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Chair

Mr. Pat Martin

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• (1535)

[English]

The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)): Ladies and gentlemen, I call the Standing Committee on Government Operations and Estimates to order.

We're very grateful and pleased to have the Minister of National Defence and the Associate Minister of National Defence join us on very short notice to defend the main estimates and the supplementary estimates, as I understand.

Welcome to anyone who is sitting in for this relatively special meeting.

Minister, you have opening remarks. We'll do that first and then we'll open it to questions.

Welcome.

Hon. Peter MacKay (Minister of National Defence): Thank you very much, Mr. Chair and colleagues.

Before I begin my remarks, I want to formally introduce the other witnesses who are joining me here today, Mr. Chair.

This is Robert Fonberg, Deputy Minister of the Department of National Defence. To my far right is Kevin Lindsey, Assistant Deputy Minister with respect to finance and corporate services. You've already mentioned the Associate Minister of National Defence. Beside him are Vice-Admiral Bruce Donaldson, Vice-Chief of the Defence Staff, and Dan Ross, Assistant Deputy Minister for materiel. These gentlemen will also be participating in the committee hearing and will be pleased to take your questions as well.

I am pleased to be back before the committee. I understand this is the first one of this new Parliament. I am always pleased to be here and to associate with the fine work of the men and women of the Canadian Forces.

Mr. Chair, I also want to issue a special welcome to new members of Parliament sitting on this committee. As I mentioned, I am joined by other members of the department who are also able to assist in answering any questions they might have.

[Translation]

Mr. Chair, as the estimates clearly reaffirm, the government is committed to providing our men and women in uniform with the necessary resources and tools.

And we're committed to doing so in a fiscally prudent manner, making sure that our investments in defence are adapted to the evolving economic and fiscal situation.

[English]

Colleagues, our focus at defence remains delivering results for Canadians and for our country. The government's investments in the Canadian Forces are all about giving the government, through the Department of National Defence and the Canadian Forces, the capabilities to defend the interests and the values of Canadians at home and abroad, now and for decades to come. As Chief of the Defence Staff General Natynczyk often says, the defence of Canada begins thousands of miles from our shores.

As you all know, Canadian Forces have been extremely busy, especially over the past 18 months. It has been, in fact, our highest tempo of operations in 60 years.

At home the Canadian Forces have played, and continue to play, a key role in assisting local authorities, law enforcement agencies, and other federal departments. Last year they helped with operations to secure major events here in Canada, welcoming the world twice, once at the Vancouver Olympic Games and again at the G-8 and G-20 summits. They stand on guard 24 hours a day, seven days a week. They are ready to conduct search and rescue operations to relieve those in distress on Canadian territory or in our waters. We have, in fact, the largest land mass and coastal search and rescue territory on the planet.

Each year they participate in an average of 1,100 search and rescue operations. Year in and year out, they continue to exercise Canadian sovereignty in the Arctic, with several patrols and three major annual sovereignty operations. They are always ready to answer the call in cases of natural disaster, as we have seen, sadly, in recent days. We've noticed how they've provided critical help in the aftermath of Hurricane Igor in Newfoundland and Labrador, and more recently in delivering much-needed assistance in Quebec, Manitoba, and northern Saskatchewan.

All of this adds up to the Canadian Forces' daily tasks in defence of our country. On the world stage, our men and women in uniform are often the first on the ground in difficult places, demonstrating Canadian leadership in chaotic and dangerous environments.

Last year, Mr. Chair, you would know that thanks to the investment of the government, we were able to recruit, train, and equip our men and women in uniform as never before. Canada was one of the first nations to answer the call from Haiti and answer Haitians' need for assistance in the aftermath of the devastating earthquake that struck their island country. We sent C-17s, Hercules, ships, helicopters, and a very capable Canadian Forces task force to that country.

