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Chair

Mr. Rick Casson

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•(0905)

[English]

The Chair (Mr. Rick Casson (Lethbridge, CPC)): I call the meeting to order.

We have a packed schedule today. We want to get started and keep to the schedule. We are splitting the meeting into two sections this morning. For the first hour we have Pierre Lagueux, former assistant deputy minister, materiel; and from the Center for Defense Information, the Hon. Philip E. Coyle, senior advisor.

I understand, Mr. Coyle, that you'll start with your remarks, and then we'll have Mr. Lagueux's. Then we'll open it up for questions.

We'll have to be fairly strict on time, committee, for questions and make sure we're done at 10 so we can get the other group in.

Gentlemen, go ahead. The floor is yours.

Hon. Philip E. Coyle (Senior Advisor, Center for Defense Information, World Security Institute): Thank you, Mr. Chairman and members of the Standing Committee on National Defence. I very much appreciate your invitation to appear before you today to support your study of military procurement and associated processes.

I'm currently employed as the senior advisor to the Center for Defense Information, a non-profit organization, a division of the World Security Institute, which is a Washington, D.C.-based national security study centre. To help ensure our independence, the World Security Institute and the Center for Defense Information do not accept any funding from the federal government, any other government, or from any defence contractor.

In my current capacity I'm called upon sometimes to provide independent expertise on various defence matters. I have about 30 years of experience involving U.S. defence systems and equipment. My remarks today will be based on those experiences and may not apply to the situation in Canada, which may be quite different from that in the U.S.

I want to note from the outset that many U.S. military acquisition programs work very well. You never read about them in the newspapers. They provide the user with the intended capabilities and they work just fine. However, in some recent years there have been some disturbing trends. For example, in some recent years, 80% of U.S. army systems did not achieve 50% of their required reliability in operational testing. Not long ago, two-thirds of U.S. air force systems had to halt operational testings because they weren't ready for it. Going back a little farther, the navy has also had to deal with its difficulties. In 1992 there was a period where only 58% of navy

systems undergoing operational testing to support a Milestone III decision were successful. The navy instituted several changes and a few years later their success rate was up to about 92%.

More generally, today there is concern about finding ways to reduce technology risk in U.S. defence acquisition programs, which too often overrun their costs and schedules.

When such problems arise, it's usually, I feel, because of a general lack of realism, which manifests itself in four ways, the first being unrealistic requirements. While we all want our soldiers, sailors, airmen, and marines to have the very best equipment, and they also of course want more capable systems, that can translate into multi-mission systems, and this can lead to more complicated, multi-functional systems, often with computers and sensors working together for information fusion. These days, practically everything has a computer in it, as we see in our everyday lives.

For example, the cancelled Crusader howitzer program had roughly a million lines of code in its computer. Some people would be surprised that a howitzer would need that sort of computational power, not unlike what you might have on a modern jet fighter aircraft.

So in the United States today, what often happens is the technical challenges that must be overcome to achieve effective multi-function systems are regularly underestimated.

It's also not uncommon for the U.S. Department of Defense to have unrealistic expectations for costs and schedule as well as performance. Sometimes this originates in proposals first put forward by industry. To make new proposals attractive, the U.S. defence industry may overstate what can be delivered and how inexpensively.

But whether it's driven by contractors or by the government itself, this can lead the contractors to buy-in, as the phrase goes, in order to be competitive. This often is caused by a failure by both the government and the contractor to fully understand and address the technical challenges in a program early. When the technical challenges have not been candidly identified, the cost of schedules to solve these problems can overrun by billions of dollars and many years of delay.

Also, with the intent of saving time and money, sometimes the military departments or defence contractors turn to commercial off-the-shelf or non-developmental items, so-called COTS/NDI. Usually these items are really not on the shelf, in the normal sense of the phrase, commercial or otherwise, and if they are, often the designer of these equipments never contemplated that product would be put to military use in a harsh military environment.

● (0910)

I feel a third area of unrealism is that too often the U.S. Department of Defense goes into highly complex technical programs expecting the contractors to deliver under firm, fixed-price contracts. Even if they are not firm, fixed price, many contracts are structured with little or no incentive to continue development to improve the system and every incentive to get into production as soon as possible. Also, the contractual environment for these contracts often requires defence companies to make unrealistic bids simply to be competitive. You've heard the phrase "you can make it up in production". Later, if production quantities are cut, which they often are, that further reduces the prospects for profit.

Finally, fourth, in the sense of preparing for a realistic operational environment, sometimes defence acquisition programs underestimate the importance of the operational environment, such as bad weather, the stresses of battle, or operational loading. For example, computer systems may be loaded much more heavily in battle than in the laboratory. Sometimes acquisition programs do not prepare adequately for operational testing, which by definition will be operationally realistic. Complex systems that have done well in the laboratory sometimes do not perform well in realistic operational tests.

With these issues in mind, I have laid out ten solutions for you, ten things you may already be considering or you might want to consider. I don't think I need to go through each of those ten things. I think they're pretty self-explanatory. They range from increased parliamentary oversight and review, competition in contracting, to making sure you pay attention to the technical details. I won't take your time by going through those ten things, but I'd be happy to take questions when the time comes.

As I said at the outset, not all my suggestions will be appropriate for the Canadian government. For one thing, the scale of most Canadian military procurements is different from that in the U.S. However, the trend in defence procurement worldwide is toward larger, more complex, and more costly systems that involve advanced technology, computers, and software, and these big systems are difficult to manage.

Thank you, Mr. Chairman.

The Chair: Thank you very much, and I'm sure there will be questions.

We will move on now to Mr. Lagueux.

Mr. Pierre Lagueux (former Assistant Deputy Minister (Materiel), Department of National Defence, As an Individual): Mr. Chairman, thank you.

Mr. Chairman, ladies and gentlemen of the committee, thank you very much for inviting me to participate in a review of the government procurement process.

[*Translation*]

As some of you know, prior to retiring from the Public Service in 1999, I spent almost three and a half years as the Assistant Deputy Minister (Materiel) in DND (the post currently occupied by Mr. Dan Ross, who previously appeared before you on February 8).

Prior to that I spent over 30 years, as both a military officer in the Canadian Forces and a senior civilian in DND working exclusively in the field of logistics, materiel management, and procurement.

I have appeared before this committee or its previous iterations on several occasions to answer questions on defence procurement. The last time I appeared before your committee, just prior to my retirement, was just over eight years ago, to be exact, it was March 2, 1999.

At the time, I provided a detailed overview of the defence procurement process, including the extensive actions we were taking to reform the process. Committee members might wish to look at that presentation of eight years ago, as many of the reform initiatives I spoke about then are similar to those still being talked about today.

[*English*]

For example, several of the previous witnesses have mentioned buying more off-the-shelf equipment as a way to shorten the procurement process. This is not a new concept. In a statement on Canadian defence policy of April 1992, the Conservative government of the day stated that in future defence procurement it would:

- avoid unique Canadian solutions that require expensive and risky research, development or modification of existing equipment.

Shortly after that, in a budget impact statement on national defence in April 1994, the then Liberal government stated that DND would:

...emphasize the purchase of equipment 'off the shelf', the use of commercial standard technologies, and unless absolutely necessary, the avoidance of military specifications...

In my presentation in March 1999, in outlining those things we did to reform the acquisition process, I noted our move to use more commercial off-the-shelf procurement. I cited the purchase of the Bell 412 helicopters as one of several examples. So in fact, buying off the shelf has been advocated and used very successfully by DND for many years.

● (0915)

[*Translation*]

In spite of concepts like these, there is still a very real sense that there is something wrong with defence procurement at the Department of National Defence—that it needs to be fixed.

Not just here in Canada—you can read about attempts to reform defence procurement in the U.S., U.K., Australia—in fact in most major western defence departments. Judging by the amount that has been written and talked about, it is evident that procurement reform is and has been a very high priority in defence departments for many years now.

[English]

Why haven't we found the solution? As I said, the problem is not just in Canada. For example, a *Jane's Defence Weekly* article in October 2005, in reference to procurement reform in the U.K., had the following headline: "Smart Acquisition still not working, says committee". A BBC News headline in February this year read: "Armoured vehicle delays condemned". And here's a quote from the U.K.'s Commons defence select committee, which stated that a requirement identified nine years ago still remained "nothing more tangible than a concept".

[Translation]

So while some progress has been made in recent years, everyone still seems to want to totally reform the system.

[English]

In my opinion, the system is not totally broken. I do not agree, for example, with one of your previous witnesses, Mr. Alan Williams, that a radical new organization has to be created. The existing procurement system can, however, be significantly improved, and unless we take decisive action now, in ten years' time, potentially we may still be pointing to buying more off-the-shelf equipment as the latest reform.

[Translation]

Last year, the Conference of Defence Associations Institute published a paper entitled "Creating an Acquisition Model that Delivers".

[English]

In English, that's "Creating an acquisition model that delivers".

[Translation]

Indeed, the President of the CDAI, General Manson, was one of your previous witnesses.

Chapter 2 of the paper, which I wrote, presented some suggestions as to how the acquisition process should be changed to make it more consistent, timely and less costly. The chapter is only six pages long and I, of course, recommend that your committee read it.

[English]

At this time, however, let me highlight the recommended ten-point plan in that chapter.

First of all, no acquisition should start without a clearly understood and accepted statement of the capability deficiency that is to be rectified. Equally important, it should be limited by a clear understanding of what it is not intended to do. "SOR creep" is a major contributor to added time and complexity in procurement.

