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## Standing Committee on National Defence

Thursday, April 29, 2010

• (1110)

[English]

**The Vice-Chair (Hon. Bryon Wilfert (Richmond Hill, Lib.)):**  
Good morning, ladies and gentlemen.

This is the Standing Committee on National Defence, meeting number 13.

We have today witnesses from the Canadian Association of Defence and Security Industries. With us is Timothy Page, president; Janet Thorsteinson, vice-president, government relations; and David Stapley, chairman of the board of directors. We welcome you.

We would appreciate a short presentation. We have your material. We look forward to asking you a number of questions. And we appreciate your attendance today.

[Translation]

**Mr. Timothy Page (President, Canadian Association of Defence and Security Industries):** Thank you, Mr. Chairman, for inviting us to appear before the committee. I am pleased to have this opportunity to introduce our association and my colleagues to the members. I appear before you with David Stapley, the newly elected Chairman of our Board of Directors, and Janet Thorsteinson, our venerable Vice President for Government Relations. Previously, Janet Thorsteinson has worked for several years in the federal government as a procurement officer for the Department of Public Works and Government Services.

[English]

We have an opportunity, I hope, over the next few minutes to present the report you have before you on military procurement.

Before beginning formal remarks, I want to make sure I have situated you with respect to who we are as an organization. The Canadian Association of Defence and Security Industries, otherwise known as CADSI, because it is shorter and easier to say, is a membership-driven, not-for-profit corporation. It is run by an elected board of directors who serve in a volunteer capacity.

We have some 800 corporate members that pay a membership fee to be a part of our organization, and those companies have operations in some 177 different federal ridings. They collectively employ 90,000 Canadians, mostly knowledge-based workers, generating \$10 billion in direct military sales per year to both domestic and international customers. There is 50% of the industries' revenue that is earned from the export marketplace.

As we undertook this study on military procurement we thought it was important to look at the context within which our consultation of

industry was taking place. That context included the federal government being at the front end of a 20-year, \$240-billion commitment to rebuild Canada's military across its land systems, aerospace, and maritime requirements. This is the most significant investment in a generation. It will define not only the capability of the Canadian Forces, but also the shape and viability of Canada's defence industrial base for the next 20 years. Defence spending can leverage knowledge-based jobs in Canada, thereby contributing a robust and globally competitive economy. Canada needs both a strong defence industrial base and a strong economy for our security and sovereignty.

I will now dive into the report. I will speak to the three principal sections of the report in order. First is the section dealing with defence and the economy and the principal findings from the consultation exercise. Some 450 industry experts and academics contributed to our understanding and to our report. First among the findings in the section dealing with defence and the economy is that defence and the economy are both critically important to Canada. They are interdependent. They're not mutually exclusive.

Defence trade is not free trade. Foreign governments the world over are intervening to protect and promote industrial capabilities that support their defined national interests. Canada's defence market requires proactive defence procurement strategies to enable and ensure domestic industrial participation. R and D and export markets are key drivers of industrial-based competitiveness in Canada. ITAR is a critical impediment to our industrial competitiveness.

Finally, under our findings in the section on defence and the economy: among its allies Canada is unique in not having a defence industrial strategy that helps to guide the relationship between government and its industrial base and to formally align economic objectives with military procurement priorities.

In the section in our report dealing with the defence procurement process itself, our principal findings included that more effective program delivery can be achieved through improvements to the procurement process. The procurement model should be structured to acquire required kit and optimized Canadian content and jobs.

Defence procurement strategies should include defined industrial objectives, but they don't seem to be at play today.

Requirements should be performance-based and should not be overly prescriptive. Risk-averse behaviour and practices merely serve to increase program costs and timelines, and they limit Canadian content possibilities.

Finally, an overly thin layer of procurement professionals within the system contributes to weaker transparency and accountability and to a lack of consistency in the procurement process.

With respect to our findings in the area we refer to as governance, we found a need for a political champion for the defence industrial base in Ottawa. We found that government policies, programs, and procurement strategies need to be better aligned to achieve optimal economic advantages for Canada. And we found that the absence of a formal communications mechanism decreases transparency and increases misunderstanding between industry and government.

Based on those findings, we came up with the following recommendations, again, in each of the three blocks.

First, related to defence and the economy, our overriding priority is our call for the creation and implementation of a defence industrial strategy, one that would nurture and support critical domestic industrial capabilities. It would default to Canadian solutions when they meet the defined military requirement. It would commit 5% of DND's capital budget to a private-sector-led R&D program. It would be one in which Canadian industry would enjoy a first-customer relationship with the Canadian government—when the government identifies a military requirement and wants to go to market to acquire that requirement, it would buy what it has co-invested in with Canadian industry.

It would be a strategy that would ensure that IP is obtained when buying defence equipment so that it can be supported domestically throughout its life cycle.

It would be a strategy that would inevitably include export programs and strategies, including an ITAR fix and the IRB program, among other federal policies and programs, as vehicles for implementing the defence industrial strategy.

With respect to our recommendations in the area of procurement processes and practices, our report calls for the alignment of the defence industrial strategy with defence procurement priorities, the Canada First defence strategy, and market opportunities.

Articulate domestic industrial objectives as the requirement is being defined and before the procurement strategy is chosen. Assign program business and contract risk to the party best suited to managing that risk. Require performance-based specifications, and reduce the number of mandatory requirements in favour of rated requirements. Increase administrative transparency and consistency. Develop a cadre of procurement professionals.

Finally, in the area of governance, our report recommended the following measures. First, create a defence industrial advisory council. It would report at the ministerial level to provide active and ongoing advice vis-à-vis the defence industrial strategy and Canada's defence industrial base. Second, create a joint industry-government defence procurement advisory council. It would report at the assistant deputy minister level to improve understanding, communications, and management of procurement issues on an ongoing basis. Third, create a single point of accountability at the cabinet level for both defence equipment and the defence industrial base.

●(1115)

Mr. Chairman and members of the committee, our report concluded that political leadership and commitment is essential in this area and that we need to act strategically to support both the Canadian Forces and the Canadian economy, because Canadian Forces' capability will be stronger with a viable defence industrial base. We also concluded that as a consequence of these consultations, expectations have been raised within our industry for government action in these areas. Bold and urgent political action is required to build the report's findings and recommendations into Canada's defence procurement objectives and processes before the Canada First defence strategy has been spent and the opportunity lost. CADSI remains committed to assist the government and this committee in a constructive way to achieve these objectives.

Finally, if I might, Mr. Chairman, next steps.... In its report, CADSI has concluded that DND's acquisition program should not be considered in isolation from the impact the acquisition program could have on the Canadian economy, if effectively managed in concert with a defence industrial strategy, and the benefits that would accrue to the Canadian Forces of having a strong Canadian defence industrial base nurtured by a defence industrial strategy.

Ladies and gentlemen, if the committee agrees with this view, then we encourage you to ask the government to create a defence industrial strategy. Should the committee want to look at this matter in greater depth, my colleagues and I and our organization would be delighted to assist in that respect.

Thank you for your time. Thank you for your attention. We look forward to your questions and a discussion.

●(1120)

**The Chair (Hon. Maxime Bernier (Beauce, CPC)):** Thank you very much, Mr. Page.

Now I will give the floor to my vice-chairman, the Honourable Bryon Wilfert. You have seven minutes.

**Hon. Bryon Wilfert:** Thank you, Mr. Chairman.

Thank you for coming.

I want to first of all congratulate you on an excellent report. I think it is a wake-up call. In particular, I was very interested in the methodology you used.

I know the report has gone to the government. There's not very much I can say about the report that I disagree with. I think the need to streamline, the need to have a national defence industrial strategy is absolutely critical. When you have a report on the Canada First defence strategy it's very nice, but then how do you implement it in an effective and cost-effective way, looking at what a number of our allies are doing?

The first question is, what is the status of the report in terms of the government? Have you had any indication?

