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## Standing Committee on National Defence

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EVIDENCE

**Tuesday, November 16, 2010**

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**Chair**

**The Honourable Maxime Bernier**



## Standing Committee on National Defence

Tuesday, November 16, 2010

• (1530)

[Translation]

**The Chair (Hon. Maxime Bernier (Beauce, CPC)):** Good afternoon everyone, and welcome to this sitting of the Standing Committee on National Defence.

[English]

This is meeting number 33.

[Translation]

Pursuant to Standing Order 108(2) and the orders of the day, the committee will continue its study of the next generation of fighter aircraft.

[English]

We have with us two witnesses from the Canadian Association of Defence and Security Industries. We have Timothy Page, President, and Janet Thorsteinson.

Thank you for being with us.

You have 10 minutes to make your presentation. After that, members of the committee will be able to ask you questions. The floor is yours.

[Translation]

**Mr. Timothy I. Page (President, Canadian Association of Defence and Security Industries):** Thank you, Mr. Chair.

Good afternoon everyone. I will be giving my presentation in English, but we will be able, I hope, to answer your questions in both languages.

[English]

Thank you for the opportunity to appear before you this afternoon and for your interest in hearing CADSI's views on the F-35 program, a subject of keen interest to Canadians and to our 860 member companies.

We fully appreciate the political environment within which the program is being discussed. As you know, CADSI is not a partisan organization, and as a not-for-profit association, we do not have a commercial interest in this or any other defence program. You might well appreciate that because of the depth and breadth of our membership, we do not take a specific position on any given defence procurement, which is why you have not seen us in the media on F-35, nor are you likely to. Furthermore, we don't comment on defence requirements, as we firmly believe that is the prerogative of the federal government.

With that said, in general we believe that defining a requirement should not be used as an opportunity to define a specific platform. We believe that procurement strategies should be chosen in part so as to optimize Canadian industrial participation at the R and D, production, and sustainment phases of a project.

As you may remember from our appearance before you on April 29 this year, we have called on the government to create and implement a defence industrial strategy in the context of general reforms to defence procurement in Canada. If such a strategy existed, we believe questions surrounding the economic benefits derived from any specific procurement, including the F-35, would be easier to answer and evaluate from the perspective of a return on investment for taxpayers.

What can we say about the F-35? First, in principle, we like the project model being used for the F-35 because it includes characteristics akin to a defence industrial strategy. By that I mean cooperation between the defence industry and the Canadian government from the concept phase of a defence program; the commitment and targeting of government-supported industrial R and D from the earliest stage; articulating and promoting domestic industrial policies where Canada can win business at the production phase of a program, including defence electronics; procuring the right to use and disclose intellectual property to benefit domestic industries' involvement at both the production and sustainment phases; and enhancing Canadian access to global supply chains from development through production and sustainment. We believe those characteristics, akin to a defence industrial strategy, are present in the F-35 project.

Second, participating in the development of capital defence programs from the ground up provides Canadian industry with the time horizon to invest in plant, process, R and D, and human resources, and to find partners to enable it to compete successfully when programs ultimately come to market. We believe it also creates an important window of opportunity for government to act strategically to nurture and develop Canada's defence industrial base in areas of sovereign, security, and national economic interest through its participation in such programs.

Third, we support a similar procurement approach to other priorities outlined in the Canada First defence strategy, including but not limited to naval and coast guard requirements. We encourage the government to work expeditiously to move the national shipbuilding procurement strategy forward to the point where construction on these new vessels can begin in the shortest timeframe possible, in collaboration with Canada's marine and shipbuilding industries.

Fourth, there are other project models that can also effectively obtain needed military equipment and build and sustain industrial capability and capacity in Canada's defence industrial base. Regardless of the project model chosen—build, or COTS and MOTS, with strategic industrial and regional benefits—the message we wish to convey is that a collaborative relationship between the defence industry and government, developed from the earliest stages of defining a defence requirement for Canada and conducted in the context of a defence industrial strategy, will improve Canadian industry success in defence procurements at home and abroad and enhance its ability to spin off capability into the commercial marketplace, both domestically and internationally. We believe this is good news for the Canadian Forces and good news for Canadian workers in the defence and security sector of the economy.

• (1535)

Fifth, in the context of the recent Auditor General's report on defence procurements, we note how important program and management cost controls around defence spending are in general, and will be into the future, for ensuring that the Canada First defence strategy can be fully met and implemented on time and to budget, including a fully funded national shipbuilding procurement strategy. Government's recommitment to fully fund its planned investments in land vehicles and soldier systems and naval and coast guard vessels would be an important sign for those within our membership who are concerned that the next-generation fighter program might siphon funds from programs they are investing in.

Sixth, to date, the government reports on early contract returns on the F-35 project would appear to show that Canada has done as well as or better than other partner countries in winning business. If this trend continues, participating companies will do well. We would ask the government to provide regular updates on the continuing progress of Canadian industrial participation in the F-35 project.

Finally, there remain a number of issues around this project, which, when addressed in the fullness of time, will better define the scope of Canadian industrial involvement in the project and the economic benefits that can be realized for Canadian workers. Those issues include the articulation and execution of a domestic industrial plan for the lucrative sustainment phase; how effective the Canadian government can be working with domestic industry to capitalize on access to and use of the intellectual property Canada has purchased within the program; the extent to which Canadian companies and the government can capitalize on additional high-value defence electronics business from the supply chain opportunities that remain to be decided for F-35 production; and how many high-value jobs are ultimately going to be created and sustained within the Canadian economy.

