HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on National Defence

NDDN • NUMBER 044 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Wednesday, January 28, 2015

Chair

The Honourable Peter Kent

Standing Committee on National Defence

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● (1540)

[*English*]

The Chair (Hon. Peter Kent (Thornhill, CPC)): Colleagues, as you know from the notice, we're here pursuant to Standing Order 108(2) to continue our study of the defence of North America.

We have two witnesses with us today who I hope will be understanding of the unpredictability of events on the Hill, which may shorten our time today.

We have from the Conference of Defence Associations Institute, Mr. David Perry, senior analyst, security and defence. As an individual, we have with us Ugurhan G. Berkok, professor, department of management and economics, from the Royal Military College of Canada.

Mr. Berkok, I understand you're prepared to go first as you have an electronic presentation. Please go ahead. You have 10 minutes.

Prof. Ugurhan Berkok (Professor, Department of Management and Economics, Royal Military College of Canada, As an Individual): I wanted to draw your attention to three points, the first three you see on your screen, and then if time permits we can touch on comparable countries.

I don't know what the committee expected, but the first point is that currently we're spending about 1% of GDP on national defence. As you can see, about 10 years ago, the chief of the defence staff, General Hillier, was saying that the 1990s were the dark ages of defence because we cut everything—the wrong argument, definitely the wrong argument. Because it was post-Cold War, we were expecting not only a peaceful world, perhaps wrongly, but also we were cutting everything in the 1990s. Once you cut every department, you cannot leave National Defence intact. It's just a fiscal argument.

Second, along the same lines, about a week ago—

The Chair: Excuse me for just a moment.

Madam Michaud, I understand you were asking for the screens to be switched from English to French—

[*Translation*]

Ms. Élaine Michaud (Portneuf—Jacques-Cartier, NDP): I would like to have access to the French version and have it in my hands. I have the English version now, which doesn't really help me. I have the documents, but they are not arranged in a very logical order.

I guess my comment is for future consideration.

The Chair: I understand.

[*English*]

I understand that technically it would delay the meeting.

Ms. Élaine Michaud: For the next meeting just keep it in mind, please. Thank you.

[*Translation*]

The Chair: We will see what we can do for the next meeting.

[*English*]

That's quite a reasonable request. Thank you.

I'm sorry—

Mr. James Bezan (Selkirk—Interlake, CPC): But it is in French on the screen here. We do have French and—

Ms. Élaine Michaud: On your side, not here.

The Chair: To change it would delay the meeting, so let's proceed for this one.

I thank you for your consideration.

Prof. Ugurhan Berkok: The first point was that there are three examples to that kind of view. Currently we're spending around 1%, down from 1.4% maybe seven or eight years ago.

The first example is General Hillier's famous statement—everybody knows it—about the dark ages in the 1990s, but we were cutting everything. Defence cannot be exempted from cuts. They cut across the board.

Second, diplomats Burney and Hampson about a week ago in *The Globe and Mail* made the wrong comparison. They said Australia is spending 2%. Well, everybody in this room knows where we're sitting in the world. It's incomparable. Just look at the map. Australia has to spend more money on national defence than Canada does. That's very clear, because defence is an instrument of foreign policy, but it's a threat-based service the government provides.

Third, and this is an explosive dossier in the Canadian context, is the F-35s. Many people came out and gave us examples. The most prominent was Japan. Japan again is sitting in a place in the world. Of course they have to buy 100.

The criticism was why are we buying 65 aircraft whereas Japan and Australia are buying more than we are. Of course that is threat-based. If we're going to replace our fighter aircraft, there has to be some number, but those countries are not good examples.

Proceeding to the current situation regarding the navy shipbuilding and army equipment, there have been many cancellations and postponements in terms of army equipment and procurement process slippages in the case of navy shipbuilding. We are again in a situation post-Afghanistan in which I see really no urgency. It's not a carte blanche for the current government, but again I understand there may not be any urgency.

If you go further into the political argument, perhaps some of these have been sacrificed to balance the budgets.

This is the issue of demand for defence: how much do you want to spend on defence and when?

I'll pass to the next slide. The second point is on the governance of defence procurement. We seem to have settled on a sort of unsettleable governance form. Nobody else in the world has this. The process for the selection of the shipyards in Halifax and Vancouver in the huge navy shipbuilding strategy was applaudable. Everything went well, but nothing has been built yet. The secretariat is like three boxes, and perhaps if you add the Treasury Board, it's like four boxes side by side. For anything to go ahead, every box has to give you a green signal, which will delay the process.

In the next slide or two, we're going to see that many countries, such as Australia and Britain, which we can understand because we have similar types of governments, have moved away from this kind of governance structure.

