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Chair

The Honourable Maxime Bernier

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• (1530)

[Translation]

The Chair (Hon. Maxime Bernier (Beauce, CPC)): Good afternoon everyone. Welcome to the 26th meeting of the Standing Committee on National Defence.

Before we begin, I would like to congratulate Mr. Bachand on his election as second vice-chair of our committee, as well as Mr. Wilfert on his election as first vice-chair, even if he is not here today.

I also want to thank my colleagues for having put forth my name and for having supported the motion for my nomination as chair of the committee.

[English]

Thank you very much, everybody.

Mr. Hawn.

Hon. Laurie Hawn (Edmonton Centre, CPC): With respect to business for Thursday, I believe an error was made. The direction from the committee was to invite Mr. Williams and Mr. Ross. In error it went out as Mr. Williams and Mr. Watt. I would like to change that back to what the intention was in the first place, which was Williams and Ross.

The Chair: Thank you for raising that point. It's very important. You're right.

So for our next meeting on Thursday afternoon we'll have Mr. Williams first and then Mr. Ross. Mr. Watt will be with us the week after. So that will be the agenda of our meeting on Thursday afternoon, with one hour for each witness. That will be great.

Let's start our meeting with our witnesses. We have with us from the Magellan Aerospace Corporation, Mr. Matthews.

Bienvenue. Merci.

[Translation]

From CAE, we have Ms. Bourque. Welcome to our committee.

From L-3 Communications MAS Inc., we have Mr. Bastien; thank you for joining us today.

You have time for your presentations. Following that, committee members will have questions for you.

You have the floor, Mr. Matthews.

[English]

Mr. Bill Matthews (Vice-President Marketing, Magellan Aerospace Corporation): Thank you, Mr. Chairman.

My name is Bill Matthews. I am representing Magellan Aerospace at today's committee meeting.

My responsibilities as the vice-president of marketing at Magellan include customer interface, business development and capture, and customer strategic liaison for future opportunity. My participation in JSF started in early 1999 and continues today as one of the ever increasing team in Magellan Aerospace for this outstanding program.

Mr. Chairman, I would like to start with a few words about why we at Magellan consider this to be a great program for Magellan, for the Canadian air force, and for Canada.

The Joint Strike Fighter program, including the F-35 aircraft and the engines that will power it, is a perfect example of the kind of program that companies such as Magellan seek. It fits within Magellan's core capabilities; it is exceptionally high technology in its design, materials, and systems, allowing manufacturing advancement; and it is expected to be in production for 20 to 30 years, allowing efficiencies and return on investment for industry manufacturers.

Additionally, our air force will be equipped with affordable aircraft that meet the defined requirements for the threats faced today and for those foreseen for the future, that can be operated seamlessly with our allies, and that are at the beginning of their life cycle, not at the end.

And finally, this program is ideal for Canada through the widespread engagement of over 80 Canadian companies who are proving capable of contributing technology and providing costing that is competitive on a world level. The current estimate of the value of the participation of Canadian industry is \$12 billion. This is exclusive of the value of support opportunities estimated at several billion more: high-technology jobs lasting decades and starting immediately across Canada.

If I may, Mr. Chairman, more specifically for Magellan, our company has supported fighter aircraft programs in Canada and the United States for decades, in the areas of both new build and repair and overhaul activities. The list includes the F-86 Sabre, the CF-100 Canuck, the Avro Arrow, the CF-104 Starfighter, the CF-101 Voodoo, the CF-5 Freedom Fighter, and currently the CF-18 Hornet.

We have also supported the repair and overhaul of engines on these aircraft and others for both DND and the U.S. DOD. This is a business we know well and one that has prepared us for Joint Strike Fighter. Many other Canadian companies have similar experience levels and are similarly prepared.

Magellan has been engaged on the Joint Strike Fighter program for more than a decade. It has produced development parts in 2003 that were the first produced outside the United States. It has delivered critical components to each of the three F-35 variants and is working to position its divisions for engine work as the ISS aftermarket program is rolled out.

Magellan's initial estimate of participation value on Joint Strike Fighter in early program days was \$1 billion to \$1.5 billion. In 2008 Magellan released an estimate of \$3.0 billion based on work won and its extension, on conservative estimates. Today that target remains valid, with upsides seen on engines and aftermarket. To achieve this level of business, we have or will have over the next four years invested up to \$120 million in infrastructure, equipment, and technology, and in the education of our people to meet the rate reduction requirements at our operating sites.

Mr. Chairman, Magellan has worked hard on this program, starting early and contributing investment, energy, and know-how. The successive Canadian governments' support of this program has been instrumental in our industry's success throughout the past decade, and the current government's announcement on July 16 past was especially timely. This removed doubt and uncertainty within our ranks, and more importantly in our customers' minds.

• (1535)

Mr. Chairman, Magellan's purpose in accepting this opportunity to speak today is to provide assurance to those members less aware that this is the right program in all its aspects for our country. It is also to leave no doubt that reintroduction of that uncertainty will cost Canadian industry its opportunity and Canadians their jobs.

Thank you.

The Chair: Thank you very much.

I will give the floor to Madame Bourque.

[*Translation*]

Mrs. Nathalie Bourque (Vice-President, Public Affairs and Global Communications, CAE): Thank you, Mr. Chairman.

Good afternoon and thank you for having invited me to discuss Canada's new generation of fighter jets, the F-35. CAE would like to reiterate its support for this program, which represents a very significant military procurement opportunity for the Canadian aerospace industry.

Before indicating what this program could represent for CAE, here is some information on our corporation.

CAE is a world leader in the area of simulation technology, modelling, and integrated training solutions for civil aviation and defence forces throughout the world. We provide pilots with training solutions, and we make sure that they are always prepared to deal with the unexpected. We build simulators, and we provide a full range of training services like in-class instruction and simulator training. We also provide our clients throughout the world with training solutions, and maintenance technicians.

CAE is a world leader with 7,500 employees in more than 20 countries and with revenues of C\$1.5 billion. Our head office is located in Montreal, and we have 3,500 employees in Canada. In

fact, we are the largest Canadian corporation working in the defence sector in Canada.

At present, we are under contract to provide air crew training for the CC-130J and the CH-147.

[*English*]

The fact that we were awarded these contracts has helped CAE bid and win contracts for six additional C-130 simulators around the world, including one for the U.S. Air Force Special Operations Command. Overall, it has also enabled us to award contracts to many other Canadian companies, out west, in Ontario, in Quebec, and in the Atlantic provinces.

With the purchase of the F-35, Canadian companies should be in a position to bid for work, not only on the production of the 65 aircraft bought by Canada but also for the full global production, estimated at over 3,000 planes and up to 5,000 planes. As a world leader in training solutions, CAE would like the opportunity to offer pilot and maintenance technician training solutions for the JSF. We believe it is important that our Canadian pilots and maintenance technicians be trained according to the best practices and ethos of the Canadian Forces. This will also be more cost effective for Canada as we take advantage of numerous synergies by leveraging common technologies and solutions across the C-130J and the CH-147.

We have full confidence in our company's ability to compete with anyone else in the world. We look forward to the opportunity to bid on the pilot and maintenance training, not just for Canada but for other countries as well. If our bid is successful, it will mean thousands of person years of work for our employees and our Canadian partners.

We are excited by this opportunity and hope it moves forward in a timely manner. As participating countries confirm their orders, they will then look to secure their training support.

• (1540)

[*Translation*]

While CAE is already in a position to do so in Canada, our efforts to win similar international contracts will be greatly enhanced.

Thank you for listening, and I will be pleased to answer any questions you may have.

The Chair: Thank you very much, Ms. Bourque.

Now, I give the floor to Mr. Bastien.

Major-General (Retired) Richard Bastien (Vice-President, Business Development, L-3 Communications MAS Inc.): Mr. Chairman, committee members, my name is Richard Bastien, and I am vice-president of business development at L-3 MAS. On behalf of my president, Sylvain Bédard, who is unfortunately out of the country today, I am very pleased to have this opportunity to express our views on the upcoming procurement of fighter jets by the Canadian government. I thank you for this opportunity.

[English]

To establish my credentials and that of L-3 MAS, let me just indicate to you that I have completed a military career of more than 35 years as a fighter pilot and commanding officer of a fighter squadron and of a fighter wing, concluding my career in 2004 as assistant chief of the air staff. I am now with L-3 MAS, a Canadian company, wholly owned by L-3 Communications. MAS, established in Mirabel, Quebec, was previously owned by Bombardier Aerospace. It has been in the aerospace industry for well over 60 years, but is more known over the past 25 years to be the CF-18 sustainment authority in Canada. Sustainment refers to the engineering, maintenance, and upgrade support to the CF-18 fleet. As a matter of fact, we can say that MAS is the fighter sustainment centre of excellence in Canada, having created and sustained nearly 1,000 jobs in the Canadian economy over that same period.

[Translation]

As regards the government's recent announcement to proceed with acquiring the Joint Strike Fighter (JSF) as its next fighter jet, MAS is clear. As my president indicated when Prime Minister Harper visited our facilities on September 1, we fully support the government's decision and are happy to see that it is striving to equip the Canadian Forces and its air force with leading-edge equipment capable of carrying out all missions that may be required in the future. The JSF, or the F-35, is clearly that aircraft.

[English]

As I mentioned, MAS fully supports the government's decision to go ahead and acquire the F-35 Joint Strike Fighter. We believe that being part of a group of like-minded nations flying this interoperable fighter aircraft will make Canada a stronger international partner and provide a more effective response, if and when required. However, to effectively and efficiently provide this operational capability with a relatively small fleet must mean that Canada will put a lot of effort into ensuring availability of all operational assets over the full life of the fleet, which we understand to be planned to last until 2050. This surely means that a solid sustainment plan will be established as early as possible.

Let me make a point that seems to be lost so far with this project. There are two key phases to such projects: the acquisition of this system and its sustainment over time. So far, a lot of discussion has pertained to the acquisition. Numerous Canadian companies are already proud participants in that phase, and we are most happy for them. But the sustainment—something that really starts once the aircraft is delivered—is as important as the acquisition and must be addressed now, because the sustainment cost of a fleet over 20 years of use normally equals or exceeds the acquisition cost. In this case we are talking about a fleet that is meant to last at least 35 years, thus the sustainment question should be even more important than the acquisition question, since Canada will want a viable operational capability until the end of the F-35 operational life.