[*Translation*]

In Afghanistan, the Canadian Forces have fought a brutal enemy, and provided security for Afghans and for Canadian whole-of-government efforts to undertake and sustain development.

Over the coming weeks in July, the Canadian Forces will end their combat operations in Kandahar and transition to their new non-combat training mission in the north and mostly centred around Kabul.

They will play a central role in training the Afghan security forces so that they can assume responsibility for security in their own country by 2014, as laid out by the Afghan government and ISAF partners. This is the ticket home.

And today in Libya, after working to evacuate Canadians and other nationals, the Canadian Forces—along with allies and partners—are playing a leadership role in the international community's efforts to enforce UN Security Council resolution 1973 and protect Libyan civilians.

● (1540)

[*English*]

Mr. Chair and colleagues, the government recognizes the importance of ensuring that our military remains strong, flexible, agile, and dependable, so that our men and women in uniform can adapt to, and continue to perform, the crucial missions that Canadians expect of them at home and abroad.

Since our government has taken office, the defence budget has grown substantially—by almost \$8 billion, in fact, an average of over \$1 billion a year since 2006—but we also understand that during this period of fiscal restraint, national defence must contribute to the overall efforts of the government to restore fiscal balance. You will recall that in this spirit of responsible growth, Budget 2010 included provisions to reduce the increase in defence funding. Last year the Department of National Defence undertook a strategic review to examine its spending and achieve savings. The department provided the government with one of the most comprehensive and rigorous reviews produced to date, and we had outside assistance in that regard.

As part of the government's effort to ensure best value for tax dollars, over the course of the past few months the Department of National Defence and Canadian Forces have identified numerous efficiencies that do not affect the core capabilities of readiness of our military. As Budget 2011 notes, we have identified efficiencies and saving proposals and we are on track to achieve targets established in Budget 2010. We are now doing it in a way that will allow defence to better focus resources to deliver on the Canada First defence strategy commitments. Our efforts to review and optimize resources in support of the strategic review—with, as I mentioned, the help of

outside independent advisers—facilitated Canada's ability to identify opportunities for reinvestment into transformational activities at defence to rebalance resources, to better align investments against top requirements, and to control spending.

[*Translation*]

This is critical to immediate success for National Defence, but also to the continued pursuit of more value for Canadian taxpayers' money.

And now, the government has launched another Strategic Operating Review to identify the additional savings that will be needed to balance the overall budget by 2014-2015.

Defence will do its part and contribute to the overall government effort. Defence takes its role as a steward of public resources very seriously. We make—and will continue to make—every effort to ensure sound financial management of taxpayer dollars.

[*English*]

In conclusion, Mr. Chair, Canada has emerged from the recent economic and financial crisis in better condition than most countries, including our G-8 partners. However, responsible spending, efficiencies, and a healthy fiscal environment require and dictate that we must always remain in sync within the department. At the Department of National Defence we are ensuring that all our activities are aligned towards the government's key and core priorities. We are realizing efficiencies and savings that are helping the government reduce its spending and achieve fiscal balance.

The government understands, however, that fiscal responsibility cannot come at the expense of our men and women in uniform and what they are accomplishing for Canada and Canadians every day.

Funds requested under the main estimates will help ensure that the Canadian Forces continue to be operationally effective and successful; that important equipment and infrastructure projects remain on track; and most importantly, I would suggest, that we do everything to take care of those fine men and women in uniform who do so much for us.

In conclusion, the government remains firmly committed to the modernization of the Canadian Forces and to their effectiveness for our overall defence team to deliver the Canada First defence strategy. We are delivering for Canadians every day here and abroad. We will continue to do so.

I look forward to your questions.

Thank you.

The Chair: Thank you, Minister MacKay. I'm sure they will be looking forward to asking you some questions.

We will have five-minute rounds. I advise members to be cognizant of the fact that the five minutes is for your question and your answer, so if you have more than one or two questions, please keep them short. Perhaps the minister and others could keep their responses to roughly the same length as the questions in order to get in as much material as we can.

