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Chair

Mr. John Cannis

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Standing Committee on National Defence and Veterans Affairs

Tuesday, November 1, 2005

• (1100)

[English]

The Chair (Mr. John Cannis (Scarborough Centre, Lib.)): I call this meeting to order.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on February 24, 2005, the committee resumes its study of a review of defence policy.

I'd like to welcome our guests today to the Standing Committee on National Defence and Veterans Affairs. We have with us colleagues from the Canadian Defence Industries Association: Mr. Timothy Page, president; and Mr. David Stapley, executive vice-president.

We also have with us, from Aerospace Industries Association of Canada, Mr. Peter Boag, president and chief executive officer; and Mr. Ron Kane, vice-president.

You have up to 10 minutes or so for your presentation. Then we'll open it to questions from the members of the committee. We'll have three rounds. The first round will consist of seven minutes for questions and answers. The second round will have a similar format, for five minutes, and the third round will have a similar format again.

Tim, the floor is yours, sir.

[Translation]

Mr. Timothy Page (President, Canadian Defence Industries Association): Thank you, Mr. Chairman. I apologize, but we were unable to submit our documents before this meeting. I would ask your permission to distribute them so that the members of your committee can consult them during our presentation. Unfortunately, since we finished them on the weekend, we didn't have the time to have them translated.

[English]

The Chair: I will ask members of my committee if they are receptive to those terms. Sometimes circumstances prevent you from having it translated. We've always asked that it be in both our official languages.

I will go to our members for any comments on that.

Monsieur Bachand.

[Translation]

Mr. Claude Bachand (Saint-Jean, BQ): Mr. Chairman, we've been here for a number of years now, and we're always given the same argument. That's why we don't allow documents to be tabled.

Mr. Timothy Page: It wasn't mentioned that this was a committee where we had to appear in both official languages. We were invited

to this committee barely 10 days ago. We were unable to prepare a document and have it translated in time. However, I accept the committee's decision, of course. I think it would be preferable for people to have access to our written document, in addition to hearing what I have to say.

[English]

The Chair: Thank you.

I'll go to Mr. O'Connor.

Mr. Gordon O'Connor (Carleton—Mississippi Mills, CPC): I don't think we need notes from anybody. We listen to the presentations, and subsequently we can add translated notes or whatever. But it's the presentations of the individuals that are important.

• (1105)

The Chair: I'm hearing two similar views. I tend to agree with Mr. O'Connor and Mr. Bachand, but I do hear your request.

If I recall, Mr. Page, you indicated that you would be willing to table the document after the presentation. So with that proposal, are there any comments from the committee members on whether, after the meeting concludes, they would be permitted to distribute their document?

I've just been informed by our clerk that it has been received electronically and it's in the process of being translated.

Monsieur Perron.

Mr. Gilles-A. Perron (Rivière-des-Mille-Îles, BQ): There's no problem in that case.

[Translation]

If you're translating it into French, there's no problem.

[English]

The Chair: It is being translated. I just need your permission, members of the committee, to extend the proposal of Mr. Page to distribute the document at end of the committee, even though it's only in English.

That is agreed. Are there any other comments?

Mr. Page, the floor is yours, sir.

[Translation]

Mr. Timothy Page: Thank you, Mr. Chairman. We are pleased to be here before you today. My name is Tim Page. I'm the new full-time president of the association. With me is David Stapley, who is a volunteer member of our board of directors and who is president of DRS Technologies Canada.

[English]

CDIA appears before you at a dynamic time in the evolution of the Canadian Forces. The release of the federal government's defence policy statement; the Senate's work on defence and security priorities; the creation of PSEPC; the greatest increase in defence and security spending in 40 years, and perhaps the greatest spending for the next 30 years to come; and fundamental organizational changes of the Canadian Forces are all important indicators of a changing perspective within the federal government on defence and security matters.

We also appear before you at a time of great anticipation over our projected multi-billion dollar request to the government for authority to address the military's stated new requirements.

Your committee's interest in reviewing defence procurement and the strategies and procedures that surround procurement is therefore both timely and very important. Procurement is a subject of great interest to the membership of CDIA. We believe and hope that our presentation will encourage you to believe it's a matter of great consequence to our country as a whole.

[Translation]

Allow me to illustrate a few aspects of our initiative. Our association represents more than 440 individual members, including Canadian security and defence businesses. Those members serve not only the defence markets, but also trade markets. The industry's exports represent approximately 50 percent of its revenue, and the U. S. market represents 80 percent of those exports.

[English]

Our membership includes defence and security companies from large system integrators to small niche market players, from which innovation and new technologies emerge that benefit both military buyers and the commercial marketplace.

Canada is considered to be,

[Translation]

if you'll pardon the expression,

[English]

all-world capable in a number of defence and security-related areas, including defence electronics, surveillance, reconnaissance, intelligence and detection technologies, chemical and biological protective apparel, naval combat systems, and ammunition and aircraft systems and subsystems, among others.

[Translation]

More than 70,000 people work in the defence and security industries. Revenue generated by our businesses amount to approximately \$7 billion a year.

[English]

We estimate that CDI members currently supply about 70% of Canada's defence equipment and service requirements.

Our key message to you today, as the committee considers defence procurement, is we'd ask you to reflect on two key issues: first, how best to leverage off defence procurement to achieve whole-of-government objectives without compromising the military's mandated operational mission; and second, what practical improvements can be brought to defence procurement procedures to promote transparency, fairness, accountability, fair market and greater net value for the taxpayer, and a fair market return for suppliers.

As suggested above, we put these issues forward at what we believe to be a watershed moment in Canada's defence procurement history. We encourage the committee and the government not to lose the opportunity to bring real strategic value to Canada as it relates specifically to military requirements, trade, industrial and technology gains, productivity, and jobs development.

So our presentation has two principal themes.

First, think and act strategically with whole-of-government economic and industrial objectives in mind when making decisions on defence procurements, without compromising the military's defined operational mission. That strategy, in our mind, would include, but not be limited to, economic trade, innovation, productivity, and industrial objectives.

We believe these objectives can be achieved without compromising the military's defence and security requirements and should result in a shorter procurement timeline, which would be good news for the Canadian Forces. It will ultimately also benefit the taxpayer and industry through reduced costs.

To achieve these outcomes, we suggest the following measures.

First, ensure an effective policy process, implementation, oversight and audit measures endorsed by cabinet. We believe the government policy framework to implement strategic decisions is largely already established. The tools are already available to government, whether they be national security exemptions, IRBs, Treasury Board guidelines, or others. However, we would argue that interpretation and implementation of policy at the operating level could have produced better results from previous procurements.

Second, establish a process, in consultation with industry, that evaluates Canadian industrial capabilities at the concept phase of procurement.

Third, incorporate the role of an external independent adviser, supplemental to internal DND expertise, to offer advice on procurement options and ensure consistency in program direction and management.

Fourth, where bona fide Canadian capabilities exist and the technology sector fits with government-wide objectives, Canadian industry should be engaged. We believe this approach should become the norm rather than the exception. In cases where offshore sourcing is the required strategy, benefit should be leveraged for the industrial benefit of targeting critical sectors deemed to be in Canada's national interests.

Fifth, encourage greater private sector investment and increase government investment in research and development as a necessary component of the overall industrial strategy.

Sixth, introduce a separate fund dedicated to those federal departments and agencies that have a defence and security interest to buy and try new Canadian technologies and equipment in defence and security.

Seventh, identify and introduce measures that induce innovators from the commercial sector to make a greater contribution to defence and security innovation. Small and medium-sized businesses are the largest player in Canada's industrial base and the source of a great deal of innovation and new technology. We believe special efforts can be made to help support that sector, including assistance at least in the defence and security community as it relates to third-party and product liability insurance.

And given the relatively small size of the Canadian defence and security market, defence procurement should be leveraged to assist Canadian companies to gain access to the supply chains of major prime contractors and, as we're doing that, increase our efforts to expedite trade with our largest partner, the United States.

Our second theme, Mr. Chair, is to enact workable solutions to improve and enhance Canada's defence procurement process. We have a number of recommendations to make to your committee in that respect.

One, ensure a procurement process founded on fairness, transparency, accountability, fair market value for the customer, and fair market return for the supplier, and where the customer gets what it needs to meet its mandated mission requirements.

• (1110)

Two, we believe the defence procurement should be based on performance indicators, i.e., where the customer is focused on the desired end result that meets operational requirements and not on prescribed requirements.

We would encourage the government to consider in this context adding an external adviser to supplement internal expertise so as to ensure consistency to operational requirements from program inception to commissioning and through life support.

Four, if sole-source or directed-source strategies are pursued by the government, we expect that the government will have first satisfied itself that there are no viable alternatives based on the defined requirements and that the chosen approach will provide the best possible leveraging of other government strategic objectives.

Five, defence program costs need to be evaluated over the life of the procurement program. Total program costs need to be considered in the context of net overall best value for the Canadian taxpayer.

We would suggest improved statistics be made available to the federal government on defence and security industries to assist public policy-makers in fully appreciating the value of the industries and being able to anticipate and properly assess potential labour market trade and other industrial challenges.

And, not for naught, we would encourage a streamlining and accelerating of the defence procurement process. The current timeline for major procurements raises risk to the effective operations of the Canadian military and the men and women who serve in uniform. Time delays and protracted procurement procedures result in direct costs to both taxpayers and to industry that can be significantly reduced.