Treasury Board, PWGSC, Industry Canada, and Defence: everybody has to say yes for this process to continue. I'll skip the details. Just imagine if one of the ADMs is replaced. It's going to take another six months for the new ADM to understand the process, the file. Delays will arise out of this structure of governance. That is a warning. In fact something has to be done. Perhaps somebody might listen to what I have to say.

Coordination is a need, so the secretariat is a coordinating mechanism. However well the coordination can be performed, the fact is you have four boxes in line. Moreover the secretariat doesn't change anything. The secretariat just tries to coordinate the four departments.

● (1545)

The first point was about how much you spend. The second point is on the structure of the governance in defence procurement. The third one is actually a significant sticking point in terms of how much money you spend. This is a buy Canadian policy. However much we complain about the buy American policy, which recently flared up....I don't recall.... In Vancouver, they are building the—

A voice: [*Inaudible—Editor*]

Prof. Ugurhan Berkok: Right, but we are doing the same thing. It costs our taxpayer in the region of an estimated 20% extra on every major procurement.

A voice: That's right.

Prof. Ugurhan Berkok: Now, there is no hard-core study on this. The Parliamentary Budget Office had some numbers concerning the ships. Historian Granatstein had some estimates; I don't know how he obtained them.

As for the way we work in terms of economic benefits, and this is a very advanced economy, our policy seems to be to buy domestic whenever domestic is available. It can be available, but it may be very costly. The Australians completely gave up this policy.

This is a luxury for us because we don't have immediate threats, so we may be relaxed about it, but the Australians have no room to manouevre. They buy for their defence something worth a hundred bucks by paying a hundred bucks. We are paying $120 because we want to have some things produced here, however much more they may cost.

Our economic benefits program is designed for domestic consumption rather than defence, for domestic constituencies, so it's absolutely inefficient. Regardless of the governments for the past 35 years, this has come down from all governments since the 1980s and maybe the late 1970s. There is no political undertone to this.

To remain within my time, I will show you here these comparable countries in terms of development, as well as our industrial structures. Sizes differ, but the similarities arise because we are all in NATO—Australia, sort of. We are small and developed and we have narrow ranges of defence industries.

There is one mistake on page 7 that I have to draw to your attention. In the second row in the table, in the far right column called “JSF”, you have to put a question mark. We are in the reset process. As for what they do, I'm talking about economic benefits, and we are using so-called offsets, the Canadian expression being “industrial and regional benefits”. Australia said no. The Dutch are moving away. The Norwegians have to move away because the whole European Union is moving away from these offsets.

Offsets mean that when the defence contractors sell us something, we impose a certain value, which at the moment is 100%, that they have to invest here, but then we are in a sense forcing them to do things. There are a lot of escape mechanisms. It creates a lot of inefficiencies. For example, there are the so-called multipliers. Let's say they have to invest $10. If they come and give me a dollar at Queen's, it counts as $5, so immediately we're not enforcing anything.

Shown here is what we do in the world. As you can see, Australia is on the very liberal end of it in the sense that they say to the Australian firms that if they do it as well as anybody else, they'll get the contract. In our case, we say that there is a firm doing it and at whatever the cost it will be done here. That summarizes the policy. We stand where you see the red arrow there. That's my fault. I—

● (1550)

The Chair: One minute, Professor, if you could wrap up.

Prof. Ugurhan Berkok: One minute? In that case, my last point will be on the F-35 project.

As opposed to all other economic benefit programs, the F-35 is incomparably better. I cannot say the same thing for other dimensions of the F-35 in terms of the strategic value, etc., but economically, all the Canadian companies that were part of this consortium...because the government intervened and opened the gates for Canadian companies to bid on the project. You had to be a member of the consortium so that Canadian companies could bid. All those Canadian companies that bid and won the contracts won them fair and square in world markets, so they are good.

If you're going to have an economic benefits program, you have to follow the lead of the F-35 project. That is, if you're going to support the Canadian industry, you have to open up the path in front of them by levelling the field rather than saying “This company will”; you're not supposed to pick winners.

At any rate, if I maybe have a second here, Germany moved away....

That's it? Thank you.

The Chair: Thank you, Professor Berkok. One hopes that we'll come back and have a chance for committee members to question you.

Mr. Perry, could you please make your opening remarks. You have 10 minutes, please.

Mr. David Perry (Senior Analyst, Security and Defence, Conference of Defence Associations Institute): Thank you, Mr. Chair and honourable members.

lt's a real privilege to be asked to appear before you today as part of your study on the defence of North America. In my opening remarks, I'll be drawing from a study, “Putting the 'Armed' back into the Canadian Armed Forces”, which was recently published by the Conference of Defence Associations Institute and the Macdonald-Laurier Institute. My remarks here will focus on the findings of the paper, but I'd be happy to expand into other areas in the discussion.