The first questioner for the official opposition is Nycole Turmel.

[Translation]

Mrs. Nycole Turmel (Hull—Aylmer, NDP): Thank you, Mr. Chair.

Thank you for your presentation.

The federal government is currently talking about eliminating jobs and laying off employees. However, if we read your estimates, we can see that there are many problems. For two years in a row, the department returned \$1 billion of unused money.

• (1545)

[English]

The Auditor General's scathing critique last fall of the helicopter procurement and the Parliamentary Budget Officer's analysis of the planned acquisition of the F-35 fighter jets are two more examples of budgeting failures by this department.

[Translation]

We think that the current government should look into these issues before eliminating jobs.

I'd like to hear your thoughts on that.

Hon. Peter MacKay: Thank you for your question. This is not an issue of work-related costs.

[English]

In examining the reduction in workforce, we have made a very diligent effort thus far to take every step possible to ensure that it happens in keeping with the regularly scheduled retirements that will occur, meaning attrition within the department itself.

I take issue with your characterization as “failures” with respect to the helicopter and F-35 programs. Both of those programs are proceeding on budget and on time. As well, we disagree with the Parliamentary Budget Officer's assessment, which essentially calculated his estimate of the future cost of the F-35 on the weight of the aircraft. We think that is fundamentally flawed and not in keeping with good budgetary practices in determining the cost of a procurement.

We have received recommendations, in particular from the Auditor General, that we have taken on board and accept. There are always ways we can improve efficiencies. There are always ways in which we can improve procurements, in many cases. I look forward to working with the new Associate Minister of National Defence specifically on some of those procurement projects, and in particular facing full on the challenges that exist in these very complex procurements that often involve multiple departments and a challenging economic environment.

In the case the new Cyclone helicopters, for example, we had work stoppages at Sikorsky. We had problems specific to the company that were well beyond the reach and the grasp of the Department of National Defence, yet we had to contend with those issues. The result was what I would describe as an aberration, in that we returned money to taxpayers. However, I think taxpayers would be happy to know that the department had returned money, as opposed to not being able to account for it. I would suggest that would be a far worse problem to contend with.

The Chair: I see that you have no more questions. You have a minute and a half left in the NDP question period. Is there anyone else?

Go ahead, Alexandre.

[Translation]

Mr. Alexandre Boulerice (Rosemont—La Petite-Patrie, NDP): Ministers, thank you for being here.

My question is about a rather impressive figure on page 244 of the main estimates. The government wants to increase recruitment spending by 134%, despite a difficult budget framework. There are figures in brackets, which means they are cuts.

I would like to know what the justification is for a 134% increase in recruitment spending.

[English]

Hon. Peter MacKay: Quite simply, we need more people. We've committed to it. It's in the Canada First defence strategy, which I would refer to you as a very important part of your coming to grips with the intentions, the plans, and the long-term commitments of the department. This plan sets out the intention to grow the department and the personnel from the current state of readiness of about 68,000 to 70,000 regular force and 30,000 reservists.

We've had a very successful recruiting period over the last few years that has seen Canadians who want to take part in and be a part of the Canadian Forces come forward in record numbers. This is in part attributable to the increased awareness of the role that the Canadian Forces play internationally, the increased attention that has come about as a result of the very active engagement by the Canadian Forces in local events, and a very deliberate attempt by the department to reach out to Canadians in a way that demonstrates that the Canadian Forces are one of the most important and most valued institutions in the country. That commitment, that budgetary allotment, is very much in recognition of our intention to continue to grow and professionalize the Canadian Forces.

• (1550)

The Chair: Thank you, Minister.

That concludes the five minutes for the NDP.

Next we have Kelly Block for the Conservatives.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair.

I'd like to thank our witnesses for being here today with us.

