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Chair

The Honourable Joseph Volpe

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•(1105)

[English]

The Chair (Hon. Joseph Volpe (Eglinton—Lawrence, Lib.)): I would like to call this meeting to order. I want to welcome everyone this morning. Thank you very much for joining us.

Today we will be looking at chapter 6, “Acquisition of Military Helicopters”, of the fall 2010 report of the Auditor General of Canada.

I will go through introductions for everyone, and in that way we can focus ourselves while our staff is finishing the distribution of some documentation. I apologize for the few minutes of tardiness, as we have accommodated ourselves to the tardy end of the previous meeting.

Let me welcome today, from the Office of the Auditor General of Canada, Madam Sheila Fraser, Auditor General of Canada; Monsieur Jerome Berthelette, Assistant Auditor General; and John Reed, Principal.

From the Department of National Defence, we have Mr. Robert Fonberg, Deputy Minister; Lieutenant-General André Deschamps, Chief of the Air Staff; Vice-Admiral Bruce Donaldson, Vice-Chief of the Defence Staff; and Mr. Dan Ross, Assistant Deputy Minister (Materiel).

From the Department of Public Works and Government Services, we have Monsieur François Guimont, Deputy Minister and Deputy Receiver General for Canada; and Mr. Tom Ring, Assistant Deputy Minister, Acquisitions Branch.

From the Treasury Board Secretariat, we have Mr. John Ossowski, Assistant Secretary, International Affairs, Security and Justice.

I don't think I've left anyone out. Welcome, one and all.

Madam Fraser, you're first up. Everyone has up to about five minutes. Welcome, and we look forward to hearing your intervention.

Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada): Mr. Chair, thank you for this opportunity to discuss our audit of the acquisition of military helicopters. As you mentioned, I am accompanied today by Jerome Berthelette, Assistant Auditor General, and John Reed, Principal, who were responsible for this audit.

The process for acquiring complex military equipment is challenging and demanding. It is governed by a number of regulations, policies, and guidelines intended to ensure that the

acquisition process is fair, open, and transparent, and that, in the end, it provides the military with the equipment it needs to carry out its vital role, both domestically and abroad, on time and on budget. It requires careful attention to planning and costing to ensure that all project elements come together.

[Translation]

Mr. Chair, we examined the acquisition of the maritime and medium-to-heavy lift helicopters with particular attention to operational requirements, assessment and management of risks, life cycle and planning, information for decision-making, and management board oversight.

We found that National Defence underestimated and understated the complexity and developmental nature of these helicopters, describing both as non-developmental and using off-the-shelf technologies. The modifications to the helicopters led to schedule delays and cost increases beyond the original plans.

National Defence did not fully comply with the oversight and approval framework set out in its project approval guide. Nor did it develop full life cycle plans and costs for these helicopters in a complete and timely way.

Finally, the manner in which PWGSC used the advance contract award notice did not comply with the applicable regulations and policies, and consequently, in our opinion, the process was not fair, open, and transparent.

•(1110)

[English]

We have recommended that National Defence and Public Works and Government Services Canada should each review and apply the lessons learned in these helicopter acquisitions to ensure that in the future the degree of development or modification of the equipment is reflected in approval documents and that the procurement strategy is tailored to reflect the complexity associated with the acquisition.

We also recommended that National Defence should start estimating the full life cycle costs earlier in its project management process, specifically at the options analysis phase, and that as the estimates change and become more precise, it should provide updates in the subsequent steps of the process. We further recommended that the preparation of life cycle plans should be started at the time of preliminary project approval.

We also made recommendations with respect to in-service support and management oversight within National Defence as described in the chapter.

We have made no recommendations on the management of the advance contract award notice, commonly referred to by its acronym, ACAN. Our position is that the manner in which the ACAN was used for the acquisition of the Chinook was not fair, open, and transparent. Given the significant difference between the information provided in the 2006 ACAN and what was finally agreed to in the contract in 2009, in our opinion, a second ACAN should have been issued.

[Translation]

As you know, the departments accepted all of our recommendations. Their management responses are included in the chapter.

Mr. Chair, when we appeared before this committee on Thursday, October 28, 2010, we suggested that the acquisition process may not necessarily be suited to the purchase of complex equipment requiring modifications or development. The committee may wish to discuss this further with officials from the departments in attendance today.

Mr. Chair, that concludes my opening remarks. We would be pleased to answer any questions from committee members.

The Chair: Thank you Ms. Fraser. I will now give the floor to Mr. Fonberg, who has five minutes.

[English]

Mr. Robert Fonberg (Deputy Minister, Department of National Defence): *Merci beaucoup.* Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I actually will be very brief. I appreciate this opportunity to join you today to discuss chapter 6 of the 2010 fall report of the Auditor General pertaining to the procurement of new military helicopters.

As you noted, I'm joined today by the Vice-Chief of the Defence Staff, Vice-Admiral Donaldson; by Don Ross, Assistant Deputy Minister, Materiel; and by Lieutenant-General André Deschamps, Chief of the Air Staff.

[Translation]

The CH-148 Cyclone and the CH-147 Chinook helicopters are both essential capabilities. They will enable the Canadian Forces to do what is asked of them by their government, which is to deliver excellence in missions at home, on the continent and around the world, as outlined in the Canada First defence strategy.

[English]

These helicopters will also ensure the highest possible level of safety for the troops who will use them.

As the Auditor General noted, major military procurement projects are extremely complex. That said, both projects are on track to remain well within their approved funding envelopes.

Mr. Chairman, the National Defence team operates at the highest standards of integrity and excellence, and we continually seek ways to improve the efficiency, the effectiveness, and the transparency of our procurement processes.

[Translation]

That is why we accept all the recommendations put forward in chapter 6. In fact, we are already implementing a detailed action plan

—a copy of which has been shared with the committee—that will address the report's recommendations.

[English]

We welcome this opportunity, joined by my colleagues from Defence and the Canadian Forces, as well as my colleagues from Treasury Board and Public Works, to address any questions you might have.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Fonberg.

I'll go to the Department of Public Works and Government Services. Is it Monsieur François Guimont who will deliver these remarks?

• (1115)

[Translation]

Mr. François Guimont (Deputy Minister and Deputy Receiver General for Canada, Department of Public Works and Government Services): Thank you, Mr. Chairman. I'm very pleased to appear before you today with my counterparts from the Treasury Board Secretariat and the Department of National Defence as part of your study of the Auditor General's fall 2010 report, in particular the chapter on the acquisition of military helicopters. With me is Mr. Tom Ring, Assistant Deputy Minister of the Acquisitions Branch of my department.

[English]

I would like to thank Madam Fraser for her work. As in other audits her office has carried out, we take the findings seriously, as we fundamentally believe in continuous improvement. As such, we have already addressed the two recommendations put forward in the report, and the two "lessons learned" exercises have already been completed. As a result of these exercises, we have concluded that we need to undertake to review terminology and documentation requirements to support the use of an ACAN to eliminate the possibility of misinterpretation. Second, we need to develop tools and templates for complex procurement activities, which will inform best approaches vis-à-vis lowest cost compliant or best value to the crown. Finally, we need to provide enhanced training for staff assigned to complex procurement processes.

[Translation]

I have filed with the committee a copy of Public Works and Government Services Canada's action plan.

[English]

I would also like to note that one of the issues at hand is related to an interpretation as to the documentation maintained on file to support and justify a procurement course of action, whether competitive or sole source. We have taken steps to review our various guidance documents on the issue of level of documentation required to support the decision to proceed with a public and open posting of an advanced contract award notice on the government's electronic tendering system, MERX. This will be done in full consultation with the Treasury Board Secretariat and the Office of the Auditor General if they so wish. Subsequent changes will be made as necessary.

[Translation]

With respect to the Cyclone, the Auditor General has acknowledged that officials followed policies and regulations regarding contract management. However, her report also raised questions as to whether the lowest price compliant approach used under this project is compatible with the acquisition of complex military equipment.

On this point, the department agrees, even if the lowest price compliant approach was fully respected throughout the acquisition of the Cyclone. As indicated in the report, it is necessary to recognize that the acquisition of such complex equipment brings with it unique challenges.

I would be happy to answer any questions.

The Chair: Thank you, Mr. Guimont.

We will now move on to Mr. John Ossowski.

[English]

Mr. John Ossowski (Assistant Secretary, International Affairs, Security and Justice, Treasury Board Secretariat): Thank you, Mr. Chairman.

[Translation]

Thank you for your invitation to discuss chapter 6 of the Auditor General's fall 2010 report regarding the acquisition of the Cyclone and Chinook helicopters.

[English]

We welcome the Auditor General's report and note its findings. This report and others like it are useful to both policy makers and policy implementers, as they help to identify lessons learned and assist us in our efforts of continuous improvement.

Treasury Board policies regarding project approval and project management are in place to ensure departments have the appropriate frameworks in place to support the achievement of the desired outcomes and demonstrate sound stewardship in doing so. These policies take into account the evolution of a project from conception to full implementation and are scalable to manage a wide variety of projects. While there are no recommendations in this audit directed at Treasury Board Secretariat, I am here today to answer any questions the committee may have regarding how the secretariat fulfills its responsibilities.

The Chair: Thank you very much.

I'll go to members around the table. The first round is for seven minutes with Mr. D'Amours.

