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## Standing Committee on National Defence

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EVIDENCE

**Thursday, March 1, 2007**

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**Chair**

**Mr. Rick Casson**

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•(0905)

[English]

**The Chair (Mr. Rick Casson (Lethbridge, CPC)):** I call the committee to order.

Thank you all for being here this morning, as we continue our study of the procurement and associated processes to do with the Department of National Defence.

Today we have two sessions, one from nine to ten, and then one from ten to eleven. In the first session we'd like to welcome Douglas Bland, the chair of the defence management studies program, School of Policy Studies at Queen's University, and Alan Williams, former Assistant Deputy Minister (Materiel) of the Department of National Defence. We have these two gentlemen from nine to ten, and from ten to eleven we have the Auditor General.

As usual, we turn the floor over to the witnesses to make brief statements, and then open it to a round of questions.

Mr. Bland, I understand you're going to start. Go ahead, sir.

**Dr. Douglas Bland (Chair, Defence Management Studies Program, School of Policy Studies, Queen's University):** Thank you, Mr. Chair.

I thank the committee for the opportunity to speak with you today.

I've been following your transcripts and your conversations at a distance. In fact I've engaged a couple of graduate students to keep track of the debates that have been going on and the questions and answers. I'm sure you realize this is great food for op-eds in newspapers, but it's also a great case study for students who are trying to understand what I like to call a vigilant Parliament.

I have to apologize for not providing you with any notes beforehand. It was reading week at Queen's last week, and I read something else. The graduate students were looking at the transcripts until last night, when I read them all.

I want to preface this morning's discussion with some remarks that I think will put the issue of defence procurement, as I see it, in context.

The first problem to be addressed is not procurement but the ongoing and immediate capabilities crisis in the Canadian armed forces. The procurement problem is not a crisis of process but a crisis of decision. This is, in any case, a second-order matter, though not an unimportant matter. Let me explain this line of reasoning, and then at the conclusion I'll make some remarks about some of the issues I think have highlighted this debate.

In 2004 a research team at Queen's University published an often quoted work. I'll advertise it. It's called *Canada Without Armed Forces*.

I asked the researchers a seemingly simple question. It was the question that I think should engage the House and this committee of inquiries over any number of years. The question I put to them was simply this. Based on the capabilities of the Canadian Forces, defined as equipment and people available in 2003—the research year that we did this work—and the signed contracts for new equipment on the table at the time, what would the Canadian armed forces look like in five years, ten years, and fifteen years further out?

Let me briefly read you the main findings of that research. The study revealed a future force undeserving of the title. Rather rapidly and then inevitably, in five years to ten years, Canada's major military equipment will succumb to the combined effects of overuse and technical obsolescence, making them operationally irrelevant. People with the right balance of age, experience, and training will not be available to replace those who will leave the armed forces over the next several years. Support equipment is disintegrating, and little has been done, or can be done in some cases, to stop it, because spare parts and technicians are not available to solve the problems.

Canada is heading for a long period when the government will be without effective military resources, even for domestic defence and territorial surveillance. Even if the next government were to provide nearly unlimited funds in an attempt to overcome this crisis, this deficit, little can be done before the apprehended crisis becomes fact.

Mr. Chairman, this is a statement of the national defence crisis facing this committee and Canada. This is a crisis that no one in the defence establishment at the time refuted, except to say, lamely, we have plans. What they did not say is that we have no money and we have no political support to act on the crisis.

The crisis is upon the nation, and it is unfolding much as we described. Time is the enemy, not money. However, the crisis is overshadowed by the gallant and persistent efforts of General Hillier and members of the Canadian Forces, who in combat operations are making do.

The response one might expect from a vigilant Parliament would have been immediate action to forestall the most dangerous aspects of the crisis. But such action was stalled for two main reasons, in my opinion: first, by a failure of the political community to act in unison to develop a non-partisan national defence strategy; second, by a muddled, directionless public bureaucracy, incapable of developing a plan to resolve the crisis.

That brings me to Mr. Alan Williams' study, which was just completed with our program at Queen's University over the last year.

●(0910)

Again, as with *Canada Without Armed Forces*, when Mr. Williams started this study I put to him what I thought was a straightforward question. I said to him: "Alan, what would you do if the Prime Minister came into your office and said to you that he wanted the Canadian armed forces rebuilt in five years, or else, and then he left the room? What procurement reforms would you make to accomplish this task?" That's the question.

The result of his work was *Reinventing Canadian Defence Procurement, A View from the Inside*. It's on the table, I believe, or it's certainly available.

I want to point out that the title *Reinventing Canadian Defence Procurement* is not accidental. The title was meant to convey starkly that reforming the process, adjusting procedures, or throwing money around Ottawa is not good enough. I'm not interested in reforming failures. Thus, the title and the intent of the research, as Alan Williams will describe in a few moments, is to create a defence procurement system to meet the current crisis, and with political support to prevent the crisis we are now in from recurring.

Let me turn now to six issues on the present debate and to discussion about defence procurement that concern me and some of the citizens, students, and other people I speak to often.

First, what we procure and how depends on your answer to this question. What do we want the Canadian Forces to do? The answer, in my view, is confounded by those who try, for whatever reason, to attach or hobble defence policy in the Canadian Forces to specific tasks and missions such as peacekeeping or domestic operations.

In my view, the object of our defence forces must be to develop efficient, effective units that can, at the direction of the government, apply coercive and, if necessary, deadly force to situations endangering Canada's security and defence.

Defence procurement and defence administration generally are the instruments that must be used to provide the means to reach this end. Every other policy or decision that inappropriately interferes with this effort adds negative costs to defence policy.

My second point... The Canadian armed forces are composed of certain basic capabilities that provide the foundation for operations. No matter what missions governments place on the Canadian Forces, Canada's geography will demand that large sums be spent on transportation, communications, surveillance, and technical capabilities. This suite of capabilities should be considered as operational overhead, without which the Canadian Forces will not be able to conduct any operations in Canada or elsewhere. For this committee and others like it in the future, the question to the government is not whether we maintain these capabilities, but how we do so efficiently and in time to avoid crises in defence and foreign policy.

Thirdly, I have a couple of words on competition within the process, and here Prime Minister Mackenzie King's ambiguity is always useful: competition if necessary, but not necessarily competition as we might think of it in "normal times".

Alan Williams and I have had long discussions—I think that's a fair word—on this topic. And I think we agree, though our agreement is conditioned by circumstances: in my case, by the circumstances we face today. I will of course let Mr. Williams speak for himself.

The assertion is that competition helps lower costs, and generally I agree with that position. In recent times and debates and statements, critics have declared that the lack of competition, as they term it, on some projects now on the table cost Canadians a lot of money. Non-competition is, in effect, a tax on defence procurement.

My view in the present circumstances is that whatever extra spending there may be is a tax caused not by lack of competition, but by failure of governments to make timely and necessary procurement decisions, decisions that have to be made in time for careful, reasonable competitions to occur. Because we didn't make decisions and are now in a crisis situation, the tax that Canadians are going to pay follows from that, and not from a lack of competition alone.

Fourthly, in the current debate I think we sometimes lose sight of the first principle. The critical requirement is to provide members of the Canadian armed forces with the capabilities necessary for them to do what governments ask the armed forces to do.

●(0915)

In the current discussions much is made of the supposed rush to buy aircraft, but today I would like to emphasize that in the list of statements of requirements as part of that discussion, time is as valid a factor as is any other factor. Indeed, today for aircraft, ships, vehicles, and people, time may be the overriding factor. Napoleon once cautioned his marshals to ask of him anything but time. I think it is a caution that governments today might take heed of.

Fifth, I am, and I was, disturbed by the apparent reluctance of officials to engage in or encourage any substantial discussion on the relationship between process, government organization, accountability, and outcomes. Witnesses have said to you, "There is no need to massively overhaul the system, nor is there any requirement to create new agencies or organizations". They went on to emphasize and praise "the dedication and professionalism of the civilians and military members" in the system and all the various departments involved in the process. They conceded, however, that "A lot of challenges remain, but they are not insurmountable".

Unfortunately, as far as I can see from the transcripts, the witnesses did not describe what the challenges might be, but implied that Parliament ought to trust us. But if the process and the structure and the organization are fine, what accounts for Canada without armed forces? Perhaps it's members of Parliament. That seems to be the only answer to the witnesses' statements.

The problem in the system can be explained, can be talked about. And when we ask why does the system fail, I think the answer is we don't know why the system fails. And we don't know why the system fails because there is no member of Parliament, no minister who is responsible to tell you why the system works or why it fails. There are just a lot of members who have things to say.

