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## Standing Committee on National Defence

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**Chair**

**Mr. Rick Casson**

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• (1530)

[English]

**The Chair (Mr. Rick Casson (Lethbridge, CPC)):** We'll call the meeting to order.

Today we start our study on procurement with the Department of National Defence. We'd like to welcome today Minister O'Connor—thank you, sir, for being here—along with CDS General Hillier and Deputy Minister Elcock.

Thank you all.

Before we get started, I'd like to remind the committee that after the opening comments by the minister, we work on a pretty tight timeline, and today I'm going to be very strict. The opening round is for ten minutes; then we go to a five-minute round after that.

In order to be fair to everybody, I will be cutting off questioners. Mr. Minister, I apologize ahead of time: I may be cutting you off as well. But we're going to keep to the ten-minute timeline for each questioner, and then the five-minute timeline in the second round.

As usual, we will start, sir, with a presentation—whatever you would like to offer—and then we will get into the questioning.

The floor is yours, sir.

**Hon. Gordon O'Connor (Minister of National Defence):** Mr. Chairman, members of the committee, it's a pleasure to appear before you to discuss defence procurement. I'm sure you'd agree, having met our men and women in Afghanistan, that procurement is a critical aspect of ensuring that the Canadian Forces have what they need to do their important work.

Over the years, the House of Commons defence committee has done very good work for the members of the Canadian Forces. It has taken the time to carefully look at such challenging issues as the quality of life for our military, operational readiness, and of course Afghanistan. I'm happy to join you today as you begin an examination of defence procurement.

[Translation]

I must tell you that it is a study that I think will, in the end, ultimately help the dedicated men and women of our Canadian Forces. That is because unfortunately, in my opinion, those who wear the Canadian uniform have had to battle underfunding, cope with personnel shortages, and work with obsolete and aging equipment for far too long.

I feel privileged that a little over a year ago, I was given the opportunity to do something about it, and to make changes to help revitalize and reinvigorate the Canadian Forces.

[English]

This government is procuring equipment fast and in a more open and transparent way. We are getting the right tools for the Canadian Forces, we are getting the right price for Canadian taxpayers, and we are ensuring benefits for Canadian industry.

Let me explain. I think everyone will agree here that investment in the Canadian Forces is long overdue. The fact is, pent-up demand for investment and recapitalization is driving the current procurement agenda, and it is putting major pressure on my department to shorten delivery schedules and streamline the acquisition process.

During the election campaign, we promised to rebuild the Canadian Forces, and over the past year we've worked hard and have delivered on that promise.

[Translation]

Like the members of this committee, the Prime Minister understands how important the Canadian Forces are for Canada. Like you, he is dedicated to reinvigorating our forces after years of neglect. And, he is determined that Canada remain a force for good in our troubled and dangerous world. Our Prime Minister sees a critical role for the military. He understands that realizing our government's vision of an effective armed forces requires that they be well equipped and properly outfitted.

[English]

Ladies and gentlemen, this government is doing its utmost to provide the tools our men and women in uniform need to succeed. And Mr. Chairman, an efficient and reliable procurement system is at the centre of these efforts.

Bluntly, here's the situation our armed forces find themselves in. The Department of National Defence and the Canadian Forces possess billions in capital assets. That covers everything from trucks to fighter aircraft, to naval vessels, to barracks and office buildings. Past governments have failed to invest the funds needed to keep all these assets in working order, and for more than a decade the Canadian Forces recapitalization rate—that is, the investment in the assets they own—has been about half of the amount DND and the Canadian Forces need.

Because of years of significant under-investment, we have a huge replacement backlog.

[Translation]

Aircraft, trucks, ships and other important military hardware that should have been replaced years ago are still in operation. Much of the equipment that the Canadian Forces owns needs to be replaced or rebuilt.

[English]

The Department of National Defence has taken a good look at military procurement. It knows that the timeline for delivery for new equipment is wanting. It has taken nine years from the identification of a need to the final awarding of a contract; then it has taken another six years for the actual production and delivery of the equipment. The military has been acquiring equipment and systems late in comparison to their needs—too late. Often by the time new platforms are delivered, new technology has rendered the equipment out of date.

Clearly, Mr. Chairman, this lengthy process is not acceptable. Speeding up and improving the efficiency of our procurement process is a priority.

• (1535)

[Translation]

Speed is important in a security environment where threats are fluid and unpredictable, and where quick response is required.

Our military personnel cannot afford to wait 15 years for us to provide them with the tools they need to address these threats. So, keeping in mind our duty to be open, accountable and financially responsible stewards, we have been working to change things.

[English]

Obviously, reforming the defence procurement system is a huge challenge. The system depends on many factors, some of which are beyond the control of the department. The system depends upon the efficiency of the acquisition process itself, which involves not only DND, but other government departments—other departments that have their own objectives, timelines, and processes.

But we are making progress. I would like to highlight for the committee some key areas where the Department of National Defence is taking action to reform the procurement process.

[Translation]

First, my department is taking an active part in the Treasury Board's initiative to reform the defence procurement process.

[English]

We are working to establish stability within the planning environment by producing an affordable and sustainable plan for defence. We are looking beyond our immediate needs to set out the Canadian Forces' capital requirements in the future and establish how Canadian industry might best contribute to our requirements.

We are also working to buy more “off the shelf” products. As costly prototype development and customization are reduced, the procurement system can react more responsibly. Following upon that, by identifying strategic performance requirements rather than detailed and overly specific technical requirements, we have invited industry to come to us to demonstrate how they can fulfil our needs.

This avoids the time-consuming departmental process of coming up with a list of detailed and lengthy technical specifications.

We are ensuring benefits for Canadian industry. For every contract dollar awarded, the contractor will commit a corresponding dollar in economic activity in Canada.

Finally, and most importantly, as we work to make things better to improve on a process that has already been bogged down for a long time, we have made the requirement for transparency and accountability a priority. In all our decisions, we must remain a responsible steward of public funds.

For example, in recent acquisitions, we openly published our high-level requirements and invited industry to respond; then we fairly evaluated every proposal to ensure the best value for Canadian taxpayers.

This government has taken steps to reinvigorate our armed forces. In June of last year, about seven short months ago, we outlined our plans to purchase joint support ships, strategic and tactical aircraft, medium- to heavy-lift helicopters, and trucks. Last Friday's announcement regarding the signing of the contract for the purchase of C-17s is a bold step forward, providing the Canadian Forces with the equipment they need when they need it.

This summer, only one year after we announced our intentions, the first of these aircraft will land at CFB Trenton, and the Canadian Forces will take delivery of the first of many new and urgently needed resources. This summer, our forces will have the rapid, reliable, and flexible capability to move troops and heavy equipment quickly over long distances, and we will have ensured that Canada's military maintains a vital ability to respond to domestic emergencies and international crises. No longer will we have to rely solely on chartered strategic airlift. These strategic-lift aircraft are currently costing taxpayers over \$100 million a year.

Our own planes will guarantee that during a crisis the Canadian Forces will have the tools they need to respond, and we'll no longer be held to ransom by market rates that spike 1,000% during crisis.

[Translation]

A new day is dawning for the Canadian Forces. The government is committed to providing the Canadian Forces with the equipment it needs. We have made a firm commitment to the Canadian Forces. We have greatly speeded up a process that was long and complicated.

[English]

We have saved taxpayers millions of dollars, and we ensured value for money by requiring proven, off-the-shelf aircraft, thereby avoiding the high risk and potential delays that often accompany new technologies.

But we are not done yet. Plans are in the works for other essential equipment. As I mentioned, we are planning to replace our aging Hercules fleet. This is integral to ensuring that critical resupply missions in overseas operations such as Afghanistan can be carried out effectively and reliably.

DND should have started the Hercules replacement years ago. Canada's Hercules fleet has logged more flying hours than any other military Hercules fleet in the world. The wear and tear on these planes, some of which have been in service since the early 1960s, likely means that planes will be grounded by the end of 2010. Already four can't be flown.

We also require medium-lift to heavy-lift helicopters to allow us to move troops and heavy equipment or supplies in dangerous theatres of operation. We need to fly our soldiers over threats such as mines and ambushes in these dangerous places.

