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Chair

Mr. Rick Casson

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• (0905)

[English]

The Chair (Mr. Rick Casson (Lethbridge, CPC)): We'll call the meeting to order, as we continue our study on the procurement process.

We would like to welcome today General Manson—welcome, sir—and General Macdonald. We have you two gentlemen until 10, and then we're going to bring in another panel to brief us. We usually open it up to comments from the witnesses—make your presentations as you wish—and then we'll have rounds of questioning.

The floor is yours. Mr. Manson, are you going to start?

General (Retired) Paul Manson (President, Conference of Defence Associations Institute): Yes.

The Chair: Go ahead, sir.

Gen Paul Manson: Good morning, Mr. Chairman.

I am General (Retired) Paul Manson, and I thank you very much for allowing me the opportunity to appear before your committee here this morning.

Last year, the Conference of Defence Associations Institute, of which I am the president, published a monograph entitled, “Creating an Acquisition Model That Delivers”. Today I'd like to present some personal thoughts, based on that work and on my other experiences over the years with the procurement of major systems for the Canadian Forces.

By way of establishing my credentials, I might mention at the outset that for the past 30 years or so I've been involved with defence procurement in one way or another. From 1977 to 1980, I was the program manager for the new fighter aircraft program leading to the acquisition of the CF-18 Hornet for the air force. As Chief of the Defence Staff from 1986 to 1989, I was, of course, intensely involved with numerous capital equipment projects. Following retirement, as the CEO of a major Canadian aerospace company, I saw the system in operation from the other side, so to speak. During this period, by the way, I served, for a time, as the chairman of the Aerospace Industries Association of Canada. Now, as the president of a think tank on defence and national security, I see that scarcely a day goes by without the important matter of defence procurement being raised in one way or another.

Let me begin my quick review by stating the obvious. Regardless of how great may be the military's requirement for new equipment or services, or how ready the industry may be to fulfill those needs, without there being, in this country, an efficient and effective

procurement process, the system cannot do what's necessary for the military, the industry, or the government. A major conclusion of our studies is that such a system simply does not exist in Canada today. This is the consequence of a gradual and barely perceptible degradation over the past several decades, to the point where it's largely dysfunctional at the present time.

Take, for example, the fact that 15 years or more is typically required to bring a major new military system into operational service by the Canadian Forces. That's much too long, for reasons that are self-evident. Our analysis of the causes of this inordinately long procurement cycle time has led us to conclude that multiple factors are at work here, and they can be found in three main areas, namely, first of all, within the Department of National Defence; secondly, within the interdepartmental bureaucracy; and thirdly, at the political level. I'd like to say a few words about each of these three.

First, within the Department of National Defence, over the years, and with the best of intentions, military and civilian staffs, in their pursuit of perfection in defining military requirements, became bogged down in an evolving internal process that turned out huge amounts of paper—in some cases, literally thousands of pages—in what amounted to detailed technical specifications. Your committee is already aware of a dramatic change of philosophy in this regard with the introduction of the concept that's called “performance-based requirements”, and the Minister of National Defence spoke about this in his appearance before your committee last week. It's a welcome change, not just from the industry's perspective, but also in that it greatly simplifies the staff work within the Department of National Defence and it facilitates the important business of evaluating competing systems.

Another serious problem emerged within National Defence during the 1990s, and it was the direct result of the huge manpower cuts to which that department was subjected. The number of qualified program management personnel available to staff major crown projects was severely reduced, with predictable results. Not only did the shortage of suitably skilled personnel contribute to an increase in procurement times, but it also presented risks to the quality of program management, with possible adverse impacts on decision-making and program costs. The department is still recovering from this. I understand that other government departments also suffer from a shortage of program management personnel having experience in major defence procurements.

This leads me to the second area of concern in regard to lengthy procurement times, which is the interdepartmental routine to which all major equipment programs are necessarily subjected. Gradually, over the years, we've seen the emergence of a complex and frustrating process within the federal bureaucracy. Many departments are involved. Typically, apart from DND, a major crown project will involve Public Works and Government Services, the Department of Industry, the Treasury Board Secretariat, Finance, Foreign Affairs and International Trade, Justice, and perhaps other departments. It goes without saying that a consensus must be achieved before the Department of National Defence would dare to bring a given project before ministers who, traditionally, need little incentive to reject a big ticket item when it's apparent that the bureaucrats "haven't got their acts together".

● (0910)

Reaching consensus can be excruciatingly difficult. Even getting senior officials from all the participating departments together for a senior review board meeting can sometimes take months to organize; all of this, of course, adds to the total program time.

Increasingly over the years industrial and regional benefits—IRBs—have become a critical element of major defence equipment programs, especially in cases in which the government must go outside Canada for procurement. The mechanics of putting together a good IRB package at the bureaucratic level are difficult enough, but the real test comes when a given project moves into my third area of concern, which is the political arena. It's here, regrettably, that some of the most serious delays occur; in fact, just the prospect of running into difficulty over IRBs at the cabinet level can force delays of months and even years.

Competing companies eager to reap the huge influx of new business that can come from a defence contract are not reluctant to play the IRB game; furthermore, they know how sensitive the regional element of industrial and regional benefits can be in this country, and they'll play up this angle in the hope of inspiring support from regional ministers.

Inevitably, the Prime Minister and his colleagues around the cabinet table have a solemn obligation to ensure that competing demands are reconciled in such a way that men and women of the armed forces are provided with the right equipment in a timely fashion, and in this regard it's my personal opinion that the greatest challenge facing the defence procurement system today is the alarming growth in IRB demands associated with the coming re-equipment of the Canadian Forces.

A good example is their creation of rigid formulas, such as the 100% Canadian content value requirement for the industrial benefit component of a given contract. Competing companies face the almost impossible task of producing sufficient industrial work to comply with the 100% CCV rule, while Canadian industry, for its part, simply doesn't have the capacity to absorb the huge surge of tens of billions of dollars of high-tech business that this rule calls for in the coming decades with the massive amount of equipment procurement that's foreseen.

To add to this burden, the Department of National Defence typically pays a premium of several percent to accommodate

industrial regional benefits, and this usually shows up as an increase in the purchase price of the equipment or the service.

All of this is to say that the management of industrial and regional benefits has the potential to become a major barrier in the government's attempt to streamline the procurement process.

One other factor always comes into play at the political level, and that is, quite correctly, affordability. In my experience, cabinet ministers don't often challenge the professional judgment of the military as to which technical solution is best for the Canadian Forces. When it comes to deciding whether a proposed solution is affordable, however, the cabinet must believe that the proposed expenditure is of a high enough priority to displace the countless other spending proposals before them—not just for the military, but also in such areas as health care, the environment, and other social programs.

When a decision is made to put off a given defence acquisition—and many budgetary reasons can be found for doing so—the forces are compelled to extend the life of existing equipment, which can be very costly both in dollars and especially in operational terms. Look, for example, at the sad case of the maritime helicopter. Twenty-seven years after the replacement program was initiated the Sea King helicopter is still flying.

Mr. Chairman, allow me to summarize this admittedly cursory presentation by stating the obvious, that in these critical times, following decades of neglect, the re-equipment of the Canadian Forces must progress quickly and rationally, following a streamlined process that takes into account the needs of the military, first and foremost, but also of a dynamic Canadian industry, while always working in the best interests of the Canadian taxpayer. I can say optimistically that there are encouraging signs that the process is getting back on track, but there is still much room for improvement, and I sincerely hope, Mr. Chairman, that your own deliberations will contribute greatly to that important goal.

● (0915)

Thank you.

The Chair: Thank you, General Manson. I apologize for mispronouncing your name earlier.

General Macdonald, you have some comments.

Lieutenant-General (Retired) George Macdonald (Former Vice Chief of the Defence Staff, As an Individual): Mr. Chairman, members of the committee, I'm pleased to have the opportunity to participate in your review of government procurement, and especially to be able to do so with General Manson.

As some of you know, before retiring from the military, I was the Vice Chief of the Defence Staff from 2001 to 2004. As such, my responsibilities included the strategic planning and resource allocation, including procurement prioritization, for the department and the Canadian Forces.

Let me state from the outset that while today we are addressing specific procurement issues, the persistent problems almost always relate to imprecise policy objectives and inadequate funding. These together exacerbate the complexities of defence procurement, which is already a unique process. For example, there are often limited choices of equipment available to meet the requirement. It's not like shopping for the family car, where you have a number of options, all of which will get the job done.

My time as VCDS was one of very constrained resources. I spent a great deal of effort just trying to make ends meet, working to maintain the essential capabilities to support the operational missions of the Canadian Forces. At the internal budget allocation sessions each year, the demands for resources were often always significantly higher than the funding available. This amounted to a never-ending exercise of juggling allocations and deciding which priorities were the most compelling. In all areas, the demand had to be essential to receive funding; we couldn't seriously consider anything that wasn't. As a result, the resource demands for things such as the infrastructure upgrade or replacement of buildings were repeatedly deferred. By all accounts, these challenges continue.

This constrained environment demanded a strong strategic planning and requirements development process. One of the key aspects of this was to have a consistently identifiable top-down system, where requirements were established based on cooperatively recognized priorities.

To institutionalize this, Vice-Admiral Garnett, who was my predecessor as VCDS, oversaw the adoption of capability-based planning and the regular review and prioritization of requirements by the CF and DND leadership.

Ultimately, procurement is about what we buy—that is, capability—and how we buy it, which relates to the process. Capability-based planning involves the definition of what the CF needs, and ultimately in what priority, to meet the CF mandate, missions, and roles in support of government defence policy. This policy is derived in turn from a formal assessment of our national interests. Throughout, the statement of requirement needs to emanate from a coherent top-down direction from government.

As VCDS, I continued to champion and evolve this process. The objective was to ensure that we could fully support the applicability of all CF capabilities to a current or future mission, all consistent with government's defence policy.

Within DND, the establishment and prioritization of capabilities was a collective responsibility, and we were part of a process that could demonstrate a link between government policy and our spending on capabilities. If a capability wasn't essential to an identified role, it was not supported.