Industrial regional benefits are a tool, among others that are available to the government, to advance its overall economic and industrial objectives. Our view is that IRB should be used strategically and targeted to achieve overall national interests. Used effectively as part of an overall industrial strategy, they can support the introduction of new and innovative defence and security capabilities, act as a multiplier for job and wealth generation, and secure our industries' future as more than metal bashers and mechanics shops.

Mr. Chairman, in conclusion, we need to get on with the job of acquiring new capabilities that meet defined mission needs, and do so in manner that is transparent and equitable and maximizes the government's leverage in support of strategic Canadian trade and industrial interests.

Thank you for your attention. We look forward to the question and answer period at the end of the presentations.

Je vous remercie, monsieur.

• (1115)

The Chair: *Merci, M. Page.*

We will go to Mr. O'Connor or—

Mr. Gordon O'Connor: Mr. Chair, the others are not going to speak?

The Chair: No. I was told Mr. Page was going to speak on behalf of the aviation. I'm sorry, it's Mr. Boag. I only saw earlier somebody to point towards—

Mr. Gordon O'Connor: Mr. Page spoke on behalf of the Defence Industries Association.

The Chair: By all means.

Mr. Peter Boag (President and Chief Executive Officer, Aerospace Industries Association of Canada): No problem.

Thank you.

Good morning, Mr. Chairman and members of the committee.

I represent the Aerospace Industries Association of Canada. We represent the collective interests of more than 400 aerospace companies from coast to coast that serve a broad spectrum of customers in the commercial defence and space market segments. Collectively, these companies directly employ more than 75,000 Canadians and generate annual revenues of \$21 billion a year.

I very much appreciate the opportunity to appear today to provide an industry perspective on defence procurement and what is required to improve its efficiency and track record in getting the right equipment and services delivered to the men and women of the Canadian Forces on time and at an affordable cost, while also leveraging the potential of high-value, high-technology procurements to achieve other whole of government objectives, including industrial development objectives.

Defence procurement and the context in which it is conducted is strikingly different from other types of public sector procurement. It involves consideration not only of the military effectiveness and whole life-cycle costs of the equipment or services, but a wide variety of economic, industrial, political, and sometimes foreign relation factors. It is complex, entails the expenditures of large sums of taxpayer money, is a high-profile subject for politicians and the press, and creates a natural tension between buyer and seller. The role of government and its relationship with industry is also unique in defence procurement, as the government is the only or major buyer of defence and national security solutions.

Over the past two decades, we have seen defence procurements in Canada take increasingly more time to achieve, cost considerably more than planned, and leave both the customer and supplier-base frustrated and disappointed. In our view, the defence procurement system needs to and can function more optimally to achieve outcomes that meet the capability needs of National Defence and the Canadian Forces, the Government of Canada's broad policy objectives, and industry's business imperatives.

Let me say at the outset that these are not mutually exclusive outcomes. With the right policies, processes, and most importantly, vision and leadership, these potentially competing outcomes can be reconciled to the substantial benefit of all Canadians.

I suspect that everyone in this room holds to the view there is a compelling need to eliminate duplication and process inefficiency within the existing defence procurement process. There is also a need to maximize the potential economic return from high-value, high-technology acquisitions by National Defence. Those having a role in the process inside the government, as well as in Canada's aerospace and defence industry, must change the way they engage on defence procurement. Through the mechanism of the Canadian aerospace partnership, industry CEOs, federal industry minister David Emerson, his colleagues from six provinces, representatives of the Department of National Defence, Department of Public Works and Government Services, and the Treasury Board, as well as other stakeholders are now engaged in a constructive dialogue to achieve these ends.

In early September, a partnership working group on government procurement tabled a report that set out a number of recommenda-

tions improving the functioning of the federal government's procurement system—in particular, the defence procurement system—and the outcomes it produces.

Before speaking to the working group's recommendations, let me provide some context. While the future is uncertain, one constant is assured. Continued pressure on Canada's fiscal situation from increased funding requirements for health care to investments required in education, cleaner environment, all will lead successive Canadian governments to seek even better value for money from their spending on defence.

Some defence analysts have gone as far as to warn that a severe defence capabilities crisis is upon us now—the aggregate result of past defence budget cuts, seriously constrained capital budgets, and a sustained high-operating tempo by the Canadian Forces across a number of recent operations. Adherents to this view argue that spending on defence was not enough even before Bosnia, Afghanistan, and the war on terror. It is certainly not enough now.

• (1120)

Others, usually outside the defence arena, argue that defence is already sufficiently funded and should be able to meet its current operational taskings. They premise their view on the overall size of the defence budget in comparison to spending in other federal government areas, budget increases that have already been announced, and the need for this money to be spent more efficiently before any new funds flow.

In short, the government faces some stark, if not altogether clear, choices about the current defence capability dilemma. It can try to buy its way out, a solution some defence analysts think would cost several billions of dollars annually for the next few years, or it can think its way out, by achieving savings through lowering procurement overheads and applying the savings to new equipment purchases. This means not only spending on the right things, but also being smarter about how defence procurements are planned and executed in a process that clearly encompasses a myriad of functions and is the object of influence exerted by a diverse group of interested parties both within and outside government. The optimal solution likely lies somewhere between these polar opposites: more modest budget increases levered by greater efficiency.

But more money or not, procurement reform is essential. Effective reform will demand vigorous effort by ministers, senior officials, and all levels within the complex defence procurement process. That change will be difficult and will take a long time doesn't diminish its vital importance to government, to National Defence, to the Canadian Forces, and to our aerospace defence industry, as well as the Canadian taxpayer.

Let me frame the issues as I see them.

First, the Department of National Defence, the Department of Public Works and Government Services, Industry Canada, and the central agencies all share responsibility for the effective functioning of the defence procurement system. For any reform to move forward successfully, all must see legitimacy in each other's mandates and roles, and all must believe in the benefits for the system overall. There can't be any "we win, they lose" propositions as we move forward in reforming the current defence procurement system.

Two, disassociating wider, whole-of-government objectives—industrial benefits, for example—from defence procurement is not the solution. In fact, in our view, it would be pure folly. Political leaders will always be attentive to the jobs and economic stimulus that will flow from such spending. In fact, they owe it to taxpayers. In short, defence spending without a domestic industrial benefit will lead to less defence spending.

Three, defence needs have to be better articulated and matched to realistic budget projections. This will demand tough choices for Canada's foreign and defence policy and the roles of the Canadian Forces and its operational and equipment capabilities. We must come to terms whether we want a little of a lot of capability or a lot of a little capability.

Four, we need better and more transparent long-term capital planning. National Defence must resist any temptation to try to force-fit too many projects to too little funding by either slowing them down or breaking them into smaller pieces. Such an approach doesn't save money but simply delays the delivery and fielding of needed capabilities. It injects additional risks and imposes significant and in fact insurmountable challenges to industry to maintain its skills and technology base in a low-revenue environment, often below that required to sustain a viable business model. In addition, the ability to lever strategic industrial benefits is also severely constrained by this piecemeal approach, with the resulting watering down of the benefits that might be achieved in the expenditures of large amounts of taxpayers' money.

Last, on industrial benefits, what are we really talking about? Well, in a globalizing industry, investment and economic benefit is captured by those markets offering the best return. A favourable business investment climate, an efficient regulatory environment, and sensibly applied programs that help companies create business activities and exploit their technologies in the global marketplace are key drivers of a competitive investment business case.

One key element of the business case for aerospace and defence companies is defence procurement. For some firms, a single procurement by DND may have a significant and long-lasting impact on its revenues and profitability. For others, first-use procurement by DND may be crucial in giving them the multiplier credibility in selling to export markets.

• (1125)

The absence or minimal level of Canadian content required on many recent defence contracts is weakening the motivation of Canadian-based aerospace firms to maintain operations in Canada. This is accentuated by increasing pressures on them to relocate capability or establish operations in other countries, as a necessary

step to access opportunities in these markets. Importantly, given the dual-use nature of most technology that is often produced on a single production line, the loss of or movement of a defence capability to another jurisdiction can also mean the relocation of commercial product lines.

What changes should be pursued to improve the efficiency and effectiveness of Canada's defence procurement system? Those advocated by the Canadian Aerospace Partnership working group on government procurement include an explicit recognition of the importance of a strong domestic industrial base. Canada needs domestic industrial capabilities to support Canada's capacity to act as a sovereign nation. Foreign suppliers can't always guarantee responsiveness to Canadian defence and national security needs in times of conflict.

However, in the recently published defence policy statement, there is no effective policy guidance and, indeed, no mention at all of the importance of the Canadian industrial base to meeting Canada's defence needs. It's nowhere to be found anywhere in the broader international policy statement.

In our view, the federal government should promulgate and then implement a clear policy statement and direction on how defence and national security procurements are to be used effectively to achieve whole-of-government objectives, including the development of a defence industrial base and key domestic supporting industrial sectors, such as aerospace.

There is some old policy guidance in Treasury Board policy, but quite clearly I would support what Tim has already indicated. Much of the problem involves the specificity and implementation of policy guidance.

Secondly, ministers need to become engaged much earlier in setting strategic procurement approaches. Strategies for procurements with significant industrial development potential are now being decided on without an appropriate early engagement of ministers. Today the norm is for our procurement strategies to be developed and well advanced within National Defence before they're surfaced to ministers collectively, with urgency then being cited as a rationale for proceeding with the recommended strategy. This then often leads to procurements being delayed or suspended until ministers have time to review the strategy, have their questions addressed, and have their input considered. That's a significant aspect of the delay and the slowness with which the Canadian defence procurement system moves today.