My final observation is that in my analysis of the session so far I worry that in the continuing and recurring evidence and questions we are missing the wartime context of the matter that's before you. I think it is strange that members of Parliament and the political community generally will argue over \$400 million or \$500 million and where contracts are going, while at the same time we're spending lives in Afghanistan and elsewhere to meet the government's and Parliament's objectives.

I think we need to discuss not just the dollars, but what is happening to rebuild the armed forces. From my non-partisan political perspective—and I have no political bones at all, of course, or sense—I don't know why the government isn't being challenged for not buying six C-17s. We had 32 Hercules. Why are we arguing over buying just a few, when perhaps government should be challenged to buy 32? Why aren't we rebuilding the armed forces instead of arguing over things as though we were discussing matters in some sort of abstract situation?

Mr. Chairman, let me return to my opening statement. The crisis this committee is dealing with is not defence procurement as a sometime matter abstracted from circumstances of the times. Canada and the Canadian Forces have been in the midst of a war since about 1992. And we are finding ourselves by our own decisions and choices conducting operations—that is, spending lives—while the capabilities of the Canadian armed forces are literally disintegrating as we talk.

Managing defence procurement in the crisis of failing capabilities and now in wartime demands is demanding, costly, and the prime responsibility of this Parliament. Defence procurement and managing this war demands an agile whole-of-government approach to the problem.

• (0920)

I recommend that this committee conduct its inquiries with this idea in mind. In that regard, and in advance, I strongly recommend that the committee accept Alan Williams' recommendation for the establishment of "Defence Procurement Canada" to manage the whole-of-government system for defence procurement.

Finally, the question I think Canadian political leaders should be prepared to answer is this: What exactly are you going to do, what is your funded plan, to rebuild the Canadian Forces over the next five years? I think Canadians might like to listen to that answer.

Thank you, Mr. Chairman.

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

Mr. Williams

**Mr. Alan Williams (former Assistant Deputy Minister (Materiel), As an Individual):** Thank you, Mr. Chairman.

It is a great pleasure to be back here again, albeit in a different perspective, with my friend and colleague, Doug Bland, to discuss Canadian defence procurement. I will keep my remarks brief so we can have as much time as possible for questions.

Defence procurement is a subject that I am very passionate about and have devoted over ten years to learning and overseeing both at Public Works and Government Services Canada and at the Department of National Defence. Having seen first-hand and up close the tremendous dedication and commitment of our men and women in the military, I do not view this subject merely as an administrative exercise, but rather one that above all must see to their security interests.

In spite of the recent proliferation of reports and studies, the process is still accused of being too lengthy and too costly. Why is this the case, and how can it be improved? The answer, I believe, lies in two facts.

First, heretofore this very complex process has been examined in a piecemeal fashion rather than in a broad, comprehensive manner. As a result it has been difficult, if not impossible, to gain a true understanding as to how all the components fit together. Second, implementation of change has not been given adequate attention.

It was with these limitations in mind that I took to writing *Reinventing Canadian Defence Procurement: A View From The Inside*. I believe that for the first time anywhere, this book provides a complete and comprehensive description of the entire defence procurement process as well as a road map to implement the 25 recommendations made in the book.

If there is truly a desire to improve the process, I believe I have removed the mystery as to how it can be done. The book not only describes the process, but also provides insight into the behaviour of the players in the process so that one can understand why they are motivated to act as they do. Seeing how everything fits together, we can ensure that the recommendations align together to address the real weaknesses, not the perceived ones.

For example, at a lecture on topics in defence management at Queen's University, I asked the students if they thought the following five statements were true or false:

- (1) The bureaucratic defence procurement process is unresponsive.
- (2) There is too much political interference in the defence procurement process.
- (3) The major funding pressures in the Department of National Defence are to pay salaries and benefits for military personnel and to acquire capital.
- (4) It costs less to maintain new equipment than the equipment being replaced.
- (5) Canada is dependent upon others, especially the United States, for strategic lift capability.

Perhaps, not surprisingly, most of the students agreed with each statement. In fact, each of these statements is more false than true. Allow me to comment briefly on each.

First, the bureaucratic process can work rather quickly. It took less than two years to sign a contract for the new maritime helicopters from the time Defence Minister David Pratt gave the go-ahead. The most significant cause of the delay was awaiting government approval to proceed.

Second, in the ten years that I have been responsible for procurement, I have not been aware of any instance where a minister has influenced the outcome of any defence procurement. This is largely due to the legal consequences resulting from the passage in the mid-1990s of the agreement on internal trade, or AIT.

Third, today more money is spent on maintaining equipment than on acquiring equipment. Yet historically, emphasis was placed only on the initial cost of acquisition, leaving the department somehow to find the additional funds to support the acquisition. The usual source was the National Defence capital budget, thereby eroding it even further.

Fourth, the costs to maintain new equipment are greater than for the old equipment being replaced. It will cost more to maintain the new maritime helicopters than the Sea Kings they replaced. Today's weapons systems are essentially complex software systems that require frequent and expensive updates and revisions. Accordingly, at the outset of any capital program it is necessary to obtain funding not only for the acquisition, but also for the full life-cycle costs.

Fifth and finally, with respect to strategic airlift, it is noteworthy that as of April 2003, when I last asked for the information regarding Operation APOLLO, Canada had moved three times the amount of freight and five times the number of troops for the Americans as they moved for us. The reality is that in coalition warfare each country contributes assets to complement those of its allies.

• (0925)

In retrospect, I probably should have added one more myth—namely, that directing or sole-sourcing a contract speeds up the procurement process. In fact, you can lose more time trying to find ways to avoid competition than conducting an open, fair, and transparent competition.

In addition, sole-sourcing is generally a lose-lose-lose proposition. The taxpayers lose, as more of their money is usually spent on sole-source or directed contracts than when a competitive process is followed. Industry loses, as the quantity and quality of industrial and regional benefits demanded can be compromised. And the military loses—doubly. First, the excess expenditures come from their budget. Accordingly, these funds are not available for reallocation to meet their other priorities. Second, without competition we generally cannot be certain that we are acquiring the best equipment that meets the needs of our men and women in the military.

In my book, I discuss and make recommendations in three broad areas: the legal framework, the industrial impact, and the core procurement process itself. In my brief opening comments, I will just touch on the process, but of course I would be pleased to answer questions on all of the areas.

If there is one overarching observation that can be made, it's that there is a lack of clear accountability at all levels in the process—the parliamentary level, the ministerial level, and the bureaucratic level.

The good news is that it is all fixable. I provide details on how it can be done, and done quickly.

In the book, I quote from an *Ottawa Citizen* article in which Anne McLellan, in addressing a specific defence procurement, refers to Defence Minister Bill Graham and Public Works Minister Scott Brison as the two ministers in charge of the procurement. She was right. With respect to defence procurements, ministers from these two departments are in charge. The problem is that whenever two ministers are in charge, neither is in charge. It is time to address this reality.

Perhaps the most significant of my 25 recommendations is the creation of “Defence Procurement Canada”, or DPC, an organization that combines the procurement resources from National Defence and the contracting resources from Public Works. It becomes the sole organization accountable for defence procurement. While I present five different governance models, I favour the one whereby DPC reports to the Minister of National Defence. Under this model, the Minister of National Defence is accountable for all elements in the procurement cycle, from the preparation of the statement of requirements, through the request for proposals, through the evaluation, and through the contract signing and administration.

The benefits generated from such a model go well beyond clarifying accountability. Significant resource savings will result due to the overlap and duplication of the duties and responsibilities. My conservative estimate is in the range of 48 and 125 person-years, or annual savings of between \$4.8 million and \$12.5 million annually. Equally important, it alleviates a large skill shortage problem that is becoming even more serious as the population ages.

The process will also be streamlined. When two departments are involved, the process moves only as fast as the slowest of the two. In the book, I cite one example where it took nine months for National Defence to negotiate a deal and over 21 months for Public Works to agree to it. While this may be an extreme case, the reality is that getting approvals through two channels rather than one takes extra time, and therefore slows down the process.

That being true, an obvious question arises—namely, why was the process structured this way in the first place? The answer is twofold. First, Public Works' role was designed to ensure integrity in the process. However, today there are other mechanisms that serve the same purpose. These include the Canadian International Trade Tribunal, the court system, the Auditor General of Canada, the media, and the general openness of our society. All help guard against any wilful manipulation of the defence procurement system. DND and PWGSC personnel are well aware of the dangers in operating with anything less than full openness, transparency, and fairness.

A second argument for the involvement of Public Works is its role as a common service agency, achieving government-wide savings. However, it is quite clear that in this case we are limiting ourselves to defence-specific goods and services, with no potential savings benefits to other government departments.

Delays in the procurement process arise from primarily three sources: first, awaiting government approval to proceed; second, excessive time for the military to finalize their statement of requirements; and third, overlap and duplication between National Defence and Public Works. Accordingly, with Defence Procurement Canada fully accountable, regular reporting on performance can be requested and expected from DPC, including reporting on the causes of any delays.