Almost a year ago the defence procurement strategy was announced to reform the way Canada acquires military equipment. Its objectives were threefold: delivering the right equipment to the Canadian Armed Forces in a timely manner, leveraging those purchases to create jobs and economic growth, and streamlining defence procurement processes. The implementation of this strategy remains a work in progress. Those aspects that are focused on streamlining procurement appear to have advanced the least.

More change is needed in this area because DND is facing a historically unprecedented problem in actually spending its procurement funds. Since 2007-08 an average of almost a quarter of DND's available vote 5 authorities haven't been spent as intended. Prior to this period, dating back to the 1970s, the historical average for this underspend was around 2% a year. This inability to use the available resources has meant that over $7 billion earmarked for procurement wasn't spent on procurement projects as intended.

lt's important, I think, to recognize that defence procurement is a problem around the world and that it has never been easy in Canada. This recent inability to spend money points to a relatively new set of problems that have significantly impeded defence acquisitions. These are attributable, I think, to five interrelated factors.

First, the procurement workload has expanded significantly over the last decade. Budget increases beginning in 2005, built upon in 2006, and then overlaid with the Canada First defence strategy provided the funding and policy coverage for the largest recapitalization process since the Korean War. Much of this funding increase earmarked for procurement specifically took effect in 2007-08, the same year DND started to significantly underspend its capital budget.

Since 2000, as a result of this increase in funding, the number of major crown projects reported by DND has increased threefold. As a result, there are currently 13 projects worth a billion dollars or more, and many of these, including shipbuilding, are significantly more complex than those we've done in recent history. At the same time, the amount of staff work required to ensure that projects comply with Treasury Board and other reporting requirements has increased significantly.

A second factor is that while this workload has increased, the acquisition workforce has not. The key departments—DND, Industry Canada, and Public Works and Government Services Canada—were all downsized substantially during program review in the 1990s. This left behind a much smaller and much less experienced workforce by the early 2000s. While procurement plans and budgets to fund them have increased since then, simply put, the workforce has not. As a result, the ADM (Mat) group at DND is now managing essentially twice the workload that it was managing 20 years ago.

A third set of factors contributing to the recent problem is program affordability and budgeting difficulties. The budget outlined in the CFDS was too small to acquire all the capital acquisitions outlined in the document, and since its release, much of this funding has been reduced and delayed. A lack of articulated strategic priorities has made resolving this gap between funding and capabilities a problem. In particular, a change to the accounting practices for capital projects means that project budgets are now eroded with each year of delay due to lost purchasing power in a way that they have not been historically. Therefore, procurement delays have resulted in significant capability decreases to keep projects within budget.

Fourth, DND's process of generating military requirements has come under significant scrutiny. While historically there have been concerns about the military seeking to gold-plate its equipment or wiring specifications to obtain particular platforms, the level of difficulty that these issues are now creating is different. Simply put, there's an issue with DND generating its requirements and then effectively communicating those to the rest of the acquisition workforce, the government, you, and the public. Because of this, several major projects have faced significant delays due to questions regarding the appropriateness of the requirements specified by the military, most recently with respect to the acquisition of new fighter aircraft.

Finally, all of these factors have led to a serious erosion of trust in the procurement process which has exacerbated these other problems. While this isn't the only cause, these trust issues are amplified by the F-35 project, which worsened relationships that were already strained. Because of this, trust in the bureaucracy, between departments, and between the bureaucracy and the defence industry has suffered and in turn has contributed to delay-inducing increases in reporting requirements, committee-based governance structures, and extensive use of third parties.

● (1555)

All of these five factors remain prevalent today, but I should note that there have been some promising signs of improvement, most notably with the Halifax class modernization and frigate life extension project, which has proceeded on time and on budget.

To further improve these processes and ensure that National Defence can make best use of its available resources, the paper identifies 10 recommendations. I'll highlight three of them briefly.

First, the review of the Canada First defence strategy must be completed. As part of that review, DND should establish geostrategic priorities to direct future procurements, resolve the mismatch between funding and capabilities in its defence plan, and prioritize planned defence acquisitions.

Second, the size of the acquisition workforce needs to be increased, with a particular focus on the ADM (Mat), major projects delivery organizations, Industry Canada's industrial and technological benefit branch, and the national shipbuilding procurement and defence procurement secretariats.

Finally, this should also be accompanied by corresponding increases in the capacity of the acquisition workforce by improving access to training opportunities, reducing the posting cycles for both public servants and military members into key acquisition positions, and linking staff rotations to key project milestones. Furthermore, I'd recommend that consideration be given to creating a dedicated non-command career path for procurement specialists in the Canadian military.

Thank you. I'll be happy to take your questions.

The Chair: Thank you very much, Mr. Perry.