We're replacing our medium-lift trucks, which have been in service since the 1980s and are now beyond their projected lifespan. From support during emergencies here in Canada to operations overseas, these trucks are the backbone of army logistics and essential to the mobility of our forces.

We are planning to enhance the capabilities of our navy with the procurement of joint support ships. The new ships will replace the navy's two auxiliary oiler replenishment vessels, which are now over 35 years old and a challenge to maintain.

We are also replacing aging vessels with ships that can do significantly more than those now in service. They will give the Canadian Forces a valuable strategic sealift capability. These added capacities to provide support to Canadian Forces ashore will improve our operational effectiveness.

These are essential purposes, and time is of the essence. Failure to take action today to replace equipment will create serious problems for our military units in the near future. Investments in defence are investments in our future.

• (1540)

[Translation]

All our procurement projects are in response to the urgent needs of our soldiers, sailors, air men and women, and of Canadians.

[English]

All of our projects are time dependent.

I would like to emphasize, Mr. Chairman, that all of these procurements have been following open, fair, and transparent processes. DND has provided potential suppliers with the opportunity to indicate their interest and demonstrate their ability to meet the performance requirements of the military.

In negotiating our contract for the purchase of the C-17s, for instance, the government openly invited industry to identify any solution that would meet high-level performance requirements. Proposals were fairly assessed. I want to assure Canadians that there is significant military, civilian, and political oversight throughout the procurement process.

In the coming weeks, this committee will learn about the respective roles of departments and how we work together collaboratively to ensure the timely, transparent, and fair delivery of military procurement projects. You will also discover the improvements that this government has incorporated into the acquisition process and plans to further enhance the system. These improvements have the potential to save my department years of

planning and development, and reduce both the risk to our forces and the costs to Canadians.

The Canadian Forces have made do for too long, and these procurement initiatives are more than overdue. I'm sure that this committee is going to have a long, hard look at procurement. Given the amount of money involved and the very real implications for our men and women in uniform, I know that Canadian taxpayers would expect no less.

I hope this committee will consider the past, but also come to appreciate the challenges we face today and in the future in providing the Canadian Forces with the tools they need.

I am confident, ladies and gentlemen, that you will then come to understand why the government is taking the actions needed to revitalize the Canadian Forces.

[Translation]

I am proud of having the opportunity to participate in improving the protection of Canadian interests at home and abroad.

[English]

I'm proud that this government is keeping its promise to put Canada first.

Thank you.

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

Maybe before we get into the first round, you did mention our recent trip to Afghanistan. I'd like to pass on the committee's thoughts to you on the great job we found our men and women doing there, from the leadership on down the ranks.

At times, we had the opportunity over dinner or breakfast to have direct contact with the troops. To the person, they were proud of what they were doing and confident in their task. We came home a pretty proud bunch of parliamentarians to know that we have people like that out there, doing their job.

Thank you.

Mr. Coderre, you have ten minutes.

[Translation]

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

When I see General Hillier seated next to General O'Connor, I can only wonder about what happened in the past months so that now we finally need C-17 aircraft.

I remember that I had taken a specific interest in this issue on several occasions. Obviously, we can criticize the previous government, but we had a \$13 billion plan. We worked together with all our partners to make sure, as we all want to, that our troops get the best equipment.

Today, we heard that it is urgent to obtain C-17 aircraft and that Canada must come first.

• (1545)

[English]

General Hillier, you were on record saying that we didn't truly need this, and that what you were looking for at the beginning was only access to those planes. "Access" means also to lease them.

We spoke about DART. The problem with DART was not that we didn't have the equipment at that time. It was the political decision-making that has made it look as though we played with the timing a bit.

[Translation]

What happened, General Hillier, so that National Defence now wants C-17s? We know that NATO has already bought three of these aircraft, that we could have taken part in the agreement whereby you could have acquired these airplanes in 48 hours.

[English]

Now we're saying "Canada first". Canada first means that you have to make sure we protect Canadian interests. Protecting Canadian interests—and my definition of "sovereignty"—means also that you are able to do your own maintenance of that equipment.

Now, with C-17s, because of the intellectual property, we won't have any access to it, and we'll have to invest a lot of money in Trenton to make sure that we provide even the first line of maintenance.

General O'Connor, why do we truly need those planes? The way I see it, I could have put the \$3.4 billion into the condition of the troops, more trucks.... I don't see the rationale for it. Would you explain it to me?

**Hon. Gordon O'Connor:** Yes, I will, and then General Hillier can answer his part.

You may not be aware, but the defence department has had a requirement for strategic lift going back more than a decade, but your government chose to suppress it.

**Hon. Denis Coderre:** A requirement for access.

**Hon. Gordon O'Connor:** We want our armed forces to be self-sufficient. We do not want to depend upon other governments or commercial enterprises to lift our forces in a strategic manner. If we go to other governments and are proposing to lift our forces to do something they don't appreciate or don't support, we won't get the support from them.

And when it comes to leasing commercial aircraft, essentially strategic airlift is under the control of the Russian government. We already know of incidents when the Russian government has refused the use of aircraft because they don't agree with its use.

The British, for example, eventually bought C-17s because they had trouble with the leased aircraft, because the Russian government refused to allow them to land where they wanted to land them.

We are not going to be hostage to any foreign government and are not going to be hostage to any foreign company. This country and its armed forces are going to be as self-reliant as can be.

If you look at our geography, we are surrounded by three oceans, and when we have to move anywhere, we have to move great distances. One of the problems we've had in the past is that we have been employing our tactical aircraft—our Hercules aircraft—as strategic aircraft, and we are burning up the hours. The reason we have the oldest Hercules aircraft on the planet is that we've been using our Hercules aircraft in a strategic lift mode.

**Hon. Denis Coderre:** General, if I may, I understand—

**Hon. Gordon O'Connor:** No—

**Hon. Denis Coderre:** If I may, I understand about that, and that's why General Hillier wanted to have replacement Hercs, not C-17s.

**The Chair:** Denis, let him finish.

Go ahead, Mr. Minister.

**Hon. Gordon O'Connor:** Let me finish. We also are getting Hercules, if you recall. In fact, we're ordering 17. You wanted 16; we're ordering 17. So we're getting them both.

**Hon. Denis Coderre:** So we don't need them.

**Hon. Gordon O'Connor:** We're getting both strategic lift and tactical lift, because the Canadian Forces need both tactical and strategic lift.

Now I'll hand over to General Hillier, and he can answer his part.

**The Chair:** General.

**Gen R.J. Hillier (Chief of the Defence Staff, Department of National Defence):** Sir, the only thing I would say, in addition to what the minister has said, is that when you need strategic airlift, if you are leasing it or are getting a piece of the NATO pool or are trying to beg or borrow it from friends and allies, everybody else in a crisis all wants it at the same time, and it's very difficult to get. Your flexibility and ability to be successful in what a country decides to do with the armed forces is not guaranteed.

The second part is that the leased aircraft cannot carry everything we necessarily need to carry. A great case in point is the armoured and engineering construction vehicles we just put into Afghanistan—a fundamental part of the reconstruction piece in southern Kandahar, a fundamental part of building Route Summit, for example. You can't carry those in our C-130s; you cannot carry them in most of the leased aircraft. You can carry them in the big Antonovs, but then the third point becomes that those big Antonovs and other leased aircraft can't land in all the airfields where we are.

As an example, when we put those heavy engineering vehicles in, we had to carry them to an intermediate staging base on an Antonov, and then we had to borrow from friends the airlift to take them into Kandahar. As a result, we could not guarantee when we would get them.

So I would say, sir, to own versus to lease a portion of the strategic airlift gives you the flexibility and the agility at the start of a crisis, when people—perhaps in the worst days of their lives—need some help—

• (1550)

[Translation]

**Hon. Denis Coderre:** General Hillier, I have only 10 minutes.

[English]

**Gen R.J. Hillier:** —to be able to set up the divisions for success, that's our military—

[Translation]

**Hon. Denis Coderre:** With all due respect for the armed forces and especially for you, I know that you said several times that you wanted to replace the Hercules aircraft.

I can see another problem: things are being done much too fast. You dealt with only one supplier. By supposing that only one company could meet the requirements, you lost some negotiating power. Boeing has the Conservative government over a barrel, and Canadian interests are at stake. I think that this is indecent.