• (0930)

Finally, my advocacy for DPC should in no way be construed as a criticism of the people in Public Works and National Defence who work on defence procurement. To the contrary, I can personally attest to their smarts, energy, commitment, and integrity. They do magnificent work within the existing governance framework. Imagine what they will achieve once the constraints are removed.

In closing, Mr. Chairman and members of this committee, I am confident that, taken together, the full package of recommendations in the book will address the weaknesses in Canadian defence procurement and make it the best it can be now and in the future. Our men and women in the forces deserve nothing less.

Thank you, and I'll be pleased to answer your questions.

**The Chair:** Thank you very much, Mr. Williams and Mr. Bland.

We'll open it up for a round of questions. It looks like we're going to have enough time to get all four parties involved in just the one seven-minute round. So you can divide it up among yourselves however you wish.

Mr. Coderre, you have seven minutes.

[Translation]

**Hon. Denis Coderre (Bourassa, Lib.):** Thank you, Mr. Chair.

[English]

I think if we want to have a definition of a breath of fresh air, it is the two witnesses today. Thank you very much. We are really and truly appreciative.

The reason we have this session is to seek solutions. We're not just here, as we say in French, *définir le sexe des anges*. We are here because we want to have that agenda of vigilance. We believe we should work not only on the issues, but on the perception too, because when we're talking about integrity or accountability, we also need to manage the perception if it's still there.

Mr. Bland, the reason the Liberal Party questioned the acquisition of four C-17s is that we believe we can use the money otherwise, and we should have a definition that includes the word "access" instead of "acquire". If we work as a coalition and if the air force has had some options in the past to lease, I don't see why we should spend billions of dollars when we won't possess the intellectual property for the industry. If the people from DND want to work with the equipment, we have the ITAR and we have all those issues.

I'd like to ask you one question. It strikes me when we talk about mission, of course, that our role for the armed forces is based at the domestic level. We have the politics of our geography. There's also the issue of international responsibility. Do you believe we should just create an armed force like that? Why can we not have Canadian

Forces based on what we want to do at External Affairs or domestically?

How would you define it yourself? If you're the Minister of Defence, for example, and you have to make a decision to build up your Canadian Forces, how do you make it happen? It's kind of abstract in my mind to say that we won't create an armed force because we want to fulfill our duties with NATO, with peacekeeping or peacemaking and at the domestic level. I didn't quite understand what you meant by that.

• (0935)

**Dr. Douglas Bland:** I'll try to keep the answer short.

The strategy for our armed forces, which most of us here are used to, comes from fifty years of the Cold War. It was a period in which we had what I refer to as a strategy of commitments. In other words, Canada had certain commitments, mostly with NATO, a little bit with the United Nations, and with NORAD, and to ourselves. As long as we were building forces to meet those concrete commitments, everybody was happy.

Once the Cold War ended, we didn't have that strategy any longer. NATO didn't have a strategy. The United States has a different strategy. The UN never has any strategy. We're like the kid in the movie: we're home alone. We had to decide what we were going to do with our own armed forces. What you do in that situation, in my view, because you don't have concrete mission statements any longer, concrete commitments, is to generalize the purpose of your armed forces.

What do armed forces do that no other segment of society does? Why are they a group of Canadians set aside from society for a special purpose? The special purpose is combat operations—land, sea, and air, and in combination. Many of those other things that armed forces do—fight floods in my home town of Winnipeg and forest fires and do incidental peacekeeping missions here and there—are jobs that could be done by someone else. Why would you spend a whole bunch of money on an armed force to do things that someone else can do?

So the point is to concentrate on the specific, necessary advantage that armed forces give you, and then work your defence policy from that point of view.

[Translation]

**Hon. Denis Coderre:** Thank you.

Mr. Williams, I think it is fair to say that one of the most important factors in procurement policy is accountability. One has the impression, and I am not being partisan here, since we saw the same thing when the government was Liberal, that there is a ping-pong game going on between the departments. I am therefore in favour of this agency.

I would like to talk more specifically about your experiences. You talk about current political interference. When giving his speech a few years ago, General Hillier described himself as a man of decision. He said it was not up to him to go over 15,000 pages of criteria, that he defined four or six principles and decided which planes, helicopters and everything else that he wanted to acquire.

We get the feeling when  
[*English*]

what we call the SOR, the statement of operational requirement,  
[*Translation*]

is being prepared at National Defence, that they arrange things to get what they want.

How can we talk about the integrity of the process if we really feel like the dice are loaded from the start? How can we talk about competition when we know, in terms of conditions, that the policy really consists of drawing lines in the sand?

Could you please elaborate on the question of political interference? How can we prevent this type of thing?

This will perhaps be my last question.  
[*English*]

We're talking a lot about the paper anything and saying that out of the shell is the greatest thing. Would you make a difference between out of the shell and the paper plane, for example? I believe it's always upgrading anyway, and you don't have such a thing.

Maybe if we want to have a true competition, instead of playing with the requirements, we should stick to the plan, and like the C-17, have two companies and may the best one win.

What do you think?  
[*Translation*]

**Mr. Alan Williams:** In my opinion, you put your finger on the most important point.  
[*English*]

That's the accountability.

As I made the point in my comments and in the book, I think all levels of accountability are not where they ought to be, if in fact the process is to be the best it can be. Without being too critical in front of you, I do make the point fairly dramatically in the book that I think this committee can play a much greater oversight role in being made aware of defence procurement plans and having strategic discussions.

As my colleague mentioned, how do these acquisitions link to the defence policy paper? How will they ensure that it allows the military to do what the government wants them to do, what Canadians expect them to do? The kinds of questions and debates at this committee can be much more strategic in nature.

I think witnesses should be interviewed prior to coming here, so that you have a better understanding of what we're about to say, and the questions can be based on more information.

At the ministerial level, we've talked a lot about that. There is absolutely no question in my mind that if you wanted to bring a minister here to be held accountable for defence acquisitions, you could not do that. There is no one minister you can bring here and hold accountable.

Mr. Bland was telling me that he had a research assistant going through the transcripts. Now that I'm out of government, I went through them all myself. That's how I spent my time. It was very clear from your discussions with the ministers that neither one was being held fully accountable.

• (0940)

**The Chair:** We have to move on, as our time is short. I apologize, but keep that thought; we may be able to carry it on.

Mr. Bachand, you have seven minutes.

[*Translation*]

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

I would first like to welcome our friends. I will begin by explaining why the Bloc Québécois really pushed to have this kind of study done.

The government wants to acquire equipment worth some \$20 billion. I have always been baffled by the fact that members of Parliament, including those on the defence committee, were completely excluded. This is not an easy situation for parliamentarians. We are dealing with public servants and generals who have been around for some 30 years. We are trying to understand how things work, but we are left with the impression that everything is shrouded in a culture of secrecy. These people form a group. They make their preparations and the further things are kept from parliamentarians, the better. This is why I pushed for this study to be conducted. The culture of secrecy applies to everyone who appears before us as witnesses.

Mr. Williams, you are a changed man. I remember asking you some questions when you were a public servant. You do not have the same attitude. As I said, a culture of secrecy surrounds all of this. We must overcome it. We, as parliamentarians, have the considerable advantage of being those whom the taxpayers entrust to ensure that their tax dollars are spent appropriately.

Furthermore, Mr. Bland, you admit that the Canadian Forces have been neglected for years. However, one cannot build an army simply because one decides to do so. A defence policy must be adopted. The Liberals did so in 2005 and the Conservatives subsequently said that they would likely continue in the same direction. Everyone is now wondering what should be included in that policy and we are all anxiously awaiting the defence capability plan, which we have yet to see. We are in the process of purchasing some \$20 billion worth of equipment, but we do not know whether it can be justified in the context of a new defence policy.



We hope to conclude our study by asking ourselves what the best solution would be. You suggested some avenues, Mr. Williams. You talked about the primary role of the Department of National Defence, and Public Works and Government Services. For now, the process is very fragmented. When we ask one minister a question, he tells us to ask the other minister the following week, since it is not his responsibility. When we ask that minister, he tells us that we should have asked the first minister the week before. We are in a rather awkward situation.

Could you please elaborate on the industrial benefits? This is very important to us. As I am sure you are aware, there is currently a debate raging on this. The Bloc Québécois is presenting a motion in the House today. I think the Department of Industry has a role to play. You did not mention this in connection with Defence Procurement Canada, but I imagine you want these people to complete the work of the first two and to ensure that the benefits are properly distributed.

I have raised many questions and will therefore hand over the floor. I am anxious to hear your answers.