Secondly, there must be early industry involvement in identifying possible solutions to the capability deficiency. In many cases the

solution to the capability deficiency may, in the end, not even be an equipment procurement.

The process should employ well-trained, knowledgeable, experienced, cross-departmental integrated project teams as soon as the requirement has been identified.

Procurement strategies must not just identify the risk, but strategies that inherently minimize risk need to be adopted.

Contracting processes that support greater use of performance specifications as opposed to overly detailed technical specifications, should be encouraged. However, there will still often be occasions where there is a need for detailed technical specifications.

In awarding contracts, potential suppliers' past performance should be very much a considered factor.

Procurement strategies will vary from project to project, but the rationale for selecting a particular strategy, whether it be competitive, sole source, or use of an ACAN, must be consistent and be clearly understood. The process must also recognize industry as a partner in the process with legitimate expectations and costs. Too often they are viewed as the adversary in the process.

Very importantly, underpinning the whole of defence procurement there should be a government-stated defence industrial base strategy, such as the U.K. and Australia have each recently published.

There should be greater use of positive contractor incentives, and not just penalties.

Lastly, DND must have a realistically stable future funding line. Before being allowed to proceed, each project should present a realistic cashflow profile. Projects should be "gated" under specific cash/timeline targets, subject to cancellation for failure to meet the agreed "gates".

I will be the first to admit that there is nothing especially unique or even radical in the above suggestions. I'm not calling for a major reorganization. What I am advocating, however, is a more consistent and predictable procurement process.

As I stated in the conclusion to the chapter, too often large, complex acquisitions are handled in what amounts to an ad hoc manner. Compromises are made as necessary along the way to make sure the project continues to advance, often with little consideration to the downstream risks or the time and cost implications.

● (0920)

[Translation]

Mr. Chairman, as the Auditor General said a few weeks ago, the process of defence acquisition is complex and will always be so. And I would opine that the political environment in which it exists makes it even more complex. But we should be able to do better.

[English]

Mr. Chairman, I would be happy to answer any questions that committee members may have.

The Chair: Thank you very much.

We'll start our round of questions. It's a seven-minute round.

Mr. Coderre.

[Translation]

Hon. Denis Coderre (Bourassa, Lib.): Colonel Lagueux, Mr. Coyle,

[English]

Thank you for being here.

[Translation]

Colonel Lagueux, I am always somewhat nervous when the political environment is mentioned and you talk about "creep". I don't know if it is because your past life as an official makes you break into a cold sweat when politicians take responsibility for certain things, but I think that accountability is essential, because this is about taxpayers. To my mind, it is important.

In that regard, I fully agree with Mr. Coyle when he says that parliamentarians must be involved in a process that has a watch-dog role to ensure that money is spent properly. Just remember how exorbitant costs were at the Pentagon, at one point. If the obligation to be accountable had not existed, the price of toilet seats might well have gone from \$4,000 to \$20,000; who knows?

Colonel Lagueux, don't take the questions I'm about to ask you personally.

You are currently a senior partner at CFN Consultants. Can you tell me who your current clients are?

Mr. Pierre Lagueux: First of all, Mr. Coderre, no one has called me Colonel in a long time; thank you.

Hon. Denis Coderre: I have a great deal of respect for that.

Mr. Pierre Lagueux: As you mentioned, I am a senior partner at CFN Consultants here in Ottawa. We have several clients, including Canadian and foreign companies. We have over 50 clients. I don't know if you want me to name them all.

Hon. Denis Coderre: Do you have specific files?

Mr. Pierre Lagueux: I have several files.

I know what you are getting at. So, to be very specific—I have nothing to hide—our clients include Lockheed Martin Aeronautics, Alenia North America, Bombardier and several others.

Hon. Denis Coderre: Okay.

I see that there are an ever-increasing number of colonels or generals who go directly from the Department of National Defence to your company. You spoke a great deal about "creep" and political involvement.

I know that you organize—and I see nothing wrong with that—*Hawk and Eagle* meetings with clients and representatives from the Department of National Defence. I have heard that these meetings take place at certain golf clubs.

Ethically speaking—and I am being philosophical—if politicians looked after too many aspects of procurement, do you think that there could be a perception problem? You are quite familiar with how things work on the inside. If people like you, who used to be a government official and became a representative of certain companies, go into industry, does that not lead to a little too much change in terms of the operational statement of requirements?

• (0925)

Mr. Pierre Lagueux: Mr. Coderre, I would like to say yes, but unfortunately, the answer is no.

Hon. Denis Coderre: It doesn't work like that?

Mr. Pierre Lagueux: No, it does not work like that.

First of all, CFN Consultants here, in Ottawa, has a very clear ethics policy. We are very careful, not only about what we do, but also about the perception of others with respect to what we do. We are very careful about that because, naturally, our credibility depends on it.

In light of our previous careers, we certainly do have good knowledge of the procurement process. I believe that is why we are offering a service that is in demand. The process is rather complicated here in Canada. It is different from the process in the United States, Australia, and elsewhere. Each country has its own process. So the service that we are providing to assist clients in understanding the system is in demand.

Hon. Denis Coderre: You are doing some advertising.

You know Dan Ross and General Hillier well. Do you meet with them directly, when you sing the praises of your clients?

Mr. Pierre Lagueux: I never participate in meetings with General Hillier. On occasion I meet with Dan Ross. I think it is normal for us to discuss the process and problems, given that I was one of his predecessors. We regularly discuss issues that occur within the department, how we dealt with the same problems and the solutions adopted.

Hon. Denis Coderre: What do you mean by "things that occur within the department"?

Mr. Pierre Lagueux: Matter such as reductions in staff, project approvals and the procurement process. Bear in mind too that Dan Ross has not spent his entire career in procurement.

Hon. Denis Coderre: You are paving the way for him to go to CFN Consultants, if I understand correctly.

Mr. Pierre Lagueux: No, I don't think so. We are not recruiting these days.

Hon. Denis Coderre: I am under the impression that some admirals are going to move... I find the staff recovery strategy you use quite aggressive.

[English]

Honourable Coyle, thank you for being here.

Lockheed Martin will be coming here. As you've been working with the Pentagon, I would like you to tell us about the C-130Js.

Out of \$17 billion, we have had a tendency to have no bids in our country. So we'll spend \$13 billion. And one of them is the C-130Js. If it's a good thing I don't mind, as long as taxpayers are okay. But how did it work? The Pentagon, and even Rumsfeld, sent letters on this. They said they had problems with that plane.

From an American point of view, would you explain how things are going with that plane? Is it good equipment?

Hon. Philip E. Coyle: The way the C-130J was first marketed in the United States was as a so-called commercial off-the-shelf piece of equipment. Because of that, the program bypassed the usual procurement rules that would have applied if it had been a major systems acquisition.

I'm going back a decade now, but as it turns out, the C-130J really wasn't commercial off the shelf. I was working with people in the U. S. Air Force at the time, who took the position, "We're just taking delivery of this thing. We don't have any requirement for it. There's no reason we have to go through the usual rules, because we're just taking delivery. Members of Congress are helping us afford it, so we don't have to deal with this piece of equipment in the way we would normally."

But in fact, as the recent report by the Office of the Secretary of Defense, just last January points out—this is not me now—70% of the C-130J is developmental in nature. So even today, a decade after I first started to deal with the C-130J, there are still developmental issues.

• (0930)

The Chair: Mr. Coderre, I'm going to have to move on. Thank you very much for that.

Mr. Bachand, seven minutes.

[*Translation*]

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

Welcome everyone. I have read two of our guests' resumes, and they are very impressive. These witnesses have been at the heart of some very important decisions.

All that is missing on your CVs is status as an elected official. I think that you would, indeed, be very useful in politics.

I want to start my introduction by talking about us, politicians. I have always felt that the role of parliamentarians was to watch over taxpayers' money. For that reason, I am very interested in parliamentary oversight and review. If the Bloc Québécois had not requested a study on procurement, we would be watching the government spend some \$20 billion without being able to exercise any oversight.

I would like to hear your comments on that topic. I'm going to start with you, Mr. Coyle. I know that the role of the Committee on Armed Services, in both the Senate and the House of Representatives, is much more significant than the role of the Standing Committee on National Defence here in Canada.

Could you describe for me the role of that committee in the United States—in fact, there is one in the House of Representatives and one in the Senate—as regards the tendering process? They determine

budgets, don't they? When you control part of the budget, you control part of the order. That allows for more adequate oversight and review than what is used here, in Canada.

[*English*]

Hon. Philip E. Coyle: I'm not an expert on how the Canadian government works, but it's said in the United States that the President proposes, Congress disposes. Unless Congress appropriates money for activities, they just don't happen.

As I say in my formal statement, when the U.S. Congress maintains closer oversight and review, the U.S. military gets better and more effective equipment sooner and cheaper. I can't think of a case where increased oversight by Congress didn't actually help the military. You might worry about the opposite—that it would somehow slow things down—but that hasn't been the case that I can think of.

[*Translation*]

Mr. Claude Bachand: Thank you.

Mr. Lagueux, unlike Mr. Coyle, who considers parliamentary oversight and review to be very important measures, you do not mention that at all.

I do not necessarily want to pick up where my colleague Mr. Coderre left off. Nevertheless, I stated a few weeks ago in *La Presse* that I had the impression that parliamentarians weren't welcomed in the tendering process.