[Translation]

Mr. Jean-Claude D'Amours (Madawaska—Restigouche, Lib.): Thank you Mr. Chairman.

Thank you all for coming.

My first question is for the national defence department officials. Can you confirm that the acquisition of the helicopters was undertaken for, among other reasons, the men and women in uniform who are defending our country and are currently stationed in Afghanistan? In other words, were these helicopters intended to be used on this mission, yes or no?

[English]

LGen André Deschamps (Chief of Air Staff, Department of National Defence): Thank you for the question, Mr. Chair.

[Translation]

Mr. Jean-Claude D'Amours: Don't forget—

[English]

It's a yes or a no.

[Translation]

LGen André Deschamps: The acquisition of the Chinook helicopters was not intended for the mission in Afghanistan.

Mr. Jean-Claude D'Amours: And the Cyclone helicopters?

LGen André Deschamps: No.

● (1120)

Mr. Jean-Claude D'Amours: So neither of these was going to be useful to transport our men and women in the context of our mission in Afghanistan.

LGen André Deschamps: Not for the mission ending in 2011.

Mr. Jean-Claude D'Amours: Therefore the acquisition was for future purposes.

LGen André Deschamps: It was part of the Canadian Forces' development plan for the future.

Mr. Jean-Claude D'Amours: According to the documents we consulted, including that of the Auditor General, the department stated that the helicopters were already available. Were they truly available?

LGen André Deschamps: Could you please repeat the beginning of your question?

Mr. Jean-Claude D'Amours: The Auditor General's report indicates that the department stated that the helicopters were available. Were the helicopters available yes or no?

LGen André Deschamps: Which helicopters are you referring to?

Mr. Jean-Claude D'Amours: I'm referring to the marine Cyclone helicopters.

LGen André Deschamps: The marine Cyclone helicopters are not currently available.

Mr. Jean-Claude D'Amours: What about the Chinooks?

LGen André Deschamps: The new Chinooks are not available. We have Delta Chinooks that we are currently using. They were purchased strictly for the mission in Afghanistan.

Mr. Jean-Claude D'Amours: Can you explain why, in 2006, National Defence described the project internally, to cabinet and to Treasury Board, as being the acquisition of a unit that was already available?

You're saying that neither were available but that's not what was stated internally.

I'll ask you the same question. You stated to the department that these helicopters were already in production. Were those helicopters already in production, yes or no?

[English]

Mr. Dan Ross (Assistant Deputy Minister (Materiel), Department of National Defence): Mr. Chair, the two helicopters are different. The Chinook helicopter is an in-production F-model helicopter. It is proven and in production, and we added self-defence equipment to it for use—

Mr. Jean-Claude D'Amours: Which one?

Mr. Dan Ross: That's the Chinook H-47F.

The Cyclone was based on an in-service proven civilian helicopter used in offshore drilling support operations around the world, which we modified by folding the tail and rotors and adding the sensors to meet a military position.

[Translation]

Mr. Jean-Claude D'Amours: Mr. Ross, you are answering a rather simple question. If those helicopters are in production and if they exist, does National Defence currently own those helicopters?

[English]

Mr. Dan Ross: Not exactly as they are currently used. There were mandatory essential upgrades required for them.

[Translation]

Mr. Jean-Claude D'Amours: Where are those helicopters?

[English]

Mr. Dan Ross: The two contracts are signed. For the Cyclones, five are in production—

[Translation]

Mr. Jean-Claude D'Amours: Where are the helicopters? Does National Defence have those helicopters?

[English]

Mr. Dan Ross: No.

[Translation]

Mr. Jean-Claude D'Amours: I think that some things have to be understood.

If the helicopters are available, if they're in production, if they include those technologies and if they exist, where are these helicopters?

We're talking about an issue that dates back a few years. We're wondering if we can expect to have those helicopters in 2025 when they're in production, they're available and the technology exists.

If all that existed at the time, why can't we have those helicopters today? It seemed so easy to sell this, whether it be internally or to cabinet, and to say that the helicopters were in production, that they were available and that the technology was available.

Where are they? If it's so simple, why doesn't the Government of Canada and National Defence have these helicopters?

[English]

Mr. Dan Ross: Mr. Chairman, perhaps I could give a broader context to how long it takes to produce and to do certification testing of a military helicopter.

For a marine helicopter, after contract signing it typically takes between seven and 10 to 12 years to complete all of the design work, whether it's off the shelf or not. For example, in the case of the Cyclone, it takes about three years to do airworthiness certification testing.

Let me finish, sir, please—

[Translation]

Mr. Jean-Claude D'Amours: Mr. Ross, this is my time.

Mr. Chairman, I would like to get a clarification from Mr. Ross. If you say this can go up to 12 years, will there be a limit?

We've seen that the costs are starting to go up. There's a difference of more or less \$2 billion for one of the models because training and maintenance were not included.

Will we end up with helicopters that are going to cost double, triple or quadruple the expected cost? You're saying no but you're saying that this could take up to 12 years. If they are in production and available then we should be able to obtain them within a reasonable time period.

We are trying to understand who ultimately is responsible. Being told that this will take up to 12 years is not an explanation. That is not what we're being told at all.

● (1125)

[English]

Mr. Dan Ross: I didn't say it was going to take us 12 years.

[Translation]

Mr. Jean-Claude D'Amours: I would like to understand why it was stated internally that these helicopters were already available, already in production and that the technology to be integrated already existed?

In 12 years the technology will probably have had time to change and the models also might have had to change. I understand that these aren't like cars whose models change every year but when we're talking about a 7 to 12-year cycle some things will have been modified and changed.

The Chair: Mr. D'Amours, unfortunately your time is up. Mr. Ross, you will have to answer this question a little later.

We will now move on to Ms. Faille.

Ms. Meili Faille (Vaudreuil-Soulanges, BQ): Thank you, Mr. Chairman. I thought you were asking the witnesses to answer.

I have the August 7, 2008, press release about the acquisition of material, including UAVs and Chinooks.

The rental of six model D American Chinooks is mentioned. They were acquired for operations and they were supposed to be within operation theatres in February 2009.

What is the expected long-term use of these Chinooks that were rented from the United States? I will then have questions regarding the purchase of 15 other helicopters.

[English]

Mr. Dan Ross: The Chinooks purchased for Afghanistan will be disposed of on completion of the mission next fall.

[Translation]

Ms. Meili Faille: Therefore they will be used in the fall of 2011.

Mr. Dan Ross: Yes, absolutely.

Ms. Meili Faille: Is further use expected? Will changes be made to these Chinooks in order to make them more "Canadian"?

Mr. Dan Ross: No.

Ms. Meili Faille: Therefore you will simply return them to the Americans.

Mr. Dan Ross: No. We purchased those Chinooks from the American army. We may sell them to another country.

Ms. Meili Faille: Maybe, yes.

[English]

Mr. Dan Ross: We don't have a buyer yet, but we will sell the five Chinook Ds that we have remaining.

[Translation]

Ms. Meili Faille: Is that because they are no longer any good?

Mr. Dan Ross: No, they work well.

Ms. Meili Faille: They work well but they will no longer be good for us?

[English]

Mr. Dan Ross: We have under contract 15 improved Chinook Fs, which we will take delivery of in 2013, and that will be the long-term core of our Chinook fleet. We have no requirement for any Chinooks above the 15.

[Translation]

Ms. Meili Faille: When you make that kind of decision, do you undertake a cost-benefit analysis? Do you work with Public Works and Government Services Canada on, among other things, long-term acquisitions?

If I'm not mistaken, you purchased the Chinooks in 2008, you are using them currently and next year you're going to sell them.

Mr. Dan Ross: Yes.

[English]

Mr. Robert Fonberg: If I could, Mr. Chairman, I don't know exactly the ages of the Chinook Ds. Dan Ross would know it.

Members will remember that we were advised by the independent panel on the future of the Canadian Forces in Afghanistan, led by John Manley and others, to make sure that we had a heavy-lift

capability in theatre if we were going to continue in the mission beyond 2009. That was when we worked out an arrangement with the Americans to buy six existing Chinook Ds for the purpose of the mission. We never intended to bring them back, after the Chinook Fs were envisaged as part of the fleet.

[Translation]

Ms. Meili Faille: Could you provide to the committee, in writing, the decision or the document that justifies that kind of acquisition of aircraft, whether it be through rental or through a purchase, and that also states that you will be selling them after two years of use? That's very strange.

[English]

Mr. Robert Fonberg: What kind of a document would the committee like, Mr. Chairman?

• (1130)

[Translation]

Ms. Meili Faille: What type of documents do you currently have that would justify that kind of decision? Is it a cost-benefit analysis? A document outlining the grounds for that purchase, a contract, a decision?

At some point in time there must be a committee somewhere that makes a decision. Who makes the decision to proceed in that way to purchase equipment?

[English]

Mr. Robert Fonberg: Treasury Board.

[Translation]

Ms. Meili Faille: Treasury Board. Are the Treasury Board officials here?

[English]

Mr. Robert Fonberg: There should be a Treasury Board document, right?

Mr. John Ossowski: Yes, it came to Treasury Board.

[Translation]

Ms. Meili Faille: Thank you.

My next question deals with a news item which was made public on November 22, 2010, concerning helicopters. In fact, it was the Mi-17s. It was the first time I heard about them.

