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Chair: The Honourable John McKay





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• (1635)

[English]

**The Chair (Hon. John McKay (Scarborough—Guildwood, Lib.)):** I call this meeting to order.

Folks, let's get started. I see quorum.

I offer insincere apologies to the witnesses, all of whom appreciate the difficulties of getting started on time.

This is a pretty important study the committee is dealing with. It's pretty well universal among committee members that the procurement system is not working, and it's certainly not working at any level of efficiency. As the threat analysis is getting more and more dire, we don't enjoy the luxuries we may have had in other years of being able to be a bit more leisurely about our procurement, hence the desire of committee members to bring all of you together, as the main players, to talk about what the current system is. However, I hope you will feel free to offer your suggestions on how to improve the current system.

I hope that doesn't impair your employability later on, but as I said, we can't carry on the way we're carrying on. We need some answers, and you folks are in the midst of this.

With that, I've asked the witnesses to be economical in their statements. I'd like to see a three-minute statement, if that's possible, but I'm not going to be too harsh about it.

I understand we're going to start with Mr. Page, then go to Mr. Crosby, Madam Tattersall and Mr. Xenos. We'll go in that order.

If you can, make it three minutes, Mr. Page. Thank you.

**Mr. Simon Page (Assistant Deputy Minister, Defence and Marine Procurement, Department of Public Works and Government Services):** Thank you, Mr. Chair.

Good afternoon, Mr. Chair and committee members. My name is Simon Page. I am the assistant deputy minister of defence and marine procurement at Public Services and Procurement Canada.

Thank you for the opportunity to appear here today to discuss the impact of Canada's procurement process on the Canadian Armed Forces. Given the current geopolitical environment, this committee's study is of pertinent interest.

PSPC works closely with the Department of National Defence, Innovation, Science and Economic Development, or ISED, and other key federal partners to ensure that it provides the procurement support needed to deliver the right equipment and services to the Canadian Armed Forces in a timely manner. Procurement processes

are part of a system whereby smart and sound procurement principles—such as early engagement, effective governance and independent advice through open, fair and transparent solicitations—ensure the best value for Canadians and the federal government.

PSPC chairs the interdepartmental governance committees established under the defence procurement strategy, and leads the stakeholder and industry engagement before and during the procurement process. It brings together all the key federal players to transparently consider trade-offs related to capabilities or performance, cost or value for money, the timely delivery of equipment and services, and economic benefits to Canada.

Since the start of 2020, PSPC has awarded close to 2,500 distinct defence contracts, valued at just over \$29 billion. There are over 250 projects and procurements being managed at the moment within the system, all at various stages of maturity and progress.

[Translation]

The system operates in a rich environment that includes specific statutes, policies, regulations, procedures, processes, and agreements. It has numerous inputs, covering a wide spectrum of scope, from large complex ships and aircraft to pistols through munitions and comprehensive in-service support solutions.

The system, like so many other entities in the Government of Canada, is fluid and requires continuous improvement and adaptation. Therefore, there is a constant and focused effort to modernize procurement policies and practices so that they are simpler, less administratively burdensome, continue to support policy goals while delivering impactful results for the client departments.

Under a specific optimization initiative, the desire for deliberate policy-making that leverages procurement is as strong as ever, as public budgets are tightened to achieve and support a number of mandates.

• (1640)

[English]

As part of Canada's defence policy, "Strong, Secure, Engaged", the effectiveness and efficiency of defence and marine procurement are fundamental elements of supporting Canada's positioning in terms of territorial protection, assistance to allied countries and support for humanitarian aid at the national and international levels. To ensure the success of this initiative, the Government of Canada recognizes the need to prioritize, so we have established a senior-level team to work on the broad topic of defence procurement and many of its elements in the periphery. The purpose of this team is to respond to the new realities through novel approaches to acquisitions, sustainment and strategic industry engagement.

I would like to bring to your attention, Mr. Chair, ongoing affairs that are of particular interest to defence procurement.

[Translation]

First the Sustainment Initiative, which is based on four principles: performance, value for money, flexibility, and economic benefits. Since 2016, the progress on this initiative has improved collaboration with key stakeholders, and provided early indications of optimized sustainment principles. This initiative, along with the Continuous Capabilities Sustainment initiative led by DND, as an agile programmatic approach to capability acquisition and sustainment, we expect to achieve better performance, enhanced goods and services and strong business partnerships with industry.

Finally, the risk-based defence procurement process allows for a delegation of authority to the minister of PSPC to enter into and amend contracts and contractual arrangements for lower risk and low-medium complexity defence procurement exceeding PSPC's contracting limits. PSPC led the implementation of the pilot, in partnership with Treasury Board of Canada Secretariat and the Department of National Defence.

Thank you, Mr. Chair and committee members. I would be pleased to answer your questions.

[English]

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

Mr. Crosby, you have five minutes.

**Mr. Troy Crosby (Assistant Deputy Minister, Materiel Group, Department of National Defence):** Mr. Chair, I'd like to thank you for the invitation to appear before you to discuss procurement within Canada as it relates to national defence.

I'm Troy Crosby, assistant deputy minister materiel at the Department of National Defence. It's my role at DND to ensure that members of the Canadian Armed Forces have the services and required equipment—equipment that is safe, fit for purpose and available—to enable the CAF to accomplish the missions assigned to it by the Government of Canada.

[Translation]

The commitments made in Strong, Secure, Engaged continue to be our focus as we make progress on the 362 projects of the Defence Policy, 39 of which are currently in definition and 117 in im-

plementation, while 156 are in close-out or have already been closed.

[English]

Additionally, work is under way on NORAD modernization and for the support of ongoing operations.

There remains a large volume of complex work still ahead of us. Of the 77 capital projects that the materiel group is currently leading, 22 are in definition phase, including the logistics vehicle modernization and remotely piloted aircraft systems projects, which are nearing the end of competitive selection processes.

Among the 55 major capital projects being led by the materiel group that are already in implementation—the project phase following contract award—are the future fighter capability project; the armoured combat support vehicle project, which has produced more than 90 vehicles to date, not including the 39 already donated to Ukraine; the fixed-wing search and rescue replacement project, which completed polar navigation testing this summer; the strategic tanker transport capability project, which will deliver a second CC-330 Husky later this year; and the Griffon limited life extension and Cormorant mid-life upgrade projects.

• (1645)

[Translation]

We continue to take important steps. Twelve months ago we had the third of six Harry DeWolf-class Arctic and offshore patrol ships, and recently in September we had the fourth. In the same month, we also completed the assembly of the 123 structural blocks for the first joint support ship.

[English]

Construction of the second joint support ship is already well under way, and preliminary design review for the Canadian surface combatant was completed in December 2022 with a view to reaching full-rate production in 2025.

[Translation]

Despite all of this progress in our procurement projects, there is still room for improvement in how we plan and implement the ongoing maintenance of operational capabilities of equipment already in service to keep pace with rapid technological change.

[English]

To accomplish this, we need to adopt a less transactional approach to our relationships with industry in order to realize improved outcomes for CAF readiness.

Mr. Chair, thank you for this opportunity to address the committee. I look forward to answering questions.

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

Next is Ms. Tattersall.

