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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Thursday, June 5, 2008**

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**Chair**

**The Honourable Diane Marleau**

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## Standing Committee on Government Operations and Estimates

Thursday, June 5, 2008

• (0900)

[English]

**The Chair (Hon. Diane Marleau (Sudbury, Lib.)):** I call the meeting to order. My goodness, we're even starting a couple of minutes ahead. That's very unusual. We have a quorum.

We have before us Mr. Ross from the Department of National Defence. He is the assistant deputy minister, matériel. From the Department of Public Works and Government Services we have Liliane Saint Pierre, assistant deputy minister, acquisitions operations; and Mr. Terry Williston, director general, land, aerospace, and marine systems and major projects sector.

I think you've been before committees previously and know how it works. We'll give you a chance to make a statement, and then we'll ask questions.

Go ahead.

**Mr. Dan Ross (Assistant Deputy Minister, Materiel, Department of National Defence):** Thank you, Madam Chair. It's a pleasure to be here this morning to provide information to the committee and to answer your questions.

The Canadian government's past approach to defence procurement was not always effective in either providing the Canadian Forces with the right equipment or ensuring the best economic benefits for the country. The policy and planning environment was uncertain, with sporadic injections of funding for major acquisitions. We had a procurement process in which industry was often told what to do, when to do it, and how to do it, with little warning or consultation.

We produced extremely detailed specifications leading to unique Canadian solutions that often became unaffordable to maintain and had little potential for export sales. Multiple contracts were the norm, with no single entity accountable for overall system performance. That often left the Canadian Forces to struggle with making the end product work.

[Translation]

Industry was frustrated, but they had little opportunity to innovate and the continuous competition/re-tendering cycle made effective investment planning difficult. Similarly, the Industrial and Regional Benefits requirements were often transactional, based on individual contracts, and left little scope for long-term strategic investments that could generate self-sustaining industrial capabilities. In fact, certain project-generated industrial capabilities became drains on scarce financial resources rather than strengthening our industrial infrastructure. In other words, we often created welfare industries.

[English]

As a consequence, the government was not effectively leveraging defence investments to achieve long-term economic benefit for Canada. DND often had critical equipment delivered late, and industry worked in a feast-or-famine environment that did little to encourage long-term investment or innovation.

[Translation]

Over the past three years, DND have been working both internally and with our partner departments to reshape the way we do defence procurement, and rebuild our capacity to deliver a growing program of investment in defence capabilities.

We are creating a new procurement environment that emphasizes best value solutions. Wherever possible, we are procuring to high-level performance standards, not detailed technical specifications, in order to encourage more innovative solutions. Off-the-shelf systems are now carefully considered wherever possible.

• (0905)

[English]

We are working to ensure that we can pull through government-sponsored research and development successes to acquisition of capability. DND is also moving towards long-term, domestic-based, in-service support contracts in conjunction with system acquisitions, with a single entity being accountable for system performance and availability. These approaches are showing results by more consistently delivering the right capabilities for the Canadian Forces, as well as providing Canadian industry increased opportunity to make and recoup long-term investments and engage in continuous development.

National Defence is also improving its internal processes for determining priorities for investments, including the introduction of more holistic capability-based planning models. As well, after many years of restraint we are rebuilding a strong, professional defence acquisitions team and making significant new investments in the professional development and training of our project management people.

Recent policy announcements by the government have given a significant boost to these efforts. Advantage Canada expresses the goal of linking defence spending to economic sustainability and growth. The "Canada First" defence strategy brings stability to our defence investment plans, and recent budgets have provided the predictable funding required to implement them. Also, the government's adoption of accrual accounting provides investment cash at the right time and gives a clear indication of equipment life cycles and replacement schedules.

[*Translation*]

While getting the right capabilities for the CF continues to be our primary goal, the conditions are being set to create a new relationship with our defence industry, which will also stimulate investment in research and development, and improve international competitiveness. We are redefining and strengthening our relationship with industry, emphasizing relations that are fair, open and transparent. We will leverage fora such as DND's Defence Industry Advisory Committee to improve mutual understanding and awareness of our goals.

[*English*]

We're also investing in the people dimension through such initiatives as Advantage Canada's promotion of higher-level skill sets in industry and a focused national defence program to enhance project management and procurement skills. In addition, we are exploring increased use of government-industry exchanges.

We believe the payoffs from these initiatives are significant. Having a coherent framework for government science and technology investments will lower the risks and costs in meeting our military requirements and give us a better military capability. At the same time, the economic development goals of the government will be furthered by better positioning industry for success in the international marketplace. By strengthening industry's technology and competitiveness, it will give greater opportunity for long-term involvement in the supply chains of the large global original equipment manufacturers.

[*Translation*]

The end result will be a much better alignment between our defence requirements, our industrial capabilities and the socio-economic goals of the Government of Canada.

[*English*]

It's within this wider context of fundamental defence procurement reform that the government received and has largely embraced the recent report of the Standing Committee on National Defence. The committee recommendations in many cases reinforce and validate the direction in which we are headed, and the report as a whole has provided us with useful insights as we continue our reforms. We look forward to further engagement with Parliament on this important issue.

I would be happy to respond to your questions after my colleagues have given their remarks.

Thank you.

● (0910)

[*Translation*]

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

Ms. saint pierre.

**Ms. Liliane saint pierre (Assistant Deputy Minister, Acquisitions Branch, Department of Public Works and Government Services):** Madam Chair, thank you for inviting me here today.

I appreciate the opportunity to participate in your study of government procurement and today's panel on military procurement.

As members know, Public Works and Government Services Canada plays a key role in ensuring that the Canadian Forces have the equipment they need to do their job.

In 2007-2008, Public Works awarded contracts totalling \$12.5 billion. Of this amount, more than 47% or \$5.9 billion was for contracts on behalf of the Department of National Defence.

Madam Chair, it is up to the Department of National Defence to define its needs. Public Works, in conjunction with other departments, develops the procurement strategy, prepares solicitation documents, conducts the tendering process and obtains approval for and signs the contract.

We then have an ongoing role in interpreting contracts and negotiating any necessary amendments.

As we all know, while the Government of Canada is re-equipping the military over the medium and long term, there is also a need to equip as quickly as possible the Canadian Forces in Afghanistan.

We have been working with the Department of National Defence, Industry Canada and the Treasury Board Secretariat to make military procurement more streamlined while also ensuring that Canadian suppliers have a fair chance to compete.

Among the efficiencies that have been introduced are the following. With the Department of National Defence, we seek combined Treasury Board spending and contract approvals, where appropriate. We have been using integrated project teams. We are using instruments such as Solicitation of Interest and Qualification with performance demonstration. We are procuring off-the-shelf equipment and technologies where appropriate. And finally we're focusing on acquiring proven, effective equipment, employing high-level performance specifications, as opposed to detailed technical specifications.

[*English*]

Historically it has taken an average of 107 months from the identification of a need to the award of a contract for a large military project. Our goal is to reduce this period to 48 months or less. And Madame Chair, we are making progress.

For example, the government announced in June 2006 that it would acquire four C-17s. The four aircraft were delivered within 22 months. To meet an urgent requirement for heavy logistic trucks in Afghanistan, Public Works awarded a contract in March 2007, less than six months after cabinet gave us the green light to proceed. We expect the vehicles to be delivered by the end of the summer.

These examples demonstrate that we do have the ability to act quickly. We are working hard to make speed an integral part of the process without compromising integrity or incurring undue risk. Above all, our goal is to ensure timely procurement of military equipment in a fair, open, and transparent fashion, using healthy competition wherever possible to secure best value for Canadians. In all cases we work very hard to adhere to the rules and to ensure Canadian taxpayers are well served.

I will be pleased to answer your questions.

[Translation]

**The Chair:** We will begin with Ms. Folco.

**Ms. Raymonde Folco (Laval—Les Îles, Lib.):** Thank you, Madam Chair.

I would like to thank our witnesses for coming to describe the work done by their department.

I am quite new to this committee. There are some things I am not quite clear on in the two presentations. I do not understand why Public Works and Government Services is in charge of having contracts approved and signed for the Department of National Defence. I can guess what that is, but I would like to hear it from you.

What model was used in centralizing this service? Is the Department of National Defence the only department whose procurement is handled by Public Works and Government Services? Do other departments and agencies do the same thing, or is there a different procedure? I am trying to understand why this procedure was introduced, and on what model it is based. Do all government departments and agencies proceed in the same way?

My question is to both Mr. Ross and to Ms. saint-pierre, because they represent the two sides of the story.

• (0915)

**Ms. Liliane saint pierre:** Ms. Folco, you asked why Public Works and Government Services handles contracts for the Department of National Defence and whether it does so for all federal government departments.

The first question is legislative in nature. Public Works and Government Services was established through legislation. Under this statute, the minister is responsible for procurement. The minister has the exclusive authority to purchase goods for all federal departments. All federal departments that come under the Financial Administration Act deal with Public Works. However, Treasury Board has delegated authority to some departments for service procurement.

