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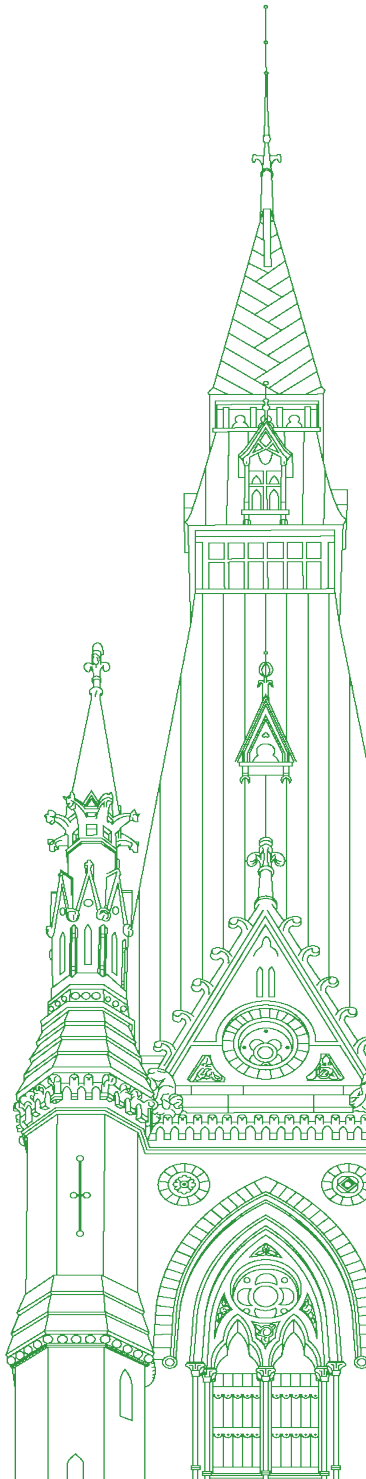

Chair: Mr. Robert Kitchen

Standing Committee on Government Operations and Estimates

Tuesday, March 29, 2022

● (1545)

[*English*]

The Chair (Mr. Robert Kitchen (Souris—Moose Mountain, CPC)): I call the meeting to order.

Welcome to meeting number 11 of the House of Commons Standing Committee on Government Operations and Estimates.

Today, the committee will be continuing its studies of air defence procurement projects and the national shipbuilding strategy. The committee will be considering each study separately. In order to keep the studies separate, we have asked each witness to make two statements.

To the witnesses, please remember we're asking for a three-minute statement, and then we'll go to questions.

In the first hour, the committee will be studying air defence procurement projects. Each witness will make an opening statement at the start of the first hour, followed by questions. In the second hour, the committee will be studying the national shipbuilding strategy, and the same witnesses will make another opening statement at the start of the second hour. After that, the rest of the time will be taken up by members' questions.

Today's meeting is taking place in a hybrid format, pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely via Zoom.

Regarding the speaking list, the committee clerk and I will do the best we can to maintain a consolidated order of speaking for all members, whether participating virtually or in person. I would like to take this opportunity to remind all participants at this meeting that screenshots or taking photos of your screen is not permitted.

Given the ongoing pandemic situation and in light of the recommendations from public health authorities, as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, the following is recommended. Anyone with symptoms should participate by Zoom, and not attend the meeting in person. Everyone must maintain two-metre physical distancing, whether seated or standing. Everyone must wear a non-medical mask when circulating in the room, and it is recommended in the strongest possible terms that members wear their masks at all times, including when seated. Non-medical masks, which provide better clarity over cloth masks, are available in the room. Everyone present must maintain proper hand hygiene by using the hand sanitizer at the room entrance. Committee rooms are cleaned before and after each meeting. To maintain this, everyone is encouraged to clean the surfaces of their desk, their chair and their microphone with the provided disinfectant wipes when vacating or taking a seat.

As the chair, I will be enforcing these measures for the duration of the meeting, and I thank members in advance for their co-operation.

I would like to welcome the witnesses here today and invite them to make their first opening statements.

We will start with Mr. Leuprecht.

[*Translation*]

Dr. Christian Leuprecht (Professor, Royal Military College, Queen's University, As an Individual): Good afternoon. Thank you for your invitation.

I will speak in both official languages.

[*English*]

My remarks will be in English.

My opening remarks on defence procurement highlight the myriad needlessly onerous rules that err exceedingly on the side of transparency and accountability instead of making good on getting the military the equipment that it needs. There is a trade-off between effects—that is, getting the troops the infrastructure and equipment they need—and the transparency to risk-manage the procurement process, assert political control and avoid an aggrieved bidder crying foul.

Without a new significant influx of money and with no immediate prospect for more staff, Parliament and government must look seriously at reducing the exceptionally onerous procedures that plague procurement and staffing processes. There are two options: either generate more staff and money, or simplify procedures that consume vast amounts of time and staff resources.

Both the Liberal government under Chrétien and the Conservative government under Harper tried to tackle the bureaucratic hurdles, but the red tape action teams got bogged down in red tape and never accomplished anything.

The CAF maintains 25 bases, wings and stations across the country. It has the largest real estate portfolio in the Government of Canada, with 10 million square metres of floor space, 21,000 buildings, 2.2 million hectares of land and 13,500 works that include roads, sewers and so forth. Due to the persistent lack of staff and financial resources, there's a consistent risk of failure. As a result, DND is responding to crises that cause costs to increase exponentially over what it would have cost to do proactive maintenance had DND been allocated the money to do so.

These are constraints imposed by central agencies, often at the behest of Parliament. DND returned $1.2 billion last fiscal year, which was about 5% of its overall budget allocation. That is an indication of the mismatch between funding and procedures. In other words, an increase in funding will not necessarily fix the CAF's procurement woes.

This committee should study in depth the copious and onerous procurement requirements imposed on DND and the CAF, to examine how these can be streamlined and aligned to ensure that the procedures that enable funding allocations are more optimally matched with the effects that Parliament and government intend to generate.

The committee might also look at alternative procurement models. One is to have a dedicated minister of defence industry, as in Australia, to ensure better political attention and expertise. It is necessarily spread thin for a single minister who is responsible for the single largest organizational employer in Canada, which makes up about a quarter of the federal government's direct spending.

The committee should also examine alternative procurement models, such as the Swiss approach of voting a budget envelope for defence on a particular issue, to that particular effect, but then defer to defence and government procedural mechanisms to decide on what effect to procure with that envelope.

Thank you.

● (1550)

The Chair: Thank you, Mr. Leuprecht.

We'll go to Mr. Perry.

Mr. David Perry (President, Canadian Global Affairs Institute, As an Individual): Thank you very much, Mr. Chair and members, for the invitation to appear today to talk about some of Canada's air defence procurements.

I want to start by noting that we've made some good and noticeable progress lately on several of these. Most recently, yesterday, for the second time in 12 years, we announced that we'll buy the F-35. I hope that this time the announcement actually results in the purchase of new fighter aircraft.

Beyond that, and some other projects related to remotely piloted air systems, surveillance aircraft and aerial refuelling and transport planes, there's momentum behind some of our procurements. I hope the Minister of National Defence's public statements about the modernization of continental defence, which she says will start shortly, will further enhance our air defences if those move forward.

While this will all strengthen our defence, collectively, I think these initiatives could benefit from three improvements: greater prioritization of defence procurement, an increase in our procurement system's capacity, and a more rigorous approach to scheduling.

Given the complexity of defence procurement and the multiple competing government objectives that have to be reconciled within it, procurements will move most quickly when governments clearly care about the speed of equipment delivery and make it a high priority. When that has been the case, major procurements have moved quickly, such as when we acquired transport aircraft and equipment for the war in Afghanistan in the late 2000s. Absent clear prioritization from the Prime Minister and cabinet, down into the bureaucracy and military, however, projects will move more slowly than they could otherwise. At present, it does not appear that defence procurement is a key Government of Canada priority.

The capacity of the procurement system also needs to be better calibrated with the volume of procurement projects that Canada is currently pursuing. The procurement workforce was downsized during a program review in the 1990s and has never been fully rebuilt to the same size. To cite one example, the materiel group at DND is only a bit more than half as big as it was at the end of the 1990s, despite working with roughly the same amount of money—adjusted for inflation today—as it did then. This mismatch between capacity and workload will be a key limiting factor in any attempt to accelerate the pace of air defence procurement projects or increase defence spending, including through the modernization of continental defence.

Finally, our procurement efforts could be strengthened by improving the rigour with which defence procurement project schedules are established. Too many of them appear to be set simply by starting from the date a new piece of equipment is desired and then working backwards, without any regard for the actual feasibility of completing the required work in the allotted time frame. Failing to account for the expected complexity and risk involved in a project, and the corresponding time it takes to complete, dooms projects to fail to live up to expectations from the outset and virtually guarantees that their budgets will be eroded by the impact of inflation over time.

Thank you. I look forward to questions.

The Chair: Thank you, Mr. Perry.

Now we'll go to Mr. Williams for three minutes.

Mr. Alan Williams (President, Williams Group, As an Individual): Thanks, Mr. Chair. It's a pleasure to be here to talk to you about these matters.

I'd like to begin by making a comment about the tragedy currently unfolding in Ukraine. We have a moral obligation to step forward and do our part in addressing the violence taking place now. In all likelihood, going forward we'll find ourselves in a similar position elsewhere in the world. To do our part, though, we can't continue to squander precious time and resources through abhorrent procurement practices, which are on full display in our attempts to acquire new fighter jets and new ships.

I'd like to talk for a moment or two about how to fix defence procurement, and then give some comments on the recent decision to acquire the F-35s.

For over a decade, I've been a fervent advocate of the need to establish one point of accountability. Christian mentioned this in his comments. Quite simply, there is excessive overlap and duplication between the roles of the Minister of National Defence and the Minister of Public Services and Procurement in Canada. Unless and until one minister is placed in charge of defence procurement, it will never be as efficient or as effective as it could be.

Among our close allies, Canada stands alone with this system of dispersed accountability. The United States Secretary of Defence is accountable for military procurement. In the United Kingdom, the responsibility falls to the Secretary of State for Defence. In Australia, defence procurement is under the authority of the defence materiel organization, which is accountable to the Minister for Defence.

In December 2019, I was encouraged that the government was finally going to act on this recommendation. The mandate letters at the time for the Minister of National Defence and the Minister of Public Services and Procurement included a directive to bring forward options for the creation of a new, single entity, “defence procurement Canada”. Sadly, my hopes were dashed when the December 2021 mandate letters to these two ministers no longer referenced this matter.

I recognize that addressing this governance issue will not solve all the procurement problems, but it is a necessary first step. The benefits of creating a single procurement organization go beyond strengthening accountability. First, the process would also be streamlined. At the present time, the process only moves as fast as the slower of the two organizations permits. The result is that many months can be lost due to briefings and approvals through multiple organizations.

Second, savings will emerge from the elimination of overhead and duplication of functions through the merging of PSPC and DND resources. These savings can help mitigate the impact of the significant staff cutbacks over the past two decades.

Third, until one minister is vested with overall accountability for defence procurement, it will be difficult, if not impossible, to introduce system-wide performance measures.

With respect to performance measures, famed management guru Peter Drucker once said, “Any government, whether that of a company or of a nation, degenerates into mediocrity and malperformance if it is not clearly accountable for results”. Without performance measures open to public scrutiny, performance suffers. We need indicators that, at a minimum, measure cost and timeliness. If costs are rising, why are they rising? If delays are occurring, where in the process are the bottlenecks? It is impossible to make improvements if we don't have a clear understanding as to where the problems lie.

Finally, we need a capital plan with the following attributes. First, it must be a fully costed, long-term plan. The Department of National Defence's defence investment plan is a weak and inadequate attempt to meet this need. It lacks sufficient granularity to be effective. The costing debacle of the CSC proves this point. Unlike the defence investment plan, the full life-cycle costs for each project should be displayed over a 30-year period and mapped against the projected available funds year by year.

Second, it requires cabinet approval. Cabinet approval makes it more difficult for governments to change priorities for partisan political purposes.

