the decision-making process due to any pressure that came from the U.S. for us to get involved using these submarines?

Hon. Art Eggleton: There was no pressure on me personally from the U.S. I'm only aware of a letter that was sent by the Secretary of Defense to my predecessor—my immediate predecessor was Doug Young—indicating it would be nice if we did it, that we could work together on operations. But that's a key part of what we do. No, there doesn't have to be an exchange of money. We're part of NATO. We're part of the defence of North America with the United States. We strive towards interoperability with our allies. We are part of a larger defence apparatus and we need to contribute to that. Here was a way we could contribute.

We have sent so many of our frigates with American task groups into places like the Arabian Sea and other places in the world because they have a respect for our people, our navy crews. They believe that, as they are, our frigates are state of the art. We participate in interoperability. It's part of doing our share and pulling our weight. It's part of these alliances.

That's exactly what we're capable of doing with these submarines. If we didn't have these submarines, we wouldn't be able to create the surveillance of our own coastline that we should do as part of our own defence, the defence of our country, but also as our fair share with our allies. Our allies shouldn't be expected to patrol our coastline in submarines or in other ships; we should be doing that. That's our function. That's part of what it's all about, and I think our allies expect us to do our fair share.

Mr. Rick Casson: So were you aware, then, of any financial transaction that took place?

Hon. Art Eggleton: No, I'm not aware of any specific financial transaction.

The Chair: Okay. Thank you, Mr. Casson.

Now we're into the alternating mode that we go to in the second round of questions.

We come over now to Mr. Martin for five minutes, please.

Hon. Keith Martin: Thank you, Mr. O'Brien, and I'll be sharing my time with Mr. Bagnell.

I have only one question, Mr. Eggleton. I'm glad you mentioned that our individual security as a nation is intimately entwined with the security of our allies and that unless we pull our weight, we abrogate our sovereignty to other countries, which is a violation of our responsibility as a government.

My question is simply on the procurement issue, and I'm curious as to your opinion. We're always trying to shorten that procurement process up to make it more effective. As the former defence minister, do you have any views or advice on how we can perhaps shorten up our procurement process, or any large notions on how we can make that more effective?

Hon. Art Eggleton: This is a subject that has gotten a lot of attention from many different quarters at many different times, including this committee, which did a study on procurement at one point in time.

It is painfully long; it needs to be shorter. I understand fully that the equipment is complex and that it takes time going through these processes, these evaluations and risk assessments and environmental assessments and the so many things that have to be done. But there surely has to be a better and faster way of carrying out these procurements.

I'm sorry, I don't have any specific advice at this point in time, but certainly the people who are responsible for procurement in both Defence and in Public Works should be asked to present some guidelines as to how this might be accomplished. I think they're trying to do that, but it's still a very long process. Of course, that's just on that side and doesn't involve the political side of things, which can also take some time as well.

• (1620)

Hon. Keith Martin: Thank you very much.

The Chair: Mr. Bagnell will be next. But if Mr. Eggleton is still available, and the committee wants to, we can finish this round and continue on if there are other questions. I don't want to presume on his time, but....

Mr. Bagnell, you have three minutes.

Hon. Larry Bagnell (Yukon, Lib.): Mr. Minister, thank you for coming.

I just want to ask one long question. We've had a lot of witnesses and we've visited subs, and I just want to put on the record my conclusion. But I want you to listen carefully to make sure you don't disagree with anything I'm concluding.

My understanding is that at the time the purchase occurred we needed subs to stay in the business; any navy with a shoreline needs subs as part of its complement of boats. State-of-the-art boats became available at a very good price. Most navies in the world have diesel-electric boats. These were probably for \$800 million, and we roughly paid for something worth about \$4 billion, plus what the Brits paid to recommission the boats. We have a state-of-the-art training simulator and fully trained sailors were put on those boats. The boats were thoroughly recommissioned by the British, with our sailors there for our sea trials, which they paid for. In certain circumstances these types of subs can actually be quieter than even nuclear subs, because they don't have to have their pumps going all the time for cooling.

Have I made any false conclusions you would disagree with?

Hon. Art Eggleton: No, I don't disagree with any of that. You could add some other things, but I don't disagree with any of that.

Hon. Larry Bagnell: Has anything come up since we purchased them and put them into play—notwithstanding the accident—that would make you change your mind on any of those points?

Hon. Art Eggleton: No, absolutely not.

There's no doubt that the process is slower than we had hoped for. Maybe some of the costs have increased—although the capital cost seems to be fairly well in line. I announced it as \$750 million, and subsequently it came into the budget process as \$812 million, after inflation was added in the period before the budgetary process. It has now seen \$85 million added to it, which, as I understand it, according to Mr. Williams, are costs that were in other accounts that

really related to submarines, most of which should have been put into the same account. So the cost is now \$897 million. I think the cost for capital expenditure is roughly where it should be, and still only one quarter the cost of new submarines. Perhaps the cost of operations is a little higher—although the cost per submarine still seems to be lower than what it was for the Oberon.

So it's taken a little bit more time, and there is obviously the terrible tragedy of this fire, which the board of inquiry hopefully will help to lead to some remedies for what occurred there.