First let me congratulate both Minister MacKay and Minister Fantino on your successful re-elections and on your recent reappointment and appointment to this very important ministry as Minister of National Defence and Associate Minister of National Defence respectively.

My questions will be for Minister MacKay.

In your opening statement, you stated that the estimates clearly reaffirm that the government is committed to providing our men and women in uniform with the resources and tools they need. My first question is with regard to the Afghanistan mission. With the mission now moving to a training mission, we will have a large number of soldiers coming home, some with physical injuries and many with psychological ones. Taking care of our ill and injured is perhaps one of the most important tasks our government can do.

Is there money in these estimates dedicated to the physical and mental health care of our CF members who may need it? What kinds of initiatives are in place to help them?

Hon. Peter MacKay: Thank you very much, Ms. Block, for your kind words and for your question.

It is, in my view, the primary responsibility of any government, and certainly our department, to care first and foremost for those men and women who, having chosen it as a profession, willingly put themselves in harm's way as part of the unlimited liability in the job description they take on.

Particularly given the high tempo of operations in Afghanistan, we have seen a necessity to increase both the number of mental health professionals and the amount of direct investment into care for the ill and injured.

You quite rightly point out that the mental health care component of that effort needs to be highlighted. We have undertaken—and I'll come back to the question of the budget—to double the number of mental health care professionals within the employ of the Canadian Forces. As the most direct way to deliver both mental health services and regular health services and to ensure that past and present members of the Canadian Forces and their families are able to access those services, we have set up across the country what are called joint personal support units. These are meant to be locations where members of the Canadian Forces, their families, and veterans can go to streamline the process of accessing programs. They provide information to point them in the right direction and ensure that both regular force members and reservists are getting the care they need. This is a substantial improvement over the way these services were provided in the past.

Given the breadth and width of our country, you can appreciate that providing those services in rural parts of the country is a little more challenging, but these joint personal support units are designed to help ensure ease of access.

We've also invested in areas of new communications—that is, online access to services to help direct people in the right direction as well.

We've made tremendous strides in recent years in the effort to support the families, because we have found that in the past there were shortcomings, particularly around the very basic subjects of stress, deployment-related mental health conditions, and support for the families. We recognize that if we don't have sufficient support for the entire family unit, it will be a failing on our part.

There is always going to be more to do. I'm not suggesting for a moment that we don't still have challenges before us, but we have made improvements. We've appointed a special adviser for operational stress injuries. We have a skilled mental health team

fanning out across the country with more clinics and more psychological services. Some of this is done on a per diem basis.

We have looked across the world at how other countries are doing it and have tried to find best practices that we can transplant back home. We've also increased the amount of interaction between the Department of National Defence and Veterans Affairs Canada, because, as you can appreciate, some of our clientele are no longer serving, yet we still owe them very much a debt of responsibility and obligation. We've invested millions in technology, in infrastructure, in new employees, and in other areas that I can define in more detail for you. We are committed to providing the best possible service for the men and women who are providing us with their very best.

● (1555)

The Chair: You will have to wait for the next question if you want to expand any further, Minister. Thank you.

Next we have, for the NDP, Alexandre Boulerice.

[*Translation*]

Mr. Alexandre Boulerice: Thank you, Mr. Chair.

Since I have a minute and a half remaining from earlier, I want to take the time to thank the Honorable Peter MacKay and the Honorable Julian Fantino for joining us, despite the short notice.

My question is on the pension plan for army reservists. Prior to 2007, there was no pension plan for reservists, even though those people served our country, made considerable sacrifices and risked their lives. Since then, those who served as reservists in the Canadian Forces have had the opportunity to buy back service.

However, the plan implemented by the department is not well-managed. We have noted an increase in administrative issues, especially in terms of timeframes. Reservists who submit applications don't receive information within a reasonable timeframe. Apparently, sometimes the process takes up to seven years.