Of course, an aircraft such as the F-35 is quite an improvement over the previous generation of fighters. It will provide undreamed-of operational capabilities, and even incorporate leading-edge stealth material to increase its survivability. However, its basic construction, its airframe, will still age and fatigue over time, caused by normal training and combat use, and it will need to be maintained, repaired,

and modified to meet its expected longevity. This was the case with older generations of fighters, such as the CF-18, and believe me, it will be the case with any fighter aircraft that will fly for more than 35 years. It is a core concern that must be addressed.

I say that with some confidence, since L-3 MAS truly understands these issues. We have lengthened the life of the CF-18 by more than 15 years to make it last 40 years. We are proud to be the centre of excellence for fighter sustainment in Canada. This is the state of industrial support for military fighter aircraft in Canada. Today, no other Canadian company has the skill and experience we have acquired, with DND support, over the past 25 years in delivering fighter sustainment and improvements. We are proud of that heritage and the quality of service for which we are known, and we wish to pursue that superb relationship with DND on the F-35.

We all know that there is no offset attached to the JSF. We understand that to mean that most industrial gains in Canada will be through competition in the global market. To achieve these gains, surely the Government of Canada will want to assist Canadian companies in their quest to capture part of this global supply chain. While this can more easily be accomplished for systems and parts of the aircraft, it cannot be so for this fighter sustainment, as a country will not likely ferry its aircraft thousands of kilometres away to get them fixed, especially if they are not in flying condition.

• (1545)

[Translation]

The Chair: Mr. Bastien, you have one minute left.

MGen Richard Bastien: All right. I am almost done.

[English]

Sustainment is very hard to export; therefore, establishing a Canadian sustainment plan early and ahead of signing the acquisition contract is all the more important, since this is the time many countries have negotiating leverage. I underline again that access to facilities is but one aspect of the sustainment issue. What about Canadian sovereignty and control over these key assets in times of tension or conflict? What would Canada's priority be, when other allies have pressures to have assets available, if the sustainment facility is not in Canada?

[Translation]

At this stage of the project, the government must do its utmost to ensure that the F-35 is not only a military success, but also a success for industry in Canada. Our Canadian companies do well in terms of procurement and participation in the global supply chain linked to the JSF. The government also has an opportunity to give a Canadian company, specialized in fighter jet in-service support, the opportunity to help DND define the Canadian in-service support for the F-35, to provide this service, and, who knows, to enable us to become a North American depot and to compete in a larger market. We see that as one of the best opportunities for the government, which will be two significant benefits for Canada for the entire life cycle of the F-35.

•(1550)

[English]

Members of the defence committee, thank you once again for your kind invitation to present L-3 MAS's view on the F-35 project. MAS fully supports the selection of the F-35, is proud to be the fighter sustainment company in Canada, and is looking forward to our involvement in the F-35 sustainment.

Thank you.

[Translation]

The Chair: Thank you, Mr. Bastien.

I will now give the floor to Mr. LeBlanc, for seven minutes.

Hon. Dominic LeBlanc (Beauséjour, Lib.): Thank you, Mr. Chairman.

I want to thank the witnesses for their presentations.

I have two questions. If there is any time left, my colleague Mr. Wilfert will continue. I have a question for Ms. Bourque and another for Mr. Bastien.

Ms. Bourque, I will start with you. You have an Acadian last name. I am happy to see the name "Bourque". It is a pleasure to have you with us.

[English]

I agree with you. CAE is an unquestioned Canadian leader in training, in the manufacturing of simulators, and so on. You're right to celebrate CAE's success.

You said you were confident that in the bidding process you could compete with anyone else, and "if you are successful", I think was the phrase you used, there would be untold job and economic benefits to Canada. I agree.

I'm worried about what happens if you're not successful. I'm worried about what happens in the global supply chain. Unlike previous procurements with guaranteed industrial and regional benefits.... Canada is allegedly buying 65 of these planes; other countries are buying thousands of them. What happens if we're not successful, if we don't put contractual obligations on the supplier to ensure that companies like yours, that have such a proud history, would benefit? I'm wondering why you wouldn't prefer a guaranteed benefit instead of a chance to compete and hopefully be successful on perhaps a larger pie.

Mr. Bastien, at the end of your comments you said something very interesting. Again, I think your company, in terms of fighter sustainment, has certainly been a centre of excellence, and we all celebrate the success and the terrific work done at L-3. I share your pride entirely. But you reminded us that fighter sustainment, the maintenance work you've done so well on the CF-18s, perhaps isn't the same as manufacturing a landing gear or some armament to go on the plane or a component of the plane. So why not then ask the government to oblige?

You said that before the contract is signed is when we have the most room to negotiate. Why not put a Canadian in-service maintenance fighter sustainment program as a binding, contractual arrangement with Lockheed Martin to ensure that your company or another Canadian competitor, if that's the case, is guaranteed that work? Why take the chance that some American company, right on our border, is in fact able to cut the grass from L-3 and you lose a large portion of that work? Perhaps your case screams out for binding IRBs with respect, if only in your case, to the sustainment program.

Thank you, Mr. Chair.

[Translation]

Mrs. Nathalie Bourque: Thank you, Mr. LeBlanc. Yes, my ancestors were part of the Great Deportation. That is how we ended up in Quebec.

As regards your first point on it being external, I agree with you. That would be a good thing. Unfortunately or fortunately, Canada signed an agreement in 1997 which established that among participating nations, the agreement would be global and not based on regional benefits as we have seen in other programs.

That is a fact. We have to live with that; we are not rewriting history.

Hon. Dominic LeBlanc: Excuse me, I don't want to interrupt you.

You would have preferred a guarantee of contractual benefits for Canada?

Mrs. Nathalie Bourque: Clearly, everyone would prefer to have guaranteed contracts. I think that is normal.

Having said that, as regards the CH-47 and the C-130J,

•(1555)

[English]

CAE competed. The Government of Canada put out an SOIQ, a solicitation of interest and qualification. We qualified with our Canadian partners across the country. We won that competition. Then we negotiated a contract with the Canadian government that was a fair contract. We won the contract for the CH-47. We won the contract for the C-130J, and Lockheed Martin, after, again, hard negotiations and looking at different things...we won the contract for maintenance technicians on the C-130J.

This is the name of the game. This is a democratic country, we live in a relatively democratic world, and we are okay with competition because we believe, as a world leader, that we can get the best.

I will add one thing. We do a lot of work for the U.S. Special Forces in the States. The U.S. Special Forces, for those who will remember, are...that movie *Black Hawk Down*. They only buy the best, and we're their biggest supplier. I guess that means something for the quality of the work that is done by the employees of CAE.

So we're open to competition.

[Translation]

MGen Richard Bastien: Of course, a company like L-3 MAS would prefer to see a contractual element like that included. Nevertheless, our understanding for now is that those aspects have not yet been defined in the agreement.

It is very important, during the period prior to the signing of the contract, that a specific concept for Canada be defined so that Canada can fully understand the consequences of having or not having a maintenance or support centre in the country.

[English]

We believe it's very important to have one for sovereignty reasons, and also, it's just practical. With the bigger airplanes, you may have one engine out, let's say, but you can still fly it. With a single-engine aircraft, you have to truck it; you have to break it down. Therefore, this is a key issue when you're dealing with what I would call a strategic or a very important defence asset.

We do hope this will come, that such a sustainment plan will be in place and that we will be part of it. We think that in that context we will even compete well for contracts on the North American market and therefore create even more jobs in Canada.

The Chair: Thank you.

We have no more time—

Hon. Bryon Wilfert (Richmond Hill, Lib.): Mr. Chairman, that only goes to prove why a lawyer should never ask questions first.

Voices: Oh, oh!

[Translation]

The Chair: Mr. Wilfert, you will have some time later.

Mr. Bachand, you have the floor and you have seven minutes.

Mr. Claude Bachand (Saint-Jean, BQ): Thank you Mr. Chairman. I am proud to add that I am not a lawyer.

I would like to welcome my friends, especially the people from Quebec whom I like a great deal and whom I know very well.

My concerns are similar to those of everyone else. I defend taxpayers. I would even go so far as to say that I am defending your shareholders. If I were a shareholder in one of your companies, I would be concerned about the lack of contractual guarantees. I do not want to call into question your competency internationally, which I feel is extraordinary. You are the leaders. However, I know my American friends, and they are also very strong business people. I know that when things start going badly, they tend to scythe around themselves, and that may well affect companies that are not

American. So Canada could become a victim. You said that to offset the lack of contractual guarantee, you wanted access to the global supply chain for the 3,000 to 5,000 platforms to be built. However, there is a risk. In fact, this is not about a contract for access, but about potential access. It's not a guarantee.

A contract is to be signed in 2012-2013. The Bloc Québécois believes that it would be preferable to call for certain contractual guarantees. The aircraft have not yet been purchased; I don't think the cheque has been sent out yet. Certain things were done by the Liberal Party of the day. In exchange for government participation, there were significant economic benefits guaranteed for the industry in Quebec and Canada. And that has been the case till now.

Don't you have the impression that there is a little time left to include certain provisions in a specific contract, to indicate that as the ones paying, we want a minimum of contractual guarantees? Under these conditions, if the fact that we are the best in the world exceeds our contractual guarantees, there won't be a problem. However, if we had a contractual guarantee and the situation were not to our liking, we could invoke it. In other words, under a future contract, the contractual guarantee could be a safety net if economic benefits or contracts granted to Canadian companies unfortunately don't materialize.

Don't you think that as part of the contract to be signed in 2012-2013, we could proceed knowing we are the best in the world and have a contractual guarantee as a safety net?

• (1600)

Mrs. Nathalie Bourque: I will begin. First of all, I hope that my understanding is accurate. The contract that has been signed deals with the purchase of aircraft. That is of more concern to the people beside me. It does not affect CAE, but does affect companies like Magellan Aerospace Corporation, Héroux-Devtech Inc., as well as Pratt & Whitney. The presidents of those companies held a press conference last week. You were there. At the press conference, they said we had to get involved in what Lockheed Martin calls the global supply chain. You know as well as I do that once people or companies are selected to provide various components... That's why it's important to sign right away. This is not part of my area of expertise, but we are somewhat involved in the project.

As regards CAE and L-3 Communications MAS Inc., if I may add, what affects us is sustainment. That includes in-service support as well as training for pilots and technicians. That part of the contract will be dealt with in the second stage. That is what is important for us. We want to put our foot down. We believe that we have something to prove and that we can win. That contract is not even being negotiated right now. It is a two-step process. We maintain that if Canada wants everything to be done in the country, we would be very happy. However, if there must be competition, we are ready for that.

MGen Richard Bastien: I think that the points raised

[English]

are the same that would have to be put forward.