I should add an aside at this point to be clear about what I mean by a capability. Too often the assumption is made that the purchase and delivery of capital equipment constitutes a new capability, where in fact it is usually only the first step, and often not even the most expensive portion.

To provide a completely balanced capability, personnel must be available, and they need to be properly trained and supervised. Operating concepts need to be put in place, and access to robust

command and control must be assured. Infrastructure, both buildings and information technology, must be accounted for. Also it's critical to ensure that the necessary support services for spares, maintenance, repair, and overhaul are provided for the long term. In short, capabilities must be complete to be useful.

We must also keep in mind that military capabilities typically take years to acquire and mature. Even then, the policy or doctrine under which they are employed may change, requiring adjustments that may ripple through all the functionalities of the capability.

Overall it is important for DND to maintain strategic integrity in identifying requirements. When approval to spend resources to meet a requirement is sought, DND must be able to demonstrate how such action will contribute to overall military capability and to defend the proposed scope and priority of the proposal.

This is vetted through a rigorous interdepartmental process to ensure thorough consideration. This confirms that a capability fits into the overall strategic plan appropriately and that value is being realized from the investment proposed.

The capability planning process, which I have described, supports the procurement process. It is fundamentally logical, well-documented, and mature. It helps to identify the real priorities and why they are important, and it promotes confidence and awareness of our defence needs.

So what are some of the areas that could be examined for possible improvement? From personal reflection, I will briefly address five. The first is funding.

- (0920)

If government funding is inadequate to acquire and maintain the needed capabilities, they will be incomplete or will atrophy over time. To compound matters, the cost to support some essential capabilities will increase if the equipment is pushed beyond its normal useful life. An example of this is our Hercules fleet, with its high maintenance costs.

In another funding area, when the government makes decisions that incur additional direct costs for the military, such as the deployment to Afghanistan, incremental funding should be provided and as the expenses are incurred.

Finally, consideration should be given to permit management of the DND budget on a multi-year basis, to enable more flexibility and efficient spending.

The second area that I'd like to touch on is operational priorities. Critical operational requirements sometimes have to jump to the top of the priority list. For example, the need for new artillery pieces in Afghanistan necessitated an accelerated purchase, well ahead of that which was planned. This action should not be allowed to redirect funding away from existing legitimate needs. Funding flexibility, by providing an increment to the DND budget as needed, can relieve the financial pressures that the initiatives create.

A third area is risk management. Military capability planning is done in a complex, unpredictable environment, yet it is important to ensure that the capabilities proposed are the right ones, the ones that will serve Canadians for the longer term. The consequences of misjudgments in terms of money and potentially lives can be significant. It is therefore necessary to forecast effectively and to continually re-evaluate the requirements. It is also important to recognize that earlier solutions may need to be reconsidered from an operational and a resource perspective from time to time.

Fourth is requirements determination. Your committee deliberations thus far have touched on the need to simplify the specifications for what is needed and to solicit input from industry on solutions they may have to offer. I support this. However, once a requirement has been confirmed, the personnel charged with procurement for that requirement should be given the wherewithal and the authority to do so without outside distraction or interference.

Finally, the fifth area is policy. The identification of priorities and the concomitant decisions needed to enable capabilities will falter if there is any confusion about the government's objectives and resulting policy. The traditional dilemma for Canada is to determine the balance of effort to assign to domestic versus international requirements. Clear enunciation of the policy regarding these choices is fundamental to the formulation of capabilities—a good start to any procurement process.

I'll conclude by summarizing three main messages. The first is that it is important to ensure a solid policy foundation for CF capabilities and then to establish the relative importance of those capabilities and commit the budget to deliver them adequately. Secondly, capabilities constitute more than just equipment. Thirdly, the employment of capability-based planning principles serves the government well in decision-making. These principles help to ensure best value for the Canadian taxpayer through the funded requirements that emanate from the extensive multi-departmental process that supports defence procurement.

Thank you, Mr. Chairman. I look forward to your questions.

• (0925)

The Chair: Thank you very much.

We'll start our opening seven-minute round with Mr. Coderre.

[*Translation*]

Hon. Denis Coderre (Bourassa, Lib.): Gentlemen, I would like to start by thanking you for your service to the country. I know, General Manson, that you have continued to work extremely hard, namely for the Canadian War Museum, which is much to your credit. L.Gen. Macdonald, you too have given a great deal, be it to the public service or during your military career.

L.Gen. Macdonald, I would like to ask you some questions, because as Vice Chief of the Defence Staff, you were able to see the action plan that the former government had developed, the famous \$13 billion plan. We know that the issue of the Air Force was key. You know that on our side, we find wanting to buy C-17s and to replace the Hercules aircraft at the same time is not only excessive, but also unnecessary. We can do one or the other, in other words replace the Hercules aircraft or consider buying C-17s.

I know this is somewhat delicate, because you are now a consultant and a lobbyist for one of the companies that wants to obtain some of these contracts. While remaining non-committal, could you tell us if any research has been done? Did the proposed projects include buying or leasing C-17 aircraft—there was talk of six at the time—and keeping the Hercules aircraft in a newer state? In passing, they are not all too old; part of the fleet is still operating well. Was there talk about replacing the Hercules aircraft instead?

I would like you to tell us what the deal was when you were there. I agree with Mr. Manson: there is a political aspect, and governments share their points of view. However, the authority comes from those who define the requirements, and the decisions were made by the Department of National Defence.

So I would like you to say a few words to provide some clarification. What really happened, and what were the proposed plans and scenarios when you were Vice Chief of the Defence Staff?

[*English*]

LGen George Macdonald: Thank you, Mr. Coderre.

The strategic and tactical transport needs of the Canadian Forces have been an issue for decades. The C-130 has proven to be a very valuable asset for the Canadian Forces and there's never been any lack of commitment to replace that capability over the longer term. As you well know, the current fleet of C-130s is in desperate need of replacement.

When I was Vice Chief of the Defence Staff, the thinking embodied in what we call the strategic capability investment plan, developed in 2003 and 2004, was that we had to focus on where the most dire need was for transport for the Canadian Forces. The C-130 was the locus, if you will, or the focus, of that attention, but a project to replace the C-130 aircraft in a wholesale fashion was simply not seen to be affordable in the near term. The approach taken was to develop a requirement for an area of the C-130 mission, that of fixed-wing search and rescue, to divert some of the pressure on the fleet by beginning a lower-priced project for a new aircraft that would specifically be able to do that part and take the pressure off the C-130, so that it would be able to do the more operational mission it had, because using a C-130 in search and rescue is a rather extravagant way of approaching it.

At that time, a strategic aircraft purchase, a C-17 purchase, was not seen to be affordable with the budget we had, so we did not include it in the budget, notwithstanding the fact that we recognized there was a need to provide strategic airlift. The approach taken was that we had the opportunity to charter aircraft when needed. We had our American and U.K. colleagues, our friends and allies, who had C-17 aircraft, and we had been able to use their services from time to time, but there was a risk that in a time of crisis, when everybody required strategic airlift, we would not have access to them. That was deemed to be a risk that we simply had to accept because there wasn't money in the projected defence budget to afford that aircraft.

Since the Conservative government took over, they have clearly declared that strategic airlift is a higher priority, which has made it affordable. It'll be a tremendous asset for the Canadian Forces. But at the time I was VCDS, and given the constraint requirements we had, we focused on the C-130s as the fleet that needed to be addressed.

● (0930)

Hon. Denis Coderre: But at that time, if I may, the necessity for the mission was tactical aircraft; we were not talking about C-17s. I recall that at that time you had, of course, several scenarios in your department. You preferred to have at least six C-17s, and you were putting together some options on whether you would lease them or buy them, but the fact was that you would not have both of them; it was one or the other. The scenario was, do we replace the Hercs with C-17s and keep some of them, or do we forget about the C-17 and go totally to the replacement of the Hercs?

Would you confirm that even in General Hillier's mind at that time it had nothing to do with the C-17, but was all about replacing the C-130Js? Wasn't that so?

LGen George Macdonald: I think most people were focused on the C-130. But the reality is we always recognized the need for a strategic and tactical airlift. There was never an exclusion of a strategic airlift for the sake of tactical. The Hercules is not a good strategic airlifter and the C-17 is not effectively employed as a tactical airlifter. To have one or the other doesn't make much sense. It should be a combination of capabilities.

In the capability-based planning process, strategic airlift was an absolutely critical element that was not fully satisfied. If money were no object, we would like to have lots of C-17s and lots of C-130s.

Hon. Denis Coderre: Money is always the object.

LGen George Macdonald: At that time, because of limited finances, we felt that the C-130 issue was more critical, and to relieve pressure from it was the primary issue.

Hon. Denis Coderre: I find it an interesting position.

General Manson, I have to agree to disagree on the IRBs. I believe that when we're talking about taxpayers' money, the reason we have an aerospace industry is because of the regional bases too.

Don't we believe that if we need the C-17, one of the key issues is to also have the ISS? If you cannot have in-support service, why bother? You have ITAR and all of those issues. Don't you believe that even before you sign the deal, it's better to have settled that issue first?

The Chair: Can we have a short response, please? I know it's hard to do, but we're running out of time.

Gen Paul Manson: Yes. Allow me to say that the fact that there's disagreement is not surprising, because there has been disagreement over industrial regional benefits. There is no disagreement on the fact that they are important and they are needed. I do not deny that.

I'm calling for a more logical approach to it, perhaps on the basis of a government procurement policy and an industrial regional benefit policy that set the stage for each new program, so that it's not done on an ad hoc basis each time.

The Chair: Thank you very much.

Mr. Bachand.

[*Translation*]

Mr. Claude Bachand (Saint-Jean, BQ): Mr. Chairman, I want to thank our guests for coming. I think both of our guests are highly competent. They had long military careers and know the ins and outs of the file that we are currently studying. I think they will make an important contribution to our study.

Gentlemen, do you consider the current procurement process to be fair, open and transparent?

[*English*]

Gen Paul Manson: Yes, I believe it is, Mr. Chairman. I think it is very fair. I think it is very open. It's very transparent.

