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Chair

Mr. James Bezan

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• (0820)

[English]

The Chair (Mr. James Bezan (Selkirk—Interlake, CPC)): Good morning, everyone. We're going to undertake our study of the supplementary estimates (B).

Joining us, of course, are the Honourable Peter MacKay, Minister of National Defence, and the Honourable Julian Fantino, the Associate Minister of National Defence for procurement. With the ministers are: Robert Fonberg, Deputy Minister of National Defence; Vice-Admiral Bruce Donaldson, vice-chief of the defence staff; Kevin Lindsey, assistant deputy minister and chief financial officer, finance and corporate services; Dan Ross, assistant deputy minister, materiel; and Matthew King, associate deputy minister.

I welcome all of you.

Minister, you have the floor for the first 10 minutes.

[Translation]

Hon. Peter MacKay (Minister of National Defence): Good morning, Mr. Chair and committee members.

Associate Minister Fantino and I appreciate the invitation to appear on the topic of the supplementary estimates (B).

As you know, we both appeared before the Standing Committee on Government Operations and Estimates last June to discuss the main estimates.

Since becoming a cabinet minister in 2006, I have appreciated opportunities such as this to meet with parliamentary committees and discuss the business of defence.

[English]

Mr. Chair and members of the committee, this is my ninth appearance before this committee and my 23rd appearance before a parliamentary committee, so I'm familiar with the process.

You have already indicated, Mr. Chair, a number of the senior officials from the Department of National Defence, leaders within the department and the Canadian Forces, who are joining us here this morning. So I won't introduce them again, but they will also be available to answer your questions here this morning.

Together, these individuals and the associate minister and I represent the military and civilian professionals who manage our defence resources on a daily basis. With their support, Minister Fantino and I look forward to providing your committee with the information it needs with regard to supplementary estimates (B).

Mr. Chair, the defence team remains acutely aware of the global economic realities faced by the Government of Canada, by Canadians everywhere, and by our partners and allies around the world.

[Translation]

In this context, we have sought to carefully manage our resources so that we can both deliver on the operational needs of today while maintaining flexibility for the needs of tomorrow.

[English]

The supplementary estimates (B) are therefore quite modest relative to the overall size of our mandate and budget, and they do not identify any additional net funding requirements for this year. Let me repeat that: these supplementary estimates do not identify any additional net funding requirements for this year.

Nevertheless, we have identified a few areas where some incremental funding is needed so that we can deliver on important initiatives, such as exercising sound environmental stewardship by addressing past environmental problems on National Defence land—in other words, remediation and cleanup of certain environmental sites that are in the possession of the National Defence department—and providing long-term accommodations for the Communication Security Establishment Canada, CSE, suited to its expanded size and mandate in a post-9/11 world, and also providing CSE with the resources it needs to help the government combat illegal migration and human smuggling.

In addition to those new appropriations, Mr. Chair and committee, we're also seeking to reprofile or transfer existing funds so that we can move forward on projects such as reinforcing the Canadian Forces' presence in the Arctic by establishing a new training centre in Resolute Bay; supporting important health research related to blood loss, a leading cause of preventable death among battle casualties; and also ensuring that the Atlantic Canada Opportunities Agency has the necessary funds to organize and deliver the Halifax International Security Forum in the years to come.

Finally, Mr. Chair, for all these initiatives, any new funding identified in supplementary estimates (B) has been more than offset by decreases in other areas of defence spending, resulting in an overall decrease of \$323,000 in appropriations and spending authorities for the year 2011-12.

● (0825)

[Translation]

Now, I understand that the committee no doubt has questions about some of the items and mechanics of the supplementary estimates (B). With the help of my colleagues here today, I would be more than happy to provide you with whatever clarification or information you might require.

[English]

Mr. Chair, I thank you again for this opportunity, and I look forward to the questions from your committee.

The Chair: Thank you, Minister.

According to our routine motions, the first round when ministers appear before committee are 10-minute rounds, so to kick that off, Mr. Christopherson, you have the floor.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Chair.

Welcome to both ministers. It's good to see you again here at committee.

I will jump right in.

On page 107 of the supplementary estimates (B) under the transfers section—and I believe, Minister, you may even have touched on this in your opening remarks—there's a reallocation of resources of \$46 million. The \$46 million is taken from vote 5, which is for capital expenditures reallocated to vote 1, which is for operating requirements. Page 108 says that \$28 million of the \$46 million is used for the marine security operations centre, which is an operational requirement.

If the other \$17 million comes from reprofiling of capital projects, where is that \$17 million exactly? What capital projects are not being funded as a result of the money being transferred from a capital fund to an operating fund? Specifically, was any of the capital money that's being delayed or diverted scheduled to go into any base maintenance or base infrastructure? Is it being diverted because there are medium- or longer-term plans to close bases, and so why bother doing short-term capital investments if, in the medium or long term, you're planning to close them? That would be my specific question.

Then also on this matter, if you're having to transfer this money from capital to operating expenditures, that suggests that you don't have enough operating funds. What are you going to do going forward when it's likely that you're going to have less money to work with? Where are you going to find the funding for those operational matters going forward?

Also, if I may, on the matter of lapsing funds, \$2.4 billion was lapsed. The department is allowed to carry over 1%. You're carrying over 12%, and 11% of that is going to be lost, because you can keep only 1%. That's the highest amount any department has been allowed to lapse. I want to bring to the attention of the ministers that in the 2009 Auditor General report, this very matter was raised, and the Auditor General at the time, Madam Fraser, said this:

The Department's financial management and monitoring of resources may not be adequate to support decision making by senior management. The lack of accurate and timely information for decision makers contributed to the lapsing of more

than \$300 million in funding that was available during the 2007-08 fiscal year but is now permanently unavailable to Nation Defence.

Madam Fraser further pointed out that in the year 2007-08, it was \$500 million, and she went on to say that was a significant amount. The department said they had agreed with the Auditor General's concerns and would take action. There was a list of things they would do, and now we find we have a number that's multiple times higher than the figure named by the Auditor General, so it's getting worse.

I'd like the witnesses to address why an issue that was previously identified by the Auditor General is getting worse, particularly an issue the department responded was going to be fixed. Clearly they didn't: it's getting worse.

In case I do not get the floor again—because I know how this works—I was hoping that the ministers or other witnesses could show me where the \$477 million is for the new clandestine satellite system, as well as the \$623 million that's going to be required for the shiny new headquarters.

Hon. Peter MacKay: Let me take a few of those questions back to front.

The money for the new CSE headquarters is covered in these estimates. With respect to the Nortel campus, that is not found in the supplementary estimates (B), nor is the reference to satellites found in these supplementary (B) estimates.

Working further backwards, on the issue of lapsing, Mr. Chair, we have a very good story to tell. This is an outstanding record, in my view, of managing a budget of this size, when one considers the responsibilities managed daily by the Department of National Defence, the size of the budget, and the size of the carry-over. This is the critical point, Mr. Christopherson, that you're referring to in regard to the Auditor General's comments. It was, in fact, as a result of that report you're referencing that the carry-over amount was elevated.

It used to be that the Department of National Defence had a 1% carry-over. It is now 2.5% as a direct result of that report. It dawned on everyone that, given the size of the budget National Defence managed, to expect to come within 1% of spending authority every year was simply unrealistic, when every other department of government had a 5% carry-over. It was described to me by one member of the defence team as the equivalent of trying to land a 747 on the back of an aircraft carrier—it's a very short distance for landing a budget of that size. As a result of those recommendations from the Auditor General, we now have a larger runway, if you will.

To move directly to your question, what has happened since 2004-05, with this new spending authority we have, is that DND has not, in fact, lapsed the amount of money that's referred to in a number of articles and in some of the partisan rhetoric we hear around here. In spite of the fact that we have this large direct program spending, it has the lowest—I repeat, the lowest—carry-forward provisions of any department. And we are still able to manage that budget. DND is expected to manage to far higher expectations and tighter tolerances than other departments. So this anomaly that occurred in the budget year 2010-11, after allowing for its 2.5% carry-over and the reprofiling of funds to meet liabilities associated with deferred capital projects....

I want to pause for a moment and talk about deferred capital projects. There are many instances in which circumstances well beyond the control of National Defence—that is, a procurement project that is not delivered on time by a private company—results in the Department of National Defence being unable to pay forward certain amounts of money for a product that was not delivered. A case in point is the maritime helicopter project. We had profiled roughly \$250 million to pay for maritime helicopters, which were to be delivered this year. Well, due to circumstances beyond our control, a private company did not meet those contractual requirements, therefore disallowing our delivery of that money. We are unable to carry forward that large amount of money in our budget.

I'm going to turn to Kevin Lindsey to allow him to expand further on this particular lapsing issue, because I know this is of interest to the members present.

Mr. Lindsey.

• (0830)

Mr. Kevin Lindsey (Assistant Deputy Minister, Chief Financial Officer, Finance and Corporate Services, Department of National Defence): Thank you, Minister.