New and stronger mechanisms are needed to engage ministers early in the determination of procurement strategies governing high-value defence procurements. Once they've provided this broad strategy direction, including the balancing of the primary objective of getting the goods and services for DND and the Canadian Forces and the potential other objectives from other areas of government, this would allow them to step away and let the procurement unfold under the approved strategy.

In our view, a major benefit of this would be to reduce the degree of lobbying of ministers that goes on for months and months, often causing much of the delay in our current defence procurement approach. That's a major component of the delays, and if we can have some senior leadership and involvement at the front end rather than later in the process, we think this would be a significant way of improving the efficiency of the defence procurement system.

Thirdly, in the area of trade agreements, Canada's willingness to be a party to the WTO and NAFTA government procurement arrangements reflects a correct recognition that the benefits to Canadian suppliers gained from increased access to large foreign defence markets outweighs the restrictions they impose on its ability to implement policies and practices that favour domestic firms in what is a much smaller market. This view, however, assumes a level playing field in the ability of Canadian aerospace firms to access the defence requirement opportunities of other nations.

Under both the WTO and NAFTA, a government has the right to take any action that it considers necessary for the protection of its essential security interests—in short, to remove from coverage a listed good or service that it deems, in its sole and unchallengeable discretion, indispensable for national security and defence purposes. Canada's major trading partners routinely employ their national security rights to set domestic content conditions that would otherwise be contrary to their trade obligations. In so doing, they interpret national security in the broadest sense, beyond just defence requirements. They recognize that national security has economic and social stability implications.

• (1130)

Here in Canada, there has been a reluctance on the part of the Government of Canada to exercise its negotiated trade rights for the purpose of using procurements in maintaining domestic industrial defence capabilities. There must be greater clarification on the circumstances and criteria and more aggressivity in the Canadian government in using its negotiated trade rights.

Lastly, in the area of procurement approaches and processes, Canada needs to accelerate the adoption of new procurement approaches and business models that allow industry more flexibility and scope in bringing forward innovative product and service solutions that improve quality and reduce costs. Government and industry representatives need to come to the table in an open and constructive manner to better understand each other's needs and expectations and to work through issues that, today, add process costs but no value. Doing so includes considering issues related to greater use of performance specifications and statements of requirement, instead of statements of requirement that outline hundreds of pages of detailed engineering specifications that are highly prescriptive or that in many cases constitute questionable Canadianization; greater appetite for risk- and reward-sharing; industry teaming arrangements; criteria for assessing bids under a best-value procurement methodology that more fully recognizes value for money from a whole-of-government perspective; small business participation; and the treatment of intellectual property ownership. These are many of the issues that need to be addressed.

Implementing these practices will require changes to how Public Works and Government Services carries out its contracting activities in support of National Defence. Good contracting must be measured by the simplicity and quickness of getting the deal done while meeting imperatives of prudence, probity, and value for money.

While what is being bought may be unique and complex, the process for doing so shouldn't be. This will require building contractual relationships based on incentivizing performance rather than holding suppliers to account through the threat of punitive consequences for their failures to deliver.

I conclude by underscoring that timing is critical to improving the defence procurement process. The decisions and reform initiatives made today, both government and industrial, will shape our strategic postures and relations for the coming decade.

A Canadian public more sensitive to protecting our national security at home and abroad may have finally awakened defence from its long hibernation here in Canada. We must seize this window of opportunity to act and not squander current opportunities on the very-near-term horizon, like the major airlift acquisition being discussed at this point. We must move ahead in making the defence procurement system more efficient and better able to attain greater value to the taxpayer.

The way forward needs to be guided by sound vision and a long-term plan. We need to avoid the temptation to seize quick solutions, such as removing consideration of how defence procurement spending can be leveraged to strengthen the defence industrial base, or just changing departmental mandates. Too much is at stake.

Thank you, Mr. Chairman.

• (1135)

The Chair: Mr. Boag, I've certainly enjoyed your style of how to stretch that last minute out. Very nicely done.

We'll go to Mr. O'Connor.

Mr. Gordon O'Connor: Thank you, Mr. Chairman.

I'd like both of you to comment on the issue of sole-sourcing. When do you think sole-sourcing should occur, if ever? What are the criteria that should be used for sole-sourcing? I'd like both of you to answer that, please.

Mr. Peter Boag: I have some comments on that.

Sole-sourcing is just one of a number of different strategies the government can adopt in pursuing a specific procurement. Our view is that sole-sourcing per se is not necessarily a bad strategy. Competition per se is not always the best strategy. I think it really comes down to a strategic examination of procurement options for a given procurement, and then to beginning to look at how various strategies might best achieve the primary objective of acquiring the specific good, the operational capability that's required, and how that procurement approach may also achieve the other whole-of-government objectives.

I'm not going to say that sole-sourcing is necessarily bad and that competition is always good. It really depends on how those particular strategies best fit with achieving the objectives of a given procurement.

Mr. David Stapley (Executive Vice-President, Canadian Defence Industries Association): Perhaps I can answer that for our association. It'll be a very similar comment, by the way, to what we just heard from the AIAC.

There's not a one-size-fits-all approach to this, in my view, because of the uniqueness of the defence procurement business. That being said, in general we favour competition where it's appropriate, legitimate competition. We think, as these chaps had suggested, that doing it through performance specifications as opposed to prescriptive specifications is a way of doing that so there's an element of fairness and transparency and a quicker conclusion as to whether sole source versus competition is the most appropriate answer for us to get the best value.

The thing I, as an industrialist at this end of the table, dislike most is competition for the sake of competition as opposed to taking a more strategic, whole of government, best value approach to it.

I'll make one last comment, if I may, again, from a purely industrial point of view. The level of specificity we've seen in the past in the specifications has been so prescriptive that even though there were many competitions, there really weren't many competitions, because there were very few options at the end of the day as to who was going to win.

Time is a precious commodity. Investment in people and dollars is a precious commodity, and as Peter suggested, we need to find some mechanism to balance this out in a conscientious sort of way over time so we get the answer right more often than we get it wrong.

Thank you.

Mr. Gordon O'Connor: There are musings—they have been going on for quite a while and continue to go on—about how to deal with the procurement process. I'm not going to get into the actual process and all the steps, but various ideas are touted around, that maybe Public Works should take over procurement, maybe Defence should take over defence procurement, or maybe a separate agency should be set up to look after defence procurement. I'd like to get opinions from both of you on that concept.

Mr. Timothy Page: In our submission to you this morning we've suggested that there be a higher strategic policy look at objectives to be achieved in defence procurement.

I'm trying to answer your question, but I'm going to try to do so in two parts.

I don't think there should be any confusion that both the process and the strategies behind defence procurement for the last x number of years have been suboptimal. Whether it's a supra-committee that oversees how you identify strategic opportunities at the cabinet level or whether it's the development, as DND has just done, of an office within ADM(Mat) to focus on major procurements to ensure continuity of personnel and consistency of direction and management, there's room for improvement at both the strategic political level and at the operational level in DND.

• (1140)

Mr. Peter Boag: My comments would be that our view is that it's not so much who does it or where it's resident in government as how it's done, and it's the requirement to take that strategic view. My concern would be, if we narrow it down too far within one particular area, we'll lose the strategic view, and the broader objectives that might be achieved through a procurement will be lost.

But I think the other key element is making sure we have fully-trained, capable specialist people with a considerable amount of experience in managing the procurement process. Then we don't have to recreate the wheel every time with a new procurement and there's a trained cadre of professional program directors and program managers to manage and guide the process.

Mr. Gordon O'Connor: You are both lobbyists for industry, and so of course I expect you to support industrial benefits. But in your opinion, do industrial benefits cost the defence budget and the defence procurement process both time and money?

The Chair: Let's have quick responses, because we have just reached the seven-minute mark. We are taking time from the NDP's questions.

Mr. Stapley.

Mr. David Stapley: If I may, I'll make a couple of points.

I think there's a general view, certainly on the industry side, that it doesn't make economic sense to Canadianize, if you will, small quantities of equipment, because of the certification costs and so on.

That being said, there are ways of leveraging the expenditures and creating jobs, technological innovations, and so on into what they refer to as indirect IRBs. The thing we have to guard against, in my view, is not finding the right balance of those. There's nothing wrong with service jobs. We need to support this equipment when it's in inventory.

We go out and buy the most technologically sophisticated systems in the world, and since we don't make them in Canada, we buy them offshore, typically in the U.S. It would seem to me that through this process of the industrial benefits and regional benefits we need to get some parity in the technological return so we create our own ability to leverage our competitive position. To me, that's the policy issue we need to look at, and it's not uncommon for the U.S. prime contractors or the European prime contractors to have to deal with those political imperatives. They do it every day elsewhere, and we shouldn't be shy in terms of what we do there.

In terms of the cost, if we do it strategically, it is a negotiation between the prime contractor and the supplier. It rarely if ever hits the books of the customer if it's done strategically because it's paid for across a very broad business space, a global business space, where we try to put square pegs in round holes and create greenfield plants from scratch. Clearly, there's an upfront investment somebody has to pay, and at the end of the day it is a customer or some set of customers who pays it.

Again, it depends on the strategy at the front end of these individual procurements if we're to make sure that we do it in a way that doesn't have a negative cost impact on the defence department.