But I think overall it's worked tremendously well. It's been a great opportunity. We would have lost our submarine capability. We couldn't have kept them going much longer. We might have kept the Oberons going to almost now, but that would have been about it. We'd lose that capability.

I think our allies could well complain about us not pulling our weight or doing our fair share if we reduced our capabilities. In that particular area, we need to be able to observe underneath the water—not just on, not just over, but underneath as well.

The Chair: Thank you, Mr. Bagnell.

[*Translation*]

You have five minutes, Mr. Bachand.

Mr. Claude Bachand: Thank you, Mr. Chairman.

I don't doubt, Mr. Eggleton, that you now have better things to do than to read military reports on the overall state of Canada's armed forces. I wonder if, for your own personal enlightenment, you actually found the time to read the fascinating book penned by your colleague Sheila Copps, who once served in Cabinet alongside you. She described some interesting events in this book. I'd like to know if you confirm, or deny, her version of events.

According to what I've read, it seems that Cabinet set great store by the idea of a barter deal between Canada and the UK which would involve exchanging the use of Canadian infrastructures for British submarines. That ties in with what you were saying earlier, namely that the government was in a period of belt-tightening. Spending \$750 million or \$1 billion to purchase submarines wasn't an obvious option at the time. A barter deal was viewed as an interesting option.

When we asked Mr. Williams if this deal still held, we were very surprised to hear him answer in the negative. Every month, according to Mr. Williams, a cheque for an undisclosed amount is forwarded to the Bank of Nova Scotia. This is now public knowledge. I'm not asking you to reveal a State secret or to violate Cabinet solidarity, since Ms. Copps has already disclosed the amount. Can you either confirm, or deny the statement by your former colleague to the effect that a barter deal was very important to Cabinet?

• (1625)

[*English*]

Hon. Art Eggleton: I haven't read her book. But, no, I would not agree—

Mr. Claude Bachand: Do you want me to provide you one for Christmas?

Some hon. members: Oh, oh!

Hon. Art Eggleton: I've got lots of reading!

No, the barter issue was not a key issue. Yes, it was present, but it was not something that got a lot of discussion. There would be no reason to give it a lot of discussion, because it was quite clear that it did not affect the bottom line to the treasury. There was nothing said in cabinet that would have indicated that it would have affected the bottom line to the treasury, so there's absolutely no reason why it would have been a big issue at all.

The big issue was, could we do it within the budget we had. If there were any concerns expressed in cabinet, it was, "Is this our highest priority of public spending at this point in time, after we've gone through a few years of budget reductions to be able to eliminate the deficit? Is this where we're going to spend this first sum of money?" That's where it became very important to say, "I can do this within our existing budget". That was the most important topic that got discussed at the table.

[*Translation*]

Mr. Claude Bachand: You have to agree, though, that not having to expend new money was an interesting proposition. You also stated earlier that this proved to be a bone of contention between yourself and the Finance Minister, because when common infrastructures are used, the money normally goes into the Consolidated Revenue Fund. You would have liked to see some of this money. It would have been interesting for this money to remain with DND. I'll never be a federal Cabinet minister, but I would certainly be very happy to have someone tell me that because of some of our infrastructures, we wouldn't need to pay for submarines in times of budget cutbacks.

[*English*]

Hon. Art Eggleton: No, I don't agree with you. It was very clear that it did not affect the bottom line. Anybody who could add knew that the barter was a convenience only, that in fact the revenues that it would be offset against were revenues that were already coming in to the treasury. With the issue you talked about a moment ago, the discussion between Defence and Finance over who gets the money, whether it goes to consolidated revenue or to Defence, they both come into the Government of Canada. That was an internal departmental issue, but it had no effect on this whatsoever and no effect on this barter arrangement. As I've clearly indicated to you, it was not a major point of discussion in the cabinet. It was there, but it was mainly a discussion over whether we could afford to do this within the existing budget of the Department of National Defence.

[*Translation*]

Mr. Claude Bachand: When you were appointed Minister, it seems the first thing you did was to travel to the UK to see the submarines. According to reports, in June 1997, you travelled to the UK to take a look at the Upholders. Did anyone make the trip with you? Does international protocol dictate that you be accompanied by the British Defence Secretary? Did he go with you to look at the Upholders?

• (1630)

[*English*]

Hon. Art Eggleton: No, I don't recall his being there. I saw him at the NATO summit in Madrid. I can't remember which came first. I

don't recall seeing him there, but I certainly was accompanied by Canadian naval experts in submarines. I wouldn't go otherwise.

[*Translation*]

Mr. Claude Bachand: I also understand that you have considerable faith in the Navy, as you stated earlier. I don't want to use the example of the car dealership again, but when I buy a car, if I don't know the dealership at all, or only slightly, I bring along a friend who knows something about automobiles before I make the decision to purchase a vehicle. However, I didn't want to use that example again.

As you may have guessed, we would have preferred an independent inquiry to the investigation currently under way. The fact of the matter is that the Navy recommended that the submarines be purchased, it undertook to make the needed repairs and now that a disaster has occurred, it is conducting the investigation. We've conveyed our sense of disbelief over the fact that the Navy will be investigating its own recommendations and modifications.