In the light of certain documents and articles, instead of proceeding with an ACAN, we could easily have asked some other companies to submit their proposals regarding delivery dates, capacity and tonnage.

[English]

General O'Connor, you went to the Pentagon and met Secretary of Defence Robert Gates. We have a major issue called ITAR, International Traffic in Arms Regulations. You could have made an agreement with the Government of the United States. Why can't we have those kinds of statements under procurement to protect our Canadian citizens?

**Hon. Gordon O'Connor:** First, it's not a matter for the Department of Defence; it's a matter for the Department of Foreign Affairs. ITARs are controlled by the Secretary of State, and the prime actor in this is the Minister of Foreign Affairs.

However, when I was in Washington, I did speak to Secretary Gates and asked him to give us all the support he could to encourage the State Department to make sure that our requirements are facilitated.

[Translation]

**Hon. Denis Coderre:** Let me come back to the C-17s. My question is for General Hillier.

Is it not true that in the department, on a certain occasion, Colonel Burt said that there were no problems with requirements? For instance, we could have had Airbus rather than Boeing, because the issue was not about capacity, tonnage, and especially not delivery. Ultimately, we could have proceeded with an invitation to tender, which could have saved some money.

In fact, I see that this is not only costing us \$3.4 billion, but that in addition, we gave maintenance away entirely to the Americans. Because of the ITAR regulations, our industry cannot make any profits from research and development.

Moreover, are we not at the mercy of others with regard to maintenance? In fact, we will not have any maintenance capacity, because the Americans will be taking advantage of the second and third capacity levels.

What has changed in the requirements to make you, and by you I mean the department, absolutely want to have these cumbersome aircraft? Once again, we could have reached an agreement with NATO, with our allies—they are not strangers—who purchased

three of these aircraft. We do not need them on a daily basis. Among allies, we could have worked to further our interests.

[English]

**The Chair:** We have time for a ten-second response.

**Hon. Gordon O'Connor:** Mr. Chairman, we do need them every day. If we get into one of these pools with the allies, everybody wants them at the same time. We are a continent surrounded by three oceans, and we need strategic—

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

Moving on, Mr. Bachand, you have ten minutes.

[Translation]

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

First, I want to welcome the Minister of National Defence.

Honourable Minister, you said in your presentation that a new day is dawning for the Canadian Forces and your entire speech had a sense of urgency about it.

We think that we are perhaps at the beginning of a new era for Quebec and Canadian taxpayers, if we look at the way you are currently proceeding. The Bloc Québécois is highly critical of what is going on. Let me explain.

First of all, defence procurement must be based on a defence policy. Then we can see what kind of material we need to implement the policy. This is called the Defence Capabilities Plan.

● (1555)

You are announcing purchases in the amount of \$21 billion and we have not even seen the Defence Capability Plan yet. And I object to the manner in which you announce this! Minister, it is up to your department to choose the type of contract. You chose to award a contract to Boeing. This means that no other company had an opportunity. With regard to Boeing, I am not only talking about the C-17s, but also about the Chinook helicopters. This contract is even more costly than the C-17 contract.

The contract was announced in July 7, during the Farmborough International Air Show. By the way, at that time, everyone was away on vacation. I called the companies and I told them that we were not aware of this, that we had not heard anything about it. Let me quote the contract award:

You are hereby notified that the Crown intends to solicit a bid for the above requirement and negotiate a contract with The Boeing Company, the only known source of supply capable of meeting the high level mandatory capability requirements.

Contract awards are the first problem because it is not a fair, just and open procedure. You get into bed with a company and tell it that we want aircraft.

I already told this anecdote to the defence committee. When I wanted to buy my first car, my father said that he would come with me. I had seen an extraordinary red Camaro convertible—Mr. Chairman, I swear to heaven that today, I would certainly choose a blue one—and I liked it. When we got to the garage, my father told me that he would let me do this in my own way. I told the salesman that I wanted the car, but this is the one I wanted and no other car. My father then told me that we had to leave. When we got outside, he told me to let him take care of this and watch how he went about it. We went to three different garages. He told the salesman that he might want to have a car for his son and asked him the price, without omitting to say that we had been to other places and that the prices were excellent.

If you say that you want to deal exclusively with Boeing, you can no longer negotiate anything with that company. We lose our negotiation leverage.

You have another way of choosing the supplier you want, namely the requirements. For instance, if you say that you want a freight capacity of 39 tonnes and not 19.5 tonnes, you automatically get rid of all those you do not want and you keep those that you want. These are basic principles. There is also the delivery schedule. By requiring a delivery schedule, you can eliminate more candidates.

Let us take the 15-year contract that you mentioned earlier. We had to wait for 15 years before getting Sikorsky marine helicopters. The Sikorskys will not be delivered on time. There will be a five-and-a-half-week delay and you are supposed to penalize them \$100,000 for each day that they are late. Now you said that you would not do that. What kind of message does this send to Boeing? You have eliminated candidates because of the delivery schedule, but you will not penalize anyone if there is a delay.

You can see, Minister, that there is a major problem. The department told the American companies that they could do whatever they like, and that if they wanted to apply the ITARs, they could do so. By the way, a Venezuelan junior employee was fired by Bell Helicopter. This junior employee was not fired because of incompetence, but because he was working on specific projects that the Americans wanted to keep secret from people coming from 20 countries that they had listed.

You gave the companies whatever they wanted. The ITARs are a good example of this. You told them that they could build their aircraft wherever they choose. This is serious, because 60% of the aerospace industry is in Quebec and we will have to be satisfied with half of the spinoffs, and perhaps even less. You also told them that they could deliver whenever they wanted to, except in the Sikorsky case.

You are right, Mr. Minister, if you want the taxpayer to get his money's worth, we cannot wait 15 years. However, there is a difference between buying immediately something of the shelf and waiting for 15 years. You chose to skew the balance completely to one side. This is not in the taxpayers' interest.

You can understand why we are put off by this, as we showed last Friday.

● (1600)

I would like you to tell me that I should begin my intervention in this way, that I am entirely right and that the next time, we will not do it in this way.

[English]

**The Chair:** Mr. Minister, you have four minutes.

**Hon. Gordon O'Connor:** We live with eternal hope.

First of all, let me be clear what the responsibility of the defence department is. I know you're going to study procurement, and there are a lot of departments involved.

Essentially our part of procurement is to set the requirements and provide the funds. The contracting—all the rules of contracting, and ACAN, and all those things—is with Public Works. Industrial benefits are with the industry department, and ITAR is under the external affairs department. Our part of procurement is that the military determine what they require, essentially, and we obtain the funds from the Prime Minister and the cabinet to acquire it. That's our part.

Theoretically, I can answer all these questions about ACANs and deadlines and ITARs, but you should be getting representatives of other departments to do it.

With respect to the requirements....

If you want, General Hillier, you can talk about the requirements.

**Gen R.J. Hillier:** Yes, sir. I'd be delighted to talk about military requirements, which are our job to define.

We start with a strategic assessment of the operational environment we work in now and believe we will work in for the immediate future—what kind of missions we will have in the Canadian Forces, what we expect the Government of Canada to ask us to do, where they will expect us to do it, and under what kind of environmental conditions—and therefore, what kind of capabilities we would need to be successful in it.

That's top-down, at the strategic level. We also then work bottom-up—from the people who do the missions in the field right now, based on lessons learned in places such as Afghanistan, in Alert in Canada, on the east coast, of course, with the air, land, and sea forces—and incorporate the lessons learned on a daily basis about what best provides them the capability to do their job.

We combine those things and bring the result through a rigid process in the Canadian Forces, with the Department of National Defence as a full piece of it, obviously. We walk it through bear-pit sessions, analysis of the requirement—a stringent requirement to follow the line of logic: this kind of mission would demand this kind of capability, and therefore, here is what we would need to ask for in high-level specifications.

That process takes a long time. It changes en route. I would love to direct everything myself, but I have an entire structure that holds me accountable, and I hold them accountable for walking through this in a thorough way, from all 360 degrees, in providing the best military advice I can give to the Government of Canada on what we would need. We do that constantly.

**The Chair:** You have one minute left.

[*Translation*]

**Mr. Claude Bachand:** I would like to get an answer regarding the Defence Capabilities Plan. We have been hearing promises for months, and things were done backwards and defence contracts to the tune of \$20 billion were signed even before having a plan.