Mr. Chairman, in our view, it is somewhat too early to tell if the model will ultimately work to Canada's benefit. We do not know

about job growth or prospects, in part because Industry Canada doesn't keep job data. We don't know contract terms because of commercial confidentiality. And we don't know about contract value, because, in short, we don't know how many planes will ultimately be built and purchased.

That said, CADSI lends its continuing support to ensure that when the day comes and Canada is ready to formally make a procurement request of the program office in Washington to address its next-generation fighter needs, Canadians will know much more than they do today about the extent and quality of economic activity that will be generated over the long term for Canada's defence industry and workers, both at the production and sustainment phases of this program.

Mr. Chairman, CADSI's 860 members and their 90,000 knowledge-based workers remind this committee of what we said in our military procurement report of December 2009, which was that defence procurement decisions should be made in the context of a defence industrial strategy. With a strategy in place that is aligned with the Canada First defence strategy and international market opportunities, industry is better able to prepare for success, and Canadians are better able to judge the domestic economic return on investment from defence spending.

• (1540)

[*Translation*]

Thank you. We will now answer any questions you have.

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

Mr. Wilfert, you have the floor.

[*English*]

**Hon. Bryon Wilfert (Richmond Hill, Lib.):** Thank you, Mr. Chairman.

And thank you both for coming.

Mr. Page, you raised a number of very good questions. I guess the issue of whether this model will work to Canada's benefit is the one we all are asking. Certainly our party believes strongly in a vibrant aerospace industry, and we support a next-generation aircraft. The question is whether this is the aircraft, based on a sole-source contract and lack of competition, and whether we are getting value for dollars. Those are the issues we have, and I'm sure those are concerns to your members.

Again, central to it is the question you ask: will the model work for Canada's benefit? I guess I would ask what criteria you look at in order to evaluate that type of model, first of all, when you're working with your members.

**Mr. Timothy I. Page:** Thank you for the questions.

Through you, Mr. Chairman, I outlined in our introductory remarks the characteristics that we deem in this model to be applicable to a defence industrial strategy. Those included early engagement between industry and government, and it would appear that that commitment and that undertaking have been met on F-35.

The commitment and targeting of government-supported industrial R and D from the earliest stages—we understand that the government has purchased intellectual property that it has the right to use and disclose, both at the production and at the sustainment phases of this program. We've suggested that a measure of an industrial strategy would be articulating and promoting domestic industrial priorities within a given program, and we believe that has also been the case...and the ability for Canadian companies to access the global supply chain of a major OEM. Again, this program is an opportunity for Canadian companies to do that.

So when we said it's too early to judge whether the model will work, we meant that. There have been opportunities that the government has reported have been earned by Canadian companies. We have enormous confidence in the capabilities and the competitiveness of Canadian industry, and there are at least a couple of years ahead of us to see exactly how much work, at the end of the day, Canadian industry will be able to earn from this program.

**Hon. Bryon Wilfert:** Mr. Page, early this year CADSI released a report on military procurement and the defence industrial policy that would align CFDS procurement priorities with domestic economic needs and to ensure that we maintain industrial capacity required to remain defensively autonomous. The question I have is, to the best of your knowledge—through you, Mr. Chairman—are there currently any government programs or offices responsible for monitoring the direct impact that individual procurements have on Canadian job creation?

**Mr. Timothy I. Page:** To the best of our knowledge, the organization that is responsible for the industrial and regional benefits program, namely Industry Canada—I remind you that F-35 is not an IRB program—would be the place that one would logically look to track the return on investment, if you like. It is our understanding that Industry Canada is not in the business of tracking jobs against contract performance.

**Hon. Bryon Wilfert:** Are there any government programs or offices capable of directly measuring the industrial benefits for committing to purchase the new fleet of F-35 jets?

**Mr. Timothy I. Page:** Excuse me, sir. I think that clearly fits within Industry Canada's purview.

**Hon. Bryon Wilfert:** In terms of the competition we have, worst-case scenario, if Canadian industry somehow got completely cut out of the global supply chain because they simply got outbid by foreign competitors, clearly that would have a devastating cost to the Canadian aerospace and defence industry, would it not?

**Mr. Timothy I. Page:** I'm not in a position to comment on hypothetical questions, sir. I can say that we have great confidence in the ability of Canadian industry to compete successfully for business, both at the production and at the sustainment phase. I would add, if I may, that there is still work to be done in defining the industrial plan around sustainment.

**Hon. Bryon Wilfert:** But again, without any guarantees upfront, as normally has been the case, that could happen.

**Mr. Timothy I. Page:** I hear your word “guarantee”. I guess from the business community, business is used to earning business and looking for a timeframe within which to be able to properly prepare for opportunities when they come to the market. I think the F-35 model is a model that has afforded Canadian industry that timeframe to prepare.

The question now is whether or not the Canadian industry will be able to capitalize, in collaboration with the Canadian government, on all of the opportunities that are available, both at the production phase and, equally importantly, at the sustainment phase.

• (1545)

**Hon. Bryon Wilfert:** Through you, Mr. Chairman, we clearly are going to be in stiff competition, obviously, with other JSF partners who have full faith in their industries. Other countries are obviously going to be supporting their industries, yet what reason is there to believe that foreign governments would, in your view, pick Canadian contractors over their own domestic industries, even if Canada itself heavily favours its own?

