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—
Chair

Mr. Rick Casson

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•(1005)

[English]

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

Ladies and gentlemen, thank you very much for convening so quickly. As we do some further work on our procurement study, we would like to welcome a couple of guests today.

Before I do that, I'd like to remind everybody that we'll have a vote. The bells will start ringing at a quarter to eleven, and the vote is at a quarter after eleven. So if we're out of here at eleven o'clock, we'll all have time to get there.

Today we'd like to welcome Kenneth Rowe, chairman and chief executive officer of I.M.P., and Allen Conrad, vice-president, business development, in the aerospace division.

Gentlemen, we appreciate very much your being here. We had an article circulated previously that has been published. We look forward to your comments, and then we'll have questions. There's a seven-minute round from each. If that's all we have time for, that'll be it, but if we have more time, we'll keep the questions going until 11 o'clock.

The floor is yours. We look forward to your presentations.

Mr. Kenneth Rowe (Chairman and Chief Executive Officer, I.M.P. Group International Inc.): Good morning. *Bonjour.*

Mr. Chairman and honourable members, as you've heard, my name is Ken Rowe. I am the chairman and chief executive officer of I.M.P. Group International, Canada's largest military aircraft in-service support company, with an international reputation of being a centre of excellence for maintaining certain types of military aircraft and helicopters.

We employ nearly 4,000 Canadians, with nearly 1,000 in Quebec, 2,000 in Nova Scotia, and the rest in other provinces. We have been in business for 40 years. Fifty percent of the military aircraft in our hangars are foreign-owned, and our expertise has been built on competitively-won Department of National Defence contracts issued by the Government of Canada.

I wish to thank this committee for the opportunity to speak to you today about what I feel is a very serious national issue, the security of Canada.

Last summer the Government of Canada announced its intention to purchase a strategic airlift capability of four C-17 Globemaster aircraft, a tactical airlift capability of 17 C-130J Hercules aircraft,

and a medium- to heavy-lift helicopter capability of 16 CH-47 Chinook helicopters. These announcements were welcomed and show a strong government commitment to the revitalization of our Canadian Forces.

Those of us in industry who pride ourselves on providing aircraft and helicopter maintenance support to the men and women of the Canadian Forces were alarmed at the government's new approach to contracting in-service support. Our domestic aerospace in-service support industrial base is a vital component of Canada's economy and provides Canada with a means to exercise maximum sovereignty control over its aircraft fleets throughout the many decades that this equipment serves our Canadian military, irrespective of where it was manufactured in the world. This strategy is common in all developed countries throughout the world, for the obvious reasons: national security and jobs.

The announcements last summer revealed the government's intention to contract future in-service support directly with the aircraft manufacturer in the United States for both the Hercules fixed-wing and Chinook helicopter fleets. This will give those U.S. companies control over what is a Canadian independent world-class industry employing thousands of Canadians, which has taken decades to build, for the nebulous reason of "one point of control".

Having been in the ISS industry for nearly 40 years, I was dismayed when I heard this, as I know of no other developed country in the world that compromises its security and sovereign control of military assets by giving the management of them to foreign commercial companies that are subject to their own governments' foreign policies and controls, as we are currently experiencing with I.T.A.R.S. despite our friendly relations.

My company has provided our comments to PWGSC in response to the Chinook ACAN, outlining our concerns over their approach to in-service support. This was followed up with key cabinet ministers and the Prime Minister.

Mr. Harper was interested enough to telephone me in September of last year. He requested I provide more information about the issues related to providing in-service support contracts directly with a foreign aircraft manufacturer. We responded to his request on September 13, and in that response we provided a paper on the subject. This paper was subsequently printed into an article that appeared in the January-February 2007 edition of *FrontLine Defence* magazine. I have provided a copy of this article to your clerk as my brief to this committee.

When certain Quebec-based aerospace companies raised the same concerns with Minister Fortier, I understand he excluded them from the cabinet decision so that they can be contracted directly with the Government of Canada. While we applaud the minister's recognition of these Quebec-based companies as world-class in training and simulation, we have not seen the same recognition of other centres of excellence for in-service support across the country.

• (1010)

To date, we have not received a satisfactory response to our Nova Scotian or regional concerns, and we are not aware of any move by the government to change its new procurement approach for in-service support for these aircraft fleet acquisitions. In fact, according to testimony before this committee on February 20 of this year, Minister Fortier has now elevated this approach to become one of his department's pillars of procurement reform. I quote:

We have worked in concert with the Department of National Defence to implement a number of initiatives aimed at streamlining the process. Some of these are, for example...adopting a single point of accountability concept within performance-based procurement, where a single prime contractor is responsible not only for the acquisition of the equipment, but also the long-term, in-service support of that same equipment.

