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## **Standing Committee on Transport, Infrastructure and Communities**

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**EVIDENCE**

**Tuesday, June 8, 2010**

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**Chair**

**Mr. Merv Tweed**



## Standing Committee on Transport, Infrastructure and Communities

Tuesday, June 8, 2010

• (0905)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** Thank you, and good morning, everyone. Welcome to the Standing Committee on Transport, Infrastructure and Communities.

When we left last meeting we were in the middle of a motion presented by Mr. Bevington. I notice that Mr. Bevington isn't here, but we do have our guests, and I would like to get to them.

If we want to, we can deal with the motion as quickly as possible and then we can move on. We've heard the motion. We've heard Mr. Bevington's comments on it. Are there any other comments? Then we can proceed to a vote.

Mr. Jean.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Mr. Chair, as an issue of fairness, I think Mr. Bevington should be here. I'm wondering whether we could have agreement to defer it to the end of the meeting, just so that nobody thinks any chicanery is happening.

**The Chair:** If the committee is comfortable with that, I appreciate that advice. Thank you for it. I'll set aside five minutes at the end of the meeting for this.

With that, then, I'll invite our guests to come forward from Purolator.

Pursuant to Standing Order 108(2), we are doing a study of the management and operation of Canada Post Corporation. Joining us today from Purolator Courier Ltd. are Mr. William A. Henderson, president and chief executive officer, and Mr. Stewart Bacon, chairman of the board.

Welcome, and thank you for coming today. I'm hoping you're aware that you're allowed to make an opening statement. Then we would move to question-and-answer rounds from the committee.

If you are ready, I would ask you to proceed. I will give you a heads-up that the meeting is conducted in both official languages, so you may have need or desire for translation at some point. You'll see us all wearing headsets throughout the day.

With that, I would ask you to please proceed.

**Mr. Stewart Bacon (Chairman of the Board, Purolator Courier Ltd.):** Thank you very much. *Merci beaucoup.*

My name is Stewart Bacon. I am the chairman of the board of Purolator Holdings, and my colleague Bill Henderson is the president and CEO.

[Translation]

Chairman Tweed, vice-chairmen Volpe and Laframboise, and members of the committee, we are pleased to be here today and welcome the opportunity to speak with the committee about the important work Purolator does for Canadian businesses.

As Canada's largest courier company, Purolator delivers innovative products and superior service on which Canadians have come to depend. Flexibility and responsiveness are the hallmarks of Purolator's approach to customer service. To deliver unparalleled customer service, we have built Canada's most extensive national network and supporting infrastructure.

Purolator employs more than 11,000 Canadians, of which over 9,000 are members of Teamsters Canada and just under 2,000 are Purolator shareholders. We maintain facilities across all regions of Canada with more than 35% of those facilities located in rural areas. We have more facilities in more regional centres than any other courier company in Canada. Nationally, provincially and regionally, Purolator delivers the same exceptional, value-added service and support, regardless of where our customers choose to call home.

We operate approximately 4,000 ground vehicles, of which more than 200 are hybrid-electric vehicles, and, through our partners Kelowna Flightcraft, leverage a domestic air network of 15 aircraft including two DC-10s dedicated to delivering mail product for Canada Post. Purolator's vast network and team of dedicated employees enable Purolator to deliver 275 million packages and envelopes annually.

However, Purolator's story cannot be told solely by the number of packages and envelopes it delivers. Each and every day, milestones are reached that serve to improve the quality of our service for Canadians.

In 2009 alone, Purolator reached several milestones. First of all, Purolator Global Supply Chain Services opened a facility in Toronto, Ontario, supporting GSC facilities in Richmond, British Columbia and Montréal, Quebec.

Secondly, Purolator launched its new advertising campaign promoting "a network unlike any other", highlighting its role as the Official Courier for the Vancouver 2010 Olympic and Paralympic Winter Games.

Thirdly, Purolator was selected by the Ontario Ministry of Transportation and Ontario Trucking Association as one of 50 companies to test long combination vehicles.

Fourthly, Purolator received its Customs-Trade Partnership Against Terrorism re-certification membership approval, thus doing our part to help secure the Canada-U.S. border.

It is this continual commitment to renewal that allows Purolator to deliver directly to more points in Canada than any of its competitors; in fact, to every region across our nation.

● (0910)

[English]

**Mr. William Henderson (President and Chief Executive Officer, Purolator Courier Ltd.):** Mr. Chairman and members of the committee, I'll continue in English.

Each and every business day, Canadians rely on Purolator to deliver life-saving medicines, just-in-time emergency surgical kits, manufacturing supplies, critical business documents, and other items necessary for the well-being of our communities and the businesses that sustain them. In so doing, Purolator brings our large and sparsely populated nation together, enabling economic development in both urban and rural communities. Purolator is very proud of the vital role it plays in connecting Canadians, Canadian communities, and Canadian businesses.

Purolator's ability to connect Canadians comes from its strength as a company, a strength that is built on our corporate culture, enabled by almost 2,000 employee shareholders, which encourages employee involvement, thrives on communication, and empowers employees to find innovative, real-time solutions in everything we do.

In fact, our unique culture has been recognized in the last three years by the *National Post* and Waterstone Human Capital as one of Canada's top ten corporate cultures. That strength enables Purolator to provide reliable and cost-effective transportation and logistics solutions that deliver exceptional value to Canadian businesses.

Every business is a part of our community, and Purolator is no exception. Everywhere throughout the company, our people contribute to the betterment of the communities in which we live and do business, truly embodying Purolator's corporate value of social responsibility.

Purolator is committed to Canada. Unlike our foreign multinational competitors, we make Canada our primary market. Purolator people work around the clock to ensure that Canadian businesses in both urban and rural communities remain connected across Canada.

Over the last four years, we have re-invested our profits to improve the efficiency and reliability of our delivery network to ensure that we can continue to deliver exceptional value to all Canadians, no matter what place they choose to call home. Those investments include the construction of state-of-the-art hub facilities at Montreal Trudeau Airport and Vancouver International Airport, as well as Surrey Port Kells.

Servicing the needs of Canadians better than anyone else is essential to Purolator's success; our investments, thankfully, enable us to do so. With such an extensive footprint nationwide, Purolator is committed to supporting Canadian communities in ways that go well beyond the provision of our services.

Since 2003, we've focused our attention and efforts on what we believe is one of the most fundamental and pressing issues facing every community—hunger. Purolator employees have made a meaningful difference in the fight to end hunger. In the province of Quebec alone, we have raised over 60,000 pounds of food in an exciting partnership with the Grey Cup champion Montreal Alouettes. To date, through our sponsorship of the CFL's Tackle Hunger program, we have raised more than three million pounds of food for communities across Canada.

Purolator's commitment to the communities we live and work in extends to the environment we all share. In 2009, the *Toronto Star* listed Purolator first on its list of Canada's greenest companies. Purolator's Greening the Fleet program has been recognized nationwide and is figuratively and literally employee-driven.

All of our hybrid-electric vehicles are driven by our proud Teamsters employees. In fact, it is our unionized workforce that has been the driving force behind our success in reducing our carbon footprint nationwide by over 1,450 metric tonnes since the inception of the program.

Since 2005, we've acquired over 200 hybrid-electric vehicles and have recently committed to adding an additional 200 hybrid vehicles to our fleet by the end of this year. That provides Purolator with the largest hybrid-electric fleet in the country. Our fleet includes hybrid-gas, hybrid-diesel, and all-electric versions, spread through all Canadian cities.

Once again, we welcome this opportunity to share more details of Purolator's commitment to Canada, Canadians, and Canadian businesses with you today. We would be pleased to answer your questions with respect to our operations nationally and specifically regarding our commitment to ensuring that Canadian business receives on-time deliveries of their time-critical packages, as well as the role we are honoured to play in ensuring Canadians receive their daily mail.

● (0915)

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

Madam Crombie.

**Mrs. Bonnie Crombie (Mississauga—Streetsville, Lib.):** Welcome, Mr. Henderson and Mr. Bacon.

I'm just wondering whether our chairman has given you any indication as to why you may have been called here today.

**Mr. William Henderson:** I understand there was a request made by the committee in relation to the dedicated domestic airlift contract.

**Mrs. Bonnie Crombie:** That's correct. I've been reading with great interest the transcripts from the committee meeting almost a year ago, June 11, 2009, which reviewed the 2008 contract that had been awarded to you by Canada Post Corporation.

First, I wonder if you could describe for me your ownership structure.

**Mr. Stewart Bacon:** Perhaps I could help with that. Purolator is a subsidiary of Canada Post. It is owned in part by almost 2,000 employees. Barry Lapointe, through a holding company, owns 7% of the shares, and Canada Post owns the remainder, just a little over 90% of the shares.

**Mrs. Bonnie Crombie:** When this contract was awarded back in 2008, there was some suggestion from the transcripts that there had been a lack of openness and transparency, and even a suggestion of a conflict of interest and preferential treatment. I think those are some of the questions that committee members will have for you today.

Perhaps we can go into a little greater detail on how that contract was awarded. I wonder if you might describe for me the bidding process that was undertaken.

**Mr. William Henderson:** Purolator responded, as did the rest of the aviation industry in Canada, to a public RFI issued by Canada Post.

**Mrs. Bonnie Crombie:** Excuse me. What is a public RFI?

**Mr. William Henderson:** It's a request for information.

**Mrs. Bonnie Crombie:** How does that differ from an RFP?

**Mr. William Henderson:** An RFP is a proposal for quotes or bids. In some companies we respond to both RFIs and RFPs.

**Mrs. Bonnie Crombie:** Did you ever have to undertake an RFP?

**Mr. William Henderson:** No, because we participated in what Canada Post issued, which is the RFI.

**Mrs. Bonnie Crombie:** Which other companies also participated in the RFI?

**Mr. William Henderson:** I believe there were probably about four or five other corporations in Canada that participated in that.

**Mrs. Bonnie Crombie:** Do you know which ones those were, for the record?

**Mr. William Henderson:** I believe there was Morningstar, which is the carrier for FedEx; Cargojet; and probably a couple of others.

**Mrs. Bonnie Crombie:** I have the list here. I'm just looking for it. There was Cargojet, Esposito, First Air, and you, Purolator. So was Morningstar part of the bidding process or not?