**Mr. Timothy I. Page:** I guess I don't have very many points of reference for you, sir, other than to suggest that our understanding from government data issued to date is that on an investment of about \$168 million, Canadian industry has been able to earn about \$350 million in contract value, and we are seen with some envy amongst partner countries for having done as well as we have to date on the program.

**Hon. Bryon Wilfert:** In the March report, one of the things that struck me was when it talked about ensuring that the procurement process, in its operating culture, leads to optimal economic return and effective program delivery.

In that section you specifically call for consistency and transparency in the procurement process. Do you feel that has been fulfilled to date with the F-35?

**Mr. Timothy I. Page:** I'm interested in understanding, through the government, where and when Canadian companies have been able to earn business from the F-35 program. I think there's a good story to be told there, and we need to get that data so that Canadians and organizations like ours can properly judge, in the fullness of time, just how well Canadian industry has been able to do on this program.

**The Chair:** That's it.

**Hon. Bryon Wilfert:** Okay. Thank you very much.

**The Chair:** Thank you.

Now I will give the floor to Monsieur Bouchard.

[Translation]

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

Good afternoon, Mr. Page. Thank you for appearing before the committee this afternoon.

Good afternoon, Madam.

I read your report on military procurement, Mr. Page. I agree with you on the importance of adopting an effective and efficient policy regarding the procurement of military equipment. It is especially important to improve the procurement process to avoid making too many blunders.

Had there been a real procurement policy in place, do you think we could have avoided a number of foul-ups in the past few years?

[English]

**Mr. Timothy I. Page:** We are convinced that with the government's commitment to spend \$240 billion through the Canada First defence strategy over the next 20 years, the best way to plan for and measure an economic return on that investment is through the creation of a defence industrial strategy.

I thank you for your commitment to such a strategy, and I would be happy to work with you and other members of this committee to see how we might be able to raise the awareness and support of the government for this idea.

[Translation]

**Mr. Robert Bouchard:** Thank you.

Do you find it inappropriate that some opposition parties are threatening to cancel the F-35 aircraft contract? I would like to hear your thoughts on that.

[English]

**Mr. Timothy I. Page:** Sir, with respect, I hear that as a political question. My job here today is to try to convince you and your colleagues of the value of a defence industrial strategy in the context of defence procurement, outline that we believe the F-35 program includes characteristics that are akin to such a strategy, and encourage you as a committee to measure the success of this model in terms of wealth creation and jobs created in this country.

It would be inappropriate for me to comment on the political question you've asked.

• (1550)

[Translation]

**Mr. Robert Bouchard:** Thank you.

We are talking about F-35s, and I can see you like that type of aircraft. You talked about the importance of acquiring F-35s under a defence strategy and developing a domestic industrial base. That is what I understood from your remarks, but correct me if I am wrong.

Do you not think that the government should take a stronger stand by ensuring that the construction process generates more economic spinoffs for the aerospace industry and that Canada gets a fair return? Given that the production of these aircrafts generates economic

benefits, obviously, Quebec must receive its fair share. The proportion of jobs this represents is around 55% in Quebec.

Furthermore, do you not think it is important, if not essential, for the government to have a firm contractual agreement in terms of maintenance support? That way, Canada and Quebec would benefit, and the spinoffs for Quebec should be proportional to its economic standing in the aerospace industry. That would guarantee spinoffs for the aerospace industry.

Do you admit that, as we speak, there are no guaranteed economic spinoffs with respect to construction or maintenance, and that that is a problem?

[English]

**Mr. Timothy I. Page:** Thank you for your question.

Where I come from there are very few real guarantees in life. What we've been trying to suggest to you, sir...

First, if I may respond to your first comment, CADSI has not taken a position on the F-35 because it is a specific program, and we as an organization don't take a position on specific programs, in part because we have 860 members, and to side with one platform relative to another would obviously put us in a tight spot with our membership. It's akin, if you like, to asking us to profess which of our children we love more. It's not a business we feel comfortable being in.

I agree with you, sir, that it is very important for Canada to have a very clear sense of what its sustainment objectives are for the F-35 and to have that sustainment plan aligned to an industrial participation plan. To date, that has not been developed or completed, and in our presentation to you this afternoon we've identified this as an item of outstanding business. We have confidence that between now and the time an order is ultimately made, the government will have arrived at a decision around sustainment and around an industrial plan in that respect.

As it relates to work to be performed in the province of Quebec or in any other province of this great country, our organization is of the view that Canadian industry is capable of competing for work, and that work should go to wherever Canadian companies have won that business. We are confident that the Montreal aerospace cluster is strong, is competitive, and will do an effective job of selling itself to the F-35 program.

[Translation]

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

Your time is up, Mr. Bouchard. You can speak during the next round.

Thank you, Mr. Page.

It is now over to Mr. Harris.

[English]

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

And thank you, sir and lady, for coming today.

I want to ask you about the strategy that was described to us by the former ADM Materiel, Alan Williams, to participate in the joint strike fighter development program. As he described it to us, the purpose of Canada's participation was to increase the knowledge base of Canadian companies so that we would have experience in that field and would be able to get contracts to move to the next level of Canadian capability.

Even on a stand-alone basis, he deemed the joint strike fighter development program a success. He also indicated that initially there was no commitment, of course, to buy the particular results of that fighter jet, but that the program on a stand-alone basis was valuable and useful.

From an industrial, defence industry strategy point of view, would your organization agree that this was the result?

• (1555)

**Mr. Timothy I. Page:** Thank you.

First, I would, with respect, suggest that there is more than one motivation behind the government's interest in a next-generation fighter. Industrial opportunities would be one, and I'm confident that operational military requirements would clearly be another one, and probably more important, as it well should be.