**Ms. Samantha Tattersall (Assistant Comptroller General, Acquired Services and Assets Sector, Treasury Board Secretariat):** Thank you, Mr. Chair.

My name is Samantha Tattersall. I am the assistant comptroller general for the acquired services and assets sector within the Office of the Comptroller General at Treasury Board Secretariat. I'd like to thank you for the opportunity to be here today with my colleagues.

First, I'd like to take a moment to outline the role that Treasury Board Secretariat plays in supporting the management of investments and procurement, including defence procurement.

The management of investments and their procurements is a shared responsibility across the federal system. The Office of the Comptroller General, which is the area of Treasury Board that I work in, provides policy and guidance on investment planning, projects and procurement. Treasury Board sets the administrative policy framework within which departments operate, and deputy heads of departments are responsible for ensuring they have the right governance, systems and resources in place to manage those investments and contracts. It's important to note that Treasury Board administrative policy exists within a broader legal framework, whether that be the Financial Administration Act, departmental legislation, trade agreements, etc.

[Translation]

As you know, the Government of Canada manages thousands of projects in any given year and enters into hundreds of thousands of contracts on an annual basis. The vast majority of these are managed within departments and, where applicable, with Public Services and Procurement Canada as a common service provider.

The more complex and higher-risk projects and procurement may require additional Treasury Board authorities. The requirements for when Treasury Board approval is needed are set out in the investment policy, as well as the procurement directive.

[English]

In 2021, we made an important reset to our investment and procurement policies, and we moved away from a prescriptive direction to a principles-based approach to provide more flexibility to departments to manage within their individual operational contexts.

For contracts, the dollar limits over which Treasury Board authority is sought are set out in the directive on the management of procurement. These are set at departmental levels, and for specific circumstances there are also exceptional contracting limits. DND, for example, currently has six exceptional contracting limits that are above its basic limits.

In recognition that dollar value is not always a perfect predictor for complexity, I think my colleague highlighted that we have been working and innovating with PSPC and DND to increase efficiency and support the streamlining of defence procurement approvals. As Simon mentioned, we've been piloting an approach for defence procurements that establishes a risk-based contract approval process for low-risk, low- to medium-complexity defence projects where the value exceeds PSP's existing contracting delegation. The idea is

that they're low risk and low complexity, so those don't have to come into Treasury Board.

With that, Mr. Chair, I am pleased to answer any questions from committee members.

**The Chair:** Mr. Xenos is next.

**Mr. Demetrios Xenos (Director General, Industrial and Technological Benefits Branch, Department of Industry):** Thank you, Mr. Chair and members of the committee, for the invitation.

My name is Demetrios Xenos. I'm the director general of the industrial and technological benefits branch at the Department of Innovation, Science and Economic Development.

● (1650)

[Translation]

Under Canada's Defence Procurement Strategy framework, Innovation, Science and Economic Development Canada, or ISED, is responsible for leveraging some defence procurement to promote economic activity and growth across Canada. The purpose is to create a sustainable industrial base and ensure that certain large scale military purchases contribute more broadly to the Canadian economy.

[English]

The ITB policy applies to certain defence and Canadian Coast Guard projects over \$100 million that are not subject to trade agreements or when a national security exception is invoked. The ITB policy contractually requires companies awarded contracts to undertake business activity in Canada equal to the value of the contracts they have won. Business activities can be directly related to procurement or can include activities in other high-value areas that strengthen Canada's industrial base in defence and other high-technology sectors and also advance key priorities.

[Translation]

The value proposition is at the heart of the Industrial and Technological Benefits Policy, which includes Canada's economic benefits requirements for each procurement project. The value proposition is developed from a thorough market analysis, as well as engaging industry. This work is being done in parallel with other government departments to meet procurement project timelines.

[English]

Our economic benefit requirements also target business activities in Canada's key industrial capabilities, or KICs, which include areas of established strength, such as simulation and training, and emerging technology, such as artificial intelligence. KICs are designed to support a resilient domestic defence industrial base that can provide our military with the equipment and services they require. They also serve the needs of close allies such as the United States, which is our largest export market.

[Translation]

As a core department under Canada's Defence Procurement Strategy, ISED participates in interdepartmental governance, and works closely with our partner departments in the procurement process.

This enables our officials to develop economic benefit approaches in parallel with the work of our partner departments to support timely decision-making and meet procurement project timelines.

[English]

Canada's regional development agencies also play an important role in the process and work closely with businesses to streamline the identification of potential suppliers for major prime contractors. As a market-sensitive tool, the ITB policy does not prescribe with whom a contractor must do business.

[Translation]

Since Canada has leveraged defence procurement for economic benefits for over three decades, most large contractors are well aware of the Industrial and Technological Benefits Policy and its associated obligations.

[English]

Under Canada's defence procurement strategy, the ITB policy remains an important tool to foster economic growth, support innovation, contribute to exports and help maintain and build Canada's defence industrial base. Under the current portfolio, the ITB has resulted in nearly \$44 billion in economic obligations associated with defence procurements, with \$39 billion of that completed to date. Over 715 Canadian organizations are benefiting from the ITB policy, of which close to 65% are small and medium-sized enterprises.

[Translation]

I would be pleased to answer your questions.

[English]

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

I think, colleagues, if we're disciplined, we can get in two full rounds with maybe a little bit left over.

With that, we will begin with Ms. Shelby Kramp-Neuman.

**Mrs. Shelby Kramp-Neuman (Hastings—Lennox and Addington, CPC):** Thank you, Chair.

Thank you, witnesses, for your patience with respect to the delay at the start of the meeting and for being here today.

There's no doubt we live in a very unpredictable and volatile international threat environment. Our decentralized, complex, multi-departmental approach to defence procurement is unique and doesn't seem to be working. It's characterized by bureaucrats, hurdles, political influence, cost overruns and delays in delivering major projects.

My first question is this. DND had \$2.6 billion in lapsed spending last year. Is the bottleneck of defence procurement in other departments a contributing factor to DND's lapsed spending problem?

Mr. Crosby, go ahead.

**Mr. Troy Crosby:** Thank you for the question.

I would start by offering that the budget forecasting my organization contributes to at National Defence begins well ahead of the start of a new fiscal year and is largely focused on expenditures for the delivery of equipment. Ultimately, we pay for the delivery of progress from goods delivered to services rendered.

We work with industry. We work through our contract forecast to understand what we think our financial requirements will be for the coming fiscal year. Whether or not we can actually deliver against those forecasts is largely informed by industry's delivery.

Now, industry is not in that on its own by any stretch. Countless decisions have to be made on a contract deliverable, so we are part of that, but there is an unpredictability in our forecasting and we rely on supplementary estimates through the year to achieve what we're trying to achieve.

• (1655)

**Mrs. Shelby Kramp-Neuman:** Thank you.

Given the current state of our conflict abroad, do you believe that our current materiel capabilities would allow us to respond as needed if the situation were to escalate?

**Mr. Troy Crosby:** I think the question would be better responded to by the Canadian Armed Forces.

We, as the materiel group, respond to any requirements that are identified by the Canadian Armed Forces, whether it's the consumption of ammunition or the need for spare parts—these sorts of things. We work closely with them. My organization is responsible for providing that in-service support.