Mr. Chair, further on the lapsing question, as the minister has alluded to already, since 2004-05—in other words covering the last seven completed fiscal years, including 2010-11—DND has carried forward approximately 1.4% of its total spending authorities. That's about \$118 billion. The residual lapse after the carry-forward, over that same seven-year timeframe, is 1.2% of those total spending authorities. I emphasize that this includes the anomalous year 2010-11. So in spite of the very tight margins within which the department is expected to operate, it actually has a remarkable record of managing those appropriations going back to 2004-05. I use that as a base year, because it's the year referred to in the transformation report.

I would add too that with respect to the Auditor General, she did note that \$300 million in 2007-08. That figure is included in the data I've just given you. I would emphasize, too, that in testimony either at this or the public accounts committee, the Auditor General acknowledged that the carry-forward provision was far too low, and she ultimately advocated that the department increase that provision. Had the increased provision been in place in 2007-08, that \$300 million she referred to would not have lapsed.

Mr. Chair, on the other questions, the vote transfer of \$17 million is coming from a number of capital projects that have been deferred. None of that has to do with base maintenance. These are equipment projects that are at various stages of delivery. There are approximately 11 of these projects in which the cashflow is slipping. In aggregate they represent about \$21 million, which is available to reduce the requirements in vote 1.

With respect to the shortage of operating funding, there is no shortage this year. This request is to deal principally with a government priority for remediation of contaminated sites. Because we have money available within our capital vote, the supply convention is to exhaust flexibilities from previous appropriations before asking Parliament to appropriate new money.

I think, sir, that addresses the questions.

• (0835)

The Chair: Thank you, and the time has expired.

Next is Mr. Opitz.

Mr. Ted Opitz (Etobicoke Centre, CPC): Thank you, Mr. Chair.

Minister, thank you for appearing today. Admiral, it's also delightful to see you. And, gentlemen, thank you all very much for coming.

Having been at the lower end of this scale in working budgets at LFC and the Canadian Forces College, I really understand some of the challenges you have to face. I was at the bottom end of that, so I can certainly imagine what the challenges are at the top end of this pyramid.

Minister, in supplementary estimates (B), there's a transfer to Natural Resources to support the construction of the Canadian Forces arctic training centre, and on that I have a couple of questions. The first is, what overall purpose would this training centre serve in the Arctic? Second, sir, when will the centre be available for operations?

Hon. Peter MacKay: That's a very good question, Mr. Opitz.

Let me begin by thanking you for your 30-plus years of service in uniform in the Canadian Forces. I know that you have an outstanding record of military service. It's great to have you as a member of this committee, given your on-the-ground experience.

With respect to supplementary estimates (B) and the Natural Resources partnering that we have with the Canadian Forces for the Arctic research centre, this initiative is very much in keeping with priorities that the Canadian Forces and the Canadian government have set around having a further expanded footprint in the Arctic, if you will. It's in keeping with the core missions of the Canadian Forces, and it will allow us, in partnership with Natural Resources, to have a greater presence there and larger continental operations around the Arctic.

The Canadian army, as you know, has been heavily involved with the Canadian Rangers in the Arctic for some time, which gives us greater visibility and reach into what can be an unforgiving environment there, in terms of the challenges we face. So for sovereignty patrols, for surveillance, for the collection of local data, and for the mutually reinforcing partnership we have with other departments, including Natural Resources, this presence I believe will greatly enhance that capability and that presence we need in the Arctic.

We've also been working with Public Works and with NRCan to design this new facility. I'm told by the department that this design will essentially be completed this month—in November—and the final design review will begin in December. So we're well on our way. We have a construction firm that is building its new location, its new facility. The subcontractor for that building is doing it in a unique way that I'm sure many of you have seen. These buildings are prefabricated essentially. I don't want to use the analogy of Lego blocks, but because of the harsh climate, they're assembled in a way that is quite unique. These are transported there as part of the annual sealift.

There are no delays. That's the good news. Everything appears to be moving on time or ahead of schedule, with the completion date given as the summer of 2013. The contractor has actually indicated, in the notes I have, that they expect to exceed the current milestones that have been placed, and that this in fact may be finished ahead of time. So there is a good news story with respect to this facility. As you know, it's one of a number of installations that we're proceeding with, including a deepwater refuelling station at Nanisivik.

• (0840)

Mr. Ted Opitz: Thank you very much, Minister.

Mr. Chairman, I'm going to be sharing my time with Mr. Chisu, who is a former engineer. When you were talking about construction, I noted his excitement levels rise.

Voices: Oh, oh!

Mr. Corneliu Chisu (Pickering—Scarborough East, CPC): Thank you.

Thank you very much, Mr. Chair.

Thank you very much, Ministers, for appearing in front of the committee.

I would like to hear about the funding related to the assessment, management, and remediation of federal contaminated sites. Is this an ongoing project? What purpose does this funding serve? I know there are issues when you're transferring funds from vote 5 to vote 1, but the remediation of contaminated sites is an important task, and I commend you for doing that.

Hon. Peter MacKay: Thank you very much.

I find myself again extending gratitude for someone's military service. I know you have also served in uniform. In particular, your knowledge and understanding of engineering has been of great benefit to all.

These initiatives are best described as legacy responsibilities of the Canadian Forces—remediation of various sites to which the Department of National Defence has assigned high priority. We have a program in place that is committed to conducting the type of environmental assessment and cleanup that most Canadians would expect. We have an established record as an environmental steward. The department is addressing a number of these environmental remediation cleanups across the country—problems that have been in place for some time.

I expect that with your experience you have had occasion to see some of the environmental challenges that exist across the country. The Department of National Defence is committed to ensuring that these contaminated sites—these hazardous waste sites, in some instances—are managed in a safe and prudent fashion.

Goose Bay in Labrador is one of the sites where we have undertaken a major remediation. Much of that exercise literally involves cleaning the soil as a result of spillage of old fuel and antifreeze—types of material that are very toxic in the soil. The department spent only half of its planned spending in the past calendar year in support of remediation on the former Mid-Canada Line radar sites in Ontario. So half of the entire budget allotted for remediation went to that project.

It is safe to say that much of the progress in this area is ongoing and will be for some years. These are not issues that are dealt with quickly in some cases, given the size and scope of the projects we're undertaking, but it is responsible on the part of our department and governments everywhere that we move on with addressing these challenges. The cost of not doing so is simply too high.

When we encounter the various environmental sites that we previously owned and where National Defence operated, we prioritize them. We rank them in terms of size, scope, and the urgency with which we have to address them. We have set aside a specific budget to get on with cleaning up these federally contaminated sites. It's part of a broader whole-of-government effort to deal with the aftermath of a different time when people simply did not view their responsibilities the way they do today.

So I think Canada and most Canadians would expect nothing less of the Department of National Defence than to do its part, and that's exactly what's happening.

• (0845)

Mr. Corneliu Chisu: Thank you very much, Minister.

I need to note that it is very expensive to do environmental cleanups. Thank you very much for your explanation.

The Chair: There is a minute and a half left.

Mr. Mark Strahl (Chilliwack—Fraser Canyon, CPC): I'll go, if that's all right.

I'm just a mere civilian, Minister, with no military service under my belt.

I notice that a transfer ACOA to assist in the delivery of the Halifax International Security Forum is listed. Can you quickly explain what DND's role is in that forum, and what value is provided to the department at an event like that?

Hon. Peter MacKay: Sure.

This annual event, which is hosted in Halifax, began some years ago. It's in its third year. The Department of National Defence partners with the Atlantic Canada Opportunities Agency in hosting some 300 what I would call world-class thinkers, leaders, in many cases members of the military, members of the foreign service, academics, business people, bringing them together in a forum that allows for a free flow and exchange of information that is extremely powerful and useful in the formulation of policy, in sharing ideas, and in exchanging and pressing one another on emerging global issues. This year, as you can imagine, much of the discussion focused on the Arab Spring and what is happening in the region. This directly impacts Canada, where we have soldiers deployed in that region, most notably in Afghanistan.

This was an opportunity also to interact directly with people such as U.S. Defence Secretary, Leon Panetta, who was in attendance, and Israel's Defence Minister, Ehud Barak. We had individuals from the private sector who were participating, some with experience in energy security, others with experience in the private sector that directly impacts on Minister Fantino's responsibilities around procurement. So we had a really diverse audience in Halifax. It's a rare opportunity, in my experience, to have as many of our European, Asian, and South Asian counterparts in North America to have these discussions in such an informal but informative environment.

This year's discussion, as I mentioned, had a very lively and dynamic component to it. We had discussions about Iran. We had discussions that impacted on our most recent experience in Libya. Lieutenant-General Charles Bouchard was part of a panel on the subject of responsibility to protect and the lessons learned in Libya, and how that would impact on future decision-making around deployments.

So this funding, in my view, is something that gives an exponential return on investment, not to mention the economic impact that it has on a city like Halifax at this time of year. For those reasons and others, I believe that this was a worthwhile investment.

It has also been used to leverage other sponsors. This event will eventually become self-sustaining. NATO was a major sponsor this year. There were other corporate sponsors who will be involved. Again, I believe it was a timely and important investment that we made in partnership with ACOA.

The Chair: Thank you.

Mr. Valeriote, you have the last 10-minute round.

Mr. Frank Valeriote (Guelph, Lib.): Thank you, Mr. Chair.