So yes, the program through its inception at the concept and development stage has offered opportunities for Canadian industry to participate, and those industries, you would have to think, are now extremely well positioned to participate in the program through production and perhaps through sustainment.

**Mr. Jack Harris:** Well, that doesn't quite answer my question. My question is, do you agree that this, as an industrial strategy, would fit with your concepts of what at least one option is for the kind of industrial strategy that might happen? It seems to me, at least, from the numbers you gave out of a cost of \$168 million to the Canadian government that produced \$355 million in contract work.... Whether the actual return to the government was \$168 million is another matter, but I'm sure there are people who could work out the numbers for industrial spinoffs and taxes and other benefits.

But in terms of an industrial strategy, if it were for that purpose only, would it be a success? And is that a model, as an industrial strategy, that meets your needs, or do you want something more specific, whereby it's not simply a matter of companies competing for work? For example, the government keeps talking about the possibility, at least, of \$12 billion worth of work being available for competition by Canada and—though they don't say this—every other industrial country that's participating in this particular project. Is that particular model one you would advance as a model for the defence industry?

**Mr. Timothy I. Page:** Sir, if I've understood your question correctly, I answered it in my introductory remarks, in which I said that the model we see the F-35 following is akin to a defence industrial strategy because it contains a number of characteristics that we would naturally believe to be in an industrial strategy, starting with there being, from the earliest possible stages of a procurement process, engagement between industry and government; second, the opportunity for Canadian industry along with the Government of Canada to participate through R and D collaborative efforts, in order

to build domestic capability and capacity to support future requirements; the inclusion of articulating individual capabilities that the Canadian economy can then effectively compete for, when an early stage project goes into production; and the inclusion of Canadian companies in the supply chain of a major global OEM.

That's not to speak, as you suggested, of any spinoff benefits that might ultimately derive for those participating Canadian companies outside the F-35 program.

So if I've heard your question correctly, I think the characteristics that we believe are present in the F-35 model are consistent with those of an industrial strategy.

**Mr. Jack Harris:** But the elements that you spoke of, outside of Canada's participating and opening the competition thereby to Canadian business, didn't seem to be part of that program specifically.

**Mr. Timothy I. Page:** Oh, I think very much those elements that I've articulated—I did so intentionally—as they relate—

**Mr. Jack Harris:** Well, I know you did, but I haven't heard anybody else talk about them as part of that JSF development project.

• (1600)

**Mr. Timothy I. Page:** Well, I can't comment on that, sir.

**Mr. Jack Harris:** Well, it's new to me; I'm just telling you that.

So you're saying that this was all part of the strategy.

**Mr. Timothy I. Page:** I'm surprised, given the number of witnesses who have been before your committee, that this matter or those issues haven't been brought up. But we'd be happy to provide you with additional information on any one of these items, as you deem appropriate, either as an individual member or as a committee.

**Mr. Jack Harris:** Well, maybe the committee could hear that, because what we've been hearing about is access only as the issue. That's all I've heard, and maybe somebody could enlighten me.

I was a little concerned about your iteration of the unknowns—on the sustainment side, I believe—wherein you say you don't know the contract value, you don't know the number of jobs. I believe this only relates to the sustainment program part. Or is it the cost in general?

**Mr. Timothy I. Page:** Well, I didn't in my introductory remarks, sir—speaking through you, Chairman—comment on the cost at all. What I was trying to identify were areas where there is still acknowledged work to be done and opportunities to be exploited and capitalized on by Canadian industry. My exhortation is for the government to act aggressively and collaboratively with industry to optimize the opportunities that are on the table, both for Canadian industry at the production stage still and through the sustainment plan, once that sustainment plan has been developed and once Canada has identified its priorities. Our encouragement is for them to do that with a domestic industrial plan in mind.

[Translation]

**The Chair:** Very well.

[English]

Thank you very much.

Now I will give the floor to Mr. Hawn.

**Hon. Laurie Hawn (Edmonton Centre, CPC):** Thank you, Mr. Chair.

And thank you to our witnesses for coming.

Through you, Mr. Chair, I'd like to pick up on a couple of things that other folks have said. I don't think he meant to say this, but Mr. Harris seemed to intimate that the \$12 billion was the entire amount of industrial participation up for grabs for everybody within the MOU, but in a \$383 billion program.... I don't know what the number is, but I would suggest it's many, many times larger than \$12 billion.

Is that a fair statement?

**Mr. Timothy I. Page:** Through you, Mr. Chairman, that was one of our cautionary notes, only because we don't know the figure. Because of commercial confidentiality reasons, it's difficult to understand where work is already being won. Clearly, on a \$380-plus billion program, given the current metrics, there are clear opportunities for Canadian industry.

What we've been trying to say is that the earlier that Canadian industry is part of the planning and then execution of procurement, the greater the opportunities there will be for industry to participate, both at the production and the sustainment phases.

**Hon. Laurie Hawn:** Now with respect to sustainment, because that is obviously an important issue, I'm sure you're aware, but I just want to make it clear, that we didn't have a sustainment contract for CF-18s until four years after we actually started flying the airplanes.

**Mr. Timothy I. Page:** I am aware of that, yes.

**Hon. Laurie Hawn:** So it's one of those things that does develop. Clearly, we would support developing that as early as possible.

How do you see that sustainment phase unfolding or developing?