While the idea of holding the original aircraft manufacturer accountable throughout the life of the aircraft sounds good in principle, in reality it ignores the fact that the prime contractors that we are talking about are located in the United States. It also ignores the fact that Canada has established world-class companies capable of delivering full in-service support for these future fleets, as has been done in the past with negligible recourse to the OEMs when the necessary technical data is purchased with the original equipment.

It's bad enough that we cannot economically design and build these aircraft in Canada, but it is a travesty to fragment and decimate our domestic support industry, which has taken decades to build and is now competing successfully in the world, sometimes against the same OEMs. This export growth will become more difficult and will encourage Canadian-owned aerospace companies, such as I.M.P., to sell its business to United States buyers.

It appears that bureaucratic convenience takes precedence over a sound Canadian industrial strategy, which our aerospace industry has been seeking for some time. We are proceeding down the road where foreign corporate and foreign policy interests will be able to compromise our own Canadian industrial and sovereignty interests. Canadian taxpayers will be paying millions of extra dollars to inject American contractors between Canadian industry and the Government of Canada and the very troops that we are proud to support.

These very substantial ISS—in-service support—sole-source contracts placing our Canadian industry under the direct control of U.S. commercial companies are a threat to thousands of our highly skilled workers, and they reflect the lack of research and understanding of our industry by government officials before they've received approval from cabinet. We need the Government of Canada to urgently debate and reconsider this policy change in order to avoid disruption of our successful aerospace industrial base and the obvious compromise to Canada having maximum direct control over the use of our military assets for the security of Canada.

I would welcome your questions and discussion on this matter.

Thank you.

• (1015)

The Chair: Thank you, sir.

We'll start our first round with Mr. Coderre, for seven minutes.

[*Translation*]

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

[*English*]

Mr. Rowe, thanks. It's an honour to have you here.

We think this government has abdicated our Canadian sovereignty. We also believe they have abdicated our industry.

I'd like you to expand a little bit more on the importance of owning our intellectual property in those acquisitions.

You'll notice that through the C-17, we gave them a blank cheque of \$1.3 billion for the ISS that we will never own. They're still negotiating on ITAR. They don't even have a deal for our own people who are working at DND right now, and the issue of dual citizenship is clearly a problem. I'd like you to talk a little bit more about how the industry will go if we don't own those kinds of intellectual properties.

Secondly, I have a very concrete question, but I don't want to put you on the spot. You have some people working for you who have dual citizenship. You will have to make a choice. How do you react to those contracts if they ask you to make a choice between the employee or the contract itself? How do you feel when you have to face those questions?

Mr. Kenneth Rowe: Those are major questions that you're asking, sir.

One is concerning the ITAR and how we would handle employees who don't meet the requirements that need to be met in order for them to have access to the technical data being provided to us so that we can do our work. As you know, we cannot discriminate against employees in Canada. It's against the Constitution. On the other hand, if we try to protect the contracts, we are fined heavily or end up in litigation disputes with the employees, through the various recourses that they will have against the company.

It's a very difficult situation, and I only hope the government can be successful in going down the road along security clearances and areas like that, so that we can manage our businesses economically without having to discriminate against employees. But if we have to make a choice, I'm afraid we'll have to reject the contracts.

The second point is on technical data. We've always bought technical data—intellectual property, as you call it—sufficient for the successful contractor, since it's usually put out to competition among Canadian companies by the Canadian government. The successful contractor has a licence to use that technical data to maintain the aircraft.

Only in one instance in the last forty years have we not done so. That was for the search and rescue helicopters. They decided to buy the technical data incrementally instead of paying for it up front with the aircraft. There have been tremendous costs, delays, and difficulties for the ISS contractor managing that fleet without the full set of intellectual property. I think that has been a lesson to everyone, as an example.

They can buy the equipment and buy the sufficient technical data with it in order to maintain it. Then there's no reason why they can't continue to hold a competition in Canada, by the Government of Canada, with Canadian companies, to maintain it and have maximum control over those assets.

In any event, the Government of Canada may want the military to do something with that equipment, under our own foreign policy, that may be contrary to that of the country or countries we bought the equipment from—in this case, the Americans. On two occasions now, we've modified Sea King helicopters for the use of the army. One was for the Red Sea affair, and there was one recently for troop carriers. We could not have done that had we not had the technical data. If we had tried to get permission through perhaps a foreign government like that of the U.S., they might not have wanted us to do that. We would have then been restricted in our own security and sovereignty, in terms of decisions you people are tasked to make on behalf of the people of Canada.

• (1020)

Hon. Denis Coderre: So the fact that we don't own the technical data on the C-17 may put us in some curious situations, if I can put it that way. If we need some parts and we need to go through the second and the third line of maintenance, and if, for example, we're in Cuba and we know the foreign policy of the United States is different from ours, then maybe they will say we cannot go there because of our situation, our own policies. Is that correct?