In the spirit of what is pronounced on page 870 of O'Brien and Bosc, wherein it says, "Chairs have generally exercised considerable latitude in the nature of the questioning permitted", I'm wondering if you would find a couple of questions on the F-35s in order.

The Chair: They're not relevant to supplementary estimates (B). Of course, as chair, I have no power to censor you and what questions you want to ask, but the witnesses are not obliged to answer them since they're not relevant to the study before us.

Mr. Frank Valeriote: I suspect that the defence minister—

The Chair: I also draw your attention to page 1068 in O'Brien and Bosc, and chapter 20.

Mr. Frank Valeriote: Okay. I'll ask the question and I'll let the minister decide.

Last week, in committee, the Norwegian secretary of state for defence testified that Norway intended to purchase F-35s. However, while answering a question, some discrepancies in the numbers came up. Apparently the Norwegians are getting 52 F-35s for \$10 billion, while we're getting 65 for \$9 billion. If these numbers are correct, we seem to be getting a far better deal. The secretary of state also stated that the lifetime cost would be \$40 billion. That is for 52 planes whereas our estimate of the lifetime cost is \$30 billion. Again, there's an incredible discrepancy.

I'm wondering if someone at this table can inform the committee as to why there is this huge discrepancy in these costs.

● (0850)

Hon. Peter MacKay: I'm going to defer that question to Minister Fantino, but before doing so I will say that I wasn't at that committee, sir, so you can appreciate that I didn't hear the exact numbers that you're recounting.

I did, in fact, meet with the Norwegian minister, though. The good news that emerged from that meeting, and a meeting I had with the Secretary of Defence Panetta, was the affirmation that both the United States, Norway, and partner countries are proceeding with their F-35 purchases. So contrary again to much of the speculation and clatter, these countries are proceeding with those procurements. It's not to suggest that it hasn't been a controversial project, but we had assurances directly from the partner countries in the consortium that they're proceeding.

With respect to the cost, I'll let my colleague, Minister Fantino, respond to your question.

Mr. Chris Alexander (Ajax—Pickering, CPC): On a point of order, Mr. Chair, the F-35s will appear in the estimates, discussions, and briefings in the future. This committee is seized with the issue of readiness. We're going to be hearing from the Chief of the Royal Canadian Air Force. Ministers may be called before this committee again on this issue of procurement or other issues of procurement. I really don't see how this is relevant to the subject of today's meeting.

The Chair: I guess, as Mr. Valeriote has pointed out, and as is noted in on page 870 of chapter 18 in O'Brien and Bosc, because dealing with vote 1 in the supplementary estimates (B), sometimes questions can be fairly wide-ranging.

Again, I can't censor anyone at this table, and I leave it to the discretion of the ministers whether or not they wish to answer these questions. I definitely excuse them if they feel it's not relevant to the topic before them, but I'll turn it back to Minister Fantino.

Hon. Julian Fantino (Associate Minister of National Defence): Thank you, Mr. Chair.

Without getting into too much depth and detail, I wish to assure the members that our program for the purchase of the F-35s remains on track. So far we have seen nothing that would indicate any significant issues.

I think what the member needs to know, Mr. Chair, is that we're talking about apples and oranges. Each country has its own separate and distinct formula for what it requires from the manufacturer, and that is factored into the purchase price, which is then factored into budgeting. Our situation includes not only the cost of the aircraft but also the associated weapons systems, supporting infrastructure, initial spares, training simulators, and contingency funds.

Regarding the weapons system issue, I too spoke with the Secretary of Defence of Norway. In Europe they are in a different world and they require different armaments, and so forth, compared to what we are looking at. There are all these disparities, so it's very difficult to make a dollar-for-dollar comparison, but at some point in time we'll be able to articulate all these issues more fully, Mr. Chair.

Mr. Frank Valeriote: All right. Thank you, Minister Fantino.

We will move on to recruitment. Under the explanation of funds available for vote 5, the \$9,348,151 available within the vote, can you confirm whether the reprofiling of \$3,348,151 is a movement of funds from the advertising budget of the Canadian Forces? And if it is a movement from that budget, and is in conjunction with the reprofiling of \$6 billion from the Canadian Forces training centre, does this indicate a roll-back of recruitment to the Canadian Forces?

I spent some time on HMCS *St. John's*. I spent five days out west, and I have to tell you how excited and thrilled I was and how disappointed I am that I didn't spend time early in my life in the forces, as Mr. Strahl did. I just didn't do it. But I do come from a town in which the first admiral of the Canadian Navy was born, Charles Kingsmill. In fact, I have the privilege of living in his home.

But, regrettably, upon my return from those two trips I was trying to get people from the forces linked up with our career education council, because I think we all see the value of the social skills, the life skills, and employment skills that are learned even by those who have not spent a lifetime in the forces, but I couldn't get people out to Guelph to talk to our kids about the value of joining up.

So has there been a cutback in recruitment? Are we looking at downsizing our forces, and if there's been a cutback in recruitment, why is that?

• (0855)

Hon. Peter MacKay: Mr. Valeriote, I am going to allow the vice-chief, Admiral Donaldson, to respond to that.

But I very much appreciate what you've said about your own experience within the parliamentary program. I think Canadians might be surprised to know the number of parliamentarians who, while not having formally served in the Canadian Forces, have taken part in this unique program where members of Parliament, like you, literally put on a uniform and take part in the daily lives and experience of the Canadian Forces.

With regard to recruitment, before I turn over the floor to Vice-Admiral Donaldson, we have in fact exceeded our numbers in recent years as far as recruiting is concerned. Much of that is because of the high profile, and I would express my bias in suggesting the brilliant performance, of members of the Canadian Forces in recent years, which has increased the desire Canadians to associate themselves with the Canadian Forces. In my estimation, they are now the most respected institution we have in the country.

Having said that, we have exceeded our numbers and, therefore, we are trying to keep a balance in what is laid out in the Canada First defence strategy and all the pillars of our defence department. These include our personnel; our equipment; our infrastructure, which means the bases and the housing allotment; and the key piece, our readiness or ability to respond to various missions, whether in our long-term planning or in missions like those to Haiti that just appear.

I'm going to let Admiral Donaldson respond to the specific question about recruitment, and I'll come back to your other question.

Vice-Admiral Bruce Donaldson (Vice-Chief of the Defence Staff, Department of National Defence): Thank you, Minister.

And thank you, Chair.

And sir, thank you for your question.

I will look into any hesitation there was in charging down to Guelph to talk to Canada's youth about the Canadian Forces, because it's certainly important to us that the people understand the opportunities, and we definitely have a role to play in improving Canadians' understanding of the Canadian Forces. So I apologize if people appeared to be dragging their feet.

As the minister has said, in the growth of the Canadian Forces at the moment, we have programmed numbers for the regular force. At present we sit just above the programmed level of 68,000 that has been established for us at this point in CF growth. In fact, we were more than 1,000 above that when I came in a year ago and we've put some measures in place to get us back to that mandated number, because paying for more people than you have money for takes money away from other things.

We're just above 68,000 now and in very healthy shape. But we have reduced the amount of recruiting over the last year to make sure that we are able to manage that throughput. Our attrition is down, too, strangely enough, I guess because the economy is a bit down. But the Canadian Forces are certainly up and people are excited about what they're doing.

So it's a very tough machine to manage, but we have not stopped recruiting. In fact, we continue to recruit because you need a throughput just to keep the machine oiled and to keep new blood coming in, but fewer than before.

There are a couple of areas where we're putting a lot of effort. One is in our stressed trades, particularly technical trades, where we don't have enough people coming into the Canadian Forces with the skill set to feed our requirements in key areas. So we do put a lot of effort and energy into attracting people into those occupations, and we track the attrition from those occupations very carefully because they tend to be quite valuable people in other sectors of the Canadian economy.

We are also focused on opportunities for members of our reserve force who have served in Afghanistan, who have spent some time on full-time service, and who wish to transfer to the regular force. We do give them pride of place at the start of the recruiting year, so that those who do want to shift over to regular force service have the opportunity to do so where possible. I think you would agree with me that those who have served their country in this way have earned the right to first refusal, and it is certainly a great way to avoid excess costs to bring in proven folks who are already trained to a certain level, and fold them into the regular force.

For all of those reasons, we are recruiting fewer people than we were over the last number of years as we were growing our force, and we'll continue to adjust the level of recruitment to be able to manage that force level at those mandated levels as we move forward.

I hope that addresses your question.

• (0900)

The Chair: Thank you.

The time has expired.

Hon. Peter MacKay: Mr. Chair, if I may respond very briefly to the second part of the question with respect to the reprofiling of \$4 million, that was money initially earmarked for the ongoing campaign with respect to recruitment. An internal decision was made to cease some of that advertising.

Essentially, we were victims of our own success. The numbers were coming in through recruiting stations and other means, so we took that money and reprofiled it for other purposes, for the other pressures within the department, including the contaminated sites issue and the establishment of a new CSE headquarters. So it was simply money that was reprofiled for another use, which explains the transfer of that particular amount of money. A \$4 million amount and a \$10 million amount were reprofiled within the department.

The Chair: Thank you. We'll go to our five-minute round, and I'll ask witnesses to keep their responses concise.