**Mr. Timothy I. Page:** We understand that Industry Canada has established a sustainment working group and that a number of companies have been invited to participate in it. We're equally conscious that the Department of National Defence is working up its numbers and its plan. Our access to that data is, obviously, and for legitimate reasons, restricted. So from a relative outsider's position, our encouragement to the government is simply to ensure that as it

develops its sustainment plan, it does so with one eye on meeting the mission requirement of the Canadian Forces and one eye on the economic opportunities available to Canadian workers.

**Hon. Laurie Hawn:** There was another comment across the way about how Canada might be disadvantaged because foreign governments would pick contractors. It's not foreign governments picking contractors; it's primary contractors picking subcontractors, such as Lockheed Martin, Pratt and Whitney, and so on. Is that a fair statement?

**Mr. Timothy I. Page:** Our understanding is that this is a competitive process. Our encouragement of the Canadian government is that it works effectively and aggressively with Canadian industry to optimize the opportunities that are available.

We are working, sir, in a market that is less defined by free trade and more defined by managed trade. As we've said in our procurement report, it's important for our federal government to have a clear idea of what its military objective is and what its industrial objectives are as it goes into defence procurements.

**Hon. Laurie Hawn:** Yes. My point was that it's not the Government of Italy or the Government of Norway that's going to pick subcontractors; it's going to be the prime contractors that pick subcontractors, wherever they pick them. It's not a government decision; it's an industrial participation plan decision.

● (1605)

**Mr. Timothy I. Page:** In principle, the answer is yes. I would add, in support of what I've just said, that there are different countries who place higher or lower priority on individual aspects of their industrial base and who may take it upon themselves to encourage the prime contractors to look favourably at a supply base from their country. We're encouraging that of the Government of Canada as well.

**Hon. Laurie Hawn:** Is it realistic? There's been some talk about the previous ADM Materiel and his opinions on the subject, but is it realistic to expect that we would participate in the industrial participation plans of this program to any extent if we weren't actually acquiring aircraft?

**Mr. Timothy I. Page:** Well, my understanding is that the ability of Canada to participate is tied to our support of the program. Now there may be opportunities, but they would certainly not be first-tier, second-tier, or third-tier ones. I think the clear advantage for Canada, as a member of the partnership group, is to be pre-positioning Canadian industry, as it has been doing for a great many years now, to succeed not only at the concept phase through to development and production, but also right through the sustainment phase of this program.

**Hon. Laurie Hawn:** Along that line, would it be fair to say there has been a lot of knowledge and awareness of the joint strike fighter/F-35 program in relation to our military needs since we got into the program in 1997, or since the Canada First defence strategy was articulated in 2008? Is it fair to say there was information out there that people should have been aware of?



**Mr. Timothy I. Page:** As I said in our opening, it's fair to say that the issue has become a subject of keen political interest. Our encouragement to the government is to do its level-headed best to share the opportunities that Canada has been able to win and to work aggressively to pursue other opportunities for Canadian industry, both at the production and the sustainment phases. I think F-35 is a known issue across the country.

**Hon. Laurie Hawn:** It probably has been, since Canadian industry, as you said, has had 13 years, since 1997, to ramp up that program, and certainly two years since the Canada First defence strategy was articulated.

Canadian industry has in fact done a very good job of getting out front and preparing for this program. Is that a fair statement?

**Mr. Timothy I. Page:** I would suggest, sir, that Canadian industry has done as well as it has to date in part because of the collaborative approach it has taken with the government. The secret to long-term optimizing of taxpayers' return on investment is to see this practice carried forward, not just into the F-35 program but to any other defence procurement the Government of Canada has on its list of priorities.

**Hon. Laurie Hawn:** Along that line, and as a segue to my next question, the Canada First defence strategy was articulated about two years ago. That's not a defence industrial strategy, but it is a defence strategy.

How do you see that morphing into a defence industrial strategy? How do you see that moving forward—and I agree, we need an overall defence industrial strategy. What do you see as the next steps to that?

**Mr. Timothy I. Page:** Thank you, sir, for your endorsement of a defence industrial strategy.

Our view is that there needs to be an industrial strategy aligned to the Canada First defence strategy and to international market opportunities. Some of the characteristics of that strategy are as we've identified: articulation of Canadian capabilities that hold a strategic and/or economic value for the country; an investment in those capabilities through R and D support, both government and industry; support to marketing efforts to include Canadian industry into the supply chain of major contractors; and the promotion of Canadian capability through our defence attachés and Department of Foreign Affairs, so that we are not just looking for foreign solutions as we try to meet our military requirements, but we are promoting world-class Canadian capability abroad.

**Hon. Laurie Hawn:** Thank you.

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

We'll give the floor to Mr. Dryden.

**Hon. Ken Dryden (York Centre, Lib.):** Thank you.

I have a couple of questions as a follow-up to statements you made and answers you gave.

You started your remarks by saying you fully appreciate the political environment within which the program is being discussed. What did you mean by that?

•(1610)

**Mr. Timothy I. Page:** Our focus, as an organization, is in ensuring that when the government spends a dollar on defence, it is doing so to the maximum benefit of the military and optimal return on investment to Canadian workers. Our observation is that the issue around F-35 has focused less around jobs and economic opportunity and more around issues that are not relevant to that question.

**Hon. Ken Dryden:** You would describe that as the political environment.

**Mr. Timothy I. Page:** That is what I'm suggesting, sir, yes.

**Hon. Ken Dryden:** You talk about—I think this is what you said—how the F-35 process has several elements, many elements, of a defence industrial strategy. What elements are missing?