I don't think that you are part of that group. I called it the *old boys club*. It is often a group of military officials who get together. I also know that each time defence contractors want to obtain a contract or part of a contract, they tend to call lobbyists rather than parliamentarians, and that worries me to some degree.

I would like you to reassure us on that. I would like to know if asking parliamentarians to exercise greater oversight runs counter to your philosophy, or, in your opinion, it is an essential part of the process.

Mr. Pierre Lagueux: Mr. Bachand, thank you for not including me in the *old boys club*.

As for your question, I think things need to be put in context. I understand Mr. Coyle's position regarding the United States, but you must understand, even if it is not up to me to tell you this, that the Government of the United States operates in an entirely different fashion than the Canadian government. In Canada we have what we call a Westminster system of government. Responsibilities conferred upon Canadian parliamentarians under this system are very different from those conferred upon members of Congress and Senate in the United States.

We are just saying that parliamentarians should play a more significant role in the defence procurement process, but why not talk about this process government-wide? I do not understand why you want to focus exclusively on defence procurement.

To be in a position to answer your question, our system of government would really have to be studied and we would need to determine what the role of parliamentarians is, as regards not only the defence procurement process, but all government activities.

Under the current system in Canada, the role of parliamentarians does not include reviewing each acquisition and getting involved in it, just as it does not include getting involved in other areas.

Since that is how our system is, that is my answer.

• (0935)

Mr. Claude Bachand: Well, that answer has not helped to reassure me. It seems to me that parliamentarians have a role to play in defending the taxpayers' interests. I don't like the feeling that we are trying to break into an exclusive club.

You said it was important to integrate all of the departments in order to work through these projects. However, if you feel that parliamentarians should not be involved, then you and I could very well find ourselves on a collision course because, in my opinion, parliamentarians should absolutely have a say in the matter.

Now, Mr. Chairman, I would like to give my colleague the floor. How much time is left?

[English]

The Chair: Half a minute is all that's left.

[Translation]

Mr. Claude Bachand: Well then, make it quick.

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

Welcome.

Three departments are involved in the procurement process: National Defence, for the specs, Public Works Canada, for the RFPs, and Industry Canada, for the economic spinoffs.

You said that we needed integrated interdepartmental project teams. According to some witnesses, what is lacking is an agency that would be responsible for the process.

Would you also agree that there is no organization or department that is in charge of the entire procurement process?

Mr. Pierre Lagueux: No, I do not agree with that statement.

Here is a Treasury Board document. It was in force when I worked for National Defence, and it still applies. Unfortunately, it is in English.

[English]

I would like to read that very briefly. It talks about the role of operating departments and their responsibility in acquisition. It says very clearly:

Operating departments are responsible for the achievement of their approved project and procurement objectives, and for incorporating the government's socio-economic decisions into their procurement and project management activities.

[Translation]

It is clear to me that the Department of National Defence is responsible for its own procurement.

[English]

The Chair: Thank you very much.

Ms. Black.

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

Welcome to both of you, and thank you for attending, Mr. Coyle and Mr. Lagueux. It has been an interesting morning so far.

Mr. Coyle, I have a copy of the *Ottawa Citizen* this morning, and you've been quoted extensively about the C-130J and your experiences in the U.S. There's one quote here that says, "Mr. Coyle said the C-130J was sold to the U.S. as an off-the-shelf product, but the plane has faced numerous problems."

As it turns out the C-130J has not been an effective aircraft.

That's a direct quote in the article. I wondered if you could expand a bit about your own experience with that aircraft and give us your assessment of the plane, please.

Hon. Philip E. Coyle: Certainly. I was involved with the C-130J when it first came up, as I say, a decade or more ago. Perhaps what's more important is not what I might say from ten years ago but the latest report on it from the Director of Operational Test and Evaluation in the office of the Secretary of Defense. This is a report that came out in January that I'm reading from. It says:

The C-130J, in the current configuration, is not effective in performing formation airdrop missions in Instrument Meteorological Conditions where the use of Station Keeping Equipment is required. The C-130J is not effective for worldwide operations in a non-permissive threat environment. The C-130J has shortfalls in meeting user suitability requirements, due to maintainability issues.

And it goes on to explain that operational testing of the C-130J will likely continue in the U.S. past 2010 because the program has shifted to what's called spiral development.

I can make this available. It's just a two-page report, but it's perhaps more important what they're saying today than what I might say from ten years ago.

• (0940)

Ms. Dawn Black: Thank you very much. I appreciate that.

You've also had experience with Congressional oversight in the U.S., and I wondered, is there anything you think we could learn specifically from that process in the U.S. Congress, or is there anything we should in fact avoid?

Hon. Philip E. Coyle: Well, I think one of the most difficult things for the U.S. Congress is keeping track of what happens to a program if it gets into difficulty. And many don't, as I said in my opening remarks. Many don't. But when programs get into difficulty, it's very difficult for the Congress to keep track of that.

For example, there are things called selected acquisition reports, which call attention to those programs that are getting in trouble. But because of the way the information is presented, it's very difficult for members of Congress to figure out, "Is this a 10% overrun since we started? Is this a 100% overrun since we started?"

So one thing I recommend in particular is I would caution against your using the U.S. practice of regularly re-baselining costs and schedules so that something that looks like a 3% or a 5% or a 10% increase happens again and again and again and suddenly you have a 50% or 100% increase, but you're not really aware of it because you're only seeing little pieces.

Ms. Dawn Black: Thank you very much.

Mr. Lagueux, thank you for your presentation. You've made ten recommendations to the committee.

In terms of how I and Canadians see the role of members of Parliament, I think it would certainly be to address the issue of accountability to the government in power, to ask questions, and to ensure taxpayers get the best bang for their bucks, as my colleague Mr. Bachand said.

When we look at military procurement and it appears to be a sole-source contract, of course, MPs and the Canadian public become nervous, with some justification.

You said you disagreed with Mr. Alan Williams, who appeared at our committee and who's written a book called *Reinventing Canadian Defence Procurement*. On one of the recommendations Mr. Williams made, you said you disagreed with his recommending a different process or a different kind of department. One of the recommendations Mr. Williams made was that a lead minister should be designated for defence procurement.

I'm relatively new to this committee. I've only been on it for a year. One of the things that has been very stark to me on the committee is to have a variety of ministers and deputy ministers come before the committee. When I and others have asked specific questions about the procurement process, we get the answer that we should ask the question of the other minister coming the next week or that it doesn't fall under.... It's been very difficult to pin down which minister has specific accountability in this process, and I find it very frustrating.

I'm going to ask you this. Why would you be or are you opposed to the recommendation that one minister should have final accountability on the process?

Mr. Pierre Lagueux: Well, as I replied in the last question, my sense is there is one minister accountable for the process at DND.

• (0945)

Ms. Dawn Black: It's not what they tell us when they come here.

Mr. Pierre Lagueux: I acknowledge that. I've read the transcripts, and I've been watching the committee with interest. To be quite frank, I'm a little surprised at that.

However, it is clear that various ministers have various responsibilities within the process. On behalf of the ministers, various departments exercise certain prerogatives within the process.

As I said when I read from the Treasury Board document I have here, which is a document that has been in place for quite some time, it is the operating department that is ultimately responsible to ensure whatever is procured meets the requirements of the Canadian Forces. The operating department's money pays for it.

The Minister of Industry is responsible for the aspect of industrial and regional benefits. The public works minister and his staff are responsible for the contracting aspects. Each of them has the responsibility to provide those services overall throughout the acquisition process.

Ultimately, if the acquisition process fails, the equipment doesn't meet the requirements, and there are cost overruns, it is clear in my mind that the defence department is accountable.

When I was the assistant deputy minister of materiel, I chaired the interdepartmental committees, and it was clear to me who was going to hang if things went wrong.

Ms. Dawn Black: I wish it were as clear to the ministers.

The Chair: Thank you.

Moving to the government, it's Mr. Calkins, I believe.

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

I would like to thank both of you for appearing before the committee today. It's been interesting so far.

My first question is for Mr. Lagueux.

There's been a lot of discussion and debate in this committee about buying off the shelf and whether or not we should be getting into detailed technical specifications. You alluded to it in your testimony. The example you cited was a Bell Helicopter model, which I think the Canadian Forces calls the Griffon. What are your opinions on this approach as far as buying off the shelf is concerned?

I think there's been a move by the government towards this. I think the previous government had moved towards this as well, where it made sense to do this.

My colleague Mr. Bachand has often made an analogy where buying a car is similar to some of the defence procurement stuff. You can go out there and buy a Camaro, but he ended up with a Firebird. I think there's quite a bit of difference here as to what's off the shelf and what's on the shelf.

Could I get your opinion on what the Government of Canada is looking at for on the shelf and off the shelf right now? Where do you think off the shelf is useful or not useful?

Mr. Pierre Lagueux: Thank you for that.

I'm sure Mr. Bachand is pleased to know that the Camaro will soon be back on the street again.

Clearly there is quite a difference—and Mr. Coyle alluded to that in his comments—between what the American armed forces procure and how they go about procuring it and how we do that.

Certainly the American system, given the size, the money, and the technology, is to develop a new system from the ground up—whether that be a fighter airplane or a new artillery system or whatever—and put a lot of money into research and development, and obviously have a very robust operational test and evaluation of those systems.