Madam Gallant.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman, and through you to our ministers here today.

It has been explained to us that when Canada decides to deploy our troops, there's supposed to be an additional allocation to cover the difference between what it's already costing to employ the troops, be it through training or at home, and the cost to get them to theatre. For the recent deployments to Afghanistan, Libya, and Haiti, has the Department of National Defence been fully reimbursed for the costs of those deployments?

Hon. Peter MacKay: No, we have not.

Mrs. Cheryl Gallant: Okay. Let's start with Afghanistan, then. By how much are we short in terms of full reimbursement for that deployment?

Hon. Peter MacKay: Well, it varies from year to year, but as you've outlined, there are incremental costs associated with a deployment, particularly one the size and scope of Afghanistan. So in certain calendar years it ranges upwards of \$300 million. Those are costs that are not recovered or reimbursed, if you will, to the Department of National Defence. They're costs that come out of our base budget.

Mrs. Cheryl Gallant: So the \$300 million for Afghanistan came out of our base budget?

Hon. Peter MacKay: Annually.

Mrs. Cheryl Gallant: Annually.

Hon. Peter MacKay: Correct.

• (0905)

Mrs. Cheryl Gallant: Times the number of years we were in Afghanistan.

Hon. Peter MacKay: Well, I can only speak of 2006 onward. As you know, that was the time of the redeployment into Kandahar province, and that's where the operational tempo went up. There was the deployment of new capabilities, tanks, the air detachment. In every rotation we were putting somewhere in the range of 2,000-plus soldiers on the ground and, yes, it was a very, very expensive deployment for which, at the time, we believed there would be

incremental funding that would come back to the department. That was not the case.

Mrs. Cheryl Gallant: What about Haiti? Has that one been fully reimbursed?

No, it has not?

Hon. Peter MacKay: No. That again is funded out of the budget of the Department of National Defence. I referred earlier to missions that just appear, and the one in Haiti was a classic case of a response by the Canadian Forces to a natural disaster, where the decision was made in conjunction with other departments, most notably Foreign Affairs, that the humanitarian crisis was such that the Canadian Forces could play an active role, and they did. They responded literally within 24 hours. The navy on the east coast was spooled up. A frigate and a supply ship were deployed into the region, and within 48 hours of the decision we had ships en route. We also deployed aircraft with emergency supplies. We eventually set up a Role 3 hospital, so medical personnel were also present, and I can say with great confidence that we saved lives and made an enormous difference in Haiti. But those are funds that are essentially absorbed from the budget of the department.

Mrs. Cheryl Gallant: Thank you. My next question is directed more to Mr. Fantino.

For a major procurement, let's say the Sikorsky helicopters, when delivery is not actually made and money has been allocated for the payment required, what happens to the money that was budgeted for that? Does it go back into general revenue, or does it stay in DND for the future delivery?

Hon. Julian Fantino: Thank you.

Mr. Chair, the simple answer is that the money does go back into the central funding mechanism of government. It's not kept within the department and, of course, in subsequent years when those assets are in fact delivered, we get a double hit, if you will.

Mrs. Cheryl Gallant: The money is given back to the central fund, and then you have to dig into your budget, whatever it is at that time, to find the additional payment?

Hon. Julian Fantino: That's correct.

That is an issue that compounds itself time and again. If those funds are not fenced in and suppliers can't deliver the products on time, it becomes a huge issue for us to be able to finance those same assets when the funding is basically absorbed out of our budget.

The Chair: Thank you. The time has expired.

[*Translation*]

Ms. Moore, the floor is yours.

Ms. Christine Moore (Abitibi—Témiscamingue, NDP): If possible, could I have the list of contaminated federal sites that we were talking about?

[*English*]

Hon. Peter MacKay: If you'll just give me a moment, we have a list of some of those sites.

In this supplementary (B) estimate, what we're talking about is the remediation of sites, mainly in Ontario. There were three radar lines built in Canada for North American defence in the 1950s and 1960s. They were decommissioned in the early sixties. They were contaminated sites that were mainly used to store petroleum hydrocarbons for heat, heating of the buildings, vehicles, maintenance, and aircraft. Some of those substances, including paint, were left behind. There was heavy metal and asbestos contamination associated with these on-site structures. The funds in supplementary (B) were dedicated—

[Translation]

Ms. Christine Moore: I'm sorry to interrupt you, Mr. Minister.

Could you just name the sites quickly?

[English]

Hon. Peter MacKay: —to remediating those sites. So these are the moneys associated with this supplementary (B).

I'm just answering your question.

[Translation]

Ms. Christine Moore: Could you just quickly tell me where the sites are?

I don't have a lot of time to ask questions. Could you just give me the names, please?

[English]

Hon. Peter MacKay: There's a Goose Bay site and one in Ontario. So it's those two sites.

Do you want to add to that?

[Translation]

Mr. Kevin Lindsey: Let me quickly add that this is a federal initiative that started in 2005. We have moved now to the second phase.

[English]

Mme Christine Moore: Mr. Chair, I didn't ask those questions, so I will just continue.

[Translation]

Mr. Kevin Lindsey: Mr. Chair, I don't have a list of all the sites. We are talking about \$196 million for those sites over the next five years. But I don't have the list of sites at the moment.

• (0910)

[English]

Ms. Christine Moore: Mr. Chair—

The Chair: I'll just ask that you share that information by written response to the committee, and we'll circulate it.

You still have three minutes left.

[Translation]

Ms. Christine Moore: It seems to me that a few sites are missing.

I have two questions about that. Often, if we don't do something about the contaminated sites quickly, the contamination spreads. And if we do something later, it will cost us more to clean them up. I think some of the sites we have heard about are missing.

Wouldn't it be better to act now in terms of the other contaminated sites to avoid paying more later when the contamination has spread?

Furthermore, I don't see any funding in the estimates for the victims or the people whose health has been affected. So could you tell me why there is no such amount in the estimates?

[English]

Hon. Peter MacKay: This fund is for cleaning up contaminated sites. There is no allocation in supplementary (B) for the people affected by the sites. This is strictly for the remediation of land.

[Translation]

Ms. Christine Moore: What about the fact that, if we don't act now, cleaning up some of the sites will cost us more in the future because the contamination will spread?

[English]

Hon. Peter MacKay: That's exactly what we're doing. As I mentioned in a previous answer to a question on contaminated sites, we rank them in terms of the priorities. So we deal with the most contaminated sites first. That is how we decide which sites receive the allotment of funds first.

[Translation]

Ms. Christine Moore: Let's take Shannon, for example. The water table is contaminated. There is no mention of that in the estimates. There is no amount for that and we have decided not to do anything about it right now. So we can expect to pay more in upcoming years.

Wouldn't it be more responsible to act now in order to avoid paying more in the future?

[English]

Hon. Peter MacKay: I know that enormous amounts of money have been dedicated specifically to the Shannon site you're referring to, but that is not covered in the supplementary estimates (B). That particular site has been dealt with in previous estimates. Previous dollar amounts have been dedicated specifically to that issue. You're talking about a water table issue.

[Translation]

Ms. Christine Moore: On page 68 of the French version, it says that \$9.4 billion will come due for payment in future years.

Could you quickly break that amount down for us and tell us how it will be allocated? Is there a chance that the amount was underestimated and that we will have to pay more later?

[English]

Hon. Peter MacKay: I'm sorry. What specific amount are you referring to? Sixty million?

[Translation]

Ms. Christine Moore: On page 68 of the French version of the supplementary estimates (B), it says that an amount of \$9,430,224,000 will come due for payment in future years. That is the amount I am referring to.

[English]

Hon. Peter MacKay: I see an amount for the funding of security establishments. If this is the amount \$9.348 million, it is funding dedicated to building the new Communications Security Establishment Canada building. A similar amount is allotted to combatting human smuggling.

The Chair: Your time has expired.

We're going to move on to Mr. Norlock for the last five minutes.

Mr. Rick Norlock (Northumberland—Quinte West, CPC): Thank you very much, Mr. Chair, and thank you to the witnesses for appearing. Through you, Mr. Chair, to the witnesses. I want to deal specifically with the recent visit that Minister Fantino made to Trenton. In particular, I noticed in the supplementary estimates (B) that there's a transfer to other departments with regard to chemical, biological, radiological, and nuclear weapons.

Before I go into it, I think the Minister and I were shown an example of how the Canadian Forces not only are ready to address those particular emergencies should they occur, but also how they work with other civilian entities.

I'd like to deal with the costs in particular since that's what this meeting is about. I wonder what this initiative consists of, and in particular, as I said, the transfers to other departments.

• (0915)

Hon. Julian Fantino: Mr. Chair, if I may respond, the research and the deployment of highly experienced chemical, biological, and radiological nuclear and explosive experts is today's reality in the precarious world we live in. The constant upgrading of those skill sets is a critical component of what the Department of National Defence is responsible for.

I can tell you, coming from a law enforcement background, that when it came to some of these kinds of responsibilities requiring highly technical expertise, we always did reach out to the Department of National Defence.