We will proceed now with the first round of questions in seven-minute segments, beginning with Mr. Williamson.

Mr. John Williamson (New Brunswick Southwest, CPC): Thank you, Chair. I appreciate it.

Gentlemen, it's good to see you here today. Thank you for joining us.

Professor Berkok, I want to probe a little into the point you made about the decade of darkness and your statement that it was a period of restraint generally. I have a couple of comments about that, and then I'd like to hear your view.

I think you're right. The Chrétien government was engaged in balancing the budget. Whether or not other programs or departments were cut, I don't think there's much debate that it was an awful time for the Department of National Defence, particularly when you look at the spending levels or the restraint that existed in this country both in the 1980s and the 1970s. But not all departments were cut. Aboriginal Affairs, for example, was spared the axe under the Chrétien government. As well, most of the program cuts were in health and education. Provincial transfers were cut by 30%, whereas many departments in Ottawa got off relatively lightly. There were some, like Industry, which was cut in half—subsidy programs—but I would argue that an industrial subsidy program is altogether different from looking at long-term military procurement.

Maybe I missed the point of that, except that you're saying it wasn't so bad because it happened to all of them, when in fact it didn't. I think if you just look at it in isolation, the 1990s were a decade of darkness for the Canadian Forces. Are you disputing that? What was your point there?

● (1600)

Prof. Ugurhan Berkok: I am disputing that. Similarly, if somebody tells us that Australia is spending 2% and we're spending 1%, is it another dark age? The argument is that the amount of money we have to spend on defence is determined by various factors, two of which, the most important, are the threats—Australia—and the fiscal situation. When you don't have the money, you don't have the money. You can spare the axe for Aboriginal Affairs, fine, or the transfers can be reduced, but nobody can claim a special status, especially defence, given that Australia is always around very dangerous waters and we're not.

What I'm saying is that we cannot pick and choose what determines how much we spend on defence. There are two major determinants. One is threats...well, foreign policy and threats, obviously, plus the fiscal situation. Those are the most important. The third one, equally important but over which we have no control, is how much all the equipment will cost us, so that's sort of—

Mr. John Williamson: Yes, although I would point out that at the end of that exercise, when we're sending our men and women to Afghanistan and they're going over in green combat fatigues and not desert fatigues, and when we're having to hitch rides from our allies, there's a significant impact on the capability and readiness of the Canadian Armed Forces as a result of the spending cuts. Again, Australia is interesting, but it's tangential to the point that the defence department took the brunt of the spending reductions under the government of the day.

Look, I agree with the broad strokes of their moving to balance the budget, but I find the argument you're making that.... You're right, in that it is based on what we need in capabilities, but I would say that the government left the forces in a position where effectively they weren't able to fulfill their mission or they went in unprepared. That's been altogether different under this government, where, if we send our men and women in uniform overseas, we give them the tools, the resources, and the capabilities to fulfill their mission.

Prof. Ugurhan Berkok: But as soon as we went in, then we realized—I think there was a sort of flagship signal—that we'd sent them in with those Iltis jeeps, and then we figured out that we were at war and we started spending. In fact, we were unprepared for that—that is true—but everybody was unprepared for 9/11 and what ensued.

What I've been trying to say is that there are conditions under which you cannot claim that we should spend more money. In the 1990s there was euphoria and everybody said the Cold War was over. So that was the time to cut. You can't call it the dark ages.

If you had made cuts during Afghanistan, that would have been the dark ages. We went in unprepared and we fully agreed, because we were just coming out of the cuts, and in a rush we started buying the air force equipment and the V-shape-bottom carriers against the explosive devices, and the bomb disposal equipment.

But you're right in a sense that at first we were unprepared, and then we started spending money.

● (1605)

Mr. John Williamson: Right. Thank you.

How much time do I have, Chair?

The Chair: You have 90 seconds.

Mr. John Williamson: Mr. Perry, in about 85 seconds can you compare and contrast how our defence procurement is occurring today versus how it has occurred under previous governments?

Mr. David Perry: Do you mean in terms of the process?

Mr. John Williamson: I mean the process and the result.

Mr. David Perry: I think the process has undergone some pretty significant evolution. It's become more intergovernmental. There are a lot of different perspectives and different viewpoints about whether or not that's made things better or made things worse. Some people, such as my colleague here, would say that it's going to necessarily slow everything down.

I think it's going to take a long time before we can actually tell what the real impact of that is going to be. Most of the new process has been applied very selectively to a number of the key files that were already in trouble and already very complicated and that were sort of halfway through their project life. It's going to take a number of years, probably a decade or so, to see that new governance structure applied from day one on projects and to have them move through that process from their conception to their close out. I think that's potentially going to represent a very significant difference, and we're not going to really know exactly what impact it has had for a number of years.