Having been out of the Department of National Defence for something like 18 years, I see no evidence that there is any attempt to colour the results of any evaluation or any procurement. They do their very best to be as open and fair as they possibly can. I have great confidence in the fairness of the system.

[*Translation*]

Mr. Claude Bachand: Do you acknowledge that National Defence is responsible for the requirements? That is where they establish the requirements in terms of the size of the cockpit, the range of the aircraft, as well as its capacity to lift and carry cargo over a precise distance. Do you acknowledge that if these elements are defined precisely, you can choose from among the suggestions and select whomever you want?

● (0935)

[*English*]

LGen George Macdonald: I think the case you're referring to, of course, is the fixed-wing search and rescue statement of requirements.

[*Translation*]

Mr. Claude Bachand: It is not just about that. In terms of strategic and tactical airlift, there can also be requirements. In the case of the tactical airlifter, we can say we need an aircraft that has such and such a payload, that is capable of covering such and such a distance and that is such and such a size. With requirements like that, we can get the aircraft we want and choose whomever we want. Do you agree with me?

[*English*]

LGen George Macdonald: I think the fundamental issue here is that the military have the experience necessary to identify what the requirements are to perform their mission. None of these statement of requirements for significant projects is done without the most serious consideration for all of the issues that are related to them.

The statement of requirements is a fundamentally important part of the process. I think it's important for the government to recognize the military expertise in developing that statement of requirements. If the government ultimately chooses not to satisfy the requirement, due to funding or other reasons, then it's of course for the government to decide. But I think to respect the military's judgment in that and to accept it is very important.

[Translation]

Mr. Claude Bachand: You are raising an important issue, one of political interference. I put that question to Mr. Ross, and you have undoubtedly read his reply. Is it possible for politicians, the minister or the Prime Minister to say they want a specific aircraft and for them to tell you to define your requirements in such a way as to make it possible to obtain that aircraft? Is political interference a possibility in the choice of aircraft or the choice of any kind of military equipment?

[English]

LGen George Macdonald: I suppose anything is possible, but I think it's important to recognize the military expertise and that the military has a responsibility to identify to the government what the implications of a decision like that may be in the performance of the military mission.

[Translation]

Mr. Claude Bachand: You are saying that politicians can decide what type of aircraft they want, even if that is not fully consistent with the army's requirements and the importance the army places on that type of contract. You are saying, somewhat like Mr. Ross, that anything is possible, that there can be political interference. They can say they want a certain type of aircraft and that they want you to determine your requirements to make it possible to purchase that type of aircraft or to sign that type of military contract. It is possible.

[English]

LGen George Macdonald: It's a question of nuance and interpretation of the word "possible", I suppose. But the reality is that I think most of us would agree that the process would be totally compromised if something like that happened.

The fundamental requirement here is that government decides what the national interests are, decides what the policy is, defines what mission the Canadian Forces perform, but then I think it's important that they respect and accept the military's advice with regard to what the requirements are to fulfil that.

How that's funded, again, is another decision for the government to make.

[Translation]

Mr. Claude Bachand: We always go back to the example of the maritime helicopters. Political interference certainly occurred in the case of the maritime helicopters. You acknowledge that, don't you?

[English]

LGen George Macdonald: Obviously, the government of the day decided to cancel the project completely. Whether that was because of cost or a disagreement with the requirements is something I suppose you could argue.

[Translation]

Mr. Claude Bachand: Yes, but you acknowledge that a subsequent decision was made to adopt two approaches, one for the platform and another for the computer platform. It was like deciding to put a Ford dashboard in a Chrysler car. That would not work well. Why was that decision made? It was because they did not want to buy the same helicopter as in the contract they had cancelled, which had cost \$700 million. You are saying, in veiled terms—I understand that—that you think there was political interference.

I don't have much time left. Isn't it important for Canadian industry to benefit from economic spinoffs? Moreover, we must also look at whether we are in a position to build this type of equipment. I find that lacking. I don't think that the Department of Industry can represent everyone. If representatives of Canadian industry were present, they could indicate what they are in a position to offer in terms of future contracts.

I think you are right in saying that we cannot build all parts of the C-17 in Canada. However, if certain companies were around the table and the decisions were made, they could provide important insight. Are you in favour of industry representatives being involved in the procurement approach?

[English]

LGen George Macdonald: I'd like to restate what I said before and not have any misinterpretation about my response to you, Monsieur Bachand. I think the requirements are fundamentally in the military domain. The military provide the requirements. If the government decides to accept or reject those requirements, that's a decision for the government.

Industry certainly has a role in this in providing information on capabilities and potential solutions to those requirements, but industry, of course, is biased towards industrial concerns. They should not be involved in the requirements. The requirements should be set to perform the mission to the best capability of the military, and it's up to the government, then, to take these into consideration.

● (0940)

The Chair: Thank you very much, and thank you, Mr. Bachand.

Ms. Black.

Ms. Dawn Black (New Westminster—Coquitlam, NDP): Thank you very much, and thank you both for your presentations this morning and for appearing at the committee.

In terms of responsibility, when the minister was here at the committee last week he said that cabinet as a whole was responsible for defence procurement, and when Mr. Ross was here he said there was a joint responsibility between DND and Public Works, with some others involved.

You mentioned, General Manson, that the system was—"dysfunctional" was the word you used. So if the procurement system is not working—that seems to be the tenor of your submission, you talked about 27 years for the replacement of the Sea Kings—who has the final responsibility in the process? Who is the final level of responsibility in the procurement process?

Gen Paul Manson: Obviously, it is the Prime Minister and ministers at the cabinet table in our democratic system of government. It is the tradition that they have final responsibility for making decisions, especially decisions that involve the expenditure of billions of dollars of taxpayers' money. So there can be no question about that.

The term "political interference" is one I think we must be very careful about.

Ms. Dawn Black: I didn't use that term.

Gen Paul Manson: I know you didn't. But we must be very careful. You hear it often these days. But is it really interference when the cabinet and the Prime Minister exercise their constitutional responsibilities? Certainly there is a risk that they can jump in at the very early stages of the major capital procurement and try to influence it.

In my 40 or 50 years of experience I've only really seen one instance, and that goes back many decades. But in recent years I've not seen that. In the case of the maritime helicopter project, the EH 101 cancellation, the cancellation was done after the contract had been in place for one full year. They didn't try to influence the requirements and the specifications at all. They decided for other reasons to cancel the program back in 1993.

So, yes, the government is ultimately responsible, and rightfully so in my estimation.

Ms. Dawn Black: General Macdonald, you talked about the statement of requirements and how the military and DND puts that together. In your experience, were those statements of requirements ever modified by government?

LGen George Macdonald: I cannot think of a specific case, no. They have been modified from time to time since their original version, due to changing needs, or the emission requirements have changed somehow, or some new technical information has been available—not significantly, but I can't think of a case where government forced a change in requirements.

Ms. Dawn Black: So when the statement of requirements is finally endorsed by DND or the military, that's what goes out to the theoretically competitive process?

LGen George Macdonald: That contributes to the competitive process, yes.

Ms. Dawn Black: But the requirements as deemed necessary by DND, is that what is finally sent out to the bidding process?

LGen George Macdonald: It's interpreted into a statement of work, and the statement of requirements go together. But as long as the government approves the project and for work to continue, yes.

Ms. Dawn Black: So government, in your experience, has never modified or changed any of the requirements DND put forward?

LGen George Macdonald: I suppose there have been cases where you could say they rejected a particular approval and therefore did not accept the requirements, but, no, I can't think of any forced changes.

Ms. Dawn Black: I wanted to ask each of you what you think is an acceptable timeframe for procurement. Shouldn't the process be able to wrap up relatively quickly? I guess it depends upon what exactly is being asked for. But is there any relationship between the

length of the procurement process and the final outcome in terms of when something is purchased?

Gen Paul Manson: It's a very interesting question. There is no simple answer. We can't say, of course, that every procurement should take place in three or five years. It depends very much on the particular program. For obvious reasons, the megaprojects, the huge ones, will take longer than the acquisition of a relatively small piece of equipment. In fact, our association, our institute, did a study last year of procurement times and we found there is an enormous range. Yes, of course, the maritime helicopter project is some 30 years. But there have been some very good instances in recent years of quick acquisition in under three or even two years. An example is the Nyala vehicle for the army in Afghanistan. The new artillery piece for the army, which is being used very effectively in Afghanistan, had come through very quickly.

An important factor is whether you can buy something that exists on the shelf that meets Canadian needs precisely, and if the will is there and the operational need is critical, then the government can buy this equipment very quickly. But in other cases...for example, the Canadian patrol frigate, which had to be designed, wasn't available on the shelf to meet Canadian needs. That's one that took many years. It depends very much on the circumstance of the day.

●(0945)

LGen George Macdonald: I would add to General Manson's response by referring to a few points I made in my presentation. If the commitment is there to purchase a capability, then it can proceed quickly. If the funding is available, of course, it can proceed. Perhaps the variable in this is how much risk you're willing to accept. Obviously, buying something quickly may induce a risk that this piece of equipment isn't quite as suitable for future missions as you would have wanted it to be had you taken the time to flesh out the total applicability of that particular piece of equipment. Or you may not have the personnel trained in time. So there are things. Doing things more quickly may incur risk. Doing things over a longer period of time, of course, incurs more risk with funding or whatever.

Ms. Dawn Black: My last question relates to the fifth point in your presentation, when you talked about the balance between domestic and international needs. Do you foresee a domestic purpose for the procurement that's going on now for large aircraft?

LGen George Macdonald: Absolutely.

Ms. Dawn Black: Could you expand upon that?

LGen George Macdonald: The C-17, for example, which Mr. Coderre was asking about before, has an equally strategic airlift requirement in Canada as well, to provide support to Canadian Forces, or to major disasters—

Ms. Dawn Black: Like an earthquake in my province of B.C.?

LGen George Macdonald: Exactly. The ice storm that occurred in 1998 is an example of where strategic airlift would have been very useful, to transport heavy equipment from the west to the east. The Hercules is used throughout Canada on a repeated basis.