**Mr. William Henderson:** I understood Morningstar had initiated their intention. Perhaps they didn't bid. I wouldn't be privy to that information.

**Mrs. Bonnie Crombie:** Those were the four companies that were listed. I was actually curious as to why UPS or FedEx were not part of that process, but I guess you wouldn't have any knowledge.

Are you aware of the sole-source provider provisions that any company has to undertake, as stipulated by Public Works and Government Services Canada, when it bids on contracts? Are you familiar with the framework?

**Mr. William Henderson:** We're familiar with the framework.

**Mrs. Bonnie Crombie:** Are you familiar with sole sourcing when a government department or agency is permitted to go to a sole-source provider? Are you familiar with the provisions?

**Mr. William Henderson:** I am in general.

**Mrs. Bonnie Crombie:** Let me just refresh the committee's memory:

...the product or service is required immediately due to pressing emergency and there isn't enough time to issue a competitive tender;

The estimated expenditure is less than

\$25,000...or [up to] \$100,000 [in other circumstances where]

there's only one qualified company, such as a business that has developed a patented or copyrighted...; or

[if] it's not in the public interest to hold a competition...

I also wanted to ask you the value of the contract that was awarded to you.

• (0920)

**Mr. William Henderson:** Because of the commercial sensitivity of those terms and the highly competitive nature of the express industry we compete in, I can't divulge the size of the revenue of the contract. I can tell you that the margin percentage is 15%. That's an accepted transfer margin between Canada Post and Purolator.

**Hon. Joseph Volpe (Eglinton—Lawrence, Lib.):** A point of order, Mr. Chairman.

**The Chair:** Mr. Volpe, on a point of order.

**Hon. Joseph Volpe:** I think it would be in the committee's best interest just to remind the witnesses that we're already dealing with facts and figures that were part of the public record. To talk about a margin of 15% today and to talk about commercial sensitivities is well beyond attesting to the credibility or the credulity of members around the table.

I think we already had some specific figures. I'm going to throw the number out that Moya Greene, the former president of Canada Post, gave to us, and that was a minimum of \$100 million, \$20 million per annum. Perhaps the witness could give an indication that this range is consistent with the figures already on the table or whether he's going to provide brand new ones.

**The Chair:** Mr. Jean, on the same point of order.

**Mr. Brian Jean:** To call a point of order on your own member, which is not a point of order but simply another line of questioning, is not appropriate, Mr. Chair. If he wants the time, let him ask for it from his member.

**The Chair:** Mr. Watson, on the same point of order.

**Mr. Jeff Watson (Essex, CPC):** Yes, Mr. Chair. It's along the same lines. I actually think the time should be deducted from their questioning. That was actually an additional question. She has the complete right to bring up the testimony with Moya Greene and ask whether or not that's consistent. But that's not a point of order at all, and that time should be deducted from Ms. Crombie's time.

**The Chair:** Thank you.

It's not a point of order, agreed.

Ms. Crombie, please continue.

**Mrs. Bonnie Crombie:** Thank you.

Perhaps we could have a response as to whether the \$100 million is within the general realm of the size of the contract.

**Mr. William Henderson:** It's in the general range of the contract.

**Mrs. Bonnie Crombie:** I'm trying to establish why there wasn't a more fulsome search conducted, and why Canada Post didn't go into a full RFP, why they awarded you a contract without having investigated all the other options as to who was able to provide the type of service that was necessary to fulfill the terms of the contract, why they went to one single provider.

**Mr. Stewart Bacon:** I think that's more a question for Canada Post than for Purolator, in the sense that Purolator was on the receiving end of a request for information.

**Mrs. Bonnie Crombie:** Maybe you could describe for me the interlocking relationship of the board of directors of the three companies that are involved: Canada Post, yourselves, and Kelowna Air.

**Mr. Stewart Bacon:** All right. The Purolator and Canada Post boards are very separate—

[Translation]

**Mr. Roger Gaudet (Montcalm, BQ):** The right microphone has not been turned on.

**Mr. Stewart Bacon:** I apologize. Am I supposed to do something to use the microphone?

**Mr. Roger Gaudet:** I do not know.

[English]

**The Chair:** Because of technical difficulties, I'd ask you to turn your mike on by pushing the button; they will shut it off when you're done. Thanks.

**Mr. Stewart Bacon:** Yes, all three of the boards you referenced are quite independent of each other.

**Mrs. Bonnie Crombie:** There does seem to be some overlapping membership.

**Mr. Stewart Bacon:** There is on the Purolator board of directors, of which I am the chair. There are seats on the board that are filled by Canada Post management employees and by the current, soon to be former, CEO.

**Mrs. Bonnie Crombie:** How many?

**Mr. Stewart Bacon:** Seven, I believe.

**Mrs. Bonnie Crombie:** Seven out of...?

**Mr. Stewart Bacon:** Ten.

**Mrs. Bonnie Crombie:** Okay, and—

**Mr. Stewart Bacon:** Sorry, six out of ten. There are three independent directors on the Purolator board, plus me.

• (0925)

**Mrs. Bonnie Crombie:** Is the owner of Kelowna Air a member of that board?

**Mr. Stewart Bacon:** He is.

**Mrs. Bonnie Crombie:** What percentage of ownership does Kelowna Air have in Purolator?

**Mr. Stewart Bacon:** As I said before, 7%. As a shareholder with a significant interest in the company, he has, as is quite common, a seat on the board of directors of the company in which he has invested.

**Mrs. Bonnie Crombie:** What was the bidding—

**The Chair:** I have to go to Monsieur Laframboise now. I will come back.

Monsieur Laframboise.

[Translation]

**Mr. Mario Laframboise (Argenteuil—Papineau—Mirabel, BQ):** Thank you, Mr. Chairman.

Thank you, gentlemen.

Mr. Bacon, I would like to ask questions about your company's structure. I am interested in transparency. Since Purolator is a subsidiary of Canada Post, which is a crown corporation, it is important that there be transparency. Moreover, that is the objective.

You are quite right. At that time, the president, Ms. Greene, told us that she received a fax announcing that the contract had been cancelled with Air Canada, but she did not go to the trouble of calling the president of Air Canada to find out what had happened. That was her problem, not yours. I understand that, after that, you did business with Canada Post.

As far as the corporate structure is concerned, could you provide me with a detailed breakdown of your shareholders and explain the 7% issue?

**Mr. Stewart Bacon:** Approximately 2% of the shares are held by slightly fewer than 2,000 Purolator employees, under a share purchase plan. Seven per cent are held by Barry Lapointe or a company that belongs to him. This is his interest and it is tied to Kelowna Flightcraft. The rest of the shares, 91%, are held by Canada Post.

**Mr. Mario Laframboise:** And does your board of directors more or less reflect this proportion?

**Mr. Stewart Bacon:** I would say that is perhaps tilted more in favour of the minority shareholders. Of the 10 members of the board of administration, six are from Canada Post, three are independent and then there is myself.

**Mr. Mario Laframboise:** Did you establish a special structure or transparency measures when you signed contracts with Canada Post? Did the board of directors adopt directives or a procedure in the case of contracts signed with the parent company?

**Mr. Stewart Bacon:** That is the case for the company as well as for Mr. Lapointe's firm.

Obviously, Mr. Lapointe sits on the board of directors. However, any time we deal with a file that involves him, he does not receive the printed material for the initiatives as do all of the other board members. In addition, he is excluded from discussions and cannot vote on the decision. This is a governance rule that we are very strict about.

We try to have the same attitude with respect to Canada Post. Purolator's board of directors is responsible for acting in the best interests of Purolator. As chairman of the board, this is my responsibility and this is the responsibility that all directors accept, and I believe this sincerely. Indeed, they act like that.

**Mr. Mario Laframboise:** Do you have any contracts with other airlines?

**Mr. Stewart Bacon:** I think that we do have some small contracts.

[English]

We have other airline contracts.

• (0930)

**Mr. William Henderson:** We have airline, ground line, and also haul contracts.

[Translation]

**Mr. Stewart Bacon:** We also have many contracts with trucking companies.

**Mr. Mario Laframboise:** Can you give me the names of airline companies with which you have contracts?

[English]

**Mr. William Henderson:** We contract with Perimeter airlines; Cargojet, for parts of western Canada; Purolator provides airlift services to FedEx in and out of Newfoundland; and through the weekend, FedEx flies on Purolator.

[Translation]

**Mr. Mario Laframboise:** You do not favour Mr. Lapointe's company in your business dealings.

**Mr. Stewart Bacon:** I am still quite new in my position, but I would have to say that we do rather the opposite. We try to be very strict in that regard.

**Mr. Mario Laframboise:** When you came in as a contractor to replace Air Canada, you did business with Mr. Lapointe's company. Perhaps Mr. Henderson can answer my question. Was that because of the timelines involved? Was it a matter of having to get things done quickly? I would like you to explain the circumstances. You were contacted and took part in what Ms. Greene called a request for information. How does an RFI process work? Are you given a deadline? What was the timeframe? Was it short?

[English]

**Mr. William Henderson:** When the RFI was issued, we responded, as did other members of the aviation community. The timeline was within 120 days to provide wide-body airlift, or "large-gauge" aircraft; that's how we would refer to them in the industry.

We operate 727 aircraft. Those are narrow-body aircraft that carry about 46,000 pounds. The wide-body aircraft necessary to meet the requirements of Canada Post were DC-10 aircraft, which hold the equivalent of four 727s. So it was a very different set of aircraft.

Wide-body aircraft have not operated in Canada on the cargo side to any great degree since Air Canada started to decrease the size of the use of that type of aircraft in their own fleet.

[Translation]

**Mr. Mario Laframboise:** Is the contract standard or exceptional, given Canada Post's commitments? Do you see this as a standard situation or something quite exceptional?

[English]

**Mr. William Henderson:** The timeframe we were given was extremely short. Generally in aviation you have anywhere from 12 to 14 months to respond. So in 120 days, due to its size and capability, Purolator was able to engage our resources and capability right across the country, with the support of Kelowna Flightcraft, to put these aircraft into service and get Purolator people trained for the

loading and offloading of these aircraft. We did so and provided service to Canada Post, but indirectly to Canadians, to keep the mail moving with improved service and lower cost to Canadians overall.