**Mrs. Shelby Kramp-Neuman:** Perhaps, then, I can have you comment on this. A recent Canadian Forces general message announced that the federal government is going to cut at least \$1 billion from the already underfunded defence budget. General Eyre characterized this announcement as “difficult”.

Mr. Crosby, can we have your assurance that this announcement will have no negative effects on DND's ability to support the CAF's operational capacity or on DND's ability to procure the kit our troops need to do their jobs effectively and safely?

**Mr. Troy Crosby:** Work is currently under way to look at how DND can ensure that we're being as efficient as possible with our spending. Some specific areas have been looked at to date. Travel has been mentioned. There are others. That information is now being rolled up and will be provided as advice. We'll wait for decisions to be made and then implement those decisions.

**Mrs. Shelby Kramp-Neuman:** Thank you.

Mr. Page, last week our witnesses informed us that there was an utter disconnect between political leadership and defence procurement. How has political leadership, or the lack thereof, impacted the ability for procurement projects to be completed in a sensible period of time?

**Mr. Simon Page:** Thank you for the question.

We run all of the procurement processes within the defence procurement strategy apparatus. I described it in my opening remarks as a system. It's a complex system, but it's an effective system that is also benefiting from a very rigid known governance, whereby all entities come to the table and discuss specific procurements in a very synchronized fashion—issue by issue—really trying to optimize the output.

To your question, this governance is at various levels depending on the complexity of the project, as described by Samantha earlier from a Treasury Board Secretariat point of view. There's the director level. There's the director general level. We have the ADM—assistant deputy minister—and the deputy minister.

We work on projects that are approved by cabinet and are coming from client departments—in this case National Defence—and we put those through DPS governance. From the point of view of efficiency and of leadership having eyes on what we're trying to achieve, I'd like to think we're in a pretty good spot.

**Mrs. Shelby Kramp-Neuman:** We've heard the Parliamentary Budget Officer mention in the past the mixed accountability between all of the different, multiple departments. Would a single minister make a difference and be a helpful way to control these projects?

**Mr. Simon Page:** Actually, another thing that is effective and quite clear within defence procurement strategy governance is the accountabilities. For the set of policies, procedures, processes and laws that we operate under at the moment, the accountabilities in the discussions we have within this governance are known. For every project coming our way, there will be a discussion on requirements and performance, there will be a discussion on value for money and costs, and there will be a discussion on economic benefits for Canada. Independent of the complexity of the project, these accountabilities are known and they're discussed in a very structured fashion.

**Mrs. Shelby Kramp-Neuman:** Thank you.

**The Chair:** Thank you, Ms. Kramp-Neuman.

Mr. Fillmore, you have six minutes, please.

**Mr. Andy Fillmore (Halifax, Lib.):** Thank you, Mr. Chair.

Thank you very much to our guests today.

To the entire panel, the chair set the tone at the beginning of the meeting in stating there's consensus that something needs to change in the way we're doing defence procurement in the world. The very excellent analysts who support this committee researched models that exist in countries all around the world. They range from models where each branch of service is responsible for its own procurement to models where simply the department of defence is responsible for its procurement or an executive council of government is responsible for defence procurement. There may even be an independent, external civilian committee or organization that looks into procurement.

The point is that there are many different models, but Canada is unique. There is no other country that seems to have the dispersed accountability, if I could call it that, that Canada is using.

I noted in each of your opening remarks that you used most of your time to talk about the way you're doing things now and to describe the current processes. There was discussion about a pilot. I heard that.

Having worked in bureaucracies myself, I know that bureaucracies are sometimes naturally resistant to change. Maybe it's not the individuals within them, but the collective is sometimes resistant to change.

I want to take your temperature on being hospitable to change. In particular, do you see any pitfalls or benefits to some of these other models that do not have dispersed accountability?

Mr. Page, I will start with you.

• (1700)

**Mr. Simon Page:** Before I answer the question with specific pieces, I'll say I'm a computer engineer, so I look at things maybe in a very binary fashion. Defence procurement is being labelled as a whole bunch of things, but there are predefence procurement things. There is what I call pure and raw defence procurement and defence procurement processes, and there is postcontract award implementation procurement stuff, which I think tags along well with the "money being lapsed" question we had earlier. Each one of these things we want to characterize, then, as defence procurement. That's fine.

Starting with that as a premise, I think each one of those entities would benefit from improvement. I had a little bit of that in my opening remarks: This is a system, a complex system, delivering complex equipment, and it does need improvement on a continuous basis to make sure we keep up with things.

I'll mention three areas where I personally think the system would benefit from improvement. I'll leave room for my colleagues to weigh in also.

The first one is in the preprocurement basket. Capability development and capability planning need to be there ahead of time. You don't deliver a ship overnight and you don't deliver an aircraft overnight. You don't deliver a radar system overnight. You don't deliver bullets or ammunition overnight. It takes planning. It needs to be acknowledged that the average time to deliver an airplane is probably between six and 10 years from the time you actually get the go signal in the pure procurement box. For a ship, it's longer than that. Therefore, we need to do a very diligent job, with consistency, regarding what we want from a capability development point of view.

The other thing I will mention—and I'm probably stealing a bit of the flavour of my colleague Mr. Crosby here—is that we're working on something now called continuous capability sustainment. That, for me, could be a fairly golden solution to quite a few things we're seeing in the system, including innovation and generating relevant equipment for the Canadian Armed Forces by investing in service, in a capability. We take a hit maybe at the beginning, accept a capability that is viable and functional, and then invest in it to make sure that it remains relevant over time.

The other thing I would mention is costing. I have a lot of respect for all of those who work in that domain. It's tough. It's tougher than ever. We have done, I think, within the enterprise a really good job of investing in that capability over the years. However, when the design of something is not even finished and when that something is not in implementation, will only deliver seven or eight years for now and will deliver until 2050, costing it to the nth degree, for me, is not the most useful thing the system can do. We should take a different strategic approach in how we cost things and how we get going with what I characterize as massive projects that will be multi-year and worth multiple billions.

I have other ideas, but I'll stop here and leave some room for others.

• (1705)

**Mr. Andy Fillmore:** Okay. There may not be room, but thank you very much for that, Mr. Page.

Mr. Crosby, if I could hear from you, I'll ask you the same question, really. Are men and women in uniform and taxpayers being served by the process as it is now, or would they be better served with changes? What changes might those be?

**The Chair:** You will have 10 seconds.

**Mr. Troy Crosby:** There's a trade-off, as Mr. Page opened with, on capability, cost, schedule, economic benefits and the various outcomes we're seeking through our procurement processes for Canadian Armed Forces capabilities. We need to bring a focus to schedule, which is not on that immediate list. I think we're doing

some work in the background now to look for best practices among our allies on how to incentivize schedule adherence. We have to get the schedules right in the beginning, but then we need to make sure we're driving to achieve schedules and deliver against those requirements.

When I attend meetings of the Conference of National Armaments Directors at NATO, this is complex business. Nobody has a golden answer that I've seen to this point. The governance we're using now is how we bring these trade-offs together and make the most optimized solution that we can for everyone concerned.

**The Chair:** Unfortunately, we'll have to leave Mr. Fillmore's answer there.

I just want to thank you for going out of the lanes, because we are looking for other ideas, and we appreciate your thinking in this area.