The Chair: Thank you, Mr. Perry.

[*Translation*]

Ms. Michaud, the floor is yours.

Ms. Élaine Michaud: Thank you, Mr. Chair.

First of all, I would like to thank our two witnesses for their particularly interesting presentations.

My first question is for whomever is best able to answer it, perhaps for both of you. I would like to briefly talk about the new defence procurement strategy that the government presented several months ago. Do you think that this strategy, in its present form, will have an impact and be able to at least partially address the procurement problems we are seeing right now?

[*English*]

Mr. David Perry: I think you have to look at that package and that strategy as a bunch of constituent parts. We're only starting to see some of the governance structures being put in place right now. It's also supposed to be accompanied by a revised industrial offset policy, which is still very much in its infancy and hasn't been fully fleshed out.

There are also components such as third party review and outside review at many different stages of the process, which are only just starting to come into effect.

I think that holistically there's definitely an opportunity for that to improve things in the sense of preventing key files from running into big problems. I think it's kind of important to contextualize some of the difficulties we've had. It's not as if the Department of National Defence can't buy anything, but certain key files, the big ones, the complex ones, have run into very significant difficulty.

If these changes can help improve the process such that those big projects aren't hitting the major roadblocks that our fighter file has and that our fixed-wing search and rescue had, for instance, then I think things will improve.

That being said, I think a number of the other issues that I'm highlighting, regardless of whatever the governance process is, can be strengthened in terms of budgeting, particularly in terms of resourcing. Unless you actually get enough resources and people with the right kinds of training in place, no matter how significant the improvements to governance and these other processes are, they're not going to have maximum impact.

[*Translation*]

Ms. Élaine Michaud: Did you have something to add?

Prof. Ugurhan Berkok: Is it the same question?

Ms. Élaine Michaud: Yes, did you want to add anything to the same question?

Prof. Ugurhan Berkok: The secretariat, which will have to look after procurement, will certainly improve things slightly because we are talking about a new coordinating institution that was not there before. In that sense, there will be an improvement, but the fundamental issue remains the same. If you have four boxes and you have a coordinating mechanism, things will definitely be better, but the fundamental problem is that there are still four boxes and everything stops if there is one yes or one no.

Ms. Élaine Michaud: Mr. Perry, you had raised another issue in your report, which was available in English only, unfortunately. So I had to struggle a little. You mentioned the impact of the staff being reduced over the years.

Mr. Berkok, you also briefly talked about that, or at least about the potential impact of staff rotations among military procurement specialists. My understanding is that this would be an important strategy to review.

If we look at the figures quickly, in the 1990s, there were almost 9,000 employees specialized in military procurement. In 2004, this number dropped to 4,200 and, in 2009, there was a slight increase of 155 people. So there are 4,355 employees. That is not enough and there is a lack of specialized knowledge within the various departments, if I understand correctly.

● (1610)

Prof. Ugurhan Berkok: We were just talking about that before the meeting. The major defence projects—as was mentioned, there were 10 or 12—are very important projects. We are not talking about buying computers or soap, we are buying major things. If Public Works and Government Services Canada staff are working on that, there are no particular economies of scale in doing things under the same roof, because these are two different things. These are big projects: we are buying F-35s, which is certainly very different from buying computers. If you transfer the staff from Public Works and Government Services Canada to the Department of National Defence, you will need fewer employees. Savings can therefore be achieved if this expertise is transferred to the Department of National Defence. I'm a bit disappointed with the governance of procurement.

Ms. Élaine Michaud: Did you have something to add, Mr. Perry?

[*English*]

Mr. David Perry: Sure.

I think the member raised earlier that during program review and the other major departmental reductions that started in 1989 as the federal government adjusted to the new fiscal situation in dealing with the deficit, a select group of those faced a disproportionate impact. Those were the most affected departments, or MADs. The significant take-away for the discussion today is that every one of the departments that plays a major role in defence acquisitions was part of that cohort that was most significantly reduced during the 1990s. As a result, at DND—that's the place where you can get the most relevant and easy metrics—they were reduced very significantly, with the good reason that the defence department was receiving less money, and less money for procurement. So the decision to downsize that aspect of the workforce at that time made sense.

What we're dealing with today, though, is a confluence of factors. There are fewer people, because that workforce was reduced and then it was never really increased, and it has actually been cut a little bit as part of the deficit reduction since 2011. The other key impact is that at that time, the way the packages for the public service and the military were apportioned out, they essentially incentivized people with a lot of experience close to retirement to leave and do other things.

So you have fewer people now, and the ones who are there don't have as much experience by virtue of where they are in their career path. You kind of have issues right now demographically where people who should be in middle management positions with a certain amount of experience didn't get that because they were brought in later.