[Translation]

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

[English]

Mr. Bevington.

**Mr. Dennis Bevington (Western Arctic, NDP):** Thank you, Mr. Chair.

Thanks to the witnesses for coming here today.

Obviously Purolator's contract with Canada Post is only a small part of what you're doing here. What would you estimate it is as a percentage of your...?

**Mr. William Henderson:** I'd like to keep the terms... Because these contracts are highly confidential, I will tell you it's in the very low single digits in representation of our overall revenue base.

**Mr. Dennis Bevington:** So Air Canada was providing the DC-10s and then wasn't providing them, or moved out of them, and Canada Post was looking for DC-10s?

**Mr. William Henderson:** No. I'll add clarity to that. Air Canada was providing commercial airlift services to Canada Post using multiple aircraft. Our response to that in the proposal we submitted to Canada Post was to consolidate those multiple flights to improve the scheduling, service, and overall cost. Our solution was to use the DC-10 aircraft.

**Mr. Dennis Bevington:** That was a significant part of your bid. Was that one of the key elements of your bid, do you think?

**Mr. William Henderson:** On the total structure of Purolator, we're the largest express cargo carrier in the country. We have over 300 dedicated personnel across 14 airport locations, from Victoria right through to St. John's. Given our capability in those air operations at all those airports and our ability to operate aircraft, with the training and the capability, we put a solution forward to improve both the service and the cost for Canada Post.

• (0935)

**Mr. Dennis Bevington:** How's your service to northern or remote locations?

**Mr. William Henderson:** We're the only carrier that provides direct service to Canada. We have over 143 locations operated by Purolator personnel. Unlike our foreign multinational competitors who subcontract that out, we actually employ Canadians in the communities as far up as Yellowknife, Kapuskasing, Rimouski, Gander, St. John's, and areas like that.

**Mr. Dennis Bevington:** You're not delivering with your own planes up there.

**Mr. William Henderson:** Yes, we are.

**Mr. Dennis Bevington:** Purolator flies into Yellowknife?

**Mr. William Henderson:** Yes. We fly in with a Convair.

**Mr. Dennis Bevington:** This is a small part of your operations, but is it a significant part? Have you restructured your company in order to provide this service?

**Mr. William Henderson:** There was no requirement to restructure.

**Mr. Dennis Bevington:** What about the air support?

**Mr. William Henderson:** For the air support, whether the contract is large or small, Purolator is dependent, like many other businesses, on growth. With contracts that are very compatible with Purolator's capability to deliver on that promise, we'll compete on all those contracts, whether they are in the air or on the ground.

**Mr. Dennis Bevington:** Thank you, Mr. Chair.

**The Chair:** Mr. Jean.

**Mr. Brian Jean:** Thank you, Mr. Chair, and I thank the witnesses today.

I'm sure you've had an opportunity to read the *Canada Post Corporation Special Examination Report—2009* from the Office of the Auditor General of Canada. On page 91, it says:

We looked at the process for the 2008 Purolator contract for domestic air delivery services and concluded that the contracting process Canada Post followed to award the contract was appropriate given the timelines and the Corporation's operational requirement to deliver the mail....

It goes on to say that:

The contract is a cost-plus contract, which is common in the air freight industry. However, we found that it has little incentive for Purolator to control costs, and it does not penalize Purolator for excessive costs. Canada Post analyzed the negative factors in the contract, and had determined that, overall, the contract was reasonable.

Do you agree with that statement from the Auditor General of Canada?

**Mr. William Henderson:** We do.

**Mr. Brian Jean:** Thank you.

To Mr. Mayes, please.

**Mr. Colin Mayes (Okanagan—Shuswap, CPC):** I thank the witnesses for being here.

Most of the questioning here this morning has been around relationships and the relationship of Purolator with Canada Post and of course the Government of Canada, because the minister has some oversight with regard to Canada Post.

Another area is with Flightcraft. I actually sat on the airport authority in Kelowna, so I'm familiar with Flightcraft. I've seen a Purolator aircraft being maintained with Flightcraft. On the relationship with Flightcraft—and that is owned by Mr. Lapointe—do you go out for competitive bids to ensure that you're getting the best price for the maintenance of those aircraft?

**Mr. William Henderson:** I can respond to that.

In 2007, Purolator went to market with the largest aviation airlift bid in Canadian history for the cargo services. Barry Lapointe Holdings, Kelowna Flightcraft, did respond to that bid, as did eight other carriers in the country. The bid was awarded to Kelowna, based on a number of factors: on service, reliability performance, maintenance performance, the type of aircraft a carrier needs, as well as financial stability.

**Mr. Colin Mayes:** When I looked at Canada Post's revenue—just a little over \$6 billion—their bottom line, ROI, was around \$66 million. That's about a 1.25% ROI. You're saying that in your

contract with Canada Post you have about a 15% ROI. Is that correct?

• (0940)

**Mr. William Henderson:** Yes.

**Mr. Colin Mayes:** Do you enjoy that same margin with your other customers other than Canada Post?

**Mr. William Henderson:** The margins in Purolator vary, but the margins in our industry can be greater than 15%.

**Mr. Colin Mayes:** The concern here is the relationships. As you go up the line, we have a person who's maintaining the Purolator aircraft, who sits on the board of a corporation that 91% belongs to Canada Post. Then Canada Post has a relationship with the Government of Canada, of course, and when they need to raise the cost of postage or they need capital, they're going to go to the minister. We have to be very careful that there's transparency and openness as you go down this chain.

With all of the things regarding the contract with Flightcraft—and I'm very happy that you're maintaining your aircraft in the constituency close to mine and employing people in the Okanagan Valley—you have that all documented, so it is clean and transparent, so any competitors of Flightcraft can see that in an open and transparent way. Is that correct?

**Mr. Stewart Bacon:** As Mr. Henderson said, and this was prior to my arrival at Purolator, there was a very robust RFP process in 2007 where the airlift was outsourced, essentially, to a provider, just like we would outsource ground transportation to a trucking company—

**Mr. Colin Mayes:** I just want to get on to another question, because I'm going to run out of time, but in British Columbia we have a number of remailers. Do you do work with remailers, as far as providing service to remailers goes?

**Mr. William Henderson:** The only service we provide is if Purolator has a direct sales agreement with a customer, and then we'll provide that, whether it's air transportation or ground transportation, to get that product to the end destination.

**Mr. Colin Mayes:** Those are all the questions I have.

**The Chair:** Mr. Watson, you have two minutes.

**Mr. Jeff Watson:** Thank you, Mr. Chair.

I have a question for you here. How long did it take to assemble the RFI? How long would it have taken you, had it been a NAFTA RFP, to assemble that type of RFP for a contract of this size?

**Mr. William Henderson:** It would be more a question for Canada Post, because we don't know the grounds of the NAFTA RFP. When an RFI, whether it's by NAFTA or any other means, is issued into the marketplace for companies such as ours to tender, we will respond immediately. Our response can usually be given within a 30-day timeframe, due, of course, to being in that line of business.

**Mr. Jeff Watson:** With the expiry of Air Canada's contract to carry mail, 120 days are required for turnaround. Maybe that's a question more for Canada Post.

I have no further questions, sir.

**The Chair:** Mr. Dhaliwal.



**Mr. Sukh Dhaliwal (Newton—North Delta, Lib.):** Thank you, Mr. Chair.

Welcome to the committee.

When six out of 10 directors of the board were Canada Post executives, do you see why there was a perceived conflict of interest there?

**Mr. Stewart Bacon:** Per se, no. They represent the shareholder interest in Purolator.

**Mr. Sukh Dhaliwal:** When we see the rating system as a guide, what could Purolator Courier do that none of the other companies could do?

**Mr. William Henderson:** I can answer that. What Purolator does have at its disposal is that we've been operating in Canada in this business for 48 years—aside from Air Canada, longer than anybody else. Over that period of time, we've invested significantly, in this case, with the airports, in facilities at those 14 airport locations, multiple ones in certain provinces such as Ontario and Quebec.

We've had that expertise with our people and the ground support equipment. We have almost 1,000 pieces in that equipment: generators, conveyor belts, loaders that lift up these great big air containers, loading and unloading the planes, computer systems that make sure the aircraft are operating safely. That's the number one priority for us. So that provides Purolator with a tremendous amount of expertise and capability to put into a proposal. We competed for that vigorously, and we're actually very pleased, very proud, to be awarded that contract based on the merits.

● (0945)

**Mr. Sukh Dhaliwal:** That was part of the requirement they put into the contract. Is that true?

**Mr. William Henderson:** The requirement on the RFI was to move a certain number of pounds of mail based on schedules to certain cities across western Canada, from Ontario out to British Columbia. Based on that requirement, we responded with the best proposal we saw. That's why we provided the types of planes we did to meet those schedules and the airlift requirements.

**Mr. Sukh Dhaliwal:** Are there any other firms that are able to meet all those requirements that you're mentioning?

**Mr. William Henderson:** I've been with Purolator for 21 years. I can speak in great detail about Purolator's capabilities.

Our competitors are fine companies. I can't speak about their capabilities.

**The Chair:** Mr. Volpe.

**Hon. Joseph Volpe:** Thank you, Mr. Henderson.

I'm a little troubled by a couple of things, and I'm wondering whether we can begin on some of them. I don't have much time right now, but perhaps you could explain to me why you would come to this committee knowing that the soon to be former president of Canada Post said she can't answer any of the questions regarding this contract, that we'll have to ask Purolator, and then you give us exactly the same refrain. You can't answer any of the questions regarding the contract; we'd have to ask Canada Post.

Canada Post has six directors on your board, it owns 92.6% of your company, and your company was the beneficiary of a contract that was previously handled by Air Canada. Not only that, the specifics that are available in the public domain tell us that the contract you got that was initially resident with Air Canada was a cost-plus contract. The reason you got that contract—I think you said 15% margin—is that Air Canada asked Canada Post to make up the difference in the surcharges that everybody was imposing on jet fuel because of the aberrant cost of fuel at that time.

When you got the contract, it was for cost plus, which meant that the fuel cost could have gone through the stratosphere and you would have got every penny that Canada Post didn't want to give Air Canada.