We, in Canada, of course don't have the size of the budgets that the American armed forces have. For example, their defence budget is bigger than the total Canadian government budget. And our armed forces are less than one-third the size of the U.S. Marine Corps. So the scale is vastly different in terms of the money.

We cannot afford to develop from the ground up these kinds of weapons systems, so it makes sense for us, then, to buy things off the shelf. These things have already been proven, having been developed by the United States armed forces or by other allies around the world.

Therefore, the tendency is not to try to develop expensive, unique Canadian systems that are very costly, for all the reasons Mr. Coyle has explained, and that give no guarantees of delivering exactly what you want in the end in any case, unless you have a lot of time and a lot of money and a lot of resources to do that.

Given our size and given our scale, buying equipment off the shelf, whether it be C-130Js or C-17s or helicopters or whatever, makes a lot of sense for us. But as we buy off the shelf, we need to ensure that those various platforms and the systems that come with them integrate into the existing systems and platforms.

There has to be Canadian involvement at that point, because if you cherry-pick a bunch of different systems and then throw them all together, you have to make sure that they communicate together, that they operate together, and that they perform together. This is something that is not necessarily being tested by our allies, since they have, perhaps, a different grouping.

There is a Canadian role to play here in those systems. Particularly when it comes to systems integration, and particularly when it comes to mission systems, we need to have a capability here in Canada to develop those things and to modify those things to our requirements.

Mr. Blaine Calkins: Okay, thanks.

I'm going to share with Mr. Blaney.

• (0950)

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

I was listening and also thinking of something Mr. Bachand said relating to the involvement of politicians in the procurement process. I think on the one hand politicians are not necessarily involved in selecting water treatment for municipalities. We give this responsibility to professionals.

And in those terms, Mr. Coyle, I would like to ask you, with your great amount of experience on the other side of the border, whether certain projects have been advanced in the United States or maintained, not out of any operational necessity, but rather due to political factors such as where a piece of equipment is made.

Bluntly stated, my question is, has there been, in your experience, some political interference in the American process, and if so, what has been done to remedy that situation?

Hon. Philip E. Coyle: When it comes to the largest systems, one of the jokes you often hear is that the contractors will have employees in practically every state of the union. In fact, one of the displays that the U.S. Congress asks for is a display from contractors, showing where the employment is. In the case of bigger programs,

maybe Montana doesn't have very many employees, but most of the rest of the states might well have many, maybe thousands of employees involved.

That means there is a political interest in these programs once they have such a large footprint.

Mr. Steven Blaney: Obviously your decision process is quite different from ours, but can you explain briefly the role of politicians in the American defence procurement process?

Hon. Philip E. Coyle: The American Congress reviews each of these programs, especially the bigger ones, the ones involving the most money, of course. The U.S. Congress reviews that. If they approve of it, they authorize the program in the authorization committees. And then in a separate set of committees called the appropriations committees, they actually appropriate the dollars for obligation, for expenditure.

So there is actually a double review: first in an authorization committee and then later in an appropriations committee. Those committees themselves have oversight and investigative staff who will also look at these programs, sometimes in great detail.

Mr. Steven Blaney: Would you say it's an added value to the procurement process to have this involvement of Congress at both levels?

Hon. Philip E. Coyle: I would. As I say in my prepared statement, I cannot think of an example in which the U.S. military didn't get something faster, better, and cheaper because of this oversight. You can see it in Iraq today. Soldiers are getting armoured Humvees and body armour and radios and other things that they would not have gotten as quickly if it hadn't been for the involvement of the Congress.

The Chair: Thank you.

We've just got a few minutes left, and I'm a little hesitant to start a second round.

I know Mr. McGuire is chomping at the bit to ask a question. Mr. McGuire, if you could share your time with me, I have a question I'd like to ask as well.

Please go ahead.

Hon. Joe McGuire (Egmont, Lib.): You're the boss.

I would just like to follow up.

In this country we have a regional development program; the work is shared in the regions. You were starting to allude to that in saying that every state in the United States has a piece of the action. We're talking about taxpayers' money and the official use of taxpayers' money. Is this an appropriate way to deal with it? I imagine it is done because politicians want to see it done this way, because they represent people and they're responsible for the economic development in their provinces or their states or whatever.

It seems that misery loves company, and almost every country in the world is experiencing these cost overruns in a very inexact process of defence procurement. The only ones that really seem to be benefiting here are probably the companies designing these systems and materiel that we need to defend our soldiers or to help our soldiers do the job we ask of them.

Do you feel that all the states in the United States should be benefiting by these contracts, as we do here? How does that work, actually, in the United States?

• (0955)

Hon. Philip E. Coyle: I wouldn't say that there should be any rule that every one of the states should get a piece of the action. There may be good and sufficient reasons for geographic diversity. For example, wage rates are lower in some states than in others, so it's advantageous to the taxpayer to have a piece of equipment built in a place where the wage rates are lower. But with the exception of things of that sort, to have it spread all across the country is probably not the most efficient way to do things. When it is done that way and produces such a strong political constituency, that's very good for the program; the program is more likely to go forward given that kind of political constituency.

Mr. Pierre Lagueux: Could I comment on that, Mr. Chairman?

The Chair: Go ahead.

Mr. Pierre Lagueux: When I was in the Department of National Defence, I continually reminded them—particularly to my military colleague—that the Department of National Defence is a department of government, and as such, while it has primary responsibility to support the armed forces, it must look at all the objectives of government and be seen to participate in all those objectives of government.

Obviously it must do that not at the expense of providing what the Canadian Forces requires and needs and so on, but objectives of the Canadian government include regional development, economic development, official languages, and the environment. All those things are objectives of the Government of Canada. The Department of National Defence must not only participate, but must be seen to participate, in those objectives of government. If the government wishes to change its objectives, fine. As I said, those objectives will not be seen to such an extent that the armed forces get second-rate equipment, for example, but regional and industrial benefits are objectives of the Government of Canada; therefore, the Department of National Defence must participate in them.

The Chair: Thank you very much.

Mr. Coyle, would you have a comment on ITARs? Are you familiar with that? How do you feel? Is it something that needs to be reworked a little bit, or is it fine?

Hon. Philip E. Coyle: Candidly, my impression is that when the U.S. government wants to sell military equipment overseas, it's quite able to do that, and to involve overseas partners. For example, we're selling Patriot missile systems all over the world. You could argue that this is a missile defence system, and you wouldn't want adversaries of the United States to get a hold of it in any way and find out how it works, and all of that—it could add to new vulnerabilities—but we're not having any difficulty selling Patriot missile systems all over the world, because we want to do that.

My general comment would be that when we want to do it, we seem to be able to find ways, and when we don't want to do it, we don't want to do it.

The Chair: Very good.

I want to thank you very much. As we go through our report and prepare it, your contribution will help very much.

We have another large panel to come forward. We'll quickly make the change.

Again, thank you very much for being here.

• _____ (Pause) _____

•

• (1005)

The Chair: Thank you very much.

I'd like to get started, because we have a large panel and another committee is coming in at 11.

I'd like to welcome, from the Quebec Aerospace Association, Mr. Stewart Bain, board member and president, board of directors; from Lockheed Martin Aeronautics Company, Mr. Simmons, and Jack Crisler, international vice-president, business development, air mobility; from EADS CASA, Antonio Rodriguez-Barberán, vice-president; and from Pratt & Whitney, Richard Bertrand, vice-president.

I understand that Quebec Aerospace will go first, then Lockheed Martin, and then EADS CASA.

The floor is yours.

Hopefully we can leave half an hour to get in one round of seven minutes for each party after you're done. Perhaps you can be very quick and to the point.

Thank you.

Mr. Stewart Bain (Board Member and President, Board of Directors, Quebec Aerospace Association): First of all, I'd like to extend the regrets of Madame Dabrowski, the general manager of the AQA, who could not be here today.

[*Translation*]

Mr. Chairman and honourable members, it is a great privilege to be before you today to present the interests and concerns of over 200 SMEs of the Quebec aerospace industry which we represent through our association, the AQA. Thank you for this opportunity.

The AQA urges the government to work more collaboratively with industry and all stakeholders well in advance of the procurement process and throughout the entire life of the aircraft in a manner that will support an existing and established Canadian aerospace industry and help take our Canadian troops bravely and confidently into the 21st century.

The Quebec Aerospace Association and its members are pleased with our federal government's intentions to invest in new aerospace equipment to serve the fundamental and growing needs of our Canadian Forces at home and abroad. We applaud this bold effort to bring our forces strongly into the 21st century.

The members of the AQA are based in the region of Montreal and its surrounding areas, which hosts the third largest aerospace centre in the world. This is the only aerospace centre in North America that comprises all the necessary elements to build an entire aircraft and service it throughout its life. This is a jewel for Canada that is to be respected and promoted for the benefit of all Canadians working in the high technology industry. This centre of excellence is also the envy of our international competitors and if our Canadian government is not strategic in its apportionment of business flowing from these major military procurements that will essentially define the shape of our aerospace industry in Canada for the next 20 to 30 years, then Canada risks losing our hard-earned market share and the 40,000 jobs that it supports.

Defending the interests of the SMEs that provide the working backbone to this great centre should never be misunderstood as a notion of historical entitlement. Rather, it has taken many years and a formidable level of government investment of Canadian taxpayers' dollars to create and nurture this centre. Canada has great reason to be proud of this achievement and must support a military procurement policy that leverages this expertise and capability to maintain our market and technical position.