**Ms. Raymonde Folco:** Mr. Ross?

[English]

**Mr. Dan Ross:** The model is that of a team, where the Department of National Defence provides the general project management contribution, and articulates the requirements,

[Translation]

the needs of the members of the Canadian Forces.

[English]

The Department of Public Works manages and provides a service for the specific contracting piece, the detailed expertise of the request for proposals evaluation, and the management of the contract. The Department of Industry provides services to look at the broader economic impact, regional economic benefits, and the development of certain technology sectors with other industries, etc. It contributes that to the team. We work with the central agencies that provide a challenge function and an oversight function to satisfy the requirements for due diligence and good stewardship, etc.

So in my view it is an effective team approach.

[Translation]

**Ms. Raymonde Folco:** If I understand Ms. saint-pierre's answer correctly, all federal departments and agencies follow the same procedure.

**Ms. Liliane saint pierre:** Madame Chair, all federal departments are subject to the Financial Administration Act.

**Ms. Raymonde Folco:** How long has that legislation been in place?

**Ms. Liliane saint pierre:** I could check on that. Some agencies have been established in recent years, and they have some exemptions. For example, the Canada Revenue Agency has the authority to issue its own contracts.

**Ms. Raymonde Folco:** I was going to ask a question, but I do not think I will get an answer to it. I was going to ask you whether this system...

Let me rephrase my question. Do you think there is room for improvement in the procedure, both on the part of PWGSC and that of DND? They work as a team—I do understand what you said, Mr. Ross—but is there some room for improvements in this procedure?

I understand the principle in place at the moment, but it is slow and cumbersome, because all the parties have to agree. I am wondering whether the procurement process should be improved.

• (0920)

**Ms. Liliane saint pierre:** There is always room for improvement, Madam Chair. That is why many initiatives have been introduced and are still being developed.

**Ms. Raymonde Folco:** Could you be more specific, Ms. saint-pierre?

**Ms. Liliane saint pierre:** One of the main criticisms we get has to do with the slowness of the process. As I said in my opening remarks, we are working to reduce the time it takes to issue a contract.

We work in military procurement, major purchases, but we are also working hard to put in place instruments that will allow the department to proceed as quickly as possible. For example, we will be establishing standing offers, which have already been authorized, that can be used as soon as a department identifies a need, particularly in the area of professional goods and services.

For example, if a standing offer is in place and a department determines a need for professional services related to a study, right away—

**Ms. Raymonde Folco:** I have to interrupt you, Ms. saint pierre.

You will be using the same model for goods and services as is used by human resources. You would have a data bank that you could use once a need is identified.

**Ms. Liliane saint pierre:** [For goods and services, particularly predefined-services and goods with specifications—equipment supplies—we have procedures in place that allow the department to make these purchases very quickly. We will be continuing with this approach.

**The Chair:** Your time is up.

**Ms. Raymonde Folco:** I will come back in the next round, Mr. Ross.

**The Chair:** You have the floor, Ms. Bourgeois.

**Ms. Diane Bourgeois (Terrebonne—Blainville, BQ):** Thank you, Madam Chair.

Good morning, ladies and gentlemen. My first question is to Mr. Ross.

In your remarks, you talk about the government's national defence policy, or at least you allude to it. I have trouble understanding when you say that you purchase material based on priorities.

As far as I know, Canada still does not have a clear policy on national defence. How can procurement be done according to priorities when we have no policy on foreign affairs or on national defence?

[English]

**Mr. Dan Ross:** Perhaps I should answer in the broader long-term context.

When we procure a fleet of ships and the process to deliver that fleet of ships takes a decade and the fundamental policy upon which we base the requirement and engage industry is not relatively stable for a decade, that has often resulted—in reality, and not just with ships—in uncertainty about whether or not a given government will continue with that procurement of ships. The most important consequence has been inability of a changing policy base to commit the funding to execute a very large and long-term procurement.

Madame Saint Pierre mentioned that 107 months was the average. We did a huge study of everything we had done for almost a decade, and we averaged 107 months from identification to getting to a contract—over seven years. That is not the construction and delivery time. It was due to uncertainty about the policy requirements in some cases, but that uncertainty reflected into uncertainty about whether it was affordable.

● (0925)

[Translation]

**Ms. Diane Bourgeois:** I do not want to cut you off, but I am afraid my question is not clear enough.

For about 40 years, Canada always had a rather low profile in the area of national defence. We had our peacekeepers, and for a few years now, Canada has been involved in Afghanistan, in hunting the Taliban. That means that we are at war.

Canada has no policy on defence or foreign affairs. There is no overall planning. How can procurement be done in medium- or long-term without a policy?

[English]

**Mr. Dan Ross:** That is a very broad question. It is obviously somewhat out of my lane, in terms of being responsible for military procurement and working with my partners in the Department of Public Works. We had a fairly clear defence policy with the previous Liberal government, and we have had a very powerful statement by the current government about its long-term commitment to the resourcing of defence in readiness, equipment, personnel, and infrastructure. I believe in the near future it will produce a clearer policy articulation of the “Canada first” defence strategy.

I understand the issue you're talking about, and I'll give you the example of Afghanistan. I spend about half my time worrying about trying to provide our soldiers in Afghanistan with the absolutely best equipment. To be very frank with you, whether I have a crystal-clear policy framework or not, I test every piece of equipment we send. I blow up—destructively test the vehicles we use. I bring forward to government the right solutions that our soldiers need. I would do that regardless of which government were here, as long as that government was committed to our soldiers being in Afghanistan.

[Translation]

**Ms. Diane Bourgeois:** I certainly agree with you, we must save soldiers' lives. However, we have no planning, we have no policy. So we buy what we can, where we can, without having any specific objective.

My second question is to Ms. saint pierre.

I have looked at all the documents, and I think you are making a genuine effort to support the requests that come from the Department of National Defence. However, we found out on March 28 of this year that we have purchased more than 100 used tanks from the Netherlands, and that some of them would be ready in 2011.

Why is it going to take so long? First of all, why do we purchase used tanks from the Netherlands? We should be thinking in terms of cost-effectiveness. In my opinion, when we buy new equipment, it is more expensive, but it is better quality. Furthermore, these tanks will not be ready until 2011. Can you explain that to me?

[English]

**Mr. Dan Ross:** I could respond to that, Madame Chair.

The tank program was initiated urgently to replace our existing Leopard 1 tanks that we were in the process of taking out of service because the army had the view they would never need them again. Our Leopard 1s were not sustainable in terms of technology, spare parts, and survivability. They would not take the IEDs and bombs of the Taliban.

The tank project has two parts. One was a loan at no cost to Canada—not a penny—for 20 German Leopard A6s, which have the mine blast protection. With tremendous support from the German government, we deploy those directly to Afghanistan. Also, we have purchased 20 Leopard A6s, which are the best, most upgraded level, from the Dutch, plus 80 of an older upgraded version of the Leopard 2 tank from the Netherlands.

Because we immediately got the equipment, our efforts after the delivery then had to be in working with the Department of Public Works to get the spare parts to do upgrades for certain pieces of armour for the tanks in Afghanistan. That has been our top priority. My entire team has been focused on that for almost six months, to sustain the German tanks in Afghanistan.

We have completed the purchase with the Dutch. We are going to bring those tanks to Canada this summer. They will be brought back by our lease chartered roll on, roll off ships to Montreal. They will be put into preservation and storage in Montreal as we set up a repair and overhaul capacity early in 2009. Because they have been in storage and some electronic components will have to be replaced, in 2009 we'll gradually put those tanks through a refurbishment program. We'll take the engines out, if they need to that, to go through a normal engine rebuild process, etc. Through 2009 until 2011, the 80 Dutch tanks will be refurbished and upgraded if necessary and brought into the training system for the army regiments in Canada.

So 2011 is an end-state; it's not a beginning. We will have them all in Canada, in Montreal, this fall. And early next year, once Treasury Board has given effect to project approval, we will begin a repair and overhaul program and we'll start delivering those to army training facilities.

Madame Chair, did that give you a sense of that?

• (0930)

[Translation]

**The Chair:** Yes.

Yes, Ms. saint pierre?

**Mme Liliane saint pierre:** I would like to add a very important point, madam Chair. The Department of Public Works and Government Services began the process at the end of March by issuing a letter of interest. We will be holding a competition to find companies that can repair and update these tanks in Canada.

**The Chair:** Thank you.

[English]

We're going to go with Mr. Kramp.

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

Welcome to our guests.

In your opening statement, Mr. Ross, you stated something that I think most people are aware of. Regardless of whether you're political or not, for a significant number of years in the past both policy and planning was definitely uncertain, with no clear sense of direction. Without that it's difficult to be able to operate efficiently and effectively. In my own opinion, quite frankly, I think that lack of long-range policy and planning was disastrous. We obviously had to make some changes.

Madame Bourgeois mentioned that there is really no long-term commitment to defence procurement. I would state unequivocally that this is absolutely wrong. It's my understanding that the government has made a long-term predictable commitment to the procurement in the defence quarter.

Could you elaborate a bit more on the size of the commitment and the length of the term? And could you also give us an idea of how this long-term commitment will potentially be of benefit in the way you do business?