Can you explain to us how this equipment was bought? Why buy Mi-17s when you can buy American helicopters at a lesser cost? Can you justify your decision? What is the mission of these helicopters? Can you also tell us how much it costs to lease them?

[English]

Mr. Dan Ross: Thank you, Mr. Chairman.

The Mi-17 helicopters you are referring to are not purchased; they are leased, uniquely for the ongoing mission in Afghanistan. They respond to a specific operational need identified by the commanders on the ground that could not be met by our large transport helicopters, the Chinook, or by the small escort helicopters, the Griffon.

[Translation]

Ms. Meili Faille: Why is the lease contract, as opposed to other contracts, not on the MERX's Web site?

[English]

Mr. Robert Fonberg: Mr. Chairman, I think we were asked to come to talk about chapter 6 of the Auditor General's report. We weren't prepared to come to talk about the Mi-17s. I think the minister has answered whatever questions might be put to him in the House on the Mi-17.

[Translation]

Ms. Meili Faille: The reason why I am asking these questions is because we are discussing helicopters. When we conducted the study with analysts from the Library of Parliament, with regard to expenditures made by the air force, the helicopters were nowhere to be found. They were not included in your real asset plan, nor were they included in information on your Web site under your plans and priorities.

You are now appearing before the Standing Committee on Public Accounts. I want to know whether the acquisition practices relating to the purchase of aircraft do not apply to the Mi-17s. How is it that there are two different sets of rules? Is what's good for the goose not good for the gander?

[English]

Mr. Robert Fonberg: The Mi-17s were leased in full accordance with Treasury Board rules and policy, Mr. Chairman, and the Auditor General would ultimately be welcome to audit that particular acquisition.

[Translation]

Ms. Meili Faille: I have a question for the Auditor General. When you did your audit into the helicopter issue, were you told that there were other types of expenditures, including those for the Mi-17s?

Ms. Sheila Fraser: Perhaps we knew about them, but we did not look at that acquisition at all.

Ms. Meili Faille: You did not review that acquisition. So you did not know what was listed on MERX. You did not audit that.

Ms. Sheila Fraser: No we did not audit that.

Ms. Meili Faille: I still have a minute? Fine.

The delivery of the Cyclone aircraft was delayed twice. The first two times the notices of non-delivery were issued, why did you not impose the fines under the contract?

[English]

Mr. François Guimont: Mr. Chairman, on the first amendment....

[Translation]

Regarding the first amendment, there was a difference of opinion with regard to certain aspects of the contract. What we use in the terminology is called "excusable delays". In our opinion, there was a reason for the delays which were requested by the company, and these reasons were acceptable. That is the first reason.

The second one is that we did not agree with the company on a certain number of elements. I'm still referring to the first amendment. It totalled about \$100 million and we put the matter to arbitration. In

the contract, there is a provision which calls for arbitration when there is a difference of opinion regarding the interpretation of certain elements in the contract.

Therefore, after more dialogue and consultation with our colleagues at defence, we made an additional and separate investment for additional motor and transmission capacity, which was reported on in detail by the Auditor General.

●(1135)

[English]

The Chair: Thank you, Monsieur Guimont.

I have given you a little more time because I wanted to finish off the answer and because we had some delays in responses initially.

Before I go on to the NDP, let me note that there have been a couple of references to Treasury Board.

Mr. Ossowski, I think you indicated that you are prepared to provide the documentation that provided rationale and justification for that particular acquisition. The committee will look forward to receiving that through the chair in a timely fashion.

Mr. John Ossowski: I can't provide the cabinet confidences, but I can provide the other stuff that pertains to or is allowed for under the agreement that we have in place with the Auditor General.

The Chair: I appreciate that. I think the committee is aware that you can't share cabinet confidences.

I'm going to go to the NDP.

Mr. Harris, welcome to the committee.

Mr. Jack Harris (St. John's East, NDP): Thank you, Mr. Chair, and welcome to all of our witnesses.

It seems we have all of the people, save the Auditor General, who made these decisions, so it's a good place to ask, first of all, a general question.

We are looking at the acquisition of what turns out to be \$11 billion worth of military hardware and support, and it's worth asking the question. For example, the Cyclone project—the project that in 2003 was estimated to cost \$2.8 billion—is now going to cost \$5.7 billion and is seven years too late. Indeed, the first 19 of the 28 will not be able to be used. According to the Auditor General, they'll only be suitable for testing, evaluation, and training, and will not be able to be deployed on operations.

She also said in her remarks this morning that the "...process was not fair, open, and transparent".

I want to ask the people responsible for making these decisions and delivering on these projects how it can be acceptable to the Canadian public that we have doubled the cost and are seven years late on the Cyclone project, in a process the Auditor General calls unfair, not open, and not transparent. Why is that acceptable to the Canadian public? What is the succinct explanation that I and all of us can take home to our constituents as to how this happens?

The Chair: Go ahead, Monsieur Guimont.

Mr. François Guimont: Mr. Chairman, I will address the issue of openness, fairness, and transparency, and I'll let my colleagues from DND speak to the issue of cost, if that's okay with you.

First, on the acquisition of the Sikorsky Cyclone helicopters, we had a fairness monitor who oversaw the bidding process from inception to delivery. We have a clean opinion on that procurement, and I think the Auditor General also believes that we followed due process.

The issue of fairness, openness, and transparency is tied to the use of the ACAN, or advance contract award notification, and that issue is tied to the Chinook acquisition.

Frankly, the answer to your question stems from the answer we gave to the recommendation by the Auditor General. We recognize that there is a need to clarify terminology. We have a view of how to carry out an ACAN, a directed procurement using a formal notification on the MERX system. We have a view of that. We've been using it for years, in conjunction with Treasury Board and other departments when applicable.

The Auditor General has had a different view on a number of topics, which I can elaborate on if required, or she'll certainly make the points. That divergence of opinions creates this dichotomy between my saying that we feel the process was open, fair, and transparent and the Auditor General having a different opinion, but we do recognize, as a result of our action plan—which has been filed with the committee—that we need to clean up terminology in our manuals and in the general guidance provided to our staff in order to increase precision in certain areas related to the use of an ACAN. We acknowledge that.

• (1140)

Mr. Jack Harris: Are there any other takers here?

The Chair: Go ahead, Mr. Ross.

Mr. Dan Ross: Thank you, Mr. Harris. I just want to address the issue of cost.

You made the comment that the costs have doubled. When the Department of National Defence went to Treasury Board in June 2003, they estimated the cost to be \$3.116 billion, and at effective project approval in November 2004, followed by contract signing, the cost was \$3.174 billion. It was almost exactly the same number. At that time the detailed in-service support estimates were finalized, which gave us a total of \$5.52 billion over the entire life of the aircraft, and that has not changed, so there was no significant increase in cost.

The two amendments to the contract are within the effective project approval number of November 2004. There has been no increase over that number.

Mr. Jack Harris: You talked about the Cyclone being a developmental aircraft that takes seven to 12 years to be in full service, to switch from civilian use to military, but did you not sign a contract whereby Sikorsky agreed to a project, defined with penalties and all of that, for four years, I believe? Was there not a 48-month contract for delivery? If the process was going to take seven to 12 years, how could they commit to a 48-month delivery, and how could you enter into a contract of that nature?

The Chair: Go ahead, Mr. Ross.

Mr. Dan Ross: Thank you, Mr. Chairman.

Thank you, Mr. Harris.

The government of the day asked the bidders to commit to 48 months, which obviously was a very aggressive delivery schedule. The risk associated with that schedule at the time—and I was obviously not there at the time—was felt to be mitigated by taking a proven helicopter that was performing well in maritime missions in offshore oil rigs and adding proven mission equipment to it, which of course had to be integrated.

I think the difficulty that we've encountered—and to be fair, Sikorsky has done very good work on this—is the challenge of certification and testing. It wasn't the folding of the tail and rotor and the implementation of a mission system; it is the technical airworthiness certification that must be completed before it's safe to be flown by our crews and perform the missions.

We're at year six of a process that normally takes, as I said, between seven and 12 years. We will take our fully mission-ready helicopter at year eight. The schedule is challenging in these programs. They're complex, they're difficult, and the company cannot guarantee weather conditions, testing conditions, etc., which will affect their certification program.

The Chair: Mr. Harris, the time has elapsed, but I'll give you a chance on the next round.

Go ahead, Mr. Saxton.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

Thanks to our witnesses for being here today.

My first questions are for the Department of National Defence.

There have been media reports over the years that the Canadian Forces lacked adequate air support. Are you confident that these new assets will provide the required air support that the Canadian Forces need?

LGen André Deschamps: Yes, we are. Clearly, the acquisition of these platforms is tied to the Canada First defence strategy, which lays out a vision of what the Canadian Forces should be able to do in the future. As we look forward to taking these capabilities on strength, we know full well that they will give us tremendous agility to conduct our missions, both at home and as part of international coalitions or undertakings under NATO.

Mr. Andrew Saxton: These assets will be expected to last several decades. It's going to be with us for a long time, so is this the right equipment?

LGen André Deschamps: Clearly, what we buy has to last an awfully long time. I think it's acknowledged in our procurement process that we get the most out of our equipment, and therefore, as we procure equipment, we have that in mind. That's why the requirements are very robust: it's because we don't replace equipment often. Durability and sustainability are key factors in determining what equipment we should procure.