The Chair: Mr. Boag, did you have a quick comment on that?

Mr. Peter Boag: I'm going to defer to my colleague Ron Kane.

Just by way of introduction, Ron is the vice-president of the association. He's been with us a number of years, but in his previous work he ran the Canadian industrial and regional benefits program at Industry Canada, so I think we'll have some unique perspectives on that.

The Chair: Mr. Kane.

Mr. Ron Kane (Vice-President, Aerospace Industries Association of Canada): I just wanted to point out that over the last 20 years there've been several attempts to quantify the add-on costs to defence procurement from the application of industrial regional benefits. That's always been a difficult thing to isolate, that incremental cost.

I think the more important question is about looking at the value to be derived for the Canadian taxpayer by having an industrial regional benefit requirement on large defence procurement and at the value in terms of technology innovation, technology transfer into the Canadian industrial base, exports of Canadian companies in the world marketplace, and trade promotion facilitation. Rather than looking at the incremental cost—if it does exist—from IRBs, I would much rather see the focus on what the economic benefits are to be gained for Canadian industry and ultimately the taxpayer.

• (1145)

The Chair: Thank you, Mr. Kane.

We'll go to Monsieur Bachand.

Monsieur Bachand, s'il vous plaît.

[Translation]

Mr. Claude Bachand: I've been watching the Minister of Defence for a few months now regarding Canadian products. Your respective associations must no doubt trust them and pay special attention to them. You said it yourselves: the Americans feel free to push NAFTA aside on the ground that this is a matter of national security. I don't feel that Canadian taxpayers are getting value for money. When we purchase military equipment, we pay with taxpayers' taxes. I think it's very important that there be as much economic impact for them as possible. Sometimes we're told we're going to save taxpayers money by buying a particular thing elsewhere. Very often, the potential impact of a contract isn't properly calculated, even if the purchase might have cost a little more in Canada.

In my view, if the performance of a purchase is equal to or greater than average, if the production time frame is virtually identical, if the interoperability is there and if the cost is competitive, we should pick a Canadian product. I'd like to know whether you share my view. I also want to know whether you're able to influence the government. I'll explain.

Mr. Page, nearly 400 companies belong to your association. If you know the list of federal government equipment purchases and a company in your association can provide it, can your association tell the government that it would be making a mistake by not buying that type of equipment, for the reasons I just gave?

I'll ask you the same question, Mr. Kane. Can you join forces with people who have the interests of Canadian taxpayers at heart and tell the government not to buy a particular type of equipment because we're able to produce it at lower cost, with higher performance, here in Canada, and it's a Canadian product? Are you able to join in the defence of Canadian taxpayers and convince the government by publicly taking a position? Is that part of your mission as such?

Mr. Timothy Page: Sir, it's precisely for those reasons that we're before you today. You've identified a few basic points that come directly from our brief. We promote the interests of Canadian businesses in purchases by the Department of National Defence, without compromising the needs expressed by the military.

[English]

Mr. Peter Boag: Mr. Bachand, I'm going to deal with your remarks, first with respect to buying Canadian. I think there are two points to that argument or issue.

The first is to make sure, when the government is procuring a system, that it clearly uses measures that assess all of the potential value and does not restrict its value assessment, as we have seen most recently, to a straight lowest-cost compliant approach. We really need to assess what is ultimately the value in procuring, to the government and to the country, a particular system or service from a supplier. It needs to include all of those aspects of value, not only from the specific good or service purchased for the Department of National Defence, but the broader economic benefits that might occur if you were to buy from a non-Canadian supplier.

We need to proceed carefully, though, at all costs preferring Canadian suppliers. The issue here is one of striking an appropriate balance. Remember that in Canada it's still a relatively small market. Market opportunities, whether they are in the U.S., in Europe or other parts of the world, represent a potentially much greater market for Canadian companies. So we don't want to restrict access to the Canadian market totally if it's at the expense of restricting access to foreign markets by Canadian companies. We need to strike an appropriate balance.

Our view is not to recommend broad, far-sweeping buy-Canadian policies. It's a question of being strategic and, on a selective basis, identifying areas where it may be in Canada's national interests to prefer a Canadian supplier or specify a particular level of Canadian content, but not on a broad basis since that would be potentially harming our greater interests in world markets. It's a case of striking that appropriate balance.

On the final point in terms of influencing the government, I would certainly agree with Mr. Page, and that's clearly one of the reasons we are here today. It's a question of ensuring that the government, when it looks at its defence procurements, clearly understands and acts on the potential impact it can have to secure wider economic benefits for Canada, and that it pursues an appropriate strategy that maximizes those benefits, which may or may not include specific requirements to buy Canadian in the context of a specific procurement or Canadian content level.

• (1150)

[Translation]

Mr. Claude Bachand: All right.

Are you aware of the list of equipment that the government is considering buying over the next few years? Are you aware of all the plans?

More or less? All right.

If you were provided with a list of the main projects the government is considering for the next few years, could it be of use

to you? Sometimes we have access to certain information. We know the government's plans, and it might be good for you to be aware of everything. That would enable you to take more appropriate action for the members of your association.

I imagine you don't object to that.

Mr. Timothy Page: Not at all.

Mr. Claude Bachand: Fine.

If we needed your services to convince the government, could we rely on your support? We might, for example, want to publicize some injustice done to a Canadian company.

Mr. Timothy Page: In my view, the association's role is to protect the environment in which individual companies can work.

As association representatives, we shouldn't conduct transactions. That could cause problems, since, if we support the view of one of our members, we automatically oppose the other 429.

The association's work, at least in our view, is to ensure that the general framework in which Canadian businesses can promote their interests is transparent and fair.

Mr. Claude Bachand: I have another question, Mr. Chairman. Perhaps Mr. Kane could answer it.

The Technology Partnerships Canada Program was recently terminated. Would you like to see this type of R&D-based program revived, perhaps in another form? Are government subsidies that help companies conduct research and development important for you? Would you like to see a program that supports the military industry?

[English]

Mr. Peter Boag: Mr. Bachand, I believe you're probably talking about the Technology Partnerships Canada program, at least that's my assumption.

TPC is under transition right now. Minister Emerson has announced the end of the current TPC program, with one caveat. The specific aerospace and defence component of TPC is still in place, accepting and processing applications for a period of time while a new program is designed. Certainly, we see that kind of risk-and reward-sharing investment from the federal government and technology development as critical to the long-term competitiveness and success of the Canadian aerospace industry.

Other work that's being conducted by the Canadian aerospace partnership is looking specifically at the technology development and commercialization challenges of the industry. Clearly, this is a technology-driven industry. Technology relevance is critical to global competitiveness. Our collective investment in aerospace research and development in Canada on a measurable proportional basis relative to sales, lags that of our major competitors, whether it's established competitors in the U.S. or Europe or emerging competitors in Asia and Latin America.

So yes, it's a critical area where there's an important role for governments, not only the federal government but provincial governments as well, to assist industry in sharing in the risk of technology development and commercialization and, ultimately, sharing in the rewards through the sustained industrial benefits that occur as a result.

The Chair: Thank you, Mr. Boag.

As you can see, we're being very flexible. I'll tell you why we're being flexible with your presentations and the members; it is because this is a very important issue to all members. There was a motion by the vice-chair, Mr. Casson that as this review unfolds we concentrate even more on procurement. So the flexibility is something that we all wanted. It's going to continue around the table as we go along.

We have a long list, and next on our list is Mr. Martin.

Mr. Martin.

• (1155)

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

Thank you all for being here today.

You all know, better than we do that we buy for the future, and it's a challenge. I think you would be happy to see what's coming down with the new Assistant Deputy Minister (Materiel), Mr. Ross. He has seized upon what you're talking about. I think he's done a very good job of dealing with the bureaucratic side.

What I want to address is the political side, our side. Mr. Kane, since you've actually seen this from both sides, I will perhaps direct this to you, and someone else can weigh in.

From your perspective, sir, how can we actually get fingers out of the pie and streamline the political side of the equation? It was mentioned earlier that ministers should get involved early on and have less lobbying later on. In any country, have you seen a political process in which that system is streamlined right down to the point of shortening that element of the equation significantly?

Mr. Ron Kane: I think there's a considerable scope to shorten the process, as Mr. Boag mentioned. All too often we see procurement strategies worked up within National Defence, in the bowels of the organization, and they don't serve this up to ministers until they're pretty well cast in one option.

We think departments working with industry, such as Industry Canada, have to do a better job at bringing forward at an early stage the capabilities of Canadian aerospace and defence companies, and at providing ministers at the front end with various options and what those options mean for industrial and economic development, as well as meeting the capability needs of the Canadian Forces.

I think what we have to do is re-engage some of the processes Treasury Board had in the 1970s and 1980s that mandated and empowered organizations such as Industry Canada to do those initial assessments of how a procurement can be levered effectively to reconcile military capability and industrial development leverage. Right now those mechanisms are not being fully utilized within the machinery of government, so we have to have new mechanisms to involve ministers at the front-end stage of procurement.

Hon. Keith Martin: What country in the world, do you think, has the best procurement strategy? We just visited the U.K. For better or for worse, they said their procurement lasts anywhere from six months to 16 years. That's cold comfort to us in trying to resolve this issue.

Have you seen a country that, from your perspective, has a much more effective and efficient procurement strategy, given the fact that we want, as you have mentioned, value to the taxpayer, effectiveness for our forces, and timely delivery? Can you name a country that we can say is doing well?