Mr. Kenneth Rowe: I wouldn't use the C-17 as an example, sir, because I think the military has more of a case for not buying the technical data on just four aircraft. For four large aircraft, it would be tremendously expensive. We've never done this before for just four aircraft. It's more applicable to fleets of aircraft, like the Hercules and the Chinook helicopters. For fleets, it becomes very cost-effective to do it in Canada and to have total control over it for security and sovereignty reasons.

It is not my role to comment on worrying about four large aircraft and whether we support them or not. On the technical data side, though, it would have been extremely expensive, and I think they would still most probably have had to go back stateside for major modifications or overhaul, for economic reasons.

Hon. Denis Coderre: Given that we don't own the technical data and that, more and more, we're at the mercy of these international companies, it will be pretty tough for our own industry. We have the situation in Quebec, of course. This government doesn't want to make sure we put the money where the industries are, and it's same thing in your case, sir, in your own region.

Do you believe that if we're not doing something and that if we don't have a government that intervenes to make sure there is some percentage going through every region, it will be the end of that industry, since it won't grow?

Mr. Kenneth Rowe: The risk we're running is that they're asking the Americans to hold competitions among Canadian companies to do as much ISS as we can in Canada. But chances are they will fragment those, that one company will get a piece of this and one company will get a piece of that. The company will never have, as we do, a total capability on one particular type of aircraft.

We've just modified the whole fleet of Sea Kings that are owned by the U.S. Navy, the government. We have P3s in there, similar to our Auroras, for the U.S. Navy and other U.S. government departments. We have the Norwegian air force, with P3s in there again. We have the Egyptian presidential fleet of Sea Kings in our hangars because we have the total package of tech data that was bought by the Canadian government when they bought the aircraft. So whoever wins that particular aircraft gets total technical support in documentation, and not only are they able to support our own department with virtually a single-point accountability, but they can then lever up their expertise and go after these international opportunities, as we've done, as Spar has done in Edmonton, and others elsewhere.

The Chair: Thanks, Mr. Coderre.

Mr. Bachand.

[*Translation*]

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

I want to congratulate Mr. Rowe and Mr. Conrad on their presentation. I have to admit that since the committee began its hearings into the acquisition process, this is probably the one presentation...

• (1025)

[*English*]

Maybe I should start off in English.

I was going to tell you in French that it's probably the best presentation I've heard. I think I wouldn't have been able to write that...well, I would have probably written the speech you did exactly the same, because it's an issue that I've been working on for almost a year now.

[*Translation*]

Can you hear me?

[*English*]

Mr. Kenneth Rowe: Yes. You're doing quite well in English.

[*Translation*]

Mr. Claude Bachand: I won't bother repeating what I said in English.

I simply want to highlight some of the comments you made. You talked about bureaucratic convenience. I find that a little misleading. It's more a lack of political will on the part of the government. I can't quite understand how the government, that awards contracts with taxpayers' money, can do so virtually without setting any conditions. That's the fundamental problem.

The government signed a contract for C-17s. I believe it's too late to cancel the contract and to start the process all over again. We've seen what happens when contracts are cancelled. However, there are three more contracts pending, one for Chinooks, one for C-130Js and one for fixed-wing search and rescue aircraft.

I've met on numerous occasions with representatives of Quebec firms and I asked them when Canadian and Quebec industries will get together and send a message to the government that the current situation is intolerable. I always sense that industry officials are somewhat reluctant to act. I hear all sorts of comments such as "You mustn't bite the hand that feeds you". That's all well and good, but as you know, Mr. Rowe, the window on aerospace contracts for the next 30 years will be closing.

As representatives of I.M.P. Group International inc., what are you waiting for to join forces with Bombardier, CAE and L-3 Communications to demand from this government some economic spinoffs and to get it to acknowledge that this situation is unacceptable? Can we expect any action on that front?

[English]

Mr. Kenneth Rowe: Nothing is holding me back. That's why I'm here. And I agree with you, industry should be more vocal. And I hope, finally, that our industry association will be more vocal in making known this position that we now all believe we have unity on—that it's Canada first. And we really want to keep the situation as it is. There are two points the government makes, a single-point accountability...and I believe they've had that.

We look after the Aurora fleet of aircraft. We have done since its inception. We won it competitively, as we did the Sea Kings—competitively. We can't change them every year; we've had those fleets. As I said in my notes to you, there's very little recourse they have to go back to Sikorsky or Lockheed Martin concerning those fleets. They have it.

Then the other thing is that they say performance-based is the other part of their pillar. In terms of performance-based, there's none that perform better than some of the Canadian companies who jump head over heels for DND because we're so proud to work for our own department and government. I don't know what more performance you can get there. But if there was a restriction put in place that our foreign policies ever diverged, going forward, I don't know where your performance would go then—against your national interests—and we'll be completely in the hands of the State Department and other directives that these commercial companies get at that time. If that's the position you want to put us all in, that's the route you're going down. And companies like ours may as well not just work for them, we may as well be owned by them.