[Translation]

The purchase of an aircraft like this is based on two criteria. The first is whether it will meet our operational requirements. That appears to be well identified and acknowledged. What we feel is important—and this is what we are advising the government given our experience—is trying to gain the best possible understanding of the long-term impact, in other words the in-service support. We are prepared, and this is the least we can do—to participate and help people working on the file to determine as precisely as possible, from a Canadian perspective, what requirements should be included in an agreement like that.

Experience has shown that negotiating these elements early on, when the procurement contract is being negotiated, is important. It seems that in some cases, once the procurement contract is signed, it is much more difficult to get all of the aspects that we would like to see included.

Mr. Claude Bachand: Some people say that the cost review of the aircraft by the Pentagon could reduce the number of contracts awarded to Canadian companies. I'd like to know if you have heard that theory, and if that has occurred in practice. Apparently, if the Pentagon considers it too costly, it may want to reduce costs, and that may have an impact on Canadian companies. Is that possible?

Mr. Matthews, can you answer my question?

• (1605)

[English]

Mr. Bill Matthews: I admit I'm not an expert on the Pentagon, but I am a pretty seasoned person in selling to the United States DOD. So where the decisions are made vary from Congress to the Pentagon to other agencies. Nonetheless, there are constant reviews of cost on programs driven by the Pentagon, and this is not unusual. From time to time, we have a review in Canada too of costs associated with ongoing operations as well as procurements.

In the case of the Joint Strike Fighter...well, let's say in the case of the current studies being done in the Pentagon area, what is really being taken out are the thousands and thousands and thousands of ex-military people or ex-members of DOD, civilian or whatever, who are rehired to do studies, to write reports, to do whatever. The present Secretary of Defense and his deputy have focused on that as an obvious waste of money, in their opinion, and I think a lot of people agree with them. That is taking out the fluff in the U.S. defence department, as opposed to the hard core requirements, which are the aircraft, the tanks, the ships, and so on. So they're taking, I would think, measures that we would see as being beneficial to Canada and other countries that export into the United States for defence work, and Canada is a major exporter to the U.S.

So I don't see it as being a particularly negative thing. In fact, if anything, it's maybe one of the best things they've done in decades.

The Chair: Thank you, Mr. Matthews.

Right now I will give the floor to Monsieur Harris.

Mr. Harris.

Mr. Jack Harris (St. John's East, NDP): Thank you, *monsieur le président*.

Madame Bourque, first of all, I want to agree with Monsieur Bachand that your company is a renowned, worldwide leader in the work that you do. In fact, as I understand it from a little bit of research, even in the last week you've announced contracts with Korean Air, with Air China, with the United Kingdom, the Royal Air Force, with the German army air school, and even with your colleague next door in L-3 Communications MAS Inc. So it's reflecting on your comment that you're open to competition, and obviously you're very successful.

First of all, do you at this point have any contracts with respect to the F-35?

Mrs. Nathalie Bourque: No, we don't, because that's the second part and it's not negotiated yet.

Mr. Jack Harris: I don't know whether you're familiar with all of this—I mean, I realize you're VP of public affairs, but are you thinking that CAE would not have the right to bid on any of this work if Canada wasn't buying 65 of the 4,000 jets they make?

Mrs. Nathalie Bourque: Lockheed Martin can choose who they want and countries around the world can choose who they want in order to train their troops. As an example, in the United Kingdom, we train all the British troops and the NATO troops that go to Afghanistan. This is a contract we have. We are in a partnership with the MOD on this. For me it's kind of obvious that when your country buys, it puts you in a much better position, because this way you prove to the rest of the world that you do it for your country; you train the pilots here and you train the technicians, and then from there on you can win other contracts, which is what happened exactly on the C-130J. We were chosen by Canada under this famous SOIQ and then what is called OTSP—operational training systems provider—and after we got those major contracts, we won six other simulators around the world and one for the U.S. Special Forces.

There's a French expression that says,

• (1610)

[Translation]

“No man is a prophet in his own country.”

[English]

It's actually completely false concerning anything on the military side. If you don't win in your own country, you don't get anything outside.

We had a letter from the Swiss a few years ago, because we lost a contract here, saying “Don't bother bidding, because if your own country doesn't buy from you, we won't.”

Mr. Jack Harris: How does that work? So we should spend... well, what we're thinking is to commit up to \$16 billion to purchase a particular aircraft because you have a better chance then of getting the contract? That seems to be an awfully big roll of the dice for a country to make. If you're such a great competitor, which I believe, then they would want you, just as Air China does or the German army air school or Korean Air or the RCAF wants you. If what you're suggesting is we need to sign this contract now, even though we're not planning to sign it until 2013, if we go ahead, we should then somehow contract you to look after the simulators for our 65 jets and then hope that this will get you work with.... That seems to be an awful stretch to me, as a strategy, to get work for Canadians.

Mrs. Nathalie Bourque: I see it quite differently. I'm not there to choose the aircraft. I think we have specialists at DND and the people who've done the work. I'm no fighter pilot; I've never sat in one in my whole life, so I'm not there to say which aircraft should be bought. I have no idea about that. What I know is that if we are put in a position where we can bid, I'm pretty positive that we are in a good position to win the position, the contract.

Mr. Jack Harris: And you think you have no chance without that. Thank you.

I'd like to ask questions to the other two. I know everybody is here looking for work and they think this is the right choice. But I'm a little disturbed when I hear what sounds to me like Conservative talking points.

Mr. Matthews, you told us this airplane was affordable. That's what the government is telling us. What do you mean by that? If someone is trying to sell me a house, I suppose they're trying to tell me, oh, you can afford to buy this house, but what do you mean when you say that? Is that part of some economic analysis of affordability, or the capability of the government to buy this plane, or comparative advantages? Why would you use that term in talking about this particular purchase?

Mr. Bill Matthews: That's a fair question. When the requirements for the Joint Strike Fighter were first created—this would have been 10 to 12 years ago, when they firmed up what the various requirements were—one of the them, independent of the aircraft, was price. In the past, occasionally, it was, "We don't care how much it costs, make the airplane beautiful." This time it was, "We do care how much it costs. It has to cost in this area, and you make the airplane as good as you can make it for that price."

Now what they've done is made a very excellent aircraft, and they are tracking down the line to the price within a few...I don't want to say this out loud, but within a few million—because times have changed, materials have changed, and prices and things like that—per unit of the price that was set out as the goal for the program, That's why I think it's affordable, because it's very much in line with what everyone thought it would be when they started out on this great collaboration.

Secondly, I know the prices of other aircraft in the world. We hear them frequently. We see the Europeans buying a tranche here, a tranche there, and you see the number at the end of it. You can calculate what the approximate price is of those aircraft, with the wherewithal to actually make them fly, because the aircraft itself is not flyable without some additional support, in most cases.

We keep an eye on what's comparative across the western world, and from those day-to-day activities we're sure that it's an affordable aircraft and that it'll sell in the area of 3,000-plus aircraft. If it's not affordable, it won't, and we're confident it will. That's because we do pay attention. We see the costs coming down. We know that every time we bid, we bid less, and every supplier that's kept is bidding less because we're getting better at what we're doing. There's great price pressure on the aircraft from five years ago.

• (1615)

The Chair: Thank you, Mr. Matthews.

Now we'll give the floor to Mr. Hawn.

Hon. Laurie Hawn: Thank you, Mr. Chair, and thank you all for being here.

Mr. Chair, could you advise me when I have two minutes left? I'm going to share some time with Ms. Gallant.

First of all, I'm not sure how much of this thing with the Congress came up today, and I want to clarify something that was said. The Congress's concern is the cost tracking and reporting, not the cost escalations but how Lockheed Martin is reporting those. That's the pressure from Congress.

Would that, in your view, General Bastien, be of net benefit to Canada if there's somebody else as big as the U.S. Congress making sure there's pressure on those kinds of reporting practices? Is that going to help us in the long run?

MGen Richard Bastien: In any such acquisition, when close control is kept, people deliver when they're measured. That's a basic management skill. Therefore, if there are areas where it was not tight enough, hopefully this is being done or this is being attacked right now and will be solved.

Hon. Laurie Hawn: And that would be a net benefit to us.

I'm not sure how familiar you are with the MOU itself, but are you aware that there's not actually a contract for the aircraft themselves? It's actually a purchasing provision under the MOU that will or will not be exercised. Are you familiar with that?

I'll ask Mr. Matthews.

Mr. Bill Matthews: I read the MOU. It's not ours to read, but that's my understanding, yes.

Hon. Laurie Hawn: But that's a public document and people should have actually read that before they question things like that.

Back to the MOU, in terms of access to contracting work and so on, are you familiar with the fact that the MOU specifically excludes people, companies, from competing for work under the MOU if they're not signatories to the MOU? Are you aware of that, Ms. Bourque?

Mrs. Nathalie Bourque: Yes.

Hon. Laurie Hawn: Okay. So effectively to get the business for more than 65 airplanes, we do have to be part of that MOU. Is that your understanding?

Mrs. Nathalie Bourque: Yes. I read that famous MOU from beginning to end.

Hon. Laurie Hawn: Good. I'm glad you did. I wish others had as well, which goes to Mr. Harris' comments.

People are throwing around various numbers; they're throwing around \$16 billion.

I'll ask you, General Bastien, do you know what the purchase of the aircraft—part of the MOU—is? Do you know what the value of that is?

MGen Richard Bastien: I do not know. I've only seen the numbers as expressed in the media.

Hon. Laurie Hawn: It's \$9 billion, not \$16 billion. It's \$9 billion to buy the aircraft. That is the cost of the aircraft. That's not just aircraft; that is simulators, training, infrastructure, and so on.

The \$7 billion—and this is where it gets back to you, General Bastien—is the estimate for the first 20 years of supporting the F-35.

You've been supporting the F-18 for a long time. Do we know what the final cost of supporting the F-18 will be in 2020 after we've been flying it for 38 years? Do we know what the exact number is going to be?

MGen Richard Bastien: Of course we do not because we have not completed the contract. We have a fair idea.

Hon. Laurie Hawn: Yes, based on experience, which is what drives our estimate of \$7 billion for 20 years of the F-35. Do you know how long it took after we started flying the CF-18 before we actually signed an in-service support contract for that airplane?

MGen Richard Bastien: It was somewhere around three years.

Hon. Laurie Hawn: It was four years, but yes, you're close. We first started flying the airplanes in 1982. We didn't sign the support contract until 1986, so on the process we're following now with the F-35, in your estimation, is that pretty much standard procedure for the way we have been following contracts in the past?

MGen Richard Bastien: I guess you're asking me to compare. I would say that the present contracts may not be exactly the same as previous contracts. This one is different particularly because there are no IRBs, as there were previously in contracts. However, the timeframes you are mentioning seem to be the norm.