Ms. Dawn Black: I'm referring to the C-17.

LGen George Macdonald: There is no real complication between those two. They have domestic and international capabilities of quite a large number of missions.

Ms. Dawn Black: Thank you.

The Chair: Thank you very much.

Mr. Calkins.

Mr. Blaine Calkins (Wetaskiwin, CPC): Thank you, Mr. Chairman.

I would like to thank our guests for coming here today and providing their insight.

My first question is for General Manson.

In the past, you have argued that renting military equipment is not only costly in the long term but that it could also compromise Canada's security. In a CTV news article from June 16, you were quoted as saying:

When a crisis occurs everybody needs these airplanes at the same time and Canada could find itself at the bottom of the totem pole of those who are looking for the rental of those facilities.

Could you elaborate on that? I think it has already been touched on a little bit today, but can you give me some examples of when that has happened? Has it happened to Canada in the past? And not just in the aircraft, but you can take a look at it from a naval perspective as well. I think we saw it in the attempted evacuation of Canadian Lebanese citizens from Lebanon and some of the competing nations that were going in there when we didn't have the domestic capability to do it ourselves.

Gen Paul Manson: Yes.

In those comments I was basically looking forward, in a world that is changing very rapidly, with a lot of unforeseeable crises coming up. It's precisely at that time, if there were a major international crisis and Canada was one of the long lineup of nations waiting to use a leased strategic aircraft, for example, that it may very well be that we would be at the bottom of the totem pole and that we would have to wait until other nations' requirements were fulfilled before we could have access to a strategic airlifter that would get our disaster response team to somewhere in central Asia or for some military requirement as well. Owning our own strategic aircraft, of course, solves that problem so that we have instantaneous access to strategic airlift when the crisis occurs and we don't have to wait in line.

● (0950)

Mr. Blaine Calkins: Are the four C-17s that are proposed going to be able to deploy DART in one shot? If we line up all four airplanes on the runway and load them up, can we get DART over in a single shot to anywhere in the world?

Gen Paul Manson: I'm not certain of the details of that, but I believe that's one of the reasons the C-17 has been seen as an

excellent solution to the Canadian requirement, that it can handle deployments such as the disaster assistance response team.

Mr. Blaine Calkins: I am going to change gears here for a second. I have a project management background, and I want to talk to you a little bit about the change you see as far as requirements are concerned, going from being bogged down and writing technical specifications, thousands and thousands of pages at some point, to performance-based requirements.

From a project management perspective, first of all, you do an analysis to determine what your needs are. Once that analysis is complete, you often go into a design phase.

Maybe I am wrong in this, but are we not shifting the design by going to performance-based requirements? Are we not shifting the design work, the technical specifications, onto industry? Would that be a fair thing to say?

Gen Paul Manson: It might be true, but only in the case where nothing is available on the shelf to meet the requirement.

In virtually all cases these days, given the way in which the industry has internationalized, in which interoperability has become an important part of military equipment that is available around the world, it is in a rare situation that Canada would have to buy a piece of equipment that has to be designed for Canadian needs. By detailing requirements on the basis of performance needs, you don't have to go into a major design phase at all. You evaluate competing systems in the marketplace that will or will not meet Canadian needs and buy one of those without having to go through a major development or design process.

Mr. Blaine Calkins: So, in essence, we're realizing economies of scale by buying stuff off the shelf. Would that be a fair assessment?

Gen Paul Manson: There are many, many economies, of course, by buying off the shelf. In every case where the Department of National Defence can buy an existing piece of equipment that has been tried and true, used by allied services, they will buy off the shelf. It's a very important feature. The cost of designing and developing a new piece of equipment to meet specific Canadian needs is very, very high and should be avoided wherever possible.

Mr. Blaine Calkins: There's been discussion about these industrial regional benefits. At one point in time, the Canadian industry didn't have the capacity to handle a lot of contracts. I think the capacity has increased somewhat.

In your opinion, does Canadian industry have the capacity to compete on an international scale for a good portion, if not all, of the contracts that will be available through purchases of C-17s and Hercules, for example, or in building new ships and so on? It's not just the fabrication part but also the information—the computer capacity and all that other kind of stuff. Do we have enough of it here to compete on an international scale?

Gen Paul Manson: The Canadian aerospace and defence industry does compete very well, but in rather select niche markets. We have learned through sad experience, for example, with the Avro Arrow back in the 1950s, that Canada cannot compete with the big guys around the world, particularly on very large systems like fighter aircraft, ships, and that sort of thing.

Over the years, the Canadian industry has tended to focus its attention on such things as flight simulation, aircraft engines, particularly small aircraft engines, and communications. We've done very well, and compete around the world very effectively, in areas of that kind.

As I touched on in my remarks, a major problem has emerged lately, and that's the question of Canadian content value. There is a rule that says industrial benefits for every major program should have 100% Canadian content value. But the fact is that because of the internationalization of the marketplace, a given Canadian product may have only 30% or 40% Canadian content. That presents a problem to the companies that have to provide industrial benefits. Instead of meeting 100% of the contract value, because of that factor they actually have to produce industrial benefits of maybe three times the contract value.

That's a very difficult thing to do, and it's there that I think Canadian industry is going to have very serious problems meeting industrial benefits obligations with the massive defence expenditures that are going to be coming along in the next decade or two.

Mr. Blaine Calkins: Would it be fair to say that in the past, then, for the sake of meeting industrial regional benefits, the Canadian Forces could or should have been better equipped? Based on...you know, spending four times as much as they should have for something, they would have been able to procure more equipment and have more capability.

• (0955)

Gen Paul Manson: That's a tough one. It's a subjective area.

Defence spending is in fact a zero-sum game. Although the Department of National Defence may have to pay a premium to cover industrial benefits out of the carefully stated defence budget, in that sense they can't acquire as much as they would otherwise. On the other hand, they benefit from industrial benefits going into the Canadian defence and aerospace industry, because they are the people who by and large provide in-service support for the equipment once it gets into existence, and who in many cases will provide off-the-shelf equipment for the Canadian Forces.

So the premium has to be balanced against the benefits, the rather subtle but important benefits, that the industry gets out of the industrial regional benefits policy.

The Chair: Thank you.

Did you have a short response?

LGen George Macdonald: Yes, Mr. Chairman.

I just want to add that notwithstanding the fact that we have a very strong aerospace industry, there may well be some pressures on that industry to fulfill all of the industrial benefits as these larger projects go through. One policy that's causing significant concern for the companies is the requirement to provide 60% of the identified industrial regional benefits at contract signing. This puts a huge demand on them to resolve the industrial benefits issue up front, which may result in lower-quality benefits, or benefits that could have been better distributed or whatever over the longer term had they had the opportunity to do so.

The Chair: Thank you, sir.

Mr. McGuire, it seems you're going to get the last word here, as we're running out of time for this session.

Hon. Joe McGuire (Egmont, Lib.): Thank you very much.

I'd like to continue on the topic of IRBs. As General Manson said, everything seems to be dysfunctional here, whether it's the DND personnel, the bureaucracy, or the political aspect. The IRB program is a program that most countries have. It's not just a Canadian phenomenon. Most western European countries and American companies distribute the benefits of these large purchases on a regional basis, where possible.

Gen Paul Manson: That is quite true. Most of our allied countries do have industrial regional benefits programs, sometimes with other names. But it's important, particularly when a country has to buy offshore. There's a balance of payment question that can be resolved with a good industrial benefits program. But Canada, being Canada, has regional aspects to industrial benefits that some other nations might not have.

Hon. Joe McGuire: Well, we're 40 times bigger than most other countries too. I think that's probably because people who serve in the military serve from all across the country, not just from one or two areas. It's a national profession, and the governing principle behind the IRBs is that the economic benefits should be distributed also. DND knows that IRBs are policy. The bureaucrats know that IRBs are policy. The people who compete for these contracts know. So it's always built in. They're not unaware. These same companies apply for contracts, or compete for contracts, all over the world, not just here, so they're well used to the program.

Why would that be such a complicating factor if everybody knows the IRBs policy? It has not functioned only in Canada for many years. I mean, the whole system knows it. Most of the western countries have the same type of policy. Why is that a dysfunctional part of the whole system?

Gen Paul Manson: Well, everyone agrees that IRBs are important and are an essential element of any major procurement. The problem that we foresee is that because there are conflicting aspects to it from National Defence to industry, this can lead to an elongation of the procurement process. That is the concern, not the IRBs themselves.

There must be a national policy stated ahead of time that will tell everyone what the rules are. They have to be good rules, mind you, so the process can move much more quickly than it has been moving in the past decade or so.

•(1000)

LGen George Macdonald: I would add, sir, that nobody disputes the need for IRBs. It's a logical thing to do. It does not influence National Defence's statement of the requirement. The military focuses on the requirement, and IRBs are recognized as a necessity, but not as something the military worries about. This is normally the purview of Industry Canada.

Canada has taken IRBs to a new art form when it comes to defining the rules and the structure under which you apply them. Many countries have offsets, so you don't have to define specific causalities of a proposal for a project; rather, you have some offsetting trade arrangement. Canada imposes stricter rules and more regulations in the suitability of IRBs, which causes the elongation of projects.

Hon. Joe McGuire: What do you mean by the 100% Canadian content value? Can you explain that to everyone?

Gen Paul Manson: My understanding is that about 10 years ago, a rule was built into the process that declared that an industrial benefit that is offered by a company seeking a contract from National Defence must include 100% of the contract value of content made in Canada. In other words, an aircraft, say a Bombardier aircraft, might say \$50 million. Of that \$50 million, perhaps only \$30 million or \$25 million is Canadian content. They had to import components—engines, materials and so on—to go into that airplane. So the Canadian content value of that particular benefit is less than 100%. To build the total up to 100%, the company must bring in industrial benefits that are two or three times the value of the contract itself.

I hope that clarifies it. It's a complex issue, but the basic point is that Canadian companies, in building their own products, don't always use 100% Canadian materials and labour and content in those products.