So these are the risks out there that perhaps some of the government officials.... And they're all good people. I know many of them and I'm not here to criticize them. But as an industrialist and as an industry leader, I'm giving you a heads-up that this is the wrong road to go down. There are many hazards, and it's not all just over money; it's over security and jobs in Canada and having our own sovereignty decided in this city—policies.

• (1030)

[Translation]

Mr. Claude Bachand: Now then, what if I tried to convince you that it would be easier to take a united stand if consideration were given to the distribution by region of economic spinoffs? Allow me to explain myself.

If I told you that by taking a united stand, you could fight the government on the issue of economic spinoffs because its approach isn't the right one and the Canadian aerospace industry would like 10% of the spinoffs to go to Atlantic Canada, 60% to Quebec and perhaps 30% to the rest of the country. How would you react to that statement?

These aren't necessarily exact percentages. The margin of error is 5% or 10%. For the moment, Quebec isn't happy with the spinoffs and neither are you, I would imagine.

Would you go along with this, if we could take a united stand, based on geographic distribution that takes into consideration the importance of the industry to each region of the country?

[English]

Mr. Kenneth Rowe: Not necessarily. I don't agree with that approach. Because when you're talking about 60% in Quebec, you're really including Bombardier, and I don't know the last time Bombardier had offsets from the Government of Canada through IRBs. Their road has changed a lot since the early days when they were involved with defence contracts. They're a great company, and we do a lot of work with them. But I think percentages across the country have to be also tempered with the ability to find companies that can do the type of work that's available for IRBs. These are highly technical companies and they often can't give low-technical work.

You have to remember that we own Innotech-Exequire, Canada's largest general aviation company, with nearly 1,000 people working out of Montreal. But we never asked for special treatment for Innotech-Exequire. They're world leaders themselves and they are quite able to win contracts competitively and encourage people to allow them to bid on work that's most suited for them.

Obviously there's a large concentration of aerospace companies in Quebec, and that should be taken into consideration. But we are also world-class in Nova Scotia, where we have 2,000 people in our company alone, apart from others, and we should be given careful consideration about the type of work we're world-class in, too, to allow us to continue to build these high-tech, high-paying jobs, where we've been very successful in getting other countries to send their work to Canada. We're the first company that's ever had a military airplane from the United States of America sent to Canada for overhaul.

The Chair: Thank you, sir.

Ms. Black.

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

I too want to thank you both for coming in and for your presentation. I found it very compelling.

I too lament the lack of a Canadian industrial strategy, and I think that fits into your presentation today. I fear a loss of autonomy and a loss of the ability of our government to have an independent foreign policy if we are reliant on foreign companies for maintenance and in-service support of our own military aircraft.

My colleague Mr. Bachand talked about a coordinated strategy with other industrial players, other companies. I know that in my province of British Columbia, jobs in the aerospace industry are above the level of the average industrial paying job. So I'm wondering if you've worked with or had any communication with the workers in your industry, and whether, when you are talking about a coordinated strategy, that would include the unions, which are potentially losing jobs in this field.

In British Columbia, some of the jobs for aircraft maintenance are leaving Air Canada. There are people who I know are well trained and who are unable to do aircraft maintenance work. So I fear a loss of family-supporting, well-paying jobs in Canada for Canadian people in this industry.

I wanted to ask you which DND aircraft—you mentioned the Aurora and the Sea King—you're currently contracted to work on. Are there more than that?

You talked about how many jobs depend right now on in-service support. I wanted to know if you could give us some estimate of how many potential jobs, Canadian family-supporting jobs, we may be in danger of losing through this contract that we've signed and by having in-service support done by U.S. companies. Can you give us an estimate of how many potential well-paying jobs are in jeopardy?

• (1035)

Mr. Kenneth Rowe: If I can pick up on your last comment, these contracts have not yet been let on in-service support. We believe there was more concentration for the obvious reason of losing young people in Afghanistan right now. I can understand the leaders of the Department of National Defence wanting to get this equipment as soon as possible.

When it was passed through cabinet, I think the in-service support side wasn't properly researched or understood by the government officials, and it would be less expected that cabinet members would pick up on it. As I'm trying to explain to you as a committee today, there's been a lack of that. It went through to allow this without the types of repercussions and considerations being properly explained; otherwise it perhaps wouldn't have gone through cabinet.

The contracts have not yet been let. There's a window for cabinet to amend the decision to buy these fleets, which doesn't stop them being delivered and it doesn't delay them in any way. They can virtually be separate contracts, as they've always been, but order a review of the in-service support side to maximize Canadian jobs, as we've said, and to maintain the maximum security of Canada.

On your other question on jobs, there are thousands of jobs at risk, because over 20 years, for all sorts of reasons, they can gradually drift back to the United States.