I just wonder how it is that your company was the beneficiary of a transfer of that contract, limitless in its cost, and then immediately transferred it to the company of one of its board of directors. Who is going to answer the question? Canada Post won't; you won't. I guess maybe Kelowna might.

**Mr. William Henderson:** Sir, I will answer the question. First of all, we were invited to come and share views with this committee, and we're very pleased to do so.

In terms of Air Canada's relationship and dealings with Canada Post, I can't comment on that. I represent Purolator. I can tell you anything about Purolator.

On the RFI, we responded to a public RFI that was issued in the industry. It was not a transfer of contract. That contract could have been awarded to any other carrier. Based on the merits of Purolator's capability and the proposal we put forward, it was a public RFI that we were very pleased to be awarded—based on the merits of that RFI.

● (0950)

**Hon. Joseph Volpe:** It's just an RFI; it wasn't an RFP. So you were awarded something on the basis of the fact that you had a very special relationship with Canada Post, but if you were so—

**Mr. William Henderson:** Sir, if I can correct you, it was a special capability we were awarded. It was the equipment, Purolator's capability, which outstretched anybody else, with the exception of Air Canada.

**Hon. Joseph Volpe:** You didn't have the DC-10s you're talking about. Kelowna did, or Kelowna was in the process of acquiring them, not Purolator. So you didn't have the capability.

**Mr. William Henderson:** Kelowna Flightcraft... I think for the benefit of the committee I should share what Purolator does and what Kelowna does, and that may help.

Purolator establishes the relationship with our customers. We provide the pickup, delivery, the scheduling, and the loading of our pickup and delivery vehicles. We scan all those packages, provide the invoicing, the support, and all the training to our people for the handling of goods, whether it's dangerous goods, safety compliance, security, to make sure we provide a safe, secure environment for our customers' packages. As far as the ground transportation—and I'll cover that—Purolator moves over 1,400 trucks, tractor trailers, every day right across the country. About 600 of those tractor trailers are outsourced every day to other Canadian firms to expand Purolator's capability. But the customers are dealing with Purolator; they're not dealing with the individual 600 trucks that are operating under Purolator's requirements.

Kelowna Flightcraft, as we said, has been providing airlift services for Purolator for a significant period of time. In 2007 we did go out with a public RFP to make sure we were competitive; that was translating to a competitive opportunity for our customers to keep Purolator in business. Obviously, with the companies we compete with, we're the only Canadian carrier. The rest of the competitors we compete with are foreign multinationals, so it's incumbent upon Purolator to keep that number one leadership position that we've worked very hard to maintain for 48 years.

We use Kelowna Flightcraft to provide our airlift services and complete that. So when we are talking about Kelowna...Purolator's capability resides in the trucking firms we employ and in the aircraft aviation companies. Cargojet and Perimeter Aviation are among those aviation companies we use to make sure we provide that service to Canadians.

**The Chair:** Monsieur Gaudet.

[*Translation*]

**Mr. Roger Gaudet:** Thank you, Mr. Chair.

Mr. Bacon, what is your annual sales figure?

**Mr. Stewart Bacon:** Purolator has revenues of \$1.4 billion.

**Mr. Roger Gaudet:** I have only a few brief questions.

Since when has Mr. Lapointe been a member of Purolator's board?

**Mr. Stewart Bacon:** For quite some time, I believe. He has been with Purolator for at least 15 years, perhaps more.

**Mr. Roger Gaudet:** Thank you.

How many of Purolator's board members sit on Canada Post's board?

**Mr. Stewart Bacon:** How many of Purolator's board members?

**Mr. Roger Gaudet:** How many sit on Canada Post's board of directors?

**Mr. Stewart Bacon:** President Greene is the only one to sit on both boards.

**Mr. Roger Gaudet:** How many from Purolator itself?

**Mr. Stewart Bacon:** There are none.

**Mr. Roger Gaudet:** None?

**Mr. Stewart Bacon:** Oh, I apologize, I believe I did not quite understand your question.

**Mr. Roger Gaudet:** How many of Purolator board members sit on Canada Post's board?

**Mr. Stewart Bacon:** There is but one, and that is Ms. Chicoyne. She sits on both Canada Post's and Purolator's boards.

**Mr. Roger Gaudet:** Thank you.

[*English*]

**The Chair:** Mr. Richards.

**Mr. Blake Richards (Wild Rose, CPC):** Thank you for being here today and for being so open to answering our questions.

According to my understanding of the timeline, I believe on April 30, 2008, Air Canada notified Canada Post that it was going to be amending its service agreement for air transportation of parcels and mail. The carrier then gave Canada Post 16 days to agree to a revised contract that would have immediately raised the corporation's operating cost by about \$15 million. Canada Post said they would not do that. Then the clock started ticking on a 120-day window for Canada Post to make new air transport arrangements. Is that fairly accurate?

● (0955)

**Mr. William Henderson:** Yes, it is.

**Mr. Blake Richards:** So in the interim, Canada Post put out the request and called for information. You said, I believe, that four other carriers replied. They decided on Purolator as the best option. That's accurate as well?

**Mr. William Henderson:** Yes.

**Mr. Blake Richards:** The auditors also found that the contracting process used in 2008 was deemed completely appropriate and met the corporation's operational requirements. Is that your understanding as well?

**Mr. William Henderson:** Yes.

**Mr. Blake Richards:** In your opinion, what would have been the effect on parcel and letter delivery service if the 120 days had passed and Canada Post had been unable to secure an efficient new transportation partner, or had only secured one that still had some significant bugs to iron out? What would have been some of the effects on mail service for Canadians?

**Mr. William Henderson:** Every single night, just under 200,000 pounds of mail is delivered on these DC-10 aircraft. Without being able to put up the airlift, had Purolator or any other carrier not responded, that mail would have suffered service delays. After a certain time, when you're backlogging 100 tonnes of mail a day, it becomes a monumental task to clear that backlog. The mail keeps our country moving. So it was important that we didn't incur one service failure, and we did not. From day one, we were never late on that mail.

**Mr. Blake Richards:** If that had happened, there would have been some pretty significant inconveniences and problems for the mail service and for Canadians.

**Mr. William Henderson:** Absolutely.

**Mr. Blake Richards:** Would you have any idea of the costs that Canada Post would have incurred had that time passed and it hadn't been able to find a new transport supplier?

**Mr. William Henderson:** I don't know everything they would have incurred. I could tell you what it would cost to move aircraft. Try to sublease that, and you're going to pay premiums. On short term, Purolator will at Christmastime pay premiums 20%, 30% north of their normal rates to move airlift over the holiday period. The same thing would have most likely occurred at that time. But that's just on the aircraft. I can't speak about the rest of the operation.

**Mr. Blake Richards:** Sounds as if there would have been some pretty significant increases in costs.

According to Canada Post, the transfer of service from Air Canada to Purolator was seamless. I'm wondering if you can share with us some of the major commonalities in your two organizations that allowed that to happen, allowed you to build a new transportation network within a pretty tight time period.

**Mr. William Henderson:** The transportation we have at work has already been in place. It was simply a matter of the introduction of the two DC-10s. The part of the infrastructure that made this feasible for Purolator was having the airport space, what we refer to as "aprons", which we obviously lease at federal airports. Those are the massive tracks of concrete where aircraft are parked and where we have ground handling equipment to load and offload these aircraft.

That entire infrastructure was in place, the trained people were in place, and Kelowna had the hangars, one in Kelowna and another in Hamilton, to service these aircraft. These aircraft operate from Hamilton all the way to Vancouver.

So we had the infrastructure in place. It was simply a matter of acquiring the aircraft. In the secondary market for cargo aircraft, there are a lot of them parked out in the desert.

**Mr. Blake Richards:** Are you aware of or do you know of performance measures that are in place to compare you with the previous supplier, Air Canada, which you can maybe share with us to help us understand the process and the success of the handover?

**Mr. William Henderson:** Certainly. In terms of percent on time, Purolator has to achieve a 97% on-time rate. It's actually recorded daily. We provide those services to the control offices between Purolator, Canada Post, and the rest of the companies we carry air freight for, each and every day. On a quarterly basis, Purolator actually has to meet with Canada Post, and they go through and audit the performance metrics and the costs that have been incurred, including the price of the fuel. That's all reconciled on a quarterly basis.

• (1000)

**The Chair:** Thank you very much, Mr. Richards.

Mr. Volpe.

**Hon. Joseph Volpe:** Thank you very much, Mr. Chair. I'd like to go back to Mr. Henderson. You know, if I were polite, I'd let him carry on about the way Purolator operates, but I want to return to the main theme.

Please understand, Mr. Henderson, that I'm trying to be as professional as I can be. I have nothing against you; it's just that there's a frustration that six members of Canada Post sit on a board. That means they have the majority. The Canada Post president told this committee that we have to ask you the questions, and one of the first leads you gave us was: don't ask us, ask them.

**Mr. William Henderson:** Sorry, sir, I didn't say ask Canada Post. I made reference to the commercial terms of our contract, which are as sensitive to us as they are to DHL, FedEx, or UPS.

**Hon. Joseph Volpe:** Right.

These are all companies with whom you and Canada Post actually have an ongoing relationship. You've used UPS, you've used FedEx, you've used Morningstar, you've used Cargojet. So that's four. There's an interchangeability of service amongst all of you. To then characterize your abilities as the only national ones, whereas all the others are foreign, is, quite frankly, I think, trying to appeal to a patriotic and nationalist sense of the service you might be providing.

**Mr. William Henderson:** Actually, sir, if I could, that's just Canadian pride. I'm pretty proud of being a Canadian.

**Hon. Joseph Volpe:** You're probably not as proud as I am, but that's not what's at stake here, quite frankly.

What's at stake here is the issue of transparency and accountability and sole sourcing of a contract. The contract that you got from Air Canada was a cost-plus contract, which meant—if Mr. Richards' concerns about costs are significant—there was no limit to the cost....

[*Technical difficulty—Editor*]...was going to pay you, notwithstanding their reservations about Air Canada.

My question about timelines is this. DC-10s went out of—

**The Chair:** Mr. Watson, on a point of order.

**Mr. Jeff Watson:** I think it was better with his microphone off actually.

Mr. Chair, that was a rude comment about patriotism directed at the witnesses here today. I don't think they deserve that kind of attitude, and I think Mr. Volpe should apologize and withdraw the remark.