Third, it needs to be made public. The benefits of such a public plan would be far-reaching. From a public information standpoint, all Canadians would have a better understanding of what...and how the money is being spent. Parliamentary committees like yours could more readily provide rigorous oversight over these billions of dollars of expenditures.

Lastly, knowing that this plan is less likely to be modified, potential suppliers will more readily take the necessary time to position themselves in an optimum position to compete at the appropriate time.

With regard to the recent announcement, I do have a couple of concerns—

● (1555)

The Chair: Excuse me. I apologize for interrupting you, Mr. Williams.

Unfortunately, due to time, perhaps you can get what you're trying to say there in some of your answers.

Mr. Alan Williams: Yes. Thank you.

The Chair: We will now start with our first round.

Let's go with Mr. Paul-Hus for six minutes.

[*Translation*]

Mr. Pierre Paul-Hus (Charlesbourg—Haute-Saint-Charles, CPC): Thank you, Mr. Chair.

Good afternoon, gentlemen. Thank you for joining us.

My first question is about the news we heard yesterday on the pre-selection of the F-35. What we understood is that the F-35 has not really been officially selected and that what the government calls “dialogues” must still be held. It is being said that “dialogues” with Lockheed Martin could last up to another seven months.

Mr. Williams, what is your understanding of what those “dialogues” are?

● (1600)

[*English*]

Mr. Alan Williams: In fact, I was going to comment that I have two big concerns about the announcement.

The first is that simply making statements that it's $19 billion is inadequate. It's important for the committee to know: Is this the acquisition cost? Is this the long-term support cost, the long-term maintenance cost? We have seen over and over again cost estimates that are unbelievably low, which misleads both parliamentary committees and the public.

The second is that I was quite shocked, frankly, to hear that negotiations will be taking seven-plus months. Typically, when you run a competition, all the terms and conditions are specified in that proposal, and to respond you have to have met all of the conditions. Seven months is an awfully long time, and I am concerned when I hear that kind of information.

Interestingly enough, when we purchased the Cormorants, it took three-plus months. When we bought the maritime helicopter, it took about four months. That, in my experience, is typical of the amount of time it takes.

There shouldn't be a lot of nuance, not if they responded favourably and appropriately to all the terms and conditions.

[*Translation*]

Mr. Pierre Paul-Hus: In yesterday's announcement, assistant deputy minister Mr. Page, who holds your former position, said that, if any sticking points arose in the dialogues, the government would choose Saab's Gripen. So there are two options. If Lockheed Martin's F-35 is not selected, the other model will be.

However, if we open the dialogue with Saab and it does not work out, will we end up with nothing? That is how we currently understand the situation.

Are there any other options we are not seeing?

[*English*]

Mr. Alan Williams: I don't know if the question is directed to me. I'm having a very difficult time as I'm getting the English translation over the French simultaneously. It's very difficult to disassociate the two to understand the question. I don't know how to turn off the French and hear only the English.

I don't know if that's only my problem or if it's a problem for other people too.

The Chair: We're going to check this out, so bear with us for a second, Mr. Williams.

The Clerk of the Committee (Mr. Paul Cardegna): Mr. Williams, this is the clerk of the committee.

We are not indicating any problems on our side in terms of the translation. It's coming through the right channels. I wonder what you've selected, if you've selected either the English or the French translation or the floor channel.

Mr. Alan Williams: Okay. That might be better now, Chair. I think I can hear better, so I apologize.

Perhaps the question could be replayed, if it was directed to me.

[*Translation*]

Mr. Pierre Paul-Hus: Could we start over or do you want us to do a test first? Is it a problem with interpretation?

[*English*]

Mr. Alan Williams: I can hear the English, but I'm still hearing the French at the same time.

The Clerk: As you've logged in through the web, there is nothing we can do. The problem doesn't appear to be coming from our side, Mr. Williams. It appears to be coming from the web side.

Mr. Alan Williams: Okay.

The Clerk: I'm not quite sure how to rectify that, unfortunately.

Mr. Alan Williams: Okay. If the question is going to be in French, I'll try to hear it in French.

Mr. Pierre Paul-Hus: I will ask the question in English. I will try to help you.

My question is about the dialogue with Lockheed Martin. After six or seven months, if the government is not happy with the answer we receive from them.... Yesterday, assistant deputy minister Page said that he would switch to Saab. What will happen if the dialogue with Saab doesn't work? This is the question.

Mr. Alan Williams: First of all, I have to tell you, the odds of it not working out are infinitely small. You don't go to this stage, so I wouldn't put a high likelihood of that happening. There is too much money at stake, and the terms and conditions are so specified that I'd be shocked if it wasn't given to Lockheed Martin. Frankly, it should be given a lot sooner, if the thing is done right.

From a process standpoint, you're quite right. The government has the option of going to the other successful bidder, in terms of not being ruled non-compliant. There were two bids, and it can see if it can work out a deal with that company. If it can't, it has to start from scratch.

● (1605)

Mr. Pierre Paul-Hus: Thank you. I have another question for you.

In your presentation, you said that we can't continue to waste precious resources and time.

[*Translation*]

In French, it is a matter of “pratiques d'approvisionnement odieuses”. You used the word “odieuses”, which means abhorrent.

[*English*]

That word in French is very strong.

What do you mean by that?

Mr. Alan Williams: Frankly, you can look at the two programs we're going to be talking about today and be disgusted. Here we are, talking about 12 years before we get our planes. Christian mentioned that.

There was no reason 12 years ago, on July 16, 2010, to bypass all proper process and announce sole-sourcing for a jet. One does not spend billions of dollars of taxpayers' money on the say-so of someone. The way to make sure the military knows what it needs is to run a competition. In 2010, nobody had any idea what this thing would finally cost or even what it could do. To suggest that we should sole-source at the time was an abomination. Those things should not happen.

If they did not happen, then at the appropriate time—because these were going to be replaced by 2018-19—you go ahead and run the competition in advance and you get what you need in an appropriate time frame.

Mr. Pierre Paul-Hus: Thank you, sir.

Mr. Alan Williams: I just want to make one comment.

Mr. Pierre Paul-Hus: I don't have a lot of time.

Go ahead.

Mr. Alan Williams: I was going to comment on time frame.

In the year 2000, I did a study that showed that it was taking nearly 16 years to do a procurement. Myself and the vice-chief at the time, George Macdonald, agreed that this was unacceptable. We sent a directive to the men and women in DND who worked on procurements to say that from now on the military has two years from the beginning of the time when it needs something to the time it finalizes the statement of requirements. It has two years, and I, on the civilian side, have two years to get it into contract.

In fact, according to the department's own information, in 2011, they reported that we were successful in doing that. Unfortunately—

The Chair: Thank you, Mr. Williams.

I'm sorry for interrupting. If there is something further that you would like to add in answering that question, you could submit that in writing to the clerk and we would make sure we share it with the committee.

We now go to Mr. Jowhari for six minutes.

Mr. Majid Jowhari (Richmond Hill, Lib.): Thank you, Mr. Chair.

Welcome to all our witnesses today. I thank you for your testimony.

I'm going to start with Mr. Perry.

Acknowledging that your opening remarks were focused on procurement, I'd like to focus on another aspect, which is investment. That's an area you've also been vocal on, specifically on NORAD and NORAD modernization. I'm hoping that you're comfortable answering some questions on that front.

Acknowledging that NORAD is a system of systems, and the fact that for its modernization there are two schools of thought or multiple venues for modernization, would you be comfortable making comments about these venues? Which one would you recommend?

Mr. David Perry: I think there are a lot of different options being considered as part of that modernization, both for NORAD and for a wider set of efforts around continental defence. I hope we're going to see something quite soon.

What was laid out in a letter between the Minister of National Defence at the time and the Secretary of Defence from the United States—the day before our last federal election, I think—covered the waterfront, both literally and figuratively, in terms of what kinds of options Canada can contribute toward, along with the United States. There was a range of things: enhancing our Arctic infrastructure; improving the functionality of our forward operating locations, potentially putting one further north, for example; and replacing the north warning system with a range of modern systems to, with today's technology, provide the same function that the north warning system provided before, which is to be able to detect the key threats coming towards North America. I think there are a number of other investments we should look at in terms of command and control and various things like aerial refuelling tankers.

Hopefully that gets us—

● (1610)

Mr. Majid Jowhari: Thank you.

If I could be a bit more specific, I know we have an option of modernizing with the focus of upgrading and defence, as well as modernizing and expanding, which gets us not only to the defence side but also to the offence side.

What are your thoughts on that? Where would you suggest we focus?

Mr. David Perry: I think we need to look at doing both. We need a better understanding of what's coming towards North America, and we need better abilities to actually respond in the circumstances in which we want to respond, and that would be across all the different domains of warfare.

Mr. Majid Jowhari: If you're saying it has to be a model that's focusing on offence as well as defence, where do you see the recent acquisition, or at least the announcement around the 88 F-35s, fitting into NORAD, both in upgrading our defence side and in enhancing our offence ability?

Mr. David Perry: I think that's a significant investment that will make a really meaningful increase in our ability to contribute to the defence of the continent. I hope that project is prioritized as much as can be done. Hopefully we can look at some options for potentially getting early delivery.

That airframe, in particular, will significantly enhance our quantitative ability to respond, as well as make several step changes in terms of the attributes of that aircraft and how much of an advancement it is over the existing fighter aircraft we fly today.

Mr. Majid Jowhari: Thank you.

Given that F-35s are already being used as part of NATO with the U.S. and the fact that we may be in a position, as you said, with the hope of expediting the process, to benefit from that, how will that further strengthen NORAD?

Mr. David Perry: It will strengthen NORAD by providing us with a significant increase in the surveillance capacity of our fighter aircraft, as well as a much-improved ability to work with other airplanes, as well as other assets, either on the ground, potentially, or at sea, and to share information and pass it back and forth among different platforms to get a better sense of what's happening overall. It also provides a significant increase in our ability to potentially intercept either an aircraft or a missile coming towards North America and shoot it down.

Mr. Majid Jowhari: I have a minute and a half left.

I want to go back to the defence, as well as the offence. We know that traditionally NORAD, as it is in the U.S., is focusing on higher-altitude planes or missiles. There are some new developments around hypersonics by other states. Where do you think NORAD has to enhance, from an offence and defence...? Should it look at increasing the scope of including land or sea into this consideration?

Mr. David Perry: To talk about the last part of that first, I think the enhancement of our continental defence should definitely look at those aspects, particularly at sea. I'm a bit less clear about what the driving imperative is on land, but certainly in the maritime environment, I think we should be working as closely as we can with our American allies to make sure that the coastal approaches to North America are well secured. There's a discussion to have about who's best placed to do that, but I think the important part is that we make sure we have the means to do that, which would require moving quickly on our shipbuilding procurements.

In terms of the hypersonic issue, I think there are two parts: one, we have to have enough surveillance to be able to accurately track those particular missiles, which means we need a much more sophisticated and comprehensive ability to pick up that fast-moving and manoeuvrable potential threat; and two, we then have to look at ways of being able to at least intercept those weapons if we think they're armed with conventional warheads. There's a bit of a deterrence issue that comes into play if they're nuclear-armed, but they aren't always, at least as they're envisioned to be employed by some of the people who are fielding them. We need a better ability to intercept them if we think we need to.

The Chair: Thank you, Mr. Perry.

We'll now go to Mrs. Vignola for six minutes.

[*Translation*]

Mrs. Julie Vignola (Beauport—Limoilou, BQ): Thank you very much, Mr. Chair.

Mr. Williams, I hope you can hear me well and are not hearing an echo. Let me know if everything is going okay.

● (1615)

Mr. Alan Williams: I am still hearing both channels, the English and the French.

Mrs. Julie Vignola: Okay. I will speak slowly if that is the case.

Mr. Williams, you talked about red tape. In your notes, you say that Public Services and Procurement Canada needs to have specialized employees, in particular in aircraft procurement, to conduct verifications and controls.

To your knowledge, does the federal public service have such employees?

Mr. Alan Williams: I can definitely tell you that, when I was with the Department of National Defence, I had no difficulty finding people who could carry out the required tasks at the department.