Mr. David Stapley: Can I start?

The Chair: Do you want Mr. Kane to respond?

Mr. David Stapley: If I can start, first let me say that I'm not sure there's any perfect model. Some work better than others, and one might argue that we're pretty good in Canada, all things compared. That said, there's always room for improvement.

I'm very familiar with the U.K. model you've referred to. Considering the number of schedule delays and cost overruns and budget problems, we probably wouldn't model ourselves on it, at least in the short run.

On the other hand, Australia, largely driven by crises in defence procurement around their submarine program some years ago, took a deep dive into the soul-searching of how to do this better. My observation would be they understood the individual pieces and the linkage between policy of government at the Commonwealth level—what they were trying to do from the foreign policy and defence point of view. They put together, over one or two years, a very conscientious, objective set of strategies for defence—how they were going to execute the programs, what type of industrial strategy they needed, what type of industrial strategy they didn't need, what they could achieve through alliances with other allied countries, and so on—and then they put their procurement processes inside those two contexts. They have several programs under way now that are very large by Australian standards.

I wouldn't suggest for a moment that they will be easy, but even as outsiders living in another hemisphere, we can read every day the strategy and the policy objectives of the Australian government as those programs play out. On the supply side, that's absolutely critical—that we know the rules of the game, that we know where we're investing our money, that we know what the probabilities of success or failure may be and where we want to leverage our technologies and shareholders' money. The best model that I could suggest the committee might want to look at with some vigour would be Australia.

Thank you.

•(1200)

Mr. Ron Kane: Maybe I can just echo Mr. Stapley's comments.

Certainly Australia in the late 1960s and 1970s had a very much made-in-Australia approach for defence procurement, but I think they found it to be very costly and very inefficient. Now they have, through their aerospace strategy, formed government-industry teams that will look at the capability required and at how the procurement solution will maximize the capability acquisition.

On programs such as the joint strike fighter program, a U.S. and U.K. led multi-billion-dollar program, Australia is taking very much of an industry-government partnership approach, trying to bring into the Australian industrial base certain core technologies that form part of their overall aerospace strategy.

So Australia has gone from that "everything has to be made in Australia" to a much more international globalized posture, trying to connect Australian aerospace companies to the global marketplace.

Hon. Keith Martin: Let's take the joint supply ship as an example. Do you see, within your collection of industries, that putting together consortia would be an effective way for you to compete internationally? Or are you saying that in order to survive domestically and internationally and in order to be competitive you need either national preference or government subsidies?

Mr. David Stapley: Maybe I could start while my colleagues are thinking of the better answers.

You asked a number of questions, and forgive me if I forget a couple of them.

Part of it had to do with preference for national sourcing; that was one comment you raised. I think that is an issue of long-term strategy as opposed to short-term expediency in a particular program, whether it be JSS or something else. The obvious issue that is before us is shipbuilding. For various reasons, if you look around the world, the ability to build ships seems to be a strategic sector for most countries, almost without exception, so I think there is a strong argument for it.

When you get to what types of systems such as JSS actually do, it is fascinating that Canadian industry starts to come into play, because we are masters of sub-systems and components, whether it be for communications, navigation, sensors, or in some respects power and control systems, which are all required for that. We are very competitive and are very available, across the Canadian industrial base, to participate.

I don't think they need subsidies, personally. In fact, I would argue against subsidizing, because it is distorting a healthy competition at the sub-system level. I think what they need is some support in a broad, and I'll say global, international policy framework. An example would be that we're going to acquire JSS at roughly the same time as the Australians are buying an equivalent ship. It would seem to me there is an opportunity to win in two markets as opposed to winning in one market.

Three ships sounds like a lot, and it is certainly a lot of money if you're holding the government purse strings, but in the long run it isn't. You have to create these capabilities and you have to sustain them, so it has to be done across a broad business base. That is where

the idea of consortia comes into play, not only to bring together the best of Canadiana, if you will, but to bring together the international players within a policy framework and a strategy that not only satisfies Canadian needs but puts us in export markets. That is where the deals will be done and in my view should be done.

•(1205)

Hon. Keith Martin: You can see what I'm driving at: value for the taxpayer, being able to compete, given, as you say, the small domestic market and the size you need to be in order to continue to generate these....

The Chair: Peter?

Mr. Peter Boag: I think this question really gets to the matter of how we can be more strategic about our procurement. We have a defined defence capability that needs to be achieved, but are there other government objectives—and let's talk about industrial development objectives—that can be achieved through this procurement?

You start to look at what those objectives might be. Is the objective to recreate a shipbuilding capability, to build three ships and then see the demand disappear again? Can we create a shipbuilding capacity that ultimately becomes competitive and sustainable on a world-class basis? Or do we see this as an opportunity to further strengthen system integration capabilities in some particular areas where we already have strength and can build on that strength to then further develop our competitiveness and market opportunities on a sustainable basis for a long time?

I am not saying which of the objectives is right, but you need to start to look at what the objectives are that might be achieved in this procurement, beyond getting the three support ships the Canadian Forces need. Once you have decided what you think at that very high level, the political level involving ministers, then you decide what the most appropriate approach is to achieve those objectives. If it is more one of building on Canadian capability strengths and system integration capability, perhaps the consortium approach is the best approach for that. But it really fundamentally comes back to asking what your objectives are, making a rational and transparent discussion about those objectives, and then looking at what the best procurement strategy is to actually achieve those objectives.

The Chair: Good.

We're into our second round, so let me just remind the panel. As the members know, we go into a five-minute Q and A. We will also look to you to be flexible on that five minutes because of the topic we're discussing today, so I'll ask you just to keep that in mind.

We'll go to Mr. Casson.

Mr. Rick Casson (Lethbridge, CPC): Thank you, Mr. Chairman. Before I get to the witnesses, would we have time at the end of the meeting for a few minutes to deal with a notice of motion?

The Chair: Sure. Well, it all depends. It's up to you in terms of the questions. We have a complete slate here, four more including you. I'd like to have that, sure.

Mr. Rick Casson: Thanks, gentlemen, for your presentation.

I think if we stand back and look at the new defence policy, the foreign policy, the issue of transformation, and the issue of the new realities we're facing as a country and that you're certainly facing as an industry, we look at capability.... It's been indicated to us at that possibly we should just look at the final capability needed and try to streamline things to get to that point. You've indicated a need to do that, but you've also indicated a need to have more ministers involved, to have more aspects of industry, and the stability of the industry in Canada has to come into it also. It is a very complex issue, and then, when we're looking at procurement, trying to tighten up the timelines is the thing we're looking at.

I appreciate your comments on value for taxpayer dollar. That's a concern to us always. So we have to deal with that at the same time as trying to get the capability our people are asking for, the higher deployment tempo—all of this comes into effect. I think it's changing somewhat. You both referred to that in your opening comments, that we're on the cusp here of a new era.

I'm not sure which of you indicated the need to have an external body looking at procurement or being of assistance to the process. We were told during our submarine procurement process that one of the problems was the lack of a dedicated team of people put on that from start to finish. There just weren't enough personnel to go around. It took so long to happen that there wasn't that continuity, and that caused some problems.

Also, the fact of the number of military people involved in the procurement area was mentioned, and I think Mr. O'Connor alluded to that a bit. Where's the balance? Do we need to have fewer military people involved, more military people involved? Just how do you see it happening so that the end result is the capability our people are asking for and value for taxpayers' dollars?

• (1210)

Mr. Timothy Page: You're right. We had been arguing, I think each of us before you this morning, that the government has an opportunity to think and act strategically as it relates to defence procurement.

You're also right in picking up on our concern over the timelines that are embedded in the current procurement system. I would ask you whether, in your mind's eye, 15 years on average for major procurement is a good return to the taxpayer. Do we have all of the answers? I suspect that procurement reform has been on the agendas of most industrialized countries for 20, 30, 50 years.

What we've suggested in our brief to you, however, is that the recent move by the ADM(Mat) to create a special office within his operations, headed at the director general level, to provide consistency from program development to program delivery is a good move in respect of retaining consistent expertise for a given file. We also suggested in our brief that the government might like to

look at the notion of an external independent adviser, supplemental to the internal expertise that DND enjoys, as the Americans do through a group called the Mitre Group.

So we don't pretend to have the silver bullet, if you'll excuse the expression, but it's clear in the minds of our members that 15 years costs money and potentially causes an operational dilemma for the military, who are attempting to meet operational requirements established by the government.

Mr. Ron Kane: Maybe in respect to the issue of people, I think there are probably two groups of personnel engaged in the process. Certainly, within DND from the military cadre are the individuals who actually define the military capability, and I think one of the benefits that could probably be induced there is to have those individuals have a greater appreciation of industrial imperatives, business imperatives. Whether that's through secondment out to industry or through more symposiums bringing together military engineers and industrial leaders, I think we have to give those individuals defining the capability a greater insight and awareness of industrial imperatives.

The second group of people are the ones who actually execute the procurement, and these are the project managers. I think we have to then develop a cadre of well-trained project managers who transit from project to project, so we don't stand up one group, and then downtool it and stand up another group.

I think we have to maybe look at—even if it's not a full SOA type of model—greater flexibilities within the procurement system to make sure you get the right mix of people at the right time to execute the projects.

[*Translation*]

The Vice-Chair (Mr. Claude Bachand): Mr. Bagnell.