Hon. Laurie Hawn: Where is most of that \$7 billion estimate for the first 20 years going to be spent? Is that going to be spent in Canada for the most part?

MGen Richard Bastien: I would hope so. That's what we claim we would like to see.

Hon. Laurie Hawn: Where has the money gone? Who has been paid the money to do in-service support of the CF-18? Has that been Bombardier? L-3?

MGen Richard Bastien: It has been Bombardier, or L-3 now.

• (1620)

Hon. Laurie Hawn: So it makes pretty perfect sense that for whoever wins that contract, that money will come to Canada. Would that be a fair...?

MGen Richard Bastien: I would hope this is the way it will happen.

Hon. Laurie Hawn: Yes, absolutely.

MGen Richard Bastien: The only point I might add is that at this time in our understanding of the concept of sustainment, it's very unclear. It's very uncertain. Therefore, that's why we have this concern that we've expressed to you.

Hon. Laurie Hawn: I'm glad you brought that up. Part of the MOU—and you may or may not be familiar with it—is access to information to maintain the aircraft. If we're not part of the MOU, we don't have access to information to do that in-service support for the aircraft.

Ms. Bourque, you're nodding your head. Is that your understanding from your reading of the MOU?

Mrs. Nathalie Bourque: Yes, it is. The part that has to be a bit more clear is the part about the intellectual property and how we can use it if we're going to do in-service support. For your information, we do have 200 engineers working full time with L-3 on the maintenance of the aircraft, so we're definitely very interested in this. The intellectual property is key to this whole discussion we're going to have for the in-service support.

Hon. Laurie Hawn: That is within the MOU.

I'm going to turn it over now to Ms. Gallant for the last couple of minutes.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman.

We've been told that the JSF is the only jet that met requirements to best serve our women and men in the Canadian Forces, and indeed the security of Canada, so I'm going to focus on what seems to be the concern, and that is how jobs are going to spin off from this project.

In addition to your corporate headquarters.... I'm going to direct my question to Bill Matthews. In addition to Mississauga, I understand that you have plants in Winnipeg, Kitchener, Vancouver...and Haley Industries. I was indeed speaking to Jim Lemenchick. He explained that they are going to get a piece of this business. He said that while the F-35 memorandum of understanding has been put into place in Canada, in addition to the jobs from its manufacturing, there was going to be a launch of a new generation of technology at the plant level. As a consequence, far beyond the F-35 project, there will be new opportunities available that have never been available before.

Can you elaborate on how the exposure to the new technology will expand the aerospace industry in Canada?

Mr. Bill Matthews: Yes, Mr. Chairman. First of all—

The Chair: Briefly, please. You have a minute to answer the question.

Mr. Bill Matthews: Okay. The question was about Haley Industries, which is located near Renfrew. I should tell an anecdote, but I'll stick to the subject. It is the finest sand casting facility in the western world. We're quite proud of it, and there is no one that compares to us in North America or Europe. It deals with the most technical level of sand castings. They can be simple or they can be very complex. They are very complex in Haley, and I believe that complexity has given one of our engine makers in Canada tremendous advantage in business class engines for at least 20 years. That's something to take home.

Secondly, there are technologies that are now just being developed for sand casting to make it even more capable, and we are heavily investing into those sand casting technologies to ensure that we continue to be the best of the sand casters in the world. The fact that we have won the main gearbox for the engine of the Joint Strike Fighter endorses the capabilities of Haley Industries. We have won a number of other castings but none so complex as the main gearbox.

So the suggestion that we are gaining additional benefits from doing JSF work in this particular case, beyond just the JSF part, is accurate and we expect to gain more going forward from that part of the business as well.

Thank you.

• (1625)

The Chair: Thank you, Mr. Matthews.

Mr. Wilfert, the floor is yours.

Hon. Bryon Wilfert: Thank you, Mr. Chair, and congratulations on your re-election.

Through you, Mr. Chairman, in 2008 the then industry minister, Mr. Prentice, indicated that Canada was under no obligation to buy this particular aircraft but that the industry would benefit significantly from it. In fact, he said there were tremendous advantages, and in fact preferential conditions and advantages reserved for JSF partners. Are you aware of what those preferential conditions are? Also, in the case of Ms. Bourque's company, I understand that you have an agreement with the government to serve as an official training service provider, but in fact you have absolutely no agreement on the F-35s at the present time.

So I want to know essentially what these preferred conditions are. I thought I heard from one or two of you that the concern is if we don't buy these aircraft, we won't have any ability to participate in any of the areas that the three of you have outlined.

Mrs. Nathalie Bourque: I'm not aware of that comment from 2008 about how the industry would benefit, so I'll put that right up front.

In our case, we want to train the pilots and we want to train the maintenance technicians. In real life, whatever the aircraft, we would still try to do it. We're not like an engine manufacturer who is with Boeing or with Lockheed Martin on something like this. So we are open to this. What we're saying today is that under the agreement that was signed in 1997, we realized that—*c'est en deux temps*—the contract will be signed in two sections. The first section does not do anything for CAE—you're totally right—but in the second section, where we are involved, we are definitely interested in doing the pilot

training and the maintenance technician training on any platform the Canadian government would decide to buy. Right now it's the JSF, and we think it's a great platform, but again, we're no experts on an aircraft platform.

Hon. Bryon Wilfert: I want to point out that my comment was based on an Industry Canada press release of September 3, 2008. My concern again goes back to the fact that we certainly believe very strongly that our industry can compete with the best in the world. There's no question. The issue becomes whether or not there's a level playing field in order to compete.

There are two issues. Obviously, one is whether this is the right aircraft that we need, and the second is what the regional economic benefits will be for industries in this country. We don't see anything that's spelled out clearly to do that, and therefore you are basically being asked to compete—and I'm sure it's going to cost you significant dollars—in this global supply chain with no guarantees whatsoever that in fact you're going to reap any benefits.

Would that be a fair statement? That's through you, Mr. Chairman, to any of the panellists.

Mr. Bill Matthews: First of all, my understanding of the MOU is that it contains two types of opportunity. One is strategic. The government has set some strategic guidelines for Lockheed and the two engine makers to meet in providing opportunity for Canadian companies. They've set some long-range strategic objectives that deal to some degree with materials or other advances in manufacturing or even design. Then there's another portion that is open for bidding on a competitive basis, no matter what the contract is for.

At Magellan we have been able to win on both sides. We've been competitive on a worldwide basis on machining, and we've been competitive on the strategic side as well.

Maybe that's enough said.

Hon. Bryon Wilfert: If you want to finish your statement, I'm quite happy to hear it.

Mr. Bill Matthews: I think the concept that we ought to be ashamed of having to compete for work is misplaced. I think that only people who can't compete are ashamed to compete. We know what we're doing. We know the world market. We're working the world market in everything we do on the civil side. Why not do it on the defence side too? And we're winning. We've already delivered almost \$35 million worth of product: competed for, won, and delivered. That's just the initial stages, before we're even at any kind of reasonable production.

We have colleagues across Canada, who we know are just as good, who are winning as well. In fact, I think just a week ago, Mr. Kalil, from Avcorp, announced a \$500 million contract they'd won.

So we don't think that anybody, especially representatives of the country, should be ashamed that their industry has to compete for something.

• (1630)

Hon. Bryon Wilfert: I don't know that anybody has ever said that.

Mr. Bill Matthews: That's the overwhelming message I'm getting. We should be proud that we're out there.

Hon. Bryon Wilfert: If that's the message you're getting, I would say that it's the wrong message. The message should be that you can compete with the best in the world. The question is whether the guarantees that normally have been there in the past and should be there now aren't there. And will that put you at a disadvantage?

You're indicating that you're able to compete. That's tremendous.

Mr. Bill Matthews: I think we should recognize that in most cases when we've had IRBs, we buy something, it's already in production, and it's been in production for x number of years. There are some exceptions, but generally that's the case. What's left over to take is not the best stuff, and very few people really want it, to start with. And if they do want it, they just stay where they are, because it's old stuff.

We've had 10 years to get ready for this. Much of our industry has taken that seriously. We did not sit around and say that we're just going to wait for it to come. We said that we were going to go and get it. And with 80 companies already under contract, or having had contracts in this, we've done a fabulous job. Now, that was assisted by the various governments that were in power for those 10 years, and we think it's one of the very best approaches we've seen. If you have the time and you can get ready, that's a far better solution than having it dropped on you or having pressure to take on this work that you really don't want.

The Chair: Okay. Thank you very much.

Thank you, Mr. Wilfert and Mr. Matthews.

Our last member is Mr. Braid. You have the floor for five minutes.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you, Mr. Chair.

Thank you very much to our witnesses for being here this afternoon.

Mr. Matthews, if I could, I'll start with some questions for you, please, sir. You mentioned in your presentation and in some responses to questions that in fact you've been engaged with this project for 10 years. Like a moth drawn to a flame, I'm intrigued by that and want to ask if you could just elaborate on how and why and when the arrangement and the connection with this project initially came about.

Mr. Bill Matthews: Sure. Let's say it was the turn of the last decade, so 2000 or perhaps 2001. We evaluated what we were doing inside Magellan on the F-18 and we calculated the life of that aircraft and the volume of work we'd be doing, because we were making

new bulkheads and so on for the aircraft as it was in production and we were supporting the engines in service, so that adds up to a certain amount of money.

We took that per aircraft value and we multiplied it by the 3,000 aircraft that were the potential—I think we cut it in half thinking they'll never need 3,000 airplanes, but now it looks like they might—and we came to a dollar figure that was impressive enough that we said this is an opportunity that won't come again, and it's for the benefit of our shareholders as well as ourselves in terms of satisfaction and getting onto an excellent program. So that was the initial part.

I was one of those who came up here under the auspices of the AIAC meetings and spoke with government officials to say, "Look, if you're not already in on this, you should be looking at getting in on it." As it turned out, the government was already monitoring the program, had people involved in it, and, especially on the DND side, had people actively stationed I think in Washington, but in the U.S., working on the program.

• (1635)

Mr. Peter Braid: What year was that approximately?

Mr. Bill Matthews: That would have been before it was awarded. It was awarded in October 2001, so it would have been early 2001, perhaps, or maybe in late 2000.

Then we had a selling job to do internally, of course, because everybody thinks what you're doing now will last forever and you have to realize it doesn't, and we started working on it. We had acceptance, primarily on the Canadian side. Some of our U.S. guys accepted it, some of them didn't. They thought they'd get the work anyway and didn't want to put the extra work in perhaps.