Aerospace is a strategic element of Canada's overall industry. This industry must be properly nurtured, or else Canada risks losing its leadership position in the world aerospace market. It is not acceptable to allow a sole-sourced bidder to arbitrarily decide where the work should go in accordance with their agenda. Canada's agenda for aerospace must be respected and defended by the Canadian government. The CIBs from military procurements are seen as key strategic opportunities to leverage Canadian R & D investments and leapfrog our Canadian know-how and expertise to maintain a competitive advantage versus our U.S., European or Asian competitors. Our international competitors are doing everything possible to develop their own centres of excellence. Canada must do the same or lose market position, lose market share and lose jobs. It is inconceivable for the government to turn its back on these investments and risk losing its current position as one of the largest and possibly the most dynamic aerospace centres in the world.

More specifically on the subject of CIBs, the notion of the Canadian aerospace industry competing for downstream contracts after the bidders are handed multi-billion dollar contracts without any competition is inconsistent. In fact, under the current conditions, the Canadian aerospace industry as a whole, and particularly the SMEs of Quebec, have little to no visibility or control into how a sole-sourced bidder will decide who will get contracts, as there is no indication of a formal competitive process for deciding how contracts will be allocated. The only regulations that can govern these allocations are the guidelines of the CIB agreement that put demands on how the bidder is to distribute the potential work.

Without a strong and focused CIB plan, a sole-sourced bidder has essentially been awarded full power of decision on how the Canadian industry will participate. This is completely unacceptable as it jeopardizes our entire aerospace industry in Quebec with an impact that will be felt for the next 20 to 30 years a legacy that the AQA firmly believes it must protect and defend.

●(1010)

In the opinion of the AQA, there is an inherent partnership that exists through the best and worst of times between Canada's military and the industry that supports it through innovation, investment and perseverance. The AQA supports a coherent and collaborative procurement approach that considers the benefits to all stakeholders when making major procurement decisions. The stakeholders include and are not limited to the Department of National Defence and the brave troops that rely on state-of-the-art equipment, Public Works and Government Services Canada, the industrial players and the associations that represent them at all levels, the institutions that work collaboratively with industry in R&D efforts, and Industry Canada which plays a critical role in understanding and preserving the fabric of our vast aerospace industry. There has been a serious lack of transparency throughout this recent military procurement process on behalf of the federal government. The decision to go sole-source, the fragmented CIB plan, and the lack of support from our government for strategic CIB distribution leaves our aerospace industry and our SMEs in Quebec at grave risk.

The AQA recommends that the Canadian government implement a traceable small business set-aside of at least 20% stemming from each contract awarded to a foreign firm to ensure that our SME aerospace industry is well maintained in Quebec. Similar programs already exist elsewhere and in particular in the United States. This type of initiative will ensure that the grassroots of our industry is included in the successes of our procurement endeavours.

[English]

The AQA firmly believes the only way to ensure the best deal for all Canadian stakeholders in a military procurement is through an open and competitive process that begins well in advance of the procurement target date, with transparent consultation involving all stakeholders, to consider each important perspective in delivering the best equipment to our troops. This process should be designed to address the overall collection of military mission requirements while considering how the procurement process can leverage Canadian expertise in delivering state-of-the-art solutions to the end-users.

The objective will be to ensure the highest quality of support to our troops and provide vital incentives to our aerospace industry to step up to the challenge of meeting these needs. This process is a vital and necessary step that must be taken if Canada is to fully benefit from major military procurements. To achieve this will require much effort, careful consideration, and planning, but the alternative is a divided and fragmented strategy that leaves the industrial stakeholders largely disenfranchised from the military procurement process and a procurement policy that is deleterious to the maintenance of our global industrial prowess in aerospace.

The SME members of the AQA are more than industrial players in the aerospace industry. They are family-run businesses that have been built through sacrifice and dedication to a craft or a vision of making a contribution to Canada's success. The only way to protect these visionaries and dedicated people is to quickly establish a more competitive and transparent military procurement strategy that includes the collaboration of all stakeholders to guarantee that Canada is well defended and remains at the leading edge of aerospace technology. Together we stand.

Thank you. *Merci beaucoup.*

• (1015)

The Chair: Thank you very much.

Mr. Simmons, will you be making the remarks?

Mr. Peter Simmons (Communications Director, Air Mobility, Lockheed Martin Aeronautics Company): Yes, I will.

The Chair: Go ahead, sir.

Mr. Peter Simmons: Good morning, ladies and gentlemen.

Mr. Chairman, thank you for the opportunity to address the Standing Committee on National Defence.

I apologize for the slight hoarseness. I will do my best to maintain volume and clarity throughout.

Lockheed Martin is proud to be again supporting Canada and the Canadian Forces, this time by being selected to provide a new fleet of tactical transport aircraft through a clearly defined and demanding qualification process. The C-130J is a mature, operationally proven aircraft and an excellent choice to replace Canada's aging C-130 fleet. The older C-130s have long been the tactical workhorse of Canada and most western allies.

The new workhorse has already proven its operational capability. In recognition of this capability, during recent testimony in Washington, United States Air Force Secretary Michael Wynne said:

If you gave me another dollar, I would know exactly where to spend it...it would be on C-130Js. Using the C-130J Hercules to move equipment and supplies takes ground-force convoys off the roads...and the plane has therefore become the workhorse in the war against terrorism.

With a large procurement such as this, Lockheed Martin recognizes the requirement to provide best value and return on investment to the Crown. In accordance with Canadian acquisition terms and conditions, the aircraft price can be easily validated as fair and reasonable. In addition, we also recognize the requirement to provide robust industrial regional benefits, and I will address those later.

In the short time I have this morning, I would like to describe to you the evolution of the C-130J and the success that operators are having.

As is often the case in evolving advanced weapons systems, some critics continue to belabour developmental issues resolved long ago. Today I will give you a balanced, factual report on the C-130J's real-world status.

The C-130J, as any sophisticated weapon system, took time to develop, refine, and ultimately deploy. No new aircraft is immune to developmental risk. Optimism, no matter how professionally packaged, is no substitute for this reality. At Lockheed Martin we have been designing and building military transport aircraft for over 50 years, and we pride ourselves on our ability to resolve technical and performance challenges.

The C-130J first flew in 1996. The aircraft received Federal Aviation Administration certification in 1998 and deployed operationally with the Royal Air Force in 2000. Any early issues encountered have long been resolved, and Canada can be confident in receiving a combat-proven, fully certified aircraft, the most advanced airlifter in the world.

The C-130J's launch customer was the United Kingdom, and we have subsequently delivered aircraft to the U.S. Air Force, the Air National Guard, the Air Force Reserve Command, the United States Marine Corps, the United States Coast Guard, the Italian Air Force, the Royal Australian Air Force, and the Royal Danish Air Force—a total of 149 aircraft to date.

Our operational experience just gets better and better. Both the United States Air Force and the United States Marine Corps have completed their first two years of C-130J deployment in southwest Asia. During this time, four USAF C-130Js conducted 5,444 sorties over 10,750 flight hours, delivered 12,681 tons of cargo, and carried 70,350 passengers. The Marine Corps KC-130J air-refueling tankers completed 6,659 sorties, logged 13,082 flight hours, moved over 11 million pounds of cargo, transported over 32,000 personnel, and offloaded a staggering 83.9 million pounds of fuel.

On these deployments, the C-130J has achieved one of the highest reliability rates of any aircraft in theatre. The aircraft typically maintained a 93% mission-capable rate, which is almost unheard of in a military aircraft deployed to a combat theatre. In addition, the C-130J can execute in one tasking what it would take two older C-130s to accomplish. This is achieved through more payload capability, greater range—meaning no stops for fuel—which, in conjunction with increased power and speed, makes the overall mission time shorter.

•(1020)

The added benefits of the C-130J go on and on. For example, the C-130J is not encumbered, as older C-130s are, by a lack of performance due to altitude and heat. The C-130J is often the only aircraft that can get into short high-altitude austere fields in locations such as eastern Afghanistan. A 2,000-foot dirt strip at 6,000 feet of elevation on a 95-degree day with 20,000 pounds in the back is no big deal for this aircraft. That is not in a brochure; it is a fact of C-130J operational life.

These success rates have also been experienced by the Royal Air Force, which conducted the first ever C-130J combat mission in 2002, and the Italian C-130J fleet, which has now surpassed 50,000 flight hours, mostly in Iraq, Afghanistan, and North Africa. The Danes are deployed to Afghanistan, and the Australians are in both Iraq and Afghanistan. These customers are using the aircraft for what it was intended to do, in a very challenging environment and in a real theatre of operations, on missions ranging from humanitarian support to combat operations.

The global C-130J fleet has now surpassed 350,000 flight hours. The aircraft is seeing real combat operations every day, and it has a proven modern weapon system.

With the C-130J, Canada has selected a worthy and proven asset to support its commitments around the world. This selection was made against some of the most stringent selection criteria we have ever been asked to meet.

Upon assessing their requirements, many nations have found the C-130J is in a class of its own. It alone has the capability to provide the tactical transport support that military forces require: the capability to carry a significant load over long distances, but also the ability to operate dependably in austere conditions and demanding environments.

Operators such as the United Kingdom, Italy, Australia, and Denmark had aging C-130 fleets, and they all took a similar approach to Canada. They sought solutions, evaluated options before them, and determined that the C-130J is the only aircraft in the world with the capability to modernize tactical airlift fleets.