• (0945)

[English]

**Dr. Douglas Bland:** I'll just say something quickly.

**The Chair:** Go ahead, whoever wants to start.

**Dr. Douglas Bland:** I'll just say three quick things.

With respect, the culture of secrecy, if it exists, seems to me to be contagious as governments change. But that aside, in writings and research and in working with the Somalia inquiry, for instance, during that period, I'm very eager to have a vigilant Parliament in matters of national defence. I think members should inform themselves in these committees and so on, but you can't do it yourself. I have always said, as other people have said, that committees such as this need strong research support, and I would encourage Parliament—or the House of Commons, anyway—to vote themselves money for these kinds of committees.

Secondly, white paper or no white paper, I think it's essential and I think it would be very pleasant if this committee and others like it could come up with a non-partisan defence policy for Canada. I don't actually see much difference between the Liberal statements in earlier years and the Conservative statements now.

But those aside, is the argument that we can't go ahead with procurement of support ships for the navy until we have a white paper, that we can't buy basic things like airplanes, communication systems, and equipment for the north until we have a white paper? I don't know of any responsible statement by any party in Canada saying we don't need these overhead investments, as I call them, so that we can do other things.

Someone could write a white paper statement this afternoon and we would all come to the same conclusion: that there are certain basic military capabilities we need, no matter who is in power, what we're doing and where we're going, and I think that's where we need to work.

**The Chair:** Mr. Williams.

**Mr. Alan Williams:** I hope this isn't really a dramatically new me; I like the old me. But you're quite right: when you are in the bureaucracy, you're part of that team. If you disagree internally, once the decisions are made, that's what you reflect as part of the citizen, and I don't think you'd want it any other way.

I have a few points. In terms of money, this isn't a \$20-billion problem; this is a \$100-billion problem. If you figure on expenditures of \$4 billion to \$5 billion a year to buy and maintain equipment for 20 years, you're talking \$80 billion to \$100 billion. That's the amount of oversight, the dollar value you should be looking at. I agree totally with you: I think there is too much secrecy, there isn't enough valued input by this committee overseeing the strategic kinds of discussions and decisions that have to be made. Absolutely. I would agree with Doug.

I'm not sure that you need the fine print in order to decide on some major strategic decisions. Having said that, I think you should be able to have your cake and eat it too. I think you should be able to review a draft of the defence capability plan. I think the defence capability plan should be out. It should be there to debate and discuss as a critical document supporting the government's policy paper, and the linkage between the two is where I think you could have tremendously valuable discussion.

Once you get to that decision, then I think you can have very strategic, timely decisions about how you go about getting those capabilities filled. As Doug Bland said, part of the problem is that delaying the decisions can force you into suboptimal acquisition options, so the earlier you can look at the policy, the earlier you can link the capabilities to those policies, the faster you can get to discussing how you go about doing it and doing it right, which are, of course, the substantive issues my book deals with.

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

Ms. Black, seven minutes.

**Ms. Dawn Black (New Westminster—Coquitlam, NDP):** Thank you, Mr. Chair.

Thank you both for coming today. Welcome back, Mr. Bland. I haven't been here when you've been here in your other role, Mr. Williams, but welcome today also.

It's been a real surprise to me, and it's been articulated already as we've gone through these hearings and had the various ministers and their officials here, that there is not a political person, a minister, who is finally accountable and responsible for the decisions. As one of the other members said on the committee, you would ask one minister a question—I asked one minister a question about his area of responsibility, and he said “That's not me, you'd better ask the other minister”. That's been a real surprise to me as a new person on this committee, the way it ping-pongs back and forth, and that there isn't one final person responsible.

I wanted to ask you why you chose the Minister of National Defence, after having worked through Public Works, why that was your choice.

The other question I had was around the issue of the procurement process. You've been on the inside of the process, but away from it for several months now. What are your views on the decisions that were related to the C-17 and the intention to go ahead, now, with the C-130J Hercules?

I have three or four questions here, and I'll get them all out and hopefully you'll both have time to respond.

The government has put out a plan now for \$17 billion in defence procurement. You've made some strong recommendations around the procurement process. Given what Mr. Bland said and others have said, that the need is very pressing, would you think that these purchases should be held up while there's a reform of the process, or should the ones that are in the pipe already go ahead?

I'm also very interested in the issue of search-and-rescue planes, coming from British Columbia and the complex nature of search and rescue there with the mountains and the ocean and all of that. I think it seems to be really delayed, and I'm wondering what you could tell us about that.

The last comment I want to make is that I certainly agree with whoever said that we should get the position papers of witnesses to members of Parliament before the day of the meeting, because it's quite bizarre that you want to have informed discussion and debate at committee, yet you don't know what witnesses are going to say until they appear. When I was a member of Parliament in the early nineties, we did get the position papers ahead of time, and that gave you time to read and ask perhaps more informed questions.

The last comment is about the agreement on internal trade, which I think came out of the CF-18 decisions that were made. Now in this procurement, it's been negated through making a decision that the national security issues prevail. So I would like comments on that as well.

Thank you.

● (0950)

**Mr. Alan Williams:** Let me start on a few things in a random order

First of all, in terms of the transcripts, my point is more than transcripts. It's not so much my opening statement and Doug's that I'm thinking of. But given your limited resources, I would expect that one of your researchers would interview witnesses well before, beyond our statement, question and challenge and bring that back to this committee so that you have substantive information upon which to further.... It's not just the opening statements; it's beyond that. That's point number one.

With regard to why the Minister of National Defence, in the book I did present five different.... The agency itself, Defence Procurement Canada, can report to the Minister of National Defence, it can report to the Minister of Public Works, it can report to a third minister, and there are administrative options within that. I chose it for the one reason that I have been talking about all along: I think it's important that one minister is being held accountable. The same minister who's accountable for the statement of requirements would be the Minister of National Defence; otherwise you split it.

You also have a human resource issue, because many of the resources within this organization will be military, and it's a lot easier for human resource management, frankly, to move these military people back and forth between this organization and the army, navy, or air force organization in a more seamless kind of way. This gets to Monsieur Bachand's point a little bit too. In the book I do comment that the deputy minister and myself thought we had an agreement at one point in time with Public Works to try this, but it got snafued. At some point in time you ask how often you are going to bang your head against the wall to make this happen.

This committee, under Pat O'Brien's chairmanship, also made the recommendation that this be looked at, but the government response was no, we don't think we ought to. As a player in the system, once a government makes that decision, that decision is made, and it would be inappropriate for me to challenge it.

There are a lot of procurements in the pipeline right now. The last thing I would suggest we do is hold them up. They warrant appropriate debate and discussion, and I think it's appropriate that we go about doing them the right way. As I said in my comments, the right way doesn't mean a long period of time, and the biggest delays are in getting approval. To give the government full credit, if it said it wants to buy tactical lift, strategic lift, and heavy lift helicopters, that's great. That eliminates one huge obstacle. Once that's done, let's move quickly through the front door, and not try to find a back door to go through. That would take, in my estimation, more time, so I wouldn't delay it.

In terms of fixed-wing search and rescue, this is an interesting case study, because you may recall that in 2004 money was put in the defence budget in the order of \$1 billion or \$1.3 billion to buy them, with the view that this is something we can do quickly. Here we are three years later, and nothing has been done. One of the major reasons for this is that in developing the requirements it seemed to me there was a tendency to try to make this skewed for one aircraft over the other. Part of the attention of why it didn't go forward is there was some opposition from people like myself and others who felt it's the wrong way of doing things.

One example.... You can say in your requirements something that makes intuitive sense: it has to go a certain speed; it has to go 273 knots an hour. But when you think about it, that doesn't make any sense, because what's important is not how fast it goes, but how long it takes to get wherever you have to go. There's a difference. If you locate your aircraft at different places within the country, you may not need to go as fast in order to get there within the requisite period of time.

And people here have talked about the importance of indicating things in performance terms. That means saying what the aircraft must do, not what it must be. It must be able to save lives within a period of time, as opposed to being able to necessarily be an aircraft that can fly so fast. It's getting the mindset changed to a performance base from a detailed spec base that is a key part of this solution.

I see I'm being waved by the chairman.

● (0955)

**The Chair:** I'm sorry, I will try to move on.

We will wrap up now with Mr. Hiebert for seven minutes.

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

I'll be splitting my time with my colleague, Mr. Calkins.

Thank you both for being here today. Thank you, Mr. Williams, for your book and the insights that it provides.

**Mr. Alan Williams:** I don't get royalties, I want you to know, so this is purely—

**Mr. Russ Hiebert:** Your number one recommendation is the creation of an organization called Defence Procurement Canada, under the statutory authority of the Minister of National Defence, and you've talked about this currently being under four departments. Do you not think it would be giving too much authority to the Minister of National Defence to put all of those current four ministries under one individual?

**Mr. Alan Williams:** That's a great question, and it should be a concern. But this is why you can't look at that option or recommendation in isolation.