**Mr. David Stapley (Chairman, Board of Directors, Canadian Association of Defence and Security Industries):** Yes. Briefly, if I may, there's been considerable discussion with government officials since the report was filed some weeks ago. There's also been discussion with some of the key ministers as late as yesterday, when we had the better part of two hours with Minister Mackay, Minister Clement, and Minister Ambrose. I think to their credit there is engagement in the discussion on this. There's perhaps some recognition that there's a bit of a void between the Canada First defence strategy and the actual implementation of procurements, which is what we're focusing on, as you rightly point out, through the language of a defence industrial strategy.

I think it's safe to say there's some agreement that we will move this discussion forward to see if we can find some chewable chunks, if you will, that we can bite off and actually make progress. The government is engaging with us on this discussion.

**Hon. Bryon Wilfert:** In terms of slaying this three-headed dragon and getting it down to one, which head do you think we should be looking at? In terms of this reporting, there's been discussion about Public Works versus, say, Industry. What would you say would be the most effective? Since the Gomery commission we've had all these.... We always want to be so transparent and accountable, but we've added all these layers, essentially, which have actually slowed the process in terms of delivery.

The first part is, which minister should this be reporting to, which is the most effective? What about the issue of all these layers, which in fact have impeded the delivery, in many cases, of needed equipment?

• (1125)

**Mr. David Stapley:** Your first question was on which of the three buckets we should tackle if we only had one, and I think you ask that for very good reasons. There are a lot of findings, and there's only so much time, and some are more valuable than others in terms of the output and impact. We were asked that question quite recently: if there was only one outcome from this, what would it be? I'll share with you our answer, knowing that there's lots of work to do in a number of areas. Our answer was that on behalf of industry, we believe the country needs a defence industrial strategy. We can discuss what that means in terms of definition. Within the context of that number one priority, we believe it needs political leadership. I say this with no disrespect to the bureaucracy or officials, who are very knowledgeable on this, but it will require political leadership to move this forward. It's not our place to talk about machinery of government and which minister has the mandate. We leave that to higher powers than those of us in industry.

The third thing we would say in terms of that objective is a timeline. If we were doing this in the private sector, it would be a 30-, 60-, 90-day action, and we would come out of it, in that period of time, with something we could stand together with and move forward on and guide procurements from there on. That's a very ambitious schedule when we're dealing with the level of complexity and governments and so on. Our view is, if a year from now we could stand proudly and say that we have an industrial strategy, that we've filled this gap, that we will get a return into the economy through industry and create jobs, create technology, and so on, before a big portion of the investment plan is spent, we could all

claim success. So if there were one thing we could focus on, it would be in that area.

**Hon. Bryon Wilfert:** In a 30- to 60-day turnaround, I know that's very ambitious, but do you get an indication that in fact there is that political will to move?

**Mr. David Stapley:** Not yet, sir.

**Mr. Timothy Page:** If I could add to your question, the Canada First defence strategy has identified a long-term spending plan to rebuild the military. As far as CADSI is concerned and our members are concerned, that is a clear demonstration of leadership from this government to achieve an objective that it has identified, and a gap in our current capability. What we're suggesting through our report is that without a companion document with the military plan, without an industrial plan establishing clear objectives and establishing clear priorities, how will the government know whether it has received an optimal return on investment, and how will it measure that return on investment?

It's rather like—and I apologize—that Alice in Wonderland story: If you don't know where you're going, any road is good. The government has manifested leadership in this area through the Canada First defence strategy, and we're simply suggesting that it needs a companion document in order to leverage defence spending, in order to sustain and develop knowledge-based jobs in the Canadian economy that, at one and the same time, will contribute to a robust economy, increase security for our country, and create greater sovereignty.

**Hon. Bryon Wilfert:** I certainly don't disagree with that, given that it may be a very ambitious plan that the government has set out, but without having the criteria that you outlined in your paper, particularly on the defence industrial strategy, which you need to have.... I don't know whether I'd call it a companion or I would have put that maybe first and then gone.... In terms of their proposals, we have all these announcements that go on but we don't get the delivery because in fact we don't even have the dollars or we don't have the capabilities to deliver at the present time.

**Mr. Timothy Page:** If I may, the creation of a defence industrial strategy would enable industry to make investments in production upgrades, in technology improvements, in human resource skills development, such that when programs come to market, Canadian industry will be well positioned to compete successfully for those programs.

The absence of an industrial plan leaves uncertainty in the mind of business, which typically will translate into a suboptimal investment in R and D, a suboptimal investment in plant and machinery upgrades and skills upgrades.

**Hon. Bryon Wilfert:** Thank you, Mr. Chairman.

[Translation]

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

Mr. Bachand, you have the floor.

• (1130)

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

I want to welcome the representatives of the Canadian Association of Defence and Security Industries. First of all, let me say that I recognize your great expertise and your vast experience in this field. I have known you for some time, Mr. Page, and I know that you are an excellent representative of this industry. I also used to know Mrs. Thorsteinson in her previous capacity as a public servant, where she was extremely competent. As for you, Mr. Stapley, I wish you great success in your new position. You have just been elected Chairman of the Board of CADSI, an 800-member organization. It is a very intelligent electoral college and your success in becoming *primus inter pares* of this group is similar to us being selected as MPs in our ridings. So, I take it for granted that you are the best person to do the best work possible.

Everybody agrees—and MPs too—that the procurement system of the federal government in the defence sector is broken and does not work anymore. I believe that your participation and your report will contribute significantly to solving this problem. You have suggested excellent ideas and I do hope that the government will take this opportunity to act.

I would like to know how your recommendations would change the present process and what the process would be in the new approach that you suggest.

To start with, when we want to purchase tanks, airplanes or ships, National Defence launches the process by defining its specifications or requirements. I suggest that you take notes because I will ask several short questions. First of all, in the present situation, is there not a danger, when drafting specifications, that they will be deliberately drafted in order to get a preferred type of equipment or even a preferred supplier? That is my first question.

Would it not be better to do it like the Americans, on a mission basis? If we need a transport aircraft with a given capacity, for example, and let the best supplier win. The starting point for procurement is DND. It is when Public Works gets involved that problems appear. Once the specifications have been drafted, we ask Public Works Canada to procure the equipment. At that stage, there are two options. One can procure the equipment through letters of intent or through competitive bids, the famous ACANs that, to my mind, are negative. Even the Auditor General said that she does not like ACANs but, sometimes, it is the only solution available because our Canadian industries cannot build everything. We are not like the Americans. I would like to know if you have dealt with this issue in your new approach.

Then, Industry Canada inserts itself in the process with their economic benefits. I agree with your suggestion of creating a single responsibility center. However, would this single responsibility center deal with the whole of the procurement process? In other words, would National Defence have the mandate in the future to draft specifications as well as deal with letters of intent, competitive bids and also economic benefits? Would that be the new structure that you recommend?

**Mr. Timothy Page:** I will ask my colleague Janet to answer your first two questions. I will deal with the third.

[English]

**Ms. Janet Thorsteinson (Vice-President, Government Relations, Canadian Association of Defence and Security Industries):** Thank you very much for your question.

You start, quite rightly, with the issue of how requirements are specified and you hold up as an example the United States mission system approach. I would say that the Department of National Defence has made some efforts to move more toward mission system or performance specifications. It is a very difficult and challenging thing, to write a performance specification. If you haven't done a lot of military procurement for a long time—large systems—and if you don't have an internal expertise to be able to do that, you tend to revert to operational specifications or detailed specifications. Then you can indeed come to an answer whereby there is only one product.

A hundred years ago, when I was a junior procurement official in what was then the Department of Supply and Services, working out of a temporary building, I received a contract demand from the Department of National Defence for a piece of equipment, which said it must operate at this speed, it must process data at this rate—so far so good—and it must be painted IBM blue. Well, even as a junior officer, I could see that perhaps they had something specific in mind.