As we speak, discussions have begun between the Norwegian and United States governments to obtain—urgently—new C-130Js. There are other countries making similar decisions right now.

Canada has done what many other countries have done and what many will do. The C-130J is the only available, affordable, and proven transport aircraft. We designed and built the C-130J to meet a clearly defined operational need, based on our many years of experience in building both tactical and strategic military aircraft.

With respect to industrial regional benefits, Lockheed Martin recognizes the requirement for Canadian industry to realize the benefits of a robust IRB plan. Accordingly, we have been working diligently with Canadian companies. Our plan is already well populated and contains value-added, long-term programs for Canadian industry in all regions. To illustrate our historical and ongoing commitment to Canada, Lockheed Martin has invested more than \$3 billion in Canada over the last 20 years. In addition, it has satisfied more than \$200 million in IRBs since the early 1990s

alone. There are many trusted and very competent suppliers in Canada that have benefited from Lockheed Martin's IRB obligations and worldwide supplier base in the past. The acquisition of a new tactical airlift fleet for Canada will see that proud cooperation extended for generations through the continued fulfilment of IRB requirements.

Also, we will respond to the requirement for a 20-year in-service support operation that will be executed by a Canadian industry team. Lockheed Martin has had a long-term relationship with many Canadian companies in the global maintenance and support of our products. We are confident in our ability to facilitate a very attractive arrangement—one performed in Canada by Canadians.

•(1025)

As with the current CC-130s, Lockheed Martin will respond to Canadian-defined requirements that will lead to Canadian industry's exercising sovereign support of its new fleet.

I could speak at great length about this amazing aircraft. I could speak at even greater length about the benefits to Canada. But that would be far too much of my now failing voice. For those who would like to hear of the aircraft's performance from a C-130J operator, I have passed to the clerk copies of a CD containing a briefing given here in Ottawa by Colonel Larry Gallogly, United States Air Force. This is a factual description from a senior airman who has direct experience with the aircraft.

I will be prepared to answer any questions you may have at the appropriate time.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Simmons.

We'll move over now to Mr. Bertrand and Mr. Rodriguez-Barberán.

Gentlemen, I'm not sure who's going to be speaking, or whether you both are, but go ahead.

Mr. Antonio Rodriguez-Barberán (Vice-President, Sales and Marketing, EADS CASA): I'm starting.

Good day. It is a privilege and an honour to be here and to address this important committee. Mr. Chairman, thank you very much.

My name is Antonio Rodriguez-Barberán. I'm sorry I have a terrible, long Spanish name. Not only that, but I have a terrible Spanish accent. You should listen to my accent in French. So if you don't mind, I will continue talking in English. I am vice-president of sales for EADS CASA, based in Madrid, Spain.

As you know, EADS is one of the world's largest defence aerospace companies. Included in the EADS family, we have companies such as Airbus and Eurocopter. As a group, EADS has many solid long-term business relationships with Canadian industry, purchasing high-tech goods worth about \$700 million Canadian per year.

My responsibilities can be translated in short as being responsible for the Spanish part of the business of the EADS group, but basically they encompass sales within our military transport aircraft division, including sales of the C-295 plane, which we are offering for the fixed wing search and rescue replacement program, and which is why I am here today.

But I am not alone. I have the pleasure of having next to me Mr. Richard Bertrand from Pratt & Whitney Canada, representing his company, but not only his company; he is also representing all of our Canadian team, consisting of CAE, Thales Canada, and Raytheon Canada. They are all part of our team and strategic partners in our worldwide marketing strategy.

Designed as a result of global military customer requirements, the C-295 is a multipurpose aircraft that is developed for tactical lift, search and rescue, maritime patrol, and surveillance. Today it is in operation in all and any geographic and environmental conditions, in war zones such as Afghanistan and Iraq and in peace missions worldwide. As a consequence of this, the C-295 is operational, it's proven, and it is cost-efficient.

The aircraft's combination of operational performance and efficiency has made it the world leader among medium military transport aircraft. Overall, we hold around two-thirds of the world market, which means that our Canadian strategic partners are also holding two-thirds of the world market and have access to this market.

The C-295 family of products has sold over 300 units in 30 nations, including units for the United States Coast Guard for search and rescue. In particular, the C-295 has been delivered to and is operational with countries such as Spain, Portugal, Brazil, Finland, Poland, Algeria, and Jordan. It is operational in war zones such as Afghanistan and Iraq today.

In my experience I have also found that most militaries and governments prefer cost-effective solutions when it comes to large-scale procurements. This applies to the actual acquisition and the in-service support, which is where the real costs are found.

The C-295 has put special emphasis on providing the best availability and reliability rates at extremely competitive operational and acquisition costs. In the design and the manufacture of the C-295, we are proud to be partnered with Canadian companies such as Pratt & Whitney Canada, CAE, Thales Canada, and Raytheon Canada. Each one of the C-295s sold worldwide creates value and jobs in Canada. The C-295 team looks forward to showcasing the aircraft to Canada in a best-value competition for fixed wing search and rescue. It is the ideal combination between operational capabilities and efficiency, both largely due to its world-class Canadian content.

I would like to pass the microphone to you, Richard, to continue with your presentation.

• (1030)

[Translation]

Mr. J. Richard Bertrand (Vice-President, Government Affairs, Pratt & Whitney Canada): I would like to thank the committee for this opportunity.

[English]

As Antonio mentioned, I am here on behalf of the manufacturers in Canada, who join me, as mentioned, and who are behind me, CAE, Raytheon, and Thales.

We are here to emphasize that included in these aircraft is world-class technology made in Canada. In fact, we are world leaders in this field.

[Translation]

The key components of the C-295 aircraft, including its turbo jets and avionics are manufactured in Quebec, which means that the total Canadian content is about 50%. The aircraft's flight simulator is also manufactured in Canada.

The Canadian components of the C-295 are to a great extent responsible for the aircraft's success. Since early in 2001, the C-295 has been a world leader in its category with more than 50 units sold.

[English]

To that you can add the in-service support in Calgary, a large percentage of the value of the contract, plus the sensor suite, in addition to avionics in Toronto. Our company's support, while significant in Quebec, counts major input from our plants in Halifax, Mississauga, and Lethbridge. In deference to my Spanish colleague, this is a real Canadian solution.

Our association, the Aerospace Industries Association of Canada, when it appeared before you, looked for investments that ensured better value for money and direct support for our industry. This is one of the most exceptional cases in point. The funds that had been allocated for this project were more than sufficient.

A central question today is that there is likely no program currently, but the need is there. Search and rescue for Canada and around its borders is military in one aspect, but it falls on the cooperation and teamwork of civilian and military people. It calls for the maximum effort of the best resources available from our nation. Search and rescue is there to protect Canada's citizens, and we believe it would be appropriate to use an existing globally accepted Canadian solution, which in fact could be delivered in well less than a year.

The companies with me today are in two-thirds of the world's search and rescue solutions, and we've been there since the inception of the C-295.

[Translation]

In the ongoing discussions on the procurement of search and rescue aircraft, it would be important to remember that a Canadian solution does exist.

[English]

We are looking for a fair and open competition. We are able to compete globally and win globally. We are simply asking to be given a chance in our own country.

Thank you.

The Chair: Thank you very much.

Mr. Coderre, for seven minutes.

[Translation]

Hon. Denis Coderre: Thank you very much, Mr. Chairman.

Good morning gentlemen.

Mr. Bain, you and I will get along quite well, because we share the same opinions. The Bloc Québécois will probably tell you that they introduced a motion in the House, and it was supported by the Liberal Party. When it was in power—and that day will come again—the Liberal Party believed in the regions and invested massively in the aeronautics industry.

My friend has a cold; he should drink some water. I am happy to see that he now believes in the regions, because he should have a word with Boeing's employee of the month, Maxime Bernier.

I might have one bit of criticism for your association. A year and a half ago, we told you that something would be happening and that there would be some problems. At the time, our industry critic, Mr. Jean Lapierre, had met with Ms. Dabrowski. We would have liked your association to take a firmer stand, because it was too late in reacting. The contracts are already signed, and we are at the mercy of foreign companies.

There is also a problem in Ontario. I met with the people from the Ontario association, and they agree with what you have said. I have no questions, but I simply wanted to make that comment. The Liberal Party, which could be the next government, is in a position to deliver the goods.

• (1035)

[English]

Mr. Simmons and Mr. Crisler, thank you very much for being here. You will understand, of course, that I have several questions, since you have your contract, and it was kind of a freebie because there was no competition.

I'm troubled a little bit. Maybe it's the best equipment. Our role in the opposition is of course to provide the best equipment for our forces, but when we hear statements like those of Mr. Coyle, when we hear statements from the Pentagon... You're saying it's factual, and it's your job to say that, but I have a copy of the air force program saying that it's not efficient, that you have some major issues, and that maybe the equipment at the start is okay but the maintenance has some problems. Now it's relayed to you, since this government doesn't want to do its job, and you're the one that will provide the contracts to the others in Canada. I hope you will focus on R and D and Canadians.

What do you have to say about what the Pentagon was saying about your plane? Mr. Schmitz, the inspector general from the United States, said the same thing.

It was exactly the same thing when you had Rumsfeld. I think he's a friend of the armed forces and definitely wanted, in his own perspective, to provide the equipment to the air force. The guy wrote a letter himself saying that we should pull the plug on your company.

So would you explain to us what's going on? You're saying it's the best thing in the world since sliced bread, but why are there all those reports? Why are they saying there are some problems?