The Chair: Thank you very much.

Thank you, Mr. McGuire.

Gentlemen, thank you for being here. We appreciate it. We certainly appreciate your continued efforts to serve your country, even after all your years in the military. Thank you, and I'm sure it will add valuable content to our report.

We'll just take one minute while we change panellists. We're on a tight schedule, so don't wander off.

• _____ (Pause) _____

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•(1005)

The Chair: Okay, could we get back to order, please?

We have with us, for the second half of today's meeting, representation from the Armed Forces Communications and Electronics Association of Canada, Mr. Dupont, chairman and chief executive officer. From the Aerospace Industries Association of Canada, we have Ron Kane.

Then we have Mr. Page, is it? Will you be presenting as well?

Mr. Timothy Page (President, Canadian Association of Defence and Security Industries): I will.

The Chair: We have the three gentlemen here. We have an hour. I apologize for that, but we're trying to squeeze a whole lot of information into a short period of time. Take what you need to give your presentations, and then we'll open up with a round of questions. Who would like to start?

Mr. Kane, thank you very much.

Mr. Ron Kane (Vice-President, Defence and Space, Aerospace Industries Association of Canada): Mr. Chairman, honourable members, first I'd like to thank the committee on behalf of AIC and its 400 member companies from coast to coast. We welcome the opportunity today to share with you the aerospace sector's view on how Canada ought to improve its defence procurement practices.

We believe the proposed changes we are tabling before you will translate into better outcomes for everyone, outcomes that could contribute to Canada's capacity to define and prosecute Canada's first foreign and defence policy; support the men and women of the Canadian Forces by providing them the right equipment where and when they need it to carry out their missions at home and abroad; and optimally benefit Canadians through the prudent investment of their hard-earned tax dollars.

We applaud the Government of Canada for moving ahead on acquisition of new airlift aircraft that will help Canada prosecute its sovereign foreign and defence policy. Regrettably, systematic weaknesses in Canada's defence procurement system impede industrial development outcomes that would otherwise maximize the return on an aggregate \$13 billion expenditure these procurements entail.

Much of the public debate surrounding airlift procurements is centred on the government's choosing of a sole source as opposed to opting for a competitive procurement process and on the regional distribution of the industrial benefits that flow from these procurements. These questions speak to an overarching shortcoming in how Canada's defence procurements are managed.

Canada lacks a clearly articulated policy to guide the leveraging of defence expenditures in order to strengthen world-class capabilities found in a domestic industrial base. In this regard, Canada uniquely stands out from other nations. We need a policy framework that promotes a robust domestic industrial and technology base, one that protects our sovereignty and security while fuelling our economic development.

In the absence of a strategic vision, Canada's approach to defence procurement will remain piecemeal and will be destined to yield suboptimal results in both national security and economic terms.

The absence of an industrial policy on defence procurement constitutes a serious disincentive for Canadian-based firms, whether they are domestic or foreign-owned, to maintain operations in Canada. They face mounting pressures to relocate to or establish operations in the U.S. and Europe in order to meet government-imposed eligibility conditions for access in these larger defence markets. If this bent should continue, Canada can look forward to the day when its relatively modest defence requirements will be served exclusively by companies operating elsewhere.

The Government of Canada must formally recognize industry's role as a strategic asset to the nation's defence and security. This is particularly necessary if Canada is to possess this industrial base with full capability to support its military aircraft fleets over their entire life cycles. Relying on foreign sources degrades Canada's defence capabilities. In times of crisis, access to foreign sources cannot be guaranteed as they may be fully engaged to meet the requirements of their own domestic armed forces.

Too often, defence procurements are all but signed, sealed, and delivered without a comprehensive review by senior decision-makers of all the procurement options and their implications. For instance, how does the selection of a domestic versus a foreign contractor affect us? What are the impacts of competitive versus sole source tendering? How do these decisions fuel the vitality and global competitiveness of Canada's industrial base?

There is a prevailing pattern of behaviour that has emerged within the Department of National Defence, one that is worrisome to industry and, we submit, counterproductive to the economic interests of the nation. DND officials calmly develop detailed equipment specs in isolation from other key government departments and even more so from industry.

Such a specification-driven mindset largely predetermines the choice of platform, discourages innovation, and often limits the range of solutions that can be brought forward by industry. Once these equipment specs are fully developed within DND, the procurement requirements often surface with an urgency to move them forward. This spawns late-in-the-day process anxiety amongst decision-makers and a revisiting of the procurement strategy in an emotionally charged environment fraught with bidders, provincial leaders, and industry organizations advancing their interests to the media, which looks to criticize and to fix blame. The end result is delays and increased costs, both for the government and for the industry.

The men and women of the Canadian Forces and Canadians in general deserve better. A better way is to adopt a capabilities-based approach through defence procurement, one that sets out the mission and the general capabilities needed to achieve it. This can lead to more competition and therefore better value for money in Canada's defence spending.

● (1010)

Senior government leaders need to be more fully engaged much earlier in the process of determining how large individual procurements move forward. They must establish clear outcomes, both defence and industrial, and endorse the best approach for achieving them.

Industry leaders can play a value-added role in helping them do so, including setting procurement strategies that allow maximum scope for bidders to submit innovative yet practical proposals that maximize the outcomes the government seeks.

Establishing an efficient, effective, and politically accountable procurement process takes time and requires the participation and active support of government decision-makers and industry leaders to give it full effect. Recognizing this, immediate steps can be taken to strengthen how the current airlift procurements can be more effectively leveraged to maximize their industrial development return by way of leading-edge Canadian solutions finding a place in global supply chains across the commercial, defence, and space sectors.

The changes advanced by AIAC will not impair Canada getting the aircraft it has chosen, nor cause delay or additional cost.

The government's approach to achieving Canadian industrial benefits, CIBs, will affect a quantity versus a quality bias. Typically the prime contractor must return to Canada, within a relatively short timeframe, economic value equal to 100% of the contract value.

This tends to drive the contractors to commit to short-term purchasing transactions related to the mature product lines. At present, no value discriminators are employed to incentivize contractors to build forward-looking, long-term, high-value business relationships, relationships such as co-development of new technologies and the early involvement of Canadian companies in the new development programs.

Specific measures tabled by AIAC to the government include:

- Providing contractors more direction on industrial outcomes sought; only requiring them to meet quantitative measures is simply not sufficient.
- Employing value discriminators to recognize the higher value of certain types of CIBs; for example, technology transfer over simple procurement of non-complex items.
- Allowing flexibility in the eligible period for contractors to discharge their CIBs to Canada. Adherence to rules should not trump good business.
- Managing a prime contract through CIBs in a consolidated manner across all contracts that contractor has with the Government of Canada, rather than managing in individual stovepipes.
- Directing that 100% of the in-service support for the tactical aircraft and helicopter fleets being acquired be performed by the current Canadian-based ISS industry, including overall fleet management, engineering support, repair and overhaul, modifications, and life extension upgrades.

The government must also obtain from the aircraft manufacturers as part of the initial contract the full data packages and intellectual property necessary to sustain the aircraft once they enter service in Canada and without any restrictions under U.S. export control policies.

Further, the government should seek to have the contractors bestow on Canadian companies the licences and product mandates that will allow them to carry their expertise into export markets.

By adopting these proposed changes, government and industry will be better aligned in advancing Canada's foreign and defence policy and fiscal goals while contributing to the global competitiveness of Canada's aerospace industry.

Thank you.

•(1015)

The Chair: Very good.

Mr. Dupont.

[Translation]

Mr. Gilles Dupont (Chairman and Chief Executive Officer, Armed Forces Communications and Electronics Association): Good morning, ladies and gentlemen. I am happy to be with you today to provide you with the opinion of members of the Armed Forces Communications and Electronics Association.

[English]

The association originated in the U.S in 1946, with the aim of creating a better understanding among defence, government, and industry professionals in the fields of communications and electronics.

It has since grown into a non-profit international association composed of 31,000 individual members and over 1,300 commercial corporations worldwide. The scope and interests of AFCEA members have expanded far beyond the vision of its military founders, and AFCEA today serves as a bridge between government requirements and industry capabilities in the ever growing information technology community, what is now known as C4ISR.

AFCEA is also supporting global security by providing an ethical environment that encourages a close cooperative relationship among civil government agencies, the military, and industry.

AFCEA Canada was incorporated in 1986 as a component of AFCEA International and has its national headquarters in Ottawa with a council of advisors, or board of directors, drawn from across Canada to guide its activities.

AFCEA Canada also has a program management committee that manages the AFCEA Canadian national program. The current program consists of an executive breakfast series; professional development events; social events; and TechNet North, an exhibition and professional development event held in Canada every second year.

AFCEA Canada pursues its objective by providing an ethical forum for the exchange of ideas and information among its members and a bridge between industry and government in the specialty fields

of communications, electronics, command and control, intelligence, surveillance, reconnaissance, and information systems.

In regions and cities where there is sufficient professional concentration in these fields, local AFCEA chapters are organized. Chapters are currently active in Montreal and Ottawa.

[Translation]

AFCEA Canada is also the main contributor to the AFCEA education fund of Canada. This fund encourages a high level of academic achievement in science and engineering by assisting and motivating deserving students through scholarships and incentive awards.

[English]

Unlike other associations that represent industry sectors, AFCEA draws its membership from all three segments making up the professionals in information technology. Our members are from the military, the public service, and the private sector.

AFCEA is member owned, and it is governed by volunteers from its membership. It has a very small paid staff at its international headquarters in Fairfax, Virginia. We also have a small staff in Brussels, Belgium, to look after AFCEA Europe and two people here in Ottawa to look after AFCEA Canada. Members of the international executive committee and the international board of directors, of which I am part, are all volunteers.

I would like you to remember during question period that the well-accepted definition of a volunteer is the person who doesn't understand the question. I am a volunteer.

AFCEA applauds and supports the current efforts of DND to move toward a performance-based, best-value competitive process. However, the competitive process cannot override the primary purpose of acquiring a working solution that fulfills an existing requirement, not yesterday's requirement. Mandatory performance criteria are sometimes not flexible enough. Of course, this will be the claim of all contractors who do not qualify.