So a lot of those costs are incurred for the usual equipment and for training. Some of that training cannot be done locally; it's done outside the country. The costs relate to the upgrading of the certification of those people in their very dangerous work. A very highly skilled set of resources is necessary to do this kind of work. That funding is necessary to keep up their skill sets and certification, to ensure that we deploy people with the right equipment, and that we do research as well. You and I did see some of the research they're doing to ensure that they're able to perform in as safe an environment as possible when they're called upon to deal with these kinds of issues.

Mr. Rick Norlock: Thank you very much. I'd like to pass some of my remaining time to Mr. Opitz, if you don't mind, Mr. Chair.

Mr. Ted Opitz: Thank you, Mr. Norlock.

I think I should point out that my colleague, Madame Moore, has also served in the Canadian Forces in a medical capacity.

My question on the supplementary estimates (B) is to the deputy minister. There is an item to transfer funds to the Canadian Institutes of Health Research for an epidemiological study of the optimal

plasma and platelet to red blood cells ratio. Why is DND funding this study?

Mr. Robert Fonberg (Deputy Minister, Department of National Defence): Mr. Chairman, thank you for the question.

Actually, this is related to severe trauma injuries on the combat field. Let me ask the vice-chief, who oversees the chief military personnel and is the source of this transfer, to respond.

VADM Bruce Donaldson: Thank you, Mr. Chair.

We're funding it to keep people alive. It is through loss of blood that wounded soldiers on the battlefield face the greatest risk of death. To protect our people, it's very much in our interest to fund research on different ways of replacing blood and different ways of stopping bleeding. This is one of the avenues of research we're encouraging so that we can keep our soldiers alive on the battlefield.

Mr. Ted Opitz: To follow up, then, on the transfers to the Canadian Institutes of Health Research from the department, does DND often fund external medical research?

Mr. Robert Fonberg: We fund external research when there is a requirement to build capacity or build an understanding that we don't have. Either the knowledge is not available or the research is not being done by others. We will actually go out and fund external research, yes.

Go ahead, Bruce.

VADM Bruce Donaldson: If I may, Mr. Chair, in a number of areas we have cooperated with Defence Research and Development Canada in reaching out to other research areas. We've looked at sleep loss. Years ago we did a lot of research on functioning in a sleep-deprived environment—which I'm sure you are used to. We've gone from that right through to medical research on the effects of trauma on the body, and these types of things. Clearly there is expertise in Canadian society, and in fact there is international medical research that can lead us much more quickly to solutions to problems that we have or foresee. It's in that vein that we frequently cooperate with others.

• (0920)

Hon. Peter MacKay: Mr. Chair, if I might briefly add to the previous comments by the deputy and the vice-chief, some Canadians may be unaware that the Department of National Defence maintains a separate health system and conducts research into areas specific to soldiers, their families, and their service.

Mr. Opitz mentioned this, and I should also have complimented Ms. Moore for her previous military service in the field of health. It is a component of the Canadian health care system that's quite unique. It's meant to serve and meet the needs of Canadian military personnel, and it will be extremely important as we go forward. I would take the opportunity to point out that this is an area in which we have been investing quite significantly, in addition to the issue of mental health and psychological injury, which is also associated with service in combat and sometimes even in training.

This is an extremely important part of our budget. There is research associated with it. To quote Vice-Admiral Donaldson, this is something that literally saves lives.

The Chair: Thank you.

It's my understanding that both Minister MacKay and Mr. Fantino have 9:30 cabinet meetings that they need to at. We appreciate your taking time out of your busy schedules to come to appear on supplementary estimates (B). We had a good discussion.

We're going to suspend to allow Minister MacKay and Mr. Fantino to leave. We'll allow the table at the end to shift around a bit so we can continue with our hearing for the rest of the morning.

Hon. Peter MacKay: Mr. Chair, if I might, on behalf of Mr. Fantino and all of our witnesses here, we very much appreciate this opportunity and the work the committee does in support of the Department of National Defence and our troops.

I would also undertake to follow up on some of the questions—the list with respect to the contaminated sites, and any other questions arising from supplementary estimates (B). We'd be glad to follow up.

The Chair: We'd appreciate that.

Thank you. We will suspend for a few minutes.

● (0920) _____ (Pause) _____

● (0925)

The Chair: We're back in session.

We have about 45 minutes left. We're starting off at the top again, but instead of having a seven-minute round I think we'll just stick with five minutes. We'll try to get background to everybody.

To kick us off we have Mr. Kellway.

Mr. Matthew Kellway (Beaches—East York, NDP): Thank you, Mr. Chair.

Through you, to the witnesses, very much for being here today.

As Mr. Strahl said, I'm one of the mere citizens around the table and to boot, one without any financial background. I'm going to take advantage of restrictions on the chair to censor my questions and ask a few different questions.

With all due respect to the supplementary estimates (B), what struck me as a new MP in the House is not the millions we're talking about in those supplements but in fact the billions that get bandied about in discussions of defence matters. To give you some of the examples that have popping up on my BlackBerry in the last couple of weeks, there's been a military satellite that costs about half a billion dollars, which the associate minister of defence said in the House could be accommodated under current budgets. There's been a re-issuing of an RFP for military trucks, about 1,500 of them, a contract estimated at about \$800 million. There have been further delays to the Cyclone helicopter. I see that as of last year, the Auditor General suggested that the cost of that procurement went up by over half a billion dollars. Of course, there are the F-35s. I guess it's possible that the associate minister and the minister have the estimates right on that one. But it's against all odds in just about every other estimate that I've seen in the world.

Can you take me through those examples and let me know how these kinds of billion dollar issues get accommodated within the budgetary process?

● (0930)

The Chair: I'll just interject for a minute.

As has already been pointed out by Mr. Valeriote regarding page 870 of O'Brien and Bosc, the parliamentary tradition has been that because vote 1 deals with most of the general operations and administration of a department, there is some latitude given by the chair for very wide-ranging questions.

For the benefit of our witnesses I want to go to pages 1068 and 1069 in Chapter 20 of O'Brien & Bosc, which says:

In addition, committees ordinarily accept the reasons that a public servant gives for declining to answer a specific question or series of questions which involve the giving of a legal opinion, which may be perceived as a conflict with the witnesses' responsibilities to the Minister, which are outside of their own area of responsibility, or which might affect business transactions.

I'll leave it to the discretion of the witnesses to answer questions that they're comfortable with.

I'll turn it back to whomever wants to tackle the comments by Mr. Kellway.

Mr. Robert Fonberg: Thank you for the questions, Mr. Chairman.

We did not come prepared to talk to a number of those issues. There are good responses to each of them. I would say they are outside the context for which we came.

I would turn to the CFO for one second to talk about how we establish and manage a \$20 billion a year organization, which has about a \$5 billion capital vote in it, within which we accommodate this. If that would be worthwhile, Mr. Chairman, the CFO would be happy to speak to that issue for a minute.

Mr. Kevin Lindsey: Thank you, Mr. Chair.

It is indeed an expensive business and the numbers are big. We actually manage a supply line coming out of the Canada First defence strategy that spans 20 years. When we look at our procurements, we look at them in the context of that timeline. The fact that in many cases we're talking about leading-edge technology means it takes a long time to develop and a long time to build. We have very long lead times. I'll speak to two complexities associated with that.

First is foreign exchange. We do our best to estimate the costs of materiel that might be delivered five or seven years hence. We make assumptions about what exchange rates will be, because we spend as much as \$2 billion to \$3 billion a year in transactions denominated in U.S. dollars. To give you an example of the complexity, this summer, over a three-month period, the Canadian dollar appreciated about 13% against the U.S.

● (0935)

Mr. Matthew Kellway: Mr. Lindsey, I do appreciate, as per the chair's remarks, that you can decline to answer the questions. I'm not trying to politicize anything. Take it out of the Cyclone itself. Let's say you have a procurement delayed by such and such a time, a couple years, whatever the case may be, and suddenly there's an extra \$600 million attached to it.

My question is really about scenarios like these, taking them out of the specific context. How do you deal with an additional \$600 million that arises suddenly? How do you deal with a procurement delayed six years and then it's another \$800 million that has to be accounted for? Again, with the F-35s.... Actually, forget about the F-35s, but let's say there's a procurement whose costs are vastly underestimated, for whatever reason, by billions of dollars. How would you deal with something like that? I don't know that exchange rates really get to the kinds of scenarios I'm trying to deal with, real-life scenarios that have just come up over the last two weeks.

Mr. Kevin Lindsey: Yes—

The Chair: The time has expired, Mr. Lindsey, so be very brief.

Mr. Kevin Lindsey: I'll be very quick.

I welcome the question. We actually have two separate capital budgets within our capital vote that you see in the estimates. One of those capital budgets lets us reprofile the money that goes unspent into future years, with tremendous flexibility, because the liabilities for those assets are out there, and the Department of Finance accommodates us in moving that money to match the delivery schedules.

For the second part of our capital budget, there is far less flexibility. To the extent that we're acquiring assets out of that part of the capital budget, it presents us with serious problems. One of those problems arose in 2010–11, where we lapsed about \$950 million—not the \$2.4 billion that's been alluded to. About half of that \$950 million was associated with projects that slipped. The liabilities for the assets are still out there when they get delivered, and we will have to find that money elsewhere in the budget in the year those assets are delivered.