**Mr. Timothy I. Page:** Sir, I'm reflecting because I'm trying to remember what we wrote in our report that we submitted to government back in April of this year. It includes early engagement. It includes R and D. It includes supply chain. It includes international marketing efforts.

I guess the piece we have not seen yet is the sustainment piece. As we suggested in our opening remarks, that's a piece that is on the table and it is being developed.

**Hon. Ken Dryden:** One of the other things I wasn't quite clear on...and the question was asked, but I wasn't sure whether you answered it. You talked about the opportunities that exist within the F-35 process.

I think the question had to do with guarantees as opposed to, or in addition to, opportunities. As an element of a defence industrial strategy, in your mind, is it a matter of opportunities and also of guarantees?

**Mr. Timothy I. Page:** Sir, what we were trying to point out in our presentation to you this afternoon is the importance of identifying early on what industrial activity or industrial objectives the government has as it moves forward and spends a dollar on defence. We believe that time was spent early on in the F-35 debate within the Department of National Defence, within Industry Canada, perhaps even within the Department of Foreign Affairs and International Trade, so there were articulated industrial objectives early on in that project. While among our 860 members there may be discussion around whether they're the right ones or the not complete ones, that's a subject for our 860 members to debate. What I'm suggesting is that a key characteristic of an industrial strategy is to figure out what the country needs from an industrial base perspective in order to be sovereign, secure, and strong economically, and this model went down that road.

**Hon. Ken Dryden:** I'm not quite sure that you answered my question. Again, you say there are 860 different members, but you represent them, and you're representing them today, and you're talking about a defence industrial strategy. You talked about those things that should be part of a defensive industrial strategy and how important that is. So I'm asking you directly, is it your opinion that one of the elements of a defence industrial strategy should be not only opportunities but also guarantees?

**Mr. Timothy I. Page:** We haven't considered that as an organization, but I suggest to you that if you've got a plan and you're effective at executing your plan, then you should get the return you're looking for.

I'm sure I'm not answering the question the way you would like me to answer it, but—

**Hon. Ken Dryden:** I'm simply looking for an answer; I'm not—

**Mr. Timothy I. Page:** If you flip that on its head and say by the nature of the way Canada has been investing in defence for the last 10 years, and it's working off a COTS and a MOTS model, where it's using IRBs, the question could ask how strategic has the return on investment been from those IRBs. For us, we're kind of stepping one step above the question that you're asking, sir, which is to say, let's have a plan; let's figure out what's important to the country and then let's execute that to achieve that outcome.

• (1615)

**The Chair:** Thank you very much, Mr. Page.

I will give the floor to Mr. Braid. You're going to share your time—

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Yes, with Ms. Gallant.

Thank you, Mr. Chair.

Through you to Mr. Page, thank you very much for being here, sir.

As you probably know, we've had a number of witnesses appear before our committee on this particular topic. One was Bill Matthews, who of course is the vice-president of Magellan, and he spoke very categorically about his belief that Canadian aerospace companies can compete with the best in the world and that Canadian aerospace companies can continue to be very confident in terms of their ability to win contracts. Do you have any reason to doubt that level of confidence?

**Mr. Timothy I. Page:** No, and I would add that as with defence industry players the world over, their success is in part driven by their own innovation, their own marketing expertise, and what it is they're offering in terms of what a customer is looking for, either a good technology or service. It's connected to the willingness of the host government to be working collaboratively with those companies in order to optimize opportunities that companies like Magellan have in the domestic market and in markets around the world.

**Mr. Peter Braid:** Great.

We heard Mr. Matthews, and I think we've heard you today, Mr. Page, indicate that Canadian aerospace companies have done well through the F-35 process. In fact, Mr. Matthews suggested that many companies feel they've done better through this process than they would through the traditional IRB process.

Do you think this is a model for future defence procurement?

**Mr. Timothy I. Page:** Well, as we've tried to say in our opening remarks, it is a model, and we believe that model can be successful as long as the characteristics that I identified in my remarks are followed and executed upon.

It's not the only model, but it is a model that can work effectively for Canada with the right environment.

**Mr. Peter Braid:** Thank you, sir.

My final question, just before I pass the floor to Ms. Gallant, is whether you could please elaborate on the opportunities high technology companies in this country will have to increase innovation, create knowledge-based jobs, and commercialize technology as a result of these contracts and the opportunities from the F-35 program.

**Mr. Timothy I. Page:** Mr. Chairman, perhaps I might answer that in a slightly different way, because the lead time required, from R and D through to commercialization, and then the ability to compete on programs, is not an overnight phenomenon. My answer to you would be that through the opportunities Canadian industry is able to win on F-35, they will be developing expertise and access, as supply chain members, to other programs and to commercial opportunities, perhaps, that they may be able to spin off from the innovation and/or success they've had through their support of the F-35 program.

**Mr. Peter Braid:** Thank you.

We'll go to Ms. Gallant.

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

Through you, Mr. Chairman, to Mr. Page, you mentioned that you felt that it was the role of Industry Canada to keep track of how many jobs arise to see how we're doing in terms of employment as one of the secondary benefits of having claimed that it will do the best job for our military.

Among your membership I noticed a number of companies that have plants in my riding, such as Armprior Aerospace, Magellan, Pacific Safety Products, E.T.M. Industries, and Allen Vanguard, through Med-Eng. That's just a few out of your 860 members.