As it turned out, though, the corporation came together and sold the idea to our board and to our chairman, and we've had excellent support ever since. We've done well, but we haven't done exceptionally well. I think any company of our size—we're a mid-sized company now—putting their mind to it could have done the same thing.

Mr. Peter Braid: How many jobs have been created thus far at Magellan specifically related to the F-35?

And I'll ask my second-part question: in terms of the possible upside, how many additional jobs do you see being created if we proceed?

The Chair: A short reply, please.

Mr. Bill Matthews: Okay.

If we achieve our \$3 billion objective, you would calculate that 30% of that is the cost of people, and if you run that over 20 years you'll have 9,000 jobs. That breaks down to a standing group of 450 a year, so 450 people in new or saved jobs, and they continue throughout the whole 20 years. If the 30% is low, then it's more than that. If we look at what Canada would gain, \$12 billion instead of \$3 billion—that's four times that. So it's a significant number of jobs.

Will they all be brand-new jobs? Maybe not. When the F-18 stops flying, some jobs there will transfer over. When the F-404 engine stops being run, some jobs will be transferred from that over to the new ones. But otherwise, those jobs would be lost. The way most governments count jobs, that's exactly as I've described it.

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

Thank you to all of the witnesses for being with us.

[Translation]

We are going to interrupt our work for three minutes to enable our next witnesses to take their places at the table. Thank you very much.

•(1635)

_____ (Pause) _____

•(1640)

The Chair: We are resuming the 26th meeting of the Standing Committee on National Defence.

This afternoon we have two witnesses. Mr. Daniel Verreault from General Electric Canada Inc., and Mr. Bruce Lennie, vice-president of Rolls-Royce. Good afternoon, and thank you for being with us.

[English]

Thank you for being with us.

I'll give you the floor. You have about five to eight minutes to make your presentation, and after that members will be able to ask questions.

The floor is yours.

[Translation]

Mr. Daniel Verreault (Country Director for Canada , GE Aviation, Military Systems Operation, General Electric Canada Inc.): Mr. Chairman, my name is Daniel Verreault. I represent General Electric in Ottawa. I would like to thank you for the invitation to appear before you.

GE has a long and proud history in Canada. The company has been established in the country since 1892, and its five divisions are present here. In 2009, our 8,000 employees generated nearly \$6 billion in revenues, from our 12 plants and hundreds of sales and service centres.

[English]

As the major supplier of engines to the Canadian military, we power eight aircraft fleets and the navy patrol frigates.

[Translation]

Since the 1980s, we have generated more than \$2 billion in industrial and economic benefits, thus creating thousands of jobs and transferring leading-edge technology. In addition, we continue to invest in Canada while several new industrial initiatives are being

proposed in order to emphasize our presence in the manufacturing sector in Canada.

•(1645)

[English]

With the selection of the F-35, the government now has an opportunity to save hundreds of millions of dollars in the manner it selects its engine. In addition, it can request from engine companies industrial plans regarding how these engines would be maintained over the life of the program and decide on which one it prefers.

The JSF competitive prototype launched in 1996 was powered by an engine manufactured by Pratt & Whitney of Connecticut. For the next 10 years, the U.S. DOD also funded a competitive engine program. Congress believed it was important for the U.S. forces and its partners to have a choice of two engines and to create a competitive environment in the fighter engine market. We will be submitting shortly to the committee a more detailed description of the history of the program.

[Translation]

In 2002, General Electric and Rolls-Royce created the Fighter Engine Team with a view to developing and building a new engine: the F136. Designed specifically for the F-35, our engine uses leading-edge technology which enables us to get ahead of our competitor.

We are currently in the final stages of development, and our engine will be certified and available once Canada has chosen its engine, in September 2012.

[English]

The MOU that Canada and its partners signed in 2006 states that the partners can choose either the Pratt & Whitney F135 or the Fighter Engine Team F136, or both. For Canada, being able to choose from two engines has several important benefits. It will create greater possibilities for Canadian firms as opposing teams attempt to maximize the effectiveness of their proposals. Most important, it will save money.

According to the independent U.S. government accountability office, and based on the great engine war, engine choice would save the program a total of \$20 billion over the life of the program. For Canada, for the same period, we estimate that over \$400 million in savings will be generated. The engine represents an estimated 50% of sustainment costs of the overall aircraft.

The Fighter Engine Team is so confident that the F136 will achieve its technical and financial objectives that we recently offered a fixed price to the U.S. joint project office for engines purchased in 2012, followed by further price reductions in the subsequent two years.

[Translation]

Having a choice will minimize costs and maximize benefits, while being entirely consistent with Canada's procurement policies. When products of an equivalent nature are offered on the market, Canada tends to favour a competitive procurement process, in order to maximize the economic, technical and industrial benefits, and to ensure the best product at the best price. A choice of engines is therefore the best option for the men and women of the Canadian Forces, taxpayers, and the government.

[English]

For the past 15 years, the F136 engine has received consistent support from the U.S. Congress, with investment funding approvals exceeding \$3 billion. This amount represents more than 75% of the total cost of the development program. Unfortunately, in response to short-term fiscal pressures, the program has now been threatened with termination by the Department of Defense.

The GE Rolls-Royce Fighter Engine Team urges the Canadian government to press the U.S. government to maintain funding for the F136 engine so as to ensure that Canada can select which engine is best. This is a contractual right that Canada received under the terms of the MOU.

Thank you for your attention. I look forward to your discussions.

•(1650)

The Chair: Thank you very much.

Mr. Lennie, you have the floor.

Mr. Bruce Lennie (Vice-President, Business Development and Government Affairs, Rolls-Royce): Mr. Chair and members of the committee, on behalf of Rolls-Royce and our GE Rolls-Royce Fighter Engine Team, thank you for inviting me here today. It is an honour and a privilege to have this opportunity to personally explain our involvement with the F136 engine on the F-35 JSF program.

Rolls-Royce has been a proud member of the Canadian high-technology landscape for more than 60 years. Our Canadian operations are headquartered in Montreal, and we currently employ 1,750 highly skilled Canadians in eight provinces, from St. John's, Newfoundland, to Vancouver, British Columbia. We are also an integral part of the global company that operates in four complex global marketplaces: civil aerospace; defence aerospace; marine, both commercial and naval; and energy. Each of these Rolls-Royce global businesses is fortunate to have world-class Canadian suppliers that help us compete in a fiercely competitive business environment. One such Canadian company, Magellan Aerospace of Toronto and Winnipeg, a substantial Rolls-Royce supplier for the F136 engine, also presented to you today.

Rolls-Royce is a long-standing and trusted supplier to the Canadian government and the Department of National Defence. As you may be aware, there are four Rolls-Royce engines on each of the 17 C-130J aircraft that are currently being delivered to the Canadian air force. Rolls-Royce also powers all of the air force's C-130 legacy aircraft, the CP-140 Aurora aircraft fleet, and the Hawk trainer fleet.

GE and Rolls-Royce together have developed the F136 engine for the F-35 aircraft, the aircraft recently selected by the Canadian

government. From the engine perspective, we are currently in a competitive situation with the F135 engine produced by Pratt & Whitney of Hartford, Connecticut. The GE Rolls-Royce F136 engine has been designed solely for the F-35 aircraft and is a fifth-generation fighter engine utilizing the most advanced jet engine technology in the world today.

A number of key Canadian companies are partners on our F136 program, and we have a significant partnership with Canada's world-class National Research Council. This is all part of our F136 Canadian industrial participation plan, which we continue to develop. All Canadian partners will benefit from all of the F136 engines produced and sold for the global marketplace, not solely from those engines potentially sold to Canada.

However, the engine situation for the F-35 aircraft is more complex than I have just summarized. As a result of the near-term budgetary pressures faced by the U.S. administration and Congress, the funding of our F136 engine program is threatened for the fifth consecutive year. This is in spite of the fact that the majority of the F136 engine development program is now complete—and the many well-understood benefits that engine choice would produce.

Canada, together with the eight other JSF partner countries, signed the international production, sustainment, and follow-on development memorandum of understanding in late 2006. This MOU specifically stated that a choice of engines, the F136 or the F135, would be available to all partner nations. Customer countries could choose one or the other or both engines.

Should engine choice not be maintained through continued funding of the F136, an estimated \$100 billion global engine monopoly will be handed to a single company, with all of the associated risks, elevated costs, and other demonstrated negative ramifications for the customer nations. There is no question that engine choice will provide reduced overall procurement and long-term sustainment costs.

Dan Ross testified to this committee that engine sustainment costs are as much as 50% of the total sustainment costs of the fleet. The independent U.S. government accountability office has objectively determined that engine competition for the F-35 program will save \$20 billion over the life of the program, a significant saving that will directly translate to all partner nations.

Engine choice for the F-35 is in the best interests of our Canadian men and women in uniform, the Canadian government, and our Canadian taxpayers. Other partner nations recognize this fact and are now advocating directly for engine choice with their counterparts in the U.S. Congress. We urge Canada, in its best interests, to do the same.

•(1655)

Thank you very much.

The Chair: Thank you very much.

Now I will give the floor to Mr. Dryden.

Hon. Ken Dryden (York Centre, Lib.): I'm filling in today on the committee, so the questions I'll ask will relate to what I've heard from the previous three witnesses and from you yourselves.

Two of the previous three witnesses, when asked whether they would prefer guarantees to open global competition, said that of course that's what they would prefer. The third wasn't asked the question, so I don't know what their preference would be.

I'll ask you that question. What would your preference be?

Mr. Daniel Verreault: Mr. Dryden, this is a competitive world. The GE Rolls-Royce Fighter Engine Team is ready to compete for this business, ready to compete in all eight partner countries. In the U.S. the two engines will be purchased, by design, by the U.S. forces. It is not expected that the international partner countries will be buying both; therefore, there will be an engine choice made by each country, and we are prepared and are eager to do so.

Hon. Ken Dryden: And Mr. Lennie?

Mr. Bruce Lennie: That's well stated. I would only add that in Canada, as I mentioned in my presentation, we are developing an industrial participation program with Canada. It's already significant, and we are looking at growing it. So we welcome competition.

Hon. Ken Dryden: We've heard in other discussions about competition and about how all of your companies have competed well historically. I've been in a number of competitions and I know the importance of making sure that.... Everything is fine, as far as the playing field is level, when it's a real competition.

One of the things I would like to ask about is the memorandum of understanding and where this is open and without guarantees for all of the countries.

One question is, why is the agreement with Israel different from that? There are some guarantees there.

Second, just to be sure, is it your understanding that these contracts with all of the other countries—with the U.S. and Britain and all of the other countries—will in the end, after all the negotiations, absolutely be open and that there will be a level playing field? There will not be any guarantees, as there seem to be with Israel, with any of those other countries. Is that correct?