**Mr. Dan Ross:** Madam Chair, the Prime Minister announced about a month and a half ago, I think, a fundamental departure from a defence policy foundation that we defend Canada, we contribute to international commitments, and so on—and that will obviously be articulated as part of that—but, more fundamentally, a long-term commitment to the finance, to the funding, with an accrual budgeting component that's extremely important, a commitment to 1.5% real growth, and from 2011-12 another 0.5%, which is compounded. Obviously, if you do the math, this will arrive about a decade from now at about \$30 billion in a defence program.

As part of that planning, we clearly needed to look at the major platforms: the frigates, the fighters, the armoured vehicles, search and rescue aircraft, etc., all those major platforms in the Canadian Forces. There has been some preliminary planning about what those indicative costs of those major platforms would be, and that is beginning to be finalized in a long-term investment plan.

To answer the member's question, that is enormously helpful to me, because I can look at a 45-year accrual plan. We have to manage the accrual space. It's like a set of mortgages when you pay your mortgage payments. You get \$1 billion to buy aircraft and you pay back that commitment from the Department of Finance in 30 payments over the life of those aircraft.

Now I can look at a 45-year plan where that accrual space is and all those lines and major platforms; put a project management team in at the right time; take a program request to the minister, cabinet, or Treasury Board at the right time to get definition authority; do a procurement contracting process working with Public Works and Government Services; and go for final approval and contract approval at the right time to replace that aircraft at the right time. That has never been possible in National Defence. I've been in this business for 30 years. I came to National Defence for the first time as a major in 1985. In my experience, this is the first time we've really been able to have that foundation of predictability for the financing of these investments.

In terms of how, I think I've covered that. I would just comment, if I could, on accrual budgeting, where—

● (0935)

**Mr. Daryl Kramp:** I'm glad you're going there, because that is leading into my next question.

**Mr. Dan Ross:** People discuss that very rarely, but to me that is an enormous change in our ability to acquire major platform.

In the past in DND, someone had to save enough money to have a big bag of gold to pay a contract. And as you all know, in our lives, with our own salaries, how do you save \$250,000 to buy a house in three years? Accrual budgeting is a mortgage process. Without that mortgage process and accrual budgeting we would not be where we are. We could not be launching the major platform replacements that we are.

**Mr. Daryl Kramp:** As you're probably aware, the good work of this committee recommended unanimously, of course, that we not only take a look at accrual accounting, but obviously endorse the principle so that better, more intelligent, more capable decisions could be reached.

We're pleased that the Department of National Defence has been a bit of a spearhead in leading the way. The confirmation that it has worked well through the procurement process in defence, would that almost be an understatement?

**Mr. Dan Ross:** It's a huge understatement, sir.

**Mr. Daryl Kramp:** Thank you.

I live right next to CFB Trenton, the air transport capital of Canada, unequivocally. I have seen the new C-17 personally, up front and in service, and I've talked with the men and women who operate them, who fly them, who participate, who load, who structure. I can honestly say this is absolutely an unqualified level of support, not just a feel-good morale booster, but absolutely really, really effective.

Now, this was an off-the-shelf purchase, one of these situations where we went down dramatically from our 108 months. Did you see an obvious advantage to going off the shelf and going through the process with ACAN on this? Could you elaborate on that?

**Mr. Dan Ross:** I'd be happy to.

We stated a very simple, performance-based requirement in terms of payload, range, and manoeuvrability, that sort of thing, with our C-17s. We posted an advance contract award notice with Public Works and Government Services Canada where we stated to the whole world that this is our basic requirement and invited anyone who felt that they could meet that requirement to inform us. If such a competitive alternative proposal had been made, we would have entered into a full request-for-proposal process.

We didn't receive any alternative solutions. We're then able to go directly to Boeing and negotiate a price and a delivery schedule and the minimum unnecessary bureaucratic process. Often we have a lot of baggage that goes with a formal request-for-proposal process to cover the risk to the Government of Canada. In this case, we could go and deliver the minimum; that was really results and nothing else.

Our price was world-competitive. We know exactly what our allies pay for a C-17 aircraft, and the price was as good as or better than anyone's. We received amazing support from the United States Air Force. Without the support from the United States Air Force, they would not be in service and operating the way they are, because we get some maintenance support, off-loading equipment, spare parts, and so on, on an interim basis from the United States Air Force.

So it is almost a poster child of how to do performance-based procurement, if you have an off-the-shelf solution, and in this case only one vendor. If you have more, it's still effective. It still allows you to cut years from the process when you talk performance and not 100,000 pages of a technical specification telling a Boeing or a Sikorsky or a Thales how to build something that they know how to build and we don't.

We have spent years writing specifications and have gotten no results from those years of specifications. Nor could I ever explain to a cabinet committee or a parliamentary committee what those specifications meant.

● (0940)

**The Chair:** Mr. Angus.

**Mr. Charlie Angus (Timmins—James Bay, NDP):** Thank you very much for coming today and helping our study on procurement and the processes.

I think your involvement is crucial, because certainly some of the biggest tickets that will ever be purchased by the federal government will be coming through the Department of National Defence. I think that's why we really need to have a sense of how these procurements are done, to ensure taxpayers' interests are completely looked after.

We know the Prime Minister has announced a 20-year multi-billion-dollar strategy for ensuring that the armed forces have the tools at hand that are necessary. I suppose what was surprising about that announcement was that it didn't come with any white paper. It didn't come with a document that showed us where this road map for 20 years was.

The media says:

In a highly unusual move, the Conservative government will base its entire future rebuilding of the Canadian military on Mr. Harper's 10-minute speech and Mr. MacKay's 700-word address.

No actual strategy document has been produced, nor will be produced, according to government and defence officials. Neither speech went into any specific details about equipment purchases, costs or timelines or how the future strategy will unfold. Both speeches presented more broad-brush approaches to defence.

Mr. Paxton, who is Mr. MacKay's press secretary, said, "It is not a 'document' like a white paper".

This vision is in the speeches. That's the strategy.

I guess that's for public consumption, but surely the Department of National Defence would have an internal white paper of how this money is going to be spent over 20 years, would it not?

**Mr. Dan Ross:** The department has done an enormous amount of work in analyzing those investment requirements, not just for equipment but for the personnel levels of 70,000, and 30,000 civilians, rebuilding our infrastructure, what resources are required to raise readiness levels so we are prepared both to respond domestically—have excellence at home—and to play a leadership role overseas.

My understanding is that the policy part of the department has significant work achieved in that regard and will announce and make available to the public relatively shortly that type of document.

• (0945)

**Mr. Charlie Angus:** Well, that would be helpful. We know that the Canadian Forces produced a 39-page Canada-first strategy paper last year. I understand that it was rejected because it was too specific. At the same time, DND has increased the secrecy and security aspects around the bidding for projects, what the projects cost and how they're being done. What we're hearing is that this does not pertain as much to security aspects as to controlling what the media might think, because the issue is that if the government doesn't deliver on a promise, people will start to ask questions.

So how are we to have confidence if we are not sure what the plan is? I understand from you that a plan will be released, but we're being told that specifics are something this government is looking specifically to avoid.

**Mr. Dan Ross:** Perhaps I'll let my colleague talk to the notion of secrecy and bidding and costs, and those issues, because there are very specific government contracting regulations that apply, which are obviously a framework in which we have to live.

In terms of not releasing the detailed specifics—from my point of view—of the major platforms, some of those requirements are still in the broad option definition phase, and we may have initial indicative estimates of what they might cost. But a significant amount of more work will have to be done.

We will openly consult with industry, whether for shipbuilding or armoured vehicles, and so on, and have been doing so in recent major procurements, much more so than in the past. We have had many events where we've sat down with the shipbuilding companies, for example, on our Halifax-class upgrades, understanding what they can do, when they can do it, and what costs it would entail.

So I think each major platform will go through this process and there will be open, transparent, and competitive events that will make it clear to industry and to Canadians what that requirement is. And as we state them in performance terms, Canadians will actually be able to understand them for a change. And industry will have had a lot of opportunity to contribute to the articulation of that and to compete to deliver that.

In some cases, obviously, they will not necessarily be Canadian primes. We do not build major platforms in this country, but we do build really, really excellent components of major platforms in this country.

**Mr. Charlie Angus:** I just want to ask you about the whole issue of how you define costs. In 2006 we had the JSS project announced for \$2.9 billion. I think it was \$800 million for maintenance and \$2.1 billion for purchase. Now we're hearing that those figures are low-

balled, perhaps by tens of billions of dollars, and that we're simply not going to be able to get the ships for that price.

How does that happen? Your department would have a clear sense of what those ships would cost. How is it that we can make an announcement, put a price on it, and then a year and a half later we're being told that we're going to run aground?

**Mr. Dan Ross:** There is a formal process in place.

Liliane?

**Ms. Liliane Saint Pierre:** Regarding the JSS, there is a current competitive process taking place. As such, we are not at liberty to discuss what is happening in relation to the bids that we've been receiving for the evaluation process, and this goes back to one of your earlier comments related to the secrecy of bidding issues in the competitive process.