Because we have our primary contractors subbing, it's very difficult for government to know what the chain of contracting is all the way down the line. There may be companies that we would never anticipate would benefit. My question to you is whether you would survey your membership to find out how many person-hours are estimated to be gained as a consequence of this particular procurement.

• (1620)

**Mr. Timothy I. Page:** That's a—what's the right political word for that?—sneaky, good question.

**Some hon. members:** Oh, oh!

**Mr. Timothy I. Page:** It's a challenge to understand how much of one person's job is allocated to or supported by a particular procurement or another. It's a challenge to do. Our thought, in our opening remarks, was that there needs to be some metric against which government, opposition parties, and the public can judge the effectiveness of this model, and jobs is but one of those possible metrics.

I appreciate your identifying companies from within our membership that are part of your constituency. You are one of I think 177 federal ridings that have at least one CADSI member in the riding.

[*Translation*]

**The Chair:** Thank you.

[English]

Thank you, Mr. Page.

I will give the floor to Monsieur Lévesque.

[Translation]

Welcome to our committee.

**Mr. Yvon Lévesque (Abitibi—Baie-James—Nunavik—Eeyou, BQ):** Thank you, Mr. Chair.

Mr. Page, I heard that Canada had contributed to the F-35's development, in that it had participated in joint research and development with the United States, and that, as a result, the government was justified in choosing this aircraft. Is that correct?

[English]

**Mr. Timothy I. Page:** We're not here to comment on the procurement strategy the government has adopted. What we're here to observe is that the record of Canadian industrial involvement in the F-35 program has been good to date, and that, in part, it's been good to date because of the early involvement of industry, collaboratively, with government.

[Translation]

**Mr. Yvon Lévesque:** Mr. Page, I want to know whether Canada did in fact contribute to the development of this aircraft even before the procurement agreement was reached.

[English]

**Mr. Timothy I. Page:** Yes, we have been participating in the development of this program. Very clearly, we've been participating in its development, and that's part of the economic return Canada has enjoyed from the program to date.

[Translation]

**Mr. Yvon Lévesque:** A decision was made regarding our participation in developing a certain type of aircraft with our future needs in mind. I want to know whether we checked on how the work had progressed and whether we could have asked aircraft manufacturers to be mindful of that criteria in their bids. By requesting bids, would it not have been possible to set out specifications that covered not only maintenance but also construction of the aircraft?

[English]

**Mr. Timothy I. Page:** If I understood your question correctly, sir, I am confident that Canadian industry and a number of leading aerospace companies are playing a meaningful role in the development and soon-to-be production of the F-35 next-generation fighter. Our encouragement of the government is to continue to look for opportunities where Canadian industry can participate as part of the supply chain in the production phase of this fleet and to maximize the opportunities available for Canadian industry to contribute at the sustainment phase of this fighter jet.

[Translation]

**Mr. Yvon Lévesque:** No competitive bidding process was conducted, given that one party handed the contract right to the other, without even identifying the contractual requirements. We could have imposed certain obligations on potential suppliers in terms of the economic spinoffs they would have to guarantee our

manufacturers. Under those conditions, those who did the research or who manufactured parts could continue their work. For example, when we manufacture something, very often we try to manufacture the part in the other country, so we can do business there.

• (1625)

[English]

**Mr. Timothy I. Page:** Sir, if I've understood your question, though I don't know because it's not my place to know, I suspect if Lockheed Martin, in the development of a supply chain for the concept and then development and soon-to-be production, has identified Canadian companies to be within that supply chain and those Canadian companies are performing successfully within that supply chain, then it would be unusual for the program office to willy-nilly change its suppliers. I think part of the value of this program is in having been in on it from the ground floor.

[Translation]

**The Chair:** Thank you.

[English]

Thank you very much.

I will give the floor to Mr. Payne. I know you will share your time with Mr. Boughen, so you have five minutes.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Mr. Chairman. My question is through you to Mr. Page.

Mr. Page, you did say that you had 872 organizations in your group. I'm wondering if one of those is Meggitt Defense Systems, which is in my riding. My colleague, Ms. Gallant, talked about subcontractors. I can tell you that Meggitt, a small organization in our riding, has 122 suppliers. So if you think about that in terms of other organizations, I can just see that this thing is huge.

In the CADSI report, it states on page 7 the importance of R and D as "a key driver of industrial base competitiveness". While in some instances the IRB can be applied to cover this requirement on many of the off-the-shelf defence procurements, the uniqueness of this MOU in the JSF program offers exactly what CADSI requests, and I quote:

[CADSI] understands that Canada's industrial base adds significant value to Canadian defence systems acquired from foreign suppliers, a market that cannot be effectively sustained unless such acquisitions include intellectual property (IP) rights to permit Canada's defence industry to function effectively.

Could you explain to the committee why the intellectual property right transfers in the MOU are a significant breakthrough?

**Mr. Timothy I. Page:** Well, intellectual property is power. Those who have it are able to use it, and that is power market share.

The acquisition by the Canadian government of intellectual property related to the F-35 program and the right to use and disclose that information will enable Canadian companies to participate at both the production phase and the sustainment phase of this program once the government has identified its sustainment plan. We hope it will also enable those companies to spin off the knowledge they've acquired in the development of new and different innovative products, technologies, and services that can be useful not just for future military requirements in Canada but also to position them for international success and contribute to commercial market opportunities that may be available to them.

**Mr. LaVar Payne:** Thank you.

Mr. Boughen.

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

Welcome, Mr. Page. It's good to have you with us.