Mr. Daniel Verreault: The terms and conditions of the Israeli contract have not been finalized. They are under negotiation, and we would not be able to comment today on these terms and conditions.

Regarding the engine situation, it is the intent of the joint project office, on a yearly basis, for the two engines to compete, based on cost for that year, based on sustainment cost, and based on the industrial participation plan that you would propose. Therefore, from an engine viewpoint, it is deemed to be a constant series of competitions, as was the case for the F-16 and the F-15, when two engines were then made available for those fleets.

Hon. Ken Dryden: Mr. Lennie, do you have anything to add to that?

• (1700)

Mr. Bruce Lennie: No, I don't.

Hon. Ken Dryden: Here is one last, quick comment. There was some discussion earlier about the cost of the plane—the cost of sustaining it over a 20-year period—but the understanding that I think we heard from the other witnesses is that the plane really is assumed to have a 35-year life.

Just to ensure that we compare apples with apples when we're talking about the cost of sustainment, the earlier gentleman talked about how in fact sustainment costs would be at least as much as the plane itself, if not more, over what he anticipated as the life of the plane, and I would gather all of us anticipate that the life of the plane is not 20 years but significantly more than that.

Mr. Wilfert, if there's time.

Hon. Bryon Wilfert: Mr. Chairman, thank you.

The irony hasn't been lost on me that we're talking about a competition for an engine, but we're not talking about a competition for an airplane.

My question to you is if the Obama administration decides to cut the funding, which is about \$1 billion, or about \$1.3 billion extra, and the British are reluctant, then you would be out completely, would that be correct?

Mr. Daniel Verreault: First of all, regarding the British situation, the Secretary of Defense has recently written to eight esteemed colleagues in the U.S. Congress advocating for engine choice, advocating that the British military be given an engine choice.

Regarding competition, Canada has selected the F-35. It is not for us to question the customer's decision. We're in the business of selling engines and systems. Therefore, now that the decision has been made, we are keen to provide you with the best engine and systems, at the best possible price, and the best overall cost of ownership.

Hon. Bryon Wilfert: Can you estimate, sir, what portion of the maintenance would be done in Canada?

Mr. Daniel Verreault: The recipe that will develop the sustainment model for the engine is still under development and under design. When we are able to compete, we will then be able to present you with an aggressive industrial plan. We will then show you what our technology can achieve, in terms of the sustainment costs. How often do you have to remove a widget? The less you remove the widget, the cheaper your sustainments costs, and therefore the better able I am to compete.

In the end, it will be the best possible price, with the best possible industrial plan for Canada. The status quo is a sole-source contract to one engine company.

Hon. Bryon Wilfert: If I may, very quickly, how concerned are you with regard to the Obama administration's floating this notion that in fact if these costs continue to escalate they're prepared to veto?

Mr. Daniel Verreault: Regarding the funding of the alternate engine in Washington, D.C., we continue receiving bipartisan support. As my colleague, Mr. Lennie, has mentioned, we keep, on a yearly basis, receiving Congress support. The situation is the same again for the 2011 budget. We are hoping that the deliberations will be the same as previous years: our engines will continue to be funded based on the advantages of having an engine choice.

Hon. Bryon Wilfert: Thank you.

[*Translation*]

The Chair: Mr. Bachand, you have the floor.

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

I would like to welcome you before our committee. Mr. Verreault, I had the opportunity of visiting your factory in Bromont.

Mr. Lennie, I have visited your factory in Montreal. Those were very interesting visits.

I would now like to try to understand what is happening. One of you said this:

[*English*]

“contractual right under the MOU—there's an engine choice there.”

[*Translation*]

Does that refer to all countries involved in the F-35? Or are you talking about an agreement that would have been signed with Canada?

Mr. Daniel Verreault: That is an agreement that was signed by eight industrial partners.

Mr. Claude Bachand: I think that is pretty smart on your part, even though I like Pratt & Whitney a lot, to undertake a joint venture and create the Fighter Engine Team.

Who is funding the Fighter Engine Team? Is it Washington or all eight participating countries?

Mr. Daniel Verreault: The Fighter Engine Team is a company that was created by GE Rolls-Royce with a 60% share for GE and 40% for Rolls-Royce. Of course, we invested our own industrial funds in the program.

In terms of the engine development, that is done according to the same American technology development standards. The client is the American Department of Defense. It approves some of the development stages. We received an annual subsidy of over \$3 billion in order to develop the engine.

● (1705)

Mr. Claude Bachand: I imagine Washington funds a good part of this. If it puts an end to the Fighter Engine Team by discontinuing its funding, then the contract goes directly to Pratt & Whitney.

Mr. Daniel Verreault: The program funding is definitely funding from the American Department of Defense. That department has not included funding for that program in its budget.

In past years, each time the budgets were re-examined, the American Congress would add supplementary funding in order to finance the engine development.

Therefore, why would one use one's own money from year to year if Congress is going to be providing it in the end?

Mr. Claude Bachand: Is the American Congress dealing with contractual rights?

If all countries signed the memorandum of understanding—and in this contract a choice of engines is provided—then that choice cannot simply be removed from one day to the next.

Mr. Daniel Verreault: Mr. Bachand, we agree with you.

Mr. Claude Bachand: Mr. Lennie, Rolls-Royce is a British company whose headquarters are in England, is that not correct?

[*English*]

Mr. Bruce Lennie: The headquarters worldwide are in the U.K., our headquarters in Canada are in Montreal, and for North America they're in Washington, D.C.

[*Translation*]

Mr. Claude Bachand: British interests control Rolls-Royce.

[*English*]

Mr. Bruce Lennie: Well, we're a global company, I think is the best answer. We have plants scattered all over the world. We are headquartered in the U.K., but our interests are truly global now.

As I mentioned in my speech, we really have four distinct global markets that we are constantly engaged in.

[*Translation*]

Mr. Claude Bachand: We have already seen in the aerospace sector that some engines are preferred to others. I remember quite clearly that initially Airbus was supposed to carry Pratt & Whitney engines until François Mitterrand decided that European engines would be used.

Do you think that the British are currently holding a card in their hands in order to have F-35s, by telling them that they want the contract provisions to remain and that there be a choice of engines? Could Great Britain play that card as we speak?

[*English*]

Mr. Bruce Lennie: As my colleague has mentioned, the U.K. is pushing hard with its counterparts in the U.S. government to try to ensure that the funding is maintained. We are hoping that Canada will do the same. That's what we hope will happen.

[*Translation*]

Mr. Claude Bachand: Canada has less leverage than Great Britain does. The British could threaten to... In fact, we have heard rumours about the F-35. They want to reconsider...

When they mention reconsidering, are they referring to the issue I have raised? If Rolls-Royce and GE engines are no longer financed, then would the British go as far as saying that they will challenge the contract that they signed pursuant to the memorandum of understanding?

[English]

Mr. Bruce Lennie: I don't think there's misunderstanding from the U.K. side in terms of the MOU. I think the U.K., like all international partners, is simply trying to stand up and make it known that what it finds, along with all the other international partners...it would like the U.S. to abide by the terms of the international MOU.

• (1710)

[Translation]

Mr. Claude Bachand: If Washington does not recover, and it decides to no longer provide funding, and Pratt & Whitney becomes the sole company to provide the engine, do you think that there is any chance that the signatory countries could take legal action because of the fact that the choice of engines was removed?

[English]

Mr. Bruce Lennie: That's a very good question.

I'd have to say from our position maybe that's a good idea.

[Translation]

The Chair: Thank you.

[English]

Thank you.

I'll now give the floor to Mr. Harris.

Mr. Jack Harris: Thank you, Mr. Chairman.

It's a very interesting presentation. First of all, I was wondering why, if the savings of \$20 billion for a competitive choice that you're suggesting are so large...the people with the most to gain would be the Americans. Why would we, a kind of one-fiftieth partner in this project, have any leverage with the Americans? Wouldn't they use their own common sense? Why are you here? Why aren't you in Washington?

Mr. Daniel Verreault: We have colleagues who are in Washington as we have colleagues in all the eight partner countries. It's obviously a U.S. budgetary issue. There are obviously political discussions at play. There are clearly short-term fiscal imperatives that the government is attempting to choose.

Mr. Jack Harris: But it's their issue, not ours particularly.

Mr. Daniel Verreault: That is correct. I am talking of the Washington scene. Yes, there are differences in position between the DOD and the U.S. Congress, and it's an ever-evolving process.

Mr. Jack Harris: I was also intrigued, and it seems to me, and maybe I'm learning as time goes on here perhaps.... Whether we have an engine choice or not, it seems to me that what you're suggesting, Mr. Lennie, is that if we have an engine choice and Canada does go with the F-35, we'll be in a situation where both engine manufacturers would come to Canada and say we'd like you to buy our engines, here's our price, and here are the industrial benefits that we would spread around Canada as our bid for your piece of the action. That's a totally separate issue and has nothing to do with this mega F-35 international competition. Basically you'll come to Canada and say use the F136 and here's the deal.

You talked about this Connecticut company that has an office in Montreal. You tell us they have a piece of the action in the F-35, regardless, presumably, of who buys it.

Is it the same with the F136, that you would come to Canada and say, here's what we offer in terms of industrial benefits for Canada; if you buy our planes, this percent is going to be manufactured in Canada and this percent of the sustainment or maintenance contract will be here as well?

Mr. Bruce Lennie: The industrial participation is based on global best value. I think you've heard that from some of the others. We've already been very active, not only through Industry Canada and DND. We have quite a substantial Canadian industrial participation plan already established for the F136 engine.

So the answer to your question is absolutely. We're already well down that road.

Mr. Jack Harris: Because engines are not like planes, you can ship them pretty easily around the world. You do it all the time. Would the Canadian participation be part of the global sustainment or are we just talking about Canada's piece of the action?

Mr. Daniel Verreault: The engine is government-furnished material. The cost of the engine will be determined by the joint project office and the price will be given to the Department of National Defence. I'd like to make this distinction.

Regarding competition, absolutely. There are other issues that we would compete on, including industrial participation, including the overall cost of ownership. If your engine stays on the wing twice as long, it's half as expensive to maintain.

We believe we have a competitive advantage from a technology point of view because we started later, so our technology is younger and therefore our technology is more modern than the competitor. We would like an opportunity to show this to Canada and to compete head-on with the other company.

• (1715)

Mr. Jack Harris: Well, answer me this then. Suppose the F-35 goes ahead and Canada decides to buy airplanes from this Connecticut company you're talking about. Is there any work available in Canada for the F136 on any basis for the life of this project?