Can we expect a plan within the coming weeks, and if so, of what use would it be now? Would it justify the 20-billion-dollar purchase, or will we be looking at other requirements pursuant to Canada's defence policy?

[*English*]

**Hon. Gordon O'Connor:** We have already announced what our defence policies are; you know what our defence policy is. The capability plan is still working its way through the cabinet process.

With respect to the first five projects, which were announced last June, all are transportation projects—air transportation, land transportation, sea transportation—and they are required in any possible scenario.

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

Ms. Black, you have ten minutes.

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

Thank you very much for appearing before the committee today.

You mentioned just a moment ago, Minister, the different government departments that are involved in the procurement process. I have a really basic question that I want to ask you.

With DND, with Public Works, with Industry Canada all being involved, who is the lead minister? Who has the final responsibility on defence procurement?

• (1605)

**Hon. Gordon O'Connor:** There is no final responsibility on defence procurement. Each of us has our own area of responsibility. The cabinet is the final say on defence procurement. Everything ultimately gets approved at the cabinet level.

**Ms. Dawn Black:** I also have some questions on the C-17 purchases or the contract that's been let out. It seems to me that we're paying \$3.4 billion for this contract, and Canadian industry is not getting the full benefit for the maintenance of that contract. So Canadian industry is losing out on what has traditionally happened in these kinds of procurements.

I don't believe that the military is being assured of receiving the very best product available, when there's been no competitive process. In a competitive process, each of the suppliers would tell you, tell us, and tell the Canadian government about the capabilities of meeting the requirements, which you spoke about earlier, General Hillier, that the military sets. During the competitive process, the bidding companies would have the responsibility of proving that their product met those capabilities. So there's no competitive process going on here.

I have to wonder if part of the reason for going this route is an attempt to improve relationships with the U.S. Is that part of the

thinking that went into the process? If so, aren't we putting the issue of Canadian sovereignty before the requirements and needs of the men and women in the Canadian Forces?

Also, look at how the contract for maintenance apparently will be carried out. It's my understanding that the maintenance will be carried out by the U.S. Air Force. I wonder then, if we were in a situation where American and Canadian planes needed maintenance and servicing at the same time, whose planes would get priority?

**Hon. Gordon O'Connor:** With respect to the contracting side and the benefits, you'll have to talk to those ministers. They'll give you the details.

First, from my point of view, the Department of Defence doesn't declare whether or not it's a competitive process. That's done through Public Works. But from our point of view, an ACAN or an SIQ is a competitive process. Once the requirements are out there, anybody in the world can come forward with the product, and if they can prove that the product does it, there's a competition.

So it's just the sorting out; it depends upon the requirement. You send the requirement out. If a number of companies can answer that requirement, then basically you run a competition. If it happens that no other companies but one can meet the requirement, then that's the way it is.

I don't set the requirements; the military sets the requirements, and I literally don't interfere with the requirements. I do not change one number, one dot. These are requirements that go through a rigorous process in this and other departments, where military officers have to justify why the requirements are the way they are.

Once that requirement's accepted, basically it goes out to Public Works, which decides the process. Whenever a company is chosen, then Industry Canada gets involved with the industrial benefits.

The other point you made was whether there was there any thought of sort of catering to the United States. There wasn't. Our military and I don't care where the product comes from, as long as it meets the requirements and is the best choice at the cheapest price. It happens at the moment that the aircraft we're selecting for strategic lift is American. The tactical is American, and the helicopters are American. But who knows what truck—in fact, trucks, because there are two truck projects in there—we're going to end up with. And who's building the ship? We don't know yet. There are still two teams. They started running it down with four teams. We have no idea who's going to win it.

So from our point of view, it is a competitive process.

• (1610)

**Ms. Dawn Black:** The requirements appear to have been set so that only one company was able to match those requirements exactly.

But the other question, I think—

**Hon. Gordon O'Connor:** Madam, theoretically two to three companies could have met those requirements. They just had to show up with an airplane.

**Ms. Dawn Black:** By using the national security exemption, your government has upset many of the provinces, because that means this agreement is not subject to the agreement on internal trade.

I think the agreement on internal trade was brought into being after the CF-18s went to Quebec and not Winnipeg.

So I want to ask, why was the decision made to have the national security exemption? What was the process that was used to arrive at that decision?

**Hon. Gordon O'Connor:** It's Public Works. You have to ask the Minister of Public Works and Government Services Canada.

**Ms. Dawn Black:** And you have no understanding of it?

**Hon. Gordon O'Connor:** I have an understanding, but it's his responsibility, and he should answer the question.

I think you'll find in the procurement process, as you get into it, that the Department of Defence has very little to do with the procurement process other than setting the requirements and providing the funds.

**Ms. Dawn Black:** With regard to the C-17 contract, the Liberal Party has said they would like to immediately cancel that contract. I would like to ask you what the contract says about cancellation. What are the contractual terms and obligations in the contract? What would the result of that cancellation be?

**Hon. Gordon O'Connor:** I don't know. I haven't read the contract, and I don't know. Again, that's Public Works. If you call the Minister of Public Works and Government Services Canada here, he would say.

To me, this is bravado. I don't imagine that, were a government to change, they would actually cancel a contract, because there would be aircraft on the ground, and the costs would be horrific. I don't anticipate that ever happening.

Also, I don't anticipate any government doing it once they take power and talk to the military and find out why they require them.

**Ms. Dawn Black:** I'm going to move on to the issue of the search and rescue contract that's been in the works now since 2004. Is that right—since 2004? It's been underway for several years, at any rate. I'm wondering how long it's going to be until we have those new aircraft.

**Hon. Gordon O'Connor:** It's at an earlier stage. We are still internally discussing the need for new search and rescue aircraft and, if we need new search and rescue aircraft, what the basic requirements are. That is still an ongoing process inside the defence department.

It hasn't gone anywhere; it's basically still inside the military staffs.

**Ms. Dawn Black:** There's no contract out? There's nothing in the plans?

**Hon. Gordon O'Connor:** No, there isn't. I'm saying it may appear in the final version of the plan and it may not. Right now the military staffs are looking at whether they need new search and rescue aircraft and, if they do, what the basic requirements are. Nothing is set in stone.

**Ms. Dawn Black:** Thank you.

**The Chair:** You have one minute left, Ms. Black.

**Ms. Dawn Black:** My final question is this. You talked about the process among the three different departments of government.

Where does the military involvement in procurement start and where does it end? You said that the military defines its requirements, and then it goes over to the Department of National Defence and the public works department to set the process in place.

**Hon. Gordon O'Connor:** I'll let the deputy minister answer.

**Mr. Ward Elcock (Deputy Minister, Department of National Defence):** Mr. Chairman, the military defines the requirement. That's done in part with the participation of ADM Materiel, who is part of the Department of National Defence. Ultimately, once we have defined a requirement, it is the Department of Public Works that actually does the procurement—signs the contracts, and so on. It's the Minister of Public Works who actually signs the contract.

**The Chair:** Thank you. That finishes our time.

Mr. Hiebert, you have ten minutes.

• (1615)

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

Mr. Minister, I think all members of this committee would agree that with our men and women in uniform putting their lives at risk, they deserve and need to have the best equipment to do their job. I want to thank you for the tremendous leadership you've been showing in this respect when rebuilding our military.

As you may be aware, the former ADM for materiel, Alan Williams, has published a book on procurement. I expect him to be coming before this committee at some time in the future. He states that during his time at the defence department and at Public Works, no minister ever attempted to influence the procurement process, because the process simply doesn't allow it.

We've heard, even today, some members of the opposition suggesting that there is opportunity for influence in the C-17 contract. Perhaps they don't fully understand the process. I was going to give you some more time to explain to the members of this committee how this decision is made by the military alone.

**Hon. Gordon O'Connor:** I have my two major subordinates here with me, and you can ask them independently whether I've ever interfered with any of the requirements. You'll find that I never have. And I never will.

I'll let the DM carry on. He was explaining the process when he ran out of time.

**Mr. Ward Elcock:** I'm not quite sure how much more you want me to explain, but I was just about to say that the other part of the process, which is industrial regional benefits, is the responsibility of the Department of Industry; they oversee that process.