Mr. Andrew Saxton: Thank you.

One question Canadians might have is why we can't buy off the shelf. Do we really have specific needs that require non-off-the-shelf equipment?

• (1145)

LGen André Deschamps: We do buy off the shelf. There are recent examples of the capabilities that we were seeking existing in military form that we could buy directly; C-17s and the C-130Js are two examples of equipment that was bought off the line, basically as is.

In other cases, because of our particular environment, the equipment that comes off the line does not meet all our requirements. It requires modification to meet Canadian demands. We own probably the toughest geography in the world, as far as climatic conditions and distance go. We are the second-largest country and we have the most coast. Nobody else has that challenge, and certainly we don't have the resources that other nations do to cover their geography. When we look at what we need, we also have to consider what we expect it to do, both at home as part of that core mission and as it goes abroad. Because we don't have the layers and the density of resources that other big nations do, we have to take that into account, and therefore sometimes we have to modify the equipment so that it can cover more ground in terms of both capabilities and geography.

A good example is the Chinook Foxtrot. It is a fine airplane, but the baseline model has a very short range, and when you apply that in Canada, it would be an extreme limitation for us to be able to operate at home. The Chinook Foxtrot that we are procuring will have double the range, about 1,200 kilometres, which is significant when you're trying to do domestic response in the given times that we're normally expected to respond in. It's a tremendous advantage for us to have that capability at home, and certainly abroad, when we operate internationally in some very demanding environments where sometimes logistical support is not there. We will need that range to be able to do our mission.

Mr. Andrew Saxton: Thank you.

Can you explain why the procurement processes for these two different types of helicopters were different?

Mr. Dan Ross: Yes, Mr. Chairman.

The Cyclone program was a lowest-price compliant program with serious interest by three companies globally, based on a very detailed and specific specification, and that contract, as you know, was signed in December 2004.

The Chinook was at the time, according to our understanding, the only aircraft in the world in production at all that could meet a fairly basic set of transport helicopter requirements—sling the in-service gun of the Canadian Forces and carry a platoon of infantry—very

similar to the requirements of the Australians, the British, and Americans. That process required us to go out and confirm on the market whether or not there was a single available machine that could meet our requirements, which is what led to posting on MERX our requirements in an ACAN.

In response to the confirmation that there was nothing in production or close to what the Chinook could do, the Government of Canada went into direct negotiations with Boeing to hammer out very specific details on acquisition price, the cost of survivability and self-defence modification to the aircraft, and in-service support costs through the life of the aircraft.

So one was a competitive bid in which you get all of those things given to you for a firm, fixed price, and the second was a tough, detailed negotiation process with the only supplier: for this one, you open the envelope and you get what you get; for this one, you have to hammer out the details.

Does that give you some sense?

Mr. Andrew Saxton: That's helpful. Thank you very much.

The military procurement process seems to be of some concern. Can you share with us what's being done to improve the process?

Mr. Dan Ross: Yes, sir, I can take that one as well.

Over the past four or five years, the government has made a number of significant changes in defence procurement. The most basic one has been going to performance-based procurement, therefore best value—best value of both the acquisition cost and the cost to own it, to run it, so the cost of ownership over 20 years—and to leave the detailed specifications and lowest-price compliant process behind, although not necessarily exclusively.

This government has also committed to the Canadian Forces on the Canada First defence strategy, which has taken away a lot of the political and financial insecurity associated with where you can make a decision to proceed or not. It also has implemented accrual-based financing, where effectively you can buy a series of equipment, you get accrual cash from the Department of Finance, and then you repay that as a series of mortgage payments within the A-base of the department, which has permitted the department to proceed on a large number of programs at the same time. Historically, you had to have the cash to actually go out and buy a frigate, or a ship, or a helicopter, and you actually couldn't afford to do more than one at once.

So there are I think three major factors that have made a big difference in how long it's taken, and we've driven it down from about 10 years to less than four years, from the identification requirement to contract signing.

• (1150)

The Chair: Thank you, Mr. Ross.

That concludes the first round. For the second round, you have five minutes apiece.

Mr. Bains.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Chair.

The problem we're dealing with today, and the problem that stands out through the discussion we've had so far, is really that the acquisitions were not done in a fair, open, and transparent process. That's what I'm trying to understand. So this is a question for the Department of Defence: why did you not comply with the oversight and approval framework set out in the project approval guide that you had?

Mr. Dan Ross: Perhaps, Mr. Chairman, I can start.

I think, sir, you're referring to what we call our project approval guide, the PAG. The PAG is a guide; it is not a mathematical, scripted, "you must do every step"... We periodically amend that guide, and I'll let Admiral Donaldson comment on where we're going with the PAG. One of the requirements in the PAG is to have something called a senior review board, and annually you must have a review of each one of the major projects. I chair 194 of those, and they are normally co-chaired by an environmental chief of staff. We review the status of all activities of the project.

But there are occasions when it's necessary to have much more senior participation in those reviews. A senior review board is normally at the lieutenant-colonel/director level. It does not have three-star generals or assistant deputy ministers. So there have been occasions upon which we've actually pulled it up to a higher level, which we had to do on the Cyclone helicopter project.

We are going to make some changes to our PAG, the project approval guide, to indicate that it is a guide and that on occasion there will have to be variances from that guide.

Hon. Navdeep Bains: Just on that point—because you raised a good point—you said that it's simply a guide, and then we heard from Public Works before that there was a difference of interpretation.

I'd like to ask the Auditor General to shed some light on this. Is this simply, in your opinion, a guide and a difference in interpretation, or was it that it genuinely, as you stated, "did not fully comply with the oversight and approval framework set out in its Project Approval Guide", nor did it "develop full life-cycle plans and costs for these helicopters in a complete and timely way", and is that why you referred to the fact that this process, in your opinion, "was not fair, open and transparent"?

Ms. Sheila Fraser: There are two issues, Chair. One is the internal processes that were used within National Defence to monitor, challenge, and approve the project. There were many changes, budgets, delays, etc., that we would have expected, as outlined in the project approval guide, of which there would have been senior oversight and senior approval, and those processes were not followed.

On the question of whether it was fair, open, and transparent, that goes back to the acquisition of the Chinook for which an ACAN was used. We had several issues with the way the process was done. We felt there should have been much better rationale and documentation as to why it was a directed contract, that there was only one supplier. When the ACAN was issued and another supplier indicated interest, that supplier was rated against the requirements, but the supplier to whom the contract was given had never been rated against those requirements. Furthermore, this was done in 2006, but the project definition changed significantly by the time the contract was finally

done in 2009. We believe that, at a minimum, another ACAN should have been issued in 2009 with all of those new requirements.

So we do not believe that the contract process was fair, open, and transparent, and quite frankly, we believe it is more than a question of just fixing terminology.

• (1155)

Hon. Navdeep Bains: That's what I wanted clarification on. If I may, to allow for fairness, I would ask the deputy minister from Public Works to comment on that as well, just briefly because I know I'm tight on time.

Mr. François Guimont: Am I allowed to give an answer or...?

Hon. Navdeep Bains: Oh, absolutely.

Mr. François Guimont: Thank you. I appreciate it.

On the issue of documentation, and just to expand on that difference of opinion, the Auditor General has a very clear view that we should have on file a robust, very strict, sole-sourced justification. When we carry out an ACAN, we use a market analysis—i.e., those requirements can be discharged by Boeing—and we complement that with the actual ACAN. A combination of both becomes the reason for us to direct that contract to that supplier. So it is different indeed from having on file a documentation of a sole-source contract. There's no question.

On the second point—do you want me to address it?

Hon. Navdeep Bains: It depends on the time...

The Chair: You're over time again. But when you get to answer again, you can go on to the second point if you like.

Madam Faillie.

[Translation]

Ms. Meili Faillie: Thank you, I will simply allow Mr. Guimont to finish his answer to the question asked by my colleague and then I will take it from there.

Mr. François Guimont: In that case, I will continue.

[English]

Very good.

[Translation]

I will do so in English and in French

[English]

if you're comfortable with that.

On the issue of criteria, when we had a company, through the ACAN process—which is meant to be open, fair, and transparent—we posted it for 30 days instead of 15 days, to give more time to people to say they could probably meet those high-level requirements. We rated that company against the seven high-level requirements identified by DND. Why did we not rate Chinooks—Boeing—against the criteria? Well, they were the source of the criteria, so they had passed the first door, essentially. That is the reason.

[Translation]

The third point—

Ms. Meili Faille: Wait a minute, I would just like to clarify something.

Ms. Fraser, do you agree with everything Public Works and Government Services Canada has indicated so far?

Ms. Sheila Fraser: No. I do not want to open a big debate on notices of arbitration on contracts, but we sent a letter to the committee which contains excerpts of policies and rules regulating the awarding of contracts. You will see that all this is very clear. Based on our interpretation, ACAN must provide a justification

[English]

in their directed contract

[Translation]

and it must be in accordance with one of the exemptions, one of the exceptions, to justify having an open contract.

We also do not agree on the fact that Boeing has met all of the requirements, because the company could not guarantee that it would meet the deadlines, which was one of the basic requirements. At least it was obvious that the company could not meet that requirement.

Ms. Meili Faille: I have a question for you, Mr. Fonberg. In light of the explanation that the Auditor General has just given us, as well as her earlier statement to the effect that the ACANs did not comply with regulations, I would like to know whether you were already deputy minister in December 2006?