The point of view of the evaluators of proposals must also be taken. In the pursuit of best value, it is sometimes better to allow for shades of grey rather than restrict the evaluator to a black and white situation. The selection of the lowest-compliant bid implies that the specifications of the RFP have to be perfect; otherwise the selection risks being flawed.

Moving away from the lengthy process of producing complex technical specifications is arguably the best move DND could make in improving the procurement process. Not only did it produce poor results at times, but sometimes it didn't produce any results. This process was also tying up engineering resources that are internal to DND and could have been used for a better purpose. I know. I was one of them, until my retirement in 1987.

Adopting the single point of accountability concept enunciated by DND is also supported by our membership, if it is coupled with a guaranteed Canadian content. As much as this can be an improvement to the process, the selection of this single point of accountability must be based on the capability of the selected prime contractor to perform in this function for the desired length of time. However, in the case of an offshore prime, the supporting contract should be limited to the first few years, to affect the technology transfer to a Canadian prime who could then take on the long-term O and M activities.

On the acquisition of IT systems and services, this concept is far from being adopted. DND currently contracts for bodies rather than corporate capabilities. This is much more expensive, from an internal DND management perspective. But the main reason, I suspect, is because DND feels qualified to assess the capabilities of individuals while they do not feel supported by PWGSC and Industry Canada when it comes to evaluating the capability and financial stability of contractors.

I know that changing the processes of other departments is certainly out of the scope of this committee. However, if DND is to be successful in adopting the single point of accountability concept, it has to ensure the right prime contractors are selected. The concept needs a prime that is capable of delivering all the mandated equipment and services; a prime that has the financial stability to last for the duration of the support contract; and finally, a prime that is a good corporate citizen and is committed to remaining a good corporate citizen of Canada.

An unstated benefit of the single point of accountability concept is that the multitude of other contractors required to deliver the goods and services associated with a complex DND contract would then be the responsibility of the prime. As much as I hate to admit it to this committee, large Canadian and international corporations are much better equipped to handle the lobbying of many contractors simultaneously than the Government of Canada is.

Finally, AFCEA also supports DND in its announced intention to buy proven off-the-shelf products. This concept is particularly applicable to minor purchases of IT security products. In today's world of new and fast-moving threats to IT security, it is imperative to acquire products and technology that are current and leading-edge. Relying on older tools results in higher risk and inadequate protection.

• (1020)

As stated earlier, AFCEA is not an industry association but is one that is made up of military personnel, public servants, and contractor personnel. The kind of interaction among all three population segments that AFCEA provides for the IT sector should be encouraged for all other defence sectors.

Having only a paper evaluation of contractors can have a detrimental effect on the proposed changes to the procurement process. Government project teams are made up of people and so are contractor teams. The interaction between the two sides, within an ethical and professional framework, will greatly improve the knowledge level on both sides. The net result will be a defence industry having a better understanding of the requirements and a

government having a better understanding of industry capabilities and limitations. The two sides are partners, not enemies.

As commendable as DND efforts to correct inefficiencies in the procurement process are, the fact remains that DND is only one player in a multi-departmental process. The length of time between the announcement of a program and the start of the procurement process is far too long. PMOs are formed and sit on their hands for a while, and contractor teams are stood up and then dispersed to other tasks because of an untimely procurement start.

On major crown projects, the industrial regional benefits program of Industry Canada adds complexity and sometimes long delays to the acquisition process itself. In particular, the IRB policy is very difficult to implement for proven off-the-shelf purchases. Of course, direct IRBs are almost impossible to identify, and indirect IRBs are subject to antiquated rules that have not kept up with the changing Canadian economy.

Perhaps DND should lobby Industry Canada for an adjustment to the policy. For instance, long-term applied R and D activities could be eligible for the program, giving a longer-term outlook to the policy of IRBs.

Perhaps the time has also come for the government to review its policy of central purchasing. Our neighbours to the south do not have a central purchasing agency, and yet their federal government buys approximately 30 times what ours buys on an annual basis.

With DND and other government departments moving toward performance-based best-value competitions, with preference to off-the-shelf acquisitions, central purchasing may no longer be the most efficient way to procure goods and services. Perhaps there should be a redeployment of resources to the function of qualifying contractors through a very thorough due diligence process, instead of the paper evaluation that is carried out now.

In conclusion, AFCEA fully supports the initiative of Mr. Dan Ross to streamline the acquisition process in DND. We also agree that the tenets of government procurement should remain. However, we believe this should be accomplished within an improved interdepartmental approval and oversight process if the DND improvements are to be noticeably effective.

We are confident that the changes to the process will not be limited to the acquisition of large ticket items, such as aircraft and helicopters, but will also be applied to the small acquisition of C4ISR products and services, where the membership of AFCEA is most active.

Finally, I don't think we can overemphasize the importance of the human interaction between public servants and contractor personnel. The procurement process could greatly improve if the two sides better understood each other.

Of course, this interaction has to be done within an ethical and professional framework to preserve the tenets of government procurement in Canada. AFCEA Canada provides such a framework for its membership and is prepared to facilitate the interaction for non-members if sanctioned to do so by DND.

Thank you very much for your time. I look forward to your questions.

• (1025)

The Chair: Thank you very much, sir.

Representing the Canadian Association of Defence and Security Industries, we have the president, Mr. Timothy Page.

Mr. Timothy Page: Thank you very much, Chair, ladies and gentlemen.

There is no more important role for government than the security of its citizens and the protection of its national economic infrastructure. The government's commitment to reinvest in the Canadian military is fundamental to Canada's national security interests. CADSI applauds the government's decision to move quickly to begin the rebuilding process. Like the majority of Canadian taxpayers, our 500 members expect the government to achieve the best possible value from its acquisitions and to maximize the opportunities for competitive Canadian businesses to participate in a meaningful way.

We say this because we believe that Canada's defence and security industries are vital contributors to the government's ability to protect and defend Canada and Canadian values. We appreciate the opportunity to appear before the committee at the front end of the government's multi-year, multi-billion-dollar rebuilding commitment. Taken together, these procurements for our land, air, and sea forces have the potential to transform Canada's defence and security industrial base. The federal government's procurement strategies are at the centre of that transformation and are therefore the main focus of our input to you this morning.

My remarks to you will be divided into three main subject areas, which I will address briefly, in turn: defence procurement, industrial and regional benefits, and export controls. Each form an integral part of Canada's ability to proceed successfully with defence procurements and to achieve a maximum return for Canada in industrial capabilities of strategic national interest.

As it relates to defence procurement, CADSI recognizes the importance of a federal defence security and foreign policy agenda to set the framework for Canada's long-term military and security requirements. We understand the importance of a federal commitment to long-term stable and predictable funding levels for our military and security forces.

In addition to a policy framework and adequate sustained funding, CADSI believes there's a third crucial ingredient to successful defence procurement, and that is a front-end political and interdepartmental decision-making mechanism that engages the government, the military, and industry in aligning the acquisition of military equipment with strategic government objectives for industry, domestic economic innovation, and trade competitiveness in defined areas of national interest. Unlike our allies, Britain and Australia, Canada does not engage these related interests in a concerted strategic fashion at the front end of defence procurements.

For this front-end work to be successful, CADSI members believe the government would have to articulate what it believed to be capabilities of strategic value to national security and economic interests. Let me be unambiguous. I am talking here about an

industrial strategy for Canada's defence and security industries, a strategy that would consider, in its design and priorities, the current and future equipment, technologies, and in-service support needs of the military. It would consider international market and supply chain growth opportunities. It would also consider the distinctive security requirements of Canada as a maritime and northern nation that shares, as we do, a continent with the powerful United States.

There is a broad spectrum of opportunity for indigenous businesses to play in these environments. An industrial strategy, leveraged through defence procurements, would strengthen Canada's security and promote its economy in key technology areas.

Over the past couple of minutes, I have talked, as you might expect, about the economic and industrial opportunities available from effectively managed defence procurements. Let there be no doubt, however, that it is the military's responsibility to define its operating requirements, based on the missions the government has asked it to perform, and there should be no compromise in what the military decides it needs.

While business inherently supports the basic principle of competition, CADSI members agree that the key issue is not whether the government ultimately decides to build or buy off the shelf, to compete or sole source any particular procurement to meet its stated requirements. The most important issue, regardless of the chosen procurement strategy, is whether the government has established objectives up front and a strategy to achieve those objectives that maximize military, economic, industrial, and trade benefits to Canada, from the acquisition stage through the full life of the purchased equipment. It also has to involve industry as a contributor to that discussion.

One final comment on procurement. CADSI members support the government and the military in finding a faster process, one that delivers the required equipment in a timely and cost-effective manner and that assures maximum value for taxpayers and maximum involvement of the Canadian industry. We believe this is best accomplished through a process that is transparent and in which industry has a fair, open, and competitive opportunity to present solutions that respond to the customers' requirements from the earliest time in the procurement process.

• (1030)

The recent example of the joint support ship program, or JSS, may provide the committee with a process model worth supporting. Industry has described the JSS process as being one with open dialogue, where relevant documents are posted on a website in draft form for review, and where there is perceived to be an open and genuine interchange between the navy and industry around functionally oriented specifications—and by that I mean broad mission performance specifications. The procurement is focused on getting the best solution, and it is based on a front-end strategic interest in nurturing competitive Canadian industry. There is no ambiguity in regard to the process or how industry fits into the process. Consequently, to date there has been broad-based acceptance from all stakeholders.

As for industrial and regional benefits, Canada was among one of the first countries to develop and implement a program that sought to generate domestic economic value from the acquisition of military equipment supplied by offshore manufacturers. The program remains an important weapon in the government's arsenal to leverage Canadian companies into the supply chains of major defence contractors and to help nurture and develop Canadian-based capabilities that support our national security and long-term economic interests.