The other impact of this is that at the same time over that period in the 1990s when we really didn't buy much in the way of big, complex procurements, people are now at a mid-career point never having had the experience of working on a big project. Had we not gone through that phase and that period, you'd have had a more even distribution of experience. I think we're very much dealing with an experience deficit, at least up until the early 2000s with the legacy of that period in the mid-nineties.

The big issue to look at going forward is how you actually address that capacity gap, and why departmentally it wasn't addressed more than it has been since the budget started going up in a significant way in 2005.

The Chair: Thank you very much. That's time.

Mr. Norlock, please, for seven minutes.

Mr. Rick Norlock (Northumberland—Quinte West, CPC): Thank you very much, Mr. Chair, and through you to the witnesses, thank you for appearing.

I'm very much interested in this subject. I have a lot of personal views that I'll keep to myself because, you know, we're part of a team.

One of the things I have noted, and I guess, Mr. Berkok, you can attest because I have here that you are from the department of management and economics, so an economist you may be. I have a couple of questions, and then you can answer them within the time allotted.

Most western democracies, if you look at their domestic press, are criticized for their procurement abilities and strategies. Despite what an academic may see, people in those countries just see problems with the military procurement processes. But I think, based on my experience as an MP, our ability to acquire C-17s, the C-130J, the armoured patrol vehicles, tanks, Chinook helicopters.... All these things were needed. They were needed rather quickly, and they were obtained quickly. So we were nimble. We were able to take processes the Canadian public, the majority of whom understood why it was being done, accepted.

In your opinion, how and why did the government have such notable success—I'll let you determine whether it was or not; I believe it was—with these projects, but not others? What lessons can be learned?

I will go directly to the national shipbuilding procurement process. Historically, if you go back 60 years or so, Canada did have a capability to build ships. We have the third largest navy, etc., etc. We lost that capability because we failed to keep renewing our fleets. Now we have a decision to make as a country. We have to renew our fleets. From my perspective it's a matter of how we get people working, how we regain that which we historically had, create the jobs, and from an economic perspective, then be able to be in the marketplace to sell that, such as the United States, which as far as I'm concerned is the power it is today because of its military industrial complex.

I wonder if you could each take some time to comment on what I just said.

● (1615)

Prof. Ugurhan Berkok: The first batch of acquisitions was bought during the Afghanistan war. We used the national security exception. That means we removed the checks and balances provided by Industry Canada. Are there possibilities we can do it in the country? We just bypass. In fact, in the case of many, we didn't have any capabilities, from C-17 to C-130 something, the Hercs, so we just bought them off the shelf. We didn't have the capabilities, so they were done quickly, swiftly. In fact, with the C-17s, the Americans kindly allowed us to cut in the queue. There were no problems there. I don't see any problems there. We needed them. We bought them. We didn't have capabilities, right? We don't manufacture aircraft. Actually, I will mention one, and we're bypassing and not considering that particular one.

Your second question regarding shipbuilding is more problematic. We have a policy going back to, if I'm not mistaken, 1911. We build ships here. It's a policy, not law. We always built our ships here. But we are in a new era. As an economist, I'm completely opposed to building the hulls here because we want to create jobs. That chips away at the defence budgets. Ships cost way more to build here than in allied countries from Denmark to Holland to Norway to Poland, and, if you count them as allies, Korea. They can do a way better job. We're building them here to create jobs. Whichever government comes in, I don't think they're going to change this. But as an economist, I'm appalled because we are in the 21st century, and you can buy them from your allies. We have some capabilities to.... Let me give you this information. If you build a combatant ship, the hull is only about 12% of the cost, even if you include the fact that our hulls must be such that they're operable up north. If you build a ship for the Mediterranean, it doesn't have to be that strong, double-hulled, etc.

Half the cost, 50%, give or take 5%, is combat systems. There you say, “We have some—we buy them mostly from Americans—but some other countries are ready to supply combat systems”. In a sense, when we build them here, it costs not only defence, but down there it costs me, the taxpayer, more to buy some jobs.

The Chair: Professor Berkok, in the interest of equal time, perhaps we could ask Mr. Perry to answer.

● (1620)

Mr. David Perry: I would agree with you that those sets of procurements you outlined were successes, but I think the important thing is to look at those and look at exactly what lessons you can take away.

Regarding the first two for airlift, I would argue, as would most of the people you talked to about this, that those are relatively unique, because those were requirements for which there were very few actual suppliers, and given the timelines as well as the ongoing operational imperative in Afghanistan, we didn't really have that many options. So I wouldn't look to those in particular as being a model you could replicate in very many other places.

The C-17s are probably the only pieces of major military equipment that Canada has legitimately bought, and ever will buy, off the shelf, because we usually make modifications.