Madame Normandin, you have six minutes, please.

[*Translation*]

**Ms. Christine Normandin (Saint-Jean, BQ):** Thank you very much to all the witnesses.

Mr. Crosby, you talked quite briefly in your opening remarks about the fact that we should have a less transactional approach with the industry. Can you tell us more about this idea and explain to me why it is problematic?

[*English*]

**Mr. Troy Crosby:** In general, historically, we've approached each procurement as a project with a beginning and an end. We deliver and we move on to the next challenge. As Mr. Page opened with, there's a longer-term requirement here that is not just about delivering a platform at the beginning of its life cycle. It's about sustaining the capability—I touched on that in my opening remarks as well—over a period of 30 to 40 years.

What we see increasingly is that technology is driving obsolescence into Canadian Armed Forces capabilities. We need to be able to not only keep up with that but also keep ahead of it.

Industry has wonderful insight into not only where technology is going but also where our allies are going at times, because they're selling internationally. The Canadian Armed Forces, the Department of National Defence and our colleagues have good insight into what that trajectory looks like. I think if we work more closely together in exploring these capability road maps over time, it will enable more timely decision-making and investment.



[Translation]

**Ms. Christine Normandin:** Is it possible that, in the long run, the speed of technological change could impact our ability to use tendering?

Will we always have to find commercial products on the market because the industry is a little ahead of us? Will the fact that technological advances happen so quickly mean that we will no longer be able to issue real tenders in the future? Can this be a problem?

[English]

**Mr. Troy Crosby:** Where we see this potentially going.... We're in conversations now, including with the associations that I know you met with early this week, about methods of achieving these improved outcomes. By having industry involved earlier in the process, or continuously in the process, we'll enable them to make the research and development investments they need to deliver new solutions to problems before they're problems. We'll also, then, potentially be in a position to release capability incrementally over time rather than waiting until we have a challenge and creating a project that we only begin then, taking a fair amount of time because of the complexity to get through the project.

Again, they're ideas that we're exploring now.

[Translation]

**Ms. Christine Normandin:** Thank you very much.

I would like to continue the discussion on technology development, particularly industrial and technological benefits.

Mr. Xenos, because of the multiplier effects, the industry tends to go into research and development. When it comes to defence, are we losing control of what we want in this area if we let the industry choose its research and development activities?

When industrial and technological benefits must be delivered as part of the contract, how can we make sure that those requirements are met?

• (1710)

**Mr. Demetrios Xenos:** Thank you for the question.

Research and development is proportionally a much smaller part of the industrial and technological benefits portfolio, in comparison to procurement and to the development of technology suppliers. Most of our portfolio has to do with agreements between companies, such as prime contractors and Canadian companies, to deliver products and services that complement global value chains.

Investments under the research and development stream target small and medium-sized businesses as well as post-secondary institutions. We try to help contractors reach agreements with these partners and encourage them to do so. Incentives are provided to these prime contractors through policies and multipliers, but these incentives are proportionally less than those in other streams.

We are really looking to foster activities that give partners the opportunity to interact with prime contractors, who are large companies. Usually, these partners cannot speak directly to contractors. Large companies find it difficult to work with smaller companies

and schools. We are trying to give them incentives to reach agreements and encourage activities in this area.

**Ms. Christine Normandin:** Thank you very much.

Mr. Page, in terms of minor acquisitions, should we be delegating more decision-making responsibilities to the industry regarding certain parts of the supply chain in order to alleviate the burden for the government? Should we also limit the number of military personnel involved in decision-making chains?

If you do not have time to answer my question, I will continue later.

**Mr. Simon Page:** I thank the member for her question.

In the field of defence and navy, contracts and projects are so large that it is difficult to have standing offers. The Government of Canada uses them to purchase other products and services.

That said, there are things we can do. For example, we have a strategic program for ammunition. We have integrated five companies and we are able to do specific things with them. We also have the key industrial capabilities, a tool that is managed by our colleagues from Innovation, Science and Economic Development Canada and that we can use for some purchases.

However, most of the time, when Public Services and Procurement Canada needs to launch what I call a pure procurement process, by default, we will call for tenders. Otherwise, we have to justify our position. That is a basic rule according to the policies that govern our work.

[English]

**The Chair:** Unfortunately, we'll have to leave Madame Normandin's question there.

Ms. Mathysen, you have six minutes.

**Ms. Lindsay Mathysen (London—Fanshawe, NDP):** Thank you, Mr. Chair.

To our witnesses, again, thank you for your patience. We're starting a bit late today.

On Tuesday, we heard from industry. They were talking about the problems that the delay of the updated defence policy has created. They were saying that ultimately it creates a bit of a.... Industry doesn't know where it needs to go because government hasn't determined where it needs to go. They're waiting for that.

Can you talk about how that is impacting you or what you're seeing from that on your end?

**Mr. Troy Crosby:** At this point the focus continues to be on "Strong, Secure, Engaged". There is a lot of work there—I think I outlined some of it in my opening remarks—and a lot left to do.

The defence policy update will of course bring us forward in time, reflect the current geostrategic situation that we find ourselves in and make applicable adjustments there. We will look forward to when those decisions are made, but in the meantime, we continue to move out with “Strong, Secure, Engaged” and NORAD modernization, as well as support to ongoing operations.

**Ms. Lindsay Mathyssen:** One of the initiatives within “Strong, Secure, Engaged” is the “Reform of Canada’s procurement model and adoption of life-cycle costing to ensure the Department of National Defence has not only the funding to procure new equipment, but also the funding to maintain and operate new equipment.” Can you quickly provide a life-cycle cost for Canada’s acquisition of the 88 F-35 fighter jets?

• (1715)

**Mr. Troy Crosby:** The acquisition cost for the F-35 is forecast at \$19 billion, and the life-cycle cost—I’m going from memory here—is \$70 billion. That was publicly released when the acquisition was announced.

**Ms. Lindsay Mathyssen:** Okay. Following up on that, interestingly, just on September 21, the United States Government Accountability Office came out with a report on their F-35 program, stating that the life-cycle cost for America’s fleet will amount to \$1.7 trillion, which is \$680 million per aircraft. The same study said that \$1.3 trillion of that, which was about 76.5%, was for the operational sustainment of the F-35s. Then there are more statistics, of course, coming out about mass deployment being required. Only 55% would be usable of those F-35s, and a lot of time is required for maintenance.

The report talked about Lockheed Martin’s price gouging and stated that by 2036, the F-35 project will be unaffordable for even America’s defence budget. This is quite concerning to hear, of course, considering that we’re going into a massive purchase and, by America’s own watchdog numbers, that life-cycle cost is far outweighing what they believe they can even afford. In addition to that, we know this is happening on American soil. They’re doing their own updating and maintenance there, which would heavily impact Canadians in terms of the wait-list.

I know that the PBO is supposed to do a life-cycle costing. We are anxiously awaiting that, but can you talk to this committee about the fact that this could be a potential problem, what you foresee and how your department is trying to ensure that we won’t fall into a lot of those same problems?

**Mr. Troy Crosby:** We participate actively in the governance committees that our allies are part of. Our allies are part of the production, sustainment, follow-on development and memorandum of understanding for the F-35s. We attend those meetings. The power of that collective voice with industry can’t be understated.