In our world, we are concerned with much larger systems than that. One of the things we've talked about in our proposed process.... First of all, we've encouraged the military to discuss in greater depth what it is they want to do. We'd like to have the opportunity to provide them with more information about our capabilities. And if there were a defence industrial strategy, which we'd most strongly encourage, Canadian industry could also position itself in advance to be able to meet the mission requirements.

In one of our later recommendations, we also say that within Canada we have some very competent what one might call centres of excellence. I think that when we have a centre of excellence, if it can provide the material or the service that is needed, then the government should look first at what it is that centre can provide. They should also consider, if they need to go offshore for that requirement, if there's some way in which the contract might be constructed so that we could have a transfer of knowledge and experience into Canada. That would grow within Canada the knowledge-based jobs and we would ratchet up the technological intensity process.

I agree that we can't do everything. We need to have more things that we can do.

You mentioned the issue of ACANs and letters of intent. Personally, I would rather put our focus on the issue that I discussed first, which is the performance specification. You're quite right that if the performance specification is wired to be IBM blue, then, illustrious though IBM is as a member of ours, if you wire that specification, then PWGSC is constrained in what it can do.

• (1135)

**The Chair:** You have only 30 seconds.

**Mr. Timothy Page:** Quickly, sir, to your question as it relates to machinery of government, we didn't deem it within our purview to predict how the government might respond to that recommendation. Clearly, questions around machinery are the prerogative of the Prime Minister.

The recommendation comes out, I think, from a general frustration within industry related to accountability and related to understanding what industrial objectives are being identified per defence program. For us, the key is to attract the government's attention around defence industrial strategy, key capabilities that the government believes Canada must have available to it, for either sovereignty, security, or economic reasons. The reference to machinery we reflected because we heard it on the road, but clearly, the single most important priority that we are trying to bring to your attention today is the desirability of a defence industrial strategy.

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

Now I will give the floor to Mr. Harris.

**Mr. Jack Harris (St. John's East, NDP):** Thank you, Chair.

Thank you for joining us today. It's extremely important that you have identified the rare opportunity that a country the size of Canada has to identify this level of program spending on a long-term basis, and a real opportunity to make it work for the country's industry.

First, could you tell us what's wrong with a policy that says we'll give 100% to industrial and regional benefits offsets, IRBs, as a backstop to a contract that perhaps goes offshore? What's wrong with that as a strategy? Although it's not necessarily an industrial strategy like you're talking about, it is a strategy that seems to be in vogue. What's wrong with that from an industry point of view, and why would the defence industrial strategy that you're talking about be better?

• (1140)

**Mr. David Stapley:** That's an excellent question, and the short answer is that if we were bankers and not industrialists, the one-to-one formula would probably be okay. But the real issue as we get into it is that it's an issue of quality over quantity when it comes to "offsets"—as they're known around the world—or IRBs here in Canada.

That gets us back to the industrial strategy argument very quickly, as every IRB or every offset is not equal. Without degrading in any way the industrial capacity that currently exists, if we manufacture rivets, for example—a very noble job if you're manufacturing them—versus spending the same dollar on a job creating software and source code for very advanced military systems, perhaps with commercial applications, I think one would conclude that the latter might have a greater and longer-term sustainable impact on the economy.

So while the 100% IRB requirement is a strategy, if we look around the world to India, Israel, the U.K., and Australia, just to name a few countries, they have moved away from purely quantitative strategy and have looked at the qualitative side. India, for example, has said that it wants 35%, not 100%, because the technologies involved are in the areas of the economy that are important to it. India is running the biggest international fighter aircraft competition in the world right now, and the whole issue is

about what they will get for that 35% condition that the Indian government is placing on the bidders. That's where the battle is going to be won or lost, and it's very clear that they have very defined national interests in certain areas, such as strategic communications, surveillance, and so on. They have an industrial strategy and they have concluded, rightly or wrongly—and we believe rightly—that it has a much a bigger and longer-term, or longer-lasting, impact on the economy than the status quo.

**Mr. Jack Harris:** Can I just put two more questions on the line? We only have limited time here.

First, there's was a suggestion by the Minister of Defence in the meetings held last summer that there is such a thing as an industrial strategy when it comes to the shipbuilding side of defence procurement. Would you care to comment on that? I'm assuming that the shipbuilders are possibly part of your organization as well. And do you believe the proper mechanisms for that are currently in place?

I guess the other question I have follows up on Mr. Stapley's answer. It's a shock to me, but perhaps not a surprise, that Canada is unique in not looking after its own industrial base first. But is there a country that is a model for what you're talking about here? I know you mentioned several countries that are doing certain things, but is there a country with a small defence market that you see as maybe the best example of what you are talking about?

**Mr. Timothy Page:** We wrote a report last year on the marine industrial sector, and in that report we expressed our support for an allocated long-term production schedule to rebuild Canada's naval fleet and coast guard fleet. We did so out of recognition that we have a national shipbuilding policy. We also have a marine industry, and to the extent that Canada is building ships in Canada, we get to trigger a supply chain of perhaps 700 or 800 companies in the marine sector that can help to fit those vessels out from the yards. It will be important to us to see how the government responds when it comes forward with its first rebuild of ships, to see the connections they have made between the shipyard—the production of the hull—and the fitting out of that hull with the sophisticated high-tech weapons systems and communications systems that are really the value added to the modern complex naval vessel.

CADSI's view is that both are required in order to ensure a viable industrial defence base in this country, and there is real capability and real capacity resident in Canada to assist in those areas.

• (1145)

**Mr. Jack Harris:** Has that happened? We've heard announcements saying that is what they're doing, but is that happening, in your view?

**Mr. Timothy Page:** We haven't yet seen the government commit at cabinet level to new naval ship production. We're hoping, when they do, that they will have considered not just the shipyard end of the business but also the electronics and the communication and the weapons systems and the real value added that goes into a military vessel as well as the in-service support, because we believe that sourcing parts from onshore domestic suppliers will facilitate your long-term in-service support relationships, reduce costs, and increase predictability.

**Mr. Jack Harris:** On the second question, about a country, is there...?

**Mr. David Stapley:** Just briefly, the one we tend to migrate to is Australia. There are many models, but we tend to migrate to Australia. Although their military requirements are somewhat different, living in the South Pacific as opposed to the North Pacific and the North Atlantic, they have many similarities. Their economy is roughly the same size. Their procurement processes, when you get down to contractual terms and conditions, are nearly identical to ours. Their industrial base is very similar to ours in its makeup, which is a combination of domestic companies and subsidiaries of multinationals. And they have an industrial strategy they update regularly to ensure that it's aligned to the needs of the day. That would probably be where we would start, and it's one we looked at very closely when we went through this study.

**Mr. Jack Harris:** Thank you.

Were you talking about policy changes here, or would legislative changes be required?

**Mr. David Stapley:** I don't think there's any need for legislative changes whatsoever, sir.

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

Mr. Hawn.

**Mr. Laurie Hawn (Edmonton Centre, CPC):** Thank you, Mr. Chair.

Mr. Stapley, I do have to challenge you a little bit on your assessment of our IRB policies. I don't think it's fair to say that it's quantitative only, because every dollar of benefit proposed by somebody is assessed on its value, and there's a formula. Rivets might get a 25¢ on \$1 assessed value, and obviously, high tech might get \$1 for \$1, so it's not strictly \$1 of rivets for \$1 of airplane or whatever. It is an assessed value. So would you agree that there is a mix of quantity and quality in our IRB program, in fact, in the way the formula is applied?

**Mr. David Stapley:** That's a good point. I oversimplified it. We are inching in the right direction. These are relatively recent and positive changes to that policy, but they are positive—banking in multipliers and recognizing that one dollar is worth more than another. I also appreciate that it is harder to measure the qualitative side and that we need to do more.