[*English*]

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

Thank you for coming, and thank you for bringing your comments on procurement, because as the chair said, it's a very important project for us.

I have just a couple of comments. The first you can pass on to your members.

You talked about domestic and Canadian content and everything, and one of the things is that Indian Affairs has a new program they started a few years ago. It's a partnership to do strategies with major companies in Canada for aboriginal participation, and it seems to be working quite well. It might be good to mail a brochure to all your members.

Also, just as a personal comment, in procurement when there are these big ads in the paper by a company—and it may be our problem for taking so long—it would really turn me against procuring for that company knowing that these big colour ads are going on the price of the goods that we're buying.

My question—for anyone here—is related to the actual technical steps in the speed up. Every member has said that we have to speed up procurement. Our committee came to that conclusion long ago, as did the department. There are some good ideas, but some of the statements are motherhood. I know there was a statement about getting ministries involved early. That's very interesting. That's good.

But are there any other exact technical examples of how we can speed up the process? I mean, obviously, if we're taking 10 years, it's not as if nothing is happening; there are things going on for that whole time. But I'm sure there are ways we can do things in parallel.

You've had companies that have been in the process and have probably seen technical ways we can speed it up. I'm just looking for the exact technical steps that we'd have to take, some ideas of what we might look at, to make this faster, because right now, with technology advancing so quickly, by the time we get something it's already out of date.

• (1215)

Mr. Peter Boag: One area, and I think it's one we've mentioned already in our opening remarks, is the whole area of performance-based or outcomes-based specifications. One of the greatest time consumers in the current process—and this goes back to some of the issues about people—is the four or five years in some cases that engineers within DND will take to define a statement of requirements that amounts to, in some cases, telling an aircraft manufacturer how to build an airplane.

Clearly, our view is that based on the capabilities it needs, the department should be able to state in fairly short, succinct terms what performance outcomes it wants to achieve through the procurement of this new product or service. That should, in my view, take years out of the procurement system. I think it's an issue that has already been acknowledged by Mr. Ross, the new ADM (Materiel), in terms of his look at the organization to the point of being able to specify on one page what outcomes are required from a procurement as opposed to a 400- or 500-page engineering document that is highly prescriptive, and as I said, amounts to telling a company how to build their airplane.

That would be, I guess, my first view of where we could take a substantial amount of time out of the process.

Mr. Timothy Page: I support Mr. Boag's comments entirely.

The reality of the current system is that the project managers within DND develop ownership of the work they've developed, which makes it even more difficult to move change when the project actually hits the street. The benefit of procurement-based is that early into the process you invite the business community, which gets to decide whether or not they're going to take a run at the business that's out there. It'll shorten the timelines and reduce the costs both to industry and to the government as a consequence, in our view.

[Translation]

The Vice-Chair (Mr. Claude Bachand): Mr. Bagnell.

[English]

Hon. Larry Bagnell: My second question is related to trade rights. I'm wondering if it's possible to see how we compare with the United States—you briefly mentioned the United States—and European countries in exercising our trade rights, and perhaps later you can submit a chart to the committee that shows the different countries and whether we're behind in exercising our trade rights, whether we're not getting as much local benefit as other countries. That would be helpful, because we're undergoing a large procurement study.

Mr. Peter Boag: Well, certainly we all adhere to the same set of rules. I mean, when we deal with the Europeans.... Obviously, in the context of the NAFTA agreement on government procurement, it's more detailed at that level with the U.S. through NAFTA. The difference is in how we exercise the rights we've negotiated under those agreements.

The U.S. imposes a number of different criteria. I think 50% of a major defence system must be U.S. content, and there are a number of other American or protectionist provisions related to specific goods and services.

The Europeans do it as well, I think. Probably a stellar example of that—not from our perspective; it was a bad example—was on their development of the new A400M military airlift transport, where supposedly this aircraft being developed by Airbus Military was going to acquire or secure an engine based on a purely commercial bid. Pratt & Whitney Canada, as one of the bidders, for all intents and purposes won the competition on a superior technical and financial proposal, only to see that overturned over the course of the weekend through the intervention of the Chancellor of Germany, the President of France, and the Prime Minister of the U.K. That's the level of political involvement there is, which ultimately saw a very significant contract go to a consortium of European companies.

So it varies. Some have legislative requirements in place, principally in the U.S. Others do it more at a policy and political level.

• (1220)

[Translation]

The Vice-Chair (Mr. Claude Bachand): Mr. Perron.

Mr. Gilles-A. Perron: Thank you, Mr. Chairman.

Good morning, gentlemen.

I'm trying to understand the military industry, and, this morning, for the first time, Mr. Page has made me understand it a little. However, I'm not satisfied by the figures you gave. For example, you say your association has 440 members. Mr. Boag says that his has 400. Do you have any members in common? Do they belong to both industries? Are all those members Canadian? Are there any from outside Canada? How many are there from Quebec?

In your respective presentations, you both say that you work in private industry and in the military industry. I'd like you to give me the percentages for the private and military industries. As regards the revenues of \$7 billion and \$21 billion, are the private and military industry ratios equivalent? Do your 70,000 employees include Mr. Boag's 75,000 employees?

As regards Mr. Boag's \$21 billion, you make no mention of indirect employment. Does the military industry do a lot of importing? What's the share of your foreign competitors?

Lastly, I'd like to know the military industry's total payroll and Quebec's share.

I'm asking a lot of questions that you may not be able to answer right now, but you can answer us in writing a little later.

[English]

Mr. Peter Boag: I'd be happy to answer the questions.

Yes, there is some overlap in our membership. A number of AIAC members have membership in CDIA as well. Our industry is a mix of about 400 companies, which, as I said, serve commercial aviation, defence, and space market segments. The bulk of our industry sales, over 80%, are to commercial customers. Less than 20%—around 15%, I think, 18% in the most recent year—goes to defence customers.

That's not to say that the importance of defence markets is only 18%, because there's a tremendous amount of leverage—

Mr. Gilles-A. Perron: That's what I told you.

Mr. Peter Boag: —between the defence side and the commercial side. So if you took away that 18% of the defence market, it would have impacts on the commercial side of the business.

So you can't just look at the number in terms of their relative importance. Direct employment in our industry is at 75,000 Canadians. We export 85% of our output. The United States is the single largest market for Canadian aerospace products and services; 65% of industry output goes to the United States. About 55% of the industry, whether you measure it by sales volume or by employment, is in the province of Quebec, and 45% of the industry is in other parts of Canada, principally in the province of Ontario, but there are important pockets of aerospace in Halifax, Winnipeg, Calgary, and the B.C. Lower Mainland.

Most people would understand the importance of aerospace to Quebec but don't realize the statistics, such as that on a proportional basis, whether it's measured as a percentage of overall manufacturing employment or percentage of GDP, the aerospace industry is as important to the economies of Winnipeg and Manitoba as it is to the economies of Montreal and Quebec. In provinces like P.E.I., aerospace is now the fourth largest industry and the second largest exporter. In Lunenburg, Nova Scotia, the largest employer in that small community is an aerospace firm that's designing, developing, and exporting high-technology advanced composite structures to Airbus in Europe, and Boeing in the U.S. So this is a pan-Canadian industry, but one that has a very solid base in Quebec.

So I think that deals with some of the numbers. We can provide you more—

•(1225)

Mr. Gilles-A. Perron: Please.

Mr. Peter Boag: —but that's a summary of the structure of the aerospace industry in Canada.

[Translation]

Mr. Timothy Page: I'm pleased my colleague Mr. Boag took the five minutes.

We'll send you the information you want by e-mail. I'd like to add a word on salaries. According to the figures in front of me, the jobs in this market are high-tech jobs and are well paid. We can provide you with statistics.

[English]

The Chair: We're carrying the flexibility right through.

[Translation]

Mr. Gilles-A. Perron: Mr. Chairman, you have no right to engage in politics by talking about flexibility.

Far be it from me to want to denigrate one market or another. I want to have an idea of the scope of the military market. I was told in the United Kingdom that the military industry had 300,000 very highly paid jobs. Perhaps you could compare Canada and the United Kingdom in industrial terms. Military equipment has a significant impact.

You didn't talk about indirect jobs, and I'm interested in that. In the case of General Motors in Boisbriand, which unfortunately left my riding, one job at GM created six more in the private sector. I'd like your report to contain that ratio as well.

Mr. Timothy Page: The 70,000 employees of the defence and security industry include direct and indirect jobs. I'll give you those percentages.

You also mentioned the shares of the private and military industries. There's one difficulty because you also have to consider the members of the security industry separately. Next year's U.S. budget will exceed U.S.\$200 billion. We'll soon have to provide separate statistics for the private sector, security and defence.

That said, many businesses in our association produce as much for the private sector as for the military sector. In our view, there are ways to encourage these companies to do more research and development for military and security needs. That's what we talked about earlier.

Mr. Gilles-A. Perron: Mr. Page, have a little fun and give me the security statistics.

[English]

Mr. Ron Kane: As a short commentary in terms of the dual-use nature of our industry, as mentioned, defence capabilities generally port over to commercial applications. We see companies such as CAE that design and build commercial and military flight simulators, but it's the same core technology. We have a small firm out here in east-end Ottawa, GasTOPS, that develops diagnostic sensors to monitor the health and performance of systems. It's now selling to the nuclear industry, to the cruise ship industry, and now the joint strike fighter program.

So it's the core technology that gets used in the various jurisdictions.