[English]

Mr. Robert Fonberg: No.

[Translation]

Ms. Meili Faille: Very well. I was wondering about that because your name appears in the appointment books of the Deputy Minister of Public Works. I was wondering what your role was at the time.

[English]

Mr. Robert Fonberg: I began in my job on October 1, 2007, Mr. Chairman.

[Translation]

Ms. Meili Faille: October 2007. What was your position at time of your meetings with the Deputy Minister of Public Works in 2006-2007?

[English]

Mr. Robert Fonberg: At that time I was the Associate Secretary to the Treasury Board.

[Translation]

Ms. Meili Faille: Therefore, as a representative of Public Works on issues concerning military procurement?

[English]

Mr. Robert Fonberg: I worked on a project on the overall reform of military procurement while I was at the Treasury Board, but it was not specific to the purchase of helicopters.

[Translation]

Ms. Meili Faille: Your role was not specific to the purchase of helicopters but was related to overall procurement. With regard to

departmental planning, you did play a part previously in military procurement files?

• (1200)

[English]

Mr. Robert Fonberg: I'm sorry, I didn't understand the question, Mr. Chairman.

[Translation]

Ms. Meili Faille: It is a simple question. The Department of National Defence developed a capital procurement plan. You were at Treasury Board and had responsibilities dealing with military procurement, is that not so?

[English]

Mr. Robert Fonberg: No, I actually have no responsibilities to deal with military procurement. I was asked to lead a project to look at obstacles that could be overcome to reform the entire military procurement process.

[Translation]

Ms. Meili Faille: Do the obstacles, on which you conducted analyses and made findings, include procurement elements and problems with regard to the posting of delays on MERX? Do they include such elements of market analysis? Earlier, the Public Works and Government Services officials indicated that market analysis had been carried out previously. Did you take part in all that?

[English]

Mr. Robert Fonberg: Do you mean market analysis done with respect to the Cyclone or the Chinook? Is that what you're talking about?

[Translation]

Ms. Meili Faille: It is to complete the deputy minister's response.

[English]

Mr. Robert Fonberg: No, I did not deal with specific military procurement projects at that time. I was asked to lead some work across departments on the reform of the procurement process at a strategic level.

[Translation]

Ms. Meili Faille: Very well. Now, since we have people here from Treasury Board, did someone replace you in those responsibilities?

The Chair: Ms. Faille, your time has run out.

[English]

Mr. Robert Fonberg: No, actually, they didn't replace me in those responsibilities, Mr. Chair.

[Translation]

The Chair: We could come back to that during a next round. I will now give the floor to government members.

[English]

I'm going to give the government members 10 minutes. I think Mr. Kramp and Mr. Shipley are going to share those 10 minutes, either equally, five and five, or however they choose.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you very much, Chair.

We certainly welcome all of our witnesses here today.

I have just a quick little commendation and then a question to the Auditor General.

I live right next to 8 Wing Trenton, and might I just say, on the C-17s and the Hercules 130Js, congratulations to National Defence and to Public Works. The process, speed, and timeliness were magnificent. I have talked to air crews. I've talked to ground handlers. I've talked to people coming in off relief missions. Truly, you should all be proud of what you've accomplished there, because it's a tremendous asset for our country and our region.

Madam Fraser, I have a very serious concern. There's something that bothers me in this report, your statement here, and maybe an implication thereof. In your report you said DND underestimated and understated the developmental nature of the Cyclone and the desired modifications to the Chinook. And then in fact you went on to say that DND "did not intend to procure an off-the-shelf Chinook but rather a modified one".

Maybe I'm reading between the lines here, but to me it suggests you were implying that the departmental officials deliberately withheld information. Is that correct? If so, could you please explain to the committee how you reached that conclusion?

Ms. Sheila Fraser: Mr. Chair, I would just remind committee members that in the process of doing our audits and preparing our reports, we ask the departments to validate the facts. In this case, except for the disagreement on the procurement process, all departments have agreed with the facts as outlined in this report.

We have documents that indicate that senior officials were told this was an off-the-shelf purchase, using off-the-shelf technologies, and that it was low to medium risk. We have seen that the costs, in particular of the Chinook, were 70% more than what was originally estimated. There are significant delays, and the complexity, we believe, was much higher than what was originally estimated. As to why that was done, we don't get into motivations or rationale. People obviously thought it was a much easier process than it turned out to be.

Mr. Daryl Kramp: Thank you.

Mr. Fonberg or Mr. Ross, could you please respond to the Auditor General's comment in response to my question? I'm really interested in knowing, because to me this is the real crux here. There's some credibility on the line here, and I really want to get to the bottom of this.

Mr. Robert Fonberg: I'd just like to make a couple of introductory comments. I think it's very important to take on this issue of the 70% cost increase, because it's somehow worked its way into the psyche out there. I think, depending on how you want to look at it, you can either torque this up or there's actually a very good explanation for it. I'll ask Mr. Ross to do that.

On the issue of senior officials being told certain things and stuff like that, I guess what I would like to say is that, number one, there is nowhere in the report of the Auditor General—and I take it at face value—anything to suggest that anybody misled anybody, that anybody was misinformed, that anybody lied, that anybody acted in anything other than very good faith. So I said in my opening statement that people in the Department of National Defence, the

Canadian Forces, and Public Works operate with absolutely the highest of integrity and the best of intentions.

We have accepted all the recommendations of the Auditor General, which are fundamentally about improving how we do this business. I think we should be very careful about confusing methodological and empirical data challenges for the intention of misleading. I'd just like to be clear on that.

I will turn it over to Mr. Ross to talk about the 70% number.

Thank you.

• (1205)

The Chair: Mr. Ross.

Mr. Dan Ross: Thank you, Mr. Chairman and Mr. Fonberg.

When we at the Department of National Defence began working on the Chinook program, as is normal in the process we went out to industry with a price and availability. When that price and availability information comes in, it is normally low. We're used to that. Companies don't tell you the maximum cost they would ever charge you for something. They tell you the basic minimal cost. They don't offer comments like, "If you want to change this or change that", or about the in-service support costs of the product.

The department takes that information in its option analysis phase, adds contingency, and thinks about self-defence equipment you would have to add to it and all of the factors that constitute an indicative cost we would take to Treasury Board ministers.

When we went to cabinet and Treasury Board in the summer and fall of 2006, we told Treasury Board ministers our first official number for the Chinook was \$2.022 billion. When we went back, having finished our definition studies in detail for effective project approval in June 2009, it was \$2.313 billion, about a 10% change. That change was due to the detail work we had to do with Boeing on exactly the same survivability upgrades we have done for C-17s and the C-130J Hercules, which are absolutely essential to take a platoon of infantry into really dangerous places and make sure that the risk to those soldiers is not unacceptable.

So we feel that in our options analysis work, from a very bare initial quote from Boeing to our first conversation with Treasury Board ministers, the price from there to the effective project approval did not change significantly. The project remains within that effective project approval number that Treasury Board ministers approved.

The Chair: Thank you, Mr. Ross.

Mr. Shipley, you have about two and a half minutes left in your 10 minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Great. Thank you.

I wish these audits would take us back to what I think were some of the core problems when the Sea King replacement, some 25 years ago, was considered, and how that was rolled out. Quite honestly, it affects us even today in some of the procurements we've had to make in the interim in Afghanistan. Unfortunately, we don't do that, but we continue to pay for it.

In 2008 our government brought forward the Canada First defence strategy, which Mr. Fonberg mentioned in his comments. I think it's the outlay, and I'm wondering what he can tell me and the committee about the impact that has in moving forward in our strategy for our men and women in uniform.

By the way, I want to thank each of you in uniform for being here and for what you do for our great country.

Thank you very much.

Mr. Robert Fonberg: Thank you very much for the question, Mr. Chairman.

I'll be quite brief. The Canada First defence strategy in many ways, from a National Defence/Canadian Forces perspective, was a breakthrough approach to modernizing the Canadian Forces, their equipment, and infrastructure to grow the force and ensure they were ready to do the missions asked of them by the Government of Canada.

One of the major breakthroughs was the commitment to a 20-year funding line, which was adequate to deal with the growth of the Canadian Forces by establishing 70,000 regular force members and 30,000 reserve force members. But from a capital procurement perspective, the breakthrough in the Canada First defence strategy was a commitment to a 20-year funding line, including a 2% per year escalator, to make sure the funds were in place to cover—along with other things like accrual accounting—the actual cost of the then expected capital equipment required to modernize the CF.

• (1210)

The Chair: You have one minute.

Mr. Bev Shipley: Madam Fraser, in your report on page 3 you talk about cost information, and that without more sufficient funds, National Defence may have to curtail planned training and operations.

I would ask Defence how they're going to deal with that or whether that is an issue.

VADM Bruce Donaldson (Vice Chief of the Defence Staff, Department of National Defence): Mr. Chair, I don't anticipate that costs here will have an effect on operations or training. In fact it is booked in the investment plan and we expect we'll be able to do everything we planned.

Mr. Bev Shipley: Thank you very much, Mr. Chairman.

The Chair: Thank you, Mr. Shipley.

I'm going to go to Mr. Harris, from the NDP.