The member's question is right on, Mr. Chair. It does present problems, and we do have to manage these very difficult cashflow changes occasioned by the slippage in project deliveries.

I won't go on, but currency exchange is a significant contributor to this issue that we have.

The Chair: Thank you.

Mr. Alexander.

Mr. Chris Alexander: Thanks very much, Chair.

I have two quick questions, I'm not sure for whom, but our witnesses will know who is best qualified to respond.

I'm of course interested, from my own previous background, in these transfers to Foreign Affairs and International Trade. I know the important role our defence attachés and other defence personnel play in our missions abroad. Could the witnesses tell us which Canadian missions abroad get this funding and for what purposes? Is this transfer something done annually, or has a special case arisen this year?

Vadm Bruce Donaldson: Thank you, Mr. Alexander, for the question, through you, Mr. Chair.

This is an annual agreement wherein we transfer money to Foreign Affairs in support of attachés for accommodation, communications, and these sorts of things. Specifically, this transfer deals with the embassies in Serbia, Chile, China, Korea, Afghanistan, and

Pakistan; and with Canadian defence liaison staff in Washington; our work with Operation PROTEUS in Jerusalem; the multinational force observers in Egypt; our force in the Golan Heights; Operation ATTENTION, our training mission in Afghanistan, and Operation ATHENA, our close-out mission now.

I can go into more detail about the type of support provided, but it is transferring under an agreement that when they provide a service, we'll pay them for it.

● (0940)

Mr. Chris Alexander: Thank you.

One other item that relates to the transfers, in this case to the National Capital Commission, is for construction and maintenance of a commemorative naval monument. I'm wondering if our witnesses could tell the committee a bit more about the monument in question. Is it an existing or a new monument? Obviously, not this year but a short while ago, we just had the centenary of the Royal Canadian Navy.

Could we hear more about that? Because it will obviously have visibility.

Vadm Bruce Donaldson: Mr. Chair, this was a project to mark the centenary of the now Royal Canadian Navy with a monument, essentially to honour the fallen from the RCN and the Canadian navy. It is located at Richmond Landing, just below Parliament Hill. Construction started about a year and a half ago. It is about two-thirds complete, I think. The last time I went by it on a bicycle, I actually saw a number of the panels in place. It's quite a unique design selected in a competition. Ground was broken about a year ago.

The transfers are really to complete the funding of the project, for a total cost of \$2.33 million. I'm not aware of exactly when it will be opened. It may well depend upon the harshness of the winter this year. But I suspect that the navy commander would hope to have a ceremony for the Battle of the Atlantic this Sunday at that site.

Does that answer your question, sir?

Mr. Chris Alexander: Yes.

I have one more quick question, which none of us got a chance to ask of the ministers, but which I think is relevant for any hearing such as this.

We understand the scale of the budget. We understand the challenge of contracting and contractors who may not perform—and the metaphor of a 747 landing on an aircraft carrier is quite revealing in that respect.

But you could tell us, Deputy Minister, or other witnesses, do these supplementary estimates respond to what the Department of National Defence requires to do its job, as of today, the beginning of December 2011?

The Chair: Mr. Lindsey.

Mr. Kevin Lindsey: I would perhaps defer to the vice-admiral, if he wants to add more. I would say that these supplementary estimates do respond to our financial requirements for 2011-12.

I would say, Mr. Chair, that we diligently manage our appropriations. You will know that there remains one more set of supplementary estimates this year. Mindful of that, we took a minimal approach to supplementary estimates (A) and (B) in an effort to manage the appropriations that we've been allocated so far, knowing that to the extent we may need additional funds, there remains supplementary estimates (C) to give us what we need. That said, I expect there will be a very minimal request in supplementary estimates (C).

Mr. Chris Alexander: Thank you.

The Chair: Thank you.

We're going to move on.

Mr. Valeriote.

Mr. Frank Valeriote: Thank you, Mr. Chair.

Many of us at this table come from a business background. I have had a number of businesses, and I am the chair of a large quasi-public corporation. I always felt it was my responsibility to unlayer the onion on behalf of the stakeholders.

In this case, the stakeholder is the Canadian citizen. With that in mind, I hope you'll understand the spirit of this next question. It is about the answer that we were given by Mr. Fantino on the F-35. He said that when it came to comparing ourselves with the Norwegians and their purchase, it was like comparing apples and oranges. I'm sure that before he would say that, he would inform himself of the accuracy of his statement. I didn't have an opportunity to pursue that with him; there was no more time. But in informing himself, he would no doubt rely on you.

You might not be able to answer this question here. If not, perhaps you could undertake to give this committee the answers later, but was a comparison done—as would have happened in any corporation I chaired—with other purchases to see whether we were purchasing apples and not oranges? If so, will you forward that information to the committee so that we can learn why one country is paying so much less for so much more when it comes to the F-35s?

Would you have undertaken that comparison? If so, while you might not be able to tell us now, will you give us all the information and the comparisons so that we know it's apples and oranges instead of all apples or all oranges?

● (0945)

The Chair: I'm going to come back to the issue of relevance and staying on supplementary estimates (B). Although the ministers addressed the F-35s, I'll leave it to the discretion of our witnesses whether or not they want to respond now or later.

Mr. Chris Alexander: I have a point of order, Mr. Chair.

Mr. Valeriote may not be aware that the committee's next study relates to the defence of North America. Capabilities to defend North America now and in the future will be very much before this committee, with full preparation by witnesses, and so forth. He needs to know that is the context in which we are operating and that today's meeting is about supplementary estimates (B), which deal with entirely different issues.

Mr. Frank Valeriote: I won't be here, and I can't know whether this question will be asked later. So if they're prepared to answer now, I think it's up to them, as the chair has said.

The Chair: I can't censor this. I can only say whether or not it's relevant. I also can assure Mr. Valeriote that his colleague, Mr. McKay, likes to talk about F-35s as well.

I'll turn it back to our witnesses.

Mr. Robert Fonberg: All I would say—and Dan Ross might want to say a word about this too—is that we don't know exactly what the Norwegians purchased. There are base aircraft, and then a series of options and spares, and a lot of other things, for that aircraft. So I don't think it would be appropriate for us to be speculating on exactly what the Norwegians have purchased, as opposed to what we know that we have purchased. That would be information that's proprietary to the Norwegians. I think it was in that spirit that the minister talked about apples and oranges.

Mr. Dan Ross (Assistant Deputy Minister, Materiel, Department of National Defence): All countries will pay the same unit flyaway price, the price of a complete aircraft. We'll all pay the same price in the year that the aircraft is produced. For example, in respect of the CTOL variant in, let's say, 2017, all of the countries that order the CTOL will pay the same price. All the other factors are unique to that country—the weapons they choose to put on that aircraft, how many they want, the infrastructure changes they want, and the training approach they want. We don't have any insight into how the Norwegians or the Dutch or the Italians will approach their internal costing. But we do know that the basic price of the aircraft is the same for all MOU partners.

Thank you.

Mr. Frank Valeriote: We don't know whether they're apples and oranges, that's my point. We really don't know whether they're apples or oranges because we haven't done that comparison. Until this committee actually sees a comparison, we can't rely on the statement that they're apples and oranges.

DND is requesting \$1.2 million from the Department of Fisheries and Oceans for the marine security operation centres. Additionally, DND will be spending \$28 million for those centres in subsequent years. In other words, they have reprofiled the funds, thus allowing DND to reallocate this amount to other programs this fiscal year.

Why was it necessary to reprofile \$28 million for the marine security operation centres? What is the total budget for those centres, and how much has been spent to date?

● (0950)

The Chair: Thank you, Mr. Valeriote. Your time has expired, so we'll just have a quick response, please.

Mr. Robert Fonberg: Okay.

Regarding the MSOCs, I'll let my colleague speak to that soon.

I just want to make sure that the record is clear. I think Dan Ross clarified that the basic flyaway price in the year the F-35s are purchased will be the same for everybody purchasing in that year. The probability that everybody else's internal domestic pricing and needs would be exactly the same is probably close to zero. The apples and oranges distinction that the minister raised is probably accurate. It would be highly unlikely that what we needed exactly in terms of weapons, infrastructure, and all of that kind of stuff would be exactly what the Norwegians were after.

I would leave it at that, and ask the CFO to speak to MSOCs.

Mr. Kevin Lindsey: Thank you, Deputy.

Mr. Chair, with respect to the \$28 million that is available to fund other initiatives because of the reprofiling, there was about a six-month delay in getting effective project approval to proceed with the construction of the centres. As a consequence, the spending has been pushed to the right. This \$28 million simply reflects that delay. It has nothing to do with a backing off on the commitment. It's simply a delay in the approval process, which affected the project schedule.

The Chair: Thank you.

Go ahead, Madam Gallant.

Mrs. Cheryl Gallant: Thank you, Mr. Chairman. I'll be sharing my time with Mr. Chisu.

There was a story in the news recently that the Department of National Defence cannot spend all the money it's allocated in a year, yet we hear testimony saying that more money could be used for this or that. Earlier in the committee today, Minister Fantino explained that when something that has been procured and had money allocated for it is not actually delivered, that money has to go back to the central fund.