[*English*]

I never found a shortage of competence, whether it be in the army, navy or air force, to help us work with industry and with our colleague departments to get the job done. I have a lot of admiration for the people who were in the ADM(Mat) organization and in their respective environmental organizations, and together—

[*Translation*]

Mrs. Julie Vignola: I apologize for cutting you off. I will clarify my question.

I would basically like to know whether there are public servants who have the depth of knowledge required to determine whether the prices proposed to them in part of a contract or in the whole contract are too high, considering market trends and so on.

Lockheed Martin was initially a sole source. Then the government changed its mind and finally came back with a contract concluded with both competitors, but one that still resembles a sole-source contract. That is exposing us to a danger of seeing the prices skyrocket.

Are there public servants at the department who are especially skilled in ensuring that the prices will not skyrocket, as we are seeing in other departments or in other projects?

[*English*]

Mr. Alan Williams: I have no problem with the same company being successful in different competitions. Good for them, if they can beat the competition openly, fairly and transparently, but I would argue that this is not the case that I think we're talking about. It appears to me that they did that on the F-35, but as we get to talk about the Canadian surface combatants, we might have a vigorous discussion or debate over that. I would argue that, in that case, the government abdicated its accountability for the program, off-loaded it to the private sector and let the private sector choose the companies with which it wanted to work.

Frankly, in this particular case, I don't think anybody in this room or anybody in the industry was shocked and surprised to see Irving pick Lockheed Martin. They were doing business with them for many years. They had a good relationship, and frankly, if I were in charge, I probably would have done the same thing. However, from my perspective, that is a totally different case about how Lockheed Martin got to be chosen. Others might differ on that.

In principle, every competition is separate, and I have no trouble with a good company winning more than its share.

[*Translation*]

Mrs. Julie Vignola: Thank you.

Still on the topic of the F-35 aircraft, I don't know who will be able to provide me with the best information. Perhaps Mr. Perry will.

According to an article published in July 2021 in the American publication *Defence News*, there were still seven critical technical flaws to correct on the F-35. However, the builder is refusing to specify what those flaws are. I think it would be important to know that, since the Government of Canada is a potential buyer.

Could you share your impressions on those seven flaws and on how they could impact the aircraft's airworthiness and durability?

● (1620)

[*English*]

Mr. David Perry: I think we should have a good understanding. From what I understand, that would be one of the things that could potentially come up as part of this finalization process, which will take some time, some additional months, before we get to the point where we're potentially actually buying the aircraft.

I think it is important to keep in mind that a lot of these airplanes are in continuous upgrades, basically, because they're effectively flying super computers. Because of that, there's software that's continuously being updated, and as that happens, you have to add additional features to make sure all of that works on an ongoing basis.

This aircraft has only been in production for a little over a decade. Actually, one of the benefits of buying it now—which we wouldn't have realized had we bought it earlier, the last time we decided to buy the airplane—is that currently more of these issues have been resolved and worked out than were 12 years ago.

The Chair: We will now go to Mr. Johns for six minutes.

Mr. Gord Johns (Courtenay—Alberni, NDP): Thank you, all, for your testimony.

We know Canada's men and women in the armed forces deserve the best equipment and support possible to carry out the difficult and dangerous work we continue to ask them to do.

Maybe Mr. Perry can start. Can you talk about how the choice of the F-35 ensures the safety of our men and women?

Mr. David Perry: I'll start by saying that buying any new airplane that was built this century would have been an improvement over the ones we're flying now, given the age of the systems and everything that goes into them. Again, I hope that we move quickly to start acquiring airplanes.

The F-35 is the most advanced fighter jet that's been available to us on the market. It's operated by many of our close allies, so we'll be able to benefit from their experience flying that airplane. We'll be able to work with them in as seamless a way as we could operating a fighter aircraft, and that plane will come with a whole range of very advanced, very modern technology for sensing, as well as communicating between different platforms.

All of those are going to have it provide to us a significant increase in our aerial firepower.

Mr. Gord Johns: Given that only 55% of our jets are serviceable right now, according to the department, 45% are currently grounded, and the advancing age of the fleet obviously comes with higher maintenance costs....

The Minister of Defence stated that the first delivery of jets will happen in 2025. Can you speak about the delay and how the government is asking our men and women to put themselves in greater danger? How much longer can we expect our men and women to do this work without significant and potentially deadly consequences?

Mr. David Perry: The first thing to keep in mind is that one of the key things that our air force focuses on is flight safety. We try to minimize the risk and ensure that we're only putting safe airplanes into the sky.

However, I think the basic point you're getting at is that when you have aircraft that are trending towards 50, it takes a lot more effort to keep them serviceable. You can do it. Canada has, unfortunately, shown that we can keep very old pieces of equipment serviceable for decades past their appropriate service life. It's a function of how much time, effort and money you have to put in to keep doing that, and we'll have to put more in as they get older.

Mr. Gord Johns: The Liberals, in 2015, campaigned against the F-35 to find a solution to better match the country's defence needs. Now that the F-35 is a front-runner again—it's been now chosen—what's changed?

Mr. David Perry: It went through a competitive process, which I think has changed some of the trust and confidence we can have in the selection of the aircraft. I think what happened between 2010 and 2014 with the F-35, fundamentally, was a significant loss of trust in that procurement, as well as in defence procurement writ large. Depending on how this current iteration of the process plays out, I hope that it restores significant trust in the process.

That's different, and it's a different airplane. It's had 12 years to mature and evolve.

Mr. Gord Johns: What about the measurable economic benefits of being a level-three partner all these years? Can you speak about that and what the benefit will be in the future?

Mr. David Perry: As part of the bid, we have arrangements that are unique, because we are in a partnership agreement. It came with certain rules that precluded us from buying that aircraft through the partnership agreement. We could have made a decision to leave it and ask for bids in that mechanism, but we didn't. That set parameters around how the economic benefits could be realized, so we basically have opportunity to win work over the long term.

I think we missed out on an opportunity for more work, had we decided to buy it earlier, because a lot of the decisions about fleet-wide sustainment were made years ago by the partners that had actually, at that point, decided to purchase the aircraft, which we still do not have to this day.

● (1625)

Mr. Gord Johns: You've heard us speak out, calling on the government to use a made-in-Canada approach to replace our aging jets and ensure that those jets are secured and have the ability to operate across Canada's geography, especially the Arctic, which you touched on. Any procurement really needs to have much-needed jobs in the Canadian aerospace industry, especially in Winnipeg and Montreal.

Can you see what kind of jobs might be created with this bid?

Mr. David Perry: All of the three original entrants—certainly the final two—had a large package of potential economic benefits distributed across the country, which was going to provide different types of specific programs and incentives. I think that, had we gone any particular route, we would have received a massive injection of economic benefits from this procurement.

The one with the F-35 is particularly unique, because it emphasizes participation in a global fleet of defence products. The other options would also have had huge employment and economic growth potential, just distributed in different ways.

Mr. Gord Johns: They have announced a fighter jet that doesn't have Arctic capability. What are the capabilities of the F-35 in the Arctic?

Mr. David Perry: I think there are several Arctic nations that have already purchased this aircraft. In the United States, they're flown in Alaska, and they're based in Alaska. Norway flies them. Finland is purchasing them. They are operated by other countries that operate them in Arctic environments, so we will definitely not be alone in that.

Mr. Gord Johns: How much time do I have, Mr. Chair?

The Chair: You have only seconds.

Mr. Gord Johns: I'll get to you on the next round. Thanks so much.

The Chair: Thank you.

We'll now go to our second round, starting with Mr. McCauley for five minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Welcome, gentlemen.

Mr. Leuprecht, I just want to chat with you a bit. You commented that the government seems to focus too much on transparency and accountability at the expense of getting stuff done. I think in this committee, over the last six and a half years, we have seen kind of the opposite of that. We've had to fight for transparency. Even just last week, we had PSPC in and the Coast Guard, and we could not get a straight answer on a wide range of issues.

Do you really think the government is sacrificing productivity to be overly transparent and accountable, or did I misread your comments?

Dr. Christian Leuprecht: We live in a democracy, so inherently transparency and accountability of governance are critical components of the legitimacy of the institutions that we have.

Whether you can get the answers you're looking for out of departments is a very different conversation than the rules that Parliament in particular imposes effectively on various government entities, and in particular the Department of National Defence, given that it has basically a quarter of direct government spending in terms of.... Those rules are imposed by central agencies, in particular by—

Mr. Kelly McCauley: How many of the problems that we have with procurement go back to risk management? There seems to be a lot more focus on a CYA attitude than getting stuff done and being accountable to taxpayers or to the military to get equipment purchased.

Dr. Christian Leuprecht: The more Parliament and government focus, as central agencies, on having careful, very super-onerous transparency and accountability mechanisms, the more it also discourages decision-making at lower levels within the department, because nobody wants to take a risk, so they push up that risk.

That means you also necessarily bureaucratize the entire decision-making process through the entire hierarchy of the department, precisely because civil servants will become significantly risk-averse. There are trade-offs that government needs to make. Government needs to ask whether, for instance, we have the trade-offs right with the effects that government is looking for versus what it is actually receiving—

Mr. Kelly McCauley: I don't think that government is asking those questions. I think it's the bureaucrats who are making the decisions on the trade-offs.

Mr. Perry, would you like to comment on the transparency and accountability part?

Mr. David Perry: I'd have to disagree significantly with my colleague about the transparency aspect. I think we're at a low point in recent years in terms of transparency around procurement, and committees like this remain one of the few venues by which government and government officials communicate about what's happening with multiple tens of billions of dollars' worth of taxpayer investments.

During the pandemic, I've seen things like updates to the defence capabilities blueprint, which have been touted as a transparency exercise, effectively stopped for reasons that I don't really understand, because you can do web editing from home, as far as I can understand.

● (1630)

Mr. Kelly McCauley: I would tend to agree. In this committee, we've been trying to get this study done for six and a half years now, and we're finally getting it done. When we had the Coast Guard and PSPC, every question was met with “It was COVID”, when asked about the delay and so on.

I have a question for Mr. Perry, and then Mr. Williams, about the issue of the offsets or the ITB. How much is that costing Canadians, perhaps taxpayers? How much less equipment are we getting to our military because we seem to have much more of a focus on ITB and perhaps votes in the area than delivering the best equipment to our military at the best price for our taxpayers?

Mr. David Perry: I think the short answer is that we don't really know. Basically, officially, we assume the answer is that there's no cost. I don't think that's a valid representation of what's involved in providing that kind of benefit. I do think we should probably look at it from a net benefit point of view: if there are costs, you also get a benefit in terms of economic productivity and weigh that against whatever it might cost in terms of the aircraft, to provide a full assessment about what we get out of that program, instead of just looking at the potential percentage points that you lose by requiring those types of investments.

Mr. Kelly McCauley: Mr. Williams, go ahead.

Mr. Alan Williams: I would make a few comments.

First, as David said, we don't know. I'm not sure we really want to know, but that's the way the game is played around the world. I'm not so sure we would want to do a disservice to our industry relative to what's going on everywhere else.

I will make the point that the change in how we use ITB to select a winning bidder is, to me, completely flawed. As you are aware, the old industrial and regional benefits structure basically said that any winning bid is going to be decided by the technical bid and the price. Every company would have to submit an industrial plan, which was rated pass/fail. Everybody knew how to play the game and nobody failed the industrial plan.

What we've done now, though—and we've seen it in the F-35 competition—is assign up to 20% to ITB. It didn't happen in this case, but I would say that there is a high risk going forward that if you put this much weight on industrial benefits, you are basically saying that you will be sacrificing optimum solutions for theoretical jobs in the future.

I'm putting on my former ADM—

The Chair: Excuse me, Mr. Williams. I apologize again for interrupting you. Unfortunately, it's due to time.

Mr. Alan Williams: That's fine.

The Chair: If there is a further response that you feel you can add to that, please submit that to the clerk in writing. I'd appreciate that.

We'll now go to Mr. Kusmierczyk for five minutes.

Mr. Irek Kusmierczyk (Windsor—Tecumseh, Lib.): Thank you, Mr. Chair.

I really appreciate the opportunity today to ask a few questions of Professor Leuprecht, whose book *Spheres of Governance*, which he co-edited with Professor Lazar, really influenced my thinking around multi-level governance. I was really looking forward to this exchange.