What are we as companies to do? Do we keep running back to Ottawa saying they are in breach of the original intent of the contract back in 2007? It would be unmanageable. We'd be put back to where

we were 30 or 40 years ago as a pretty minor industry, with old aircraft and no technical support, and it would all be done by the country where the aircraft came from.

It's not the case today. You're not only risking thousands of jobs for workers today. These are commercial companies, and their loyalty is to their own shareholders. They do it by selling man-hours, not by giving them away.

There is also the cost of over 20 years of in-service support. There's not a person in government, in this room, in this city, or in our industry who could really calculate what 20 years of in-service support on a fleet of aircraft is going to be.

What happens? It's like taking money. When you have a forward risk, you pay one hell of a premium for that risk, because you're asking the manufacturer to take the risk on what might happen, what might go wrong with the equipment, and what has to be covered in the cost.

There is performance. There are all sorts of exclusions going on, *force majeure* exclusions, for all sorts of reasons. In the end, commercially the government will be tied up, and for me as a commercial industrialist, I think we're going down a slippery slope. It's better to look after our own businesses and keep our own people working, with maximum control on our industry.

There are the thousands of jobs that you were talking about. In your case as parliamentarians, the security of Canada is having control of the maximum use of our military assets. We never know in today's world when we're going to need those assets for purposes that are different from the configurations we're already in.

It's my view. I'm not political, and I don't want to become political. Enough of that goes on. You understand that side. But I'm telling you as a simple industry person who has been in this business for a while, from the industry's point of view this is a terrible change to take.

It may suit someone to have one office, one OEM's office in Ottawa that they can keep calling up. But under this arrangement, we won't even be able to talk to our own Government of Canada as a contractor maintaining their equipment. We'll be isolated because we'll be under contract to someone else.

There are all sorts of areas that have never been researched or properly identified as risks and rewards.

• (1040)

Ms. Dawn Black: Thank you.

The Chair: Thank you.

Over to the government. Mr. Hawn, welcome back.

Mr. Laurie Hawn (Edmonton Centre, CPC): Thank you. It's good to be back.

Mr. Rowe and Mr. Conrad are probably better equipped to answer this.

It's been almost 27 years ago to the day that Canada signed the contract for the CF-18 with McDonnell Douglas, which is now Boeing-McDonnell Douglas. It's been 25 years this October since we flew the airplane. It was a company that owned the intellectual property and a government that owned the intellectual property.

I would ask Mr. Conrad this, since he has the most experience with this particular program. How would you assess the 25 years that we've been operating the airplane, the 25 years we've been operating with in-service support in Canada with McDonnell Douglas and now Boeing? Has it been successful?

Mr. Allen Conrad (Vice-President, Business Development, Aerospace Division, I.M.P. Group International Inc.): From my understanding of the program, having been in the military before, it was highly successful. The most recent success was the first phase of aircraft modernization.

I was part of the F-18 acquisition program in 1980, and at that time there was no question. We bought the intellectual property, and we positioned a company to do the things that we thought were of strategic interest.

Regarding a weapons platform, you have to be able to certify Canadian-unique weapons. We didn't want to carry nukes, so that meant we needed the capability to develop software. We invested in it. We need the capability to do flight testing. We invested in that in Cold Lake, and we built the extra—

Mr. Laurie Hawn: Mr. Conrad, who owned the basic intellectual property for that airplane?

Mr. Allen Conrad: Canada.

Mr. Laurie Hawn: Sir, I would disagree with that. The United States government owned the basic intellectual property. I was part of those programs, and in every program, we sat side by side with our military colleagues from either the State Department or the U.S. Navy-Marine Corps, because there were things we couldn't do with that airplane without their cooperation, which we got.

Mr. Allen Conrad: You're correct, initially.

Mr. Laurie Hawn: That program developed over time, which is my second point, to the point where we were self-supporting with the CF-18.

Mr. Allen Conrad: Yes.

Mr. Laurie Hawn: I understand personal business imperatives and fear of the future. I understand the solid working relationships that we've had with defence partners over many decades.

Is there some irrationality, in terms of fear of the future, that maybe we should temper with the knowledge of what we've done in the past, and the good experience that we're having right now with similar and very large programs?

Mr. Allen Conrad: The difference with the F-18 is that there was an investment made up front to build a capability at Mirabel, CAE, and Bombardier, and to build a capability within the Canadian Forces.

Mr. Laurie Hawn: Also, the ISS contracts we're talking about now are being competed across Canada. Would either one of you disagree with the statement that these programs are being competed across Canadian industry?

Mr. Allen Conrad: It's how it's fragmented. The problem is that for a foreign company to be held to a fixed-price, performance-based contract, they have to be able to make trade-offs and control all the levers. If they run into an issue, they have to be able to trade off training, maintenance concept, design, sparing—all sorts of things. They cannot divulge that.