I don't want to spend too much time on this example, but...

[*English*]

The Chair: Mr. Bachand, I'm sorry, we're well over the time. We'll have more time for questions, but I want to give some to other colleagues.

Mr. Claude Bachand: It's five minutes already for me?

The Chair: Oui. Time goes fast. But Mr. Eggleton is trying to give us his afternoon, essentially, so we'll have a chance for more questions.

Hon. Art Eggleton: Did you want me to respond to that?

The Chair: You could just finish that question. I thought I heard you say earlier there was no independent review.

Hon. Art Eggleton: I don't know who would do this independent review. Would you get the French navy, for example? They have different kinds of equipment, as do the other navies. You also have industrial and intellectual property protection. It's not like a lot of other things, where you can get a third opinion.

The bottom line of all this was that they were required to reactivate them; they were required to go through sea trials before we would accept them, before we would start paying any money. We had to see the proof. This was a proven product; we knew about it. The British had put them into the water. We knew about the problems, we knew about the corrections, we knew about the capabilities. They had to get it to those standards again. They had to have it certified to dive. We have people in our navy who not only are experts at it, but obviously are concerned about safety. They obviously want to make sure, when they take over this equipment, it is going to be safe for them to use. This is a very complex piece of equipment, and they want to make sure it meets the standards they have. So there's every reason to believe this procurement was done in a way that fully protected the Canadian taxpayers' dollars and the safety of our navy people.

The Chair: Thank you for that answer. Mr. Bachand, thank you for your questions. Maybe we'll have time to come back.

Now we come to Mr. Martin for five minutes.

Hon. Keith Martin: Thank you.

Mr. Eggleton, correct me if you disagree with any of the statements I'm going to make. The sea trials the subs went on were extensive sea trials. The sub is actually stressed during those sea trials in order to give the check that finally comes with it on the part of the engineers. Is that not correct?

Hon. Art Eggleton: I agree.

Hon. Keith Martin: Those engineers are both British engineers and Canadian engineers, who were there throughout this entire reactivation process?

Hon. Art Eggleton: Correct.

Hon. Keith Martin: It would also be utterly absurd for our government to give a third party, out of government, an independent group, the veto power as to whether we're going to procure or not procure a piece of military hardware.

Hon. Art Eggleton: That's true. Consultants usually aren't in that position in any event. You can take their advice or not take their advice.

Hon. Keith Martin: There's no country in the world I'm aware of that actually does that.

Hon. Art Eggleton: No.

Hon. Keith Martin: If somebody came to you and said, why should we have subs anyway, why don't we lose the sub capability, because we have destroyers and we have frigates...? This is coming from somebody who is obviously an ardent supporter of our sub program. Could you perhaps answer the person who posed that question, given that as you mentioned in your preliminary comments, 40 countries have subs and some of those countries may not be entirely friendly to us or our allies?

•(1635)

Hon. Art Eggleton: People sometimes frame that in the context of the Cold War's being over—so why do we need these things? There is an expanding number of submarines in the world, largely the diesel-electric submarines. We have such a mammoth amount of water. Our economic zone, as I indicated earlier, is equal to two-thirds of our land mass, which is enormous. We have more coastline than any other country in the world. We need to know what's happening on our coastline, both from a defence standpoint and from a standpoint of illegal activity. We need to know what's happening on the waters in our area, we need to know what's happening over the water, we need to know what's happening under the water.

There is no other system that can give you all of the detection capabilities to see under the water that a submarine can. There are sensors and radar and things like that, but none of them is complete. They're all restrained by weather conditions, cloud conditions, or a number of other things that can't give them the same capability as a submarine. The submarine can go, covertly or overtly, to a lot of places ships on the surface can't go. It has flexibility; it can stay under water for a long period of time. In a period of a little more than a month it can patrol a mammoth area, a third the size of Newfoundland, for example. It can keep a very close watch on what's happening in and around our waters. They have been used for keeping an eye on illegal fishing or drug smuggling activities. They are capable of ensuring our sovereignty through surveillance of any underwater activity that might be coming our way.

Of course, they have a combat capability, if that should ever be required. The Cold War is over, but we have a very dangerous world out there, as we know by the many operations we're involved in. Since 9/11 we know those kinds of problems can occur right here on our own continent. We need a multi-purpose combat-capable force, which includes a navy that has a balance of different vessels, including those under water. The submarine is a valuable part of that balance, a valuable part of that multi-purpose combat capability.

Hon. Keith Martin: I see my time is up. Thank you very much.

The Chair: Thank you.

I think we heard from Admiral MacLean—my colleagues will recall it—and maybe it's a simple way to put it, or a succinct one, that the best way to locate other people's submarines is to have some of your own. It was an interesting briefing we had in Halifax. It might seem obvious, but maybe it's not so obvious.

Hon. Art Eggleton: It's also a great deterrent. Whether you're there or not, if they think you might be there and they know you have submarines, it's a great deterrent.

The Chair: Right.

Thank you. Now we'll come to the other side of the table again.

We'll have Mr. MacKenzie, please, for five minutes.