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

I do want to get to the Chinook acquisition, but before I do I want to make a general statement, similar to Mr. Kramp's, that the Canadian Forces obviously deserve to have the equipment they need to do the job. The experience, actually, we've seen in Afghanistan is

that they get it. When they needed Chinooks because we needed medium- to heavy-lift helicopters, we got them. And they used them. We needed the LAV IVs, and we got them. There were some issues and problems, but we got them. They were put in use and they were made available. When we needed the Mi-17s, even though nobody knew about it, we got them.

I don't think there's an issue, from the Canadian public's point of view, of being concerned about our forces being able to get the equipment they need, particularly in a war zone such as Afghanistan. We're talking here about procurement processes, something the Canadian public has a particular interest in because they're paying the bills. We have a right to criticize it, and that criticism deserves to be considered on its merits. This is no reflection on anybody's job, particularly those who are here in uniform or who are fighting in uniform, but Canadians who are paying the bills deserve to know.

When we look at the Chinooks, then, let me ask this question. I'm not going to get into a factual debate—you folks apparently have accepted all the facts that Ms. Fraser has laid on the line—but it seems clear from Ms. Fraser's report that a decision was made sometime in 2005 on the acquisition of the Chinooks. It was "...concluded very early in this acquisition process that the Chinook helicopter was the only one capable of meeting its needs". That's in paragraph 6.78. In "...the fall of 2005, National Defence was considering a sole-source procurement with Boeing". By June 2006, there was a formal conclusion that Boeing was the only project that complied.

We're dealing with a helicopter that seems to cost—and I'm looking at the per item cost, not the other matters that are added in terms of project management...modifications are probably included, but there's a lot of other costs—about \$83 million each to buy. We do know from recent information stories that, for example, the Russian helicopter, the Mi-17, which is a little less capable—it can't lift as much, it's a little bit smaller, and you can probably buy four for the cost of one Chinook—has a figure of \$17 million.

Mr. Ross is shrugging here. I'm basing it on information from the U.S. government—some figures as low as \$10 million. The Americans are buying them. We've obviously leased them. The American congressmen don't like the idea of buying Russian aircraft because of Buy American policies, etc.

Was there any serious consideration given to options other than Chinook? I'm not saying the Chinook is a bad plane. I was on them in Afghanistan, as I'm sure some of you have been, and they're very capable aircraft. But, for example, the Mi-17s are already capable of flying in ice conditions, which we had to modify the Chinooks to get for their long-term projects. Why weren't other options considered that might be cheaper but could do the job required?

I mean, let me guess, someone decided they liked the Chinook and the specifications may have been aimed towards that aircraft so we could actually acquire it. That's a criticism that's been made by others, not me, but it seems to me that the onus is on you folks to say that ain't so and to tell us why.

•(1215)

Mr. Dan Ross: Perhaps I'll let General Deschamps talk to the operational requirement that the Chinook performs.

To answer your questions more specifically about whether we considered other options in the fall of 2005 and the spring of 2006, the answer is yes. We very, very diligently looked at the Sikorsky H-53 large helicopter, which is obsolete and has been out of production for almost 20 years. We looked at being able to modify a Cyclone to utility configuration, to carry a platoon of infantry and its equipment and so on, or lift a gun. We looked at the EH101, the European helicopter, and frankly, everything else. They failed to meet the normal minimum performance requirements of altitude, temperature, and lifting that platoon of infantry or the lightweight gun, in at least several of those parameters quite significantly.

The fact is the Chinook F in production really was the only thing available in the world.

We looked at the Russian helicopters very briefly, but you can't go to Russian aircraft because of air certification reasons. The Russians have never made any significant effort to meet western safety certification standards, so they're not certifiable under the FAA or Transport Canada. And for supportability reasons, it's not practical to try to run a Russia helicopter within NATO.

So yes, sir, we did look very, very carefully at everything we could find out there.

The Chair: That's about it, Mr. Ross. You and Mr. Harris used up all of those five minutes.

Mr. Young.

Mr. Terence Young (Oakville, CPC): Thank you, Chair.

Mr. Fonberg, your department is responsible for prosecuting the war in Afghanistan. Because a considerable amount of secrecy is required in fighting a war, do you have concerns with the acquisition process with regard to secrecy and keeping the troops secure?

Mr. Robert Fonberg: No, I do not have concerns.

I might let the vice-admiral or the ADM Materiel speak to that issue. Where, for operational security purposes, we need alternative procurement processes with Public Works and Treasury Board, we have those in place.

Mr. Terence Young: Madam Fraser, in your last statement—which for me was the most important one—there was a suggestion that the acquisition process might not necessarily be suited to the purchase of complex equipment requiring modifications or development.

Could you expand on that and say why you suggested it?

Ms. Sheila Fraser: I think this is actually one of the most important issues coming out of this audit. It is that a lowest-price-compliant approach is appropriate when you're buying existing equipment, the off-the-shelf type. But when you're into developmental projects, I question whether that is the most appropriate approach. I would certainly encourage National Defence and Public Works to give some thought to that. When they're into these very large, complex acquisitions, it may be difficult to establish all of the requirements.

As we've seen, requirements have moved, and have been elaborated, with more thought and specification being given to them over several years. So how can you put out a bid in year one when the requirements are going to be moving and refined like that? I really think there needs to be a different approach taken in those cases.

•(1220)

Mr. Terence Young: Mr. Guimont, you referred to that as well in your address. I wonder if you would comment on it.

Mr. François Guimont: I agree with the AG. In the department, we use both lowest-price-compliant and best-value-for-the-crown. But after discussions in the department and in view of the audit, our action plan clearly says that we need to look into this question.

What we need is a framework. I don't have a framework now. A framework would guide people so that when we decide to look at a major acquisition—off the shelf but with modifications—we would have a better sense of whether we should go lowest bid or best value. This is a good suggestion, and lessons learned are telling us the same thing.

Mr. Terence Young: Mr. Ross, as parliamentarians we have to explain some of these matters to our constituents. They have no reference point, because consumers don't buy anything that takes up to 12 years to deliver. Even if they buy a house, usually they're going to have it within a year.

Could you explain to the committee why it takes up to 12 years to purchase a helicopter?

Mr. Dan Ross: It doesn't take 12 years to purchase a helicopter based on a best-value, performance-based process. I think it does when you take three of four years just to write the specifications—very detailed specifications—in a lowest-price-compliant process.

Right off the bat, lowest-price-compliant with a detailed specification costs you five years. That's the maritime helicopter project. The Chinook project was not lowest-price-compliant. It was performance-based, best overall value, and it will be completed in far less than 12 years.

Mr. Terence Young: In addition to a need for larger gas tanks, because we need these aircraft to go farther, what other things would have to be added that would increase the cost?

LGen André Deschamps: For the Chinook Foxtrot, the other consideration, environmentally, was self-defence. Although there was a basic suite available to the Foxtrot, the one we went to was the one that is equipped on our other platforms that are dealing with future threats, and the one that the Americans are going to retrofit to their Foxtrots in later years. It was important to do it right at the outset, which is less expensive than retrofitting. That's why we had to work with Boeing to make sure that the right kit was put on the airplane upfront instead of later.

The Chair: Mr. Bains, you're sharing your time with Mr. D'Amours?

Hon. Navdeep Bains: That's correct.

Thank you very much. I just wanted to go back to the issue of cost overruns with the Chinook. I believe that is a key problem, and there was some explanation given by the department.

Madam Fraser, can you comment on the department's costing analysis? On page 27 of your report you provide the costs to the best of your ability, because there is still some information that's not available to you. The numbers you provide show a cost increase from a 2006 approval of \$2 billion going all the way up to approximately \$5 billion. That still doesn't include National Defence personnel and National Defence operating costs, so the costs could be even higher. Could you comment on that?

Ms. Sheila Fraser: Chair, I'll ask Mr. Berthelette to respond to the question.

Mr. Jerome Berthelette (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, in exhibit 6.6, what you see set out here is the division of costs related to the Chinook helicopter, divided into parts. The first part relates to the capital costs related to the helicopter. You can see that in terms of the capital costs for the acquisition of the helicopter, between the preliminary project approval in June 2006 and the effective project approval in 2009, there was an increase from \$2 billion to approximately \$2.3 billion.

Now there's more to delivering a Chinook helicopter than the acquisition of the piece of kit. There are also, of course, contracted in-service support, personnel and other operating costs. So when we speak to the issue of detailed life-cycle planning and how it was begun late, what we are referring to is the cost of delivering the full capability. So when you look further down, you will see that at the preliminary project approval stage in June 2006, no costs were included for contracted in-service support, National Defence personnel, or National Defence operating costs.

When you look again at the effective project approval stage, you will see that contracted in-service support was included, but as of the effective date, there were no costs for personnel and no costs for operating. So when we add this up, of course, it goes from being \$2 billion to \$4.8 billion.

● (1225)

Hon. Navdeep Bains: Thank you very much.

Because I'm sharing my time, I'll ask my colleague to continue. Thank you.

[*Translation*]

Mr. Jean-Claude D'Amours: Madam Fraser, I would like to know whether in 2006, when you conducted your audit, discussions between Boeing and the Department of National Defence led the latter to conclude that the Chinook was the only existing certified helicopter in production capable of meeting its needs. Would you agree with me on that?

Ms. Sheila Fraser: I believe that we are in agreement. I think that our report states that the department concluded that Boeing was the only company able to meet its needs.