I think we’re quite fortunate to be working alongside close allies that have motivations similar to our own in making sure they’re getting value for money and delivering readiness for their armed forces.

It’s something we will need to watch. There are some choices that can be made along the way in terms of capability enhancements that will be brought to the F-35 over its life cycle. At the

same time, I can assure you that all of our allies are focused on making sure we’re getting the best value for our money.

**Ms. Lindsay Mathyssen:** What specific mechanisms are in place to ensure we don’t fall down into the same problem the Americans clearly have now? Are there things within the contracts and the negotiations? I know we have to be careful about talking about them. Are there mechanisms within them to protect us from that?

**Mr. Troy Crosby:** From an acquisition point of view, as a member of this memorandum of understanding, Canada will pay the same price for the F-35s that the U.S. military will pay for them and no more. Because of legislation, we can’t pay less.

The in-service support costs are partially driven by the way the aircraft are operated, the number of flying hours and the readiness levels. The amount of deployment readiness that a military plans for speaks to the amount of money that’s spent on spare parts and where they’re positioned—these sorts of things. We have the autonomy to match our operational requirements and our environment, but the fundamentals are the same.

**Ms. Lindsay Mathyssen:** If the Americans are being gouged, as stated by their watchdog, how do we ensure that we are not equally price-gouged?

**Mr. Troy Crosby:** I have no evidence directly that we’re being gouged. I wasn’t aware of the public commentary there. Again, I reassure you that the motivation of all departments of defence is to make sure that we are paying as little as possible for the most operational output we can achieve.

**The Chair:** Thank you, Ms. Mathyssen.

Mr. Kelly, go ahead for five minutes, please.

**Mr. Pat Kelly (Calgary Rocky Ridge, CPC):** Thank you.

I’ll probably direct my question to the Department of Industry.

What is stopping Canada from having contracts in place to produce additional 155-millimetre shells?

I think the pause is almost telling. What is stopping us?

• (1720)

**Mr. Demetrios Xenos:** Pardon me, but I’m wondering if the question is about the munitions supply program in Canada.

**Mr. Pat Kelly:** Yes.

**Mr. Demetrios Xenos:** That is outside of our department’s ambit. That’s the reason for the pause.

**Mr. Pat Kelly:** I’ve been asking this question of officials for three weeks now. Can somebody please help us here?

Go ahead, Mr. Crosby.

**Mr. Troy Crosby:** To this point, we continue to participate in conversations at NATO and bilaterally with the U.S. on the need to improve readiness from a munitions availability point of view. Those have led to conversations with some of our munition supply contractors here in Canada, notably IMT Defence and General Dynamics Ordnance and Tactical Systems, which are involved in making 155-millimetre ammunition for Canada.

As the deputy minister mentioned to you at an earlier appearance, we're currently capable of manufacturing what's referred to as the M107 variant of the ammunition and not the current M795. At the beginning of this calendar year, National Defence provided \$4.6 million—if my memory serves, or it may be \$4.3 million—to IMT Defence to ramp up their ability to produce the shell, from 3,000 rounds a month to 5,000. It's not the complete round but it's the shell. They are going to achieve that by the end of this calendar year.

Meanwhile, both GDOTS and IMT Defence provided us estimates in about the fall of last year to start the production of M795 ammunition. The estimate was \$200 million total to set that up. We made a recommendation through the deputy minister and chief of the defence staff to the Minister of National Defence to proceed with that investment, and that was approved. Since that time, industry estimates have doubled to \$400 million. We are now looking at that investment again to establish the production capacity for M795 in Canada for the Canadian Armed Forces. It does not include the money to actually buy the ammunition off that production line once it's commissioned.

**Mr. Pat Kelly:** There's presently no timeline or expectation of when this might happen—or if it will happen.

**Mr. Troy Crosby:** We've formulated updated advice based on the new information we've received from industry, and that will go through the decision-making process.

**Mr. Pat Kelly:** We had testimony from General Eyre last Thursday about the urgency of this. I hope we can make this happen.

**Mr. Troy Crosby:** If I could add....

**Mr. Pat Kelly:** I have some other questions, but go ahead.

**Mr. Troy Crosby:** Once the money is approved, industry forecasts three years for the production line to be operational.

**Mr. Pat Kelly:** That's important information. Thank you.

Ms. Tattersall, media reports have stated that there was a \$450-million addition to the renovation and improvement of the Irving dock. This type of subsidy is prohibited under the shipbuilding strategy. How was that funded?

**Ms. Samantha Tattersall:** Thank you for the question.

I may defer to my PSPC colleague, as the project sponsor.

**Mr. Simon Page:** There's nothing prohibited here. It's an investment in a project.

The big picture is that the shipyards were asked to fund infrastructure investment to reach what we call a “target state” within the national shipbuilding strategy. A target state means that they have to reach a level of maturity from a wide variety of parameters, including infrastructure processes, software enterprise systems and things like that—the things that you need to build ships.

They are very close to their target state. They're going to build eight ships with that target state. They've already built four.

We needed an investment in the Canadian surface combatant project, because the Canadian surface combatant is no longer the same notional Canadian surface combatant that was thought through in the early outset of the NSS. It's a denser, more complex ship, and therefore we needed to equip Irving to be ready to deliver the project.

It's an investment in the project. It's a lot more than the dock. It touches on various pieces of the shipyard, but it's an investment in the project to deliver an asset that is more complex and denser than initially anticipated.

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

It was \$200 to \$400 million in months, and three years to deliver.

• (1725)

**Mr. Pat Kelly:** The shipbuilding strategy wasn't supposed to have customized subsidies like that.

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

Mr. Collins, you have five minutes.

**Mr. Chad Collins (Hamilton East—Stoney Creek, Lib.):** Thanks, Mr. Chair.

Welcome to our witnesses today.

I'm going to start with a theme that's been raised at almost every meeting—at least that I've been at. It's about culture change. That's a very subjective term. I think everyone would have a different interpretation and answer for that.

To a witness or an organization...there's been the reference to culture. There's a reference that maybe bureaucracy needs to take on more risk, that there needs to be less micromanagement of some of the larger files or there needs to be fewer bureaucratic fingerprints on some of these more complex files.

Mr. Crosby, I'll start with you. What does culture change mean to you, and how can we adopt some recommendations here at the committee that speak to the whole issue of driving change from a culture perspective?

**Mr. Troy Crosby:** The notion of risk, that perspective on risk and what is a tolerable level of risk come up regularly in our discussions and in how we formulate our processes. Sometimes we find ourselves having conversations about how we can roll projects out incrementally so that we can retire risk later in the process once more is known and see progress made sooner in the projects.

The tools for us to be able to do this are largely present now. It's a choice to do that, recognizing the importance of getting incremental delivery of capability to the Canadian Armed Forces as quickly as we can, rather than waiting for the big bang at the end of a project that has become overly complex simply because we've tried to do everything at once.

**Mr. Chad Collins:** Thanks for that.

Mr. Page, maybe I can ask you something along the same lines. You talked about trade-offs in your opening, and you've referenced them several times now to the committee.