Mr. Laurie Hawn: Also, nobody at this table knows what's going to happen in 30 years. When we started the F-18 program, we didn't foresee what was going to happen today in some areas, versus when we started the program.

Mr. Allen Conrad: But we bought that in-service support integration capability with the F-18. That's what's not on the table right now. The foreign OEM will parcel things out as they see fit. They will maintain the control, because they have to, with the performance-based contract.

Mr. Laurie Hawn: Regarding the IRBs and the ISS, that's how it was initially done with the F-18 program too.

McDonnell Douglas went around the country and scoured Canadian industry for the industrial offsets and in-service support. The coordinated package on the in-service support and IRB sides, which were part of what we're talking about here, was done by McDonnell Douglas, in conjunction with the department, which had a different name then.

Mr. Allen Conrad: Except that we invested a central capability in Canadair back then. In the last few years, under the optimized weapon system management initiative, we basically pull the levers and controls with L3-MAS.

Mr. Laurie Hawn: Within the last two years. That's correct.

Mr. Allen Conrad: And we had the ability to do that.

Mr. Laurie Hawn: It developed over time.

Mr. Allen Conrad: Yes.

Mr. Laurie Hawn: ITAR has been around for a very long time. Correct? ITARs are nothing new.

● (1045)

Mr. Allen Conrad: Yes.

Mr. Laurie Hawn: I would submit to you that the reason we're having a problem with ITARs right now is the fact that over the past decade or more, the U.S. lost confidence in Canada's ability to step up to the plate in foreign affairs and contribute in a meaningful way. They also lost confidence in our ability to maintain security.

Canada always had exemptions from ITARs, and those gradually eroded. Those are coming back now because of our involvement in foreign affairs, and negotiations between Canada's Department of Foreign Affairs and the U.S.

So to say that ITARs are the bogeyman is misleading. I don't know whether you would agree with that or not.

Mr. Allen Conrad: I disagree, because what changed with ITARs is the dual citizenship. That's the sticking point right now, because it's in violation of our Constitution.

Mr. Laurie Hawn: That was always there with ITARs, and we had exemptions from them. The list of prescribed countries has grown as world affairs have changed.

Mr. Allen Conrad: It was the dual citizenship thing that was new. In fact, there was an article in *Canadian Defence Review* a year ago that described this, saying, okay, that's what changed and that's what's causing problems for us.

Mr. Laurie Hawn: That problem has been easing through negotiations with Canada's Department of Foreign Affairs and the U.S., because the U.S. is gaining confidence in Canada's ability to be a partner.

Mr. Rowe, you touched on it, but I want to clarify it. There's a suggestion that 60% of industrial benefits, or 60% of some programs, should go to companies because they've always done it. Do you think that is a logical way to do business, or do you think that companies should compete and earn the business to keep the business?

Mr. Kenneth Rowe: You are repeating what I said. I agree to that. I'm not saying that someone should get business because they've had business. We've always won every major contract. We work right now—and one of your colleagues on the other side asked the question previously—with the Aurora; we still do the Sea King, which is being replaced with the new maritime helicopter; and we won competitively the search and rescue helicopter. We do that too. They are the three aircraft we maintain. It's not because we had Sea Kings that we won the search and rescue. We won it competitively on a properly issued competition by the Government of Canada.

What is the point of your question?

Mr. Laurie Hawn: The point is to make a point, and I think you agree with this, that government should not direct business to any particular area or company just because they've had business in the past. Companies should earn it.

Mr. Kenneth Rowe: I'm not necessarily advocating that, but if the bulk of an industry is in one part of a country, it's logical that they're going to win aerospace type of business.

Mr. Laurie Hawn: If they earn the contract.

Mr. Kenneth Rowe: Exactly.

The Chair: Mr. Hawn, I'm sorry, you're out of time.

Mr. McGuire, then back over to the government.

Hon. Joe McGuire (Egmont, Lib.): Thank you, Mr. Chair.

I'd like to welcome Mr. Rowe and Mr. Conrad to our committee.

Mr. Rowe is probably the father of the aerospace industry in maritime Canada. I didn't realize you had so many employees outside the maritime region. I congratulate you for the work you've done in the past and are doing now for the industry and for our region.

I find it hard to believe that the government or the bureaucrats didn't know what they were doing when they made a change in the policy that you are talking about here. I think our problem is that we don't treat the U.S. as a foreign country. They treat us as a foreign country, but we don't treat them as a foreign country. We have some other kind of understanding, and I'm not sure what it is, but they think we're brothers in arms or something. I'm not sure what it is.

I know a young lady who was speeding through Georgia recently and found out she was from a foreign country. She was in prison for

a number of days because she had a speeding ticket. That's the way they treat anybody from outside of the United States. I think we should realize quickly that the U.S. is a foreign country. Even though they are close neighbours and friends, they still treat us as foreigners, and we should take our cue from them rather than from the Boy Scouts of America.