**Mr. Laurie Hawn:** That policy has actually been around for quite a long time. I just wanted to clarify that, because it's not quite the same as others, but it is a quantity-quality formula.

The government is considering the establishment of a government industry centre for capability analysis based on Australian and U.K. models. Are you familiar with that? And if that happened, would that go some way to meeting some or part of those recommendations?

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

Canada's idea for a capability centre is called ACCORD, which is a pre-competitive environment through which they are trying to assess among government, military, and industry where capability exists and where capability will be required in a 10-year to 15-year timeframe.

CADSI has been involved with and encouraging of the government to develop this type of capacity, this type of capability, for the last three years. We were helpful in providing a forum for the Australian and the British models to be exposed to government and CF and industry over the last three years. We think it's a good step in the right direction. We also believe it is part of but not a replacement for a defence industrial strategy.

**Mr. Laurie Hawn:** We talk about a single agency to do defence procurement. Obviously there is a lot of procurement across all kinds of government departments, and not just the Department of National Defence. If there were a single agency for defence procurement it would require people with the various skill sets that are currently in PWGSC, currently in Industry Canada, and probably in other departments. So it's easy to say that we should have that, but I think it's hard to describe it. And there would be a lot of competition for the same kinds of skill sets, the same kinds of people who would presumably have to come from PWGSC or come from Industry Canada to man whatever that agency looked like. Do you have any sort of conceptual description from the industrial point of view of what that might look like?

• (1150)

**Mr. Timothy Page:** We were conscious during the consultation of a few things. First, there was the number of times that industry remarked on how inconsistent the procurement process was. On one program they could be operating by set of rules A, and on a separate procurement of a similar nature they'd be operating on a set of processes B, and with different people with different levels of understanding and different levels of experience. So I appreciate your question as to the melding of that expertise and how best to do that.

And we were trying to accurately reflect the sentiment that we heard on the road. We understand that machinery of government changes are incredibly time-consuming and require a whole lot of energy. We would hate to see all of the government's attention being drawn to a consideration of that recommendation when we believe there is a lot of low-hanging fruit from the report that would make a substantive improvement to the way the system is operating, and the benefits that would accrue to the Canadian economy as a consequence.

**Mr. Laurie Hawn:** And that's my point. That would be a huge restructuring of the machinery of government, because it's not just defence procurement, unless we have one procurement agency. But I'm not sure how that would work, because other departments procure things, so there would presumably still have to be a PWGSC function for them and an Industry Canada function for them. So we'd be building a monster over here and we'd still have the same monsters over there.

**Mr. Timothy Page:** The key for us was that there be a whole-of-government approach to the consideration of defence procurement such that all of the different points of light that are resident within the government—whether it be from an R and D perspective or whether it be from an export support perspective, or whether it be from Advantage Canada, or from S and T strategies within DND or within Industry Canada—that are out there have some connectivity, they're aligned to something, and that there be an accountability for how those are working effectively. And that's where we ended up.



But the key, I repeat, is to look at this challenge of leveraging defence spending in order to not only get the kit, which is primordial, but to do so in a way that builds capability and capacity in key sectors of the Canadian economy.

**Mr. Laurie Hawn:** Yes, I think we certainly all agree on that.

DND is also developing a vendor performance assessment policy and the intention is to complement a revised Public Works policy on vendor assessment. Have you had any input to that? Do you know what I'm talking about?

**Mr. David Stapley:** Yes, we're certainly aware of that, and would argue that it's a good thing to do. Any time we—

**Mr. Laurie Hawn:** As vendors, yes.

**Mr. David Stapley:** Any time we can measure performance, either on the customer side or the supplier side, it can only benefit the system as a whole. So yes, it's a—

**Mr. Laurie Hawn:** And are you having active input into that process as it develops?

**Mr. David Stapley:** We have been asked from time to time, through various venues, to comment on the process and the parameters for measuring progress, and so on. One of the challenges is where do you start to measure—before you start the program, when you're complete, when you have a problem, after you have a problem? So it's not an easy model for the government folks to put together. But I think it's a very positive thing to get value for money.

**Mr. Laurie Hawn:** Probably the answer to where you measure is “all of the above”, especially if you have different criteria.

**Mr. David Stapley:** I think you're right, at the end of the day, practically speaking.

**Mr. Laurie Hawn:** You talked about risk-sharing, and that goes to Public Works terms and conditions. This may not be a short answer, or this might be a short answer. How much of a frustration is that, or have the terms and conditions been in terms of risk-sharing between the government and vendors?

**Ms. Janet Thorsteinson:** Risk sharing was something I think I heard in the consultations across the country in every location we went to. It is more profound than just the terms and conditions, although people have strong opinions on things like unlimited indemnification, where they are simply unable, unwilling.... I think it is inappropriate that they should risk their whole company in order to get a contract.

In many cases the Canadian government is not getting the competition it could get because people are declining to bid. Secondly, if they do bid, they inevitably have to build the cost of accepting that risk within their price. The government then pays for that risk. If it's in an area where the government might be better positioned to absorb that risk across their whole budget-sharing process, I think the government is wasting money. Things like foreign currency exchange fluctuations might be one area to look at.

• (1155)

**Mr. Laurie Hawn:** Thank you.

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

I will now give the floor to Mr. Martin.

**Hon. Keith Martin (Esquimalt—Juan de Fuca, Lib.):** *Merci beaucoup, monsieur le président.*

Thank you very much for being here today.

This is for Ms. Thorsteinson. On the risk issue in contracts, should it be on the shoulders of the private sector, the government, or both, in terms of the risk once you purchase a product?

**Ms. Janet Thorsteinson:** I don't think there's one answer to that, unfortunately. It depends on what you're buying; whether that product is in a development stage; whether it's a mature product that you're buying off the shelf, in essence a commodity; and that it can shift during a very long program.

For instance, if one were going to buy some helicopters and they were in production, then you might say the risk should be placed on the contractor who has a production line and proven design. However, if you then say you would like your helicopter to have five rotors instead of four, and to have more gas tanks and carry more equipment and fly farther, then you have changed the structure of your requirement in such a way that you're now into a development cost. At that point I think the government should be in a position where they are taking on more risk.

**Hon. Keith Martin:** Thank you for that.

On the national shipbuilding strategy that we discussed, we've had a number of meetings in my riding. I have CFB Esquimalt. We've had some great meetings with industry, and they've done a fabulous job of articulating a vision forward. I believe this could be a good pilot project to perhaps get a national shipbuilding strategy in action and use that as a way to get the cogs out, if you will.

Is that something that CADSI would entertain, to try to develop that national shipbuilding strategy, the pilot project upon which we could see how we might streamline the procurement process?

**Mr. David Stapley:** I think the short answer to the question is yes. We anxiously await the emergence of the shipbuilding policy. We did contribute, in part, to a very detailed study and analysis that we did on the maritime industry.

On the second part of your question, there is a relationship between what we're alluding to in the defence industrial strategy argument as it relates to technologies and systems that go on ships, as distinct from what I'll call the hull of the ship.

If we can get the national shipbuilding policy out, to begin with, to deal with the very difficult shipyard question—it's very difficult politically, and we recognize that—and aligned with what we're doing through the more electronics-based defence industrial strategy, we will have a world-class and efficient ship capability in the fullness of time.

We very much want to be part of both pieces of that process and to make sure this convergence happens to the benefit of all parties: our customers to begin with; taxpayers right behind them; and somewhere down the line, industry.

**Hon. Keith Martin:** Thank you.

When looking at Public Works, Industry Canada, and DND—and I think Mr. Hawn alluded to this question, as did Mr. Harris—you have some of those solutions in your document. Basically it's a structure based on best practices you've seen internationally that Canada could adopt to streamline that process across government to remove obstacles and be able to implement a streamlined process that would enable us to achieve this objective.