Mr. Dave MacKenzie (Oxford, CPC): Mr. Eggleton, I think in response to someone else's question you indicated the 1994 white paper indicated we needed a submarine capability, and I think it may have said four to six submarines. Would that be correct?

Hon. Art Eggleton: I think generally the navy has said three to six. It had three in the Oberon class. I think it would have liked to have six. This happened to be four, but it fit into that three-to-six category.

Mr. Dave MacKenzie: But in this situation, were we going to have only four submarines regardless of anything else?

Hon. Art Eggleton: Yes, that's right.

Mr. Dave MacKenzie: Okay.

I think my friend Mr. Bagnell made a statement for which he was looking for your concurrence: we got some training equipment, but we had to buy additional training equipment from this purchase.

Hon. Art Eggleton: I'm not sure where that division comes. We got simulators, we got training, we got spare parts from the British as part of the deal. In the Canadianization process, yes, there probably would be something additional we'd require.

•(1640)

Mr. Dave MacKenzie: We perhaps didn't get all the spare parts we ended up having to buy, nor all the trainers we needed.

Hon. Art Eggleton: I couldn't tell you about that.

Mr. Dave MacKenzie: All right.

You indicated the barter was not a big thing. Why would it have been brought forward? You indicated convenience. Was that political convenience?

Hon. Art Eggleton: No, it was brought forward by the navy or by the people involved with procurement—that division of the national defence department. It was not politically put on the table. I didn't put it on the table; I accepted it. I accept the responsibility for it because I accepted it.

Mr. Dave MacKenzie: A previous witness used the term “smoke and mirrors”. Would that have applied to that barter situation?

Hon. Art Eggleton: No. I heard that and I went to additional effort to check over the notes to see whether it was possible, and I don't believe so. People are always able to interpret anything any way they want to, but certainly from the written word I've seen it was well presented. Whether barter was the correct word to use or not, or whether it helped lead to some misunderstandings, I'm not sure, but it certainly was well described as being against current usage —“ongoing usage” was another term used—of facilities by the British in Canada.

Mr. Dave MacKenzie: Going back to the barter, I understand your position is it didn't cost us a cent more or a cent less. But I think my friend Mr. Casson's questions with respect to where the money goes when it comes into the country for providing training means something to us, in that if the money from the capital side of that military budget didn't come back into the military and it went into—

Hon. Art Eggleton: Consolidated revenue—

Mr. Dave MacKenzie: —consolidated revenue.... Now the military have to find that money in their budget to pay for the submarines. Is that fair?

Hon. Art Eggleton: The issue of where the money went was an issue of the day, but not an issue with respect to the submarine purchase. I've looked through my notes, and there is no reference to that whatsoever. I recall no discussion along those lines. It was presented to me as a convenience, not in the context of that other issue.

Mr. Dave MacKenzie: But if no money changed hands, then there would not be money coming off DND's capital expense budget. Isn't that right? That's my question.

Hon. Art Eggleton: Well, we budgeted for this. We fully expected it to come out of our budget—the whole amount of money—and it was presented subsequently in a budget that came before this committee. The \$812 million was all presented as an expenditure out of the Department of National Defence.

Mr. Dave MacKenzie: Okay.

When were the other submarines taken out of service, roughly speaking?

Hon. Art Eggleton: I believe two were taken out shortly after the purchase, and I think a third one was kept for some period of time for transitional training purposes, but I can't recall when.

Mr. Dave MacKenzie: Were those submarines operational, in that they were at sea, up to the time of the purchase in 1998?

Hon. Art Eggleton: I don't recall. One was scheduled to go to retrofit. There had been, I think, already some refitting done, but one was scheduled to go for its refit, and we terminated that refit as part of the expenditure savings so that we were able to then accommodate it within our budget.

Mr. Dave MacKenzie: At some point I read or heard that one of the reasons this was a good purchase was that these submarines were built by the British, as were the submarines we were taking out of service, so there was some familiarity between the two sets of equipment. Is that...?

Hon. Art Eggleton: That helps, yes. Certainly that helps. As I said earlier, the Royal Navy is the parent of the Royal Canadian Navy. There have been a lot of exercises and training and relationships over a great many years, and as well there was the fact that we had the Oberons before these. Even with their new nuclear submarines, we could also continue to access, with the purchase of the Upholders from the British, many of the spare parts they would use.

Mr. Dave MacKenzie: The last part of this question is this. Do you see the delay in the purchase, and the fact that the submarines are being put into service now, as a problem in keeping our submariners current, with turnover and new people coming on?

● (1645)

Hon. Art Eggleton: There's no doubt there has been a bit of a lull here, but at least we've kept the capability and we've kept the training going. The alternative would have been to cease the capability. I think they can quickly get back up to speed and to a full operational context very soon.

The Chair: Thank you.

Thank you, Mr. MacKenzie.

Mr. Eggleton, I have just one question and then we can continue.

You can't get into any trouble from the government, and I guess I'm prepared to risk it. I heard you many times—and other members who were around here will recall—arguing for a point Mr. Casson and others pursued, that there ought to be credit to the defence budget for defence assets, and that it shouldn't be shortchanged at a time when we were already making significant cuts—some would argue, as I would, too deep cuts—to defence.