Once all of that is approved, we go to contract, and it is the Department of Public Works.... We work with them, but they are the ultimate authority in the signing of the contract.

**Hon. Gordon O'Connor:** All right.

One part that the military does get into is at the end. The military receives the product, they employ the aircraft or ship or truck or whatever it is, and they have to have a training system. That all has to be part of the process so that they can be effective.

**Mr. Russ Hiebert:** In your presentation you talked about how the department is moving from a technical requirements specification to a performance-based specification. Could you briefly explain to us what the difference is between these two processes, and secondly, how the performance-based specifications make the acquisition of major military equipment more efficient and more timely, to the benefit of our men and women in uniform?

**Hon. Gordon O'Connor:** I'll ask the chief to respond.

**Gen R.J. Hillier:** Mr. Chair, ladies and gentlemen, when we started walking through specifications, what we would use in the past was detailed specifications for every conceivable part of a piece of equipment, in order to get something.

For example, for an aircraft, we said we need a wing so big, wheels so big, the aircraft had to be so long and have so many doors and do certain things—and all in great detail. In fact, in the Maritime helicopter project, for example, those specifications went to 17,000 pages.

We looked at that and asked why we were doing it. We were actually doing it to say that we needed an aircraft that could carry a certain size of load, by weight and capacity; could carry it at a certain speed, because you have a certain timeframe that you want to close; could carry it thus and thus far; and when it got there could land on a certain kind of airstrip—perhaps a rough, unprepared, short airstrip in the middle of the north of Canada, or in the middle of Afghanistan—and be able to unload the equipment without being dependent upon outside equipment that might not be on the ground. In short, it had to be self-contained.

We asked why we didn't actually just say that we need an aircraft to deliver this kind of weight, of a size that fits the major equipment we have or the normal containers that we have now and are developing for use of transport; that we need to carry it this far and this quickly and be able to do those things on the ground.

We decided that by far the best, the simplest, and the clearest process was to go out and say: "If you can do this, bring your aircraft. We don't care what kind it is. We actually don't care how big the wing is. We don't care about anything else, as long as it can do this." Then we judge which is the best—the cheapest, or whatever—if more than one show up.

We think it is actually the right approach. Then you take the aircraft that wins, that says it can do this and do it most cheaply—or do it—and say, these are the specifications we want. It's so simple. We've gone through it for months and years and never gotten to that place, and we actually think this makes eminent common sense.

**Mr. Russ Hiebert:** It certainly sounds as though it does.

When did the defence department start incorporating this approach?

**Gen R.J. Hillier:** Sir, it was two years ago. A little while after I took over as Chief of Defence Staff—I believe Mr. Bachand was there—I spoke at the Canadian Defence Association and said we needed to do this, from our perspective, to meet our responsibilities to a minister of national defence.

This Minister of National Defence—like Mr. Graham before him, I will say—is most supportive of that, and we work well with our

minister here to provide him exactly that. He then holds us accountable, saying: "Show me your line of logic here. What kinds of missions, what kinds of tasks are we asking you to do?" Obviously, with Mr. O'Connor's past experience, some of those things are very intuitive, but in other cases he peels right down to the level so that we show him our reasoning, our line of logic for why we said we need to be able to land on an airstrip that's 3,000 feet long and is not paved and is in an area where there is some air threat. He holds us accountable to clearly lay out that line of logic.

● (1620)

**Mr. Russ Hiebert:** It is safe to say, then, that these sorts of performance-based specifications were used in the decision to purchase the C-17s.

**Gen R.J. Hillier:** In fact, yes.

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

Mr. Minister, you've been a close observer of the military procurement process for your entire career. I was wondering if you could share with the committee some of your observations about the strengths and weaknesses of the procurement process and offer any advice on where we should focus this committee's efforts.

**Hon. Gordon O'Connor:** As the chief just explained, it started a couple of years ago. The reforms that defence has begun to implement are showing fruit. It used to take about four years from the time somebody had an idea until we got to the point where we could move beyond the department. That is down now to basically months.

So great improvements have been made in the defence department, but the defence department is just one part in the process. You have Public Works, you have Industry, you have Foreign Affairs, and you have the Treasury Board. What we have to do is make sure that together all these departments and processes are as smooth as possible; that you have the normal checks and balances in the government, but that you don't put undue processes in.

We could probably theoretically keep speeding up the process in the defence department, but unless procurement moves at a good rate, and the industry department's industrial benefits are identified, and Foreign Affairs deals—in some cases—with ITARs, then you get a fast start and things slow down.

So it's a matter of reforming the whole process. That started in our government. The Prime Minister has mandated a number of us to get together to keep refining the process to make it simpler and faster.

**Mr. Russ Hiebert:** With my last question, I'd like to touch on what the benefits of the strategic lift will mean to the military. I note that 13 years ago, in 1993-94, the air force had 700 serviceable aircraft; 10 years later they were down to 290, with serviceability rates of 30% to 60%; the air force suffered a 75% drop in air power in 10 years.

I was wondering, again, if you could mention for this committee the benefits we will experience from the acquisition of strategic lift.

**Hon. Gordon O'Connor:** I think the chief will respond.

**Gen R.J. Hillier:** I would say a couple things, sir. First of all, I'll speak from what I hear from the men and women in uniform. This, to them—and they tell me this—is a visible, tangible sign that they'll get the tools to do the job they need to do. We have had a bonding between the air, land, and sea forces as a result of this Afghanistan mission, because they are all there in Afghanistan, as perhaps you saw, although the navy is not in as primordial a role. They have had a bonding that shows, and their appreciation for each other and for what each part—air, land and sea—brings to the Canadian Forces to give one effect for Canada, which we haven't seen in the Canadian Forces in decades, for sure....

They see the C-17 as a sign; it's the tool they need to do the job. It is coming, it is coming quickly, and it's coming because they need it. For them it is a morale issue that is huge.

Second, simply from being able to do that mission, or missions similar to it, or missions around the great expanse of Canada, the C-17, as I mentioned earlier, gives us a flexibility and an agility, particularly at the front end, when we own the aircraft.

Obviously, as you get into longer timeframes, you can perhaps rely more on leased aircraft, although there are some limitations, as I also mentioned earlier. But at the front end of any mission, such as the ice storm where I was, here in eastern Ontario, or the Red River Valley flood, where in the first several days we were trying to get large numbers of men and women and equipment into the area to help Canadians during what was the worst time in their lives, the C-17 and the strategic lift gives us a flexibility and an agility we simply do not have right now. It helps set conditions for success, and in a place like Afghanistan, whilst helping to increase the probability of success of the mission we have been asked to do, it also helps us in a very real way reduce the risk to the men and women who are involved in implementing the mission.

• (1625)

**The Chair:** Thank you, General.

We have finished our first round, and I thank you all for your cooperation. We start our second round. It's five minutes, so it's quite a bit faster. We will start with the official opposition and then go over to the government and then back to the Bloc.

Mr. Martin.

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

Mr. Cannis may want to ask a question after me.

Mr. O'Connor, thank you for being here, and General Hillier and Mr. Elcock also.

Certainly, General Hillier, through you we'd certainly like to express our profound thanks to the men and women in our forces for the courageous job they are doing day in and day out, and to their families.

**Gen R.J. Hillier:** Thank you.

**Hon. Keith Martin:** My first question, Minister, is to you. It concerns the replacement of our Buffalo search and rescue planes. Quietly the statement of requirements has been changed. The minimum speed required has been raised to 140 knots.

In my province of British Columbia, to do adequate contour searches you have to fly between 70 knots and 120 knots. This change will make us purchase a plane that is going to put the lives of our SAR techs in danger and also make us unable to do an adequate job of doing contour search and rescue.

Why was the statement of requirements changed to raise the minimum flight speed?

The second question concerns an MC that went with respect to the purchase of the tactical airlift. By leasing the strategic airlift from the U.S., we would save \$400 million of taxpayers' money, something that would have been more efficient. The Globemasters would have been in Canada. We would have access to it and save \$400 million.

The outcome of the plan you have, sir, is that I suspect that you're forcing to contract capabilities in other areas. For example, there is the plan to remove our refueling and supply ships from the navy two years prior to the new ones coming on board; I'd like to have your assurance that our navy's supply ships will be able, functional, and operational until the new ones come on line.