**Mrs. Bonnie Crombie:** Oh, for goodness' sake.

Mr. Chairman, Mr. Watson is being obstructionist.

**The Chair:** I think we just have to temper our comments when we're dealing with all members of the committee and witnesses. I think we're all very proud Canadians.

Mr. Volpe.

**Hon. Joseph Volpe:** Well, thank you for establishing that.

Mr. Henderson, DC-10s went out of production in 1988. The two DC-10s that you claim you needed in order to provide a service, you would not have needed if that contract hadn't become available. But you needed them because each DC-10 replaces four of your 727s, I think you said. So you needed two of them, but they were mothballed in Arizona and had been there for quite some time, and Kelowna Flightcraft went out and purchased them and refurbished them.

Because Kelowna Flightcraft is represented on your board, I can only anticipate that you would have some awareness of why Kelowna Flightcraft would go out there—and this amount is in the public domain—and spend \$20 million on two aircraft that have been mothballed for some time. These aircraft are the worst polluters in the world, and yet Kelowna Aircraft felt they needed to make an investment.

Was it on spec, or did they know something from inside the Purolator board that the rest of us are going to be asked to pay for through public funds?

**Mr. William Henderson:** Actually, in January of 2008, I and two colleagues in our air operations group met with Kelowna Flightcraft to begin formalizing Purolator's transition from narrow-body aircraft—the 727s—to wide-body aircraft. And this was to accomplish two things: to reduce cost, primarily, and carbon footprint. We reduced the number of aircraft flying. It does save on the number of crew and the number of handlings. And it provides less chance of interruption of service when we can overfly certain airports with the mass of our volume, which is Ontario to British Columbia.

**Hon. Joseph Volpe:** So you were already making a pitch to Canada Post to replace the existing contract with Air Canada, one that hadn't already come up.

• (1005)

**Mr. William Henderson:** No, we weren't. The pitch was to Kelowna Flightcraft to start to transition out the narrow-body aircraft into wide-body for Purolator customers, whether they be Canada Post or all the other customers we carry in our aircraft. That would begin well in advance of this.

**Hon. Joseph Volpe:** While you were preparing well in advance of this, this opportunity came up and you were able to convince Canada Post that you already had the service capability. But in your pitch to Canada Post, six members of which already sit on your board—they comprise the majority of your board—you were able to convince them that your proposal of cost plus 15% was better than their trying to negotiate the fuel surcharge with Air Canada, which already had the potential to provide everything Canada Post needed, or indeed that your proposal was much better than the continuing relationship they would have with UPS, FedEx, Cargojet, Morningstar, or anybody else with whom they already had a relationship, to provide timely service.

**Mr. William Henderson:** There are a number of questions there, and I'll be pleased to answer them all.

First, on the DC-10 and the age, there are only about two or three carriers in the entire world that buy aircraft, production freighters, new. We're not one of them. We operate on the.... It's a standard model. After an aircraft enters passenger service, following a 20-year life cycle operating as a passenger aircraft, it becomes commercially viable to reconfigure that aircraft for cargo services.

The DC-10s, while they're old, are actually newer than our 727s. Some of our 727 aircraft are 40 years old. But they're refurbished. They're taken right down to the skeletal frame, and they're like brand new aircraft when they come out.

The DC-10 for servicing Canada Post, even above a 767 or an Airbus 300-330, has the lowest cost per pound because of the size of the hull, the thrust capability of the engines, and the range. So for

Canada Post—its product is so dense, so heavy—it was the ideal aircraft to operate.

The 20-year life cycle does something else. It actually lowers the capital cost to the aircraft. We lease our aircraft, so that provides a much more competitive pricing arrangement to bid with.

**Hon. Joseph Volpe:** But Kelowna didn't respond to the RFI. It was Purolator and it—

**The Chair:** I have to go to Mr. Jean. Your time is way over.

Mr. Jean.

**Mr. Brian Jean:** Thank you, Mr. Chair. And thank you, gentlemen, for coming here today.

I just wanted to talk a little bit about the contract itself and what I read earlier. I understand the contract is on a cost-plus basis.

**Mr. William Henderson:** Yes.

**Mr. Brian Jean:** That's correct. And even though the Auditor General saw some possible concerns with that, it's a norm in the industry. Is that correct?

**Mr. William Henderson:** It is. It's actually normal in the air, and it's normal on the ground as well.

**Mr. Brian Jean:** In fact, the Purchasing Management Association of Canada has actually recommended cost-plus as the best return on investment for large contracts to secure over time. You're probably not aware of that, but as a member, I'm aware of that. Syncrude and Suncor and most of the oil sands plants in northern Alberta actually deal on that basis because they get a better return on investment for not only the company but also the vendor. They have long-term relationships that are very secure and very comfortable for everybody. Although there is some opportunity for overcharging in some cases, the reality is that usually there are mechanisms in place to stop that from happening, and an audit function.

**Mr. William Henderson:** There are. And on a quarterly basis, Purolator appears in front of Canada Post. We issue and review every single cost, and they'll question costs. It'll go on a day-by-day basis. So the reconciliation takes us, actually, a number of days, and it's based on that reconciliation. If there is a cost, whether it's de-icing or fuel—and jet fuel has been fairly volatile, much more so than diesel or gas—whether the weather plays a part in it, or if there are any restrictions or changes with an airport that would cause us to use different runways or change our operating schedules, they make sure it's all reconciled so we're paying exactly...and they're not paying one penny more than they should be under the terms of the contract.

**Mr. Brian Jean:** In fact in the other contractual mode, which is utilized by house builders, for instance, they usually have to put in a 10% or 15% emergency fund just in case there are discrepancies that are, in essence, beyond their control. In your case that would be the de-icing, etc., that you would have.

So this is a good return on investment, in your opinion, for Canadian taxpayers, for the shareholder of the Canadian government, for Canada Post.

Is that fair to say?

• (1010)

**Mr. William Henderson:** Absolutely.

**Mr. Brian Jean:** And even if it's not, my understanding is that approximately 91% of Purolator is owned by Canada Post: the people of Canada.

**Mr. William Henderson:** That's correct.

**Mr. Brian Jean:** The other 9% are Canada Post employees. Is that fair to say?

**Mr. William Henderson:** The other...

**Mr. Stewart Bacon:** They're Purolator employees.

**Mr. Brian Jean:** Purolator employees: that means they actually have an incentive to do a better job—more profit and so on—for turnaround.

Ultimately, though, 91% is owned by Canada Post, the majority shareholder, in no small way, which has ultimate control, ultimately, of the board and in fact Purolator. The profits return to the shareholder of Canada Post.

Is that fair to say?

**Mr. William Henderson:** That's fair to say.

**Mr. Brian Jean:** It seems fairly reasonable to me.

Do you have anything else to add in relation to why you picked a Canadian supplier instead of a foreign one?

**Mr. William Henderson:** As I said, even with all the trucking companies we do business with, we will open up bids to anybody. We've actually had American carriers try to bid on these, so we don't exclude American carriers from doing it.

Air carriers, obviously, have much more difficulty with the registration of aircraft in this country, but they can register aircraft to operate in this country.

We've opened it up. I know that in our RFP we had two carriers that were foreign carriers.

**Mr. Brian Jean:** Do you give any preferential treatment in your bid process or your RFI process or your request for proposal process to Canadian companies? Do you give any preferential treatment to Canadian companies?

**Mr. William Henderson:** We put it out in the marketplace, and based on service, cost, financial stability—the top three criteria—we select for it.

**Mr. Brian Jean:** In this case, a Canadian company won, which, it just so happens, is also controlled by the vendor, in this case Canada Post. It's a good-news story all around for Canada.

Is that what you're saying?

**Mr. William Henderson:** I think it's a good-news story for Canada, yes, sir.

**Mr. Brian Jean:** Great. Thanks.

That's all.

**The Chair:** Thank you.

We're going to do one more, final round. Everybody will get one more opportunity.

Ms. Crombie.

**Mrs. Bonnie Crombie:** Mr. Henderson and Mr. Bacon, just from listening to your testimony, I am left with the impression that you weren't up front with Canada Post Corporation during the RFP/RFI process.

We've already established that you got a contract without an RFP; you got it with an RFI. We've also established that you didn't have the capacity at the time to fulfill the agreement. I'm not sure Cargojet had less capacity than you did at the time. But what you had was something different: you had the ear of the board. There was this interlocking directorship that you described, and of course that just smells of coziness and preferential treatment.

I wonder if you might want to address that for us.

**Mr. William Henderson:** Certainly.

In terms of preferential treatment, Purolator's transparency is such that even though we are a private organization, we issue an annual report. That goes out to 2,000 of Purolator's shareholders. It's issued to both Kelowna Flightcraft and Canada Post. That has in it our consolidated financial statements. Our financial statements are consolidated with Canada Post.

In terms of being up front and transparent with Canada Post, we actually have four board meetings annually where we do share with them every single item, whether that's financial, service, health and safety, or productivity.

So we're very transparent and very up front about our business operations.

**Mrs. Bonnie Crombie:** Was Canada Post aware that you were going to pass off part of the contract to Kelowna Flightcraft at the time?

**Mr. William Henderson:** Yes, because it's been Purolator's business model for both trucking and air that we utilize outsource providers to complete our transportation requirements.

**Mrs. Bonnie Crombie:** I have another concern. You've gone to a sole-source supplier. I'd like to review the terms of the contract with Kelowna Flightcraft.

What was the bidding process, precisely, for Kelowna Flightcraft to receive this portion of the business from you?

**Mr. William Henderson:** Purolator issued a public RFP in 2007.

**Mrs. Bonnie Crombie:** How many companies responded?

**Mr. William Henderson:** Nine companies responded.

We go through a bidding process. Each bidder actually comes in to make their individual proposals. Then we go through a scrutiny at that time. We review, as we're progressing, with our board, since the matter of airlift for Purolator is significant in how Purolator conducts its business.

**Mrs. Bonnie Crombie:** Did Kelowna Flightcraft have the capacity at the time?

**Mr. William Henderson:** Kelowna Flightcraft had the capacity at the time, yes.

**Mrs. Bonnie Crombie:** Why did they need to go out and purchase two additional DC-10s, and when was the purchase made? Let's look at the timing here. When was the RFP extended, and when was the purchase of the planes? What are those dates, Mr. Henderson?