Mr. Daniel Verreault: Well, I could ask you the same question, but from a 180-degree—

Mr. Jack Harris: I'm only trying to understand how this contract works, because we're being told on the other hand that if we don't buy the F-35, Canadian companies don't get a piece of the action. I'm not sure I believe that, but that's what we're being told. I'm putting the same question to you. Is it your understanding that that's the way it works when it comes to engines?

Mr. Daniel Verreault: Yes. Well, we will then be sharpening our pencils and we will make a finer point than the competitor. So the answer is, it will depend on the terms that we will be offering Canada. We want to win, so we will play it very tightly to our vests, and then may the best win. We are keen to earn your business.

Mr. Jack Harris: I'm not sure you answered my question, but thank you very much for your attempt.

I think I'm finished, am I?

The Chair: One minute.

Mr. Jack Harris: Okay.

I understand that, but one of the arguments or discussions going on here is about participation in the F-35 program by Canada, whether or not Canadian companies will have an opportunity to bid, like CAE and the others that were here, on the worldwide program if Canada doesn't buy in. Does the same thing apply with the engines? That's the question.

Mr. Daniel Verreault: Well, the world of the engine is slightly different. We definitely have Canadian high-end, internationally competitive Canadian suppliers on the team now. They will likely remain on the team, although you know very well that the manner in which the program has been developed with the eight partner countries sharing some of the industrial pie...as the music stops and people start sitting, there may be shifts. Who knows? There may not be, but there could be, and it's still a work in progress.

Mr. Jack Harris: Thank you.

The Chair: Thank you very much.

Mr. Hawn, and after that I think you are sharing.

Hon. Laurie Hawn: I'm going to share with Mr. Boughen.

Thank you, Chair, and thank you both for being here.

First of all, let me say that I've had a lot of time riding on General Electric engines and I appreciate your good work.

With regard to the choice of the F-35—because that's the bigger issue, obviously, than the choice of the engine—is it fair to say that without the F-35, there is no F135 engine and there is no F136 engine?

Mr. Daniel Verreault: That's absolutely correct.

Hon. Laurie Hawn: Thank you.

With respect to the maintenance service support capabilities or opportunities for industry, the engine side of that is still covered under the MOU. Are you aware of that?

Mr. Daniel Verreault: That is correct.

Hon. Laurie Hawn: So if we try to go outside of the MOU, basically we're not going to have the same access to opportunity that we do inside the MOU, whether it's with the aircraft, whether it's with the engines, whether it's with the in-service support, or anything else. Is that correct?

Mr. Daniel Verreault: That is correct.

Hon. Laurie Hawn: Thank you.

That's all I wanted to get out. I wish people would actually read the MOU. They'd have a better understanding of what we're talking about.

Mr. Daniel Verreault: We have, Mr. Hawn.

Hon. Laurie Hawn: I know you have. I'm not questioning that at all.

The Chair: Mr. Boughen.

Mr. Ray Boughen (Palliser, CPC): Thank you, Mr. Chairman.

Let me add my voice of welcome to you, gentlemen. I know I speak for my colleagues who are appreciative of the fact that you're giving time and energy to meet with us this afternoon to share your expertise with us.

My question is this. With advanced technology designed into the F135 or F136 engines, is having a second engine as important as it used to be? I'm not sure about aircraft engines, but I kind of look at V8 engines, which used to be predominantly found in cars, and now V6s are the predominant engine. Could you maybe share with us the difference?

• (1720)

Mr. Daniel Verreault: I would be pleased to do so. If I understand your question correctly, you're asking if a single-engine fighter is as safe as a twin-engine fighter.

Of course, when you have two, it's always better than one. However, the manner in which we now understand the technology—the materials, engineering, and the manufacturing of our engines—is clearly demonstrated in both the commercial and military worlds. In the commercial world we used to cross the ocean on four engines. We now do it on two engines. Those engines are more reliable today than the four used to be.

Depending on the weight of the fighter and depending on the amount of thrust you require for this fighter, you of course have a choice. Some aircraft have been designed with two engines: the CF-18 Hornet and Super Hornet. Others have been designed on a single engine. The F-16 is an example.

We have looked at detailed statistics in operation, both in peace-time training and in conflict zones. Today's engines are so reliable that one or two does not make a significant difference. The proof of the pudding is that in the launch of this Joint Strike Fighter program at the outset, all airframe companies deemed that they could now have one engine that would generate 40,000 pounds of thrust, and each independently came with a fighter jet with one engine. Today flying on one engine is within the very much accepted level of risk.

Mr. Ray Boughen: Thank you, Chair.

The Chair: Mr. Wilfert, do you want some time?

Hon. Bryon Wilfert: At the appropriate time, I'd like to raise a point of order.

The Chair: Mr. Payne.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Chair.

I'm not sure how much time I have.

The Chair: You still have one minute.

Mr. LaVar Payne: I'm so happy to have that.

Thank you very much for coming, gentlemen.

First of all, my understanding is that for the F-35 there was a competition between Lockheed Martin and Boeing, and Lockheed Martin won that competition. Is that correct? A short answer, please.

Mr. Daniel Verreault: We are not here to question the airframe competition. This is the government's decision. The customer is always right. Once the customer has made a decision, we move on.

Mr. LaVar Payne: Okay.

My understanding also is that Israel is not part of the MOU and has always had a very close and unique relationship with the U.S. and the military, and certainly they're dealing with industrial benefits in Israel. Is that correct?

Mr. Daniel Verreault: The terms and conditions have yet to be negotiated, but obviously there are discussions between the Government of Israel and the Government of the United States regarding the F-35, and I would propose that this is a question you must ask of the U.S. government.

Mr. LaVar Payne: They're not part of the MOU, though, right?

Mr. Daniel Verreault: That is correct. I apologize.

Mr. LaVar Payne: Do I have any more time left, or is that it?

The Chair: You have 30 seconds.

Mr. LaVar Payne: I'd like a really short answer. In terms of the benefits that you would see, what about the technology that's available to Canadian companies here? Are they going to be able to use that technology to enhance other opportunities for Canadian companies or throughout the world?

Mr. Bruce Lennie: The quick answer is yes. I mentioned in my comments we're working with the National Research Council, which is world class, and they are helping us.

The answer is yes.

Mr. LaVar Payne: All right. I think I'm probably done. Thank you.

The Chair: Thank you very much.

Mr. Wilfert.

Hon. Bryon Wilfert: If you want to thank the witnesses, then I'll just raise my point of order.

The Chair: I just want to thank you for being with us today. That was very useful for our work. Thank you very much.

We'll have a discussion right now. Do you want it to be in camera?

• (1725)

Hon. Bryon Wilfert: I just want to raise a quick point of order. At last Thursday's meeting, my colleague Mr. Hawn mentioned bringing back Dan Ross, the assistant deputy minister of materiel, and my understanding was that we were going to discuss that at this committee. The notice of meeting that I received for Thursday had Alan Williams, former assistant deputy minister for materiel, at 3:30, and at 4:30, Lieutenant-General (Retired) Angus Watt was coming. I've now been informed that in fact Mr. Ross is coming in the 4:30 slot.

Through you to the clerk, Mr. Chair, my question is this. Procedurally, how did that happen? If we're going to bring somebody in to rebut somebody, we could do this continually. So I would be concerned about that precedent.

I first of all wonder, from the mechanics of it, how it is that Mr. Ross is now on an amended agenda. Second, I thought this was supposed to be under discussion. So could someone clarify for me?

The Chair: Yes, Mr. Harris.

Mr. Jack Harris: The point of order Laurie Hawn raised at the beginning blew past me, but I recall the discussion we had last week.

There was some debate about whether it was Madame Findlay or Madame Chow, but it was said that this whole question of the order of witnesses, and who's called first and people rebutting, was something that we were concerned about. I think the only resolve that we had was that this couldn't be resolved without the august presence of the new defence critic, the vice-chair of the committee, and the chair of the committee, whom we have here with us today.

I don't think any real decision was made, and it's up for discussion today as to how we should proceed on that. I think that was the ultimate conclusion. I know the chair wasn't here. Monsieur Bachand was in the chair. He could perhaps confirm that, so we kind of put that over for today for discussion, when the new defence critic and vice-chair are here. That's where we are with this, as far as I understand.

The Chair: Mr. Hawn.

Hon. Laurie Hawn: In fairness, that was the discussion last week, that's true, so we probably should not have put out, I suggest, a notice of meeting with witnesses.

The Chair: So let's have this discussion right now.

Mrs. Cheryl Gallant: A point of order. Would it be okay to dismiss our witnesses?

The Chair: Yes. Thank you very much. I think you're right.

Mrs. Cheryl Gallant: Also, I just want to clarify, when we discussed future business, was our discussion last week in camera?

The Chair: No, it was public.

So let us open the discussion right now.

Mr. Hawn.

Hon. Laurie Hawn: We can put it in the form of rebutting this or rebutting that. The simple fact is that Mr. Williams is a witness that the opposition wants, and that's fine. He is a former, five years past, associate deputy minister of materiel. It makes perfect sense to have the current associate deputy minister of materiel, who has been on the job for five years, here, back to back. That just makes perfect sense if we want to get the information that we should be getting, to draw whatever conclusion we want to draw. If we want to play other teams, that's another story, but clearly, the current ADM of materiel, with five years' experience, has a lot to offer. He was here previously, but as one part of a panel of about five or six people.

It's time now to drill down into some of the issues the opposition members have brought up, and that's fine. That's their right to do that, but if we are going to drill down into those issues with somebody with an opinion that is dated in fact, albeit dated, then we should be drilling down into the same material with the individual who is currently in the position and has been doing it for the past five years. That to me, Mr. Chair, is logical, fair, professional, and complete.

The Chair: Okay.

Mr. Wilfert.

Hon. Bryon Wilfert: Mr. Chairman, I want to assure my honourable colleague that nobody wants to play games. In the second panel, on September 15, Mr. Ross was part of a group that included Mr. Michael Slack, director of Continental Materiel Cooperation, and others. How it was decided to apportion who was going to speak or who was not obviously had nothing to do with me. I was only chairing the meeting.

I want to point out that at that time there was ample opportunity to comment. If in fact we would like to have Mr. Ross at another time, maybe at the end, when we've heard all of the other presenters, I don't see any difficulty with that. But I would think, having him only two weeks basically, or three weeks, after he was already here, regardless of whatever capacity, wasn't our decision. I think it would be a dangerous precedent to do that. I would say, yes, have him, but after we've heard other witnesses that have been put forth.

That would be my submission.

• (1730)

The Chair: Mr. Harris.