The second batch for Afghanistan was also very successful, but I think that was very much driven by the wartime imperative. Essentially the defence requirement, almost explicitly, and no other consideration besides fielding equipment as quickly as possible, delivering it immediately to troops in need, was the only driving factor.

After all of those procurements that you mentioned happened, there was sort of a reaction within the rest of the bureaucracy such that, for very good reasons, the normal departmental imperatives at Public Works or Industry Canada were not followed through on. Now we're seeing a sort of recalibration such that considerations beyond purely defence issues are now exerting more influence over the system, which is part of the dynamic.

What was your question about shipbuilding?

Mr. Rick Norlock: Isn't it in Canada's best interests, since we don't have a shipbuilding capacity, to have the capacity perhaps with a view to, in the future, being a vendor of equipment to countries that are currently like us?

The Chair: Be very brief, please.

Mr. David Perry: Very briefly, I think there's potential value there in at least three ways.

First is any economic spinoff from the domestic economic activity, which you would offset against any price difference somewhere else.

Second, having a domestic shipbuilding industry is important for sustaining whatever ships you build, and you want to maintain that capability.

Third, in terms of exports, we have already seen, though not on the NSPS, the national shipbuilding procurement strategy, component, at least one major announcement about the export of some of the technology that went into the upgraded Halifax class frigates.

The Chair: That's time. Thank you very much.

Ms. Murray, go ahead, for seven minutes, please.

Ms. Joyce Murray (Vancouver Quadra, Lib.): Thank you. I appreciate both of you being here to help us understand how these procurement problems can be fixed and how we can have a better result than we've had over the last seven or eight years.

I want to understand about the funds left unspent.

Mr. Perry, I've seen comparisons about almost 25% of vote 5, which is for military equipment, being left unspent. Normally, historically, Canada leaves somewhere around 2% unspent.

Mr. David Perry: That's right. That goes as far back as public accounts have made those records relatively easy to find.

Ms. Joyce Murray: So this is a totally unique problem in the last six or seven years.

What about other countries? What would be a norm for funds that are approved by their Parliament, promised out, and left unspent?

Mr. David Perry: To be honest, I haven't done that kind of analysis.

Ms. Joyce Murray: Okay. It's unlikely 25%, but we're not sure.

You talked about the funding that was promised and left unspent and the procurement workload. At the same time, the NSPS came out with a whole lot of requirements.

I believe you said in your report that part of the problem was that there was no prioritization. Had there been prioritization, those things could perhaps have gone through more quickly instead of having everything plugging up the system at once.

Has that been solved, or is that still the case?

Mr. David Perry: To my knowledge the prioritization issue is still outstanding. There has been an active effort in National Defence to undergo a process in conjunction with the renewal of the Canada First defence strategy to look at prioritizing a shorter list of the very long list of projects they have to actually try to move those through the system more quickly, but to my knowledge it hasn't actually progressed.

Particularly problematic is that the Treasury Board meets only a certain number of times each year, and if you have three times the volume of files for which you could conceivably get a submission in and approved, then you have a problem, and you have to make some difficult choices about which projects you don't want to put on that list.

Ms. Joyce Murray: Okay. So it's not looking that hopeful if we continue to have clawbacks and we continue to have lack of prioritization and proper management of the flow of work.

The budget in the CFDS was too small to begin with. Was the process different from what is normally used to assign a budget for projects like that, or how did that come about?

● (1625)

Mr. David Perry: The process was different in the sense that the Government of Canada has changed the accounting standard. Historically, we used to assign project budgets in fixed dollars and then escalate them when we actually got closer to contracts. We've moved away from that process now, and things are always booked in pre-escalated budget-year dollars, which means that they're set to a fixed point in time, and if anything happens to the schedule, you inevitably lose purchasing power with any kind of delay, so that's different.

Where I'd point out that the—

Ms. Joyce Murray: Excuse me. Has that been fixed with the new procurement strategy or is that still...?

Mr. David Perry: Not to my knowledge. It's still the same budgeting process.

Ms. Joyce Murray: Okay.

So these all led to procurement delays, and then another factor you described was the additional red tape. Is that being addressed with the new procurement strategy, to your knowledge?

Mr. David Perry: It's supposed to be in terms of the streamlining, but my sense is that it is by far the least developed component of the whole defence procurement strategy, and I'm not really aware of any concrete action.

Ms. Joyce Murray: Okay. So we're really seeing, as the professor said, more business as usual, not changing the systems and the processes under the new system.

Professor, is it your view that Canada's system has more ministers and deputy ministers and wish lists in the pot than other countries you've studied, or is this the norm and is this why other countries struggle as well?

Prof. Ugurhan Berkok: What I've referred to is not quite wish lists, but the structure of the procurement.