In a 2016 Toronto Star article, Professor, you talked about the Danish fighter jet procurement process. You stated then that “which jet Canada buys and how many is secondary to having a proper process”. Today we heard the testimony from Mr. Williams, who called the sole-source procurement process that took place under the previous government “an abomination”. We heard Mr. Perry talk about the lack of trust that defined that particular procurement process of the previous government.

Can you tell us why, in your opinion, a transparent and independent procurement process for these fighter jets is important?

Dr. Christian Leuprecht: In any procurement, you have three objectives. You want to make sure that you get what you are buying on time, on budget and with the capabilities you need.

It seems that in this country, we have great difficulties doing any of those three with the procurements that we ask for, let alone getting all three of those right. I think a proper process can get us much closer to hitting, hopefully, all three of those targets.

● (1635)

Mr. Irek Kusmierczyk: What's the benefit of having a competitive process, as opposed to a sole source, which was the model used by the previous government?

Dr. Christian Leuprecht: Aside from the outcomes that we might get in a market situation, there is an important component of legitimacy to a proper competitive process. I think my colleagues alluded to the fact that considerable damage has been done to the credibility of the procurement process and the confidence that Canadians have in that process.

I do think that perhaps too much of the blame is frequently assigned to the department, the armed forces and the civil servants. Not enough blame is accepted by the politicians who ultimately make the decisions, as well as the opposition that tries to score political points on procurement.

Mr. Irek Kusmierczyk: I'll switch gears a little bit.

You've written quite a lot about Canada's support for the mission in Latvia and specifically NATO's enhanced forward presence.

What do you think the benefits will be of having these 88 fighter jets delivered in the future, in general for Canada? Specifically, how do you see this new capability supporting or impacting Canada's role in NATO's enhanced forward presence, if at all?

Dr. Christian Leuprecht: As I've remarked repeatedly in recent weeks, we can talk about deterrence, but that actually involves, for instance, having a fighter jet that can defeat Russian air defences. The F-35 is the one plane that can actually perform on that particular metric. In terms of military deterrence, it goes a long way.

However, to deploy these planes effectively, we need to understand that we're not first and foremost buying a plane. I think David alluded to this. We're buying a data platform. As we know, in the 21st century, warfare is first and foremost about data and dataflows.

Significant modernization is required within the department, both on the network side—and government has not foreseen additional investments in networks, so we're starting to tread water and will quickly start falling behind—as well as in the capacity of the department to have a data strategy and to digitize the entire department.

Talking about the fighter capability of the F-35 is one component of a much broader conversation to which we still need to pay close attention.

Mr. Irek Kusmierczyk: Thank you.

I wanted to switch gears one final time to economic benefits. There are well over 100 Canadian companies that have benefited from the F-35 program. When we're talking about economic opportunity, we're not just talking about a piece of the pie for the building of the 88 Royal Canadian Air Force jets contract. We're talking about a piece of the pie to build service and supply the thousands of F-35s that are expected to be built and flown in North America over the next 20 to 30 years. This was something that Mr. Perry, I believe, alluded to as well.

Can you talk a little bit about the economic benefits to the country, speaking from your experience of looking at other procurement programs?

Dr. Christian Leuprecht: As my defence economics colleague Ugurhan Berkok would likely tell you, there's no methodology to actually measure these particular benefits that is broadly accepted by defence economists. The benefits are whatever we say they are.

I would say that the investment in the benefits should primarily be in building capacity for Canada to become...and to maintain a high-tech defence technology capability, rather than how many jobs we might be able to provide in any one particular riding. That is ultimately the sustainable component—seeing ITBs as an investment in sustainability for Canadian industry more broadly, rather than benefits that might accrue to any one riding.

Mr. Irek Kusmierczyk: Thank you.

The Chair: Thank you.

Now we'll go to Mrs. Vignola, for two and a half minutes.

[*Translation*]

Mrs. Julie Vignola: Thank you very much.

I will build on to what you just said, Mr. Perry.

Mr. Williams said earlier in his presentation that the participation of those 100 or so Canadian businesses was not related to an obligation to purchase.

Should Canada ultimately decide to go with the Gripen or any other aircraft and to redo the whole process, what would happen to the 100 Canadian businesses? Would F-35s take them out of their consortium again or would they remain partners in that consortium?

● (1640)

[*English*]

Mr. David Perry: From my understanding, the Canadian companies would essentially have lost the work. The program that governed that was an industrial participation program. If Canada had stopped participating in the program by indicating that we weren't going to buy the airplane, then we would have lost the participation from the companies. That work share was open to people who were intending to buy the plane. We had a spot held for us, essentially, so long as we remained a partner and the F-35 was still a potential selection by Canada, but if we had gone in another direction, I don't see why we would have expected to continue getting that work.

Mr. Alan Williams: I would just add one comment. That's exactly correct. I signed onto the agreement. Dave is exactly right.

Having said that, when it comes to ITBs, one would be shocked if the Gripen were not providing significantly more ITBs for Canada. You could argue that they're not the same kind of ITBs and that kind of thing, but the F-35 program is constrained in that it can't guarantee ITBs, whereas Gripen—and if Boeing were there—could guarantee benefits equal to the value of the contract.

[*Translation*]

Mrs. Julie Vignola: Okay.

Mrs. Julie Vignola: Thank you.

I would like to ask one last question very quickly.

The F-35 is not the same size as the F-18, among others. That may make landing on aircraft carriers difficult. If we decide to go with F-35s, will the design of our aircraft carriers need to be completely changed to be able to accommodate them?

[*English*]

The Chair: Thank you, Mrs. Vignola.

We'll now go to Mr. Johns for two and a half minutes.

Mr. Gord Johns: Thank you, Mr. Chair.

One of the advantages of the F-35 is the upgrade ability and interoperability.

Mr. Perry, you talked about these big computers—that's what they really are. Can you talk about some of these upgrades, and also, can you speak about how they make us dependent on other countries? Will there be a bill from Lockheed every year for software, and what does it look like? Also, how can Canadians be involved in this?

Mr. David Perry: In terms of the bill, I'm not sure we really know the answer to that. I think the way the program is set up is that, because there's a large membership, all the different members will basically pay a percentage based on the size of their fleet, but I'm not really sure what the denominator is in that equation.

There's a pace of rapid rollouts of new block upgrades and new enhancements to the software that runs the aircraft and the avionics. My understanding is that this is basically designed to keep moving in perpetuity so that the aircraft is continually upgraded.

While we don't know the specific cost, I think one thing we do benefit from is that we are a relatively small chunk of a very big fleet, including the bulk of the American Air Force's R and D investment in tactical fighters.

Mr. Gord Johns: What will the role of the Aerospace Engineering Test Establishment and other similar groups be with the F-35? Maybe you can cite some Canadian-specific problems that might need to be addressed by in-house engineering.

Also, who trains our support personnel? Would they be civilian or military? What is the critical path in getting these aircraft operational in terms of equipment, pilots and maintenance?

Mr. David Perry: To be specific, I don't actually know with fidelity the answers to all those questions, but those are certainly good ones to ask government officials the next time they're back before you.

Mr. Gord Johns: In terms of Canadian procurement, why are we so inefficient compared to other countries?

Mr. David Perry: I think there are a lot of different reasons. There are many aspects of our procurement system that are different.

I think it's difficult to look for examples where we are buying literally the same thing. The F-35 is actually one example where we are, but in a lot of cases even small differences in terms of the specific features you want in a vehicle, aircraft or ship can make it quite different in terms of how you actually go about buying it.

Making those types of international comparisons is pretty tricky without doing a real apples-to-apples comparison.

Mr. Gord Johns: Okay. Thank you.

The Chair: Thank you, Mr. Johns, and thank you, Mr. Perry.

We'll now go to Mr. Lobb for five minutes.

● (1645)

Mr. Ben Lobb (Huron—Bruce, CPC): Thank you very much, Mr. Chair, and thank you to everybody appearing today and providing some good information.

At our last meeting, I asked one of the members of the panel about a list of different surface-to-air defence systems. I mentioned the Switchblade, the Stinger and the Javelin. The reason why I mentioned those was that you see in the news what the United States is contributing to Ukraine and what they're trying to use in their own defence capabilities. For each one I mentioned, they said that we have zero. I asked if we were buying some for ourselves or to support Ukraine. They said that's a private issue and they couldn't disclose that, which is fine. I guess that's their own prerogative.

What are your thoughts on the ones I've mentioned: the Switchblade, Stinger and Javelin? Would any of those make sense in our own domestic air defence capabilities, or are those just for the U.S. to have?

Mr. Perry or Mr. Williams, whoever wants to, go ahead.

Mr. David Perry: I think we should definitely be looking at upgrading our air defence. I think we're seeing, unfortunately, right now in Ukraine that a modern military needs an ability to defend itself from a wide number of airborne threats, such as drones, missiles and rockets, and that we should be increasing our capacity in that area, because we don't have nearly enough.

Dr. Christian Leuprecht: We jettisoned systematic air defence in Canada as part of our strategic downsizing, so this is actually a broader conversation about rebuilding air defence for the Canadian Armed Forces. We currently cannot provide for our own systematic air defence for our troops in Latvia.

Certainly, in the current environment, that's a conversation to be had, but that will require significant commitments in terms of staff and some of the resources, and it seems we're having trouble just getting the commitments we've actually made to the Canadian Armed Forces over the line, and we've had those problems for years.

Mr. Ben Lobb: Mr. Williams, go ahead.

Mr. Alan Williams: I would argue that the lack of a plan, which is what [*Technical difficulty—Editor*] at the beginning, gets to the main issue. I think [*Technical difficulty—Editor*] mentioned it too. We do not have....

Can you hear me okay?

The Chair: Mr. Williams, could you just raise your mike up a little bit?

Let's try it that way.

Mr. Alan Williams: I think your question is not dissimilar to Mr. Jowhari's question last week about the lack of information. The fact is that you do not have the tools you need to show oversight. You ought to be able to go to a plan that shows, from a capital standpoint, what we have and what we plan to get for the next few decades. We ought to have that. Other countries have that. Without that, nobody can do their oversight role appropriately.

If you marry that with performance measures, then you get the other side of the equation: How are things going that are being implemented? In terms of delays and bottlenecks, where are they, and who's the cause? That's the kind of basic information on what we have and what we need that's not available.

If you want to get to the core of the question on why we are so inefficient, that's it. We're the only country that has diffused ministerial accountability. We have no way to measure what we're doing, and we have no plan about what we think we ought to do.

Mr. Ben Lobb: God bless you, Mr. Williams. I just had the very same conversation with Mr. McCauley last week. I said, “What the hell is the point of all this if every time you ask a question about something...?” I'm not trying to be combative with the government or with anybody who works inside of the military or procurement, but every time you ask them about any of this, they say, “Oh, I can't tell you that. That's secret information.”

Mr. McCauley informed me that in other countries they're quite open about much of this, and you can find it right on their own websites. If there are things that come out of this—and I don't care who the MPs are years from now—that should be one of them. How can you do your job as a member of Parliament on a committee like this when you get stonewalled at every single chance, when they can't even tell you if they're planning on buying a Javelin, a Stinger or a Switchblade? That should just be basic information. The U.S. seems quite prepared to brag about everything they own and where they're going to send it, and we can't even tell anything.

Enough about—

● (1650)

The Chair: Thank you, Mr. Lobb.

Mr. Ben Lobb: Oh, Mr. Kitchen.

The Chair: Five minutes go by very quickly.

Thank you, Mr. Lobb.

We will now go to Ms. Thompson, for five minutes.

Ms. Joanne Thompson (St. John's East, Lib.): Thank you.

I don't know if I'll be quite as colourful, but I would like to begin by noting that, certainly, the multidepartmental approach to procurement has been in place for a long time, I think over 50 years, so it's quite an ingrained system.

With that in mind, Mr. Williams, you have many ideas on defence procurement and how it can be improved. I'm interested to know if these discussions and suggestions were part of your work when you were an employee of the public service.

Mr. Alan Williams: Thank you for the question.