This committee has a key role. If you don't hold that minister accountable, if you don't get the information you need to hold that minister's feet to the fire, then it won't work. But the fact is there are other things around it to ensure that holding the minister accountable isn't negated by other problems.

On the other hand, if you do split it, my view is you won't get performance measures. The reason it's hard to get performance measures today is that no one likes to stick their neck out when they cannot be accountable for the whole. "I'm not going to do it if in fact you are part of the system, because maybe you are delaying it."

If you hold one minister accountable, you can honestly and legitimately demand measures of performance. You can know how money is being spent, why things are proceeding, and where the delays are. So I think that clear accountability overrides everything.

But in order to safeguard, you have to make sure that the other players in the system are doing their oversight roles too—which means this committee in particular doing its legitimate oversight and examining role.

**The Chair:** Mr. Bland has a short comment.

**Dr. Douglas Bland:** I have a very short comment.

The principle we are talking about in this research is that you will appoint some minister responsible for the management of the system. That is separate from the decision of what to do. The manager will take it from the statement of requirement to contract, and then present that information to cabinet, which is the decision-making body. That's where your control comes, especially if it's backed up by a vigilant Parliament.

• (1000)

**Mr. Russ Hiebert:** Okay.

Mr. Williams, in your book you mentioned that one of the major causes for the delay in procurement is political interference in the process, or political reluctance to make decisions.

**Mr. Alan Williams:** No, in fact I said the exact... This is important. I said there has not been any political interference. And what do I mean by that?

**Mr. Russ Hiebert:** Let me quote from the book, if I could.

You give an example of the fact that in the fall of 2005, then Minister of National Defence Bill Graham brought forward a four-pack of requirements for the military, which included fixed-wing search and rescue, tactical airlift to replace the Hercules, strategic airlift, and medium- to heavy-lift helicopters. In the book you indicate that the four-pack went to cabinet and then was reduced to one item, tactical airlift. Then:

Thus, in 2005, the minister announced that he was going to be replacing the Hercules with this tactical airlift. Of course, there was an intervening election and in February 2006, the Conservatives came back and lo and behold, strategic airlift and tactical airlift and medium- to heavy-lift helicopters reappeared as priorities.

So my question has to do with the fact that sometimes it appears that the military requirements are constant but the political appetite is varied. I'm wondering if you can comment on how to ensure that proposals from the Canadian Forces get their due consideration at the appropriate time.

**Mr. Alan Williams:** There's a very important point for me to clarify. When I talk about political interference, I'm talking about it once the government says to do something. In other words, under the agreement on internal trade, we now have very significant legal consequences if the process is undermined in any way. What happens before the government says go is a whole different story. In my mind, that's not political interference. For better or worse, that is government doing its job. So everything you've talked about in those examples is not political interference in the process to buy something, but the overall scrutiny that occurs before the decision is made—sometimes being done better and sometimes being done worse.

You're quite right: it's up to the government, through its policy paper, to make the decisions on what kinds of capabilities it needs. Are these the four they think are up on its list? Different governments may have different points of view, and that may change from government to government.

Having said that, this is why having a defence capability plan, approved by cabinet and having gone through scrutiny here, would be invaluable, because it takes it away from that. With integrity and objectivity, people can ensure the linkage between a capability plan and a policy statement, irrespective of the government that comes into play.

**Mr. Russ Hiebert:** Mr. Chair, I'll leave the balance of my time.

**The Chair:** Go ahead, Mr. Calkins.

**Mr. Blaine Calkins (Wetaskiwin, CPC):** I appreciate your comments, and I want to say, Mr. Williams, I enjoyed reading your book. I found it quite enlightening.

Further to what Mr. Hiebert was saying, the whole contrast I got on that particular passage you wrote is that the strategic capability investment plan, which is now I believe called the defence capabilities plan, didn't highlight some of the things that were being proposed politically. The bottom-up process of creating that military wish list and the top-down political drive sometimes don't marry up, and that causes the delays.

My experience working in the government has been that when we knew a minister was arriving, quickly all the buildings would be painted and the trucks would be washed and everything would look good; the grass would be cut. The minister shows up and the brand-new shiny stuff is all there; we have our nice little celebration, and the minister drives away, thinking, "Look at that, everything is hunky-dory and everything is fine".

I'm wondering if you could elaborate for us whether sometimes the bureaucracy or the ground level gets in the way of informing at the political level of what actually needs to be done. Is that part of the problem? How do we solve that problem of the bureaucracy getting up, the politics getting down, and finding that common ground?

**Mr. Alan Williams:** From my perspective, point one, when ministers would come in, the senior officials I would work with—and I'm talking about all departments, but National Defence in particular—I think provided objective briefings to the minister with a wide set of options, as opposed to trying to distort or skew things.

Point two: I think it's healthy and expected that when you have these discussions, the government, the leaders of the country, will have their priorities, which may or may not mesh with those of the military, or they may be slightly out of sync. That doesn't surprise me. I'm not naive enough.

Having said that, when something did not appear anywhere on their priority list, and now it jumps up, it just gives you cause for concern. You want to ensure, to the best of your ability, that what we're spending billions of dollars on is not a whimsical thing. And I'm not saying anything is, but it's one that has been thought through to link to the kinds of capabilities the military needs decades down the road.

I think the interplay is valuable and worthwhile, but having a defence capability plan that has the scrutiny of this committee will make it more unlikely that somehow out of the blue something else will come in to divert money to something that may have political significance but frankly isn't in the best interest of the military.

I was just pointing out that the more scrutiny and oversight that's given, the more planning that's there, ensures that when we're spending billions of dollars, we do it clearly with forethought. That of course allows us to do it the right way, as opposed to having to bypass different processes.

• (1005)

**The Chair:** Thank you.

I thank you all for being brief and to the point.

Gentlemen, it's always a pleasure to have you here, together or separately. You've appeared before this committee many times, and you've made some suggestions today not only on the procurement process, but maybe on the way the committees function and how to do a better job there as well. We appreciate that.

We must suspend for a minute while we bring the Auditor General on.

We thank you very much.

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\_\_\_\_\_ (Pause) \_\_\_\_\_

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• (1010)

**The Chair:** I'd like to welcome the Auditor General to the committee. We have the finance committee coming in at eleven. Of course we have our own opinion on who should have priority here.

Ms. Fraser, it's always a pleasure to have you here. I'll let you introduce the officials with you. As usual, the floor is yours for your comments, and then we'll open it up for a round of questions, and I hope we can include everybody in a short period of time.

Go ahead, please.

**Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you, Mr. Chair.

We are very pleased to be here today to talk about the work we have done on audit procurement in the Department of National Defence. Accompanying me are Hugh McRoberts, Assistant Auditor General, and Wendy Loschiuk, principal responsible for defence audits.

First, let me say that this committee's current study on the procurement process as it pertains to defence acquisitions is welcomed by my office, and I hope I can contribute to your work. However, my ability to add to some of the discussion may be limited. I'm happy to talk about the findings of any of our audits tabled before Parliament, but I really cannot comment on subjects we have not audited—for example, the C-17 strategic airlift procurement or the Victoria class submarine.

When we plan our audits in any area, risk and materiality are key elements we consider. In the case of National Defence, the concerns that we have noted in the past, plus the spending anticipated for new equipment, naturally draw our attention. I look forward to coming before this committee at some future date to have more detailed discussions based on audits we will be doing in the future.

This committee is examining whether the procurement process works and what can be done to make it better. I have said in the past, and continue to believe, that more rules and more process are not the answer. The current system, if followed, can provide the openness, fairness, and accountability that are essential to ensuring National Defence gets the equipment it needs, and that it achieves best value. But for the system to work properly, management must exercise sound judgment to ensure good monitoring and oversight and that necessary action is taken if things start to go wrong.

[*Translation*]

Where we have commented upon defence contracting, I have, as you know, rarely had concern about the fairness or openness of the process. My recent audit on relocating members of the Canadian Forces, RCMP, and federal public service did raise such concerns, and the government is addressing those.

I have found, rather, that the defence acquisition cycle seems to suffer more from the burden of its own weight. The process can be cumbersome and layered with reviews and approvals—some of which do not seem, on the surface, to advance decision making. For example, we found that delays in getting approvals for flight simulators slowed one of the projects under the CF-18 upgrade program.

Defence is looking to introduce new platforms into service very quickly—much faster than they have been able to, in the past. Nevertheless, government regulations require that a fair and open bidding process be followed and that there is transparency in the selection of successful contractors. Following regulations takes time, and Defence cannot skip steps or cut corners to speed up delivery. Senior management from all the departments that are involved in defence acquisitions must be accountable for ensuring the fidelity of the process and for demonstrating that all steps were taken to obtain the best value.