You answered the barter question several times to several colleagues with the idea that there was no difference in the bottom line financially to the treasury. But if I can use a colloquialism, was Defence getting ripped off by that kind of system, or do you think, as a former minister now, it was somehow less than fair due to the defence budget of this country that the government proceeded in that budgetary fashion?

Hon. Art Eggleton: At the time we purchased the submarines, that was not part of the dialogue. At that point in time, the money went to the consolidated revenue fund. The submarines were purchased early in my term as Minister of Defence, but as time went on and I examined the issue more, I became more interested in pursuing it with the finance department, particularly when we got into NATO flying training, because I saw that as something by which we had created a lot of revenue and felt we should have had the benefit from it. Also, when were looking at possibly expanding the operations at Goose Bay, I felt again that we should have gotten the credit for it.

As far as the taxpayer is concerned, it comes to the government, but when you don't have the funds you feel you need to be able to operate the department, you look for any way you can to try to enhance your revenue base. I felt we should have gotten credited directly and should have been able to add it to our budget without any penalty whatsoever from the treasury. Subsequently, but not during the submarine discussion, that became a point of contention and discussion.

The Chair: Okay. Thank you.

On this side, are there any further questions?

Mr. Bagnell, you have five minutes.

Hon. Larry Bagnell: Thank you.

I don't want the chair to cut me off from my commercial.

I asked the officials—the purchasers—questions about why they didn't purchase submarines.... As you said, we have the largest coastline in the world, and on the majority of that coastline there is ice year round. Of course, there was a political.... They weren't the ones who made those decisions.

Why, in that era, did we not buy either submarines or any naval vessels that could patrol the majority of our coastline, for all the same or similar reasons, including northern sovereignty, that we would patrol our other coastlines?

Hon. Art Eggleton: That's a good point. Of course, a part of the reason for purchasing foreign submarines is it gave us an opportunity to restore a capability to the west coast, but that doesn't address the coast you're interested in. I certainly raised those issues at the time.

The hope was that we could develop the technology for an air-independent propulsion system that would give a diesel-electric submarine the opportunity to be able to go to the north and deal in under-ice conditions. It didn't mean it could do the same thing a nuclear submarine could do—stay under the icepack for as long a period of time—but it would give us a capability there.

Indeed, from what we're hearing from the environmentalists, perhaps it would increase our capability in that direction as well, not for a reason that makes us particularly happy, but as it opens up more in the Arctic, with less ice less often, not as much of it, certainly then our opportunity to do more patrolling up there, even with surface ships, would increase.

What we were doing at the time was engaging Ballard Power Systems Inc. in Vancouver to develop fuel cell technology that would give us this kind of a system. In fact, we also looked at going

into partnership with some Scandinavian countries that were interested in a similar kind of capability. Unfortunately, Ballard decided, as I understand it, to drop the development of this technology.

I don't know where this stands today, whether anybody else has picked up the research on this, but I remember at the time saying we hoped that when we came to the stage of refit, which would be halfway in the life of these submarines, we would be able to install such a system that would give us the capability of taking the submarines up into the north. I think that still needs to be pursued.

• (1650)

Hon. Larry Bagnell: Do you have any comment on surface vessels? My understanding at the moment is that the navy still does not own a vessel that can go in the ice.

Hon. Art Eggleton: The coast guard does, or they did, but yes, that's something that definitely needs examination as well. But I do note that I believe frigates or coastal defence vessels are now going up into the north. It's a very seasonal situation and they have to be careful about the ice, but I think those capabilities need to be developed more. I think all of the military capabilities in the north need to be increased.

Hon. Larry Bagnell: Thank you.

The Chair: If you still have a few questions or you want to promote the Yukon or anything, Mr. Bagnell....

Hon. Larry Bagnell: To get more specific to my very first question, since the acquisition of the subs, have you heard of any other electrical or leakage problems? In water leakage, I'm talking also about where instruments might go into the ocean, the various openings that have to be opened but don't have to leak. Since the acquisition, are there any that might be dangerous or that weren't fixed during the trials?

Hon. Art Eggleton: No, nothing specific in my time as Minister of Defence. Yes, there were things that needed some attention and correction, but they were minor. For anything since then, I only know what I've been reading in the newspaper.

The Chair: Thank you, Mr. Bagnell.

I'm teasing Mr. Bagnell. He asks some interesting questions, and he always manages to bring his riding into it as well, which is not a bad thing for us to do. In elected office, we can relate to that.

I don't believe we need a third round, but I do know one colleague, Mr. Bachand, has a.... Oh, I'm sorry. I'm not going to be very popular if I don't finish the second round properly, and I've gone ahead of myself.

To finish the second round, the last questioner is Mrs. Hinton. Sorry, Mrs. Hinton, five minutes for you.

Mrs. Betty Hinton (Kamloops—Thompson—Cariboo, CPC): That's all right.

I don't represent an area that has an ocean. I actually represent the northernmost tip of the Sonoran Desert, so submarines are not an issue in my riding. But the issue of submarines is important to all Canadians.