Former deputy minister of defence Richard Fadden was before the committee and talked about some of those trade-offs. He said we might want to consider pushing the pause button on transparency, to some extent, in a structured way in order to speed up the process.

What are your thoughts on having to make a choice among some of the principles and policies that are embedded in the procurement process? The only way to move things forward a bit more quickly might be to take some of those policies off the books.

**Mr. Simon Page:** Again, for me there are two key components to this culture. I'll go back to my previous statement about preprocurement, procurement and post-procurement. I'm actually quite intrigued by the reaction here about the three years for the ammunition, so I will touch on that a bit.

First, as I mentioned earlier in answer to another question, our default position within the system right now is that we compete for everything. There's the policy, the client sends me a procurement and the default position is to compete. If we don't compete, it's a sole-source justification that needs to be debated with a good degree of discussion. That enablement to go sole-source when sole-sourcing makes sense should be looked at. That for me is a culture thing that we have integrated into our policy. We need to break that a bit and be empowered to make decisions when a competition does not make sense and is not really the way to go for very obvious reasons, and we have other mechanisms to deliver more effectively. Usually, meeting schedule costs is a different discussion.

I still want to touch on preprocurement activities and planning. If you don't plan, industry is industry, and we need to understand industry. We also need to empower it to deliver for us. That's one thing that I don't think we do super well. I think there is some improvement there. One of the initiatives we have will look at that, but if we don't know we're going to need a specific 155-millimetre bullet at some point, and we expect it to be on the shelf a month from now, then we don't have a good appreciation for the system and what we're trying to deliver.

If you want to deliver stuff on time, start planning on time. You'll get it on time. The speed at which ships can be built is known. The speed at which you can purchase aircraft is known. We need these

items to transit through the machine at a pace that will enable no capability gap and enable timely delivery.

**Mr. Chad Collins:** I get all that. That's all driven by policy. In a perfect world, things run very efficiently if at the start of the process we're efficient right through to the end. If the stars align, that thing gets through quickly. Obviously it's somewhere in the system within the policies we have in procurement. Some of those policies are holding things up.

I guess my direct question to any of you would be this: What policies do we take out to speed things up? What would you be comfortable with? Understanding that we need a level of transparency, what specifically do we start taking out to speed up the process?

• (1730)

**The Chair:** That's an important question. I hope some of you will reflect on it at some point, but we're out of time.

I'm sorry, Chad.

You have two and a half minutes, Madame Normandin.

[*Translation*]

**Ms. Christine Normandin:** Thank you very much, Mr. Chairman.

Mr. Page, I would like to go back with you to the fact that tendering is supposed to be used by default. With respect to multimission aircraft, we found out that the CP-140 Aurora aircraft were scheduled to be replaced starting in 2032, but that deadline was finally moved closer, which might benefit Boeing.

Also, last week, Minister Blair told us that because of the budget cuts requested by the Treasury Board Secretariat, there could be calls for tenders or extended timelines for projects, given the fiscal years.

I was wondering where we are at with the replacement of the CP-140 Aurora aircraft. Are we going to maintain a tight deadline that prevents tendering, despite the budget cuts planned by the Treasury Board Secretariat? Could we go back to a slightly longer timeline with respect to the procurement process so that tendering is possible and perhaps taxpayers can get a better value for their money? I know my question encompasses a lot, because I am putting a few things in context, but I would like to hear your comments on that.

**Mr. Simon Page:** Mr. Chair, I thank the member for her question.

Unfortunately, I cannot speak to this in detail. This is a project that is ongoing and there is very little I can say. We are in the decision-making process. What I can say is that all pillars of the Defence Procurement Strategy are considered: performance, cost, return on investment and economic benefits for Canada.

Right now, we are really in the middle of the decision-making process. I can tell you that at first glance, budget cuts do not seem to have any bearing on where this project is going or what decisions we have to make.

**Ms. Christine Normandin:** Regarding the duration of the acquisition process, the aircraft were originally due to be replaced starting in 2032, but it is now going to take place earlier.

Is that correct?

**Mr. Simon Page:** Some variables led us to look at the Aurora replacement project in a different way. We are still at the heart of these discussions.

[English]

**The Chair:** Thank you, Ms. Normandin.

Ms. Mathysen, you have two and a half minutes.

**Ms. Lindsay Mathysen:** Just to return to “Strong, Secure, Engaged”, there was an initiative within it that said:

Grow and professionalize the defence procurement workforce in order to strengthen the capacity to manage the acquisition and support of today’s complex military capabilities. This includes the addition of over 60 procurement specialists and enhanced training and professional accreditation for defence procurement personnel.

However, we heard that there is a 30% vacancy rate for those defence procurement personnel.

When we are talking about policies, planning, your department's ability to do the work it needs to do, not skipping out on transparency, and the things we need to have for that openness in government, how are you able, with that 30% lack of personnel, to continue to work within the timelines we are hoping to have going forward?

**Mr. Troy Crosby:** Since “Strong, Secure, Engaged” was released, the materiel group at National Defence has grown by approximately 630 people. That said, the amount of work we are progressing with has increased dramatically and continues to grow with the NORAD modernization, the replacement of donated materiel, and the other projects.

It takes quite a while to grow somebody to take on project leadership or project management responsibilities for a large, complex program. We have a formal process of project management competency development that we operate inside the materiel group at DND. For someone to take on the most complex of our projects, it is generally a nine-year process of experience gained through increasing responsibility in more and more complex activities. We are always feeling the pressure to make sure we have the people we need.

We are continuing to recruit. We've actually just launched what we call an “academy”. It's not a building; it's a concept for procure-

ment specialists within the group so that we have the people we're going to need to take on additional work.

In terms of the 30% shortfall, it's important to recognize that our organizational charts for a project are established at a moment in time at the beginning of the project, and they represent the high-water mark for the number of people who would be required—all the specialists—but not all of the specialists are required all of the time.

Right now, despite the shortfalls from a numerical point of view, I have no projects in my organization that are reporting red for human resource availability. There are quite a number reporting yellow. They are feeling the pressure. At times we do find ourselves challenged to find the very specialized subject matter expertise that is required at a moment in time to move a particular project forward.

• (1735)

**The Chair:** We'll have to leave the answer there.

Thank you, Ms. Mathysen.

Mr. Bezan, you have five minutes.

**Mr. James Bezan (Selkirk—Interlake—Eastman, CPC):** Thank you, Chair.

I welcome our witnesses to the table.

Mr. Crosby, it's good to see you back here again.

We've had a number of witnesses come here, including ministers and the chief of the defence staff, talking about needing to move industry in Canada onto a war footing. Things are dangerous in the world right now with what's happening with the war in Europe, and of course the geopolitics being played in the South China Sea and in the Taiwan Strait.

Are your departments on a war footing? Have you guys made any changes to move Canada onto a war footing?

**Mr. Troy Crosby:** My organization responds to the Canadian Armed Forces' priorities from a procurement point of view and for the in-service support to the fleets that are assigned to operations. From a project perspective, we continue to come back to that.

In the case of Operation Reassurance, we have moved out quickly on urgent operational requirements that the Canadian Armed Forces have identified.

**Mr. James Bezan:** At the same time, we have to fight using what we have, and we need to replace what we have. What are we doing to expedite the process of procurement, which is the subject of the study here right now, to make sure we get the kit that our troops need?