The fast pace of technology change and the speed with which Defence wants to introduce new platforms into service leave no doubt that things must be done faster and better. I am glad to say that Defence is working to reduce its acquisition time and improve project management. Defence is focusing more on the capability it wants the platform to deliver and letting bidders work out the options to present for consideration.

[English]

Our audits have identified four key areas in which defence acquisition management needs to improve. Requirements need to be better defined and clearly linked back to well-defined defence priorities and objectives. Overall project monitoring can be weak. Risks should be better identified and managed, and finally, options analyses and the related business cases have often been poorly done.

We have also reported our concerns about the problems caused by a lack of skilled, experienced staff assigned to manage many major acquisitions. We raised this issue during our audit on upgrading the CF-18 fighter aircraft. Defence downsizing in the past combined with the retirement of skilled personnel has left the department short of managers who have the knowledge that was gained through years of contracting, and acquisition experience that is needed to run a major project.

Several defence acquisitions also include a long-term service contract to provide maintenance and support. We audited one long-term service contract, that being the NATO flying training program in Canada, in which the contractor provides military pilot training. Partnering with the private sector does not absolve National Defence of its accountability and responsibility to achieve results, and the department must hold its private sector partners accountable for the level of service provided. We have found that this is not always an easy thing to do, and it requires that performance measures and expectations be made clear upfront. When performance is not met, there must be ways of compensating the government.

We have recommended that National Defence re-examine how it enters into agreements with the private sector. The defence department has taken steps to improve its long-term service contract agreements by better defining performance and holding contractors accountable, and by getting some flexibility. In this way, when needs

change the department can avoid expenditures for which no services are received.

●(1015)

[Translation]

Mr. Chair, I want to thank this committee for the opportunity to discuss our findings on defence procurement. I believe that the audits that we have conducted over the last 10 years or more have contributed to better procurement practices in the government and, as a result, better stewardship of public funds. We will continue to monitor and report on acquisition capability.

This concludes my opening remarks. We would be happy to answer any questions from committee members.

[English]

**The Chair:** Thank you very much. We appreciate those comments. Hopefully we'll be able to get some more direction from you as we go through the questions.

Mr. Coderre.

[Translation]

**Hon. Denis Coderre:** Thank you, Mr. Chair.

I have two brief questions to ask and I will be sharing my time with Mr. Martin.

Thank you very much, Ms. Fraser. I intend to introduce a motion to the committee, stating that we would like the Auditor General to investigate the current contracts, particularly those concerning the C-17s, tactical airlift, trucks and so on. It is time we take a closer look at what is going on in that area. Do you think it is right or does it worry you that the military community and the procurement community sometimes appear to be a closed circle? There are people within the Department of National Defence who define the criteria. It is a very secretive business. We are left with the impression that the management of this issue... Basically, the important thing is that there are people within DND who are saying that this is what they want and they are going to arrange things so that they get it. Do you not think that one problem stems from the advance contract award notice, or ACAN? Do you not feel we need a much more competitive system and some sort of filter between the two, which would create a balance and serve as devil's advocate in order to ensure proper criteria?

My second question is this. In order to protect the perception of the process, if a minister had too many clients in the military procurement service, do you think that he should recuse himself when a procurement process is initiated? We are talking about \$17 billion, \$13 billion of which went without a tendering process. I would like to hear your comments on this.

**Ms. Sheila Fraser:** Thank you, Mr. Chair.

First of all, with respect to conducting an audit, given the amounts announced and future procurement, the office will of course conduct audits. As I indicated, we analyze the risks and materiality of various activities. Furthermore, I believe we have an audit planned for defence procurement, probably early next year.

As for specifications, if ever there were a bias in favour of a certain supplier—and I do not wish to create the impression that this is the case—it would be very difficult for the auditor to detect. We can review the process that was used to determine the specifications, but obviously, we are not experts in the field. I think we would find that different experts might have different opinions. Thus, the process would have to be reviewed. Is it logical? Has an analysis been done? Is it based on documents and analyses that are reliable? That is the nature of our work.

For instance, when we conducted our audit of the CF-18 upgrade program, we noted that a few contracts had been awarded to a single supplier, however, it was very clearly indicated in the file that, for intellectual property reasons, a single supplier could supply the instruments. We are trying to understand why there was not an open process.

With respect to ACANs, the office made its position clear a long time ago, in 1999-2000. We feel that ACANs contribute very little to competitiveness. If the committee wishes, we could submit a letter that we sent to the Standing Committee on Public Accounts, which explains our reasoning. Although it definitely ensures greater transparency, one can see, simply by looking at the title, that it constitutes a notice that is given prior to awarding a contract. It means greater transparency, but it is not a competitive process.

As for the last question regarding the perception of conflict, that falls under the responsibility of the Ethics Commissioner, rather than the Auditor General.

• (1020)

[English]

**The Chair:** Mr. Martin.

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

Madam Fraser, Mr. McRoberts, and Ms. Loschiuk, thank you very much for being here.

I have a lot of questions, but I'll just stick to a couple.

First, I sincerely hope you look at the strategic airlift, because we moved our reduction capabilities from six planes to four, with a loss of over \$440 million to the Canadian taxpayer, by virtue of the fact that we chose to purchase rather than lease, which would have given us larger capabilities at a better price.

My question to you is on defence acquisition. Mr. Williams gave us an intriguing proposal. He said we should have a "Defence Procurement Canada". From your perspective, which is unusual and unique, would that work to facilitate and streamline the defence acquisition cycle you mentioned? How would that work with other procurement abilities in the government at large?

Second, do you think service contracts should be rolled into the purchase of the particular assets? For example, if we purchase more submarines, the group we purchase them from would also be responsible for the service contract, which they could hive off somewhere else. That way we would connect the responsibility for the functioning of that asset to the group that actually made the asset.

Thank you.

**Ms. Sheila Fraser:** On the first issue, for the very first issue of the audits we would be doing, obviously we would welcome any suggestions from the committee on the areas it believes we should be looking at. We will be going into an analysis of areas that we believe should be audited.

On the question of setting up a special unit, we have always taken the position that it is really up to government to decide how it wants to organize itself. It's what we call machinery of government, and we try to not make comments on that.

I would just add perhaps two elements that the committee should consider. The first is that the majority of contracting that Public Works does is for defence, so there would be a significant impact upon Public Works should that be moved out of Public Works. That should be considered.

The other issue—and we have seen it in many cases over the recent past—is that when there is a reorganization in government, it can take a lot of time and energy from senior management away from, if you will, the business of the day to establish and create new organizations. The only comment we would make is that if you were to create another organization, there would have to be very good reasons to do that, because it will demand a lot of time and effort by senior people. When these big shifts occur, it can be very destabilizing within government departments. It is something that would appear to be as crucial as getting procurement done more quickly. You almost have to wonder if that is going to help or if that is going to impede that process.

I would just mention those two considerations for the committee.

Finally, on the service contracts—

• (1025)

**The Chair:** I'm sorry, we're on a tight schedule. We have to move on and keep to it.

You did make an offer to us of a letter. Could you forward that, please?

**Ms. Sheila Fraser:** Yes, we'll be glad to give it to the clerk.

**The Chair:** Mr. Bouchard, go ahead, please, for seven minutes.

[Translation]

**Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ):** Thank you, Mr. Chair.

Welcome, Madam.

My question concerns the existing procurement system. As we know, three departments are involved in the procurement process. First, the military determines what is required, Public Works and Government Services is responsible for the competitive aspect, and the Department of Industry is responsible for the economic spinoffs.

You also said—and I noted this—that the process was at times cumbersome and layered with reviews and approvals. Thus, there are three bodies responsible for the procurement process.

One of the witnesses proposed a solution, namely, creating a procurement agency. In your opinion, would such an agency improve the procurement process?

**Ms. Sheila Fraser:** Thank you, Mr. Chair.

As I indicated a little earlier, I am always reluctant to comment on questions related to the machinery of the system, because the government has the right to organize itself however it sees fit.

I sincerely believe that, if an agency were created, there would be other stakeholders, regardless. The Treasury Board Secretariat is another important stakeholder. It performs a critical examination in order to ensure that business plans are reasonable, needs are clearly defined and money is well spent. It must continue to fulfill that role, whether or not a separate agency exists. I imagine the Department of Industry would also continue to play a role. Thus, this would affect only the part of the process linked to awarding contracts. At present, the vast majority of purchases made by Public Works and Government Services are related to the Department of National Defence.

I therefore wonder whether that would really simplify the system. We noted certain things in the past. There were several committees, and the documentation and arguments were perhaps not very strong. Some documents had to be returned to DND to obtain further justification. I think we can make the process more effective and efficient, but I believe it will always remain complicated.