We have had multiple Canadian aerospace industry representatives come before this committee and express in no uncertain terms that the JSF program would be good for business. Some people seem to be stuck on this model, and say that because it's not the old IRB there must be something wrong with it.

Progress evolves and industry evolves. Certainly the world evolves. What is your opinion on the Canadian aerospace industry's ability to adapt to the real-world changes that have come along in the past several years with respect to industrial participation?

I also noticed in your presentation that you had seven points. It seems to me that the program we're looking at fits well into those seven points. Perhaps you could comment on one or two of those observations.

• (1630)

**Mr. Timothy I. Page:** We observed in our presentation that the JSF model was one model. We believe it is a model that can work if it's effectively pursued. We identified some of the characteristics that we believe would support Canadian industry doing well, whether it's within the F-35 model or a different model that is available to the government.

The key for us is to ensure that when the government commits to spending a dollar on defence, it does so with one eye keenly on the operational mission it's asking of men and women in uniform and one eye keenly on the economic opportunities available to Canadian workers to support that mission.

**Mr. Ray Boughen:** Thank you.

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

Now our last member, Mr. Wilfert, has the floor.

**Hon. Bryon Wilfert:** Thank you, Mr. Chairman.

Mr. Page, I have the greatest respect for your organization. In your report on military procurement, you specifically ask whether the procurement processes are right. You define the right processes as those that are widely seen as transparent and effective.

If the process is not transparent, does that not compromise the end result?

**Mr. Timothy I. Page:** That's a question that requires me to anticipate a number of different scenarios.

Transparency is good because it affords industry an opportunity to understand what the government is looking to acquire. The earlier and more transparent they are, the better able Canadian industry is to prepare to compete successfully for procurements when they come to market.

Our focus is on ensuring that Canadian industry has an opportunity to support the Canadian Forces and the Canadian economy. The more transparent the government is around what its intentions are, and the earlier it chooses to engage Canadian industry in understanding how it can participate in Canada's defence procurement priorities, the better.

**Hon. Bryon Wilfert:** Your report focuses on the big-picture issues. I interpret that to mean the issues of the right process and transparency.

Do you believe that the process to date is widely seen as being transparent?

**Mr. Timothy I. Page:** I think Canadian industry has been aware of opportunities. They've been encouraged to participate in the F-35 program by both Lockheed Martin and the Canadian government. There's more work to be done by both Canadian industry and the Canadian government to ensure that we're maximizing those opportunities. As we've suggested, to do so in the context of a defence industrial strategy would allow industry and government to evaluate how effective they have both been to that end.

**Hon. Bryon Wilfert:** Through you, Mr. Chairman, would you elaborate, sir, on what additional work you think needs to be done by government and industry in that regard?

**Mr. Timothy I. Page:** I've identified a couple.

I've identified the sustainment model and the plan the government has to sustain the 65 aircraft it intends to purchase, and the role that Canadian industry plays in support of that. We believe it to be extremely important for Canada to have the ability to maintain what it flies, sails, and drives, from a military perspective. So we think there is still business to be done there, and we believe there are opportunities that remain on the table currently in the production phase.

So we would encourage the government to work collaboratively with industry to maximize those opportunities, particularly in the realm of defence electronics, which is, in effect, the crown jewel for our industry for the next 15 to 20 years.

**Hon. Bryon Wilfert:** Mr. Page, the one thing I want you to come away with is that the official opposition, as I said at the beginning, is strongly in favour of a vibrant aerospace industry in this country. Our concern is whether or not the process to date has in fact been transparent and whether there has been a real competition. Mr. Williams was before us and indicated there really was no real competition. Obviously, he had been in this business a long time.

Some of my friends on the other side may not agree, but the fact is that we are for a strong national defence and we don't take second place to anybody when it comes to that. We don't take second place on the issue of believing that there should be planes that will do the job. Well, I'm still not quite sure why this plane is the plane to do the job, but the fact is that some argue that it is.

We want your industry to be extremely competitive. We want your members to do very well. We just want to make sure, though, that there are the economic guarantees out there, so that at the end of the day no one in this country is shortchanged. Up till now there are questions as to whether or not that is actually taking place, but I don't want any members of your industry to come away with any other thought than that the official opposition, this party, is supportive. I say this because there have of course been some comments made and derision by some suggesting that somehow we are weak on defence. I again remind everyone that it was the Martin government that put \$15 billion, the largest amount of money in Canadian history, into national defence.

So we will continue to explore these issues because we believe that at the end of the day it will be good for your members, and, most important, it will be good for Canadian taxpayers.

• (1635)

**Mr. Timothy I. Page:** Sir, if I might comment—

**The Chair:** Yes, okay.

**Mr. Timothy I. Page:** The best way, in our view, to ensure that is through your endorsement of the defence industrial strategy. I would add that while you acknowledge that aerospace is part of the defence and security sector, there are a number of industrial capabilities that cross over—though I'm not sure of the right word here—aerospace and land vehicles and soldier systems and naval systems, and many of those are in the defence electronics area. That's why we would encourage the government to look for all opportunities where defence electronics can play a role in the F-35 program, because those will subsequently be applicable to other procurements the government has in its plans for the Canada First defence strategy.

[*Translation*]

**The Chair:** Very good.

[*English*]

Thank you very much.

[*Translation*]

I want to thank the witnesses, Mr. Page and Ms. Thorsteinson, for being here today.

We will now take a five-minute break, and then we will resume the sitting in camera. Thank you.

[*The committee continued in camera*]

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