• (1015)

**Mr. William Henderson:** The purchase of the planes was made in 2008, in the spring of 2008. But if—

**Mrs. Bonnie Crombie:** So what would have been the reason for Kelowna Flightcraft to go out and purchase those two DC-10s?

**Mr. William Henderson:** Sorry, if I can just speak to your further question on capacity, acquiring aircraft hauls is probably a very small part of capacity. In order to operate aircraft, there have to be hangar facilities for the repair and maintenance; you have to have the crews, the ongoing testing of the crews. Purolator people, employees, actually provide the loading and unloading of those aircraft and have the ground support equipment. Acquiring the aircraft is probably the easiest and simplest component of that whole formula.

When you ask if there is capacity, they did have the capacity to operate that.

**Mrs. Bonnie Crombie:** And how many wide-body jets did they have at the time before they made the purchase of the two additional DC-10s?

**Mr. William Henderson:** They didn't have wide-body aircraft. But as I pointed out, in January 2008, Purolator, well apart from this contract by well over 18 months, had requested Kelowna to start evaluating aircraft such as DC-10s, MD-11s, 767s, to transition into wide-body aircraft from the narrow-body fleet.

**Mrs. Bonnie Crombie:** Mr. Henderson, you have to understand that the perception here is that there was some sort of inside deal done because of the nature of your ownership structure and the interlocking boards. They clearly did not, at the time, have the capacity to fill the contract. They went out to buy a couple of planes and yet they were awarded the contract.

It just doesn't pass the smell test, Mr. Henderson.

**Mr. William Henderson:** You know what? I can say that the perception may look like that, but this is a public RFI that we participated in. Eighteen months prior to this contract we had already engaged Kelowna Flightcraft, and the analysis was done by Boeing and the Air Cargo Management Group out of Seattle for this. So 18 months prior to this we were already down that road.

I know from where you all sit it looks a little strange. But I've been in this business for 21 years, and I can tell you that I wouldn't say anything to you that wasn't straight and very up front about what we do. That's what we do, and we'll continue, with or without Canada Post, to migrate our aircraft to provide service and stay competitive.

**The Chair:** Thank you.

I have to go to Monsieur Laframboise.

[*Translation*]

**Mr. Mario Laframboise:** Thank you.

My question is for Mr. Bacon.

In my view, the problem is still a matter of transparency. You explained earlier that when you do business with Mr. Lapointe, he is excluded from board discussions, which is quite appropriate. That is the way to conduct business. Moreover, the contract was analyzed by the Auditor General, who conducts audits of Canada Post. The contract was deemed to be in order. I am convinced that is the case.

The problem is going forward. I am wondering whether the best solution would not be to subject you as well to audits by the Auditor General, given the fact that you are basically a wholly-owned subsidiary of Canada Post. Have you given thought to issues of transparency, to your business relationship with Air Canada, when competitors might intervene in your areas of business?

**Mr. Stewart Bacon:** You raise an excellent point. I think it contains two components.

As my colleague indicated, we inform all of our shareholders, including our employees, of our financial results, which are consolidated with those of Canada Post and published. On our Web site, we deal with governance issues as well as the mandates of our committees and board of directors. We try to be as transparent as possible within the frame of our operations.

Those are things we do regularly. You asked whether we should be subjected to audits by the Auditor General. Under the circumstances, I understand why you asked that question. My position is as follows: if the rules of the game were different for us, at Purolator, and we were obligated to reveal commercial data that our competitors did not have to disclose, then we would seriously be at a disadvantage with regard to competing companies in our market sector.

• (1020)

**Mr. Mario Laframboise:** Thank you.

[*English*]

**The Chair:** Mr. Bevington.

**Mr. Dennis Bevington:** No, I'm fine, thank you.

**The Chair:** Ms. Brown.

**Ms. Lois Brown (Newmarket—Aurora, CPC):** Thank you, Mr. Chair.

I just want to ask this question. Do you have the same mandate as Canada Post, that neither rain nor snow, nor sleet, nor hail shall...? And do you follow the same philosophy, gentlemen?

My first question concerns the contract. There were 120 days that they had to work in. So they needed to look for somebody who was available, who had the personnel, and who had the experience. Can you comment on your readiness to accept a contract of the magnitude that was being presented?

**Mr. William Henderson:** I can, and with 120 days to do that—as I said, I've been in this industry for the better part of my adult life—I can tell you, people south of the border doubted that we could put aircraft like that up on short notice. It was just due to the size and scope and capability of Purolator operating aircraft in conjunction with Kelowna Flightcraft's ability to put those online and keep things moving in that short period of time.

**Ms. Lois Brown:** I'm interested in the corporate contribution you're making to Canada. There are three things that I see in your presentation that you gave us this morning. First of all, you have 11,000 Canadian employees.

**Mr. William Henderson:** Correct.

**Ms. Lois Brown:** And I see from your notes that almost 2,000 of them are shareholders in the company. That's about 20% of your workforce.

**Mr. William Henderson:** Right.

**Ms. Lois Brown:** There must be confidence in the work you're doing and in the corporate structure you have that would encourage your own employees to participate as shareholders. Can you expand on that program? Can you tell us, how do you get people to be participants in that?

**Mr. William Henderson:** Actually how we get them is the easy part. They want to be, which is good. We just made the program available. And because we are a private corporation, there is a stock price that we record and communicate to all of them each quarter. So they are aware. We keep them apprised in monthly updates as a management team, and we communicate that company-wide to let them know how their company is doing. We cover more than just the financials. We cover how we're doing on health and safety. We cover how the service levels are to our customers. We want them to be much more engaged in the business, and for us that represents a significant competitive edge. It's working very well for us.

**Ms. Lois Brown:** And happy employees are more productive employees, so it's good all around.

If I could just comment, too, on your corporate social responsibility that you talked about. You talked about your programs and your charitable work. Can you talk a little bit more about that?

**Mr. William Henderson:** Yes. In terms of the responsibility, we're a significant contributor to the United Way right across the country. That's actually done at a front-line employee level where they get involved.

Tackle Hunger is one we've been involved in with the Canadian Football League since 2003, and that program is simple. Every time a quarterback gets sacked in a game, Purolator will donate the equivalent weight of that quarterback in food. So we're hoping there are heavy quarterbacks who get sacked, because we've raised over three million pounds.

**Ms. Lois Brown:** And do you weigh them before the...?

**The Chair:** Ms. Crombie, on a point of order.

**Mrs. Bonnie Crombie:** On a point of order, how is this relevant to the issues we're dealing with today? We're analyzing the contracting nature of these directors in their contract with Canada Post.

**Ms. Lois Brown:** Mr. Chair—

**The Chair:** Ms. Brown, on the same point of order.

**Ms. Lois Brown:** Carry on, please.

My question is, do you weigh them before the game or after the game?

**An hon. member:** [*Inaudible—Editor*]

**Mr. William Henderson:** The CFL provides us with the weight of these—

**The Chair:** If I may, we are discussing the operations of Purolator, and I wouldn't call it a point of order.

Ms. Brown.

**Ms. Lois Brown:** Mr. Chair, we're talking about their corporate contribution. They are a Canadian company that gives tremendously to our country.

**The Chair:** Ms. Brown, you have about one minute left.

**Ms. Lois Brown:** Thank you, Mr. Chair.

I just want to get to the third point you talked about, your hybrid vehicles. Again, you're looking at a contribution to the Canadian economy. Can you talk about your program with the hybrid vehicles?

• (1025)

**Mr. William Henderson:** Around 2003 we entered into arrangements with Azure Dynamics Corporation, a company that was born out of UBC, to provide the technology. We invested that without government funding. About five years into the program we did receive about \$1.5 million in Ontario for funding, but to this day the funding has been exhausted. We still invest in the vehicles, which are probably at about a 20% premium. We keep our vehicles for 10 years, and they save about 40% on emissions and 30% on fuel.

When we go into a lot of the hospitals we serve, our people are able to put the vehicle on full electric to reduce the noise. Our customers are actually pretty pleased at our investment in that. And each year we will grow that fleet.

**Ms. Lois Brown:** So employee buy-in—

**The Chair:** Thank you. I have to stop there.

Mr. Volpe.

**Hon. Joseph Volpe:** Thank you very much, Mr. Chairman.

I'm going to go back, Mr. Henderson, to what you said earlier about always acting in the best interests of Purolator. Canada Post always acts in the best interests of Canada Post. Kelowna Flightcraft always acts in the best interests of Kelowna Flightcraft.

The reason I put all three of them together is that they all converge on your board. So you can appreciate that from our perspective the question of transparency is important.

You also said that in 2007 you had already started to reconfigure your capacity to deliver service. In 2008, Kelowna went out and acquired two wide-bodied airplanes. They must have anticipated, if they were looking out for their best interests, a growth in business that would justify the acquisition costs. In 2009, a contract became available. It was initially resident with Air Canada, but some of the overflow would go to you, Cargojet, FedEx, UPS, and Morningstar. So it wasn't a big deal, but that was part of the contract.

You responded to an RFI, and just a moment ago you said that people south of the border were surprised that you could actually provide appropriate service within 120 days. Acting in the best interests of Purolator, you must have given assurances. You must have given assurances knowing already that Kelowna Flightcraft had the wide-bodied capacity you thought you would need. Canada Post, thinking about the best interests of Canada Post, said, "We're not going to renegotiate with Air Canada. Instead of asking for an extension...so the rest of the world, which thinks we can't provide services within 120 days, can go to pot."

What percentage of those wide-bodied DC-10s are utilized by Canada Post?

**Mr. William Henderson:** The DC-10s right now are used exclusively for Canada Post.

**Hon. Joseph Volpe:** Kelowna Flightcraft doesn't use those two airplanes for anything else?

**Mr. William Henderson:** They don't right now. In the contract there is a provision that if Purolator or Kelowna wants to use them, we have to return the operating costs and cover those costs, so the aircraft are not used on the backbone of that contract.

**Hon. Joseph Volpe:** In your 21-year experience, are you in the habit of giving any of your suppliers a cost-plus contract without keeping track of the limits on those costs?