Is this news story referring to when that money goes back to the central fund? DND couldn't spend it all because it didn't have delivery of an item for which it had to pay.

Mr. Kevin Lindsey: Mr. Chair, the 2010-11 fiscal year is a very good example that we can use to answer this question. The public accounts will show that, versus the amount of money that was appropriated by Parliament compared to what we spent, there was about \$2.4 billion unspent. However, in any given fiscal year, the executive has the authority to reduce the spending ceiling that Parliament has given us.

In 2010-11, that authority was reduced by about \$1 billion. That \$1 billion, Mr. Chair, was associated with funding related to projects we expected to have to spend money on, but which we did not. That \$1 billion in 2010-11 reduced our spending authority. That money will be made available to DND in the future.

A further \$450 million or so of that \$2.4 billion was carried forward pursuant to the regime that all departments have, a normal operating budget carry-forward regime. A further \$50 million was unspent because of money that we had allocated to us for security at the Vancouver Olympics, which we did not need, leaving \$950 million lapsing.

I can address the specifics of your point, and go back to a point I made earlier. DND actually manages two distinct capital budgets within its capital vote. One of those budgets allows us to reprofile

money as necessary. That's the part of the budget from which the \$1 billion I alluded to earlier came from—the \$1 billion out of the \$2.4 billion that lapsed because of delivery delays. That money has been moved to the right, and will be made available to Defence in future years when those liabilities arise.

The second capital budget does not give us those same flexibilities. So, included in that \$950 million that lapsed is about \$500 million in capital spending associated with specific projects under contract, where the money will not be moved to the right. We will have to fund those liabilities, when they arise, out of funds we didn't expect to have to use for that purpose.

An example of that phenomenon is the maritime helicopter project, where we had budgeted to spend approximately \$250 million in 2010-11. The helicopters were not delivered. Consequently, we did not pay any money to Sikorsky. Central agencies turned down our request to reprofile that money to the future. As a consequence, that approximately \$250 million lapsed, and is included in that \$950 million that I just alluded to. That's the biggest single project representing that phenomenon. There's about another \$250 million associated with other projects that fall into the same category.

• (0955)

Mrs. Cheryl Gallant: Thank you.

I'll hand off to Mr. Chisu.

Mr. Corneliu Chisu: Thank you very much.

I have a very quick question. The supplementary estimates (B) list a transfer from Social Sciences and Humanities Research Council to support the indirect costs of federally funded research at the Royal Military College. There are also several other transfers to the RMC. Can you explain the various transfers to the Royal Military College? It is a reputable institution, so I'm happy to see these transfers, but can you explain them?

Mr. Kevin Lindsey: Thank you for the question.

Mr. Chair, as granting councils the Social Sciences and Humanities Research Council and the Natural Sciences and Engineering Research Council provide funding for research deemed worthy in educational institutions across the country. RMC is an accredited university with a robust research capacity, and so some of the projects of the researchers at RMC were deemed to be worthy of funding from the council.

This supplementary estimate serves to transfer money from the granting council appropriation to DND, money that will ultimately be given to RMC to fund the research and, in a couple of cases, research chairs.

The Chair: Thank you. The time has expired.

[Translation]

Mr. Brahmi, you have five minutes.

[English]

Mr. Tarik Brahmi (Saint-Jean, NDP): Thank you, Mr. Chairman.

I'd like to follow up on Mr. Kellway's question.

[Translation]

It is about the dangers of underestimating the purchasing costs for F-35s in particular. Imagine if we have quite significantly underestimated the F-35 costs. Could you tell me what budget mechanism will compensate for that discrepancy?

In other words, where do we get the supplementary amount to make up for underestimating the F-35 purchasing costs?

Is there no answer?

[English]

Mr. Kevin Lindsey: Mr. Chair, I take the question as not pertaining specifically to the F-35 but to provisioning in general. I would emphasize—and my colleague, the ADM Materiel, may want to intervene—that DND has actually a fairly solid record in estimating costs. Yes, some projects do go over.

[Translation]

Mr. Tarik Brahmi: Let me stop you right there.

Imagine we have a specific project, be it the F-35s or not, that was not estimated correctly. What budget mechanism can we use to compensate for this discrepancy should we have to pay for additional purchasing costs?

[English]

Mr. Kevin Lindsey: The government would first look to DND to fund that cost overrun from within its approved reference levels. DND would have to demonstrate with absolute clarity that it was unable to shift its priorities to cash-manage a cost increase to a particular project. We do not—certainly on my watch, we have not—come in looking for supplementary estimates to fund cost increases for projects.

Wherever there is a new federal initiative, such as the federally contaminated sites action plan, which is funded on a horizontal basis, we come in and we ask for a supplementary estimate. We have not and we do not ask for supplementary estimates to fund the cost increases associated with projects. I suspect we would not get support to do that from Treasury Board Secretariat or the Department of Finance.

•(1000)

[Translation]

Mr. Tarik Brahmi: I would like to talk about something else. In my constituency of Saint-Jean, rumours are currently going around about job cuts or the downsizing of military bases. Those rumours include the military base in Saint-Jean. Every time this question comes up in question period, the minister says that there is no such plan and that we should not worry.

Now that we have the senior officials here with us, could they go through the budget lines and compare the previous estimates with this year's estimates in order to show us that there is actually no plan to kill jobs or to entirely shut down bases or parts of military bases?

[English]

The Chair: Again, there's the matter of the relevance of this to the supplementary estimates (B), and also the role of public servants and the responsibility they have to ministers and for future financial

transactions. I'll leave it up to the witnesses to determine how they want to handle that question.

Mr. Robert Fonberg: Let me just say a couple of things. First of all, we won't answer questions based on rumour, obviously. I don't think, Mr. Chair, that members would expect us to do so. I don't know that the vice-chief would want to take a question, particularly a question on St. Jean.

On the issue of jobs and bases, I think it's well understood by everybody that as we go through a period of fiscal restraint to deliver on the government's commitment to reduce its budget deficit by, I guess, it's now 2015-16, all departments have, through the course of the strategic review over the last few years, and now through the course of the deficit reduction action plan, been working—

[Translation]

Mr. Tarik Brahmi: Okay, but can you point to a specific line in the estimates where it clearly says that no cuts have been planned?

[English]

Mr. Robert Fonberg: No. The answer is no, there's no line in these supplementary estimates that I could point to in answer to that question, Mr. Chairman.

The Chair: The time has expired.

Unless, Vice Admiral, you have anything to add, we'll move on.

Mr. Norlock, you have the floor.

Mr. Rick Norlock: Thank you very much, Mr. Chair, and through you to the witnesses, thank you for appearing.

This is probably best addressed by the vice admiral.

Vice Admiral, with regard to weapon systems and capabilities of either our current aircraft or proposed aircraft, do we share that information publicly with any other nation or entity?

Do we share the full capabilities of our aircraft? Is it a matter of public knowledge, or is it a case that some of it would be confidential?

VADM Bruce Donaldson: Mr. Chair, the full capabilities of any of our weapon systems are classified confidential or more. When you look at aircraft in particular, the full capabilities can be as high as top secret.

Having said that, there are mechanisms for sharing information with our allies—and, in fact, necessarily with our allied militaries. We must understand the capabilities of weapon systems in a coalition environment.

Mr. Rick Norlock: Admiral, would I take it from that response, then, that when Minister Fantino mentioned apples and oranges, he was probably referring to each nation not necessarily sharing the full capabilities of its aircraft, and therefore to our having no way of accurately measuring the costs vis-à-vis their requirements of and orders to the producing company?

Vadm Bruce Donaldson: In certain respects, I would expect, not only from a military capability standpoint but also from a commercial proprietary standpoint, that they would not share elements of this with us. In other respects, it is a common aircraft being purchased by allies, and to that extent there is sharing of the information.

Mr. Rick Norlock: Thank you very much, Vice Admiral. Since the chair is giving some latitude, that leads me to the second part of the question.

When we toured CFB Trenton with Minister Fantino, we did look at our aircraft. The Royal Canadian Air Force personnel explained to us that what we have done, especially when we purchased the new Hercules—what I call the second phase of the Hercules—was to purchase it with equipment that was relatively common to that of our allies, and for one specific reason, which leads me to a second question.

When we need to repair or replace certain items on these aircraft that so many nations buy—and I'm referring to Australia and other countries that are buying the aircraft—there is a savings to be found. If you customize the aircraft, which the aircraft manufacturer love, then you can get soaked, to use the common phrase, when you have to get these planes repaired.

This question is perhaps to the vice admiral, or the deputy ministers.

Do we do a comparison of the savings? In other words, can you go to the minister, the government, or the public at large and say, “Do you know what we saved?” In the real world, with regard to Mr. Valeriote's question, you want to compare savings as opposed to talking about customization: “We like this, but we're going to buy that, and doing so saves us such-and-such.”

Do you do this, and is it reflected in reports to Parliament, such as supplementary estimates or budget items?

•(1005)

Mr. Dan Ross: Thank you for the question, Mr. Chair.