**Ms. Janet Thorsteinson:** I think there are a number of factors in what you're talking about. I would separate out the idea of whether it's the play between the departments. I would definitely start with the issue of the performance specs that I addressed before. I won't go into that in depth now.

I think the government has an investment strategy, and for its own reasons that investment strategy is not a public document. The more that Canadian industry can know what is coming down the pike, the better they will be able to respond to the government's needs, and the better the government will be able to get better value.

• (1200)

**Hon. Keith Martin:** Thank you very much.

We had DND representatives here, and I posed the question to them about having a better relationship. You mentioned the joint industry-government advisory council. They say they meet four times a year, and they say that's good enough. Is it good enough or not?

**Mr. David Stapley:** It's never good enough, I think is the answer. We take responsibility for that as well. That's not something we can just throw back to our government colleagues.

There is a body called DIAC, the Defence Industry Advisory Council. It's at the senior official level. It does meet regularly and it tackles some of these issues in a very non-political sort of way. So it covers a spectrum of the government, a spectrum of the country, and by and large does a good job.

I would also say personally—as opposed to with my chairman of CADSI hat on—that industry could do a better job contributing to that process. This is not a situation where the government officials involved deserve any criticism; they deserve kudos for trying to do it.

I alluded to the fact that it doesn't cover the full spectrum of government interests, and that's what we're talking about here. How do we get—I'll use the words probably wrongly—a more enlightened top-down view of these issues that includes a political level? So when we get these very good questions, like the one you asked on shipbuilding, there's an informed opinion from across the broad spectrum of interest. There's industry and all levels of government, including political.

We think there needs to be dialogue in that regard. There is no real venue to do that. We do it bilaterally and ad hoc with Mr. Hawn and other interested parties. For sure it's to their credit, but there's no formal mechanism beyond DIAC that I'm aware of to have that discussion in a defence-industrial context.

**Hon. Keith Martin:** Thank you.

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

Now I will give the floor to Mr. Braid for five minutes.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

Thank you to our witnesses for being here this morning and for the recommendations outlined in your report as well.

I think clearly as we consider your recommendations, and as we make further progress on aligning economic objectives with procurement and a defence industrial strategy, the benefits to our economy and to Canadian business are quite clear. Could you provide us with a concrete recommendation and example of how we can use defence procurement to spur innovation in Canada and create these important knowledge-based jobs?

**Mr. David Stapley:** My colleague here is asking me whether I want to repeat a black box story that I shared last night as an example of a response to your question. I'm not sure it's the right one, but I'll do it very briefly.

It goes back to Mr. Hawn's earlier remarks that we have had an IRB policy for a long time. The company I worked for was a beneficiary of that some years ago in a major defence procurement that resulted in a black box in which European governments invested tens of million of dollars being put in Canadian industry as part of the offset requirements for that particular program. It didn't sound very sexy to begin with. It was a built-to-print job, which is a parlance we use in industry, as opposed to an engineering-intensive job. But very quickly, because products become obsolete, what happened was that here in the Ottawa Valley we had some very smart engineers who redesigned that black box, drove out costs, improved performance, and today every one in the world is produced 30 miles west of here. It was an example of where the policy worked. We created a world-class capability, and the most important thing is we moved from a manufacturing role to a very significant design and engineering role, so we owned the market going forward. That's an example.

If we were looking at programs before us now, the one that crosses my mind is the armoured vehicle programs. There were decisions made twenty years ago that we were going to be a world-beater in land vehicles, and we actually did it, as a small country, with a company called General Dynamics Land Systems, in London, Ontario, which, no question, is a world leader.

Very difficult procurement strategy decisions lie in front of us. Do we go to the international market and compete at the design level and build in Canada? That's one option. The second option is, do we do that and say that you will build it with our national instrument, an industrial centre of excellence, which is GDLS, or do we go to full and open competition, winner take all, which could mean we lose that ability in Canada? These are the types of tough decisions the government has, and I don't think there's a magic bullet. We have to look at each one of them on its merits and see how we get the best capability for the brave men and women in the forces and the best economic return.

It takes some pretty smart, dedicated, and frankly gutsy people to make those decisions at the end of the day.

• (1205)

**Mr. Peter Braid:** Thank you for that, and thank you for those two examples.

Mr. Page, in your presentation you mentioned that one of the things that government should be doing is buying what we have already co-invested in. That would strike me as a no-brainer. Why isn't that happening as much as it should?

**Mr. Timothy Page:** This is speculation on my part. I'm sure my colleagues will have specific examples.

In an era when competition at all costs seems to be the mantra, you lose sight of how you got to the point where you've identified a requirement, and sometimes that's through a co-development that DRDC and S&TR and DND may have developed with industry.

The irony, not only of going to competition for a requirement that you've already co-invested in, is that you may also disqualify the industrial partner you've done the co-development with because they'd find they'd be deemed to be in a conflict of interest.

Our suggestion is that the government should be deciding earlier on in its R and D phase whether it wants to establish a long-term relationship with that industrial partner that would succeed, if you like, beyond the R and D phase. And should that program go to market, it would then commit to buying from that industrial partner.

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

[Translation]

Mr. Bachand, for five minutes.

**Mr. Claude Bachand:** Thank you, Mr. chair.

I would like to come back to the issue of a defence industrial policy. I have before me a document titled "The Report of the CADSI Marine Industries Working Group" which contains some interesting things. In your own report that you've tabled today, you did not try to identify the possible architecture of an industrial policy. However, in the document I have just referred to, from the Marine Industries Working Group, you went much further in defining your specifications and your vision of a marine industrial strategy.

Let me read to you what struck me in this report. Unfortunately, I will have to read it in English:

[English]

"That Government establish a Marine Industrial Strategy that maximizes the direct participation of Canadian Marine Industries in the design, build, and support of government ships by requiring that, in addition to ship construction, the following critical functions be carried out in Canada by Canadian companies: Prime Contractor, Project Management, Platform and Mission System Integration, Management and Control of Ship Design, and In-Service Support."

[Translation]

I would like to know what are your ideas relating to the marine sector. Is that how you see a future defence industrial policy?

Let me explain myself. I believe that the Marine group has the required expertise in Canada to do what you expect. However, do we also have the required expertise in the aviation field? I do not think so.

If you are in favour of an industrial policy, would you want it to be structured on the basis of the present defence environments? Do you go as far as saying that the industrial policy, apart from basic

principles, would apply differently to the Navy, to the Army and to the Air Force? Would you go that far? One cannot build a broad industrial policy based on basic principles only. One has to take account of what Canadians can and cannot do. We cannot ask Canadians to build a C-17 from A to Z for strategic transport since we do not have that capacity.

In your thinking, would this industrial policy be as refined as taking account of each environment separately? If not, how do you see it being developed?

•(1210)

[English]

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

We obviously had our boots filled with answers to the question you have just put to us during the consultation, and we recognize that Canada is a relatively small market. Therefore, Canadian industry can't be all things to all people across the military requirement—whether it be soldier system, aerospace, land, or naval systems. The value of the defence industrial strategy is to choose what capabilities are important for the country per defence environment and across environments—because there are many capabilities in defence electronic systems integration that are as applicable on the land side as they are to the air and sea side—and to figure out from across that industrial base of expertise what the key capabilities are that are going to serve to meet the national requirement and where there are market opportunities internationally.

The report we wrote attempted to clearly lay out that vision, if you like. It's that vision that we're looking to the government to adopt. We're happy to work in consultation to populate that defence industrial strategy with the capabilities that the government identifies to be of importance for sovereign reasons or security reasons or economic reasons. They will differ, depending on the defence domain they're being applied to.

I would just encourage you not to lose sight of those capabilities that cross platforms—that are used in an armoured vehicle but when slightly modified can also be used in a modern warfighter or in a modern naval vessel.

[Translation]

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

[English]

Mr. Boughen, you have the floor.