Mr. Jack Harris: Again, for the benefit of those who weren't here last week, my position last Thursday was that we should have Mr. Williams here for two hours. The man has written a book on procurement; he served for many years as ADM Materiel; he knows a lot about this.

Now, as was pointed out, Mr. Ross has been here. He did answer questions and participated in the meeting before, but this really is a question about what procurement policies are being followed by the Government of Canada, and I think we have an opportunity to hear about it.

We also talked about balance the other day. In my mind, balance is not something that happens on each day. We didn't have balance today: we had five industry reps who are looking for work and are anxious to have a crack at it. I don't have a problem with that.

We have a different mandate, and one of the things that we have a mandate to do is to determine whether the procurement policies being followed are appropriate for Canada, are in the best interests of Canada, and are in the best interests of this particular contract.

So to spend two hours on one day, with the kind of format we have, to deal with somebody who has significant knowledge and, let's face it, probably a critique, from what I've heard so far of Mr. Williams, of the government's approach.... I don't see anything wrong with that. If we want to achieve balance, we can have Mr. Ross back some other time.

But if we're going to do this, I don't see why we need Angus Watt here. I think we should have Mr. Williams for two hours. That's my preference.

The Chair: Mr. Hawn.

Hon. Laurie Hawn: Well, Mr. Chair, perhaps when we hear from panels like the one we heard today, and what we hear is so consistent, maybe that's just the truth. Maybe that's just the real story. Call me crazy, but—

Mr. Jack Harris: Maybe you just called all the right witnesses.

Hon. Laurie Hawn: —maybe if everybody is saying the same thing, that's the actual story.

With regard to this, if we are talking about procurement processes in the Canadian Forces or in DND and have Mr. Williams, who has opinions, that's fine. If we're going to drill down into this, then it makes perfect sense, if we're going to have Mr. Williams, that we have the current ADM Materiel, who is much more current on what's going on today in the real world than is Mr. Williams, notwithstanding opinions that either one of them might have. It makes no sense, if we're going to drill down into that aspect, that we don't have them back to back. That is the only thing that makes sense. Anything else, I'm sorry, is "situating the appreciation", as the army would put it.

Mr. Jack Harris: Can I make a motion, Mr. Chair?

The Chair: Mr. Harris.

Mr. Jack Harris: I move that we ask Mr. Alan Williams to appear before the committee next Thursday for two hours.

Hon. Laurie Hawn: That's absurd.

The Chair: I'm sorry. Can you repeat?

Mr. Jack Harris: I move that we ask Mr. Alan Williams to testify on Thursday for a two-hour session.

The Chair: And what about Mr. Ross and Mr. Watt?

Mr. Jack Harris: That's up to somebody else to—

The Chair: Mr. Hawn.

Hon. Laurie Hawn: Well, Mr. Chairman, he has a motion. We're not going to roll over on this motion. It makes no sense. If we are dealing with procurement processes in the Canadian Forces, it makes no sense to not have, at the same time as somebody who has opinions—and they're his, and that's fine, and he may have written a book, and that's fine.... I've read his book. It's interesting. It makes no sense to not have the current person in charge of that job here at the same time, so that what one said and what the other said is fresh in everybody's minds. The committee can decide who's right and who's wrong. That's fine.

I suspect we will probably wind up having differing opinions, which is to be expected. It makes no sense to us not to do that at the same time—an hour with the old guy, an hour with the current guy—and then move on.

To give one man a bully pulpit for two hours...? I'm sorry, that is playing a game, and it's very clear that this is what's happening here. We just cannot support that.

The Chair: Ms. Gallant.

Mrs. Cheryl Gallant: Further to discussion on the motion, it would be helpful if we could have both of them on the same day, because I would like to have some of the questions that come around asked with the current updating. If we wait a week or two weeks or two months, we'll have forgotten what we discussed. We want to get to the basis of fact. It could be that there's not a conflict, but just an update of explanation that would be helpful.

• (1735)

The Chair: Thank you.

Mr. Wilfert.

Hon. Bryon Wilfert: Mr. Chairman, on September 15 there was ample opportunity, I thought, for Mr. Ross to make whatever presentation. It was not the decision of even the committee; it was the government. The Department of National Defence came. They had four witnesses. There would have been, I think, ample opportunity then for Mr. Ross to speak, but they obviously chose not to. Then somebody obviously agreed to this agenda that we have in front of us, which had the former head of the air force as well as Mr. Williams for Thursday, and then there was a change.

Again, there are no games being played. That six-hour meeting that we had was the opportunity for them to speak, and I would have been quite happy just to have heard from him, but I was given four witnesses. We're not precluding his coming back—absolutely not—but I think in fairness that we need to hear the other witnesses. Then, at the end, if there's a desire to hear him again, fair enough.

The Chair: Mr. Hawn, and after that, Mr. Braid.

Hon. Laurie Hawn: Mr. Chair, again I go back to the point that Mr. Ross was here earlier as part of a larger panel. The issue here that we apparently want to get to now is specifically the procurement process. Mr. Williams' experience is valid, but it's dated. The world has changed. It makes perfect sense to have Mr. Ross on the same day, who can explain to us what is current in the world today with respect to MOUs, with respect to how contracts are awarded, that sort of thing. It makes perfect sense to do that.

What I would suggest, and we'd certainly be willing to do it, is if you want to do an hour and a half with Mr. Williams and an hour and a half with Mr. Ross, that would be fine with us. We're certainly prepared to sit here for that.

The Chair: Okay.

Mr. Payne.

Mr. LaVar Payne: Thank you, Chair.

In terms of this whole business of Mr. Williams and Mr. Ross, I would like to point out that during our discussion the other day, it was Ms. Findley who suggested that it would be most appropriate to have both Mr. Ross and Mr. Williams at the same time.

That is correct, Monsieur Bachand.

And it makes good sense. Her argument was that if we're hearing from one, we should be able to hear from the other one at the same time, so we can actually get the correct information that might be available to us and hear both sides of the story, rather than having one individual for two hours.

If you have Mr. Williams for two hours...we did not have Mr. Ross for two hours. To have them coming at separate times does not make any sense at all. If you have a logical mind about this whole thing, you should be able to see that there are huge benefits in having both individuals at the same time providing information and having the opportunity to speak to each other's comments.

The Chair: Mr. Bachand.

[*Translation*]

Mr. Claude Bachand: Mr. Chairman, I agree with my colleague's suggestion. Let me explain. I think we want to avoid any major confrontation from happening at this table. The issue of procurement is a very complex one. In my view, it is not a good idea to sit two opponents down together and let them put on their boxing gloves, and to tell them "Let the better man win". First, this would not make a good impression on the public. Second, it's already very complicated and we would not be able to follow their arguments.

Personally, I would prefer to hear from Mr. Williams first. There is nothing preventing me from wanting to hear from Mr. Ross, as well, but at another meeting. If you think that Mr. Ross will appear here, at a second meeting, without having read what Mr. Williams said, then you are living on Mars. Mr. Ross will read every word uttered by Mr. Williams. What will probably happen is that, when he appears at a subsequent meeting, he will demolish Mr. Williams' arguments. At least there will be no cacophony, that is, one will not be constantly interrupting the other, and that kind of thing.

I admire you very much, Mr. Chairman. However, even with your considerable talent, you would be hard pressed to keep those two combatants apart.

In the Canadian Armed Forces, it is often said that when two opponents hate each other to death, they have to be kept apart from their adversary by at least one sword's length. If we are to maintain this distance, we need to invite them to separate meetings. In my view, this represents an acceptable distance of one sabre.

• (1740)

The Chair: Thank you, Mr. Bachand. I would like to point out that each witness will have one hour to testify. Mr. Williams will appear for one hour and leave before Mr. Ross arrives. This might also keep them at one sabre's distance from each other, like you just said.

I will now give the floor to Mr. Wilfert.

[*English*]

Hon. Bryon Wilfert: I was intrigued by Mr. Payne's comment that rather than have them one after the other, if you have them at the same time.... In other words, if they both presented and then had questions at some later point, that might be interesting. But this notion of one coming in, then the other one does the clean-up—basically he will clean up—I don't think that would be appropriate. If they were both sitting there together, one after the other, giving their presentations, then the committee asked questions for two hours, that could be interesting.

Again, I would humbly suggest that it's a bit odd that we had him already. But that was a choice the government made; it wasn't our choice.

Hon. Laurie Hawn: That was the committee's choice.

Hon. Bryon Wilfert: No. We said he could come, and we wanted to have all these witnesses, but they weren't our witnesses.

The Chair: Monsieur Hawn.

Hon. Laurie Hawn: The witnesses were the committee's choice. I don't suggest that we have them there side by side either. It's not within the Canadian Forces that they're two sword lengths apart; it's in the House of Commons that we're two sword lengths apart. And these are pretty short sword lengths right now.

It is illogical, if you were going to drill down into a specific issue. There's no question that Mr. Williams has experience. There's no question it's dated by at least five years. There's no question that Mr. Ross' experience is much more current.

When Mr. Williams was ADM Materiel, the procurement world was different. There were many more companies out there. The consolidation of companies, not just in the aerospace sector but in the business world in general, has resulted in the fact that there are now only two aircraft companies, for example, in the U.S. that manufacture fighters: Boeing and Lockheed Martin. That's how we wound up with those two companies having a competition.

The U.S. and the eight other partners in the MOU—because Canada did have input into that—made that collective decision. There's no question that the U.S. was the biggest partner in it, but every country had input into that.

It defies common sense that you wouldn't have both of those people at the end of the table, not at the same time but back to back, so you can compare whatever information each one of them gives

you and make your own decision on what you think is valid and what you think is not.

It makes no sense whatsoever to have somebody whose information and experience is dated, to say the least, who is not familiar with what has gone on in the world of acquisition within the CF, or, more broadly speaking, across the business world. It makes no sense to have that and not have, relatively speaking, at the same time, an equally fulsome discussion on that topic alone with the man currently responsible for that who has current experience and is dealing with the world as it exists today with respect to acquisition. It has changed across the board.

Sole sourcing is a perfectly legitimate tool for the Government of Canada. It's been used by Mr. Williams as well—and we don't need to talk about how many times. But it's a perfectly acceptable method of contracting when there's only one source of supply.

The Chair: Thank you.

Hon. Laurie Hawn: You're very welcome.

The Chair: I understand your point.

Mr. Harris, can you repeat your motion?

Mr. Jack Harris: The motion is that on Thursday this week we have Mr. Alan Williams for a two-hour session.

(Motion agreed to)

The Chair: So that will be the case for next Thursday.

[*Translation*]

This concludes the 26th meeting of the Standing Committee on National Defence.

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