I'd like to make a comment that I find it interesting that the parliamentary secretary is the only member of the committee that I've heard so far raise the question of whether Canada should have submarines. I don't believe, personally, that the fault lies with having the submarines; I think the fault lies with the government dragging its feet to the point at which an asset that we purchased was allowed to deteriorate. I think that's the main point.

To go back to one of the things you said earlier, Mr. Eggleton—and welcome to the committee, by the way—the Sea King replacement project was cancelled at a cost of \$500 million in 1993, and then there was a 23% budget cut, as you mentioned earlier. I believe, if I wrote it down correctly, you said, “We took five ships out of action and three subs in total, for 23% of the defence budget”.

• (1655)

Hon. Art Eggleton: Oh no, that was just what we needed to help fund the submarines. There were a lot of other things that were cut as well over several years.

Mrs. Betty Hinton: But is it accurate that you did say earlier there were five ships taken out of action and three subs?

Hon. Art Eggleton: Yes, there were five ships. Three were in a reserve status. They weren't being used anyway. Two weren't active and were removed, plus two of the three submarines.... That helped save us the money to buy the submarines. That was over and above the 23% that had been taken out of the budget.

Mrs. Betty Hinton: I'm sorry, I didn't quite follow that. The \$500 million we ended up having to lose when we cancelled the—

Hon. Art Eggleton: Oh no, I'm not bringing that into it. I'm talking about the program review that had started in 1994 to reduce all budgets in all government agencies as a matter of eliminating the deficit. Defence had a 23% cut to absorb over about a five-year period to accomplish its share.

Mrs. Betty Hinton: So we had a 23% cut, which included the things I outlined and that you said earlier, the five ships and the three submarines.

Hon. Art Eggleton: No, that was over and above it.

Mrs. Betty Hinton: Over and above it, okay. And a 23% cut in total to the department.

Was there anything related between not purchasing the Sea Kings and using that money for the submarines, or is that related at all?

Hon. Art Eggleton: No, it's not related.

Mrs. Betty Hinton: The other thing I found interesting in your discussion—and you've been very informative, by the way—is a question I have to ask you as a person. How do we, as the government, give a clear expression of interest in purchasing submarines to another country and then drag our feet as long as we did, knowing full well, as you said earlier, we didn't have the money to buy these in the first place? How do we justify that as a country, and what kind of damage is done to our credibility if we make an offer to purchase knowing full well that we don't have the money?

Hon. Art Eggleton: We didn't make an offer to purchase. We expressed an interest in the matter. The navy certainly had expressed an interest in the matter going back to 1993, the very time the decision was made by the British to take the Upholders out. I don't know who approached who first, but I think they both sort of came together roughly at the same time. The British said they were not going to proceed with the Upholders; they were putting them out. The Canadian Navy was saying they had been looking for some time to get something and this may be their opportunity. I think that coalesced all at the same time.

Then we had a change in government in 1993. The new government came in and said it wanted to look at the whole question of defence and decide what capabilities it wanted. We were also facing some tough times; we had to eliminate the deficit, so that had to play into this as well. We then had the joint committee of the House and Senate, then the defence white paper, and that took us into 1994. Subsequent to that, they started looking a little more seriously at these submarines, sending technical crews over there to look at them. In 1995, Minister Collette got authority from cabinet to proceed with negotiations, to see if we could come to an arrangement but at the same time knowing that with all those budget cuts we somehow had to find the money. We couldn't go and get new money for these submarines. So it was a difficult situation to cope with. I don't think dragging the feet is, as you say, appropriate.

As for deterioration, yes, there's no doubt there's some deterioration while they sit there. It's not as much, perhaps, if it's in extensive use, but remember, the deal that was struck at the end of the day was that the British had to reactivate them. They had to pay for reactivating them back to a status that made them fully operational. Yes, they took some time to do that—it does in all capital purchases—but the bottom line was that they had to reactivate them with their money.

Mrs. Betty Hinton: All right. Let me back up a little here, because I've been listening to witnesses for quite a while now on this whole issue. In 1993 this began. In 1995 you said today that there was a cabinet endorsement to proceed with the sub purchase—

Hon. Art Eggleton: Negotiations; no final decision.

• (1700)

Mrs. Betty Hinton: Negotiations, okay. Then there was the back and forth part and all the rest of that. But if I'm reading correctly and if I'm listening carefully enough, you told us there wasn't any money in the first place to be making this overture.

I'm trying to find out, based on this chronological history, how we were going to buy these subs if we were making this overture toward the British to do so. I guess if we're going back to the part about the deterioration...I've listened to enough witnesses tell us that as well; we were in Halifax and had some conversations. Wire does deteriorate and anything that sits in water rusts, so there is deterioration.

I'm wondering if you can give me an overview from your perspective on how we justify making an overture, knowing we don't have any money in the first place, and how we got into the position we're in today.

Hon. Art Eggleton: There were three things going on at the same time. First of all, we had crews, expert naval people, going over and looking at these vessels, looking at the boats, talking with the British, looking at the records, determining what shape they were in, and determining what had to be done to get them into reactivation. There was an expert examination going on by technical teams.