One has to be reminded that the competitive process has to be done within the legislation that we must comply with and the trade agreement, and as such it's a legal process. Therefore, we are not privy to start to talk about and discuss specific proposals that we have in place until the process has been completed and the contract has been awarded. And even when a contract has been awarded, each company that has provided us with a bid is entitled to get feedback on the evaluation of their bid. But again, we won't start to talk about specific companies who are bidding and specific bids that we've been receiving. We will be discussing that with each company.

• (0950)

**The Chair:** Thank you.

Mr. Holland.

**Mr. Mark Holland (Ajax—Pickering, Lib.):** Thank you, Madam Chair.

Thank you to the witnesses.

I want to pick up again on the examples. Although I'm going to talk about some specific examples—and I appreciate that you may not be able to talk about the specifics of them—I want to get your reaction to how we fix the problem more generally, using the examples as an example of the problem, if that makes any sense.

Specifically, there was a promise to reform the procurement process because it was found that in many instances either the money allocated was inadequate or the process was such that you would start and stop. So there were a lot of disappointments. There was a statement that it was going to be revamped and revitalized. But we have several projects where we have major ongoing problems. In fact, two of the highest-profile major capital projects that are currently being undertaken have been wrought with a number of problems.

I'll start with the upgrade to Canada's 12 Halifax-class frigates, which is a \$1.1-billion contract. Essentially, most of the bidders dropped out. One of them said that the contract was unviable in commercial terms and conditions. So that led to the exit of General Dynamics and others, leaving Lockheed Martin as the sole bidder. That puts us in a rather vulnerable position, if they're the sole bidder and they start demanding more money as the contract goes along.

I appreciate that you may not be able to comment on the specifics of that, but what are we doing to make sure we are adequately costing these projects and putting them in a place where they're competitive? We don't want people getting rich off them, but we want them to be able to make a fair profit. We want a competitive process where we're not left with one bidder that says they're willing to accept the conditions.

**Mr. Dan Ross:** Obviously I have to avoid any specifics about the Halifax-class modernization, because bids close next week.

Two members have asked questions about costing and how we determine reasonable cost estimates. It is a very rigorous process. DND historically has been very successful at estimating costs and not exceeding those costs and having to go back to government for additional money or authority to spend money. Some of our NATO allies have routinely had enormous problems with major programs that have been over budget and dramatically late. I'm not going to attribute any examples to my colleagues internationally, because I'm a national arms director and I deal with the other countries' national arms directors.

We normally determine the initial indicative costings through third-party analysis by engineering firms that professionally do this for a living. We look at similar projects that are being done or have recently been done worldwide, whether it's shipbuilding or aircraft. We talk to our allies to get a sense of what they have paid for transport aircraft. They will not give you a contract price because there are industrial confidences there, and they won't disclose that.

We add reserves for unexpected contingencies—for currency escalation or deflation. We add costs for our project management expenses. We cost down to the individual trip and the salaries of individuals in our project management teams. Our finance organization estimates inflation escalation factors by type of technology, and they do it very rigorously. However, it is a bit of a black art estimating or guesstimating where a certain piece of technology will inflate in cost, or not inflate in cost, relative to how GDP and other factors are changing. So it is a bit of an art; it's not a precise science.

We add a lot of contingency—normally 25% in the initial pass to Treasury Board. Then we go out and do options analysis. We put out letters of interest to industry. We get prices and availability from industry. We give them the requirements and ask them what they think it will cost. Then we go back to either run a formal request for proposal and get firm contract prices from industry, or ask Treasury Board for effective project approval up to a given limit, with a high degree of assurance that the bid prices will be within that limit.

Is it always perfect? I could give you a dozen examples where none of our projects went over. We're returning hundreds of millions of dollars back to the Vice-Chief of Defence Staff to reprogram for other requirements.

Occasionally market forces change very quickly and you get surprised. Industry may give you price and availability numbers, and then give you a bid price that's significantly different. That's their choice. They have played that tactic for a certain reason. So occasionally you do get surprised.

● (0955)

**Mr. Mark Holland:** Another one of those surprises was the \$2.9-billion project to build three support ships for the Canadian navy, and that's also running into problems. Again, I know you can't get into the specifics of it.

The other comment was that they're simply asking the private sector to take on too much risk. That's one of the factors that's causing this to be unattractive and for them to not want to bid on some of these larger projects. You would think that these larger projects would be fairly attractive; if you have a 20% contingency on a several-billion-dollar project, that's a fairly substantive contingency. It gives you a lot of room to move.

What do you make of that comment, speaking generally of the amount of risk you're asking these private contractors to take on in these projects and its implications on costing?

**Mr. Dan Ross:** Madam Chair, I think that's a very good question. It is an area I personally am concerned about, the department is concerned about, and the Department of Public Works is concerned about.

Not related to any specific program—obviously I can't comment on that—but when you ask industry to take on the full-service delivery of something, and to do it over a 20-year period, even though you'll renegotiate labour rates on an annual or biannual basis, and you ask them to take on the management and deliver, let's say, power by the hour for an aircraft, or a ship being available to go to sea on a daily basis, and you ask them to do all that management and take all that risk, there's a price to that.

How much risk do you transfer to that vendor, to that industry, and how much does the Government of Canada take itself? It goes to the question of limits of liability if there's an accident. It goes to the complexity of the job you're asking them to do; they're taking on a management function that we can't do any more.

My group had 13,000 people before program review. Today there are 4,000 people. I don't have 300 people to put on an aircraft fleet to do its day-to-day maintenance and management; I have 25 people. So a certain degree of risk is being passed from the government to those major industries. They are very capable of doing it, but there's a cost to that.

We're looking at that very carefully and asking, is too much risk being passed to vendors, and what's the price of that risk?

**Mr. Mark Holland:** Do I have time for another question?

**The Chair:** No, sir.

**Mr. Mark Holland:** Okay, thank you very much.

[Translation]

**The Chair:** Ms. Faille.

**Ms. Meili Faille (Vaudreuil-Soulanges, BQ):** Thank you, Madam Chair.

I would like to thank our witnesses for being here today.

We have some reservations about the adequacy of working relations between the Department of National Defence and Public Works as regards the awarding of contracts. When you appeared before the Standing Committee on National Defence at the beginning of the year, you provided certain information. One of the things you talked about was the basic steps in the procurement process, which involves 12 steps, if I understand correctly. The Canadian Forces identify problem areas and specific needs. The work continues through other stages, during which the new needs are clarified.

I would like to know what specific need identified at the beginning of the procurement process was being met by the 80 tanks that will be ready in 2011. In addition, I would like you to tell me how many tanks are being deployed and how many are here for training purposes.

• (1000)

[English]

**Mr. Dan Ross:** Madam Chair, I'd be happy to do that.

Our requirement was stated, as we said, in performance terms of protection levels from improvised explosive devices, mines, and direct fire from what's called an RPG, a rocket-propelled grenade—formerly produced by the Soviet Union—with wide proliferation in many parts of the world. They will penetrate up to a metre of steel—a metre.

You can defeat those with certain technologies and composites and what we call bar armour, which defeats the fuse before it strikes a tank. You have to have a vehicle that can carry the weight, and you have to have a vehicle that will defeat the high-velocity fragments and blast underneath and have sufficient mass so that the whole vehicle isn't thrown into the air. We really needed a robust larger vehicle that could clear the routes and take this beating instead of having our light armoured vehicles do it.

That was the fundamental requirement driver. We did not want to have to design one; we wanted to buy one off the shelf. They are no longer in production, so the choice was surplus main battle tanks that had that protection and mobility and were available on the market.

[Translation]

**Ms. Meili Faille:** May I ask you a question that flows out of your answer? For the same reasons you mentioned earlier regarding procurement, the period of time after the purchase was considered important when the choice was made. What is the life expectancy of these tanks?

[English]

**Mr. Dan Ross:** It would be at least 30 years, easily.

[Translation]

**Ms. Meili Faille:** So there is a guarantee that the equipment and spare parts will be available for the next 30 years.

**Mr. Dan Ross:** Or at least 25 years, easily. The Leopard 2 is being used in about 10 countries. It is not an old tank, it is a new one, and the technology is very good.

[English]

We are a part of an international user group. We have guaranteed supply of the new technology for at least 30 years.

[Translation]

**Ms. Meili Faille:** Let us get back to the figures. At the moment, how many tanks are being used for training purposes? What needs has the Department of National Defence expressed for the year 2011?

[English]

**Mr. Dan Ross:** The requirement is up to 40 that are capable of deployed operations. Normally, we would deploy 20. We have another 20 that would be available to replace those 20 in operations for maintenance and repair and overhaul, because they get badly abused and worn while they're in deployed operation, and we have 40 for training.

I did mention earlier that 2011 is the end state. It's not the beginning. They'll be back in Canada this summer, and we'll be getting the repair and overhaul done and bringing those into our formation and training structure. That will consist of 40 that we'll upgrade significantly and 40 we'll leave generally the same for training.

[Translation]

**Ms. Meili Faille:** Recently, the C-17s have been in the headlines. What is the current situation regarding the four C-17s that were purchased? You say we have them. When will they be operational? What need was identified at the outset?