Yes, they were. As you're aware, I had a book published on defence procurement, *A View from the Inside*, and I've been arguing for the last 15 years like a broken record that ministerial accountability will always lead to inefficiency, lack of information and lack of monitoring. I don't know why we haven't fixed it. Maybe it's not a government priority, but until it is fixed, we're all going to be suffering from a lack of information as we try to improve the process.

To me, it's not nuclear science; it's basic procurement. Without a forward-looking plan, without performance measures and without being able to hold one minister accountable, don't expect improvements.

Ms. Joanne Thompson: How have you worked with government to put these ideas forward since you left the public service?

Mr. Alan Williams: Well, I'm here today. I've been at standing committees over a number of years. I talk with ministers. I write about this. I talk about this ad nauseam to people, frankly. Some agree with me; some don't. As I said in my opening comments, it was encouraging to see the government say, “Yes, that's a good idea” in 2019, but apparently in 2021 it's not a good idea anymore.

I certainly have no idea why in this one area of the federal budget you can't hold one minister accountable for performance.

Ms. Joanne Thompson: Though there's much to do, do you feel that defence procurement has been moving in the right direction?

Mr. Alan Williams: No, it has not. In fact, in an answer to a previous question, I said that when I was there with my colleagues—not just me—we reduced the time frame by 40%. Five years later, it was in excess of what it had been. The process can work as long as you have people who know and understand and who are committed to getting it through the system, but you shouldn't be depending totally on that. You should have clear accountability.

Instead of simplifying accountability, we put in place all of these oversight committees, everyone checking everybody else until no one is accountable for anything. That's how you get sloppy. If you want results, hold one person accountable, measure them, and if they're not good, change them. It's not all that complicated. That's how the real world works; it works everywhere, except, frankly, in defence procurement.

Ms. Joanne Thompson: Let me ask you, then, based on your conversation.... To shift from the system that's been in place for a long time—and I'm not saying that we shouldn't move from it, but what I am saying is to move to something more centralized—what is it specifically in the process that needs to be put in place to ensure that we don't move from one system that can become quite complex to another that has its own challenges, based on a more defined process?

Mr. Alan Williams: In fact, in my book, I lay it all out. The legislative changes are minimal. This thing could be done easily within a one-year period of time.

It's not a question of centralization. It's simply saying that from now on, one organization, with one minister, is going to handle defence procurement. Take the resources from PSPC and the resources from DND and put them together. You'll save time. You'll save money. Hold that one minister accountable for getting results.

As I said in my opening comment, that's how the rest of the world does it. It's not complicated. It's simplifying things, and that's how you get results. Hold that one minister to account. It's very simple.

Ms. Joanne Thompson: I have to ask you this, though. Ministers are not.... There is an election cycle, so by the very nature of political systems, people shift. Wouldn't having narrower organizational movements and structures create a complication?

● (1655)

Mr. Alan Williams: Throughout our history in the federal government, we've merged different departments easily enough. It's not the first time and it won't be the last, so to do it isn't a complication.

I will say, though, that in departments it could be perceived as a win-lose, so my comment has always been that unless the Prime Minister orders it to be done, it won't be done. Staff in PSPC, I'm sure, would much rather go to air shows in Le Bourget or Farnborough than worry about buying furniture for the Crown.

People enjoy this, and I understand that. One minister may seem to be losing if they're not part of the big billion-dollar announcement. I understand that, so I don't think it's going to happen from the bottom up. I think the Prime Minister has to order it if it's ever going to be done.

The Chair: Thank you, Mr. Williams.

With that, we have come to the end of our questions on air defence procurement.

The doctor in me says that everybody should just sit back for a second and do a quick stretch. We don't have to bring in any witnesses, so we're all set. We will have the same witnesses we have right now.

We will now go to the study of the national shipbuilding strategy.

Just so that our witnesses are aware, the opening statements you provided to us have been distributed to our members, so they do have them, although we have agreed to allow you up to three minutes if you feel you need to just quickly touch on those. We'll stick with the three minutes so we can abide by the times.

With that said, I will start again with Mr. Leuprecht. You have three minutes.

Dr. Christian Leuprecht: Thanks for the opportunity again.

The NSS is emblematic of the extent to which defence procurement is highly politicized, especially by opposition parties looking to score points, and of how politicians prioritize spreading largesse to industry in targeted ridings over effective and efficient procurement.

Challenges that plague air defence procurement and the NSS are mere symptoms of a system that has to contend with vexing problems that are not of its making. Central agencies and Parliament have imposed procedures and controls that make it increasingly impossible for DND and the Canadian Armed Forces to deliver on the operational effects that governments and taxpayers are looking for.

As long as opposition parliamentarians look to score political points by going after the Clerk of the Privy Council and others over jet fighters and shipbuilding, central agencies are going to exercise enhanced due diligence, which ensures that the pace of progress will be glacial and costs will escalate accordingly. As a result, procurement projects either end up in a death spiral or result in the military getting much less for the money spent than government could have gotten had projects stayed on track.

The AOPs are a good example. Take the F-35s and compare the estimated costs of the purchase that was announced with the original costing over a decade ago.

A partial solution would be to make major votes on defence policy and expenditures all-party votes, as is done in Australia. Endorsement by all removes some of the incentive to politicize defence procurement.

Similarly, is the aim to enable the Canadian Armed Forces to acquire the required kit in the most efficient manner possible, or to spread political largesse across the country? If the objective is the latter, then it is disingenuous for parliamentarians to promise the military that it will get the kit that it needs on time and on budget. Both jet fighters and shipbuilding are caught up in this. The problem is not the military improperly defining the requirements, but government trying to maximize return for industry in specific ridings.

The Chair: Thank you, Mr. Leuprecht.

We'll go to Mr. Perry for three minutes.

Mr. David Perry: Thank you, Mr. Chair and members of the committee, for the invitation to keep talking to you, now about shipbuilding.

I'll start off by saying that the three concerns I outlined earlier about air defence procurements apply to shipbuilding as well: insufficient prioritization, and both capacity and scheduling issues.

With the first, broadly speaking, the national shipbuilding strategy had two objectives: rebuilding the domestic marine industry and building actual ships. To date, the first component of that equation seems to have received much more consistent government attention than the latter. If we want to see our ships built faster, their delivery needs to be prioritized more than it has been.

Beyond this, the same general staffing shortfalls that are impacting other procurement projects are also hampering shipbuilding, but so, too, are two unique capacity issues. The availability of skilled labour in the marine sector, especially at a time when many of Canada's allies are undertaking comparable projects of their own, is an issue that needs to be rectified to ensure the success of Canada's fleet renewal. At the same time, in the Government of Canada, the lack of specific subject matter expertise on shipbuilding continues to be a limiting factor. If we want our shipbuilding efforts to succeed, we need to start thinking about a national marine sector human resources strategy to address this collective problem.

Lastly, all NSS projects have experienced scheduling difficulties, with most projects having failed to meet more than one major schedule milestone. The repeated inability to meet those project timelines suggests that we have a systemic problem that needs to be fixed with shipbuilding specifically.

Beyond those general issues, shipbuilding projects would further benefit from two additional changes to the way they are being managed. First, we continue to manage the national shipbuilding strategy and the projects in it as a series of individual navy and Coast Guard projects rather than as an interdependent program of work. As all of those projects have to move through physical construction at each yard more or less sequentially, decisions on one project inevitably impact others. Similarly, making purchase and design decisions on a project-by-project basis, or worse, ship-by-ship basis, is precluding Canada from achieving commonality across its fleet or any cost efficiency we might gain by making bulk orders for systems and equipment. Canada would be better served by managing these projects as a collective program of work, from the cabinet level down into the bureaucracy.

Second, to return to the issue of prioritizing the actual delivery of ships, the governance of the national shipbuilding strategy and our individual projects should be re-evaluated. Given the significant cost escalation that occurs with shipbuilding projects, the enormous amount of money committed to our fleets, and their importance to the navy and the Coast Guard, we need a governance structure in place to ensure timely decision-making that can enable expeditious capability delivery.

The current complicated web of multiple Canadian government departments and industry stakeholders—and, in the case of the Canadian surface combatant, the American government, through its foreign military sales—could be better structured. It does not appear that the current arrangements bring these stakeholders together often enough, at the right levels of seniority, to ensure that the many tough decisions required to build new ships are made fast enough or with sufficient consideration being given to the impacts on the entire program of work.

● (1700)

The Chair: Thank you, Mr. Perry.

We'll go to Mr. Williams, for three minutes, please.

Mr. Alan Williams: Thanks. I'm glad you've read the comments, because that will save me a lot of time and, frankly, heartache.

This program is going to cost a quarter of a trillion dollars. People should realize that it is financially incapable of being done the way we're doing it. Just about every tenet of proper procurement has been squandered, neglected and not followed, and the weight has gone up by 44%.

The statement of requirements, rather than being finalized within the department, was left to industry to decide what they wanted to do. The government abdicated its accountability to the private sector—that ISI, Irving Shipbuilding Inc., make all the decisions. What else can we expect when the prices continue to escalate when we don't have oversight? This isn't complicated. When you abandon basic principles of accountability and transparency, you get the kind of disaster we're in.

No one seems to be reacting to the full life-cycle cost. We have about $240 billion, over 30 years, to buy and maintain stuff. This one project is larger than all of what is needed for the army, navy and air force. People should be absolutely up in arms about this, but people are still talking about whether it's $60 billion or $56 billion or $77 billion, without understanding that it represents only 30% of the costs.

I have explained this. There is no way, in my mind, that this will ever be done. Someone is going to wake up and understand that it can't be done.

What I have recommended, notwithstanding the huge overspending in costs, is to do three this way, and then do the right process the right way, including competing a shipyard, for the other 12. Your costs will be cut between one half and one third of the current costs, and there's ample evidence to support that.

The Chair: Thank you, Mr. Williams.

Now we'll go to questions, and we'll start with Mr. Paul-Hus for six minutes.

[*Translation*]

Mr. Pierre Paul-Hus: Thank you, Mr. Chair.

Regardless of our political party, I think all of us here have the same interest, which is to improve things. With the war in Ukraine and NATO's demands, the message is pretty clear. Although we had already planned these meetings before all that happened, it has now become clear that we must be much more efficient.

Mr. Williams, I will come back to the creation of a department dedicated to military procurement. Mr. Leuprecht, you also mentioned this in your notes.

In 2019, the mandate letter for the Minister of National Defence—at the time, Mr. Sajjan—clearly stated that he should work with the Minister of Public Services and Procurement to create a department called Defence Procurement Canada. In 2021, that disappeared from mandate letters.

Why did the government change its mind? We felt that this was a very good idea. It is also in line with what you said.

● (1705)

Dr. Christian Leuprecht: There is a pretty clear answer: it is a matter of political ideology. In other words, the more complicated government procedures, bureaucracy and accountability become, the more difficult it will be to buy anything or to complete projects that are underway.

I think there is a lack of will in Canada to spend money on defence or on major replenishment projects for the Canadian Armed Forces. That approach worked for some 20 years, when there weren't really any demands. We could rely on spending done in the 1990s and prior. Now we have nothing, so it is increasingly difficult to meet the needs related to the deployment of Canadian Armed Forces.

Mr. Pierre Paul-Hus: Your statement that the problem is ideological in nature is pretty loaded. In addition, the idea came from the government in power, which dropped it two years later.

Although I would like the issue to be resolved, I have no choice but to do politics, as we are also here for that.

It is clear to you that, up until a month ago, before the war in Ukraine, the Liberal government had no intention to invest in defence, and that is why everything has been dragged out. It is pretty serious.

We also talked about cost overruns. At the time, when the Conservative government implemented the naval strategy, it did so to greatly improve efficiency. It adopted that strategy to enable shipyards to build equipment, plan and get budgets, so that progress would be made.

We could say there is now a perverse effect to all that. Mr. Williams talked about it. There are cost overruns, and there seems to be no control over those overruns. For instance, the first five Arctic and offshore patrol ships, the famous AOPSs, cost $400 million each. The government ordered a sixth one, which cost $800 million. There were costs associated with that additional $400 million, but we don't know what they were. The total came up to $2.8 billion. Yet we recently learned that the cost at that shipyard has come up to $4.3 billion. The only answer we are being given is that COVID-19 is to blame.