**Mr. Ray Boughen (Palliser, CPC):** Thank you, Mr. Chair.

I add my voice of welcome, folks, and thank you for taking time out of your busy day to share your expertise with us.

I have a couple of questions. According to the open-source information we have available to us, in 2006 about 42% of all U.S. Department of Defence contracts, representing some 68% of their total value, were single-source contracts. There were 402 contracts valued at \$231 million to Canadian companies alone.

In Canada, we see the average of 80% of the value of contracts awarded by PWGSC on behalf of DND was the result of competitive processing. Should we be doing more or less on the single-source issue when it comes to procurement?

**Mr. David Stapley:** Perhaps I may start and my colleagues will jump in.

Again, I don't think there's a single answer. It depends on a set of circumstances. You talked earlier about the situation where you may have competition very early on in the process. Pick your R and D partner, if you will, government and industry, get the money on the table of the joint investment of the public and private sector, and then, provided everything works out well, you would probably not want to compete and throw the baby out with the bathwater. That would be one scenario. Where there are commodities and multiple sources, I think we should compete it to the hilt to get the best price and the best product.

It depends on what's in the pipeline, in the procurement pipeline, to look at each one of these on their merits and ask, how do you get the best deal for the country, all factors in? Unfortunately, buying pencils would be much easier than buying sophisticated military systems. So whether it's 80-20 or 20-80 on any given day, I don't know.

The U.S. model does take into account whose blood is on the table, but if there's significant private sector investment, it is taken into account in terms of the eventual selection process. This is true of most countries. I think the pendulum has perhaps swung a little overboard, as you've heard in our report. Competition for the sake of competition doesn't necessarily give the best value in every case.

• (1215)

**Mr. Timothy Page:** I would add, if I might, that it's an expensive undertaking to respond to a request for proposal. Spending millions of dollars, months of time, depending on the program, and then to run a false competition is not appropriate. It costs both government and industry time and money that could be better spent elsewhere.

It could be argued, and certainly members within our association have expressed this view, that the government's pursuit of a sole-sourced approach, an ACAN approach, if you like, is perhaps in some way a recognition of a more fundamental problem with the procurement process itself, in that they're looking for a way of bypassing, in the interest of getting the kit needed by the men and women in uniform as quickly as possible to serve the mission—no argument with that. But perhaps it points to a systemic problem within the procurement process that doesn't allow for that type of procurement other than through a sole-sourced approach.

**Ms. Janet Thorsteinson:** I think there's another factor, and that is that the way in which those sets of statistics are kept is quite different. One of the things is that in the Canadian system an ACAN procurement is deemed to have been competitive. It's a bit like one of those "How many angels can dance on the head of pin" questions. First, you must have a sole-sourced reason, then you post a notice, and then it magically becomes competitive. The United States doesn't have that same issue.

**Mr. Ray Boughen:** I enjoyed your report very much. Congratulations; it's a very thorough report. As I read it, though, I thought of the fact that the report is dealing with operational research production,

but I didn't see anything in the report that talked about disposal. What's going to happen with \$12 billion a year for 20 years, \$240 billion, with machines, various implements, and various pieces of equipment that are obsolete or non-functional? Is there some thought as to what will happen in terms of disposal of that material?

**Mr. Timothy Page:** We didn't look at that. What we did look at, however—

**Mr. Ray Boughen:** That's why it wasn't there.

**Mr. Timothy Page:** You read it well.

What we did see is that Canada traditionally flies, drives, and sails its military equipment longer and harder than almost anybody else. That's why, in our report, we emphasize the importance of a viable in-service support capability in this country. Over time, industry has become the true steward of military equipment, long after the DND or Public Works official has defined the requirement, engaged in the competitive process, and signed a contract. Industry is there repairing, maintaining, and upgrading the kit through a much longer life cycle than would otherwise have been required.

Secondly, given the pace of technological change, there are many generations of technology insertion that go into a modern piece of kit, again, driven by the industrial sector of the country. So industry, in our view, is more than just a supplier through a Walmart-like environment of widgets. It's a direct operator of military equipment. There's the UAV system in Afghanistan right now, flight training in Canada, and base logistics in Afghanistan and elsewhere, where the private sector is running that business. We're suppliers, we're operators, and we're also stewards of the military equipment over that extended period of time. That's why we think it important for there to be an industrial strategy that considers not just the acquisition phase of major capital programs, but the entire life cycle of it. But we didn't talk about the decommission phase.

**Mr. Ray Boughen:** Thank you, Chair.

**The Chair:** Thank you.

Now we'll give the floor to Mr. Wilfert.

**Hon. Bryon Wilfert:** Thank you, Mr. Chairman.

The Paul Martin government allocated \$15 billion to the military in the 2005 budget to start rebuilding the forces. The Harper government has announced moneys. Now we're in a situation where money is becoming increasingly tight.

How realistic do you see this? Given the current economic climate and given the \$56-billion-plus deficit that we're in, are you really going to see, at least in the foreseeable future, much of this Canada First defence strategy by the government coming to fruition, given the fact that all these announcements are made but there's no delivery because, really, there isn't any money?

• (1220)

**Mr. David Stapley:** Obviously, this is something that we discuss at great length in the boardrooms, not just in terms of the Canadian market, but those of us who are exporters also look at similar settings in the U.S., the U.K., and elsewhere. At the end of the day, we have to make a judgment because we have to place bets to employ our people and continue on with our research and development and so on.

I'm not avoiding the question; what I'm really getting to is we discount. So we look at all the potential markets at our disposal, all the programs where we have a legitimate potential position to play in Canada, across the spectrum of what our colleagues in the defence department need over time, and then we discount for the very reason you talk about, because we do see close in the impact of exchange rates, the budgetary challenges, the economic challenges. So we don't overbet and then end up having a significant restructuring.

By the way, there is some significant restructuring going on in the Canadian defence industry right now, notwithstanding the very generous programs that the government rolled out over the last couple of years.

**Hon. Bryon Wilfert:** I ask that in the context that companies I talk to—as you, Mr. Chairman—then go on to say, “Well, the procurement process has all these legal constraints and certain parameters that we understand, but there tends to be much more emphasis on that than there is on the success of executing the program itself”. That's something that many of your members seem to say: “This is why our costs go up. Initially, we budget for  $x$ , but then there are these delays, and then it obviously costs  $y$ . And even if we factor in what we perceive it may be, it doesn't happen.” I guess this is part and parcel of why you've talked about the streamlining of the process. But this seems to be the frustration that I continually hear from some of your members.

**Mr. David Stapley:** It's true; and again, it's not unique to Canada.

In the simplest of forms, time is money. Not every company has a bankroll sitting there to invest. There is a cost of money, the same as there would be if we went to mortgage our house. If you have a cost of money extended over a long period of time, you very quickly erode your potential profit. So you start off in the hole, and it doesn't get any better.

If you keep that in the back of your mind, when we look at value-added versus non-value-added of a process—a procurement process in this discussion—no one in industry or the government would ever want to throw out a piece of process that delivers value.

We get to see, from our perspective, the commercial process versus the government process. We could be building the same satellite for a different customer, the same risk parameters, technical risks, financial risks, performance risks, and so on, and yet the process costs of doing that in the commercial world will be considerably less than the process costs of doing it in the government world. That's what you keep hearing. We have this experience in the private sector, where we deal among ourselves all the time, so the process is much more efficient.

Now, what we don't have, in fairness to the government, is the accountability to the voting public. What's the price? What's the delta?

**Hon. Bryon Wilfert:** Yes, you want to get that balance.

If you were a hockey coach, you wouldn't put a team on the ice constantly one man short, I'm assuming.

**Mr. David Stapley:** I'd try not to.

**Hon. Bryon Wilfert:** You would play with a full complement.

**Mr. Timothy Page:** It depends on how many the other team had on the ice at the same time.

**Hon. Bryon Wilfert:** Well, if they have six on the ice, presumably you would want to do the same, unless you have a penalty. But the penalty you seem to have is that we seem to penalize ourselves in terms of the procurement process, with all these delays, these non-value-added costs, etc.