[English]

**Mr. Dan Ross:** They're fully in service now. We made no modifications to the C-17 except to put a Canadian maple leaf on the tail. They are in Texas right now having the standard defensive self-protection system put on. The other two have been done. They are fully in service.

• (1005)

[Translation]

**Mme Liliane saint pierre:** Madam Chair, I believe the member is referring to an incident that happened in the spring in one of the aircraft. However, everything has been repaired, and the aircraft have been delivered.

**Ms. Meili Faille:** The two aircrafts have been delivered?

**Ms. Liliane saint pierre:** Yes.

[English]

**The Chair:** Mr. Albrecht.

**Mr. Harold Albrecht (Kitchener—Conestoga, CPC):** Thank you, Madam Chair.

I want to thank our witnesses for appearing here today. I especially like the title of your briefing notes, "Progress on Reforming Defence Procurement".

I think all through your notes both of you have indicated progress. In order for us as committee members and for Canadians to honestly feel that there's progress, it's important to review the history, and I think you've done an excellent job of that.

I want to refer to a couple of the statements that were made. You said that the extremely detailed specifications leading to unique Canadian solutions often became unaffordable to maintain, with little potential for export sales. This left the Canadian Forces to struggle with making the end product work.

I grew up on a farm, and that reminds me of days when something broke down and you'd have to use baler wire or baler twine to make it work. That might be okay for a farm situation for a day or two, but certainly very unacceptable for our Canadian Forces.

You go on to say there is little scope for long-term strategic investments generating self-sustaining industrial capabilities. Later you talk about critical equipment delivered late and industry working in a feast or famine environment. And then finally you talk about the fact that now, wherever possible, you are procuring to high-level performance standards, not detailed specifications. And I want to come back to that a bit later in the form of a question.

I think it's important that we underline today that our primary goal in all of this discussion and the concern for us as committee members and for Canadians is the safety and security of our men and women in uniform, whether that's here at home in search and rescue, or whether it's on the field in Afghanistan, rebuilding in Afghanistan.

I just want to refer to a recent national defence committee report in February, where it says:

The equipping of our troops for the mission in Afghanistan is proof that with a degree of political will and bureaucratic initiative, the procurement process can indeed work effectively... "...Canadian soldiers in Afghanistan have been provided with some of the best equipment in the world and, perhaps of more importance, the national defence procurement process has been dramatically successful in delivering new, important operational equipment quickly. Where it traditionally took up to 10 or more years for major equipment to reach the troops in the field...new mine-resistant armored personnel carriers, uninhabited aerial vehicles and additional armor plating for trucks all arrived in Afghanistan within one year of the request by the commanders."

Again, both of you referred to that improvement in the process. Could you just expand a bit on the two points: one, moving from the technical specifications to performance specifications, and then also, maybe outline a little more definitively what were some of the steps that were taken that actually led to this massive improvement in the efficiency in the procurement process. Madame Saint Pierre mentioned moving to 22 months for the C-17s, and I think that's a good example. Are there others that you could share with the committee?

**Mr. Dan Ross:** Perhaps I could start, Mr. Chair.

Moving to performance specification is a cultural change, and that has a significant history. The materiel branch of the Department of National Defence, prior to program review, had about 13,000 people. Several thousand were research and development scientists who were split off. We had two large branches: supply and procurement, which was very professional and had a very large capability, and an engineering organization.

Program review slashed our personnel strength by 54%. We were forced to go to three integrated engineering organizations that largely had only engineers. That situation endured for about ten years. Then over the past three years we've been rebuilding our procurement and project management expertise in rank level and skill.

We created a culture of writing engineering specifications for everything. An engineer is trained to apply that rigour and that specificity to a solution. I have to say, personally, that I always disagreed with that, because that is required for certain solutions, but it is not required if you can't afford the developmental solution. If you're in the military off-the-shelf business of having great, proven solutions paid for by other countries, you have to get away from technical specifications.

To be very honest with you, it has been a difficult cultural change, and my senior managers in materiel group and I have been somewhat ruthless in saying that there will not be a detailed specification for every radar on a ship. We will go to industry and say that this is the performance we want in the operation centre of the radar picture, and by the way, make sure that it's a proven radar that's not developmental. And we'll let industry propose the best system of radar for that ship. It drives down your schedule. It drives down your technical risk. It drives down your costs. And you get good operational output.

I can kind of résumé that as being a big and ongoing cultural change—it's not finished—because I cannot see every specification, every statement of work that's being sent over to my colleagues in Public Works and Government Services.

You combine that with insisting on good, proven solutions off the shelf. You combine that with improving your project management skills and all the internal processes in the Department of National Defence. Many of those 107 months were because of self-inflicted issues within National Defence itself.

Go ahead, Liliane.

• (1010)

**The Vice-Chair (Mr. Daryl Kramp):** Just give a brief response.

**Ms. Liliane Saint Pierre:** I'd just like to add very quickly that one of the key things we've done is work smarter and better. We are now making huge efforts to work in parallel. We are trying to combine the project approvals we are looking for with getting advanced contract approval. Again, that really has an impact on reducing the time required to lead to a contract.

At the same time, huge improvements related to working with the industry—you know, giving them advanced notice and requests for information, letting them know what is coming up—gives them an opportunity to get ready or make a determination as to whether they are interested in pursuing a bid against those requirements.

And finally, creating joint teams among the key stakeholders—the departments involved, the Department of National Defence, and Public Works—allows us to have timely exchanges of information and to work together better.

**The Vice-Chair (Mr. Daryl Kramp):** Thank you, Ms. Saint Pierre.

Now we'll go to Mr. Silva.

**Mr. Mario Silva (Davenport, Lib.):** Thank you very much.

Thank you for coming before the committee.

I just want to ask some questions about the procurement aspect. Is the model we're using in Canada similar to, for example, that of some of our allies? For example, do the U.K. and France have a different model for the procurement process for defence? Are we using a very unique model here in Canada?

**Mr. Dan Ross:** The aspect that's somewhat unique in Canada is the separation of the function of contracting from defence materiel in general. It works well here. The Australians have a combined defence materiel organization. The United States has four or five, although my counterpart has sort of a strategic role of coordination in the Pentagon.

Many other countries are going to performance-based procurement and performance-based logistics support. We are somewhat ahead of other countries, but others are further ahead, for example the Danes and some Scandinavian countries.

We procure a lot more competitively than most other countries do. The United States is about 46% sole-source. We are 20% or less, and that 20% is driven by intellectual property rights in government-mandated programs and so on. So there are some differences in execution, but most of the western countries are going the same direction in terms of performance-based logistics and performance-based procurement.

[Translation]

**Ms. Liliane saint pierre:** Mr. Chairman, I would like to add that in Canada, there is more competition. A study done over the last five years shows that close to 80% of our procedures are competitive. The fact that there are more redress mechanisms in Canada is very important. That is because of the free trade agreements.

We have the famous Canadian International Trade Tribunal. I think the committee had a presentation on this last year. That is a very important factor in our approach to procurement.

•(1015)

[English]

**Mr. Mario Silva:** Thank you.

As regards benchmarks and best practices, how do we compare with our European allies in implementing them? What are we learning from each other, and how are we putting that into place?

**Mr. Dan Ross:** I meet on several occasions during the year with my counterparts in EU countries in a NATO forum, in the national armaments directors forum, and with the partners of the joint strike fighter program. I participate in the CEO meeting for the joint strike fighter program every six months, and we have very frank conversations about exactly these issues.

It's difficult to make exact comparisons. The European Union is a very cohesive organization, and its defence procurement often has a strong economic dimension of developing the technology in the

European Union. The United States spends over \$600 billion annually on defence technology development. They are capable of spending and are prepared to spend the money to develop complete new platforms, littoral combat ships, and unarmed combat UAVs to fly off navy ships and so on. Their world is so massive that it is a different world. My European counterparts have a somewhat different focus, but the procurement procedures, such as competitively going to performance-based specifications, etc., are on a common path. There's a lot of exchange.

**Mr. Mario Silva:** Thank you.

**The Vice-Chair (Mr. Daryl Kramp):** You have another minute if you'd like.

**Ms. Liliane Saint Pierre:** Could I add on to this?

I would just like to say that from a public works department perspective, we have ongoing discussions mainly with GSA in the States, and with their Department of Defense, and at the same time we do have exchanges with European countries. It's very interesting to note that they now have some common challenges and are taking some common approaches. One of the common challenges is related to time. There's quite an effort all over to try to reduce the time it takes to get to a contract and the delivery of the goods and services.

**The Vice-Chair (Mr. Daryl Kramp):** Mr. Brown.

**Mr. Patrick Brown (Barrie, CPC):** Thank you, Mr. Chair.

In Madam Saint Pierre's remarks, one thing that caught my attention was that on average it takes 107 months from the time of the identification of a need to the awarding of a contract for large military projects. The goal is to reduce that period to 48 months. These are all lengthy periods. What defines a large project? And what would the timeline be for smaller orders? Would it be dramatically less?

**Ms. Liliane Saint Pierre:** There are two questions: what defines a large project, and how long might it take for small procurements.