**Mr. William Henderson:** Any contract where there's a cost-plus arrangement is always structured for audit rights. In each quarter we actually sit down with Canada Post and go through that. We also sit down with Kelowna Flightcraft and go through the full audit of all their costs to make sure that neither Canada Post nor Purolator is paying any more to Kelowna Flightcraft than they should.

**Hon. Joseph Volpe:** So Canada Post approached Purolator and said they didn't want to pay the additional fuel service charges that Air Canada wanted to impose on them, presumably to reflect the true cost of jet fuel—by "true cost", I mean, of course, the cost that Purolator or Kelowna would have to pay—but they'd be happy to give you a cost-plus arrangement.

Did that cost-plus arrangement include or reflect the true cost of jet fuel, as indicated or being paid by Air Canada, and now to be paid by Purolator and Kelowna?

• (1030)

**Mr. William Henderson:** I can't answer about the contract between Air Canada and Canada Post. I don't know about the discussions Air Canada and Canada Post had regarding the fuel because it was never explained.

It was simple: here's an RFI that was issued into the marketplace. Respond to carry that much product based on this schedule. Here's the timeframe you have to do that.

**Hon. Joseph Volpe:** But you would agree that now there are two other companies, Purolator and Kelowna, that incur costs as they try to provide a service. So the overall cost for Canada Post would have been greater than the cost they would have incurred or were incurring with Air Canada.

Now, you might not be able to answer that, but Mr. Bacon, who's on the board, perhaps could.

**Mr. William Henderson:** Sorry, sir, I can, because how you structured the question is incorrect.

It's one company. Purolator responded to the RFI; it was not Kelowna Flightcraft. As we outsource, as I explained earlier, both trucking and on the air side, we will use contractors to fulfill our airlift needs and our ground transportation needs with one company.

**Hon. Joseph Volpe:** With all due respect, Mr. Henderson, my question was crafted correctly, because you had agreed initially that Kelowna Flightcraft sits on your board. And because they are represented on your board, and own 7%, roughly, of your company, I have to deal with them as a separate company, or I have to deal with them as one integrated company.

I'm just wondering, for Mr. Bacon, because he's the chairman of the board that had to eventually approve such a contract—I can't imagine it would have been an insignificant contract—whether in fact those considerations were brought to bear on the decisions made by the board members, six of whom were at Canada Post, one at Kelowna Flightcraft, and three were independent. I guess you must have been one of the independent ones.

**Mr. Stewart Bacon:** Four, including me.

Let me just respond. First of all, I was not there at the time this decision was taken, so I wasn't personally involved. But I would just refer back to the transcript, if I might, about the elements of the Air Canada issue. You've been focusing very heavily on the fuel, and that was one of them, but there were other aspects. There were volume discounts, there were guaranteed commitments for space, and so on, which all add up to the total end cost.

So I think it would be wrong just to say we're talking about how the fuel in a cost-plus agreement was managed.

**Hon. Joseph Volpe:** But it's the one that triggered the renegotiation or the desire to renegotiate.

**Mr. Stewart Bacon:** Well, according to the transcript, I think there were multiple elements in that discussion. I wasn't in the discussion, but just by reading the transcript...

**Hon. Joseph Volpe:** Well, I was here when the transcripts were being transcribed. That was the issue, and all the others were added into the mix.



Now, I realize that you're at a little bit of a disadvantage because you weren't in the room when the board made the decisions, but I think you can appreciate that those of us who are looking for accountability and transparency might have a legitimate question.

The legitimate consequence of those questions, Mr. Bacon, is this. In order to provide for transparency and accountability, would you be prepared, on behalf of your board, to open up the last four years of the contract to a public process, to a public bidding process?

**Mr. Stewart Bacon:** Certainly we would be prepared to compete for this business the way we competed and won it the last go-around, when the time comes to do that.

**Hon. Joseph Volpe:** You didn't go to an RFP.

**The Chair:** Mr. Jean, final comment.

**Mr. Brian Jean:** Yes, thank you, Mr. Chair.

Thank you, witnesses, for answering all our questions in relation to transparency and accountability and for letting us know that you actually have the interests of Canadian taxpayers at heart. That's good to see.

I'll go back to the Office of the Auditor General of Canada. With 44 pages of a special examination report done in 2009, I take it that was an extensive study and that the Office of the Auditor General was around for a period of time on Canada Post.

What interests me in relation to this is in the nineties my family owned a printing shop, which had printing and signs and mailboxes, and we actually had a relationship with Purolator—and I didn't even know Canada Post owned it at the time. In fact, we were a delivery centre for them. They had a Xerox franchise and some other things. So we had a pretty good relationship. I had about 120 mailboxes.

Actually, at that stage, I never thought Canada Post was a very good manager and steward, just simply from what I'd seen. But in looking at some of these examinations, especially... I understand that in 2006 Canada Post had been working towards what it called the "modern post". I was interested in this, and I thought some Canadians might be as well.

The corporation reorganized along its three major lines of business: transaction mail, parcels, and direct marketing. Does Purolator do that kind of thing as well? Does it identify three main elements to become a more efficient and modern post service? For instance, Canada Post is engaged in employees, investing in infrastructure, and growing the business. It seems they reoriented a quite old business model into a new business model to reflect the changes, such as e-mail and things like that. Does Purolator do that on a consistent basis?

•(1035)

**Mr. William Henderson:** I can speak to that. A number of years ago, about eight years ago, we expanded our footprint into the U.S. It's not the overnight express model we operate in Canada; it's built more on a freight forwarding model. We operate in about 16 American cities. There are sales offices, and we make arrangements for shippers who want to do business with Canada to drop ship product in consolidated form. Ninety-nine percent of it is on truck. A little bit of it is on small aircraft out of New York. We distribute that

product for American companies wanting to do business throughout Canada.

**Mr. Brian Jean:** In essence, to do business in the United States, you're telling me, indirectly I think, that Purolator is a profitable company and it can compete with anybody in the world.

**Mr. William Henderson:** Absolutely.

**Mr. Brian Jean:** Thank you. Those are all my questions.

**The Chair:** Thank you.

With that, I'll thank our guests for being here today. We appreciate your time. If there are any further questions that come forward, we'll be in touch with you either directly or through the mail.

**A voice:** Or through Purolator.

**The Chair:** Now, while our guests are moving away from the table, I would remind the committee that we deferred the other portion of committee business until now. Mr. Bevington made his presentation at the last meeting and we were opening the floor for discussion. We can now move forward.

Is there any further comment on Mr. Bevington's motion?

Mr. Jean.

**Mr. Brian Jean:** I did do some research in relation to this motion. What struck me the most, interestingly enough, is that NRCan is currently studying the same issue because of a motion brought forward by the NDP at that committee. As well, the Senate is engaging in a similar motion that has the same criteria—in essence, to study.

My difficulty is that I don't know why the NDP is coming forward with a motion that quite frankly has nothing to do with Transport Canada, if I can be so blunt. In fact it's better placed with NRCan, because anything to do with offshore drilling has to do with NRCan.

Those are my two issues. The first is that other committees are studying this. Why not let those committees finish their work, and if there's something additional we need to deal with that hasn't been dealt with in the study, let's deal with it. Finally, from my research, NRCan has the responsibility in relation to all the offshore drilling and any spills that happen as a result.

That would be my suggestion.

**The Chair:** Mr. Bevington, to respond.

**Mr. Dennis Bevington:** I think quite clearly there are two questions. One is that Natural Resources Canada is dealing with drilling regulations that deal with the potential for creating a spill by the way the drilling operations are conducted. They're doing that work.

Transport Canada is the lead regulatory agency for the national oil spill preparedness and response regime. They're not in charge of developing the drilling regulations, but they are definitely in charge of the response to any spills that occur.

This is from Transport Canada's website. Quite clearly, it states that they do regime management and oversight. They develop regulations and standards. They enforce and implement regulations relating to response organizations. They oversee an appropriate level of national preparedness. These are things that Transport Canada, on its website, indicates it has the responsibility for.

When we look at oil spills—and these oil spills can be from any source—the responsibility for the oil spill comes under Transport Canada. The responsibility for developing drilling regulations and the way people conduct their business is with Natural Resources Canada. That's the difference.

I think if we don't recognize that we have this larger role of regime management, then we're not fulfilling a function that quite clearly is required. We have to have a coordinated effort between a variety of departments within the government to respond to spills. That includes the coast guard and a number of other organizations.

The coast guard is responsible for conducting spill management but not for setting up the regime and overseeing the management. The coast guard is the contractor, you might say, that does the spill work. Transport Canada is ultimately responsible for ensuring that spill management is conducted in a fashion that is correct for the country.

• (1040)

**The Chair:** Monsieur Laframboise.

[Translation]

**Mr. Mario Laframboise:** The debate is already underway. The Standing Committee on Natural Resources is discussing the issue. This issue is so complex that, if we open up the debate to more committees, the public might have a hard time following us. The Standing Committee on Natural Resources will deal with the issue, and that is how it should be. I will therefore not support the motion.

As for the Senate, if the NDP and Liberal Party merge, they might succeed in having their own senators. They will then be able to discuss the matter at the Senate.

[English]

**The Chair:** Mr. Volpe.

**Hon. Joseph Volpe:** The talk of coalitions is reviving interest in the activities of Parliament Hill, and I know both the government and the Bloc share a common colour: it's blue, and they're busy in the process of trying to educate the Canadian public about just how it is that the Government of Canada is dominated by the Bloc and the Conservative coalition.

That said as an introduction, Mr. Chair, I can appreciate that all of these other committees are taking an interest in the obvious—the obvious being, of course, the world attention that's being placed on the untold billions of dollars of damage, environmental and economic, associated with the rupture of that pipe by BP—but it has called into question something the government uses for virtually everything as justification for its inaction, or “mal-action”, and that is security. Economic security, environmental security, fiscal security, whatever adjective one wants to use in front of security, that's the issue all the time. The lead spokesman in all of this is always the Minister of Transport.

That said, we obviously cannot do it in this next week, but I think it would be important for this committee to turn its attention to what the notice of motion asks. So I'm going to suggest that you call the question.