Are you able to quantify the impact of that on your industry, in terms of what it does to the process?

• (1225)

**Mr. Timothy Page:** The delayed program today is resulting in companies laying people off at a time when the government is investing in stimulus programs to create jobs in Canada, at a time when the government has committed an awful lot of money over the next 20 years to rebuild the military. We believe, and this is the thesis of our report, that there's a win-win opportunity for Canada to not only re-equip the military but do so in a way that builds both capability and capacity, sustainable capability in this country.

Countries the world over see their defence industrial sector as an engine for innovation, an engine for technology, technological growth. We have a huge opportunity, through the Canada First defence strategy, to take a page out of the book of our competitors and achieve that same win-win situation for Canada. It will be good for the Canadian economy, it will be good for Canada's security, and it will be good for knowledge-based workers across the country.

**Hon. Bryon Wilfert:** Thank you. You obviously make a good coach, because you realize that if the other team has their full strength then you should too. Good.

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

Now I will give the floor to Mr. Payne.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Mr. Chair.

Welcome to the witnesses.

I want to follow up on a few things some of our colleagues have talked about in terms of a defence strategy. Mr. Stapley, you did talk about the situation in terms of governments and recessions and so on. Your process was to look back and analyze these things and try to figure out which way it's going. Is that the standard process you would see for whatever government is in power?

**Mr. David Stapley:** I think so.

**Mr. LaVar Payne:** Thank you for that.

Some of my other colleagues have talked about the industrial strategy, and I see that as having some benefits. Obviously, I have some concerns around that whole thing in terms of whether in fact we would get the competition we need.

We talk about building ships. Potentially, if you look at all aspects of the requirements of the Canadian Forces, whether it be tanks, trucks, or airplanes, you could have, obviously, the high-tech weapons software, etc. Are you considering this to be all within Canada? How would we be looking at competition otherwise? If we get one source, I can see slowdowns in production, I can see huge costs. Maybe you could help me out with that.

**Mr. David Stapley:** I'll start and then Tim can jump in.

Nowhere have we advocated that we'd try to be everything our domestic customer needs. We don't build fighter airplanes in this country, for example; nor should we. In my view, we can't afford it. With the exception of the land vehicle capability in London, we don't build tanks. We do build ships, or we have built ships. So we need to look at what's practical, what's reasonable, and what's sustainable.

The rest of it is back to the financial model and the business model, which includes a very important element, and that is competition. How do you get the best value? You can compete in a dozen different ways. You can compete at the technology end, open it up, best team wins. You can compete at the production end. You can compete almost anywhere in between.

You also can compete at almost every level in the supply chain, and the prime contractors do. I happen to work for a mid-tier defence company, so we compete every day for business with our global peers. There's lots of room for competition. The prime contractor could have been selected. His obligation to his customer is maximized competition at every level in the supply chain, however you define competition. So there are ways of doing it, and it needs to be looked at depending on what the product is or the output is. A ship is different from an IBM computer, to use that example.

Again, it is not rocket science, but it needs to be looked at with the best value in mind. I'm not suggesting for a moment that we throw out competition, but at the same time let's not throw the investment down the tubes, if it makes sense to benefit from it.

**Mr. Timothy Page:** The issue we were trying to get at in part in the report was the relationship between the government and industry as it relates to our defence environment and around the world. There seems to be a much tighter working relationship between national governments and their national defence industrial base in pursuit of defined military and economic objectives than there would appear to be in Canada.

Our argument is that we're playing in the global market, and we can't go into that global market and be successful if we have one arm tied behind our back. So to the extent that the Canadian government identifies key capabilities, key industrial capabilities, and wants to ensure that it has access to those capabilities from onshore suppliers in a competitive process, there needs to be that building of trust and that building of responsibility and respect between the parties that we don't currently see existing. Our report tried to make that point, that there's a real opportunity here for a new relationship between business and industry, one that results in a win-win environment whereby Canadian workers are able to do value-added work in support of the Canadian Forces mission and in support of the federal government's economic objectives.

• (1230)

**Mr. LaVar Payne:** There was something else you talked about earlier with HRSDC, in terms of R and D and working with other military-type situations. We have an organization in Medicine Hat, Meggitt Defense Systems, and they have been working hand in glove with those folks, and you talked about the complications in terms of conflict. So there has to be a way forward on that, because I've heard there are issues in terms of Meggitt trying to sell equipment to the government, yet they can sell it right around the world.

**The Chair:** Shortly.

**Mr. Timothy Page:** Yes, we heard that. Canada as a first customer is an extremely important asset. When we go abroad and are asked by a foreign buyer why we're not able to sell to our own government, how do we expect them to buy from us?

Meggitt, incidentally, is very interested in the unmanned aerial vehicle business, the UAV, which not only has a military application but also a commercial application: pipeline surveillance, northern surveillance.... So to the extent that the government is identifying capability that serves those combined interests, that adds value to the economy and adds value to our security.

. Thank you.

**The Chair:** Thank you.

Now we give the floor to Ms. Gallant.

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

First of all, you mentioned the companion document to the defence strategy. To what extent should it be detailed? There comes a point where, yes, we laid out our general strategy for defence, but with a companion document there are security issues related to it. How much would you expect to be involved or included in such a document?

**Mr. Timothy Page:** We have suggested that the Canada First defence strategy does an excellent job of laying out what the government's intentions are to rebuild the military, and there's an investment plan, which we understand has been adopted by the government, but there is no alignment of those two documents with economic and industrial objectives for the country. And because the government is committing to spend a quarter of a trillion dollars over the next twenty years, we think it makes sense, as they go forward to rebuild the military, that they do so with one eye on rebuilding the military and one eye squarely focused on nurturing and developing the Canadian economy in capability areas that will serve future military needs and serve our national economy.

So how detailed does it need to be? We don't know. What we're requesting is that there be a commitment at least, and a recognition that an industrial plan is important to the country and that it be aligned effectively with the Canada First defence strategy and frankly with market opportunities, because our domestic market and our domestic requirements are relatively small compared to those of the global arena.

**Mrs. Cheryl Gallant:** How would you propose that we would include our strengths in science? So we have our researchers who are deciding on their projects. To some it looks a tad haphazard, but aligning our strengths in scientific research—we are the leaders in the world in certain areas—and matching that with industry and defence as well....

**Mr. Timothy Page:** Totally. Our report asks for as much. We are not going to be competitive on the low-cost scale of the defence industry. We need to be competing in the knowledge-based area, because as a small market we are more likely to be suppliers to the supply chains of large global companies.

Those big companies aren't looking for legacy technology. They're not looking for second- or third-best; they're looking for best in class, and Canadians are good at that. We have a great education system driven by engineers and scientists. We should be capitalizing on our human resource capacity to focus on those areas of the defence environment where Canada can be competitive.

● (1235)

**Mrs. Cheryl Gallant:** The observation I've made is that in the United States—this is true around the world, but especially in the United States—they've managed to grow defence industries in the proximity of their military bases. They recognize the synergy and the cost savings involved in servicing the different pieces of equipment.

We have that to a certain degree. We have Med-Eng, which makes the bomb protection suits. They're in Pembroke, maybe 30 miles away from the base. Those bomb suits were in the movie *The Hurt Locker*. We have the frag vests that our committee members wear when we visit Afghanistan. Even Bubble Technologies, the world's leader in radiation detection, was more of a function of having the national research universal reactor close by, and its scientists.

What is Canada not doing that we're not growing industries to the same extent? After all, industry is jobs, and jobs are the currency of this decade at least.

**Mr. David Stapley:** I'd like to start by commenting on what you referred to in the U.S., which is the community of industrial capacity outside the bases. The Communications-Electronics Command in the U.S. is a good example, because it buys for many different parts of the U.S. military. It has spawned a fine group of SMEs close by. They talk to the defense department and get real-time responses to their needs, so the industry grows.