The Government of Canada, through Treasury Board, has a policy that details what makes a major crown project or not. One of the key criteria is that it's over \$100 million.

That being said, depending on their nature, there are certain projects that one would decide are major projects. So there is some variation related to that.

Regarding other types of procurement, of course you could procure in a day. Our aim is that all the off-the-shelf goods and services that the government has a need for on a daily basis could be accessible within 24 to 48 hours. We have a whole series of instruments—standing offers, contracts—that allow that now, and we do have the intention to do much more.

**Mr. Patrick Brown:** How do our timelines compare to those in other countries? Have you done any comparison with the U.S., the U.K., Germany, or France on the length of time for large projects?

•(1020)

**Ms. Liliane Saint Pierre:** I don't have precise statistics to make a comparison with other countries. I can say, though, through our exchange of information and discussion, that it takes quite a long time everywhere, mainly when you deal with customized specification.

**Mr. Patrick Brown:** This is another area of interest. When you compare the U.S. and Canada in regard to the use of sole-source contracting in defence procurements, have you noticed any differences or similarities?

**Ms. Liliane Saint Pierre:** Mr. Chair, one of the big differences, and I think my colleague from the Department of National Defence hinted at it, is that if you compare us with the Americans, you'll see they do much more sole-sourcing than we do.

A study of the procurements we did for National Defence in the last five years, looking at all the statistics, demonstrated that we do close to 80% at the competitive level. The Americans are very far behind that.

**Mr. Dan Ross:** If I could just elaborate, the Americans pull through R and D investment. They will spend billions of dollars investing in a platform—a strike fighter, for example, from Lockheed Martin, and then they pull through and actually acquire it from Lockheed Martin. Technically, was that a competitive process in acquisition or not? Technically, no. But they did compete the initial selection of a prototype between Boeing and Lockheed Martin. So we have to be careful about the comparisons.

They are prepared to develop a major platform themselves and spend a billion dollars on the R and D. It would not make sense, then, to go buy a European Union solution after having spent the billions of dollars.

So it truly is like apples and oranges to some degree.

**The Vice-Chair (Mr. Daryl Kramp):** Madam Bourgeois.

[Translation]

**Ms. Diane Bourgeois:** Thank you, Mr. Chairman.

My first series of questions will be to Ms. saint pierre.

You have a project team or you are part of a project team, to ensure that the fundamentals of the procurement process are done correctly. How many people at PWGSC are part of the project team?

**Ms. Liliane saint pierre:** Mr. Chairman, Ms. Bourgeois: we mention that we have project teams in the following context. Let us take the example of a major project for the Department of National Defence. We talked about a number of them today. In order to conduct the procurement process properly, it goes without saying that we need the expertise of the Department of National Defence and of the Department of Public Works and Government Service.

So we have some technical experts who identify the needs, and for PWGSC's part, we have procurement experts, lawyers—because these procedures are really quite complex—and we have financial analysts as well. The improvement we introduced was to bring people together into one group. The number of people on a project team may vary between 10 and 15 depending on the type of project. However, there may be more people at certain times, particularly when the needs are being defined.

**Ms. Diane Bourgeois:** Yes. I do indeed understand that the project team, as was stated here, includes personnel from National Defence, Public Works and Industry Canada.

I would like to know how many people can be delegated by the Department of Public Works to work on this project team?

**Ms. Liliane saint pierre:** I understand. As far as National Defence projects are concerned, I have beside me Mr. Terry Williston who is the director general responsible for departmental staff who are part of this project team on behalf of the Department of Public Works. Over 400 people report to him and are assigned to the Department of National Defence.

**Ms. Diane Bourgeois:** So how much of the budget would those approximately 400 people represent? How much does it cost Public Works to send those 400 staff to help the Department of National Defence?

•(1025)

**Ms. Liliane saint pierre:** Mr. Chairman, I would like to refer the question to Mr. Williston, who thus will have the opportunity to give you more specific details on his budgetary envelope to provide services to National Defence.

[English]

**Mr. Terry Williston (Director General, Land, Aerospace and Marine Systems and Major Projects Sector, Department of Public Works and Government Services):** What I would say is we have a pool of about 400 professionals, as Madame Saint Pierre indicated, who are available to work on National Defence projects. But in any given project, we may have a small component—it could be three people, it could be up to ten people, for example—depending on the complexity and the size of that particular program. In those instances where we're providing members for that team, the Department of National Defence actually costs that as part of their project costs, and provides us with the revenue in order to supply them with that capability.

[Translation]

**Ms. Diane Bourgeois:** Yes, I understand. However, you will understand in turn that we have heard that National Defence spent \$30 million this year on a number of acquisitions.

Does Public Works, in its budget, allocate \$2, \$4 or \$10 million for support staff for the acquisition's process?

[English]

**Mr. Terry Williston:** I would say, on average—in the run of a year—the Department of National Defence would probably provide us with somewhere between \$10 million and \$12 million to provide that supplementary capability for them. We also would have our own in-house budgets that would be about the same—\$10 million, \$12 million, \$15 million—depending on the year and the number of projects that are being managed in that particular year.

[*Translation*]

**Ms. Diane Bourgeois:** That means that you would have to add between 20 and \$30 million for that supplementary capability to the National Defence acquisition costs.

**Mr. Dan Ross:** The budget for Public Works services is approximately \$5 billion a year.

**Ms. Diane Bourgeois:** Five billion. For what? Could you repeat that?

**Mr. Dan Ross:** We have a budget of \$5 billion per year to equip Defence; this includes Public Works services, a group of 400 personnel and salaries the equivalent of some \$30 million.

**Ms. Diane Bourgeois:** All right. I have two more short questions.

Ms. saint pierre, we've often heard that PWGSC's project team is not stable. In any case, the lack of stability was mentioned in a report a few years ago.

This time, is the PWGSC project team that is working within the department stable, or are you going to be looking all over the map for people?

**Ms. Liliane saint pierre:** Mr. Chairman and Madam Bourgeois, it is true that on the human resources front, the Department of Public Works like all of the departments is facing certain challenges, because a certain percentage of our procurement experts will be retiring.

Having said that, many efforts have been made to recruit both internally and externally over the last two years, in the private sector, in order to bring the expertise to the department. There have been major competitions. We have posted almost 300 jobs over the last year. Rest assured that the recruitment of qualified personnel is now part of our daily responsibilities and activities. This is a priority.

**Ms. Diane Bourgeois:** That is a good thing.

My final question is for Mr. Ross. The Auditor General of Canada discovered a problem: when we have material, we sent it to Afghanistan and, it just so happens that pieces of equipment are missing when everything arrives there, and we are not able to get an exact inventory of what is there.

What are we to do? Is another project set up to buy more pieces of equipment or do we ensure that we find the missing ones?

[*English*]

**Mr. Dan Ross:** Merci, Madame.

The Auditor General did a very good and very rigorous report. She described not the loss of equipment, but the ability to track where it is, when it has been issued, when it has come back to be repaired, and so on. That picture at that moment was accurate.

I have visited Afghanistan a number of times. I've been to the field and have talked to the soldiers who are doing that. Obviously, I have responsibility for the supply system, from the builder to the delivery.

The challenge we had was during the initial setup, the urgency of it.... And the mass of equipment—all the pieces, the spare parts and tires and ammunition entailed—is shipped in sea containers internationally and has to be disassembled, and stocktaking has to be done, etc., etc. It wasn't a question that we hadn't sent the right

materiel or the right spare pieces, but the inability of the soldiers on the ground to have the time to inventory it and to make sure that it was issued at the right place, and so on.

Since the first rotation, that process has progressively become better and better and better and better. We have put in what's called RFID, radio frequency identification tracking by satellite. So now when a sea container leaves Montreal, we know exactly where it is in the world. We know when it arrives in Afghanistan, and we know now when it has been unpacked and when all of those pieces have been put on the shelf or have been issued to an infantry company in the field.

We have reinforced the capacity of the soldiers to do that infantry management of spare parts. It was very difficult for the first battalion in Kandahar to deal with that initial mass of things they had to control, and inventory and issue and so on. They had rows of sea containers, just hundreds of sea containers full of all the materiel that the soldiers and vehicles needed, and so on. So initially it was fairly challenging.

I was in Afghanistan six weeks ago. I spent almost a week there, travelling throughout all of the fire bases and the routes, and spending time with the logistics organization, and it's a very well-functioning organization now.

• (1030)

**The Vice-Chair (Mr. Daryl Kramp):** Thank you, Mr. Ross.

We went a little over our time, so if Madame Bourgeois has another question, she can save it for another round. Thank you very kindly. We had a little touch of latitude there.

Now we will go to Mr. Angus.

**Mr. Charlie Angus:** Thank you very much.

Madame Saint Pierre, when you were talking earlier, you spoke in your opening remarks about openness and transparency in terms of deliverables, and yet, as I said in my first round of questioning, there's a sense of increasing secrecy. A headline reads, "DND's cloak of secrecy...excessively secretive".