[English]

**The Chair:** You have four minutes left.

[Translation]

**Mr. Claude Bachand:** Thank you for appearing here today.

You are well known for being the guardian of sound management of public funds, and that is, I believe, your mandate. By initiating this study, the Standing Committee on National Defence had the same goal in mind. As you know, the sums of money involved are rather astronomical. We are talking about \$20 billion. I heard you say that you were going to look into the C-17 contracts. Is that right?

• (1030)

**Ms. Sheila Fraser:** We have not decided whether we are going to audit that contract, but we are going to conduct an audit of various DND acquisitions. We have not decided exactly which item we will look at.

**Mr. Claude Bachand:** Can you opt to look at every item? After all, we are talking about \$3.4 billion for strategic aircraft, \$4.9 billion for tactical aircraft, \$4.7 billion for the Chinooks, \$3.4 billion for ships and \$1 billion for trucks. Do you do that automatically? Do you have to be asked? How do you decide what to audit?

**Ms. Sheila Fraser:** We plan to conduct a number of audits of major acquisitions, but we do not automatically examine all acquisitions. We will assess the risks and determine which one, in our opinion, is the greatest. We will then conduct an audit. It must be understood that we begin our audit when the acquisition is made,

when a contract is awarded, and obviously, it takes some time to perform our work.

**Mr. Claude Bachand:** I would also like to come back to the question of machinery, as you said. We note a lack of accountability on the part of the departments. They all keep passing the buck. We also note that, at each step, the government can select the aircraft it wants to have—or the service it wants—by imposing limits or requirements, for instance.

I will give you some examples. The government can say that it wants a plane that will lift 70,000 kg, knowing full well that there is only one plane capable of that. The company that sees this knows it will be awarded the contract, and this has an impact on Canadian taxpayers. I feel this means losing some of our bargaining power with that company. I do not understand why you cannot look at the machinery and make recommendations. I am referring only to DND requirements, but there are other stages. There is also Public Works and Government Services. I am pleased to hear you say that the advance contract award notice procedure is not competitive. There are other ways to proceed. We wonder what influence parliamentarians have and what influence the Auditor General could have.

Are you willing to look more closely at the machinery, given the magnitude of these expenditures?

**Ms. Sheila Fraser:** Mr. Chair, when I mentioned machinery, I was referring to how the government organizes itself. Should it leave the responsibility of awarding contracts to Public Works and Government Services, or should it create another agency? That is what I meant by machinery.

However, regardless of how the government organizes itself, we audit the process to see if it is too long, and if it is fair and transparent. There are principles. We maintain that the process must be open, transparent and fair.

We will examine whether those goals have been attained. If a contract is sole-sourced, we will look into the reasoning, to see whether it is legitimate and whether that decision can really be justified.

However, as I mentioned earlier, I am not really sure that we can audit the specifications. Military personnel spend hours and hours on them. We see the procedure they followed to determine the specifications, if there is an underlying foundation, but since we are not experts, we cannot call that into question.

[English]

**The Chair:** Thank you.

Ms. Black.

**Ms. Dawn Black:** Thank you, Mr. Chair.

Welcome to each of you. I appreciate you taking the time to be here with us.

There's an issue I've been trying to get a response on and an answer to. On the C-17s, the government used a national security exemption. What that does is remove the process from the agreement on internal trade in Canada. I've asked this question to each of the ministers who has appeared before the committee, and each of them said they weren't responsible for that decision being made. I've been really puzzled by that.

I wondered what your office's understanding is of that process. Is that something you would look at if you were to undertake a review or an audit of the whole C-17 contract, along with the impression that most of us are left with—certainly on the opposition side of this committee—of the appearance, at any rate, of a sole-source contract?

• (1035)

**Ms. Sheila Fraser:** As I mentioned, Mr. Chair, we haven't looked at the C-17s, so I really can't comment on that issue. Were we to look at them, we would obviously look at the rationale behind the decision to see why that exemption was invoked and whether or not there was a business case that would support it. So, yes, we would look at that issue if we were to audit the C-17s.

**Ms. Dawn Black:** And is it appropriate for this committee to make a recommendation that you do audit that? How does the Office of the Auditor General work in terms of determining what contracts you would examine?

**Ms. Sheila Fraser:** We obviously take very seriously any recommendations or any requests for audits from committees. Were the committee to request that, we would seriously consider it. We are not required to carry it out under our legislation, but obviously we work for parliamentarians.

**Ms. Dawn Black:** How do you determine which contracts in government you would audit?

**Ms. Sheila Fraser:** We go through quite a long process of risk analysis, getting a variety of information on the various purchases that are about to be taken and how they are being conducted—a kind of overview of them—and then we try to target the ones that we believe are of the highest risk.

**Ms. Dawn Black:** Thanks. It sounds like there's almost a formula that's in place, or criteria.

**Ms. Sheila Fraser:** There is quite a formal process, yes, that goes into the selection of all of our audits.

**Ms. Dawn Black:** In terms of ministerial accountability, again getting back to the issue of a decision being made around the national security exemption, you should have been here to hear some of the testimony earlier. There have been times at committee when I have asked a question of one minister in terms of the accountability for decisions that were made around defence procurement, only to be told it was not under them as minister of their department, it was under the minister of another department. Then, when I asked the same question of another minister, that second minister has said I should have asked that of the minister who was here last week.

It just seems there is not one final minister who holds accountability for the whole process. I'm wondering what you think of that, and what you think the role of ministerial accountability is in the whole issue of defence procurement.

**Ms. Sheila Fraser:** It's not something we've specifically looked at. There are many players in these defence procurements because of

the complexity and the size of the procurements, and there are various roles that they play.

In many ways, it almost becomes a cabinet responsibility. You have to consider, obviously, that National Defence decides on the specifications. Public Works then manages the contracting process. You have the Treasury Board Secretariat involved. You would also have the Department of Industry, and you could have other departments that will play their roles as well.

So I think it's really up to those ministers, perhaps, to decide who will speak on behalf of the whole, but I'm not sure. Anyway, it is very complex. I would say that.

**Ms. Dawn Black:** No kidding. But in terms of all of us on this committee trying to do our job as parliamentarians, we can't call the whole cabinet in here. They don't come as one entity that holds the accountability of which you spoke. It is therefore very frustrating, as members of the committee, to try to determine just where that final accountability lies in the whole issue of civilian oversight for the decisions that are being made.

The government now has plans to spend some \$20 billion on procurements. That's one heck of a lot of money. I'm comforted that you say your office is a sort of watchdog over this process, so I want to ask you how long it would take. We're in the middle of this C-17 contract. If your department were to make a decision to do an audit of that, when would that decision take place, or when would the audit start?

• (1040)

**Ms. Sheila Fraser:** We have a planning session in June, so we will be determining our audits for the next three years then. That would likely be about the timeframe, because we'll be starting that audit on the contracting, on defence procurement, at the end of this year.

**Ms. Dawn Black:** How long would that audit process normally take before your report came out?

**Ms. Sheila Fraser:** It takes anywhere from twelve to eighteen months.

**Ms. Dawn Black:** Thanks very much.

**The Chair:** I just have one question before we go on.

Do you have to wait until a procurement project is completed before you can look at it? Can you look at it while it's in process? What's the usual...?

**Ms. Sheila Fraser:** We can look at it when it is in process. For example, there was the modernization of the CF-18s. But there has to be a decision and there has to be a procurement. We can't look at something when it's only in the design stage or when the specifications are being developed. There has to have been a procurement.

**The Chair:** Good. Thank you.

Mrs. Gallant, for seven minutes.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Thank you, Mrs. Fraser, for being with us here today.



My concern today relates to an issue that we discussed in this committee when you appeared back in the 38th Parliament. Whenever there's a large expenditure of taxpayers' dollars, there's always the concern about fraud. The fraud involving the accused Paul Champagne, Hewlett-Packard, and DND is alleged to have been one of the largest frauds in the history of the federal government, and bigger than the sponsorship scandal. It has been stated in the media that perhaps it was with an eye toward future contracts that Hewlett-Packard made good on the missing millions.

Your comment last time in the committee was that the government did recoup its lost millions and it was more or less the end of the story and you weren't concerned any more. With this media observation in mind—the potential for padding future contracts—would your audit be able to determine whether contracts are being padded or sole-sourced when the policy is competitive bidding?

**Ms. Sheila Fraser:** If I could just add a couple of comments, Mr. Chair, the situation the honourable member refers to wasn't really inflation of an existing contract. There were mechanisms that had the government paying for services and computers it never received, but it was quite an elaborate process. It wasn't as if the prices were being inflated and the money was then being skimmed off. It was really a case of invoices going through the system without the goods being there. At that point, an internal audit at National Defence did a very good job of detecting and following through on that, which is why we never really became involved in it.