In the context of the IRB program, we ask the committee to consider a number of suggestions that we believe would strengthen the program and bring greater value to taxpayers. We ask for the program to encourage investment in Canadian-based companies and transfers of technology, IP, and R and D, by allowing credit for upfront investments, by properly valuing the technology being made available to Canada, and by offering a multiplier as appropriate. Currently, IRB credits are only provided when the recipient of the technology is able to generate downstream sales from the use of that technology.

We invite the committee to consider an IRB program that includes more flexibility, one that would allow banking a lower percentage of IRB obligations committed at contract signing. We believe this ultimately will lead to higher-value economic outcomes for Canada.

We recommend that a significant percentage of each IRB program be dedicated to investments in key capabilities of strategic importance to Canada and to the needs of Canada's military and security forces. We encourage winning contractors with IRB obligations to look across the spectrum of their business units to find benefits consistent with Canada's strategic interests.

As it relates to the export market, in the context of maximizing Canada's export potential through defence procurements, we ask the committee to consider that since the Hyde Park Declaration and the Ogdensburg Agreement from the 1940s, Canada and the United States have established a unique relationship for the mutual defence and shared security of North America. Much to Canada's economic and political benefit, our two defence and security industrial sectors, as a consequence, have become deeply integrated on both sides of the border.

Fully 50% of Canada's defence and security revenues are earned through trade with the United States. However, this traditional, deeply integrated industrial relationship is at risk because of U.S. interpretations of its export controls regime under the international traffic in arms regulations—ITAR—that reinterpret what it means to be a registered Canadian person. Left unaddressed, ITAR may significantly weaken Canada's technology and industrial capabilities. At a time when Canada is making the most significant reinvestment in its military and security forces for the past 30 years, much of the new equipment may well come from U.S. prime contractors. This situation therefore deserves the attention of the federal government at the highest political level.

In that context, CADSI recommends that the government, through senior political intervention, negotiate with the U.S. government an ITAR solution that applies equally to employees of the federal government and industry. We encourage a mutually agreed upon security clearance process and an enhanced Canadian-controlled

goods program to be agreed to, to create an ITAR-certified Canadian company competing on a level playing field with U.S. companies. And we encourage that a process be created to expedite technical assistance agreements and manufacturing licensing agreements for companies that have been ITAR-certified.

Ladies and gentlemen, in conclusion, Canada has the industrial capacity, a highly skilled workforce, and the technical expertise to play a meaningful role in supplying and supporting a substantial part of Canada's current and future defence and security equipment requirements. What role Canadian industry will play in the rebuilding and long-term support of Canada's military will depend on decisions being made by the government now and over the next 18 months.

•(1035)

With the requisite political will, Canada can use its procurement, IRB, and other policy and program tools to obtain the equipment needed by the military to perform its duties. At the same time, we can maximize benefits for the Canadian economy, sustain high-quality jobs in Canada, and generate substantial export sales opportunities.

Thank you for your attention.

•(1040)

The Chair: Thank you very much.

Thank you all.

We'll open up for a round of questions, committee, but in order to get everybody in, I wonder if it would be all right to reduce the time to five minutes each, if you're all right with that.

And we'll remember Mr. Dupont's comments about being a volunteer.

Go ahead, Mr. Coderre.

Hon. Denis Coderre: I was a bit scared, Mr. Dupont, because the way you were talking,

[*Translation*]

I thought you were going to say "God bless America" at the end.

[*English*]

Gentlemen, it's about time that I hear people from the industry who truly are now fighting even for their existence.

We have a government that has totally abdicated our Canadian sovereignty. The reason why there's R and D, the reason why you have an industry, is that you had a government that put forward some industrial policies and made sure every region could have a share.

Now if you want to have R and D, you need ISS. This is the first time, with equipment, that we have a government that has bought C-17s that we truly believe we don't need, but for which we won't have any ISS.

[Translation]

Second and third line maintenance is necessary for research and development. Without this maintenance, R and D will be pointless. Boeing talks about identifying \$577 million out of \$3.4 billion; so there will be some compensation. The fact remains, however, that a small \$1.3 billion cheque was given to Boeing, which will look after ongoing maintenance.

Gentlemen, I hope that your respective organizations will take a stand. I know that there are perhaps some concerns, as the Department of National Defence awards the contracts and determines the selection criteria. But if we do not do what is necessary now, we will americanize the aerospace and aeronautical industry and end up being a franchise.

Mr. Page, I know that 50% comes from the United States. I also know the ITARs exist. One of your members, Bell Helicopter, had to lay off a Venezuelan engineer because he had dual citizenship.

I hope that we will be able to work together so that this government can do its job.

[English]

To be on the record, we have a Minister of Public Works and a Secretary of State for Foreign Affairs who have said the Boeing C-17 is ITAR-friendly, which is total baloney. Dan Ross came here and said he's trying to negotiate a deal not only à la carte for his own defence department, but afterwards, for the industry.

I think we should get our act together and make sure we have a one-two punch, because at the end of the day,

[Translation]

Mr. Dupont, we could probably say that we are the employee of the month of the United States' industries. In my opinion, an industry truly has sovereignty when it is able to help our men and women in upgrading and producing their equipment.

[English]

Monsieur Page, I would like to know how you deal with ITAR. I think it's a good first step that we're talking about it today. The Liberal Party of Canada, since the beginning, was pushing to make sure that we had something not only after a contract, but when we negotiate a contract.

I also believe one of the main problems happening right now is that we have a government that is totally abdicating and believes that since it's only four airplanes and we don't have the infrastructure, we should let Boeing take care of it. How can we manage, together, to have a true strategy in which you can be part of that process and make sure that this government, which has abdicated our Canadian Charter of Rights and our sovereignty, is efficient in protecting our men and women?

The Chair: Mr. Page, you have one minute to respond.

Mr. Timothy Page: Where should I start?

• (1045)

The Chair: Wherever you want.

[Translation]

Mr. Timothy Page: My dear Mr. Coderre, thank you very much for your question.

[English]

It is clear to members of our association that ITAR is not a new phenomenon. It predates the arrival of this government; it's been around for a long time.

What's important for members of our organization is for this government to ensure that it is making all necessary efforts at the highest political level to ensure that there is a mitigation found, in order to ensure, as you suggested, that Canada is able to maximize the benefits it can obtain through spending \$13 billion of federal taxpayers' money.

If I might, I would add one quick addition. You mentioned ISS, the in-service support industry. There are other sectors of the defence and security community that we believe should form part of an industrial base, which we're inviting the government to consider in the construct of an industrial strategy for the defence and security community.

I take it that buzzer was my minute.

Some hon. members: Oh, oh!

The Chair: Thank you. It was.

Mr. Bachand.

[Translation]

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

I want to welcome you and to thank you for appearing before us. You made a very generous contribution today. I was very glad to hear your presentation. I am addressing this question to all three of you.

With regard to the famous so-called advance contract award notice, would I be right in saying that if we identify too much with a single company, we lose all our negotiation leverage? In fact, we are too much at the mercy of the company and it takes advantage of the situation to impose its own conditions.

My next question is for Mr. Page.

We already discussed the importance of Canadian content and of the fact that the entirety of the spinoffs should go back to the aerospace industries. Why should we not request that things be done in this way? For instance, with the C-17 aircraft and the Chinook, the contracts have to do with this sector. The aerospace sector is involved in high technology research and development. I already said that 60% of the spinoffs was not enough. Besides, I have heard the same comment several times from representatives of the industry in Quebec.

We really have no interest in exchanging the entirety of funds assigned to the aerospace sector, for a 40% share allocated to Atlantic salmon or to Arctic spruce. I think that you could clarify this matter.

Finally, I would like to know whether, in your opinion, the Minister of Industry failed to do his duty when he told the people from Boeing that they could share out the economic spinoffs as they saw fit in Canada, without taking into account important regions like Quebec, that harbours 60% of the Canadian aerospace industry.

[English]

Mr. Ron Kane: Perhaps I could respond to Monsieur Bachand's first question, in terms of whether ACAN or a sole sourcing approach limits your ability to lever the highest value in national benefits out of the prime contractors.

We think that if the Government of Canada was clear in terms of the outcomes it desired from a particular prime contractor, you could maximize those through a sole source procurement, as you could through a competitive environment.

If you take Boeing, for example, Boeing is now into the development of its 787 Dreamliner, which is the next generation of commercial aircraft. It will soon go into development feasibility studies on the 737 replacement program, the most popular airliner flying today.

What we haven't seen from this government's approach, in terms of IRBs, has been a declaration of the industrial outcomes most advantageous to the development of Canadian capabilities. The IRB policy uses rules by which 100% of the contract value is broken down to 60% at the time of contract award and 40% within eight years. A rules-based approach is simply not sufficient to give direction to the prime contractors, in terms of the outcomes Canada wishes to obtain.

Certainly the ISS component of a contract is essential to our industry. We have first-class ISS providers in Canada, and they have to be fully engaged in the support of those aircraft fleets when they come to Canada. It's good for our industrial development and it's good for supporting the Canadian Forces in a 24/7 environment.

I don't think the contracting approach, either sole source or competitive, is a limiter or an advancer. It's having the government declare up front what its national objectives are on those procurements.

• (1050)

The Chair: You have a few seconds left.

Mr. Timothy Page: I would echo the remarks of my colleague, Ron Kane. ACAN, sole source, build, buy off the shelf—that is not the key issue for us, as I suggested in my remarks. It is important to understand whether there's a strategic objective behind the procurement strategy and whether or not that strategy is going to effectively leverage benefits that meet with Canada's national security interests.

Monsieur Bachand, my remarks may have led you here, and if they did they were intended to. Our interest is to ensure that the opportunities Canada has around the procurement of C-17s, for instance, take advantage of the full depth and breadth of the Boeing company's business units, in support of Canada's defined national security interests. It's certainly not to exclude aerospace—it's a significant and vital industry in our Canadian economy—but rather to suggest at the front end that decision-makers are considering what other assets the country may be looking to attract to Canada.

Boeing is a large player in the strategic border initiative with the Department of Homeland Security. They play a significant role in both marine and land technologies. If there are strategic objectives that either the military or the government has identified that will meet long-term needs, why not encourage Boeing to look across the full spectrum of their business units for such opportunities?