Finally, are you going to extend the combat role of our troops in Afghanistan beyond 2009?

**The Chair:** Mr. Minister, the last question hasn't got much to do with procurement, but the first two do.

**Hon. Gordon O'Connor:** As I said to Ms. Black, on the so-called search and rescue project...there are a number of things behind the scenes called projects, but until the government authorizes them, they're merely planning documents inside the defence department. These planning documents possibly change on a regular basis.

Until and if you see a search and rescue project, the information you have about aircraft speeds, etc., is merely part of internal planning in the defence department. I think it would be better for you to comment if and when an MC comes out on search and rescue, because right at the moment, that's merely continual re-evaluation inside the department.

From my point of view, it doesn't exist at the moment. It has not come to me; it doesn't exist.

**Hon. Keith Martin:** I urge you, sir, to look at that and change that SOR down to back within the functional capabilities to ensure that the plane you purchase is going to be able to do the job, particularly for the contour searches.

**Hon. Gordon O'Connor:** It's the same with all these articles you're seeing in papers about plans, etc. Again, I don't think you've ever seen my signature on these documents, or a date on them. These are documents that keep floating around inside the department.

It's my intention to make sure our air force, army, navy, and special forces are viable. We aren't going to consciously do anything that doesn't make military sense. If you have patience, when the finalized plan comes through, you might see different results.

**The Chair:** There's one minute left.

**Hon. Keith Martin:** I think, sir, I asked a question on whether you are going to extend the combat mission beyond 2009 in Afghanistan.

**The Chair:** Mr. Martin, that's not the subject of our study. At the moment, it's procurement. If you have a procurement question, I'm sure the minister would like to respond.

**Hon. Keith Martin:** Certainly, Mr. Chair, it has relevance in terms of procurement.

**The Chair:** Well, we just did a lengthy study on Afghanistan, and the minister appeared then.

•(1630)

**Hon. Denis Coderre:** I have a point of order.

**The Chair:** Go ahead.

**Hon. Denis Coderre:** I would say that the question is accurate. I understand that the reason we have all this equipment is to help our men and women, especially in the mission. The delivery date is important; if we're focusing on an extension of the mission, it will have an impact also on the overall procurement, so I think that this question is totally accurate. He should address it.

**The Chair:** Well, the minister can respond if he wishes, but I know what his response will be.

Go ahead, sir.

**Hon. Gordon O'Connor:** Afghanistan is our most important commitment at the moment, but it's not our only commitment. We don't buy equipment just for Afghanistan. Otherwise, you'd buy very, very specialized pieces of equipment.

At the moment, we're committed to the end of February 2009. Absolutely no discussion has taken place about what, if anything, will happen beyond February 2009.

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

We will move over to the government and then back to the Bloc. Mr. Blaney, you have five minutes.

[*Translation*]

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

Mr. Minister, General Hillier, Mr. Elcock, thank you for coming to discuss defence procurement with us.

I personally benefited from your equipment in Afghanistan. I got into a light armoured vehicle, a LAV-3, made in Canada, as well as into an RG-31 Nyala, made in South Africa. I then understood that there was a trade-off between safety and comfort. The suspension was not very smooth, but lives are saved in that way. I think that it is important to make sure that our soldiers have equipment that works.

Earlier, I heard Mr. Bachand's example. I see that he is using his blackberry. This is a fine example of equipment that leaves no other choice. We need such equipment to communicate on the Hill and there is no vast choice of suppliers. The same applies to defence equipment.

Moreover, Mr. Bachand did not mention the fact that our government had announced its intention to purchase C-17s last spring and when the invitation to tender was published in July, two

companies offered their services. The equipment was reviewed by Industry Canada, National Defence and by Public Works and Government Services Canada. Thus, it was a transparent process.

Mr. Minister, my colleague noted that at the beginning of the previous government's mandate, nearly 700 aircraft were in service, whereas now, there are only 290, with varying degrees of service.

Could you tell us how we can avoid this kind of situation in the future—of vulnerability, if not dilapidation of equipment, and what measures you could take to avoid repeating the same situation?

[*English*]

**Hon. Gordon O'Connor:** If you track the numbers of aircraft in the air force over time, you'll see that they've been losing them at a rate of about two a week. That process has basically come to a halt, because we are rebuilding the air force, fleet by fleet by fleet. In the future there will be other announcements for other fleets from the air force.

The air force was underfunded dramatically for quite a while. They dealt with it by reducing their fleets and reducing their activity rates. We are trying to stabilize the air force at this time, just as we're trying to stabilize the army and the navy. It's this 10- or 12- or 13-year funding challenge that the military had. To be fair, the funding challenge started basically back when the Berlin Wall came down and continued through that whole period, but it got really bad in the 1990s, when dramatic things had to be done to save what was left of the armed forces. We're trying to counteract that now, but it's going to take a lot of effort.

[*Translation*]

**Mr. Steven Blaney:** I would like to come back to the purchase of the C-17s. Could you tell us about the stages in the Advance Contract Award Notice process so that we can clearly see that the process was open and competitive?

[*English*]

**Hon. Gordon O'Connor:** I think I'm going to give you the same answer I gave Ms. Black and Mr. Bachand: that you should be asking this of the public works minister.

[*Translation*]

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

[*English*]

**The Chair:** Are you done?

•(1635)

**Mr. Steven Blaney:** I'm done.

**The Chair:** Okay, then we'll move on to Mr. Bouchard and then come back to Ms. Gallant.

[*Translation*]

**Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ):** Mr. Minister, General Hillier, Mr. Deputy Minister, I welcome you.

This is an important and complicated issue. I have a few questions for you and you can answer them once I have put them.

Mr. Minister, you said that the current procurement process was too long and too complicated. You even said that the procurement process could incur 15-year delays, if I understood correctly, between concluding the deal and delivering the equipment. First I would like to know what the new timeframe for procurement is.

On the other hand, you stated that the first stage consisted in defining the requirements. I gather that there is a danger in setting requirements because it could involve targeting or identifying a supplier. How can you reassure taxpayers that they are getting their money's worth?

Moreover, you presented to us a procurement process that, in my opinion, is an emergency equipment procurement process for the Canadian Forces. Is there not some danger in setting the delivery schedule as a priority? Let us consider what is immediately available.

Finally, is this new procurement process similar to what is done in other countries or in other federal departments?

[English]

**Hon. Gordon O'Connor:** When DND sets requirements, deadlines are usually set on the state of the equipment or a new requirement that has arisen because of a change in threats, and so you need something to deal with the threats. In most cases you're dealing with equipment that probably has to be replaced and is past its usable life, so you start to set deadlines.

The classic one right now is the Hercules aircraft. A number of them have been used at such a high rate that their life expectancy is only a few years. When you have a situation like that, you have to act as quickly as possible to try to deal with it. For example, one of the points we forgot to make with the C-17 is that the C-17 lifts four times the load of a Hercules. When you start using C-17s, you're taking a lot of the weight off the Hercules fleet so they can be replaced as quickly as possible, but deadlines are basically part of an analysis the military does.

In terms of value for money, if we're buying something essentially off the shelf—that is, we're not building it from the start and all the way through—we know, once the process is completed, what we're going after, and we essentially know what they cost. There's no secret out there in the planet. If you name some large military piece of equipment, whatever it is, within a day or two I can tell you what the price is, because other countries have paid for it. Government records everywhere in the civilized world are public, so you know what they cost, and you know approximately what you're going to get.

The public works minister is going to have to come to you and explain that. We said the other day that we basically obtained the C-17s at an 8% saving. Well, he was basing it on the world price; the prices are out there.

On your question about an emergency acquisition process and buying off the shelf, I didn't quite get the point you were making. What's the question you have?

[Translation]

**Mr. Robert Bouchard:** It had to do with the delivery schedule and the availability of equipment. Is there not a danger that this might become the high priority criterion for these procurements?

• (1640)

[English]

**The Chair:** A short response, please, sir.

**Hon. Gordon O'Connor:** It's one of the criteria that we try to get something that is already created. We don't want to spend money on development. It's certainly one of the criteria, but it wouldn't be the overwhelming criterion.

And maybe what other governments or other government departments are doing with respect to processes—

**The Chair:** No, we have to move on. We'll have to revisit that. Our time is up.

Ms. Gallant, for five minutes, then Mr. Cannis.