At the same time the navy was saying, "This is a priority for us, and if we want to keep this submarine capability, we'd better see how we can rework our priorities to find the funds so that we can accomplish this", the government was going into negotiations on a government-to-government basis to determine a fair and reasonable price. These things were happening simultaneously. It all came together, and we made the purchase.

A clear part of the purchase was that they had to be reactivated. They weren't in a condition that they were no longer reasonable to purchase. They were there for some period of time, yes, but they were still in very good shape. These were virtually brand new. Some of them had had very little use at all. They'd all been commissioned in the early nineties, 1990 to 1993, and we were there looking at them when they were still fairly new.

Clearly the conditions were that we had to protect our interests, we had to protect the taxpayers' dollar, and they had to reactivate them to a fully operational, safe-to-dive condition.

Mrs. Betty Hinton: And I believe you said they did that. They honoured that end of their obligation.

Hon. Art Eggleton: Yes.

Mrs. Betty Hinton: But I go back to the fact....

I know I haven't got any time left.

Hon. Art Eggleton: There's still some question about the *Chicoutimi*.

Mrs. Betty Hinton: Right.

You mentioned 1993 and 1994. That was more than a decade ago. So deterioration, I think it's pretty reasonable to assume, did take place.

Hon. Art Eggleton: Well, remember what I said about when they ordered their own submarines; it took seven years to get the first one. The Australians, 17 years after they ordered their first one, are now in the stage of acceptance. The stage we're in for most of the submarines is six years later. So we're doing a lot better on that time comparison.

Mrs. Betty Hinton: Were theirs built or purchased?

Hon. Art Eggleton: They built them brand new.

Mrs. Betty Hinton: It takes longer to build them.

Hon. Art Eggleton: Yes, but 17 years...?

Mrs. Betty Hinton: It seems like a long time. They must be taking hints from other governments.

Hon. Art Eggleton: It is too long.

The Chair: Thank you very much.

Interesting questions, Mrs. Hinton, and interesting overview. We've heard around this table many times that the procurement of equipment is too long, that's for sure. I think members on all sides agree with that, as does the former minister.

I was ahead of myself before, but that now does complete the second round. We don't have time for a full third round.

Mr. Bachand, we're going to give you the final question or two, if you would, please, sir.

[*Translation*]

Mr. Claude Bachand: Mr. Eggleton, I'd like to know if you signed the contract on behalf of Her Majesty? Did you sign on the dotted line on behalf of Canada?

[*English*]

Hon. Art Eggleton: I don't believe I personally signed it. Normally these contracts are signed by officials. I signed the document that goes to cabinet, I signed the authority, but I think the actual agreement was signed by officials, pursuant to the authority they're given by the cabinet.

[*Translation*]

Mr. Claude Bachand: Surely you're familiar with some of the contract terms. In essence, it was a full equity lease agreement. Correct?

[*English*]

Hon. Art Eggleton: Yes.

[*Translation*]

Mr. Claude Bachand: You stated that the British were responsible for reconditioning the submarines. In your opinion, did the contract contain a clause allowing Canada to pull out of the deal if it was not happy with the arrangement, hand the vessels back to the British and forget the whole thing?

● (1705)

[*English*]

Hon. Art Eggleton: Yes. We had to accept them in order for the payments to start. Even at that, the payments are lease payments; we're not under the obligation to own them, at the end of the day.

So acceptance was required, yes. There was a detailed outline of the procedures to be followed.

[*Translation*]

Mr. Claude Bachand: I see. I have no further questions.

[English]

The Chair: Mr. Eggleton, thank you very much for joining us this afternoon. I think you had a particularly key part in the purchase of these subs, as the questions have highlighted again. I think you've been very frank and candid with us, and we certainly do appreciate it.

I know my colleagues on both sides would want me to wish you the very best in your post-parliamentary career, both personally and professionally. Thank you very much, Art, for joining us today.

Hon. Art Eggleton: Thank you very much. I hope I've been of some help to you. I know you've spent a lot of time on this. Good luck at getting more money for Defence.

The Chair: Thank you. We're going to try our hardest.

Now we have a couple of items, colleagues, of committee business. As Mr. Eggleton makes his way out, we'll take about five minutes.

I had the clerk circulate to you a letter from the leader of the government in the House of Commons, Mr. Valeri. For returning members, you'll recall this. This came in the session before the last election, when I was also in the chair in that brief session. It came shortly before the election, so it wasn't acted on because the time ran out. It is about whether or not this committee wishes to review the various appointments that come under its purview. Mr. Valeri has provided a partial list, and there are some 49 appointments. I'm assuming you all have that.

Unless somebody wants to speak to it now, I'll just leave it with you for your advisement. Unless someone takes the initiative and tells me they want certain appointments reviewed, that could mean we could bring in those people or we could bring in whoever we want to talk to us and dedicate part of a meeting to it. Does anyone wish to speak to it now?

Mr. Bachand and Mr. O'Connor.

[Translation]

Mr. Claude Bachand: Thank you, Mr. Chairman.