We have insiders in the department who, instead of having criteria, would rather trace a line in the sand and say we have four or five principles and that's it, go for it, enjoy yourself. Would you tell us what is really going on with that issue? Are they all wrong? Are you saying those reports are not accurate? The last one is from January 2007.

[Translation]

So it is rather early.

[English]

I don't understand why we have so many problems with that.

Don't you think, Mr. Chair, maybe the best thing would have been a competition, so that we could have had both make their pitch, and taxpayers would get more of what they deserve for their money.

What do you have to say about all those reports?

Mr. Peter Simmons: I'd be more than happy to address what I think were some of the issues you raised.

First, I would like to clarify that we do not have a contract. Although we have been selected and are in negotiation, we have not been awarded a contract.

Hon. Denis Coderre: You still have a chance for competition. Is that what you're saying?

Mr. Peter Simmons: As I said, we are in the process of negotiation, but no contract has been signed.

As Mr. Coyle pointed out this morning, he has not been involved for approximately a decade in the environment of the aircraft, so he could not offer personal history but was obliged to read from the same January report.

Hon. Denis Coderre: But, Mr. Simmons, let's be fair to Mr. Coyle. He said himself that the report he was quoting was from January 2007.

Mr. Peter Simmons: And that is the one I am now going to address. But the report he was given to read from this morning was dated this January. That is the 2006 DOT and E annual review report, which they are obliged to produce every year.

There are three issues raised in that report. What I would like to clarify is that the OT and E environment that has been referred to only relates to the United States Air Force C-130J aircraft and its testing environment and does in no way reflect the operational condition of the aircraft as it relates to all other operators, which are many years ahead in terms of testing and operation than the United States is. They had far more aggressive test and deployment schedules than the U.S. Air Force. The testing schedule under OT and E is actually lagging the rest of the world in terms of operational capability.

On the three issues, I'll be happy to address them specifically. If it becomes a little tedious technically, I apologize, but I feel justified in giving you the reality of what's going on.

The Chair: You have only one minute.

Hon. Denis Coderre: So you think it is inaccurate.

I would also ask a question specifically on the price of the plane, because it seems that, rightly or wrongly, we're going to spend billions of dollars. If you calculate, maybe it's too simplistic, but if you put what it's worth, it would cost about \$188 million per plane.

It seems that in the United States they have a better deal, because it's U.S. \$66.5 million. So for the sake of taxpayers' money—and if I'm wrong, I will be more than pleased to have the better answer—how much will it cost Canadian taxpayers for one plane?

I think Jack wants to answer.

• (1040)

Mr. Jack Crisler (International Vice-President, Business Development, Air Mobility, Lockheed Martin Aeronautics Company): Sir, that's yet to be negotiated. The number you're dividing by 17 is the total program cost, funding all of the Canadian program office activities and a lot of the Canadian expenditures that it will take to prosecute the program.

We'll have fair and transparent insight into the cost of the program, and that's per your Public Works terms and conditions. They will have insight into the cost.

Hon. Denis Coderre: How much will it cost?

Mr. Jack Crisler: That's yet to be negotiated.

Hon. Denis Coderre: Oh, you're still negotiating.

Mr. Jack Crisler: We will respond to the requirements of the Crown. Once we know all of those requirements, we'll price it....

Thank you.

The Chair: Thank you very much. The time has expired. I apologize that you didn't have time to answer that, but we have to move on.

Mr. Bachand.

[*Translation*]

Mr. Claude Bachand: Thank you, Mr. Chairman. Let me also welcome all of the witnesses.

I have a question for Mr. Bain, which I will preface with a remark. The motion that the Bloc Québécois introduced in the House of Commons stated that 60%, or certainly 55%—we can quibble about the exact percentage—of Canada's aerospace industry is in Quebec. When the industry minister appeared before the committee, he had already signed the C-17 contract with Boeing. I asked him if his hands, and those of his colleague Michael Fortier, the Minister of Public Works and Government Services Canada, had trembled before they signed the contract, because they knew full well that in signing the contract, 60% or 55% of the economic spinoffs would not be going to Quebec. Unlike my Liberal colleague, I feel that the AQA did make some headway on this file.

But I would like you to tell me about another group in Quebec, and whether or not you have any type of relationship with it. I am

referring to the aerospace cluster, which brings together all of the big players. I believe that Pratt & Whitney is one of them, but they don't seem to have very much to say about it. I understand that you don't want to bite the hand that feeds you, but the problem is that the hand is not feeding the industry. It might be time to bite it.

Can you tell us if there are any ties between the AQA and the aerospace cluster? I know that you represent the small- and medium-sized businesses, whereas the aerospace cluster represents the larger corporations. Is there not some way that you could form a coalition to express your dissatisfaction? That seems to come through in your brief, but I think you could put more teeth into it. Is it possible for you to do that?

[*English*]

Mr. Stewart Bain: *Merci, Monsieur Bachand.*

I cannot speak on behalf of Aero-Montreal, only on behalf of the Quebec Aerospace Association. Primarily our mandate is to respond to the needs of small to medium-sized enterprises. Certainly the aerospace industry in Quebec is built on a strong collaboration between the OEMs and the SMEs. We rely very much on their vision and leadership in our industry in order for us to get the benefits as well.

In the Aero-Montreal—as you referred to it, the *grappe*—inherently we do participate. The AQA participates on certain committees. As an active member of Aero-Montreal, we support that initiative wholeheartedly. But I cannot speak on behalf of Aero-Montreal; I can only speak on behalf of the AQA. Our agenda is to improve the situation and essentially, as you put it, respect a situation that is well established. The industry in the area of Quebec has been a leader and continues to be a leader in the world with its aerospace capabilities.

We will continue to dialogue with Aero-Montreal. We will do our part to share information, to be as transparent as possible. In the same spirit, our proposal suggests that when Canada considers a major military procurement, all of the stakeholders be considered, all of the interests be considered—including, most importantly, the needs and the technical requirements of our military, and also how we can leverage that into our Canadian industry, an established Canadian industry that is a world leader.

That's as much detail as I can give you on that point, Mr. Bachand.

[*Translation*]

Mr. Claude Bachand: Thank you.

Now, I have a question for Mr. Simmons. I know that in its negotiations with Boeing for the strategic aircraft and the helicopter, Public Works and Government Services Canada used what is known as an ACAN. That is an advanced contract award notice. I won't refer to the Camaro example: we have all heard enough about that.

In your case, at the time I had seen a letter of intent on the MERX site, the official electronic tendering service. You have now confirmed that negotiations are underway.

We heard from Mr. Bain, as well as the excellent presentation made by CASA. Alenia did not present a brief, but we are told that there will be major Quebec and Canadian content. If the government were to agree to work with you, I would like to know if you can commit, on behalf of Lockheed Martin, to having 60% of the Canadian contract awarded to Quebec, where the major part of the aerospace industry is located.

Should I be asking you that question, Mr. Simmons, or should I call the Lockheed Martin CEO? Perhaps you could pass the message along for me.

• (1045)

[English]

Mr. Peter Simmons: I'll actually defer to Mr. Crisler.

Mr. Jack Crisler: The MERX address that you referred to was a solicitation of interest and qualification that had some very specific requirements—nine to be exact.

One of those that we had to certify was an industrial and regional benefits requirement. That requirement was very specific about the business areas, the technologies in the regions that we would have to put business in, to the percentage. So we will meet those requirements in our proposal, and we will execute to those proposals.

[Translation]

Mr. Claude Bachand: Are the requirements still confidential?

[English]

Mr. Jack Crisler: They were listed on MERX as well, sir.

[Translation]

Mr. Claude Bachand: By your answer, do you mean that 60% of the economic spinoffs in Canada would go to Quebec?

[English]

Mr. Jack Crisler: It was a very overlapping equation. The percentages per region were very specific, but in the discipline areas, which Quebec has a lot of, the disciplines resident in the Montreal region could also absorb additional percentages. It's not until we make our proposal for industrial and regional benefits and that proposal is accepted that we'll know what percentage resides in Quebec.

[Translation]

Mr. Claude Bachand: Okay. That means that you can't confirm at this time that 60% of the benefits would be granted to Quebec?

[English]

Mr. Jack Crisler: I cannot, sir.

[Translation]

Mr. Claude Bachand: You can't say that?

[English]

Mr. Jack Crisler: It's not a requirement.

[Translation]

Mr. Claude Bachand: It is not a requirement. Did you not say that there would be a specific distribution of regional industrial benefits throughout Canada?

[English]

Mr. Jack Crisler: There is.

[Translation]

Mr. Claude Bachand: So how much would go to Quebec?

[English]

Mr. Jack Crisler: I don't recall the exact number from Quebec, but there are also other requirements to put in specific business and technology areas that reside in Quebec. There may be solutions for those technologies there. We don't know yet.

The Chair: Ms. Black.

Ms. Dawn Black: Thank you very much, Mr. Chair.

Thank you all for your presentations today. I want to pick up on what Mr. Coderre was saying about the reporting mechanisms in the U.S. around the C-130J. Certainly the information that Mr. Coyle talked about, this public documentation actually from the Department of Defense in the U.S., has identified problems with the C-130J from their perspective. The General Accounting Office has also identified difficulties with the aircraft. So if I have time I'll come back to that, but I think it's important to have that on the record. I don't think that you in any way have addressed those specific concerns that have been documented.