**Mr. Troy Crosby:** In the case of the urgent operational requirements that I just mentioned, there are three of them. The request for proposals have been released. We see ourselves being able to get through the procurement processes and deliver capability by mid-summer of 2024. It comes down, in those cases, to being very disciplined in identifying the requirements that are needed for those operations, which is—

**Mr. James Bezan:** As we talk about in national defence, one of the complaints has been that too often we do too much Canadianization. Shipbuilding is a great example. Here we are 12 years down the road on the surface combatant and we still don't have a design finalized. What are we doing to make sure that we try to limit that type of interference, which slows down procurement?

**Mr. Troy Crosby:** On a case-by-case basis, we can avoid any type of Canadianization, but in other cases, when we're looking at long-term platform requirements that we're going to have in service in Canada for 30 years—

**Mr. James Bezan:** We may not have the time, though, in the world we live in today, to Canadianize all those platforms.

I'll give you a break, Mr. Crosby. Canadianization has been a complaint. We've already talked about the culture of risk aversion over at Public Services and Procurement Canada. What are we doing at Public Services and Procurement Canada to address the need to move onto a war footing and limit the amount of risk aversion we face?

**Mr. Simon Page:** That's a tough question because I wouldn't say that we're not doing anything hard specifically. As I mentioned in my opening remarks, I think of us as delivering through a system. This system needs refinement—there's no doubt about that—and continuous improvement.

**Mr. James Bezan:** We need to know what sort of refinement so that we can make recommendations to the government.

**Mr. Simon Page:** One of the things we did—and Samantha and I both talked about this in our opening remarks—was take a risk-based approach, delegating more to PSPC and not having to go to the Treasury Board every time with a submission. This allows our colleagues at the Treasury Board to focus on other, bigger files. That is in play. That has matured quite a bit and has enabled—

**Mr. James Bezan:** To go to the Treasury Board, then, the complaint is that there's way too much red tape and that it requires way too much paperwork. Small businesses can't even afford to get into the competition. Also, given our RFP, what the States does in 100 pages.... We'd take 100,000 pages to make that request.

What are we doing at the Treasury Board to reduce the amount of red tape and reduce the rules that are impacting overall effectiveness in procurement in Canada?

• (1740)

**Ms. Samantha Tattersall:** I'll say a couple of things.

First of all, Treasury Board policy is principle-based now. We moved from a very prescriptive policy—it was something like 80 pages long—to a very short principle-based policy to give more flexibility. If you ask my colleagues whether Treasury Board policy is the big inhibitor, I would hope they say that it's not the biggest inhibitor.

When you talk about the approval process and what comes to the Treasury Board and what doesn't, we are always working with our colleagues to ask, "In this procurement, are there exceptions or flexibility that you need that we can propose to the Treasury Board?" When you talk about defence procurement, it's quite large. What are the big complex ones? Then we have an ongoing conversation about where exceptions and flexibility may be needed.

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

Ms. O'Connell, welcome back to the committee. You have five minutes.

**Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.):** Thank you, Mr. Chair. I guess you can't get rid of me that easily.

Thank you to our witnesses for being here.

When I was on this committee, a lot of these issues were brought up in other studies as well. In my role with cybersecurity in the study this committee did on cybersecurity, I saw that the issues around technology are of quite serious importance, especially these days.

One of the criticisms was about the length of time to go through the procurement process, in particular for DND. Between the time that process occurs and the delivery of whatever is procured, the technology becomes obsolete.

I'll leave it to any of you who want to take on this question. What is being done to address the fact that, every single day, technology is advancing and evolving? How are we creating a process that allows for us to stay up to date and to deliver in a meaningful time frame?

**Mr. Troy Crosby:** Again, the focus is on continuous capability sustainment, with the objective of quickly delivering to the Canadian Armed Forces an effective capability that we can then evolve over time through a spiral development approach. That is really where our minds are right now.

We have examples where this has worked effectively. There is an integrated soldier system project that has seen three spirals of incremental capability released to the Canadian Armed Forces. It has also given them the opportunity to influence each subsequent spiral over time. I think it's a model that can work for us.

**Ms. Jennifer O'Connell:** You talked about examples, but do you actually have data? If you're in the space of purchasing something that requires technology dealing with cybersecurity and you would need the most up-to-date.... This would apply to everything, not just cybersecurity or technology. Do you have data you can measure? Let's say it took us five years to develop a software program or to procure a software program for whatever project was needed, and then two years later we had to update that. Do you have data demonstrating that you're improving in this area, and anything to show some transparency as to whether we are keeping up with the technological trends and capabilities that are needed?

**Mr. Troy Crosby:** We have conducted a review of the procurement process as it transitions through its major phases—identification and options analysis, definition implementation and where the time is spent—depending on the complexity of the projects. There are quite a few variables at play out there. Some of the policy changes and enablers that we've seen brought in have not been through enough projects yet for us to measure whether or not they're having a serious impact statistically that we could demonstrate, but anecdotally we do see progress.

**Ms. Jennifer O'Connell:** For the point of this question, and it could be related to others, are there categories or recommendations that we could make to ensure we are not taking so long to procure something that by the time we receive it and are able to use it, it's out of date? Could there be recommendations under certain categories to ensure the process is streamlined?

• (1745)

**Mr. Troy Crosby:** Mr. Page and Ms. Tattersall mentioned some of the risk-based approaches. I think the context was largely around contracting authorities. There are also expenditure authorities that need to be sought by the Department of National Defence. We're applying the same sorts of delegation instruments whereby we're right-sizing the process. Rather than making a full Treasury Board submission, perhaps we could have approval from the Minister of National Defence in a thinner submission, or from the deputy minister in a thinner submission, or from me.

We are working on some of those processes. They are there, and that will continue as we get comfortable with them and know where the flexibilities are to continue to progress down that path. I think it's most important, though, that we don't try to find one solution that fits all defence procurement. If you're buying a surface combatant, that is very different from a low-complexity, relatively low dollar value procurement. I'd say that buying surface combatants and fighter jets will always be complex and time-consuming, but we really need to get better at keeping those platforms relevant once they're delivered.

**The Chair:** Colleagues, we have time for one more two-minute round. I'll go to Mr. Bezan and Ms. Lalonde for two minutes each, then to Mr. Kelly and then to one final Liberal.

With that, Mr. Bezan, you have two minutes.

**Mr. James Bezan:** I want to get down to how your departments work across your silos. In the past we had a PCO secretariat to take on defence procurement. There has been a lot of talk from witnesses here about ministerial accountability and having one point of ministerial accountability. There has also been talk of making sure the Prime Minister is engaged and sees this as a priority.

Can you comment on how this can be better managed, from today versus what is possible in the future? Do we need a PCO secretariat?

**Mr. Simon Page:** For me, living this on a daily basis—tomorrow I will chair an ADM-level committee on the EPS and will review a few projects—I actually find it's a strength of the system.

With the way we are structured now and the way we come together through a very structured, rigid governance, including all the departments—the client department, ISED and PSPC—we in PSPC are the glue in this governance. We're bringing together the different trade-offs that have been mentioned at this table. We have really good discussions about what needs to be done.