Last year we had audits of 12 military projects totalling \$7.3 billion that were considered high risk, over budget, two years behind schedule, etc., and of another 52 projects totalling \$1 billion that were considered high risk, and yet we have no information on these projects and what the problems were.

My question is, how are we to differentiate between the fair need, obviously, to have some confidentiality agreements in terms of deliverables and contracts but also transparency so that the taxpayer knows we're not getting ourselves into boondoggles when we're trying to follow various procurement practices yet don't really know what's happening? Certainly red flags are rising.

[*Translation*]

**Ms. Liliane saint pierre:** Mr. Chairman, before turning the question over, I want simply like to clarify that—

[English]

I want to confirm that the audit you are referring to is an audit of 12 projects that was done by the chief of review services at DND. As such, I'd like to turn to my colleague, Dan Ross.

**Mr. Dan Ross:** Merci.

This is an ongoing requirement of good stewardship, where we regularly go in and look at higher-risk projects, because some projects are very difficult. They are complex repair and overhauls and service support contracts and they go on for a number of years. So the chief of review services regularly and independently, in a very close relationship with the Auditor General, reviews those higher-risk projects and gives me feedback on improvements to management. We post those on the Internet. All of the information available on those is posted openly on the Internet. You can go to a chief of review services website and download the reports from those reviews.

There are detailed action plans as a result of those reviews that I am responsible to report to my deputy minister and to the review and audit committee of the Department of National Defence. I welcome the chief of review services' work. It's very helpful to improve our management skills and our accountability.

• (1035)

**Mr. Charlie Angus:** I'm looking at a May 7 article talking about the \$7.3 billion high risk. It says that the department declined to release further details, other than the fact that our \$7.3 billion is considered high risk. The other report on the \$1 billion says, again, that no further details about the actual programs were released. So what's being put on the website, if our media are going there and finding no details?

**Mr. Dan Ross:** If I may, there is actually quite a bit of specific detail on the website on each one of those reports.

The \$7.3 billion is a total contract value over a number of years, mostly for repair and overhaul, and only a small portion of that is actually being used, because these are incremental maintenance contracts, largely, that are higher risk.

We provide significant additional information through access to information. Now, we will take out attributions to civilians' names, or names of those who are not public servants, and that sort of thing, but a great amount of additional information is provided to journalists, or any Canadians, if they ask for it through access to information.

**Mr. Charlie Angus:** I don't have much time left, but I wanted to ask about the search and rescue planes. The Buffalos were supposed to be replaced. In September 2003 you talked about \$1.3 billion for search and rescue, a fast-track promise in September 2004. Nothing has really happened since then, and now we're told that the Buffalos are going to be cobbled together until 2015, which is five years past their retirement date.

I want to ask about that, but I also want to ask it in conjunction with what we were talking about earlier, the need for heavy tanks that we're having brought into Afghanistan. We've had a lot of issues in the media, any time an RPG or roadside bomb hits one of our vehicles, as to whether or not we have to replace them.

I think it would be fair to say that when we went into Afghanistan we went in for one role, and then we moved into the counter-insurgency, and we've had to respond fairly quickly, because lives are at stake. We've had to change tack in terms of what kinds of machines are put in the field, whether troop transport, supplies for helicopters, and certainly the issue of tanks. We were initially told that tanks wouldn't be put in, and now we obviously need heavy tanks.

When those decisions have to be made, that we are having problems in the field and we're recognizing.... I mean, you said a metre of steel to withstand an RPG. That's a big big-ticket item and we're going to have to move that fast. Does that mean projects like the Buffalos get put on hold? How do you balance the need to quickly respond in Afghanistan with previous commitments made for domestic purchases?

**The Vice-Chair (Mr. Daryl Kramp):** A brief response, please, Mr. Ross.

**Mr. Dan Ross:** Thank you.

The search and rescue project is progressing. Option analysis is ongoing, revised costings are being done. The Buffalo is easily serviceable to 2015. Structurally, it had been reinforced a number of years ago, and an avionics upgrade is being done to the cockpits, because it's basically a cargo airplane. The only maintenance and spare parts issues are related to engines. They are sustainable for a significant number of years, but the Buffalo will be replaced, and a SAR project will be coming forward.

In terms of Afghanistan, it is a capacity issue. You can't do everything at once, and the capacity of contracting and Treasury Board and so on is a challenge. The town and ministers have been very supportive, and we've done the right thing and delivered the right equipment to our troops in Afghanistan. As I said, I spend half my time on that. I personally drive it, and I chair meetings every six weeks on the status of improvements and delivery and implementation and modification of vehicles. We have done everything we could do.

Was the army largely prepared to be in Bosnia, where you were in a very low-threat environment, and you were not being engaged or bombed? Most western armies were in that place and had to change.

•(1040)

**The Vice-Chair (Mr. Daryl Kramp):** Thank you, Mr. Ross.

Next is Mr. Warkentin.

**Mr. Chris Warkentin (Peace River, CPC):** I appreciate the opportunity to speak with you this morning. We appreciate your coming and giving us some clarity with regard to the procurement of military equipment specifically.

I have a number of questions, and I'm going to go down a number of different avenues with you this morning, if I have the time.

I'd like to start with an overview or brief summary from you in terms of the current status of the fairness monitoring program in terms of ensuring transparency and fairness for procurement. I'm wondering if you could give us an idea as to where that stands and how that is proceeding.

**Ms. Liliane Saint Pierre:** Mr. Chairman, thank you for this question.

The fairness monitoring policy framework was adopted by the Department of Public Works nearly three years ago, in mid-summer 2005. It's a framework that helps guide us to determine when additional assurance might be required for some of those complex procurements. It provides some criteria that we need to assess, such as the complexity of the requirement, the sensitivity, the value of the requirement, if it's a large requirement.

Since the implementation of that policy framework, we have had 23 requirement processes that were subject to the hiring of a fairness monitor, and the final decision related to this is made with another group within the Department of Public Works that deals with risk.

**Mr. Chris Warkentin:** Once the process is undertaken, is that information available to the public or to other folks who would be interested in the outcome of the fairness monitor?

**Ms. Liliane Saint Pierre:** Fairness monitor reports are accessible.

**Mr. Chris Warkentin:** I think that's one of the important things.

Mr. Angus was talking about transparency, and of course you're in an interesting situation. Obviously there's the whole issue of commercial protection to ensure the protection of competition. I'm thinking specifically of sensitive documents when it comes to the different companies that are bidding on these things. Of course, when the military is looking for some of its equipment you have issues of national security as well when it comes to some of the criteria.

In terms of these high-risk procurement items we were speaking about a bit earlier, I'm imagining a number of things would be considered high risk. I'm wondering if you would include used items in that list. I'm thinking of past situations where we, as a government, have purchased used equipment, and I'm wondering if they would fall under the high-risk group, or if we consider used equipment something different?

**Mr. Dan Ross:** I don't believe that I would find previously used or surplus equipment to be in the high-risk category. Actually, it's normally a lower risk because it is a proven solution. Spare parts, maintenance procedures, and all those things are already in place and don't have to be developed.

Most of our high-risk projects involve development of technology that doesn't exist, and that drives costs, schedules, operational risk. Also, we would add a significant contingency to cover a developmental project.

**Mr. Chris Warkentin:** Moving forward, I guess it's already been explained that the department has a number of standing orders or offers with certain companies to provide equipment of different types. Of course, in the world, especially in the world of the military, things can change overnight.

What work is being done in terms of ensuring that we are looking towards what might be necessary down the road in terms of replacement? I'm thinking that as new technologies are developed, obviously there's a requirement for replacement because there are better things out there, but also because we're competing against somebody else who might have access to better and improved technologies.

I'm wondering what information is collected by your department with regard to that aspect.

•(1045)

**The Vice-Chair (Mr. Daryl Kramp):** Once again, there's time for just a brief response, please, Mr. Ross.

**Mr. Dan Ross:** Briefly, a huge amount of effort is done on that, both by our force development people, chief of force development, and our research and development people, Defence Research and Development Canada. Dr. Walker's organization is constantly tracking technology change. The operational commanders have a formal lessons-learned feedback process to the strategic joint staff. Our measures for counter-IED are effective today and not tomorrow, which we change. The requirement staffs for the environmental chiefs of staff—the army, navy, and air force—work on that every day, working with my technical engineers and so on. It is very extensive.

Whether we have the money and time to change it quickly is another question.

**The Vice-Chair (Mr. Daryl Kramp):** Thank you.

**Mr. Mark Holland:** Point of order, Mr. Chair.

On the agenda is the motion that was put before the committee. It is actually on the agenda. There are only 15 minutes remaining. We've had three full rounds. Typically it's your practice to have the three full rounds, and then if we have another item on the agenda, proceed to that item.

All parties have had opportunities to ask a lot of questions, three full rounds. My suggestion would be that we actually move to the other item that is duly on the agenda.

**The Vice-Chair (Mr. Daryl Kramp):** I accept your point of order as a legitimate point of order, but at this particular point we have witnesses here from defence procurement, which is undoubtedly one of the most serious priorities for our government. We're spending billions and billions of dollars, and I really don't think that we should shortchange the witnesses and/or our members if they have further questions. If they don't have further questions, then we will still get to your issue before this meeting is over.