You also mentioned that the government has changed their policy for one of the provinces previous to the election in the province of Quebec. Senator Fortier was able to get an exception. Does this mean that their policy is now changing? Have you got any response from them that they have changed the policy for one part of the country, and that the policy now will be reverted to what it was before so that everybody will have a crack at the contracts?

Mr. Kenneth Rowe: We've just been advised that training and simulation, which happens to be done very well by two companies in Quebec, has been exempted from this policy that the rest of us are still under. We will be under the American companies if we win any of their solicitations. The reason is that they are centres of excellence and don't need to be under the American companies, and I agree with that.

My point is that we have other centres of excellence: us in aircraft, complete aircraft systems here and in Edmonton by Spar and others. That, for the same reason, is my argument. We don't need to be under Americans for gaining performance and control. You can do it with Canadian companies, as we've done in the past.

I don't think these changes are progressive, quite frankly. I think they're going to destroy the independent growth of our in-service support industry in Canada, which has now become world-class. We are competing against these same OEMs for foreign contracts, as we've done successfully. We even have American navy aircraft in our hangars.

• (1050)

Hon. Joe McGuire: You're saying that on the contracts there's still a window of opportunity there for the government to continue the change. Is the industry meeting with government? Are you meeting with cabinet to press the government to make these changes, to see the error of their ways, and to show them the effect this policy is having?

Mr. Kenneth Rowe: Yes, we are. We've had meetings. But you have to remember that once an order goes through cabinet, they get their marching orders. There's no one in government who wants to stick their neck out and say we may have made a mistake in doing that part of it. The cabinet agreement is to buy these helicopters and fixed-wing aircraft and the ISS changes without there being any real input from industry telling you what the repercussions will be.

What we need to do is not to stop the acquisitions of the aircraft fleets, but before they start giving the American companies the responsibility for the next 20 years to control all the in-service support—most of it in Canada—in my opinion, we have time to have that cabinet amendment for the rest of the centres of excellence in Canada. They have taken decades to build to this point where we can compete with the American companies.

Hon. Joe McGuire: I hope the testimony today gets to the government and they take your suggestions into consideration to make the adjustments that are required here for the good of our country and for the spending of our taxpayers' money in this country rather than some other country.

The Chair: Thanks, Mr. McGuire.

Over to Ms. Gallant.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman, and thank you to the witnesses.

Mr. Rowe mentioned that he first knew about the announcement of the procurements we're talking about today during the summer and that he spoke to the Prime Minister himself. It would give me the impression that the procurement process is open and efficient. I really appreciate that you mentioned that the procurement is being sped up for the sake of the soldiers. By not having the equipment they need, we're putting their lives at risk.

My first question is for Mr. Conrad. We've heard a lot from previous witnesses about changes to the procurement process that have been recently made. In your opinion, is the procurement process working better now than it was a decade ago?

Mr. Allen Conrad: I'm on the outside right now, but from what I've seen, the procurement process is a decision process and the idea is to actually get going.

I can give you a case in point. When we modified the Sea Kings to go to the first Gulf War we put in 12 major and 12 minor modifications in 210 hours. The longest timeline was to find six FLIRs to put on the nose of the airplane. When there's a will, things happen really quickly, particularly if you have the capability in Canada. But when you have projects that aren't pull projects or push projects and you're trying to balance the budget and what not, with cases like the MHP you end up basically debating for decades.

Once the decision is made, it happens, and away you go. But somehow it's a question of... In fact I think there were studies done around the late 1990s in DND, certainly on the IM side of things. What they determined was that if you wanted to save people in the department, only staff projects that were going... We kept other projects alive for decades, for that window of opportunity.

So the process is better, absolutely, but the difficult part is to get the decision to move out, particularly on the big stuff.

• (1055)

Mrs. Cheryl Gallant: Thank you.

It's my understanding that Boeing and Lockheed Martin are required to put the ISS contracts to tender to Canadian companies, just like the Sikorsky helicopter has been taken care of by Canadian service people.

Mr. Allen Conrad: It's a little different. In fact I was at a meeting on Friday with representatives from government. We will not actually be allowed to see the contents of the RFP that is going to Boeing and Lockheed. The first time we actually find out the rules for the competition will be when Boeing and Lockheed put out their RFPs.

Because of comments regarding the ability to control the in-service support, there is that level of integration that they cannot actually subcontract; otherwise, they can't control performance and price and things like this. So they are free to partition stuff however they see fit. The concern is that they'll partition things in packages that make no strategic sense for companies like our own and in a matter of years you'll see Boeing signs all over the place.

Mrs. Cheryl Gallant: I was going to ask my next two questions, and each of you can answer, just so that we can apportion our time properly.