In her report, the Auditor General pointed out that only 4% of the 9,213 applications had been processed in March 2010. That percentage is very low and cannot be considered as a very good result. She also emphasized that the investments and administrative actions taken over the last three years had failed to resolve the issue and remedy the situation. Reservists have the right to know what kind of retirement benefits they will be able to receive and when.

Could the minister perhaps tell us what additional resources he intends to make available in order to meet the demands and legitimate needs of reservists who are inquiring about their retirement plan? How do you intend to remedy the situation? Those people have the right to have their application processed within a reasonable timeframe.

Hon. Peter MacKay: Thank you, Mr. Chair.

I also want to thank my colleague. This is a very important question.

You're right. Implementing a new retirement plan for reservists is certainly a big challenge. I'm very proud of the efforts made.

[English]

This is the first time that a new pension plan has been introduced by any government in 40 years. You can also appreciate that going back that amount of time naturally presents logistical challenges with respect to record-keeping for a plan that wasn't anticipated. While we take on board the recommendations of the Auditor General and are working extremely hard to meet some of those challenges and those recommendations, we are working within complex administrative issues.

There has been a much higher than expected take-up, for example, on the part of reservists—that is, more have indicated a willingness to enter into the plan, as you have already stated. We are taking steps to improve this current system, including hiring more staff to deal with the backlog and working with other departments, such as national revenue. To give you a practical example, a reservist in one of the rural parts of the country might have been serving with a unit that didn't keep proper records or that put them in an old filing cabinet that is simply missing. We are trying to replicate, in many cases, documents that are 40 years old or that don't exist at all.

The Auditor General's report of this spring has caused us to accelerate our efforts and to concentrate specifically on prioritizing those that are most in need of that pension and on getting their pensions in place. We are improving the current administration of the plan while actively working to implement a modern pension administration. We are also streamlining the business and the systems that are necessary to administer it. We are doing so responsibly and in a way that provides transparency both to the Auditor General and to taxpayers generally. We want to make sure there is integrity behind the system.

I mentioned hiring new individuals, improving the internal controls, reporting and detecting any errors early on, and implementing the long-term plan to modernize the business process. All other recommendations that have been put forward by the Auditor General have been taken in by the department, and we are working to correct any past shortcomings. It is a Herculean effort, to say the least, to try to put this new pension plan in place, given the state of the record-keeping that existed 40 years ago.

I might ask Kevin to add a few words to that.

• (1600)

The Chair: Unfortunately, it will have to wait until the next question. With a long question and a fairly long answer, the five minutes are gone.

The Conservatives' Scott Armstrong will be next.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): Minister, I thank you and Minister Fantino for being here. Congratulations to both of you on your re-election last month.

In the period before we were elected, General Hillier called procurement and support for the military “a decade of darkness”. I think you mentioned in your remarks that since 2006 we've increased the defence budget by \$8 billion. I believe a large sum was spent on procurement of new materials: new weapons, new safety devices, and other procurements that support our military.

Has this equipment worked well for the Canadian Forces? Can you provide some examples of how this procurement has actually made our forces safer and helped them to do their job better?

Hon. Peter MacKay: Well, I think I'm going to let Minister Fantino speak perhaps somewhat to the process of procurement.

What I can tell you is that in Afghanistan, for example, we moved with record speed to get the type of equipment that was needed into theatre. Much of that came as a result, members may recall, of recommendations from an independent panel that included John Manley and people like Senator Pamela Wallin and others, and it included some very specific needs that have, I can say unequivocally, saved lives.

It included having aviation assets like Chinook heavy-lift helicopters, and UAV capability, which has given us eyes in the sky over much of the battlefield, as well as improved protection in the theatre of operation. Leopard 2 tanks, for example, have saved innumerable lives. We've never lost a Canadian soldier in a Leopard 2 tank.

Those specific investments were absolutely critical to the mission's success. We were able, through cooperative means and working with other departments, to get those pieces of kit into theatre very quickly.