Mr. Leuprecht, is this not an example of abuse?

Dr. Christian Leuprecht: One of the issues in defence procurement has to do with the fact that, the longer projects take, the more costs escalate. In public sector procurement projects, costs increase by 6% per year, but in defence procurement, the increase is about 12%. The longer it takes for a project to be completed, the costlier it becomes.

Mr. Pierre Paul-Hus: I was in Halifax, where the metal for the first AOPS was cut; I think it was in 2018. If we know that we have five ships to build and that a sixth will be added, we can know how much time it will take. The first is the most complicated to build, but the process becomes easier for the others.

How can we explain that a ship's building cost is increasing exponentially when a first ship has already been built?

● (1710)

[*English*]

Dr. Christian Leuprecht: Maybe I'll defer to Mr. Williams. I'm sure he has some insights to offer on this.

I have my own views, but I've said enough on this.

Mr. Alan Williams: Obviously, I am speaking as someone with experience in procurement and in your bureaucracy.

My contention is that this program in particular suffered extraordinary incompetence. People devised the process as if they knew nothing about how procurement should work. This has nothing to do with politics. This is bureaucrats devising processes that are unworkable.

This process started in 2012. This is now another decade. People don't understand. The SOIQ—the solicitation of interest and qualifications—came out in 2012. The Americans are building a set of frigates. It took them three years to do the front-end stuff and make their decision, and another five or six years until they get their first one, at a third of the cost. Now, it may not turn out to be exactly a third of the cost, but—

The Chair: Thank you, Mr. Williams.

We'll now to go Mr. Bains for six minutes.

Mr. Parm Bains (Steveston—Richmond East, Lib.): Thank you, Mr. Chair, and thank you to our witnesses who are joining us here today.

My first question is for Mr. Leuprecht.

Two joint support ships have been commissioned as part of the national shipbuilding strategy, which are to be built by Seaspan's Vancouver shipyards.

You talked about the various regions that have been chosen to build these ships. This is important for me. My questions are coming from Richmond, British Columbia. It's an important industry for our marine sector sector here in British Columbia. I'm curious about your thoughts on the capability and shipbuilding abilities of Seaspan's Vancouver shipyards. I believe them to be among the best in the world.

What are your thoughts on that?

Dr. Christian Leuprecht: There are some elements that we knew the shipyard wouldn't be able to deliver, which National Defence now has to build at Esquimalt in order to deliver on some of these components.

I don't want to comment on who is qualified or not, but there are always political trade-offs in the decisions that governments make when they award procurement contracts.

We live in a particularly large country and we don't procure a lot of these things. When we procure them, we then customize them. We do a series of customizations for the Canadian surface combatant. I think many of these are prudent customizations for the particular needs that Canada has.

That's why I find Mr. Williams' comparison a little bit unfair, because the scale on which, for instance, the Americans build their ships or the way, for instance, the French do naval procurement is somewhat different from the way Canada does it. We need to make sure that in the end, this is equipment that will actually serve Canadian interests and the needs of the Royal Canadian Navy. That will always require some bespoke modifications, as we are seeing with the Canadian surface combatant, for instance.

Mr. Parm Bains: What are your thoughts on how much the pandemic affected the construction of these ships?

Dr. Christian Leuprecht: I cannot judge to what extent individual companies were affected, but when we talk about defence procurement, we potentially have to be able to do it under very challenging circumstances. Imagine if we had to do this in a situation where Canada was at war or in an adversarial conflict with another country.

We can see that now, when our allies are coming to us and asking what we are going to contribute, not only are our cupboards bare, but we have processes that cause the Department of Commerce in the United States to deem Canada among the most difficult and convoluted places in the world to do defence procurement. I think that is a badge of honour we do not want to be wearing. It means that federal governments are not in a position....

A fundamental function of any government is to defend the country, defend the continent, and defend our allies. Our procurement system is not able to deliver on those fundamental basic obligations that a government has for its citizens.

● (1715)

Mr. Parm Bains: Moving forward, we were expecting the first ship to be delivered in 2023. Let's say that we have the delivery of these ships. How do you think they'll contribute to the capability of the navy and the Coast Guard?

Dr. Christian Leuprecht: Mr. Bains, you're asking an extremely important question, because I actually think the greatest challenge, regardless of what my colleagues have said, is not the actual equipment; it is the people.

The greatest shortfalls currently that the Canadian Armed Forces have are with regard to specific trades related to the Canadian navy. We can buy all the planes and ships we want. Regardless of what the cost overruns are, if we can't provide the bespoke people for trades and occupations, if we can't provide the pilots, it doesn't matter what plane in the world.... We've put a lot of emphasis on procurement, but there are significant challenges, and I'm testifying next week before the national defence committee on the recruitment and retention side.

The armed forces have to do three things. They have to be able to regenerate. They have to be able to maintain and sustain themselves, and they have to be able to operate. We have, for years, put so much emphasis on operations that we haven't been able to regenerate and maintain the force, so now we are having significant challenges on the regeneration side. It is going to compromise the ability of the Canadian Armed Forces to maintain and definitely to operate if we can't fix those regeneration issues.

I think there needs to be a much more concerted emphasis on making sure the organization can actually regenerate itself in light of the significant challenges that it faces on regeneration.

Mr. Parm Bains: Thank you for that.

Do I have any more time?

The Chair: You have 40 seconds.

Mr. Parm Bains: Moving forward from that question, whatever systems are going to be implemented in these ships, how compatible are they with our allies and their systems?

Dr. Christian Leuprecht: Interoperability is absolutely critical because, when it comes to international, multinational operations, Canada rarely does things on its own. We always go places with allies, but our needs are also somewhat different from those of our allies.

For instance, French frigates are not designed to be able to stay at sea for six months at a time. Given where we are located geostrategically, we need to make sure that the equipment we have can deliver on the specific Canadian needs that we have, which are somewhat different from those of several of our allies.

Yes to interoperability, but we also need to focus on the particular Canadian contribution and how we have used national defence, I think, in a very politically savvy way over decades as a force maximizer for Canadian foreign policy. We need to understand that when we talk about national defence, when we talk about the Canadian Armed Forces, we are talking about an instrument of foreign policy and argument, the single most important instrument of foreign policy that a federal government has at its disposal.

The Chair: Mrs. Vignola, you have six minutes.

[*Translation*]

Mrs. Julie Vignola: Thank you very much.

Mr. Perry and Mr. Leuprecht, what you are saying about the need for qualified labour is of great concern to me. In 1994, I was a student in Rimouski, and the Institut maritime du Québec, which is located there, was overflowing. There wasn't even enough space in the institute's residences. Students had to come to the Cégep de Rimouski residences.

In 1994, a former prime minister of Canada made cuts to the armed forces' budget. I remember that. I was not in the forces, but my friends were there when the announcement was made that their services were no longer required and that they could go. That slowly emptied out the Institut maritime du Québec, which is now looking for students, while it used to refuse them.

So, in my humble opinion, what you are saying is actually true. There is much work to be done in recruitment and training.

That said, Mr. Williams, I was also really concerned when you said that industry was deciding, and not the client, the Government of Canada. I am really wondering about that. It seems to me that, usually, when a client makes requests or asks questions, industry manages to answer them and is accountable to the client.

What is happening now for industry to be deciding?

I would like you to elaborate on that for us.

● (1720)

[*English*]

Mr. Alan Williams: This issue is, in my experience, unique to the Canadian surface combatant project.

Essentially, the government said that, in order to build these ships, they were going to pre-select a yard that everybody was going to have to bid with, and they selected, in the case of the large combat ones, Irving. That forced anybody who wanted to bid on this to work with Irving, and that in itself destroyed the typical way of doing business, in which you allow the consortiums to structure themselves and pick their own yard.

Having done that, they made it worse by saying that, now that Irving is going to be the yard, it is also going to be the company that will make these decisions on the statement of requirements: who the integrator will be and which design will be chosen. They're the ones who picked the Type 26 design, which wasn't a proven design. They're the ones who chose Lockheed Martin. They're the ones who are deciding on the statement of requirements.

It's no surprise that the costs have escalated from $26 billion to $77 billion, and it's no surprise that the weight has gone up by 44%, because there are no constraints. There is no budget constraint. All the basic controls that you typically see in a procurement program have been discarded.

I think we're now facing a very serious situation: How do we move forward? I don't think the government is ever going to sign a contract for 15 of these ships under the current rubric. Something is going to have to be done, and I've made my suggestions on how I think it should go forward.

[*Translation*]

Mrs. Julie Vignola: Thank you.

I am in no way reproaching Lockheed Martin, but I am wondering about the decision-making process.

Gentlemen, are you concerned to see that Lockheed Martin will be responsible for building our aircraft and that it is also involved in ship design?

Don't you find that the company is being given a lot of control and too much decision-making power? Don't you think that certain aspects should be in the hands of strictly Canadian interests?

[*English*]

Mr. Alan Williams: Let me separate the two.

In fairness to the F-35, the government is in charge, not the private sector. Lockheed Martin is not in charge. The government selected that plane. It is the government and its officials that will be monitoring the development of the program as it goes forward.

I have no reason to suspect anything. Lockheed Martin is a well-reputed company and is very capable. In this particular program, of course, they've already sold 700 or 800 of these. They're producing 3,400 in total and about 2,400 A versions. They are very capable and very competent.

With regard to the ship program, it's not so much that I'm concerned about Lockheed Martin. I'm concerned that Irving Shipbuilding, Lockheed Martin and BAE are able to sort of, without any budgetary constraints, take the taxpayer for a ride. It is unbelievable to me that we're going to be spending more than a quarter of a trillion dollars, more money than we have to buy things for the army, navy and air force, and no one is waving the red flags and screaming from the top of buildings. I don't understand how we've gotten this far without that being recognized.

You can debate it, you can argue with me and you can say that I'm totally wrong, but this should be subject to huge scrutiny before it becomes too late.

● (1725)

The Chair: Thank you, Mr. Williams.

We'll now go to Mr. Johns for six minutes.

Mr. Gord Johns: Thank you.

I'm going to go back to Mr. Williams.

I really appreciate your comments. You talked about the different things that are contributing to the cost of the Canadian surface combatant: ship design costs, developmental systems, allowing industry to modify and expand the statement of requirements, the lack of budgetary controls, and devolving accountability for their procurement process to the private sector.

Can you speak about what other countries are doing to ensure they don't have this out-of-control cost? To what extent should industry be able to contribute to the statement of requirements for large defence procurement projects?

Mr. Alan Williams: In my note, you will see that I make reference to the U.S. FFG-62 frigate program, in which they did everything the way we ought to do things. They demanded a proven parent design. The Type 26 was not even considered—you were noncompliant if you proposed that. They demanded off-the-shelf, highly developed systems. That doesn't mean they're not going to be modified, as Christian said. Everything is modified—you're not buying a Chevy off the car lot—but the degree of modifications is minimized, and then the integration risk is minimized.

They said, "We want all of these systems. We want a proven design. Here is the budget. Now, go ahead and organize yourselves the way you want, and we will choose." That whole process was launched and decided on in a three-year period between 2017 and 2020. That's how you do it. That's how we should have done it, and that's how we should do the next 12.

Mr. Gord Johns: I've bought some lemons in my day, but I've never had a lemon come in at four, five or 10 times the amount of money when I've driven it off the lot.

Can you talk about the drawbacks in terms of devolving accountability for procurements to the private sector? You've been on the inside of this. What's changed since you were on the inside, or have things just gotten out of control here?

Mr. Alan Williams: I think so. I could never have imagined such obfuscation and, I'm going to say, incompetence in terms of designing this kind of a process. There is no justification for it. I don't know how it ever got approved, and we're all paying the price for it right now.

This thing started in 2012. It's mind-boggling. I talked at the beginning about the waste of time and money in conducting business this way. Your committee has to be provided with more information in order to challenge and question bureaucrats who suggest that this is how we should be doing things.