What you're referring to is actually common to a number of our fleets. The process involves joint user groups, normally within NATO. What we do deliberately is to minimize the customization and Canadianization.... The members of the joint user groups share modification costs—in many cases, it's the software upgrade costs—amongst all the participants.

The second part of your question was whether or not we know exactly what we save. We don't know specifically what we would have paid for a change to the aircraft when we initially buy it, because we do not negotiate that different price. We're not interested in that different capability, so we don't negotiate that. Over time we could make approximations of what our interim support savings would be, but again, compared to what? Making comparisons to something you didn't do makes it fairly difficult.

Lastly, we don't report those speculative estimates to Parliament. We don't.

Mr. Rick Norlock: Thank you very much.

The Chair: Thank you.

Mr. Christopherson.

Mr. David Christopherson: Thank you, Chair.

And thank you to our witnesses for their answers.

I want to stay with the last issue. I am having some difficulty reconciling the questions with the answers.

I'm looking at table 7, on page 45 of the public accounts. I'm looking at “Used in the current year”, \$20,309,812,000. Under “Lapsed”, let's call it \$2.4 billion. I'm also looking at “Available for use in subsequent years”, at \$10.9. Is the latter your eligible carryover of that amount. Correct?

Mr. Kevin Lindsey: Unfortunately, Mr. Chair, I don't have a copy of the public accounts with me.

Off the top of my head, the \$10.9 billion does not ring a bell. Our carry forward embedded in the “Lapsed” is actually about \$443 million. But I'm sorry, sir, the \$10.9 billion just doesn't ring a bell.

Mr. David Christopherson: Okay, well perhaps you can take a look at that. The minister offered to provide later responses to unanswered questions.

But let's use the numbers you've thrown out. During your answers, I believe you gave us amounts that would cover some of that to the tune of.... What was your figure, \$450 million? It's still left—

Mr. Kevin Lindsey: No, \$950 million was left.

Mr. David Christopherson: Right. Now that figure is still three times larger than the Auditor General criticized your department for a couple of years ago. So I'm having trouble understanding the comment that you're making improvements. I look at the numbers and I see your losing ground, particularly two years after the Auditor General pointed this out as a problem.

The department promised they would do something about this. Please help me reconcile these numbers with your statements.

Mr. Kevin Lindsey: Thank you.

Mr. Chair, I don't think you can judge the performance based on one year's data. Clearly 2010-11 was an anomalous year, and \$950 million, a very large number. I've attempted to explain what drove that number. When we look at the seven-year history going back to 2004-05, including the 2010-11 fiscal year, which was anomalous, our total lapse was \$1.4 billion on spending authorities of about \$118 billion. That's 1.2%.

I would be surprised, frankly, if anybody could show me an organization in this country that manages to within a percentage point and a half of their budget, given the tremendous uncertainties in the environment in which DND operates.

•(1010)

Mr. David Christopherson: Thank you very much.

When we were in the public accounts committee on this very chapter—you were deputy minister at the time, and you and I were both there—the following is a quote from you at that meeting: “But the first thing I would say is that the lapse in 2007-08, I believe was essentially”—now wait for it—“an anomaly. I believe there was one other time in recent history when we actually lapsed anything...”.

So we've heard this before. I would like to ask the deputy to give us a clear statement that in his opinion he has honoured the commitment his department made to the Auditor General, and a clear statement that in his opinion they are better at managing lapsed amounts found in the results of the 2009 public accounts.

Please make that statement straight out that you believe you have a better grip on it and that you're improving things.

From the deputy, please.

Mr. Robert Fonberg: Well, Mr. Chairman, I'm happy to make that statement. We have taken into account virtually all of what the Auditor General had to say and we have indeed improved. I think, as the CFO has tried to explain, a number of events last year drove us into the lapse situation that we had—some well beyond our control. And in fact—

Mr. David Christopherson: With respect, that's what was said in 2009 when we held the hearing—that it was an anomaly. We're hearing the same language. We were looking at \$300 million when the Auditor General said you had a problem and that this was unacceptable. Now the number is \$950 million and you're sitting there telling us that things are getting better. I don't see how.

Mr. Robert Fonberg: I have just two other quick points to make, Mr. Chairman.

One was the work of the public accounts committee, at that time, actually—

Mr. David Christopherson: —led to the increase in the two and a half, correct?

Mr. Robert Fonberg: —led the department—

The Chair: Your time has expired.

Mr. David Christopherson: Thank you, Chair.

Mr. Chris Alexander: I have a point of order.

For the record, Mr. Chair, I think we all need to be clear that there is no mention of any lapse in these supplementary (B) estimates, which are the subject of today's hearing.

The Chair: Mr. Fonberg, you have the floor.

Mr. Robert Fonberg: One point the member just mentioned, Mr. Chair, was the work of the public accounts committee to encourage our friends in the central agencies to carry forward more than 1%. As the CFO said, there is nobody in this country running any kind of an organization anywhere near the size and complexity of ours that could ever get to within these numbers. It's not possible.

At 2.5%.... It's similar to what the CFO is doing, and I'm sure he will come back at some point. But it is extremely difficult. Private sector companies do not actually operate that way. We have tracked this stuff. This is one of the adjustments we have actually made as a result of that Auditor General's report. It's one of a number of internal adjustments to track...much more carefully. And I can tell you, especially after last year and some of the work that we did with some forecasting companies and others, that we expect to have virtually no unintended lapse this year. We take account of what's happened in the past and we get better year after year after year.

The Chair: Thank you. I have one comment to make before we vote on the estimates.

The earlier comment by Mr. Lindsey about trying to manage foreign exchange rate risk actually tweaked my interest because, as a former exporter and someone who always had to deal with exchange rate risk, it was something I was always cognizant of and was locking in dollars and forward contracting dollars.

So how does the Department of National Defence and the Government of Canada deal with the exchange rate risk when they're buying most of our equipment in U.S. dollars? If you could address that, I'd be interested in hearing the response.

Mr. Kevin Lindsey: As you might expect Mr. Chair, because of our capital acquisitions and the sources of those acquisitions, many of them are foreign. Moreover, because of foreign military arrangements, when we collaborate with allies we have a significant number of transactions every year denominated in U.S. dollars. In 2010-11, those transactions amounted to approximately \$2 billion. The amount fluctuates—sometimes it's higher, sometimes it's lower. So in 2011 it was about \$2 billion.

Between June and August of this year, you may recall, the Canadian dollar appreciated about 13% against the U.S. dollar. To the extent that we had closed sales and taken delivery of assets, hypothetically, in that period, we would have had a currency gain. Just using \$2 billion as an example, we would have had a currency gain of about \$260 million. That would have shown up in the public accounts as a lapse, when actually it should be a good news story. We would be held to account for the fact that we had lapsed that \$260 million, yet it should be a good news story.

I'll give you a real-life example. We bought strategic lift aircraft, the C-17s, I believe in 2007-08. Between the time we actually made the decision to buy those aircraft and took delivery, the Canadian dollar appreciated. At the end of the day, those aircraft cost us \$200 million less than we had anticipated simply as a result of foreign exchange.

Again, we have to manage that surplus and are held to account for those fluctuations when it comes time to talk about public accounts. Those are hundreds of millions of dollars in fluctuations that are unpredictable, utterly beyond our control, and show up in the public accounts.

• (1015)

Mr. Robert Fonberg: Can I add one point, Mr. Chairman?

When the Department of Finance put their budget forecasts together, they have an overall view on what the exchange rate will be for the forecast year. But only the Department of Finance can hedge on behalf of all of us through the Bank of Canada. So we have no ability to hedge. I'm sure that as an exporter, you would have been all over this issue in managing your risk down.

The Department of Finance will have a view on how much we're planning to acquire from abroad in any given year. They will have a view on the exchange rate. They take all of that into account in their hedging activities and how they set their budget.

The CFO is right that it is a good news story when the value of the dollar goes up but becomes a bad news story when we go to public accounts or get criticized for a lapse. It is often explainable by these kinds of factors.

Mr. Kevin Lindsey: I would add there is a downside, because sometimes the dollar depreciates against the U.S. dollar. So we bear the downside risk as well.

The Chair: Thank you.

As you know we have a responsibility, now that we've dealt with the supplementary estimates (B), to report them back to the House before the end of this allocated supply period, which we anticipate will be some time next week. So I'm going to call the votes.

NATIONAL DEFENCE

Department

Vote 1b—Operating expenditures.....\$5,350,225

Military Police Complaints Commission

Vote 20b—Program expenditures.....\$2,299,803

(Votes 1b and 20b agreed to)

The Chair: Shall the I report the supplementary estimates (B) 2011-2012 to the House?

Some hon. members: Agreed.

Mr. Robert Fonberg: Mr. Chairman, do you need us for these votes?

The Chair: No. You don't need to be here for the votes.

Mr. Robert Fonberg: Thank you very much.

The Chair: I will report this back to the House probably tomorrow morning. We've carried out our responsibility.

I want to compliment all members for being relevant with their questions, for the most part, and for being respectful to our witnesses. In all the years that I've chaired committees and dealt with estimates and supplementary estimates, it often gets very political. But I thought that today's questioning was really dead-on and dealt with the issues at hand in the financial administration of the government.

The meeting is adjourned

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