I remember the days when this governance did not exist and we didn't talk to each other. Now we talk to each other a lot—two or three times a day. The governance is formal and we have central agencies fully integrated—

**Mr. James Bezan:** On the governance structure, then, they're reporting upwards. How engaged are your deputy ministers at that level? They're ultimately the next level up.

**Mr. Simon Page:** They are. Every month, there's an ADM-level committee on defence procurement, so that's 12 a year. There are DG-level consultations. For me, it works. The synchronization with what we need to do is there. When we need to engage ministers, we're all at the table and we make sure that PCO is there for higher consultation as required.

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

Mrs. Lalonde, you have two minutes.

[Translation]

**Mrs. Marie-France Lalonde (Orléans, Lib.):** Thank you very much.

[English]

I'm going to be very structured, because I really want to hear from you.

There's been a lot of confusion at this committee around the proposed spending reductions. As I read the budget—and I'm sure my colleagues enjoyed it very much—it says clearly that these reductions won't affect the Canadian Armed Forces. It stipulates that specifically. My understanding is that this is looking at executive travel, and I think there was a spark of conversation here on management consultants. Could you help provide some clarity on the decisions, please?

**Ms. Samantha Tattersall:** You're correct that the refocusing of spending is looking at professional services and travel. There is a look at operations and transfer payments. I think it's been clear that savings from underutilized spending will be shifted to other priorities, so it is about refocusing.

In terms of the CAF, the following are excluded: Canadian Armed Forces salary expenses, operating expenditures except professional services, and expenditures related to deployments and relocations.

• (1750)

**Ms. Marie-France Lalonde:** That means that, for operations and for what our CAF members are requiring and needing, any decisions being made would not have this impact.

**Ms. Samantha Tattersall:** What I would say is that each minister has brought forward proposals. Those proposals just came to Treasury Board Secretariat a couple of days ago. Those proposals are being reviewed, and those decisions are still to be made.

**The Chair:** Thank you, Mrs. Lalonde.

You have one minute, Ms. Normandin.

[Translation]

**Ms. Christine Normandin:** Thank you.

Mr. Crosby, you mentioned that it would be relevant to include industry players throughout the acquisition lifecycle. However, there are areas where we already have expertise, such as aerospace.

Would it be relevant, for example, to have an aerospace policy to further promote innovation and creativity, and to better involve industry players in certain projects?

[English]

**Mr. Troy Crosby:** I know that the Aerospace Industries Association of Canada is quite focused on an industrial strategy. What we provide is insight into the investments the Canadian Armed Forces are going to require.

In the case of “Strong, Secure, Engaged”, there was a list of everything for which there would need to be investments over time so that industry would have the foresight to position itself to best pursue that. Beyond that, there would be other elements that might form part of an industrial strategy, but it would be broader than impacting just national defence, in some cases.

**The Chair:** Thank you, Ms. Normandin.

Ms. Mathysen, you have a minute.

**Ms. Lindsay Mathysen:** Last week I asked Deputy Minister Matthews about the analysis done for facilities maintenance at bases and where there are inadequate checks and balances when

we're outsourcing those contracts. From a PSPC point of view, what types of analyses are done at other departments for small and medium-sized maintenance contracts that DND can learn from?

**Mr. Simon Page:** This doesn't fall under defence and marine. The way the bases are supported is more of an infrastructure or real property question, not defence and marine. I don't have the information to answer your question.

**Ms. Lindsay Mathysen:** That's fair enough.

**The Chair:** Mr. Kelly, you have two minutes.

**Mr. Pat Kelly:** Mr. Page, during your opening statement you said something interesting that I'm not sure I understood fully. You talked about the need for a less transactional approach with industry.

I'm sorry. It was Mr. Crosby who said that.

Industry has said, “We need firm contracts, we need certainty and we need 20-year deals because of the investment required.” In that example, we were talking about munitions.

What did you mean by that? What would be a less transactional approach that would make procurement work more efficiently and help us to achieve the defence needs of our country more quickly?

**Mr. Troy Crosby:** When it comes to acquiring ammunition, for example, ultimately an order needs to be placed. There need to be contracts signed so the materiel can be ordered by the supplier, come together and be assembled into an end product. The less transactional notion is more applicable to ongoing support of an aircraft, an armoured vehicle or a ship than it would be for... Ammunition is considered by us to be a consumable, not something that we sustain, so that would be delivered through transactional contracts.

**Mr. Pat Kelly:** You said in your opening statement that the system works; it does what it's supposed to do and what it is required to do under law, yet we have these problems of extraordinarily long procurement. For example, we're more than 10 years into the shipbuilding strategy and we don't even have a design yet.

Is that acceptable, first of all? Secondly, what changes would have to be made to get things going more quickly?

• (1755)

**Mr. Simon Page:** This is probably a question for everyone, because everyone may have a view on this.

Maybe on this one I'll touch on the transactional piece, because I believe the continuous capability sustainment, which we have described to the committee, could actually empower industry in a very meaningful way. The contract itself could be reshaped with a different mindset to be less transactional, empowering industry not only to keep the capability in good shape but to keep it relevant and technology-adequate.

**The Chair:** We're way out of time, but keep on going. I think this is important. This is the meat of what we were hoping to get out of you.



**Mr. Simon Page:** Mr. Chair, could I get a reminder on the second piece?

**The Chair:** Pat, ask him again.

**Mr. Pat Kelly:** My question to you was about shipbuilding, the delay, the 10-plus years for design....

**Mr. Simon Page:** Let me answer the easy question. Is where we are with the design okay? Absolutely it is. We're doing the right thing. We're taking our time, because in shipbuilding, design is key. You don't start before you have a good design ready for production.

We talked a bit earlier about Canadianization. There's very little Canadianization on the Canadian surface combatants, but there are approximately 250-plus systems coming together on one of the most complex ships that will be built on this planet. This is what's happening right now for the Canadian surface combatant.

From a process point of view, I'm okay with Irving Shipbuilding, Lockheed and BAE working together, taking their time to give us, with their good accountability, a design that makes sense. We will gain from that in the build process.

What we could do to make sure that we don't have capability gaps.... I'm sorry I'm coming back to this point. It's not so much a PSPC point. It's really how we approach the entirety of the machine. We now know—and we're not the only ones in the world who are seeing this—how long it takes to build a complex warship.

One would say that by the time we're building CSC number 10 or 11, we should probably start thinking about the next one, because that's how much time it takes.

Right now, to the question about culture and understanding, that's where we are. Delivering complex systems for the Canadian Armed Forces takes time. There's no store called Complex Systems for the Canadian Forces. We need to work with industry and make sure we prepare and have adequate time to deliver.

**The Chair:** You've hit on the nub of the issue. There's a sense here that, as a defence committee, we don't have the luxury of time on a number of these platforms, so we are looking to you, in particular, for ideas, suggestions, guidance and recommendations.

I am talking to colleagues about this, but this panel has been very insightful—delightfully insightful—and I think very useful. We haven't been able to have the full time with you. We may be calling you back to talk about this a bit more.

In the meanwhile, I want to thank each and every one of you for your willingness to go out of your lanes a bit and actually think about how we need to reform the entire procurement process. It's been very helpful. Thank you for that.

Have a happy Thanksgiving.

The meeting is adjourned.

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