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

We'll go to Mr. Khan, and then Mr. MacKenzie and Mr. Rota.

Mr. Wajid Khan (Mississauga—Streetsville, Lib.): Thank you, Mr. Chair.

Gentlemen, I have listened to you very carefully, and somebody mentioned here that we have all-world capability. The other suggestion was that we should have additional R and D dollars from the private sector as well as from the government. Yet Canada accounts for less than 1% of the world's arms market. We have terrific companies here who can give value for the dollar, as Monsieur Bachand asked earlier, in the refurbishing industry, based in Calgary and in Toronto, in aviation as well as military equipment.

My first question to you is, if we do not have the market, are we doing a poor job of not securing markets? Are we staying strictly with the NATO and AFCLL countries with 90% of our markets? Has the government done enough to create appropriate regulatory environments and to harmonize military requirements? Has the industry played its part by actively seeking investment opportunities in foreign markets?

I might as well ask both questions and get an answer, because I'm limited by time here. I have five minutes.

Much of the defence industry is characterized by long product development cycles and high levels of non-recurring costs, set against a pattern of relatively infrequent demand from a small number of customers. A long time between concept and sales makes it difficult to attract private investment, requiring governments to fund most product development work. But a single government like Canada rarely has the buying power or the military demand to sustain economic production of the highest-value defence equipment.

Is the Canadian defence industry doing enough to obtain access to wider markets; and is the industry relying too heavily on U.S. contracts, particularly at the sub-system level and niche products?

• (1230)

Mr. Peter Boag: I'll attempt to answer both questions quickly.

First, in terms of our small percentage of the world market, I think really that reflects the unique nature of defence markets and defence procurement, that you really need to start in your home market and you grow your business based on an initial proof of use through your home market. We have a very small defence market in Canada. It has

been extremely small over the last 25 years. That certainly has had an impact on Canada's ability to develop products and services and then ultimately penetrate world markets.

That said, given the very low level of domestic defence spending in Canada, I think the industry has done exceptionally well in leveraging what technology and what capability it's been able to develop here and actually penetrate what are very tough and often protected markets. So I think we've done a very good job from a very minimal Canadian base that's generally very critical in this industry.

The second question really talks about the issue of partnership, and that if Canada hopes to grow its business in defence markets or, for that matter, commercial aviation markets, it's very much a new world out there where there are very few national programs. There are mostly international programs, both on the commercial side and now on the defence side. Probably the best example of that is the joint strike fighter program, led by the U.S. but in partnership with a number of companies, quite positively, from our perspective, involving Canada.

So I think one of the key strategies that Canada is going to need is to pursue the opportunity to work in partnership with its allies, and in those cases, it almost invariably involves initially a government-to-government partnership. Canada joined the joint strike fighter program in the U.S. by signing on as a level III partner, in which the federal government made a significant investment both in cash and in kind, and it worked through the Technology Partnerships Canada program to provide industry with leverage to then develop technologies to go on that program.

So I think partnerships are going to be incredibly important to further penetration and success in markets, and there's a strong role of government to support Canadian companies, in particular through appropriate government-to-government relationships, but as well, in supporting research and development costs and also dealing with potential market access barriers, to prevent impediments to accessing those markets.

Mr. Timothy Page: In answer to your question, sir, could I suggest the role of technology and innovation in defence procurement needs to be an integrated component in the argument we've been making this morning for an overall government approach leveraging off defence procurement. I would also offer the editorial comment that it's not been particularly vogue for a while to promote Canadian defence and security interests or industries. So the relative efforts of the Canadian government through international trade promotion have been relatively poor. To the extent the government perceives and believes defence and security industries are a core and important component of the industrial growth strategy for the country, it will include trade elements in its work.

But I know Dave wanted to pitch in on this as well.

• (1235)

Mr. David Stapley: Very briefly, we touched on the issues that keep me awake most nights in my paying job. This is how we satisfy these things.

Supporting what we said down the table, by and large I think the government does a very good job leveling the playing field on the regulatory and trade policy side. They fight a good fight where the need arises.

There are two issues I would leave with you. First, a very large component of our industrial capacity is small and medium-sized enterprises. With the financial profiles they have, it's very hard for them to participate directly and actively in the international market. So you'll have heard a couple of times today that we need to find a strategy that takes them into the market. That's not necessarily just the role of government, that's also the role of industry. Obviously it has to make good business sense. So there's a strategy issue of how we leverage the heart and soul of our industry, which is the small and medium-sized industries.

The other part is the international component. As Peter said, there's rarely if ever an international defence purchase, an international purchase, or domestic purchase that doesn't have a huge international component. So defence procurement is defence trade by another name. As a professional—as opposed to an association person—I will speak again that I don't think we do a very good job cutting deals, if I could say it that way. We are infants in the international world of defence trade, and we've lost some of the skills we had years ago. We need more deal-making capacity at the highest level.

You heard a very good example from Peter on what happened on the Airbus A400, where we got aced out by the machinery of the Europeans: bureaucratic, industrial, and political. We need to step up to the plate.

Thank you.

Mr. Wajid Khan: Very short, thirty seconds—

The Chair: You've been given as much flexibility as everybody else. I keep an eye on this, and I want to be fair. We believe in being fair.

We'll go to Mr. MacKenzie, then to Mr. Rota.

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

I apologize, Mr. Khan.

Your presentation this morning was quite interesting, particularly in shedding light on the size of the industry in relationship to the size of the market and what you're able to do around the rest of the world.

Frequently from the government side, we seem to want to take great comfort in the fact that we're better than the Brits in buying things, but 12 years doesn't seem to make sense. If we got the ministers involved at the early end, we could go through three or four or five different ministers and three or four different governments, and so on, in 12 years. There simply has to be a system—not looking at other countries, but we should be able to find a made-in-Canada system—that cuts that down.

I can't believe industry wouldn't be doing a lot of zigzagging in 12 years, from the start of a project until the end, trying to determine what it was we're really in need of. Can you tell us, is there something we can do to get that down to a reasonable length of time? Certainly, to me, reasonable is not 12 years.

The Chair: I believe the question is put to the entire panel, to anybody who could respond.

Mr. Page.

Mr. Timothy Page: When we spoke of a role for the political arena, the implication was not in the defining of requirements. It was in the setting of a strategic and policy framework that allows the Government of Canada to determine what its overall objectives are on any given procurement opportunity. That for us is an important distinction we'd like to bring to you.

This morning we've attempted to offer some specific advice on how the procurement process might be expedited and streamlined. I would return to the response that I think we gave to Mr. Bagnell in respect of the performance versus prescribed approach. Really, if you invite a system to over-prescribe what its requirements are, you are perforce lengthening and complicating the process.

Mr. Peter Boag: I would also go back to some remarks that Mr. Stapley made with respect to competition. I think that too often we've seen competitions that have been competition for the sake of competition, but in the way that the requirements have in fact been developed, they have been essentially sole-source procurements.

I think if we should move out of that business...and then of course, because the involvement of ministers and other interests then drags out, the procurement gets suspended. We're seeing that right now in the context of one procurement that was supposed to have been fast-tracked two or three years ago, but we haven't made any progress because of exactly those kinds of systemic problems.

I don't have all of the answers, but we certainly need to look at the system. I'm not saying that any other country has a model that we should blindly follow, but on the other hand, let's not reinvent the wheel here. If we can pick some best practices from other jurisdictions, we should do that as well, rather than trying to invent a totally made-in-Canada solution. That's part of our procurement problem now.

• (1240)

Mr. Dave MacKenzie: Is it fair to say that there's little in the military world out there that's going to be totally unique to Canada, and we needn't come up with all of those technical requirements that are unique and cause us this huge dilemma?

Mr. Peter Boag: Yes, you're absolutely correct that there may be some occasions, but for the most part, no, we're in fact moving to a more harmonized approach because of the challenges of interoperability today.

Mr. Timothy Page: I would qualify that slightly by saying that it is incumbent on the government to determine what it considers to be in our own national interests, as required by the Canadian military or as required by the Canadian economic objectives, and to make decisions along those lines.

Mr. David Stapley: Can I add a very brief comment?

The implementation of Canadian-unique requirements, which has been quite a common practice over the years, is probably the biggest reason for the lack of value in the budget allocations.

It's like when you buy a car, fix a car, or build a house. When you want to change where the door is, you're going to pay a lot of money.

Canadian-unique requirements have a tremendous cost. It's a huge area that needs to be discussed and traded off between the military requirement people and those who are financing it, because it has a huge delta in time and dollars.

The Chair: Thank you, Mr. MacKenzie.

That's efficiency; we still have 20 seconds left.

We'll have our last person, because we have some business at the end, colleagues, if you will stay.

We will go to Mr. Rota.

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): One of the things about going last is that all the good questions are gone. I've been modifying this as we go along.

I recently had the opportunity to sit down with a brigadier general who had fought in Iraq. He was an American, and he was bragging about how wonderful the Strykers he had operated were. That would be our LAV IIIs. There was some modification, but not a lot. They basically bought it, and they had certain options.

It basically seems to be the argument that I'm getting more and more from different military people around the world. They're looking at buying off the shelf, with minor modifications. It's an echo of what has been discussed here this morning. As a country, I guess that we really don't have the option the Americans have to say this is what we want and we're going to buy up the full supply. We're going to buy off the shelf, and that's going to make the procurement process cheaper and faster, with better service all around.

Going back to a couple of comments that were made, I seem to be hearing two sides here. There are R and D arguments, and yet there are political interference arguments.