I'm from British Columbia, and there's the whole issue of search and rescue aircraft there. The Canadian air force is dealing with using very old technology right now in search and rescue across Canada but specifically in my province. I believe it's 40-year-old technology with the Buffalo. I live in an area where there's the Pacific Ocean, there are lakes, there are mountains. There is a real need for search and rescue. We have a fishing industry, we have a logging industry, we have recreation in the province. We attract tourists from all over the world to take advantage of the beautiful part of the country that I was born in, and I'm very concerned about the status of the search and rescue replacement program in Canada. I'm very concerned about it, as are a number of British Columbians.

So I wondered if you could talk today a little bit about why you think the process seems to have been stalled in Canada for new search and rescue aircraft. What has your experience been within Canada with the process for procurement here on search and rescue, and how does that match up with your experiences with other countries around the world?

I also wondered whether you had some comments about the state of the equipment we're using right now in Canada in search and rescue.

• (1050)

Mr. Antonio Rodriguez-Barberan: I am delighted, Madam. If you'll allow me, I'll start with your last question.

Today, the equipment you are using in Canada is extremely old. You are using platforms, especially with the Buffalos, that are 40 years old. I think it's an objective statement if I say they are very much at the end of their lifespan. Not only that, but the equipment was designed 40 years ago.

As an engineer, I can tell you that there are proven technological solutions and available in Canada as of today, with some of our partners, that are simply not used today. Today you are basically doing what is called visual search. There are search radars, infrared and optical solutions, and quite a lot of new systems. Just as the technology has advanced on the PlayStations for our children, the same and more is happening in this type of search and rescue technology. It is available, it's there, and it's used everywhere in the world. I'm surprised that in one of the most advanced countries in the world this technology is not used to save lives.

Regarding the process, our expectation was very simple. We wanted to have an open and fair competition. That's it. Today, it seems that the program that was a top priority last year is no longer a top priority. It seems that the funding has somehow been delayed for the next years.

As I've told you, I'm a foreigner, so all this information was given to me during the last two days, but it looks like your beautiful British Columbia coast has to wait quite a long time to have a prepared means of search and rescue as plans have been put forward today. I wouldn't like to comment on that, though, as every country fixes its own priorities.

Ms. Dawn Black: Mr. Bertrand, do you have anything to add to that in terms of the process? Why does it seem to take so long to get search and rescue aircraft for Canada?

Mr. J. Richard Bertrand: The military is the source that has to decide what their statement of requirements is going to be and what they want in terms of the type of aircraft. One of the reasons why we're here today is to say that if there are a number of opportunities that are presented, including a lot of factors, here is an alternative solution that can be delivered very quickly because it's already in operation in a lot of places.

From the perspective of the companies that are here and have that experience, there is an excellent opportunity for them. From the point of view of my own company, we'd just like to see Canadian-manufactured engines on some of these procurement solutions, because they are in other parts of the world.

Ms. Dawn Black: We had the *Queen of the North* go down in British Columbia last year, a large passenger ferry, and we were very fortunate that only two lives were lost. We had a situation in Jervis Inlet last week in which a fishing craft in bad weather hit land. It was fortunate, I suppose, that they hit land and didn't go the other way, or we would have lost more than two people.

It seems to me that in all of the issues of procurement with the Canadian military, perhaps search and rescue is the orphan of the Canadian military. I'm very concerned about that. I think we have an obligation not only to be prepared for overseas missions with the Canadian Forces, but we have an obligation to the people of Canada to provide the kind of safety that we all expect is there. I'm learning it actually isn't there with the technology we're using now.

• (1055)

Mr. J. Richard Bertrand: We're trying to make sure the orphan gets adopted.

Ms. Dawn Black: What is your suggestion for doing that?

The Chair: I'm afraid we're going to have to move on. Thanks, Ms. Black.

Mr. Blaney, to finish up.

[*Translation*]

Mr. Steven Blaney: Thank you, Mr. Chairman.

I would like to thank the industry representatives. I enjoyed hearing what you had to say and the proactive role that Canadian companies are playing in our aerospace industry. I also heard Mr. Coderre's siren song to the industry. I would like to remind him that the witnesses are here to remind us that we have just emerged from a decade of darkness; those very words were spoken by the highest-ranked individual in the Canadian Army, and he was referring to military equipment procurement. I might also remind him that the Liberals have no intention of buying any C-17s; they will be leasing them. Those are facts that must not be forgotten.

I listened to Mr. Bain, who represents the Quebec Aerospace Association. I am aware of your concerns. However, there are a few conflicting statements in your presentation. You talk about competitiveness, but you say that the government should intervene. There is a bit of a contradiction there, and I would like you to explain it to me.

Canada's policy is very clear. Our new government wants every dollar invested in military equipment to stay in Canada. Mr. Bernier, the industry minister, clearly explained to us that all regions will benefit, with hundreds of millions of dollars going to Quebec for the C-17 contract.

On one side, you have the Liberals leasing aircraft while on the other, the Bloc have no procurement plan. The current government is committing to four aircraft, which is a much broader and more global procurement strategy.

I would also like you to tell me about your association's proactive involvement. This morning, for example, the people from Pratt & Whitney, which already belongs to a consortium, suggested a Spanish plane as a solution, and told us that the solution was Canadian. We have to become involved upstream rather than downstream. I remain extremely confident that the C-17 will bring enormous benefits for Quebec.

[*English*]

Mr. Stewart Bain: First of all, with respect to competition, I understand that at the political and ministry levels, there are many agendas that have to be considered when you're deciding to make a large procurement. The main point of our presentation here today is that when those decisions get made, they should go through a competitive process, because that ensures that the best equipment, that the best value is delivered to our troops.

The other point in our message, which I think you drew a question on, was how we justify the fact that we should have work necessarily associated or apportioned specifically to Quebec. As we tried to explain in our presentation, just as it is with any organization, company, or product, there are strategic advantages and strategic elements that form part of anything you have in industry.

In Canada, it's a fact that the aerospace industry is centred in Quebec. It's a fact that there has been much time, effort, energy, dollars, blood, sweat, and tears to make that a reality. It therefore does not seem like a handout to me to say that's a strategic part of our nation, just as British Columbia is a strategic part of our nation, just as Newfoundland and Labrador and everywhere else have strategic advantages. When Canada stands up and talks about aerospace, we think of Quebec, just like we think about other industries in different areas, without stepping into that pot and trying to identify where they belong.

Aerospace in Canada has a very strong centre in Quebec, and that is something worth defending strategically. Just as you defend things strategically in a military mission and you look for strategic airlift or you look for strategic equipment, you look for where the best elements are. The elements to make the aircraft exist in Quebec. That's something worth considering. It's not something worth leaving out of hand and telling it to defend itself. That's not how you treat your strategic benefit. It's not how you provide incentive to industry.

Industry does not want to know that after we've been nurtured, we're going to be left alone. Madame Black used the expression "orphan". We don't want the industry in aerospace to be orphaned by not considering the fact that it took many years and much investment to get it to where it is.

On the other side of your question, you also commented on our relationship with the OEMs. Let me take a step back. The AQA represents the SMEs, the small to medium-sized enterprises. Small to medium sized-enterprises, as I put it in our presentation, are family-run businesses. They're mom-and-pop shops. They don't have lobbyists. They don't have high-priced consultants. They don't have heavyweights who can come and knock on your door everyday here on the Hill. They have the Quebec Aerospace Association. What we do is speak on their behalf. When you're considering a military *approvisionnement important*, we ask that you please include consideration for these organizations that, to much extent, are the dreamers and the backbone of our aerospace industry in Quebec.

I can't think of stronger words than to say we rely on the OEMs to leave that vision. There are very important OEMs in the Quebec region, and we're very proud of that. We just want Canada to consider all the agendas.

• (1100)

[*Translation*]

Mr. Steven Blaney: Our ministers have been very clear on the subject of regional distribution. Do you feel that part of the federal government contracts should be allocated specifically to small- and medium-sized aerospace companies? That could be a committee recommendation, something with which you would agree.

Mr. Stewart Bain: Absolutely.

Mr. Steven Blaney: Correct me if I am wrong, but I believe that Pratt & Whitney is not part of your association.

Mr. Stewart Bain: No, it isn't an SME.

Mr. Steven Blaney: Okay.

Perhaps Mr. Calkins would like to say something.

[*English*]

The Chair: There are fewer than 30 seconds left, if you have a quick comment; otherwise we'll have to wrap up.

Mr. Blaine Calkins: I'd just like to thank everybody for coming today.

Some hon. members: Oh, oh!

Mr. Blaine Calkins: I thought it was great.

I've been involved in project management in various other aspects of my life, and there are always costs. I think where people are going here in attacking the C-130J is maybe when it was a bleeding-edge aircraft with bleeding-edge technology...and that's ahead of the leading edge.

I would just like a comment from Mr. Simmons on where he thinks the C-130J is now. It seems to be a mainstream piece of operational equipment, which makes good sense from my perspective in what I've seen through project management. Unlike buying submarines that are at the end of their life and trying to retrofit them, which is quite expensive, it seems to me that the C-130J is.... Does Lockheed Martin see it as a mainstream operational piece of equipment?

The Chair: Thank you, Mr. Calkins. We'll have to end on that.

If there is anything you didn't have time to mention today, you can supply it to the clerk, if you wish.

I want to thank this panel, the committee, and the previous panel for keeping us on time.

The meeting is adjourned.

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