**The Chair:** Mr. Bevington.

**Mr. Dennis Bevington:** On clarification, I think committee members have to understand that if we do enter into a major spill problem in Canada, the responsibility for overseeing and ensuring that we have a spill response that's appropriate lies with this department, and this committee should take an active interest in that. The results of not doing that are pretty onerous. If we have a spill in Canada and we don't have a well-developed spill control regime in place, that responsibility is with Transport Canada and with this committee.

We can't simply fob it off on Natural Resources Canada. They are dealing with oil drilling regulations, which are completely different from what we're talking about here. To suggest that somehow they're going to come to accomplish something that is actually in the purview of Transport Canada I think just doesn't work. We need to take this seriously.

Just the fact that the parliamentary secretary didn't understand the role of Transport Canada in dealing with spill regulation says to me that something is missing here.

I would like to ensure that he's enlightened as well as to what the responsibilities of Transport Canada are. Simply in a very non-partisan fashion, I want to make sure that the government completely understands what its role is. I think this is something the government should take heed of. If we're debating over who has the responsibility to control oil spills in this country, that suggests to me that we should review the action so that we clearly understand whose roles and responsibilities are on the line here. Without that taking place, we've abrogated our responsibility for the preparedness that we need in case of these oil spills.

To me, the discussion that is taking place here today suggests that this should be done.

• (1045)

**The Chair:** Thank you.

Is there more debate?

**Mr. Jeff Watson:** I have a point of order.

**Mr. Merv Tweed:** Mr. Watson.

**Mr. Jeff Watson:** I assume there will be a vote on this motion at some point. I notice that Mr. Kennedy is sitting at the table. I don't know whether he signed in for the purposes of voting, or whether only the current members at the table will be voting. I want that to be clear.

**The Chair:** That's not a point of order.

Mr. Volpe has the same point of order. It's not a point of order if we want to raise a new one.

**Hon. Joseph Volpe:** No, it's the same point of order. I think the precedent was established by the Minister of Transport in another committee, when he came and sat at a committee. I'm wondering whether Mr. Watson would like to rewrite history and say that it didn't work then, it shouldn't have worked then, and it shouldn't work now.

**The Chair:** I'm going to put the question.

**An hon. member:** A recorded vote, please.

**The Chair:** We're going to record the vote.

The motion is on the floor by Mr. Bevington that this committee engage in a study of the federal government's oil spill response planning and capacity, with particular interest in the response to a spill caused by offshore drilling along all three coasts, report the results of the study, and make recommendations to the House of Commons.

A recorded vote has been called, so I'll turn it over to our clerk.

(Motion negatived [See *Minutes of Proceedings*])

**The Chair:** The motion is defeated.

Mr. Jean.

**Mr. Brian Jean:** I'm glad to see the coalition of common sense is still working well.

I want to let Mr. Bevington know that once the results of the studies from NRCan and the Senate—which are obviously duplicitous studies, and we have a lot of things to do in Canada—have come forward in a report, I would be happy to look at it and make a decision with the steering committee on whether we want to go forward or try another angle. I'm interested in protecting Canada's coastlines. Whatever else we can do to accomplish that, I'm keen to try.

I want to let him know that I've received worse insults from better people than him. But anytime he wants to enlighten me on something based on fact, I'm prepared to listen.

• (1050)

**The Chair:** Thank you.

Mr. Volpe, I believe you have a point of order.

**Hon. Joseph Volpe:** In listening to my colleague, the parliamentary secretary, I'm wondering whether he misspoke or whether he was being deliberate when he said he was waiting for some of these “duplicitous reports”. Did he mean “duplicative” or was he sincere about “duplicitous”?

**The Chair:** Mr. Jean.

**Mr. Brian Jean:** I always think that as members of Parliament we should be efficient and not duplicate resources. In this case, the natural resources committee and the Senate are studying what I understand to be exactly the same motion, which was put forward by one of Mr. Bevington's colleagues. So it's coming from both ends in two different houses. I have faith in the natural resources committee. I believe they're going to get to the bottom of this. If Transport Canada and this committee have some issue that is germane to the motion being studied, then we could decide whether it's necessary to

carry it forward. We could see whether it is something that Transport Canada might be responsible for.

Mr. Bevington, according to my research, you're not correct in your assertions that Transport Canada is responsible for all oil spills. I want to be clear on that.

**The Chair:** I'm going to interrupt. This is debate. After the decision has been made, if you want to have a discussion outside this meeting, I'd be happy to let you do that.

Mr. Kennedy, I believe you have a point of order.

**Mr. Gerard Kennedy (Parkdale—High Park, Lib.):** Thank you, Chair.

I raise a point of order concerning the upcoming hearings, to do with the deadlines impacting the efficacy and the workability of infrastructure programs, particularly with respect to municipalities.

The point of order I am raising is about the implementation of the hearings: whether or not it is following the committee's wishes, but also fairness with respect to a variety of municipalities who have asked to be heard urgently because of the situation affecting them. They have not heard from the committee as to whether they'll be able to depute here so that their concerns can be heard.

I know it would not be the committee's intention to be disrespectful of municipalities, such as the Town of Ajax, which has three projects at \$3.3 million that have a need for some flexibility, or else those projects will run into extreme costs.

Small communities, such as the Town of Lakeshore, for example, have asked to be here and have not heard back from the committee. They only need about three months of flexibility, but otherwise their entire project, which is about \$3 million, will not be able to go forward. So they need to hear urgently. They've applied to the committee and have not heard anything back.

The City of Owen Sound, which has a \$30 million project, has also asked to be heard. The mayor is willing to attend. They don't need a tremendous amount of flexibility, but they need to put themselves in front of the committee, because they hope they can inform the committee's deliberations.

[*Translation*]

The City of Côte Saint-Luc, in Quebec, is having problems with its aquacentre. This is a project of approximately \$18 million. To address the intentions of the municipality, the government has to show some flexibility. Côte Saint-Luc officials have already informed the committee of their willingness to testify, but they have not received a response. People from the Town of Shelburne, in Nova Scotia, are also in a similar situation.

[*English*]

People in Shelburne, Nova Scotia, also want to participate, and from the Town of Canmore, Alberta.

I would say, Mr. Chair, that we have dozens and dozens of examples across the country, but a number of them have asked specifically to be in front of the committee, have responded to the intention of the committee to hear about this problem. Either the committee is going to bury the problem by only hearing from secondary sources or they're not afraid to hear from these communities.

I would also respectfully suggest, Mr. Chair, under this point of order, that the committee, on the days it has set aside, do as other committees have done and have video links available for municipalities. This is about keeping costs down. They would find, I believe, that they could get a good diversity of people addressing them about the unfairness of the March 31 deadline. It is vital, I think, for the integrity of the committee and its study that it hear from everybody.

Mr. Chair, we've tried to speak with the clerk, and we understand that this is at the direction of the chair, following the will of the committee. But I think it's really quite important that this not be a point of disrespect between the federal government and communities. They entered into partnership; they have their own money at risk; these are real things affecting real communities in terms of their ability to do these projects.

Again, Mr. Chair, I hope the committee will hear from these witnesses, will find a way to accommodate them in the deliberations, so that what this committee is actually able to understand is the reality of how these things are being worked out in different parts of the country.

I would hopefully, under this point of order, appeal to the chair to cause such arrangements that people could be heard, pursuant to the motions of the committee, and more importantly, I think, because I believe everybody here spoke to this at different times, the intent of the committee to understand this problem. We shouldn't be waiting until the end of the year when we have failure after failure.

•(1055)

[*Translation*]

The committee must hold an appropriate discussion as soon as possible. That is the only place where such a discussion can be held within the federal government. We cannot limit ourselves to information from federations or associations.

[*English*]

So, Mr. Chair, again, my point is to get a final sort of determination to permit individual municipalities to participate here directly, those that have applied and given their indication to the committee, some of them weeks and weeks ago, that they'd like to be here to address the members of the committee; and secondly, the consideration of the committee to do what is normal for committees, to hear by video conference some of those other communities that wouldn't be able to bring themselves here on the short notice available but would like this committee to consider directly and to hear and to go back and forth with them in ways that written submissions simply do not permit.

I would submit, Mr. Chair, that it is impossible for this committee to do its work if it denies individual municipalities the chance to

speak here. I hope that is adequately clear to Mr. Jean. My appeal really, Mr. Chair, is to you as the individual in charge of carrying out the committee's will in this respect. I hope this may be possible so that the hearings have the credibility needed for the municipalities across the country.

Thank you, Mr. Chair.

**The Chair:** Monsieur Laframboise.

[*Translation*]

**Mr. Mario Laframboise:** Mr. Chair, Mr. Kennedy's comments are of some concern to me.

I have asked the Quebec Union of Municipalities to survey its members and inform us of concrete cases. In theory, when officials from the Quebec Union of Municipalities appear before our committee, I will ask them whether the Town of Côte Saint-Luc has raised the issue with the union.

If not, I hope this is not political partisanship. In fact, I could easily write to the representatives of Quebec's 1,100 municipalities in order to ask them whether they would object to appearing before the committee. That would be very simple to do, but I do not want to get into any political games. I am doing so because I want to show the government that there is a certain problem, but this has to be done without any partisanship, or else our attempt will not succeed.

I therefore hope that Mr. Kennedy's request is not partisan, in the sense that he would like to see appear before the committee the municipal representatives he contacted and who spoke to him. Before I agree to that, I would ask that we hold a meeting on June 10 with the Quebec Union of Municipalities, which will explain the steps it has taken in Quebec to gather specific cases from its member municipalities. We had an agreement on the issue: there had to be specific cases.

I would prefer to proceed with the municipal unions rather than the municipalities directly. It is a matter of lightening the committee's workload. We should never lose sight of the fact that some deadlines are set for December, and others for next March. Therefore, if we are to start playing political games as Mr. Kennedy wants to do, then we will have to hold meetings every day until next March, and at the end of the day, we will not have made a decision.

In short, I would like to draw the government's attention so that a decision is made as quickly as possible. I would like to wait a bit before agreeing to Mr. Kennedy's request.

•(1100)

[*English*]

**The Chair:** Thank you, Monsieur Laframboise.

Colleagues, we have another committee scheduled here.

I will advise Mr. Kennedy that the chair takes direction from the subcommittee and the committee and this was what they agreed upon. If they choose to change that direction, I'm willing to....

I'm sorry. I have to adjourn the meeting. The other committee is waiting.

The meeting is adjourned.







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