We select systems that are highly developmental. We pick a frame that's highly developmental. We don't have any control over anything. There's no transparency. There's no insight. I don't think anybody knows what's going on within the Irving-Lockheed Martin-BAE corridors. Nothing is open for us. We'll find out when the final design is set, but that's too late. That is too late. We should be challenging it and questioning it right now.

Mr. Gord Johns: Thank you.

Mr. Perry, you talked about capacity, and I was really appreciating that.

I live in Port Alberni. We have the only deep-sea port on the west coast of Vancouver Island. They've been trying to get a dry dock built on federal port lands, and Transport Canada has come back and said that it doesn't have a program for floating dry docks. In the meantime, I was at the Pacific NorthWest Economic Region conference, and they cited that there's about $3 billion in dry dock refurbishment done annually and there's no dry dock space. It's pretty much at capacity from Oregon to Alaska.

Can you talk about how the procurement process is flawed, in that we can identify...? The PBO said the same thing. Because we haven't had a robust shipbuilding sector for years, costs are through the roof compared to those in other countries.

Can you speak about the need for cross-departmental collaborative work to invest in opportunities to expand the shipbuilding sector?

Mr. David Perry: That part of the shipbuilding strategy—building a national sovereign asset and source of supply—shouldn't be lost here. One of your counterparts asked earlier about Canada buying Javelins. As we've seen with the conflict in Ukraine, the degree of your national industry significantly limits the options available to your government.

We are in the process of building a national shipbuilding sector that could build ships for us or potentially other people in the future. We underplay the potential advantage to Canada of developing exactly this type of industrial capacity.

I'll take a quick moment to respond to some of the things Alan said. I agree with the part where he said people would have a different view about lots of that. I fully disagree with lots of aspects about how he has characterized the arrangement, but I totally agree about the lack of transparency and the fact that we should be able to argue about this based on an understanding and articulation from government about how they think these arrangements for shipbuilding and for CSC, and more broadly the relationship with the shipyards, are supposed to work.

This includes what status will exist between Canada and the respective shipyards—particularly as we move to having potentially three of them—and how the relationships between the government and the yards and all the companies working below them are supposed to work, because I don't think we've heard enough of that articulated so far.

● (1730)

The Chair: Thank you, Mr. Johns. Again, you lost five seconds here.

We're now into our final round, and we will go to Mr. McCauley for five minutes.

Mr. Kelly McCauley: Thanks, Mr. Chair, and gentlemen.

Mr. Williams, thanks for incredibly depressing me.

I have a copy of the Congressional Research Service report. They've put out a report on the Constellation class. It actually shows that the U.S. are quite heavily modifying the ship, making it quite a bit larger than the FREMM parent, but still doing it at about $1 billion a ship, so about one-fifth of the cost that we're going to do.

Mr. Perry and Mr. Williams, I want to get your feedback on the issues with the Type 26 ships. We've seen the reports of our Australian allies struggling with it. Britain has pulled back from their commitment on how many they're going to do. They will do a few Type 26s and a lot more of a smaller, less expensive frigate.

When we had the navy in last week, we spoke about this issue and the weight issues, and their comment was that maybe they'd scale back some parts of the ship in order to reach the weight and the speed requirements. I'm going to express my horror at the fact that we could be cutting back perhaps on weaponry or other needed items on this ship, to meet the originally stated speed and other requirements from the RFP. The navy seems to be perhaps willing to throw away items in order to achieve this weight.

I wonder if you could both chime in on our allies' experience with the Type 26 design and what we are running into.

Mr. Alan Williams: I have a few comments.

First, with regard to America, they've only increased the length of their ship by 23.6 feet and only by 500 tonnes. From a physical standpoint, that's relatively minor. If you read the reports on it, they do not presume that there are going to be significant cost increases just because of that. Remember that their design is proven; all of their systems are off the shelf.

With regard to the Type 26, I would just say, take a quick look at what's going on in Australia, where in fact the weight increase has blossomed up. Apparently, now they have only about a 3% margin left. They've done a complete review. They've now delayed it by 18 months. The weight increase, according to their audit, has dramatically impacted their power. They feel that they've now lost range, they've lost speed, and they're going back to the drawing board in terms of design. They expect the delay will be 18 months in total. I'm not—

● (1735)

Mr. Kelly McCauley: Mr. Williams, let me interrupt you quickly, because I want to give Mr. Perry some time.

Do you think we're at the point where we're going to have to go back to the drawing board on our design? I asked the navy and said, we're way down the process and we may have to throw it all out and start afresh.

Mr. Alan Williams: My recommendation in my notes is very clear. We should buy three of this kind. We have economies of scale and we have costs of nearly $1 billion. Let's get three this way. At the same time, in parallel, we can do the process the right way and get a decision on another design, potentially, but with costs more like what Fincantieri propose and what the FFG-62 propose, and still have deliveries in the same time frame that we are considering right now.

Mr. Kelly McCauley: Right.

Mr. Perry, go ahead.

Mr. David Perry: I will start by saying that it's important to keep in mind that the American program is still just at the theoretical or intent stage, and it hasn't actually delivered anything yet.

With respect to the American Navy, its track record on delivering large surface ships on time and on budget isn't great, unless they've already made three or four or five dozen of them first, which is the case with the Arleigh Burke class destroyers.

That's also an important consideration, if you think about that Constellation class as a potential alternative for Canada and that Canada does not have a plan to keep buying Flight III Arleigh Burkes like the United States does. We don't have aircraft carriers. In making analogies to other programs elsewhere, it's important to try to understand the differences between what we're looking to do with our one program of acquisition versus what other countries are doing in acquiring multiples of them.

There are actually a fair number of similarities, though, in terms of the basic approach that the Americans have taken and what we're doing. Some of those Congressional Research Service reports, as an example, point to them being inspired by the DNA of that ship, but they are extensively modifying it. As Mr. Williams pointed out, they are changing it along three dimensions, and they're also basically changing out all of the combat systems that go into it, which is where the real key risk and the real integration challenges come on a project like this. Canada is doing a version of the same thing.

The Chair: Thank you, Mr. Perry.

We'll now go to Mr. Housefather for five minutes.

Mr. Anthony Housefather (Mount Royal, Lib.): Thank you very much.

Thank you to all three witnesses. I think you've all been very informative, and I think Professor Leuprecht in particular has brought out the inherent tension that exists between different demands that are put on our procurement process. There's a desire to do things fast, but the faster you do things, the greater the risk that you don't do things competently and coherently and with a rigorous assessment process. There's a desire to do things cheaply, but if you do things cheaply, then you can't be insisting on Canadian content and Canadian jobs being created and doing things here when you could buy something off the shelf from abroad more cheaply.

A lot of the constraints that are being complained about today are ones that are actually being imposed on us by going through these models. For example, in the case of creating jobs in Canada, I'm sure there's a way of dealing with the ships that wouldn't have created as many thousands of jobs in Canada but would have procured off-the-shelf ships more quickly.

I was just wondering, Professor Leuprecht and Mr. Perry, if you could each perhaps comment on that, because I think that's what I'm most getting out of today.

Dr. Christian Leuprecht: I would simply comment that I'm not as disenchanted with the NSS as Mr. Williams is. I actually think it provides perhaps better trade-offs on the Canadian benefits and the results that the Canadian navy is going to get from it.

I would also like to point out—and I don't know if Mr. Williams disclosed this in his notes—that of course he provides consultancy services for organizations that stand to benefit from the proposal he's suggesting as an alternative, and he has been disenchanted with some of the acquisitions that have not benefited the companies for which he has been consulting. I'm not suggesting that this is what's motivating his interventions today. I would simply state that we also require that full disclosure.

Mr. Alan Williams: That's not true. I can't allow that to stand. That's an accusation—

Mr. Anthony Housefather: Mr. Williams, I appreciate that and I heard that, and I'm sure the chairman will give you time to respond, but I have only five minutes and I don't want him to take it out of my time. If the chairman allows you to respond now without taking it out of my time, that's up to the chairman.

Mr. Chairman?

The Chair: I'm sorry, but can you—

Mr. Anthony Housefather: Mr. Chairman, Mr. Williams wanted to respond to something, but I do not want it to be part of my time. He wants to respond to something Professor Leuprecht said. So I'm asking you if you're giving him the time outside of my five minutes.

The Chair: Mr. Housefather, this is your five minutes, so you have the floor and can control who you would like to answer this.

Mr. Anthony Housefather: Mr. Perry, go ahead.

Mr. David Perry: I think the way you framed that is bang on.

Shipbuilding in particular and a lot of aspects of procurement are essentially a series of trade-offs in order to make the least bad decisions, not ones that are inherently perfect, and that stretches across the entire continuum, including things like deciding who is going to be the prime contractor. There are lots of different models suggested, and there are two different considerations, with pluses and minuses involved in all of them.

To go back to some of my opening comments, one thing we've consistently seen is that we tend to sacrifice schedule and speed of delivery to satisfy other considerations, whatever they may be. We need to think about ways in which we can put more emphasis on sticking to a schedule, because it has knock-on implications for a lot of other things like capability, affordability and so on. As well, there are ways we can look at to make more investments up front in human or physical infrastructure or other things we've already talked about that could potentially accelerate those schedules.

I think we've unfortunately too often been penny-wise and pound foolish. We are in this, and if we want to see it successfully delivered, then as a country we should be looking to making national-level decisions to have this program of work move forward as expeditiously as we can make it.

● (1740)

Mr. Anthony Housefather: That's understood, and I agree completely with what you just said. I'd like to come back to you on that. For example, I think it's less a question of changing the organizational structure than of making investments so that we have enough manpower to actually deal with all of the things we're asking to be dealt with, or organizationally changing it so not all of those things need to be dealt with and we move faster in a more expeditious way.

Would you say that's essentially correct?

Mr. David Perry: I think that's definitely one way to look at it. I am not of the opinion that making an organizational structure change solves all these problems. A lot of them are competing priorities of government, and fundamentally you have to decide the order of precedence of those priorities. Just smooshing everything together into one organization doesn't deconflict competing priorities.

We also have to keep in mind that we would be trying to achieve that kind of reorganization when, as far as I can tell, we are in the middle of the largest procurement program today, without anything future being added, that we have seen since the Korean War, and I think there would absolutely be a cost of doing a reorganization like this when we are in the middle of a program this overheated already.

We may want to do that, but I think we need to have our eyes open about the trade-offs involved in making that decision.

Mr. Anthony Housefather: Absolutely.

Mr. Chair, do I have any time left?

The Chair: You have 10 seconds.

Mr. Anthony Housefather: Mr. Williams, if you want that time to clarify, please go ahead.

Mr. Alan Williams: Christian's comments were absolutely incorrect. I have no conflicts of interest. I have no clients that are involved with the CSC. For him to even suggest that is unconscionable.

The Chair: Now we will go to Mrs. Vignola for two and a half minutes.

[*Translation*]

Mrs. Julie Vignola: Thank you very much.

I will just make a comment.

In a previous life, I was a teacher, and I had to plan everything from A to Z. I couldn't forget anything, and that sometimes also included the cost of activities. When I hear comments, on both sides, I am under the impression that there is no happy medium. It would seem that, either we move very quickly and make purchases elsewhere at a lower price, or we go very slowly, which leads to much higher costs, but which makes better accountability possible.

Transparency is necessary, but it seems to me there could be a happy medium, something effective, because we are talking about taxpayers' money, and not about the desires of one or two companies. Taxpayers' money is used for the defence of their territory and territorial sovereignty. That is important.

That being said, two shipyards are currently qualified. Would it have been good for there to be a third one earlier in the strategy's implementation to make the process efficient and more fluid?

The question is open to everyone.

[*English*]

Mr. David Perry: I would start by saying that part of the justification for the announcement of adding a third shipyard two and a half years ago was to increase the capacity available to deliver all of these ships to the navy and the Coast Guard. I think additional capacity is still needed. There's an awful lot of work to do.

There is a trade-off decision to make in doing that, in that it will complete all the work faster, which means that the long program of work that was originally envisioned—in the beginning for one shipyard, and then it has turned out to be two—will be completed sooner if there isn't follow-on activity. However, adding that extra capacity to provide for icebreaking services at a time when we need to be more concerned than ever, I think, about the security, safety and defence of Canada through our Arctic.... I hope to see that decision come to fruition quickly.