Mr. Jean-Claude D'Amours: Thank you, Madam Fraser.

Lieutenant-General Deschamps, you said earlier that the Chinooks required some modifications or add-ons. In fact, you said that it was less expensive to add that equipment right at the start rather than retrofitting. There is an enormous contradiction between what the Auditor General found and what the departments have stated. If those helicopters were ready to be built and met the needs, how come the needs today are no longer the same? As you said, it is

cheaper to add the platforms up front. And so we are no longer talking about the same thing.

As I have already said, someone is responsible. I do not know whether one of the witnesses here is able to tell us who that person is. They will all say they are not the ones responsible. We are still talking about a helicopter that is ready to be built, available, in production and certified. Mr. Ross said earlier that there was an endless number of certifications required. And yet, it was stated that the helicopter was certified.

It is as if there was an attempt to confuse us. Can someone here this morning tell us who is responsible for this bureaucratic mishmash? If none of you can, could you tell us who should be called before this committee in order to explain what this is all about? Earlier, someone said that this was not a certified helicopter, but then the Auditor General said that she agreed with what I had stated, i.e., that it was certified. Who is responsible? Give us their names so that they can provide the committee with a clear explanation as to why it was considered to be a good helicopter at the time, when it is not yet in production today. The technology does not exist and platforms have to be added, among other things.

[*English*]

Mr. Robert Fonberg: Do we have any time left to answer, Mr. Chair?

The Chair: No, but after I go through everybody, I'll give you an opportunity to answer that. So think about it for a few minutes, Mr. Fonberg. I'll give you a chance—no problem.

Mr. Dreeshen.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much.

One of the questions I have will perhaps give you an opportunity to answer the question that was just posed. I don't think it is quite that confusing.

I wanted to talk about what the vice-admiral had indicated on the investment plan, the in-service support, and the budgeting associated with it. I know Madam Fraser had also talked about recommendations that she had on in-service support management and how that can be dealt with, as far as National Defence is concerned.

My question is specifically to DND. We're seeing about half of the total project cost being related to this in-service support. I guess I'd like to know what process you used to determine those costs and what time you started estimating what the costs were going to be. Can you give us some idea in your action plan of how we can make sure the public really understands what is involved there?

● (1230)

Mr. Dan Ross: Thank you, sir.

We begin estimates of the cost of ownership immediately—in this case with the air staff—in the options analysis right at the beginning. We work with our allies. We work with our experience in having operated helicopters. In this case we had operated the Chinook helicopter before we sold them to the Dutch.

In the case of personnel, there is no incremental cost because we are fixed at 70,000. They must be reallocated from other activities in the Canadian Forces.

We provide that advice to ministers, and we work with Treasury Board officials in detail on the Treasury Board submissions to inform ministers of the factual information, as best we have it at the time.

I have to qualify that in-service support estimation is very difficult. We all drive cars, but no one here can tell me what the price of gas is going to be next week. To predict what it's going to be 30 years from now—or the cost of aluminum, repairs, and repair and overhaul—is a very difficult business. In fact, you never know the cost of ownership until you've owned them for 30 years. You also don't know the rate of usage. Will you be going into a combat mission or not? It is a continuous process.

We don't get to a contractual-level number without a great deal of effort with our colleagues at Public Works and the actual supplier, once they have been selected competitively—ACAN, SOIQ, or whatever. In the case of the Chinook, it took us over a year of really hard negotiations to hammer out with Boeing what the cost per hour of flying the Chinook would be.

All that is to say it's difficult, imperfect, there are a lot of unknowns, and it's iterative.

Mr. Earl Dreeshen: Thank you.

Mr. Fonberg, I believe you spoke about your detailed action plan and the process you've given to our committee. I wonder if you can share some of your thoughts and some of the points on the detailed action plan that address some of the Auditor General's recommendations.

Mr. Robert Fonberg: Thank you, Mr. Chairman.

I'd like to come back on the point I was going to speak to one minute ago.

We come to this table prepared to speak to the substance of these extremely serious matters. These are very serious projects. They're multi-year—10 years longer in the case of one and six years in the case of another to get them to where they are today. They're multi-billion-dollar projects.

There are formal rules in all of this for Treasury Board, Public Works, National Defence, and ultimately Parliament. We don't come to the table to say, "Not me. Not me. Not me." It's us. We're here to answer the questions. We think they deserve serious dialogue. That's why we're here. That's the dialogue we're actually having.

On the action plan, I think the Auditor General's analysis and the facts that are in her report are extremely timely. The action plan speaks to lessons learned, whether it happens to be around the degree of modifications, full life-cycle costing, or in-service support. We have laid out an approach, which I think is a healthy approach, in each of those cases.

If one were to go back five years or longer, I think one would see that we are getting better and better at how we procure this complex equipment. I would also say it's only over the last five or six years that the funding line has emerged in such a way, and the commitment to modernize the kit of the Canadian Forces has become such an important factor in all of this.

The procurement run rate in our department has probably gone from about \$1.5 billion a year, seven or eight years ago, to \$5.5 billion today. It's an extremely complex business. We have answers to questions, but unfortunately they're not 30-second answers.

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

On behalf of the entire committee, I take your response. I want to let you know that it wasn't a 30-second response. Without being trite, it was very good. You've gone well over time, but I'm glad you gave the answer you did.

I have yet another question from Madame Faille.

[*Translation*]

Ms. Meili Faille: I still have some questions. Actually, I would have a number of them.

I am thinking of PWGSC. A little earlier Mr. Guimont, you spoke to us about the first, second and third delay concerning the Cyclone maritime helicopters.

Will you be imposing penalties?

• (1235)

Mr. François Guimont: Before I answer, Mr. Chair, I would like to clarify something my colleague from National Defence said earlier.

Regarding the accountability of people who work on these files, we are not talking about a single person, but rather of a team of experts who get up in the morning, come to work and want to do a good job. That should be said, because those people who are listening hear what is said and might be offended by it.

Ms. Meili Faille: We agree with you. That is not the issue, Mr. Guimont.

Mr. François Guimont: I simply wanted to make that comment, which I did. I will now answer your question.

We received a request from Sikorsky for an excusable delay, which we turned down. They sent us a second request and an explanation. We will consider it and apply penalties if need be.

Ms. Meili Faille: Is the price of the helicopters in Canadian or U.S. dollars?

Mr. François Guimont: They're paid in Canadian dollars.

Ms. Meili Faille: That is for both types of helicopters. Very well, that is excellent.

I thought they had been purchased in U.S. dollars.

Mr. François Guimont: I would like to make a correction. I apologize, I believe they were paid in Canadian dollars.

I have been told that the Sikorsky Cyclone maritime helicopters were paid in Canadian dollars. In the case of the Chinooks, the transaction was in U.S. dollars.

Ms. Meili Faille: Did you assess the currency fluctuation risk?

[English]

Mr. Dan Ross: We carry contingency in our project overall approval levels to accommodate any risk of currency fluctuation. So if you see an overall figure of \$2 billion, that includes the acquisition price, contingency currency fluctuation risk, project management costs, and everything.

[Translation]

Ms. Meili Faille: So that includes everything.

Earlier, I believe someone referred to a written response from PWGSC, which stated that, in the past five years, there has been increased reliance on experts, i.e., former PWGSC employees with military procurement know-how. They act as procurement facilitators or RFP Riders. They help and support the department in the preparation of calls for tenders.

They also conduct fairness monitoring activities as part of various contracts. In the case of the helicopter procurement, could you tell us whether such consultants were hired, who they are, as well as their mandates and the work expected of them?

You can provide us those answers in writing.

The Chair: Thank you, Ms. Faille.

Mr. Guimont, Mr. Ring et al., of course, that question calls for a written response. I would ask you to provide us with that response as soon as possible and send it to the chair so that it can be distributed to all other members.

Thank you.

[English]

You can continue for three minutes, Mr. Saxton, and then I'll go to Mr. D'Amours and Mr. Harris.

Mr. Andrew Saxton: Thank you, Mr. Chair.

My final question is for Madam Fraser, the Auditor General.

The Department of National Defence has acknowledged that the manner in which these two projects were managed deviated from certain policy requirements and project approval guidance, and has accepted all of your recommendations moving forward. Indeed, Mr. Fonberg provided the committee this morning with an update on the department's response to your recommendations.

The points raised in your report aside, there are three facts that should be noted.

First, the appropriate personnel from DND were involved in the management of these projects, ensuring effective oversight. Second, while certain costs were not developed until late in the definition phase of the project, all costs were fully disclosed before approval. Third, both projects are on track to be delivered within their original approved funding.

Madam Fraser, do you agree with those three statements?

Ms. Sheila Fraser: Chair, I don't think I want to get into a long debate. I'm not sure that I agree with those three statements. On the question of oversight, we reported in the report that there were committees that should have met, that should have reviewed these projects but didn't.

On the question of funding, we saw in the case of the Cyclone that there were costs for maintenance and in-service support of over \$1 billion, for which the department has not been funded. I don't know how that's going to be resolved.

So I think time will tell whether the three statements—or at least certainly the funding one—will be respected. Who knows? We may go back and do a follow-up audit to find out how all this plays out.

As for meeting the deadlines, I think we see that additional delays have been incurred. So I think time will tell on that too.

• (1240)

The Chair: Mr. Saxton.