In this case, in defence procurement generally, and I think in any procurement generally, you want to make sure the process is as competitive as possible in order to make sure you're getting best value. The government could decide, for various reasons—and there are certain exemptions that allow them to go to sole-source contracting—that the business rationale behind sole-sourcing is clear. There are justifications for having gone to sole-source contracting, and the government must be able to demonstrate that they have taken every measure possible to get best value.

**Mrs. Cheryl Gallant:** My next concern is whether the deficiencies in the way the contracts were handled have been corrected. The concern today with some committee members is how the government is able to determine value for dollar with ACAN in the procurement process. Here was a case of fraud involving tens of millions of taxpayers' dollars, with no indication that the problems have been corrected.

I'm talking about the weaknesses in contracting practices and procedures, where accountability appears to have been non-existent at that time. The bogus invoicing scheme—which you referred to—behind this fraud was able to operate for almost a decade. Since the last time you were before this committee, when the issue was raised, has your office given any reconsideration to intervening in this case in order to protect the public interest?

• (1045)

**Ms. Sheila Fraser:** We have no intention to do any work on that particular case. The internal audit department of National Defence was responsible for conducting the audit. They were the ones who did quite extensive work to identify the issues. They made a number of recommendations and kept us fully briefed on what they were doing throughout, and we were satisfied with the work they were doing.

I'd ask Mr. McRoberts if he'd perhaps like to elaborate a little further.

**Mr. Hugh McRoberts (Assistant Auditor General, Office of the Auditor General of Canada):** Very quickly, Mr. Chair, I could simply add that throughout the process, and even ongoing, internal audit provides us with periodic briefings on its management of this file. So we are aware. We have had a briefing on the department's action plan for responding to the weaknesses that became apparent as a result of this unfortunate incident. We're comfortable at this point to let the department and internal audit carry on. If they implement that action plan, the controls should be strengthened.

Controls can never ultimately stop these things, though. That's the one caveat. They're not a panacea. If people don't exercise the controls, if you have management overrides, all the controls in the world won't stop them.

**Mrs. Cheryl Gallant:** So then your department is going to look for the actual \$146 million that went missing. That's not your role.

In audits completed in 1984, 1987, 1992, 1994, 1998, and so on, the same problem kept recurring. The buying of major capital equipment procurement has been an ongoing Achilles heel for the defence department.

The Office of the Auditor General has reported over the years on the acquisition process. You've said today, as well, that it's unnecessarily complex, process-driven, costly, and generally inappropriate for the management of the defence capital program. With this in mind, will the ACAN acquisition process be significantly different, from the perspective of these criticisms? ?

**Ms. Sheila Fraser:** We can only hope, Mr. Chair, that the recommendations and the criticisms of the past will have improved the process going forward. We'll have to, obviously, do the audit before we can comment on the current process. But as I said earlier, I would just like to remind the committee that we have taken the position that ACANs are not competitive. So we would have to see under what circumstances they are being used and whether that justifies them.

**Mrs. Cheryl Gallant:** There was a situation in the 1990s when we did have a sole-source contract, and that was in the purchase of the Challenger jet for the Prime Minister to ride around in. It only took a matter of days to complete that procurement. This was a procurement project that had to be run through the defence department, through the same system we're examining today.

How was something like a Challenger jet justified as necessary for meeting the needs of the cabinet of the time and the leadership? How did it get approval so quickly? Why is it, in your opinion, that it takes so much longer, as long as 15 years, to get our troops the equipment, when they need that in order to defend our country?

**The Chair:** Madam Fraser, we're out of time on that round, but the question has been asked. If there's any comment you would want to put forward, I'll give you a second here.

**Ms. Sheila Fraser:** I'd just inform the committee that we did do an audit of the purchase of the two Challenger jets in November, I believe, of 2003, and we concluded that those purchases did not demonstrate due regard for economy and did bypass existing practice.

**The Chair:** Thank you.

Now I've been informed, and Mr. Coderre mentioned it in his comments, that he wanted to bring a motion forward, so I want to leave just a few minutes at the end to do that. We have to be out of here at eleven for the finance committee.

So, Mr. Cannis and Mr. Blaney, I'd like to give you both an opportunity, but if you could keep it brief, I'd appreciate it.

**Mr. John Cannis (Scarborough Centre, Lib.):** I'll be very brief. I'll just ask the question, and then I'll defer my time to Mr. Coderre.

First of all, welcome, Ms. Fraser and colleagues.

My question's predicated on the question Ms. Gallant just put. You can hopefully send this information to the clerk, and it will be distributed.

She talked about ongoing purchases for military needs after 1994, which you audited. Would you be so kind, within your department, to send us a summary of what purchases were made? I know that the other day 12 frigates, built in 1995 or 1996, were mentioned. If you'd be so kind, could you give us a list of what was purchased at that time?

Mr. Chair, I'll leave it at that. Thank you very much.

•(1050)

**The Chair:** Okay, well, I'll give Mr. Blaney a few minutes, and then I'll make sure we have time to deal with this motion.

Go ahead, Mr. Blaney.

[*Translation*]

**Mr. Steven Blaney (Lévis—Bellechasse, CPC):** Thank you, Mr. Chair.

[*English*]

**Ms. Sheila Fraser:** Could I just ask for clarification? Would it be a list of what we have audited? We may not have all the information of what has been.... We could get it, perhaps, but it would be what we have audited, I presume.

**Mr. John Cannis:** Yes, we'd like all the information you have or whatever else you can add within your guidelines.

**Ms. Sheila Fraser:** Okay.

[*Translation*]

**Mr. Steven Blaney:** Thank you, Mr. Chair.

Madam Auditor General, it is always a pleasure to welcome you. Your tremendous probity is a credit to this government, the public service and the Chaudière-Appalaches region in Quebec, where you worked.

Madam Auditor, there is one question that we have not really explored this morning. Recently, you shared your concerns regarding the state of the Coast Guard fleet. Furthermore, in your previous reports on defence, you often mentioned your concerns over cuts made in the past to the defence budget and their impact on the army, since it is also your responsibility to ensure that federal infrastructures are running smoothly. I would like to hear your comments on this.

You mentioned that you have some concerns with respect to aircraft, in particular. Do you believe the situation is improving? In your upcoming reports, will you concern yourself with getting the government to ensure that the Canadian Forces has the equipment it needs to fulfil its duties?

**Ms. Sheila Fraser:** Thank you, Mr. Chair.

Our concern in the past had to do with the gap between expectations and funding. There is no doubt that this was interpreted as the Auditor General calling for greater investment in defence, but that was not really the case. We also could have adjusted expectations, but there was a gap between what was being asked of the Canadian Forces and the funding that was allocated, and clearly, we saw a problem in that regard. I cannot really comment on the future, because we would have to see the proposed plan and structure in future audits.

**Mr. Steven Blaney:** You are referring to the gap between financial resources and the needs determined by government policies. Is that correct?

**Ms. Sheila Fraser:** Yes, in part, and how DND defines the policy.

**Mr. Steven Blaney:** Very well. Thus, it is important to strike a balance between the two.

**Ms. Sheila Fraser:** Yes, that's right.

**Mr. Steven Blaney:** Thank you.

[*English*]

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

Thank you, Auditor General, for being here. We always appreciate your comments. In this realm we live in, in the political life, things are never black and white—they're always kind of grey—but not when you do an audit. We understand you work within very strict parameters and do a tremendous job for the citizens of Canada.

Thank you very much.

Mr. Coderre.

[*Translation*]

**Hon. Denis Coderre:** Thank you, Mr. Chair. I could have specified, for the benefit of my colleague, Ms. Gallant, that since the Challengers were purchased, the Prime Minister has been enjoying going to hockey games.

The motion reads as follows:

That the Committee recommend that the Auditor General investigate the current military equipment procurement process and audit in particular the contracts (and invitations to tender) and selection criteria process of the five projects announced by the government, to wit: the acquisition of strategic airlift transport, the replacement of tactical transport aircraft, the purchase of trucks, the replacement of helicopters and the replacement of fixed-wing search and rescue aircraft.

[English]

**The Chair:** Okay, committee, you've heard the motion. Are there any comments?

Mr. Hiebert.

**Mr. Russ Hiebert:** Thank you, Mr. Chair.

Our government is committed to openness and transparency. We've done this procurement, and the ones the member is referring to, by the book. Witnesses have testified before this committee that there has been no political interference.

So we'd be pleased to have the Auditor General investigate any of these procurements and to confirm these facts for Canadians, and we would certainly offer her our full cooperation if she chooses to proceed along these lines.

• (1055)

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

Are there any other comments from the committee?

(Motion agreed to)

**The Chair:** That is unanimous. Thank you very much.

Committee, we will now adjourn. I hope you all enjoy the two weeks at home. I know you'll all be working very hard during those two weeks with your constituents, as I will.





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