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

Mr. Minister, we've all heard the horror stories about military procurement in this country: a brand-new hundred-million-dollar satellite, stored and never launched; trucks with the screaming brakes, "leaky squeaky vehicle wheel" I believe they're called, which reveal the presence of our troops; modern electronic equipment that could not be turned on because it interfered with commercial broadcasts.

I'd like to ask if a suitable product was already commercially available for some of these but for whatever reason somebody decided to develop a new, possibly redundant, product or to modify existing equipment. I'd like to know about this idea of purchasing so-called "off the shelf" equipment. It has been spoken about for years. I certainly don't think this practice is appropriate everywhere in military procurement. Would you please outline some of the scenarios in which this off-the-shelf purchasing would be appropriate?

**Hon. Gordon O'Connor:** I think if it's available, off-the-shelf procurement is appropriate for every case. If you can actually get something off the shelf, that means it's fully developed, perhaps with the exception of naval vessels. But if you start talking about aircraft or trucks or guns or whatever for the military, we really want to acquire proven products. When we acquire some vehicle or machine or weapon, we want to know what it will cost to maintain, the breakdown rate. We can project the cost of maintaining this piece of equipment into the future, so we really want it off the shelf. We want to avoid development. We had a history of developing over a period of decades. We used to call it C1. We had to Canadianize everything.

If two or three or four first-class militaries can use a piece of equipment for a certain function and we need it, why can't we use that? Why do we have to take it and fiddle with it? So we're reducing development work on equipment. We're trying to take equipment that is available. There are some exceptions. I mean, I won't get into it, but in software there may be unique things you have to do. But ideally we try to get equipment off the shelf.

**Mrs. Cheryl Gallant:** Minister, when we talk about military procurement we know we're talking about some very expensive, complex hardware, so obviously the burden of selecting the right hardware is high.

I understand our people within the Canadian Forces and the Department of National Defence are always anticipating what needs replacing and when, as you described earlier. Yet too often it seems as though we're only alerted to the decrepit state of some military equipment when something tragic happens. I don't think this is a consequence of our military not anticipating what needs replacing. We all know they've been warning us for years about the need to replace equipment such as the Sea Kings or Labrador helicopters. Clearly the political actors throughout the 1990s failed to provide the stable policy and funding environment for our armed forces so they could begin the replacement of crucial hardware in a timely fashion.

Minister, I know that Canada's new government takes issues regarding our armed forces very seriously. In your vision of the Canadian Forces, that the forces desperately need to ensure that all our men are protected properly, what do you think needs to be done?

**The Chair:** One minute.

**Hon. Gordon O'Connor:** That's like asking how high the sky is.

As I said, we have to basically recapitalize the entire armed forces over the next 20 years. We're now trying to work our way through a bow wave of demands so we can get to the state where equipment has a lot of usable life left. For some time we will have to accelerate...and then we can probably slow down to some more modest rate. But right now, we have a catch-up problem in the air, land, and sea. That's what we're trying to do.

• (1645)

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

Moving along, we'll go to Mr. Cannis and then back to Mr. Calkins.

**Mr. John Cannis (Scarborough Centre, Lib.):** Thank you, Chair.

Before I get into my questions and comments, I would like to thank the general and the minister once again for their appearance before committee.

I would ask either of them, if they were broke—just to pick up on my friend Claude's comment on the Camaro—would they go buy that Camaro?

**Hon. Gordon O'Connor:** That's a theoretical question for somebody who is a car enthusiast.

**Mr. John Cannis:** I'll interpret that as being that if someone were broke, they wouldn't buy that Camaro.

But I agree with the parliamentary secretary, my good friend Russ Hiebert, when he said our men and women who are at risk deserve to have the best equipment available to them.

General Hillier, central or first command policy was developed about two and a half years ago. It started to roll out then. Am I correct, sir?

**Gen R.J. Hillier:** Yes, it was under the Liberals.

**Mr. John Cannis:** And I believe the minister at that time was Minister Graham.

**Hon. Gordon O'Connor:** I think so. I'm not sure.

**Mr. John Cannis:** I believe it was.

I read here in one of the articles that the Conservative government has approved \$17 billion worth of new.... Is that \$17 billion plus the \$13 billion and something, for a total of \$30 billion that we're going to spend, or is the \$17 billion one figure?

**Hon. Gordon O'Connor:** It's one figure, and it includes the capital costs of all five acquisitions plus support for 20 years.

**Mr. John Cannis:** So I would assume it's the \$13 billion and something that was allocated in the 2005 budget.

**Hon. Gordon O'Connor:** It's that much plus—way, way plus.

**Mr. John Cannis:** Great.

General Hillier said earlier that we had to plan almost two and a half years ago. First of all, correct me if I'm wrong, but before we go out and purchase.... We have to somehow eliminate the conspiracy theory that says the new Conservative government is trying to skew the process, for all intents and purposes. I think we have to lay that to rest for Canadians or for the people who write the articles, and to show that there's an open and transparent process. In order to do that, we have to ask certain questions. One of the questions that I want to ask is whether, before we go out and spend this money, the military identifies its needs.

Is that what happens, General Hillier?

**Gen R.J. Hillier:** We identify the military requirements to be able to do the kinds of missions that we get from the Government of Canada, sir. Then we walk those to the minister and have that discussion to see if we can convince him of our line of logic that this is indeed square peg, square hole.

**Mr. John Cannis:** Can you tell me when that process commenced, General?

**Gen R.J. Hillier:** Which specific part do you mean, sir?

**Mr. John Cannis:** I mean overall. On the heavy airlift, when did you start up?

**Gen R.J. Hillier:** It's been going on for a substantial period of time, during which we have laid out what the requirement is and what we need to do. Before I became CDS, it was partially walked through. After I became CDS, we did much more of the work on it and completed it, once Minister O'Connor had arrived.

**Mr. John Cannis:** I'm glad you mentioned that, General, because when you became CDS, you came before the committee. If I recall your words—maybe not verbatim, but quite accurately—now that the funds were there, our plan was going to roll out and we were in the process of moving positively forward to secure the equipment that our men and women.... And this is even before we formerly rolled out the three-D policy for Afghanistan. Do you recall that, General?

**Gen R.J. Hillier:** No, I don't, sir, but I don't recall many things these days.

**Mr. John Cannis:** We'll help you to refresh your memory.

**Gen R.J. Hillier:** It's a sure sign of my increasing age, sir. I apologize.

**Mr. John Cannis:** No, not at all.

My closing question is based on an accurate or inaccurate statement I read here, Minister. I think it's probably inaccurate. It states here that back in opposition, and I quote, Mr. Minister, "O'Connor labelled a plan to buy similar aircraft 'outrageous' and an attempt to spend billions without public scrutiny." If I recall, Mr. Minister, you were in favour, some years ago, of buying the equipment, unless this paper is quoting you incorrectly.

**Hon. Gordon O'Connor:** Sorry, which one do you mean? You're switching back and forth. Which one are you saying?

**Mr. John Cannis:** I'm talking about purchasing equipment only because today we're trying to identify—and the general was kind enough to put a firm date on it—when the process for the acquisition of new equipment commenced. If I may repeat it, I think he indicated it was well over two years ago.

I'm only going into this line of questioning—I really didn't want to—because of some comments made by the members of the government.

• (1650)

**The Chair:** A short response, please.

**Hon. Gordon O'Connor:** The Martin government started down the road toward improving the armed forces. Unfortunately, they didn't get very far. They didn't prosecute any of the large projects. When we came in.... As I said during the campaign, there are elements of the Liberal defence policy that I absolutely support. I blend both my policy and the Liberal policy. Just because it's Liberal doesn't mean it's bad.

**Mr. John Cannis:** I thank the minister for his honesty.

**The Chair:** Mr. Minister, I think that's where they want you to stop.

**Mr. John Cannis:** That's for sure.

**The Chair:** We're moving over to Mr. Calkins for five and then back to the official opposition to wrap up.

**Mr. Blaine Calkins (Wetaskiwin, CPC):** Thank you, Mr. Chairman.

I would like to thank everybody for coming to the committee today.