Mr. Andrew Saxton: Thank you, Mr. Chair.

The Chair: That's it? Thank you.

Mr. D'Amours

[Translation]

Mr. Jean-Claude D'Amours: Thank you, Mr. Chairman.

I am thinking of comments that were made earlier, in particular by Mr. Guimont and Mr. Fonberg. We know that rules must be followed, but the Auditor General clearly stated that was not the case with many of them. That is an established fact. You cannot start to rewrite things today for the future. Some things were applicable in the past and should have been applied.

I have gathered that there are teams of experts. I do hope that is what they are. However, this was not on-the-job training. At one point, someone will have to face the consequences.

Billions of dollars are being spent left and right. The existing rules are not being followed. There are delays. Things are said, but in the end, they do not appear accurate. We listen to all that and think that everything is okay.

It is as if there were no parliamentarians here anymore, and you could continue to disregard the rules. You could say that this is equipment that is part of the system, which exists, but it is not in place because modifications are required. This is what we are up against today.

I do hope that we have experts in place and that the people who are hired can do the work. That said, this is not on-the-job training whereby people would be put to work and, if they made mistakes, they will be corrected and allowed to continue.

Billion-dollar projects might well be complex, but that is exactly what one would expect. Such projects are not about buying pencils, but are rather about major acquisitions representing substantial costs. We expect people will follow the rules. That is a basic principle. We expect that what was said in cabinet was a matter of cabinet debate. There should be no surprises down the road.

We do not want to have the Auditor General come with information stating that things were not as they were intended to be, that something else was said in the past and today, we find ourselves, our work here, not being taken seriously.

People should not be led to believe that they are being personally or directly attacked. However, there must also be consequences. When people act in such a way and do not follow the rules, there must be consequences.

I would like to know what the consequences will be for not having followed the rules.

[*English*]

Mr. Robert Fonberg: The consequence, briefly, Mr. Chairman, is that we'll get better at doing it. I think I have—

[*Translation*]

Mr. Jean-Claude D'Amours: Mr. Fonberg, as I mentioned, it all seems like on-the-job training.

[*English*]

The Chair: Monsieur Fonberg.

Mr. Robert Fonberg: Let me start. I'm not sure which bar the member would like to speak to. No laws were broken. No Treasury Board authorities were broken. We have a project approval guide. Did we follow it exactly to the letter of our guide? No. We've explained the reasons for that, and we're going to kind of fix the guide. So I'm not exactly sure what the precise issue is. Nothing bad happened. We have paid a lot of money for helicopters. We're getting the helicopters within their approved funding limits. They're going to be world-class helicopters. They're going to last for 40 years.

So when we are accused of breaking rules and not following rules, I think there should be a degree of clarity about what those rules are and exactly how serious those rules were, Mr. Chairman.

The Chair: Thank you, Mr. Fonberg.

Mr. Harris.

Mr. Jack Harris: I have a question for Ms. Fraser, following up on the response, regarding this issue of choice and whether aircraft other than the Chinook were looked at. Was that something you looked at in your audit? You did go back to 2005. Did you look at that process of examining other aircraft?

I'm bending over backwards to understand the position of the department as much as I can. Is it acceptable, from a government management point of view, to decide that this is the platform that is going to meet our needs, but it really does require modifications to do exactly what we want? Is there anything particularly wrong with that?

I do know it took from 2005 to 2009 for them to decide exactly what they wanted. Is it unreasonable to say, looking at all these, that this one looks about the best, but to make it exactly the best for us we need all these things to happen? Is there anything fundamentally wrong with that?

• (1245)

Ms. Sheila Fraser: We're not questioning the choice of the supplier or the type of helicopter that was chosen. We basically have two issues.

One is, as we note in paragraph 6.79, Public Works officials told us they used a market analysis done by Defence, and we found that it wasn't sufficient to justify this. We wanted to see better justification of why that particular supplier was selected.

The other issue we have is with the projects. It was known that there would have to be modifications to these helicopters, and the risk rating that was given was "low to medium". We believe it should have been rated "high". The decision-makers should have known that there would be risks on cost and on delay, because of the modifications that had to be made.

So it was really about the risk assessment, how it was documented, and how it was presented to decision-makers.

Mr. Jack Harris: It should have been retendered then in 2009.

Ms. Sheila Fraser: Well, not necessarily. If there had been an adequate justification showing that this supplier was really the only one that could meet all of the requirements, and if that supplier had actually been rated against all of those requirements, we would have been satisfied.

But the problem was that they went out with an ACAN, there was another supplier that indicated interest and was eliminated, and then over a three-year period the requirements changed quite significantly. I think this calls into question the whole process that's used to do these kinds of acquisitions.

The Chair: Mr. Fonberg, I sense a certain amount of frustration on your part, and I wanted to give you the opportunity to go ahead and express yourself on behalf of the department and everyone else. The issue is not so much whether you did things that were incorrect or illegal; it's that the starting point was the lowest-cost-compliant for what we were going to buy, and it turned out to be the best-value package as we went down the road. I think that's what the report of the Auditor General said. So I can appreciate your frustration.

You can appreciate the frustration of members of Parliament who get a call from a constituent who says, "Look, if you want to buy five bushels of apples, you don't go and get a seedling, plant it, and wait five years for the tree to tell you you're getting Macintosh instead of Golden Delicious." That's how the public is seeing this. I think we all want to make sure we do the right thing.

So how is it that we get into a situation where our military says we're doing quite well without this Canadianized version in a theatre of war, but we have to wait for a Canadianized version for domestic purposes? I want to give you an opportunity to address that. All those who are watching want to know so they can understand whether their money is being used judiciously.

Mr. Robert Fonberg: Well, I kind of like Golden Delicious myself, Mr. Chairman.

There were probably three questions in there. As for my frustration, as the report says, this is an extremely complex set of processes, costing billions of dollars, that take place over many years.

If I had asked you to tell me, in 2000, what kinds of cellphone requirements you would have, you probably would have bought a big cellphone that would have cost you a whole lot of money. But technology changed pretty dramatically and allowed for the requirements to be delivered in a different way.

I'll turn to my colleagues with respect to the timeline, but it actually takes a little bit of time to explain 10 years' worth of process—how things change and what we had to do in the way of approval processes, whether formal, legal, or driven by Treasury Board. We can explain all of that. Does it lend itself to a 30-second answer? No, but we are here to try to explain that to members.

We have ultimately the same interest as the committee in making sure that Canadians understand that they are getting value for money from efficient and effective acquisitions and processes.

I don't know if my colleagues would like to expand on that.

• (1250)

The Chair: Mr. Fonberg, everybody in Canada wants to make sure that our troops get safe and valuable equipment, and our military today has told us that they've done quite well with off-the-shelf items, rather than Canadianized items. So constituents are saying, "Well, if you don't need them in the theatre of war, why are we spending so much money for Canadianized equipment at home?"

Mr. Robert Fonberg: The chief of air staff will actually talk to what's on the Chinooks in theatre.

LGen André Deschamps: I think we have to be careful that we don't generalize what we did in Afghanistan. Much of the kit we bought was specifically for that theatre, for that geography, and for that climate.

What we're buying is something that serves us everywhere, especially in Canada. I think we just have to be careful we don't generalize.

The Manley panel made very specific recommendations for the things we needed to do now in Afghanistan, and this is what the government reacted to. Thanks to our allies, we were able to respond and deploy assets that were suitable for Afghanistan.

The Chinook Delta would not be suitable for Canadian operations in the high north. It's not built that way. It doesn't have the inherent capabilities to operate in the very rough domestic environment for us in Canada. The Chinook Foxtrot that we're buying will have that capability.

So I want to be careful that we don't generalize.

The Chair: With all due respect, you've already said that. I've accepted that and I appreciate it—except that you don't have that equipment operating in Canada today. So the question always is, if you don't have the need in Canada today, but you're able to lease, purchase, or borrow for a specific theatre of war operations, why are we going through this process? Why go lowest-cost-compliant as a point of departure when we are looking for a best-value package?

LGen André Deschamps: Well, sir, I can't answer to how the procurement strategy has evolved. All I can tell you is that the notion of being able to lease or borrow at the right time is fraught with danger. We were very fortunate in Afghanistan. We had a very reliable partner that helped us to ensure we got what we needed to do our mission in Afghanistan. In fact, they took it out of their hide. The U.S. army basically took a helicopter they were flying and said, "Here, we will give you these helicopters at a very reasonable price so you can meet your mission objectives." Is that going to happen the next time we need helicopters? I can't say that, Mr. Chair.

We just have to be careful we don't build our national security on other people's good intentions. We have a great ally to the south of us, but we have other missions we have to be able to do autonomously. I think that's what we reflected in our future requirements, and this is what we're trying to deliver through CFDS.

The Chair: I don't see any further questions.

I want to thank all of our witnesses for the opportunity to hear their explanation regarding the report tabled by the Auditor General. I want to thank the Office of the Auditor General. Some of the questions have been tough, as they have been tough for some other officials around the table. We look forward to getting some written responses from Treasury Board. I think there was one that was associated with DND. If you can get that to us in a timely fashion, we'd appreciate it as well.

I'm sure that Madam Fraser and her office will be following this very closely. We intend to cooperate as much as we can because I think we all have shared interests.

Thank you very much, lady and gentlemen.

The meeting is adjourned.

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