In your presentation, Mr. Rowe, you mentioned that you take care of the complete suite of services for equipment for other countries. Given that, I'm wondering about the potential threat to their national security by us, as a foreign country, with your company taking care of their equipment. Also, there is the fact that the procurement process does tend to take so long—the decision on the right thing. During that span of time, Canada often leases equipment from other countries, and by the same argument it could be stated that that in itself would be a matter of national security.

The question I have is this. In your recent article in *FrontLine Defence*, you mentioned the Cormorant helicopter and the difficulties in acquiring the data package from the OEM. Now, I believe I.M.P. currently has the ISS contract for the Cormorant. Why didn't the previous Liberal government negotiate this at the time of purchase?

Mr. Kenneth Rowe: They didn't want to spend the money, quite frankly, and they felt they could do it incrementally, another one of these theories that doesn't work out in practice. The ISS contractor was having the difficulty of trying to keep aircraft—particularly search and rescue, which save lives, obviously—in the air, working, and trying to get pieces of information incrementally. That's when I talk about governments making decisions about things they don't really know the details about or are not given the proper information about to make an informed decision, which I'm saying this is a case of, concerning ISS.

On your other point, we do not maintain the complete weapons systems for another country. We're a centre of excellence of maintaining the actual structural integrity and the engineering behind it of the complete aircraft itself. The mission systems and other things are kept in that country.

We're doing it for these countries because we're very competitive. Norway, for instance, doesn't have a large aerospace industry, and in the States they're so busy in their own places that we've been able to get through two protests into Washington against American industry, when there was aircraft left to come to Canada. We overcame them because they're so uptight.

We are trying to convince you people to keep jobs in your own country. All we're going to be is an exporter of those jobs because we will not be able to control the intellectual property that gives us the skill sets to engineer and develop state-of-the-art changes for similar aircraft to other countries going forward. We'll be retained with a lower level of work that we used to do 40 years ago in this country because we have not bought the technical data with the equipment, as we've done in the past—with the exception, as I came out with in that article, of the search and rescue one. When you save money, you sometimes don't save money in the long run.

The Chair: Thank you, sir.

That brings us almost to 11 o'clock. We have just a few minutes.

Mr. Bouchard, you're on next. If you can do it quickly, that would be appreciated. Thank you.

• (1100)

[*Translation*]

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

I'd also like to thank the two witnesses for joining us. Congratulations on your remarks, Mr. Rowe. I agree with many of the points that you have raised.

Earlier, my colleague talked about Canada's aerospace industry joining forces to demand that the government change its acquisitions processes. You didn't seem to be especially keen on the idea of the regions sharing a percentage of the spinoffs.

How can the industry present a united front if it does not take into account the geographic distribution of these aerospace industries or the Canadian reality as it pertains to these industries in each of Canada's regions?

[*English*]

Mr. Kenneth Rowe: Number one, I think you're coming from the Quebec-based position, because you say you have 60% of the industry. And I've already said a large part of that 60% is Bombardier, which is hardly a recipient of IRBs on these types of purchases, because they're absolutely absorbed in making commercial aircraft.

Those companies in Quebec—and we're one of them—are very good at what they do. If there's going to be a competition, it should

go across the country and let the best company win competitively, and if that company wants to relocate somewhere else.... We're in Quebec, with 1,000 people, because the Quebec workers happen to be very good at doing what we want them to do and we're the best in our type of niche there. Nova Scotia is the same. We're in B.C. We're in Ontario. It's a fragmented industry of many very good companies across the country able to compete very well against international competition. I'm not going to be the picker or chooser of which one should get a contract simply because they're within a provincial border.

As far as I'm concerned, it's Canada, and I'm a Canadian; and our people in Quebec are Canadians too, despite the fact that obviously a large majority are Quebecers and are very proud of that, and we're proud of them. I'm not going to say that because they're in Quebec they should do something better than our company in Edmonton or somewhere else, but I will admit that because you have a critical mass of our industry located in Quebec, it's logical that those companies will obtain the bulk of those offsets, just by being there and able to do that work, against somewhere else with less capability.

We in Nova Scotia do very well on our airframe and aircraft and our engineering businesses. That we've proven nationally and internationally and with our helicopters and fixed-wing aircraft. But we're not good at simulation and we're not good at training like CAE and Bombardier are. They will win those contracts, whether they come from Americans or Canadians. But they've elected to raise the same concerns as I have to the Minister of Public Works, that they would be compromised, being world leaders, going under an American company for their services, and he's accepted that and modified that cabinet decision.

I'm saying we should do it for all Canadian companies and keep control of our own destiny and our own security.

Mr. Chairman, thank you.

The Chair: Thank you very much.

Gentlemen, I appreciate your submissions. You obviously stimulated the committee to ask some very pointed questions. Thank you.

That brings an end to our meeting.

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