To your comment about the extremes and finding a middle ground, I don't think there are really any options available to Canada where we can cheaply, quickly, and with no trade-offs still buy ships through another mechanism. I have enough confidence in government that if those easy routes existed, we would have chosen to exercise them in the last 12 years.

I think all things about this are tough. It's a question of which trade-off decisions you want to make and how you do your cost-benefit analysis, because there are no simple solutions.

● (1745)

The Chair: Thank you, Mr. Perry.

If Mr. Williams or Mr. Leuprecht would like to respond—

Mr. Alan Williams: I can speak to that.

The Chair: Excuse me—

Mr. Alan Williams: I don't think it's one or the other. I think if you understand the process—

The Chair: Mr. Williams, order, please.

Mr. Alan Williams: —and you follow the process through the front door, then you can do things smartly and quickly—

The Chair: Order, please.

Mr. Williams and Mr. Leuprecht, because of time restraints, we will not be able to follow up. If you have a response to that question, I would ask that you respond in writing and provide that to the clerk, and the clerk will distribute that throughout the committee.

We will now go to Mr. Johns for two and a half minutes.

Mr. Gord Johns: Thank you.

Mr. Perry, can you talk about how the shipbuilding industry has been affected by supply chain issues and global inflation, especially with the restart of the global economic engine from COVID?

Mr. David Perry: Shipping everything takes more time and is much more expensive. That cascades through the entire supply chain for any industry, including shipbuilding. Any time you have to move things from overseas, you're dealing with higher prices. I don't think we fully understand yet how consequential the impact of inflation—which in the consumer economy is at a 30-whatever year high—is if you apply it to shipbuilding.

Beyond that, though, it's things like the inefficiency in conducting these hearings like this, rather than in person, that have manifested themselves over the last two years in shipbuilding, and in all other forms of procurement. We have been managing these from the Government of Canada side through Teams meetings, which I think quite simply are nowhere near as efficient as meeting in person. I don't think we really fully understand it, but there's definitely an impact of having done that for the last 24 months.

Mr. Gord Johns: That's great feedback.

To go back to my earlier question around capacity, the government doesn't really have a strategy around expanding and building capacity in small rural communities like Port Alberni, where we have a good company, Canadian Maritime Engineering, that wants to grow the shipbuilding sector, and they know it would help to support demand. The PBO cited that if there are more shipyards, the costs will come down, especially if they're in rural communities like Port Alberni, where the cost of living is much lower than in Vancouver, Montreal or Halifax.

Can you speak about the importance of policy as well? There was a 25% tariff that discouraged companies from building ferries outside of Canada. The government got rid of it. That money could have been building floating dry dock space. Can you speak about the importance of both policy and critical investment in these areas?

Mr. David Perry: I think we need to try to get better alignment in terms of both the policy framework and infrastructure investments. I think there are a number of opportunities where we can choose to invest more money in some of this essentially national infrastructure. The same kind of logic about making other wider societal infrastructure investments applies here. If you can spend a billion dollars now that will have a $2-billion impact over 30 years, to me that's something worth considering.

In terms of accessing that wider human talent pool, if you go to more facilities, there's a trade-off in efficiency and project management. You have to weigh it, but I think the existing shipyards certainly don't have enough staff on the blue- or white-collar sides, and as we move to a third shipyard with a whole other basket of projects, that's only going to get exacerbated. That's fundamentally Canada's problem to address, irrespective of which shipyard employs people.

The Chair: Thank you, Mr. Perry.

Mr. Johns, you got your six seconds back on that.

We'll now go to Mr. Lobb for five minutes.

Mr. Ben Lobb: Thanks very much, Mr. Chair.

The first thing is that I wanted to just check in with Mr. Williams here. I don't know if he got all of his final say in or if he had anything else he wanted to say. I think that maybe it was left unsaid from Mr. Housefather's round.

Mr. Alan Williams: I'm trying to remember the comments from Mr. Housefather. I'll let it be for the moment.

Mr. Ben Lobb: You took exception, I think, to one of the other witnesses' comments. You said you couldn't let it stand or something like that.

Mr. Alan Williams: Oh yes, absolutely. It was suggested that somehow my comments are tainted because I'm in a conflict of interest with companies that are interested, in one shape or another, in the CSC program.

That is absolutely and unequivocally not true. I am not working for, paid by or involved with any other company. I purposely made sure, both on this file and on the jet file, to not ever be involved with any of the companies, so that I can voice my views without any conflict of interest or any allegations of such. I just wanted to make that absolutely clear.

● (1750)

Mr. Ben Lobb: Okay. Thanks.

Mr. Perry, do you want to make any further comments on transparency?

Mr. David Perry: I do.

To go back to Alan's point about the immense costs of this, whatever the right number is, they are huge, and I think that we have not been well served by the amount and frequency of transparent communication about what's been happening on these shipbuilding projects over the last decade. It has waxed and waned, but I think it's at a bit of a low point right now. We shouldn't be relying on hearings like this as the key mechanism to learn what's happening on an investment of this immense volume of money. I think it's too important to be left to this infrequent series of communications.

A previous minister of PSPC suggested making quarterly shipbuilding reports. I'm sure that will terrify bureaucrats, but given how much money is at stake, I think that kind of attempt will better serve Canadians and make sure that we actually know what's happening, why decisions are being made, where the costs are and when we're going to get ships.

Mr. Kelly McCauley: Thanks very much for that, Mr. Perry. I think it would certainly serve parliamentarians and taxpayers very well to have that.

We've discussed some of the other countries that are doing a better job on transparency. Obviously, the Americans do a better job on transparency than we do, and also Australia, and I think you mentioned Switzerland. What are they doing in their procurement process that depoliticizes the purchasing process? It seems to delay and kill projects here.

Mr. David Perry: I think there are several factors. Transparency is part of that in terms of being able to better explain what's actually happening so that you can have a discussion based on a much larger basis of facts that are available.

Compared to some of your counterparts in other jurisdictions, I would suggest to you that, whatever the political stripe, I don't think our governments do a good enough job of getting enough of that information out consistently. We're investing way too much money to not be clearer with all Canadians, but especially with parliamentarians, about what decisions we're making, why we're making them and what the implications are.

Mr. Kelly McCauley: I'm glad you mentioned that. I remember in this committee, several times, bringing up the fact that the Parliamentary Budget Officer had to go down to the U.S. to meet with the Pentagon to get costing on frigates so they could bring it back here and extrapolate from it for our program, because DND was refusing to release information. Here we have the U.S. being more open on our costs than our own defence department.

Is it a lack of political will? Does it require the new defence minister to say, “Get it together and be transparent”, or are we stuck with red tape in the bureaucracy? Where is this coming from? Is it just baked into our system?

Mr. David Perry: I think part of it is baked in, and there's not a lot of enthusiasm, I don't think, across the official levels in the public service.... Fundamentally, a lot of this reporting ends up being a lot more work. If you have a choice between actually making decisions and reporting on them, there's an understandable tension between doing the work and telling people what you've done.

I think we can strike a better balance, and I don't think you can expect any change unless it comes from the Prime Minister and the cabinet on down.

Mr. Kelly McCauley: It goes back to the original comment about everything being de-risking. With our bureaucrats, I think part of their de-risking is blocking information to parliamentarians and taxpayers.

Thanks very much for that.

The Chair: You have 10 seconds.

Mr. Kelly McCauley: I will give my 10 seconds to Mr. Paul-Hus.

[*Translation*]

Mr. Pierre Paul-Hus: Thank you, Mr. Chair.

I would like to quickly ask a question that could simply be answered in writing.

The government is announcing investments for infrastructure projects related to fighter jets in Cold Lake and in Bagotvillle. Can those investments be made without the government really knowing what aircraft model will be selected if there is a problem with the F-35s?

Mr. Perry or Mr. Leuprecht could answer the question in writing after the meeting, since we are short on time.

[*English*]

The Chair: Thank you, Mr. Paul-Hus.

If the witnesses could respond to that in writing, we'd appreciate that. If you need clarification on that question, we'll get it transcribed so you can have that as well.

I will now go to Mr. Jowhari for the last round of questions, for five minutes.

Mr. Majid Jowhari: Thank you, Mr. Chair.

I'm going to pick up from where my colleague MP Bains left his conversation.

Mr. Leuprecht, I think you were responding to him when you talked about the customization. You specifically highlighted the fact that the needs of our country and the needs of our fleet are very different from others we are comparing this cost with. Then we went into the interoperability and how important it is that we be able to fit within NATO.

I'd like to go back to you, sir, and ask, with the customization or what's specific or unique to us, what's the impact on the overall costs? How does it fit within that interoperability that's needed within NATO?

● (1755)

Dr. Christian Leuprecht: I'll give you one example.

Since Canada is far away from other parts of the world, when we send a frigate somewhere, we might need that frigate to be more or less self-sufficient for, say, six months at a time. That has implications for how you set up your ship, as compared, for instance, to French frigates, which are designed to operate independently for a much shorter period of time. These are considerations that will necessarily affect the design of a ship. You might think, for instance, about what radar system you might want to put on a ship, and to what extent you might then deploy that ship to support efforts for missile defence, for instance, by allied countries.

These are all particular considerations that have both military components and political components. That's why I say it is an instrument of foreign policy, and if we don't equip the ships with that in mind, that might mean we might have nice frigates that ultimately cannot perform the requirements that taxpayers and the government of the day might have in terms of deployment expectations.

Mr. Majid Jowhari: Thank you.

The way I take it is that off-the-shelf is a good idea, but when we look at our geographical situation, where we are in the world, what role we want to play and what we need to be able to defend ourselves, some of these customizations and functionalities are justified.

Is that a fair statement?

Dr. Christian Leuprecht: We certainly want to make sure we have equipment that delivers for Canada and Canadian interests, in terms of both Canadian industry and national interests abroad. For any military, I think that means it's going to require some customization. In particular for Canada, because our situation is quite different from that of the United States, quite different from that of most of our European allies, and also somewhat different from that of Australia, where I lived for some time, I think it is prudent to make sure we take that into consideration.

The trade-offs are, as Mr. Williams points out, a matter of appropriate oversight throughout the process and, as Mr. Perry points out, appropriate accountability to the taxpayer to ensure we can explain the trade-offs we are making.

Mr. Majid Jowhari: Thank you.

I want to close on the topic of interoperability. Can you help us demystify this interoperability when it comes to our ships not only defending us in the North but also being part of NATO?

Dr. Christian Leuprecht: That's a good question. Let me provide a simple example to you.

Often what Canada will do is that it may decide to substitute a Canadian frigate for a U.S. frigate in an American aircraft flotilla, for instance. That means the Americans can pull out their frigate and deploy it somewhere on an operation where Canada may decide, for political or other reasons, that it has no interest to deploy a Canadian frigate. It frees up American resources, which then makes Canada a vital partner for the United States in providing for multilateral and allied defence.

Also, the Americans like working with Canada precisely because they can trust Canada, and they can trust Canadian equipment insofar as we are fully operable, especially on the naval side, where this is absolutely vital in terms of maximizing our overall impact. That, of course, also then gets us good visibility in Washington, because if you're able to support the United States in areas that might be of mutual national interest for Canada, that scores us points in Washington. That then allows us to advance other policy files that are of equal importance in our bilateral relationship.

● (1800)

Mr. Majid Jowhari: Yes, such as NORAD.

Thank you.

The Chair: Thank you, everybody.

I want to thank the witnesses for bearing with us. We started at 3:48, unfortunately, due to the votes and a few delays, and we know that you were with us even before that time frame when you signed in earlier. On behalf of the committee, I want to thank you for bearing with us, because we went through a full two hours as well. It's greatly appreciated.

Dr. Leuprecht, Mr. Perry and Mr. Williams, thank you very much for being with us throughout this time frame. As I mentioned earlier, if you have anything that you feel you need to submit in writing, please do so. It would be greatly appreciated.

That said, I would like to thank the interpreters and the technicians for also staying with us as we went through this, as well as our analysts and our clerk for being with us throughout this time.

I declare the meeting adjourned.