The Chair: Thank you.

I apologize, but because of the shortness of time, Mr. Dupont or any of you, if there's a response you'd like to give and you don't feel you have adequate time, please submit it to the clerk in writing and we'll make sure it gets included.

Ms. Black.

Ms. Dawn Black: Thank you very much, and thank you for your presentations today.

On the C-17s, the government invoked a national security exemption that results in a large portion of their maintenance being allowed to happen only in the U.S. I'm interested in your opinions on that and why you think there would be a national security exemption.

I'm also wondering who you primarily deal with in government. Is it DND, Public Works, Industry Canada—who are the go-to people for you?

What has your experience been with government? We had a change of government last year. I'm wondering how much that has changed the process you go through.

Finally, I agree that ITAR is a very big problem for Canada and Canadians. I think it's a big problem not only for industrial capability, as you said, Mr. Page; it's also a big problem in terms of Canadian jobs. After all, it's people working in Canada who pay the taxes and make it possible for us to fund not only defence procurement but everything else in Canada. If we don't have an industrial base and jobs here in Canada, that affects everything that happens in terms of government priorities and what we can do.

I'd be interested in having you respond to those issues.

Mr. Ron Kane: It's my understanding that the national security exemption is generally invoked to ensure that there are jobs created in Canada. It takes the procurement outside both international and domestic trade agreements, particularly the AIT in Canada, which gives the government the capacity to restrict sources of supply or set requirements to ensure that the Canadian Forces aircraft are serviced in Canada.

Ms. Dawn Black: Isn't it the opposite in the case of the C-17s?

Mr. Ron Kane: I'm not too sure how the NSE was invoked for C-17s, but certainly some of the work on the C-17s will be done in the global Boeing supply centres. We see a role for Canadian industry in supporting aircraft in Canada. We're also trying to get Boeing to bring Canadian companies into their global supply centres—companies in Canada that potentially supply landing gear parts. We can use IRBs to get Canadian sources of supplies in those global supply centres.

On the C-17s, there will be some maintenance done outside of Canada. On the tactical and helicopter fleets, it's our strong position that all ISS has to be done in Canada. We're procuring a large number of aircraft, and the capabilities we have in our industry are first class. They're demanded by other countries around the world. That's why we've asked the government to clearly state that 100% of the ISS, excepting the spare parts, will be done by Canadian industry and Canadian workers.

We also don't want the government to use a threshold of 75% of the value; we want them to declare in a clear form that it includes complete fleet management of the aircraft, repair and overhaul, and major upgrades and modification. So we certainly see a need to strengthen the approach of ISS related to helicopters and the tactical aircraft portions of that procurement.

• (1055)

Mr. Gilles Dupont: As far as the relationship between the associations and the government is concerned, in our case, of course, we are only looking after the communications and electronics, which is a very specific sector. In the armed forces communications and electronics, our main interaction, of course, is with the Department of National Defence, but we have to interface with Industry and PWGSC. In fact, on my board of directors, for instance, I have members from all three departments.

Mr. Timothy Page: We have a number of doors that we typically will knock on, including Finance, Foreign Affairs, Trade, Public Works, DND, and Industry. In part—and I say this somewhat facetiously—as we look for a champion within the government to speak for and advocate on behalf of the defence and security industrial community as it relates to your question on jobs, the defence and security industry's community is a pervasive group. They're embedded in a great many different sectors of the Canadian economy. Our members, 500 of them, are present in some 177 federal ridings.

Our interest, given that a great many of our members are small, working in an industry that is highly technologically driven, is to find those opportunities where Canada can play an effective role in the supply chain of major defence contractors and around niche markets internationally, where, because of Canada's unique geography or military requirements, we've been able to develop competitive technology, products, and services.

The Chair: Thank you very much.

Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you, Mr. Chair.

Thank you all for being here today.

I want to start by commenting briefly on Mr. Kane's presentation before asking some questions. I was a little surprised that you referred to the C-17 procurement as sole sourced when in fact it was a competitive process, despite what you may have heard in the media, and that was clarified by Dan Ross, the ADM for procurement, last week.

Also, you talked about the benefits of using a capabilities-based approach as opposed to a technical specification approach, which is

exactly what we've been doing. So I think we're obviously moving in the same direction on that.

Finally, you talked about focusing on quality versus quantity in terms of the IRB investments in order to achieve forward-looking, long-term, and high-value business relationships. I'm wondering if you're all familiar with the fact that the federal government, in cooperation with aerospace and defence industries, recently developed a key technologies list of nine key technologies that will focus the investments of those companies that are not Canadian-based, such as Boeing, to invest in Canada so that they can support the long-term future of our aerospace and defence industries.

Both Mr. Page and Mr. Kane talked about the benefit to doing something like that. I'm wondering if you're aware of the fact that we're actually doing that for the first time in our country's history. We've identified nine key technologies, including advanced materials, avionics, communications, propulsion, sensors, space, unmanned vehicles, all kinds of things that will require Boeing to direct its contracts to key technologies from this list.

Are you familiar with these key technologies and the benefits they will have? What are the benefits you think will result as the industry receives these investments?

Mr. Ron Kane: Certainly in terms of the need to go to a capabilities-based approach to procurement rather than driving procurements off detailed technical specifications, we are aware of developments within DND that certainly point in that direction. What we haven't seen is that translate down to actual procurement.

It's not just a case of shrinking the technical specifications from 100 pages down to 10 pages. If it were 10 pages, you'd still have restrictive measures in them that eliminate other potential options to come forward. So it's not just the size of the technical specifications, but we are certainly hearing positive words out of DND in terms of wanting to move in that direction. We just have to see it take hold in practice.

In terms of the quantity versus quality aspect of IRBs, we in fact did input to that technology list that is used by Industry Canada. The list is there, as stated, but the IRB approach doesn't incent the prime contractors to put efforts in those areas. There are no multipliers, no value discriminators that give a higher-value offset or credit as opposed to simple procurement.

Mr. Russ Hiebert: Actually, I think it's more direct than that. Boeing is required to invest in these areas. They are not given incentives; they're simply required to invest in these nine areas.

• (1100)

Mr. Ron Kane: At the end of the day, the ability of the prime contractor to meet those without having incentives is difficult.

In terms of the technology list, we think that technology list also has to be tailored to each major contractor. Boeing can offer something different from a Lockheed Martin and then offer something different—

Mr. Russ Hiebert: Wouldn't that offset the benefit of having a policy? If we want to develop centres of excellence in Canada in these nine areas, why would we change where they can invest from one company to the next?

I would also like to hear from Mr. Page in the limited time I have.

Mr. Timothy Page: You are speaking words that we have not heard come out of the government.

Mr. Russ Hiebert: This is a public document on the website.

Mr. Timothy Page: No. I am talking about centres of excellence. I am talking about directing Boeing to specific areas. This is language we have not heard, at least in the defence and security industries. Have we heard of the technology list? You bet your bippy we have heard of the technology list. In our view, it needs to be expanded. It is light on the soldiers' systems technologies, it is light on marine and land capabilities, and we have offered our views to the Department of Industry as it relates to that.

I would be happy to share that material with you, if you are interested. As it relates to the performance versus the detailed specs issue, our view is that it is very much in the definition. What a performance-based spec is depends on whom you ask. As an association, we would be delighted—and I'm sure my colleagues would be as well—to sit down with this committee and with others to discuss our take on exactly what a performance-based spec should look like.

Finally, on the C-17, if I might just quickly, the reality is that if the Government of Canada has identified a requirement for a strategic lift capability, the size that is the C-17, there aren't that many options around the world for it. Again, the question is how competitive a process is it, and when does that competition period begin? On C-17, they have one of the only two pieces of equipment in the world that could respond to the requirement that was defined.

I appreciate your comments and would be happy to follow up with you as it relates to the technologies list we think should be expanded.

The Chair: Thank you very much.

Gentlemen, thank you. You did a great job in a cramped period of time. I indicated that if there is anything further, please feel free.

I understand Mr. Coderre has an issue to bring forward, and we have another committee chomping at the door.

Thank you very much.

Mr. Coderre.

[*Translation*]

Hon. Denis Coderre: Thank you, Mr. Chairman.

I gather that Mr. Steve Lucas will be present next Thursday. I do not know what his rank is. From the beginning, we in the opposition have wanted to invite Colonel Dave Burt. Obviously, in the light of

all that happened with the procurement issue, I would like the committee to ask the Department of National Defence that Colonel Dave Burt, the Director of Aerospace Requirements, be also invited as a witness. In fact, we will certainly have some very specific and crucial questions for him. We need this because we are currently studying procurement.

Moreover, we will be discussing the C-17. In our opinion, there was no fair competition in this file. The colonel, from his vantage point, could tell us what happened in that case. Therefore, I expect him to come.

If we need a motion, I could move it and it could be seconded. The committee members in this room could agree to make sure that the colonel will appear before us next Thursday.

I do not know whether my colleagues from the opposition have anything to add. In my opinion, it is crucial for us to hear him. I understand the chain of command etc., but Colonel Burt is on record. E-mail messages were passed around pursuant to the Access to Information Act. This is public knowledge. He has a very specific point of view that will help us to deal with the procurement issue and I expect him to be present on Thursday.

I will let the clerk advise us. Do we need a motion? If we do, I will move it. Otherwise, can we find another alternative?

● (1105)

[*English*]

The Chair: We have had a request to add a person to the witness list, Colonel Burt. Any other comments on that?

Mr. Russ Hiebert: Who exactly are you asking to add to the list?

The Chair: Colonel Burt. He's a logistics officer who is below Lucas.

Mr. Russ Hiebert: If I'm not mistaken, I think the clerk received confirmation yesterday that he has been invited.

The Chair: Well, let's get this sorted out.

I guess there was no confirmation he would be here, but he was in the work plan that was put forward to DND.

Hon. Denis Coderre: So if we stick to the plan, I'm expecting him to be there on Thursday.

The Chair: We are.

Thank you.

The meeting is adjourned.

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