I would like to continue in that vein, because it's one thing to have a plan and for the military to continually re-evaluate the current state of its assets and to predict what the changeover is going to be. I want to clarify the difference between having a plan to do something and actually allocating the funding and getting it done. I was wondering whether either you, Minister, or maybe the Chief of the Defence Staff can elaborate on how many of those plans in the past two or three years that started under the Martin government never did have any funding identified for them, or never had any plan to have funding allocated to them.

**Hon. Gordon O'Connor:** Since we're following this train of thought, as I said, some Liberal ideas are good. One of the problems of the previous government was dithering. They just went on and on, they talked and talked, and they never got anything done. The

difference is that once we have a sound way ahead and once the military clearly identifies what they require, then we move on it and we will get what the military needs. But the previous government wandered around and around. They had a plan, but they never implemented it.

**Mr. Blaine Calkins:** Thank you, Mr. Minister. I think anybody who is paying attention clearly recognizes that.

I'm going to change the line of questioning a little bit. Something that's come to my mind is, if we acquire these C-17s—it's a matter of when now, not if—it would seem to me that other nations or allies would look at the resource or assets that we have as something of potential interest to them to be able to use. I'm wondering if you could elaborate for this committee the advantage to the Government of Canada or the Canadian armed forces in terms of negotiating, entering into collaborative missions such as Afghanistan in the future, should the United Nations decide to go into another international arrangement. How does having these assets benefit our ability to negotiate what the Canadian Forces can and can't do?

**Hon. Gordon O'Connor:** From two points of view: one is that it means that when we intend to lift something that is ours we can actually lift it on the times we say we're going to lift it; the other one is that we can offer assistance to other countries that don't have the lift. We can help lift their resources in, in Africa or Asia or wherever else. We can also use strategic lift as one of our contributions to various missions.

**Mr. Blaine Calkins:** Thanks.

When it comes to these aircraft, if you've got the plan in place we have to have the pilots ready to go. I know this is a big change, a fairly significant change. Maybe it's going to be a big change to update the Hercules fleet as well. When are they going to start their training? When are they going to be ready? We're going to take delivery of this aircraft fairly soon. Has that process already started?

**Gen R.J. Hillier:** It's already started, sir. We also benefit from the fact that throughout the years we've had crew members on exchange in the United States Air Force, which is part of our normal program with allies that we do that with. Therefore, we have pilots who are qualified on the C-17, so that's a real plus. The program is now in place. As a result, folks are getting their initial training from the United States Air Force. Our aim is that when we get that first aircraft, within a short period of time after its arrival in Canada we'll marry it up with qualified crews and maintainers and we will have it operational within weeks. We've already started that process to get the most out of the fleet when it starts to arrive.

• (1655)

**Mr. Blaine Calkins:** Good. That's good to know.

Just a quick question. From a fiscal perspective, I like the sound of reducing the amount of time and effort going into technical specifications from a project perspective, analyzing what your needs are and handing them off to Public Works, or whoever else it needs to go to. It seems like a common sense approach. I'm wondering, there've been some recent media comments about reorganizing the Canadian Forces. I know the government's put out the position of getting some of the people out of the bureaucratic end of the Canadian Forces and putting them back into front-line positions. I'm wondering if any of the people who are doing this are coming from the procurement area. Is this going to affect the number of people working in procurement by simplifying this process, or are we just simply reducing the amount of time?

**Mr. Ward Elcock:** Mr. Chairman, as a result of a resource tightness over the years, the number of people in the procurement area has gone down, as in other areas of the department and the military.

At the current point, we are in the process of having to rebuild not only the Canadian Forces, but also our procurement ability. That means not only bringing in new people, but it means training them and getting their skills up to the point where they can do it effectively.

The ADM for materiel, who will be testifying before the committee, can explain in detail some of the things we've done. We've done some very innovative things in the last while, I think, compared to the past in terms of making the system within DND—our part ship, if you will—work faster, things such as not doing 17,000 pages of specifications, but doing it on the basis of high-level requirements—a major projects procurement initiative within the department.

**The Chair:** Thank you.

To wrap up, Mr. McGuire, for five minutes.

**Hon. Joe McGuire (Egmont, Lib.):** Thank you very much, Mr. Chairman.

I would just like to remind Mr. Blaney that the armoured vehicle he felt so secure in while he was in Kandahar airfield was purchased by the government of Paul Martin. So if you felt secure there, you can thank Paul for that.

My question, Mr. Chairman, is in relation to the industrial regional benefits. I'd like to know if the military is basically supportive of this process that has been in place for some time, even though it might slow down the delivery of the equipment.

**Hon. Gordon O'Connor:** I'll have to ask General Hillier to answer that.

**Gen R.J. Hillier:** Actually, sir, I've avoided even thinking about whether I support it or not.

I have two hats here. One is as a CDS, and I'm a greedy CDS and I want my soldiers, sailors, airmen and airwomen to have the equipment as soon as possible. Second, as a Canadian, obviously I'd like to see the best possible economic benefits for Canada.

We just want the equipment in the Canadian Forces, and the men and women who do the job for us need it.

**Hon. Joe McGuire:** I think the minister should answer this question. It is a political decision to have industrial regional benefits. It always was a government policy. It's not a military policy; it's a government policy—

**Hon. Gordon O'Connor:** No, but to recount your question, you asked what did the military think.

**Hon. Joe McGuire:** —and you should declare whether you are supportive of that policy or not.

**Hon. Gordon O'Connor:** You asked what do the military think.

**An hon. member:** So what do you think?

**Hon. Gordon O'Connor:** If you want to ask me what I think, I think industrial benefits are an excellent practice that in fact basically got developed in this country years ago, and now other countries have caught on.

We get a twofer out of it: we get the equipment we need, and we also get investment in Canada in our industry. With clever investments, we can make sure that from coast to coast to coast in this country various companies that are related to aerospace or defence or vehicles or electronics will get a boost from defence investments.

So I think it's a great thing.

**Hon. Joe McGuire:** So you will direct General Hillier, then, when he's designing the requirements for the equipment, that there will be a major directive that regions will benefit by the expenditure of the Canadian taxpayers' dollars.

**Hon. Gordon O'Connor:** Neither myself nor General Hillier have anything to do with that. That's the industry minister. The defence department sets the requirement and provides the funds for whatever we're trying to acquire. It's the industry minister who sets the industrial benefits.

You asked me what I thought of it. I like the idea of industrial benefits, but I have no say in it. I don't say who gets what.

● (1700)

**Hon. Joe McGuire:** Okay, so you're very supportive of that process being in place.

**Hon. Gordon O'Connor:** Yes.

**Hon. Joe McGuire:** So maybe we shouldn't be buying these planes off the rack. We should maybe—

**Hon. Gordon O'Connor:** It matters not whether we buy them off the rack or build them. If we buy them off the rack, as you put it, those companies have to invest in Canada—if they're foreign. If it's a Canadian company, they're investing already.

**Hon. Joe McGuire:** But if it's dollar for dollar, and apparently out of the \$3.4 billion, only \$1.1 billion is going to be eligible for regional industrial benefits—

**Hon. Gordon O'Connor:** You'll have to talk to the industry minister. This is not a defence matter; it's industry.

**Hon. Joe McGuire:** But a lot of times the industry designs their price and their equipment on the basis of giving the regional industrial process a good kick at the cat, and this apparently is not something that's very well appreciated. The companies themselves do pay...they will wear a fair program, and they design their submissions with that very much in mind.

**Hon. Gordon O'Connor:** The defence department's part of the process is to identify what is required and provide the funding for it, and then to be the user at the end, to make sure it can work within the defence requirements, and to train on it. The defence department has nothing to do with industrial benefits.

**The Chair:** There are twenty seconds left.

**Hon. Denis Coderre:** Do you believe, Minister, that the fact that we need to possess the capacity to do our own maintenance is also a very important issue for our men and women? If we're at the mercy

of Boeing in the United States and we cannot do the maintenance because it's up to them, don't you think you're at their mercy?

**The Chair:** A short response, please.

**Hon. Gordon O'Connor:** As I understand it, a number of air force personnel are to be trained to maintain the aircraft. As well, there are Boeing plants all over the planet. There is no way we would get squeezed out on maintenance.

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

I thank the committee for their cooperation in keeping us on schedule. Hopefully, gentlemen, as we go through this process and come up with the report and some recommendations, it will be useful for everybody.

The meeting is adjourned.

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