**Mr. Mark Holland:** You have two more individuals on the list; there will be less than five minutes left.

**The Vice-Chair (Mr. Daryl Kramp):** You're wasting your own valuable time, Mr. Holland.

**Mr. Mark Holland:** We should seek the consensus of the committee. Everyone has had a lot of opportunities to ask questions here. This is an item on the agenda.

**The Vice-Chair (Mr. Daryl Kramp):** It is my understanding that the chair has the discretion to decide whether or not we are going to hear from our witnesses and/or bring forth representations.

**Mr. Mark Holland:** I'll challenge the chair then, which is a non-debatable motion.

**The Vice-Chair (Mr. Daryl Kramp):** Yes, Madame Faille.

[*Translation*]

**Ms. Meili Faille:** In fact, I only have one question for our guests.

[*English*]

**The Vice-Chair (Mr. Daryl Kramp):** When we get to you, then you'll have that option.

Mr. Albrecht.

**Mr. Harold Albrecht:** Thank you, Mr. Chair.

I would just like to follow up on a couple of the questions I started on, because I don't think we had adequate time to get the question answered totally.

I think the whole issue of moving from a culture of technical specifications to performance specifications is a great one. I'm just wondering if I could ask Madame Saint Pierre if it's possible that this shift in moving from technical specifications to performance standards could be used in other departments in their procurement activity in order to speed up the process. It would also reduce the number of times that the specifications are so technically rigid that they unintentionally eliminate some of the people who would be in line to qualify as tenderers for the materiel.

This is a bit out of the defence strategy, but I think it's part of the ongoing study that our committee is doing.

**Ms. Liliane Saint Pierre:** Mr. Chair, I'm quite pleased to actually receive that question. It is quite clear that as part of our ongoing process to improve procurement we want to piggyback on the best practices. Defence is quite an important field. In the area of the evolution of information technology systems, there's quite a movement to move toward the performance.

**Mr. Harold Albrecht:** Thank you.

Back to the safety question, again, as it relates to our men and women in uniform, I think all of us around this table are very much aware that a large majority of the deaths that have occurred, unfortunately, in Afghanistan have occurred because of IEDs and so on, as opposed to active combat. So whether we're looking at procuring a vehicle with metre-thick steel or medium-lift helicopters.... I'm wondering if maybe Mr. Williston, or one of you, could expand on how the procurement of medium-lift helicopters would in fact make huge strides in improving the safety of our men and women in uniform.

• (1050)

**Mr. Terry Williston:** I agree with you, certainly. But I really wouldn't want to comment on the capability aspect or the requirement aspect. I would pass that off to Mr. Ross.

**Mr. Dan Ross:** Thank you. I'll briefly respond to that.

Just as a point of clarification, we don't need any vehicles that are a metre thick. We use technology to beat the rocket-propelled grenade threat.

The ability to pick up our personnel and equipment by helicopter and move them to a forward-operating base, instead of traversing the routes, is hugely important. That includes rations and spare parts and so on. We continually have to move personnel on those convoys for rotation, for rest, for medical purposes, and so on. The helicopters, we believe, both a chartered solution initially, and a Chinook solution, will reduce the risk to our soldiers significantly.

**Mr. Harold Albrecht:** I think this is an important point. I think many Canadians are unaware that if we actually had that medium-lift capability to transport equipment and/or personnel by air, as opposed to using these dangerous roads, a number of those deaths that have occurred could potentially have been avoided.

I have one final question as it relates to procurement. At different times the issue of whether procurement should be totally assigned to DND or whether we should continue this dual process comes up. Canada is one of the few countries where this separation still exists. The United States and the United Kingdom both do their own military procurement.

I'm just wondering what your opinion is on the matter of whether a single agency handling defence procurement would lead to a simpler process and a clearer line of ministerial responsibility.

**Mr. Dan Ross:** Our sense is that the single entity is not required. The team we have is effective. These are separate, complex skill sets. The expertise resident in Industry Canada, Public Works, and National Defence is complementary. Clearly, the system is not broken and is working well.

**Mr. Harold Albrecht:** Thank you.

**The Vice-Chair (Mr. Daryl Kramp):** We'll go to Madame Faille.

[*Translation*]

**Ms. Meili Faille:** I would like you to provide us with a written response.

As far as my colleague's question on the acquisition process for new search and rescue planes is concerned, the newspaper *Le Devoir*, among others, is reporting that the documents and the requirements have already been identified and that the obstacle is a political one.

Given that we are aware of the 12 basic steps in procurement, can you tell us where the problem is and when the procurement process was launched? When were these planes to be delivered, according to the need that was identified? I would like to know when you believe these planes will be delivered.

After that, I would simply like to make a comment. My riding has in the past provided and continues to provide the material, goods and services for National Defence. However, the suppliers currently agree that there has been a decrease, an erosion to their access to National Defence contracts.

Could you also provide us in writing with an overview of the development of contracts with National Defence over the last five years?

[English]

**The Vice-Chair (Mr. Daryl Kramp):** Thank you.

Ms. Saint Pierre.

[Translation]

**Ms. Liliane saint pierre:** It is very important to emphasize that we have not begun the procurement process for the planes. We received no requests for services from the Department of National Defence. We are therefore not in a position to present you a detailed procurement strategy.

• (1055)

[English]

**The Vice-Chair (Mr. Daryl Kramp):** Thank you.

Mr. Angus, one last question.

**Mr. Charlie Angus:** Thank you, Mr. Chair.

I just want to follow up with Madame Saint Pierre. My colleague had asked about how the fairness monitor is applied. You said there were 23 such processes since the summer of 2005.

It's a two-part question. Are the 23 projects within the Department of National Defence, or is this general public works in total? And would you be able to give us a general costing of what those projects were so that we can have a sense of how the fairness monitor works?

**Ms. Liliane Saint Pierre:** Regarding the fairness monitor, I did mention that since the adoption of the policy in mid-summer 2005, we had 23 processes where the services of the fairness monitor were used. One of those processes was cancelled, and 22 remained.

I have the statistics related to who and for what. In 18 of those processes, the public works department had provided agency procuring services to other departments; three involved a procurement for which public works is the client, because we also procure on our own behalf; and two were for another branch within our department, which is real property.

**Mr. Charlie Angus:** Thank you very much.

Would you be able to supply us with the overall costing, what those projects cost?

**Ms. Liliane Saint Pierre:** We will be able to provide you with the cost related to hiring fairness monitors.

**Mr. Charlie Angus:** No, I'd like the cost of each project, just so we get a sense of at what point the fairness monitor is applied.

**Ms. Liliane Saint Pierre:** We will be pleased to do so.

**Mr. Charlie Angus:** Thank you very much.

**The Vice-Chair (Mr. Daryl Kramp):** Thank you very kindly.

On behalf of the committee, I would definitely like to thank our witnesses for coming here today: Mr. Ross, Ms. Saint Pierre, and Mr. Williston. Obviously you have a huge impact in ensuring that our men and women are adequately looked after and provided for. And of course your responsibility to the Canadian taxpayer is also of paramount importance.

Thank you very kindly for coming today and sharing your knowledge, and obviously the focus of your departments.

We'll take a very brief break while you leave, and then we'll carry on with the rest of our meeting.

• \_\_\_\_\_ (Pause) \_\_\_\_\_

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**Mr. Daryl Kramp:** Order.

Mr. Holland.

**Mr. Mark Holland:** Mr. Chair, my comments on the motion will be brief.

This is an item that has been debated at some great length. There are a lot of outstanding questions. I'm not suggesting that we determine today the nature of the review, but as this does have to do with the operations of government, I think it's appropriately before this committee, and I think the motion speaks for itself.

**Mr. Harold Albrecht:** I think this motion is another example of an attempt to derail the important work of this committee. We've embarked on an extensive review of procurement processes, and I think that's important.

Over and over in the last number of months, we've had too many obvious examples of the work of Parliament or the work of committees being sidetracked by questions that have already been answered. For example, this report is there and the questions have been answered. So I would stand opposed to this motion.

**The Vice-Chair (Mr. Daryl Kramp):** Are there any other comments on this?

Mr. Warkentin.

**Mr. Chris Warkentin:** I'm not sure what Mr. Holland is seeking to find. It's nowhere in the motion what exactly he thinks is possibly a deficiency. Obviously, folks who are much more qualified than we are undertook this investigation, and if it is the fact that he didn't get the answer that he wanted, that may be something of a different discussion.

We've all had the opportunity to read the report. We've all had the opportunity to see what was found there. He hasn't brought anything specifically that he's looking for.

So I'm not sure. Certainly I'm not in favour until we find there's some major deficiency. I just don't see why we're going to spend the committee's time reviewing somebody else's work that was very competently done.

• (1100)

**The Vice-Chair (Mr. Daryl Kramp):** Okay.

We're out of time. We're going to end this today. However, Mr. Tuesday. It should come up as the first agenda item and be dealt with.  
Holland's motion came on the floor dutifully, and it should be a  
priority of the committee. We have only have one witness on The meeting is adjourned.

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