I believe reviewing appointments is one of the committee's prerogatives. I don't think we've ever gone so far as to summon individuals. I'd like to know the names of the persons mentioned in this document. No names are mentioned, only the fact that there is a chairman, another chairman, a member, and so forth being appointed. Would it be possible to have some names from now on?

[English]

The Clerk of the Committee: Any time one of these appointments is made by order in council, they send the name to us and we get the CVs and distribute them to the committee members. This process, I believe, is that if there are particular appointments the committee would like to review before the person is actually appointed, then they would send us the names in advance, if we indicate to them certain positions that we want to review.

The Chair: If we'd like to see, in other words, a short list of possible candidates, Claude, then we could say, we want to see your list. That's why it's before you now, for information.

Mr. O'Connor.

Mr. Gordon O'Connor: Maybe I misunderstand, but you're asking for an expanded list. I'd like the Chief of Defence Staff when he's appointed, whoever that person is, to come before our committee to try to find out what the vision of this person is, where they see the armed forces going and that kind of thing.

The Chair: Absolutely. You're saying—

Mr. Gordon O'Connor: We're going to get a new appointment for Chief of Defence Staff soon. I think it would be appropriate for this committee to interview the candidate, whoever it is.

The Chair: That's what I want to understand from you. Do you want to leave it to the government to appoint and bring that person in very quickly thereafter, or do you want to have the minister come in and discuss with us possible candidates, even if that had to be in camera. I'm not sure which way you want to go with it, Gord. Do you want to wait for the appointment and then meet with that person very quickly, or do you want to have some discussion about possible CDSs who could be appointed? Do you want to think about that one?

Mr. Gordon O'Connor: I'd like to think about that because now I'm getting into ministers' jobs.

• (1710)

The Chair: I hear you. That's why I asked. This is an important letter and that's why I asked the clerk to circulate it.

Did you have something, Michel?

Mr. Michel Rossignol (Committee Researcher): The committee usually invites new appointments, in terms of senior officers, like the Chief of Defence Staff, or deputy or vice-chief. The committee usually invites them.

The Chair: Once they're appointed. I'm just saying we know that.

Mr. Gordon O'Connor: I'm not talking about the usual. I'm talking about breaking the mould to set a pattern for the future for all governments, regardless of party.

The Chair: Right. Mr. Rossignol has indicated what we've done, and we can do that, but that's why I put out, do you want to have, as a committee—and we can think and talk about it at another meeting—some discussion around possible people who may be potential CDSs? That's another question altogether.

I have Mrs. Hinton and then Mr. Martin.

Mrs. Betty Hinton: I definitely would like an opportunity, before the appointment is made, to have an introduction to and a CV from the chairman of the Veterans Review and Appeal Board. That's the chairman, I would take it.

The Chair: All right. The clerk will take note of these for us.

Now you can see the one time constraint we're under here, before I go to Mr. Martin, is that the House leader of the government would like to have by December 17—that's three weeks—the recommendations of our committee, SCONDVA, on which of these positions should be subject to prior parliamentary review. "Prior" is the key word, and that's why I put out the suggestion there. I'm not promoting it one way or the other, but if this committee felt it wanted to, even in camera, look at a short list of people for the position of CDS, that's a valid discussion.

Mr. Martin, and then I'll come back to Mr. O'Connor.

Hon. Keith Martin: I would propose that we table this until the next time so we can actually get our head around this idea, because it's quite innovative and we can really put together something quite good, as Mr. O'Connor said, to set the table for the future.

I propose that we table this, bring this back at the next meeting we have, and allot time for discussion so we can all come up with a plan that would be quite innovative.

The Chair: That's fine.

There's a motion to table. All in favour?

Some hon. members: Agreed.

• (1715)

The Chair: That's good.

Essentially what I wanted was to get it out and then we can talk about it further. Thank you for that.

Wednesday, I will recall for members, we have the Auditor General and/or her key staff. I believe the Auditor General has

attended here in the past. She likes to do that, and I believe she's going to make her very best effort to do that on Wednesday.

Just so there's no misunderstanding, she's not coming to speak to the submarine issue; she's coming to speak to her observations about the defence budget in total. If there's some relevance with the subs, then that question could be asked, but I didn't want anybody to think she was somehow coming just to talk about submarines. So she's coming, and that's an important meeting.

Next Monday, a week today, we have scheduled Petty Officer O'Keefe, who is retired, to join us. There will also be someone from the department side, as per the request of the committee members. I've asked the clerk to set it up so we don't get into a he said, she said kind of thing. We'll hear from Mr. O'Keefe and we'll ask Mr. O'Keefe our questions, and then we'll hear from whomever the department sends and we'll ask that individual our questions. Hopefully we can address some of the concerns this individual has raised and help the work of this committee.

As of now, the only open meeting is December 15, which would be the Wednesday of the final week before the Christmas break. At this point, that meeting remains unscheduled so I'll leave it to colleagues to keep that in mind. Maybe we could revisit at that point, if not sooner, the tabled item on Mr. Valeri's letter. I know this committee will want to work right to the Christmas break, so we should look at what we want to do on Wednesday, 15 December.

With that, are there other questions or comments from colleagues? Seeing none, the meeting is adjourned.

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