We simply don't have enough action at our bases to justify spawning that many companies. Some do. The guys who provide repair and overhaul services could be close by.

The second thing you alluded to is crucial. That's the line of sight and connectivity between the investors, the scientists, the industrialists who build the stuff, and the users. Everybody works hard at it, but we need to find a better way to bring that community together

to pick the winners—and I don't mean at the expense of losers. If we're doing something in science—it could be the Med-Eng example—and we're going to buy it, let's connect it and get it done with a minimum amount of process.

That's what you hit on that's so relevant to what we're proposing. How do we streamline that without losing accountability, and create the jobs locally?

Thank you.

**The Chair:** Mr. Page.

**Mr. Timothy Page:** We haven't yet described a vision of what the country expects from its defence industrial base. We haven't identified, nurtured, and supported champions such as you just identified. We haven't identified a strategy, and strategies that can be used to support them.

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

I will now give the floor to Mr. Harris.

**Mr. Jack Harris:** Thank you, Chair.

Sorry for jumping in and out. I had other demands on my time. I hope my questions haven't been asked, although I do have some notes.

I'm interested in your suggestion that a fixed percentage of the defence capital budget—I think you said 5%—be put into R and D to be managed by the industry. How do you see that working? You're asking the government to devise an industrial strategy, and the government will say, "Here are the sectors, and these are sectors where we want to see the action". Then you're suggesting government should say, "You decide where the R and D should take place".

Doesn't that give rise to conflicts within the industry itself directly with the competitors or others? Isn't it really something that the government should decide, presumably with advice from industry?

● (1240)

**Mr. Timothy Page:** I'll mention two things, if I might, in an attempt to answer your question.

Our consultation process told us that there is a mounting deficit in private sector R and D related to defence, and that is in part driven by the absence of an industrial strategy that would drive private sector investment. We can't be complacent about that. The status quo is not an acceptable option because the world is not waiting for Canada to catch up. In the opinion of our industrial sector, more money into private-sector-led R and D was important. Now, who drives that bus? There has to be a relationship between industry and government in terms of what is important, but once that decision has been made—and let's assume that it's co-developed and that each party is putting some money in—then the question is what do you do with the results of that S and T or research and development? Who owns the intellectual property associated with that? It's our view that the ownership of that R and D should be largely held within the industrial hands, because industry is much better capable of commercializing that R and D work into product capability and services that will serve not just a military customer but also a commercial customer and thereby make that entity more competitive in the domestic environment and more ready to compete internationally.

**Mr. Jack Harris:** But you've also talked about projects co-invested into by industry and government that would have capabilities that were created by industry and government that then would be used. But you don't see that as a sharing of the intellectual property aspect of it?

**Mr. Timothy Page:** As the technology is being co-developed, each has an interest in that. The question is for what use, for what end use? The end user obviously needs access and an understanding of that technology, as Mr. Stapley was commenting earlier, but so too does the private sector in order to be able to maintain its role as the steward of military equipment and in order to continue its technology evolution to support future military requirement and commercial opportunities, both of which make it a more competitive private enterprise.

**Mr. Jack Harris:** How far down the road have you gone in identifying or suggesting particular sectors or expertise that you would see as being the front-runners in an industrial strategy for Canada?

**Mr. Timothy Page:** The report is somewhat timid on that front only because it would be presumptuous of us as an organization to be suggesting where the government might end up. What we're asking for is a dialogue, a commitment to a defence industrial strategy and then a dialogue to assist in the development of that.

But having said that, there are very clear champions in this country who are supporting the military requirement and supporting the domestic economy. Those would be a good place to start. Look at the uniqueness of where Canada has requirements, whether it be in the great north, whether it be the expanse of maritime environment or our land border or our increasing support to international peacekeeping efforts in failed and failing states. There are a number of areas where the government might land in answering your question. But the jewels in the crown of the defence industry for the next 15 years are around defence electronics.

**The Chair:** Thank you.

Now I will give the floor to Mr. Hawn.

**Mr. Laurie Hawn:** Thank you, Mr. Chairman.

I've got three, maybe four, fairly short questions.

Public Works established the position of procurement ombudsman in 2008. Have any of your members had dealings with that office? And if so, is there any feedback on that?

**Ms. Janet Thorsteinson:** We have not had any specific feedback on that. If you look at the sorts of requirements that can be dealt with by that ombudsman, as opposed to those that might go to the Canadian International Trade Tribunal—or would have to go to court should there be a national security exception invoked—they are not really in the kind of capital acquisition zone that most of our members would be interested in approaching.

• (1245)

**Mr. Laurie Hawn:** Good, thanks.

The government is trying to incorporate some positive incentives into contracts, carrots versus sticks. What's your view of that? Do we need both? Are both carrots and sticks appropriate? How would you see that developing in the future?

**Mr. David Stapley:** I think the answer to that is yes, because it is a matter of degree, and as long as there is balance and risk and reward, fine. Industry has to be very accountable for its performance. I don't think there is any question about that. We simply ask for balance on the risk management equations. So yes, carrots and sticks are fine.

**Mr. Laurie Hawn:** My last question, saving it for last on purpose because I really want to get it on the record, is funding stability. We've talked about the defence industrial strategy and so on and we have talked about funding and what not. I know what the answer is going to be, but I have to ask it to get it on the record. How important do you think it is to the defence industrial strategy, to the future of our defence capabilities, to the future of our industrial capabilities, that we have stable, long-term, and adequate funding?

**Mr. David Stapley:** I think it is important from two perspectives. From the procureal perspective, I think it is obvious, we can plan our head count, employment levels, we can plan our investments, people and technology, and then because we are prudent we discount it a little bit so that we don't have to go through a shock treatment, something we try to avoid. It is a very hard thing to do, as you know, when you have to downsize.



Stability in the investment stream is important, but we are realistic too. We have to understand the government's side of it. That is where the communication and openness is important. Why does the industrial strategy matter in that context? Arguably, to some degree it is where we can stand up and say we have created  $x$  thousands of jobs, we have advanced the technology engine by a factor of two or three, and we have positioned us to exploit the following markets with very specific examples because of the IRB strategy attached to a program, or better yet, an industrial strategy. I think it makes it a little bit easier for the very difficult trade-offs that the government has to make between social programs and defence procurements, for example. In that sense, I think it will certainly help stabilize to some degree the investment stream, which certainly helps us, so there is at least an indirect relativity between what we are advocating and the ability of government to deal with it, so we don't run through another fixed-wing search and rescue situation, where everybody was right but here we are.

**Mr. Laurie Hawn:** I'll ask it in a slightly different way. There are various elements that go into making a success and in getting where we want to go. Can we get to where we want to go without stable, long-term funding?

**Mr. Timothy Page:** I guess the facetious in me would ask where you are trying to go. If the objective is to re-equip the military and the strategy is to buy off-the-shelf, offshore in-production capability,

where there is likely marginal benefit in return to the Canadian economy and knowledge-based jobs, our report says that is a missed opportunity and one we wouldn't think to be a huge success. But fundamental is the long-term, stable, predictable commitment that this government has made to refurbish the military. That, in and of itself, is a good start but it is not sufficient for us as an organization to claim victory. Victory arrives when we have that funding commitment aligned with industrial objectives that allow for a win-win environment for both the military and the economy.

**Mr. Laurie Hawn:** I totally understand, but the long-term, predictable, stable funding is a critical element of that.

**A voice:** Just say yes.

**Mr. Timothy Page:** Yes.

[Translation]

**The Chair:** Thank you very much. I want to thank our witnesses for their contribution to our work. We all appreciate very much your contribution.

This puts an end to the 13th meeting of the Standing Committee on National Defence. Thank you very much.

Meeting adjourned.

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