Ms. Joyce Murray: No, I'm not talking about wish lists now. I'm talking about the structure, where you have Public Works, Industry, Foreign Affairs and Trade, and International Trade now, DFO in some cases, the Ministry of National Defence, and Treasury Board all having to make decisions together.

Prof. Ugurhan Berkok: My picture has four boxes. There are other bodies, of course, but the main bodies are Treasury Board, Defence, Industry, and PWGSC.

You are coordinating, and that's an improvement, but the fundamental problem is there. Some of our allies removed the dividing boxes and said, “Okay, here's the agency.” The agency can take different forms. For our procurement, we had a conference about a year ago. You can turn it into a crown corporation. You can turn it into a separate defence procurement agency. It can sit somewhere in the government, and you can even think.... The Brits took a foolish step: they took it back. They said they were going to have a private procurement agency.

Ms. Joyce Murray: The buck stops somewhere, in other words.

Prof. Ugurhan Berkok: With somebody; one body is responsible.

Ms. Joyce Murray: Yes. Is that what you would suggest should be the changed procurement strategy in Canada?

Prof. Ugurhan Berkok: We can at least have a discussion. We're not having the discussion. It's the first time in a major forum that I'm able to say we have to have a discussion. The Brits, the Australians, and many other Europeans moved in that direction. The Americans pretty much do it, but they have four different ones: army, navy, and air force, as well as the marines. But they are so big. Comparable countries mostly moved to manage them with one point of accountability. In 10 years we'll see the results.

Ms. Joyce Murray: Maybe you can clarify this. There was one thing on your charts that you didn't have time to speak to. In 10 seconds, what is the column that says “national champion” and Australia and Canada “no”?

Prof. Ugurhan Berkok: For national champions, it matters a great deal in the case of Great Britain. What they did in the procurement of some items.... The big British company—remind me—the huge one, the second-biggest company in world....

A voice: BAE?

Prof. Ugurhan Berkok: Yes, BAE Systems. For example, they have.... I recently wrote a report on that. We have the munitions supply program. It's an utterly inefficient program that we have. What the Brits did was to say, “BAE Systems, you manage this”, because there you trade off security, security of supply, against the costs. Now what we do is security at any cost, while the Brits said, “We trade them off.”

The Chair: Thank you, Professor. That's time.

We'll move now into the second round. We'll have five-minute segments, beginning with Mr. Bezan.

● (1630)

Mr. James Bezan: I don't think we'll have a whole lot of time here. I just want to point out that under the Liberals they didn't have any procurement issues because they never bought a single piece of equipment, so nothing ever got delayed. It wasn't an issue and problem back then.

An hon. member: And they paid for nothing.

Mr. James Bezan: And they paid for nothing. They were good at cancelling contracts. We know that.

I want to get clarification on this one chart you have. If understand it, Professor, in your comments, you've said that Holland and Norway are changing their offsets because, as you said, they're members of the European Union.

Prof. Ugurhan Berkok: Correct.

Mr. James Bezan: Norway is not a member of the European Union.

Prof. Ugurhan Berkok: It's a member of NATO.

Mr. James Bezan: NATO, okay, but your comment was that the European Union is changing procurement practices, not NATO.

Prof. Ugurhan Berkok: It was a mistake on my part.

Mr. James Bezan: I don't believe NATO is forcing members to change procurement practices.

Prof. Ugurhan Berkok: The European Union is moving toward rebuilding the offsets.

Mr. James Bezan: Yes.

I appreciated the presentations you both made.

I just want to follow up on the report you issued, Mr. Perry. You had a number of pretty good recommendations on how we need to move forward. Out of those recommendations, what do you think should be the number one priority and the number two priority for the government to consider at this point in time in our procurement processes?

Mr. David Perry: Their rank is the order in which they're listed.

Mr. James Bezan: Okay, follow it through and run with it that way.

We were talking about capabilities. As you mentioned, we have exported some of our capabilities in doing equipment upgrades, as we've done with the frigates with New Zealand. As we move forward, when we look at the joint strike fighter, and yes, everything is in limbo here in Canada, but have we not already seen benefits from...? Rather than it being strictly on industrial and regional benefits, going through the new process that was adopted by the joint strike fighter, are we seeing procurement opportunities for Canadian aerospace industries that are working with the coalition at this point in time?

Mr. David Perry: Yes, absolutely. I believe, just off the top of my head—

The Chair: If I could interrupt for a moment, I see the flashing lights that are calling us to a vote back on the Hill within 30 minutes. Perhaps you could briefly answer the question before we adjourn.

Mr. David Perry: Sure.

Absolutely yes on the benefits; off the top of my head, I believe it's about $1 billion already.

Mr. James Bezan: I'll move the motion to adjourn.

The Chair: We will adjourn.

Thank you, colleagues; see you in the morning.