My question to you is this. What would be the best way to go? Do we provide the best product available and compete on a global basis? Do we arm our political arm or our bureaucratic arm to go out and make deals? I believe the word was "deal-making", which was the deal that killed the Pratt & Whitney aircraft or the engine. Which way is best and how do we proceed?

Mr. David Stapley: Maybe I could make a few quick comments, and then others will speak.

First of all, while the Stryker may be an off-the-shelf procurement, it is not an entirely made-in-Canada solution. If you look at the amount of U.S. content in it and at how the Stryker was selected, there was as much politics in that as in any Canadian procurement that I've seen in my lifetime.

Mr. Anthony Rota: That's good to know, because I need that information. Thank you.

Mr. David Stapley: Others could either substantiate that or not, but that is typical of any U.S. procurement. The whole idea of off-the-shelf is really a function of expediency. In the absence of expediency, you want to maximize your benefits both to the military and the whole of government, which every country tries to do. So it depends on what page you are on and what day and what your agenda is as to whether off-the-shelf is better than a more thoughtful, perhaps less expedient procurement. At the end of the day they all take time, as we are seeing in the current debate on.... Proposed off-the-shelf procurements are not going any faster than if we did it a different way.

I don't think there is a right and wrong. It is back to the common thing that we've said today: what is best for the country. We are talking about defence procurements, where the military interests are first and foremost, notwithstanding that they have to be careful about uniqueness, and then we need to maximize it in terms of industrial returns, economic returns, jobs, and I would argue, some reciprocity from our trading allies. When we are out spending even small amounts of money, as soon as you say a billion, I can assure you, as an industry guy, that has a ring to it in any boardroom anywhere in the world. We need to take advantage of it.

•(1245)

Mr. Ron Kane: In response to Mr. Stapley's comment in terms of the cost to the DND budget over Canadianization, there is also an immense cost to Canadian industry. When you have a Canadianized product or system, it is very difficult to sell that back in the world marketplace. I don't think we're arguing here that there can't be some unique Canadian requirements, but to the degree to which Peter Boag mentioned, that you are telling aircraft manufacturers how to design aircraft....

We also have examples out in the marketplace of Canadian products and systems that have been bought by several militaries around the world that have been deemed not capable of meeting similar Canadian requirements. If it is good enough for six or seven other militaries, it is very difficult sometimes to see why it would not meet the requirements of the Canadian Forces.

The Chair: Thank you, Mr. Rota.

We are going to close now, but I will basically make a comment, if you can respond.

First of all, Mr. Boag, I was pleased that in your comments you said in the last ten years or so it has been a very slow process. I am glad you pointed that out, because it has been part of the frustration that we are hearing about as well.

But in your comments, both of you, you talked about coming up with new...first of all, an independent adviser was suggested. You talked about the Australian system, the U.K. system, and comments from the members were that we should have a Canadian solution. By going out to visit different countries and hearing different models, we will select something from each one, hopefully, and come up with our unique model.

But having said that, I want to ask you this. You didn't tell us about the Australian model. The U.K. model had an individual department. I believe we met Mr. Peter Spencer, who was head of procurement. Now, that is a separate department altogether. Is Australia set up as such, or is it different? You talked about the minister getting involved or the military taking the lead. I don't believe either one should. There has to be something in between, hopefully, and I am simply throwing something up in the air.

Mr. David Stapley: Maybe I can help clarify that.

First of all, the Australian and British systems are different. In the British system, Sir Peter Spencer would be the equivalent of our Assistant Deputy Minister (Materiel), and he is very much a part of the Ministry of Defence. So that is very similar to Canada. They are also going through transformation, as I am sure you have heard, and they are going to bring together the high-cost side of defence acquisition, which is a logistics support trail, and they are going to consolidate that within the U.K. Ministry of Defence to gain some efficiencies.

The Australian model has been consolidated. One might argue that we are rather fragmented on matters to do with defence procurement in this town. We have the defence department, the industry department, PWGSC, Treasury Board, and others. The Australians have brought that together, by and large, under one roof, with three ministerial-level people. Senator Hill is kind of the lead, and there are two others. But it is all done strategically with industrial strategy

and procurement strategy under a fellow by the name of Steven Gumley, who is in the Ministry of Defence. So that is where it comes together.

The Chair: Mr. Boag, is that why you made the comment that we need a separate statement of procurement? Does that kind of parallel with what Mr. Stapley talked about, a separate statement of procurement?

I am going to close with this. I am personally sensing that if we are going to try to stay close to the game, not necessarily ahead of the game, I think there needs to be a focused concentration on procurement as such. You don't have to respond to that.

Mr. Peter Boag: I would simply add a caveat, though: as long as that single focus point is mandated and accountable and looks at the broader objectives that might be achieved through procurement, not only the single objective of the client department.

The Chair: I thank you very much for being here today. You've certainly added to what we're trying to do.

I would add the reminder that if you happen to be coming before the committee again in the future, please see that all material to be presented to the committee is prepared in advance in both our official languages, French and English.

With that, I thank you for your time.

We have some business, colleagues.

Rick, did you want to go in camera on that?

•(1250)

Mr. Rick Casson: No, that's fine.

The Chair: Okay. We will just say goodbye to our guests quickly.

Mr. Casson has the floor, if I am not mistaken.

Mr. Rick Casson: Thanks, Mr. Chairman.

I prepared a notice of motion and forwarded it to the clerk, I believe by e-mail. It had to do with our meeting of the subcommittee when we agreed to have meetings on other subjects besides the defence policy. The motion will be coming forward on Thursday, but we would like to propose that there be a meeting dedicated to the issue of Agent Orange the week after the break week.

We would like to also offer up a possible two, three or four witnesses we'd like to have come. There is nobody surprising, just some people from Gagetown who were directly affected. The one that might be at issue would be somebody from the U.S., where they are dealing with the same issue, to come and brief us on how they're handling it and the policies and practices they've implemented down there.

This morning when we put that forward, the clerk asked—it was my staff, not me, who was talking—for us to come up with an estimate of cost to have that meeting. Now, I'm not sure—

The Chair: Keith is shaking his head..

Mr. Rick Casson: —how much it would cost to bring the witnesses in. But is that not true? Well, that's what was indicated to me.

The Chair: I'm not saying what he's saying.... We'll give him the opportunity to respond.

Mr. Rick Casson: But Mr. Chair, I think it's part of our mandate. We agreed to that as a subcommittee and have come back to the committee to do that. So I think any budget that's needed should be—you know, if it has to be discussed here, I think it's something we can deal with.

The Chair: Are there any comments on that? I'd like to add my comments.

Mr. Martin.

Hon. Keith Martin: We need to see the motion first. We haven't seen the motion. We can't vote on it until we've seen the motion.

The Chair: I'm only opening the floor for discussion, or you may wish to discuss it once you see the motion.

If I may, I know it was discussed and I do agree with the vice-chair in terms of Agent Orange. I won't comment beyond that until I see the motion, but I know it was discussed in our previous planning meetings. I can confirm that. I'm sure we can all confirm that.

Now, the fine details.... Is that fair, once they see the motion, or did you want to discuss it now? You do have that privilege.

• (1255)

Mr. Rick Casson: The motion was provided, so I don't —

The Clerk of the Committee: It's not translated, so I haven't brought it.

The Chair: It's not translated. It's not here. And if I understand the procedures properly, you've tabled it today so it is for discussion at the next meeting. Am I correct?

Mr. Claude Bachand: It's 48 hours.

The Chair: It's 48 hours. I personally have no objections, but I believe those are the rules.

The Clerk: A minimum notice for a substantive motion in the committee, according to their routine motions, is 24 hours.

The Chair: It's 24 hours. So do you want to address it as the first order of business at the next meeting, which is Thursday? I remind colleagues that the next meeting starts at 10 o'clock.

Mr. Rick Casson: Does this serve, then, as a notice of motion so we can deal with it on Thursday?

The Chair: Yes.

Mr. Rick Casson: Thank you.

The Chair: Mr. Martin.

Hon. Keith Martin: The only other thing is that...I think the issue, of course, is great. It's something that has to be dealt with. So let us also be able to provide some names to that. We'll be able to add and we'll have a complete view of what's going on.

So perhaps we can fully debate on Thursday—

Mr. Gordon O'Connor: I think when you see it...it's a benign thing.

Hon. Keith Martin: It's an important issue.

Mr. Gordon O'Connor: It's just that once in a while we'd like to set a defence policy to get to some of the issues that we actually have to deal with.

The Chair: There's no question that it's appropriate: first, because it was discussed in terms of our agenda; second, the timeline on it. I know I focused on the procurement side, or we asked the staff to, because if I recall, that was important on our agenda as well—unless it's a change. I don't think so.

I will ask the clerk if he wants to add any comment, because I was noticing he was shaking his head.

The Clerk: What I have asked for, sir, is the number of witnesses and from where, because it's from this that I can generate a budget.

The Chair: Excellent.

Is that it? Cheryl.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Just for clarification, on a day when a motion is submitted directly to the clerk, whether it is in English and French, does the starting point for the 24 hours start upon receipt to the clerk?

The Clerk: In fact, regardless of the language it comes in, it's effectively one intervening midnight. In other words, if I get it at 5 p. m. on one day and we meet at 6 a.m. the following day, it's kosher.

The Chair: Is there anything else, colleagues?

Thank you. Great meeting.

We'll adjourn.

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