On the process, I would turn to my colleague, Minister Fantino.

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

Albeit a new arrival in this particular portfolio, I can say categorically that in every indication I've been able to ascertain, the briefings I received, and my own experience with the Canadian military—and this is in the long term, not just currently—we certainly are fully committed to getting the best equipment for the Canadian Forces. We do that and will continue to do that at the best price for Canadians and of course also with the best benefit to Canadian companies, creating jobs and maintaining the economy.

That's an overarching philosophy. More than that, it's a policy, if you will. Really, if we are asking our men and women to undertake dangerous assignments, and they do so as a commitment to their oath of service and the greater good, I think we owe it to them to do the best we can to provide them with the equipment they need, not only to be effective in the mission they're being asked to accomplish, but also to do that as safely as can be done.

As the minister indicated, we are scanning constantly to ensure that we benchmark a procurement on the basis of the principles I've just highlighted. Of course there's always debate about these issues, but I'm very confident that the integrity of the process is beyond reproach.

We will continue to do that. We'll continue working hard to ensure that our men and women have the best equipment to enable them to do their jobs safely, to ensure that Canadians are assured that their hard-earned tax dollars are spent appropriately, and to ensure that at the same time we provide jobs for Canadians as we go forward.

• (1605)

Mr. Scott Armstrong: Thank you.

Minister Fantino, you talked about making sure that our forces have the best equipment available because we owe that to them; it's the least we owe them for the bravery they show for us. What steps, however, have been taken to achieve a fair and open procurement procedure?

Hon. Julian Fantino: A great deal of work has been done. Since 2006 our government has reduced the average time required for military procurement, for instance, from seven years, the norm at that time, to 48 months, which is three full years faster.

That is, of course, reflective of the need to procure the kind of equipment that's necessary to accomplish very complex assignments. That involves, as you know, several departments of the government. It isn't only this ministry that goes forward to deal with those issues. These are all coordinated. It's done in such a way that fairness is always an overarching criteria, certainly, with openness and transparency to ensure that there are no undue influences on the process, to make sure that in essence everyone has a fair opportunity to engage in the process, and to make sure that the checks and balances are there not only within the ministry but also in the external support systems that, depending on cases, validate the integrity of the process beyond just what we and ministry staff are responsible for.

Mr. Scott Armstrong: Thank you.

The Chair: Thank you very much.

For the Liberal Party, John McCallum, please.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for being here.

I would just like to say at the beginning that as a former defence minister, I am of course a huge fan of the men and women of the Canadian Forces.

My questions today are largely financial in nature.

First, it's my understanding that the lapse in the defence budget was over \$1 billion in 2009-10 and over \$2 billion in 2010-11. I would like to ask the minister if I am correct in those numbers, broadly speaking.

Hon. Peter MacKay: No, you're not correct. In fact last year's lapse was \$123.5 million. As I said earlier, it was really an aberration this year based on two main points. One was a helicopter procurement that resulted in our inability to essentially put that money forward in the fiscal year as was intended. The other was simply the high tempo of operations that resulted in certain funds not being used in this fiscal year. I would include in that the shipbuilding and—

Hon. John McCallum: So the lapse in 2011-12 was how much, did you say?

Hon. Peter MacKay: I didn't say. The lapse in this fiscal year is much less than you're indicating.

Hon. John McCallum: In this fiscal year.

Hon. Peter MacKay: Yes. But last year's was \$123.5 million.

Hon. John McCallum: Okay. Well, I'll pass on—

Hon. Peter MacKay: You're talking about the coming year now.

Hon. John McCallum: I'm talking about the year that ended March 31, 2011.

Hon. Peter MacKay: So 2010-11.

Hon. John McCallum: Yes, 2010-11. You don't have that number.

Hon. Peter MacKay: That number is not public yet because there are still calculations based on the mission.

Hon. John McCallum: Okay. I'll move on.

Hon. Peter MacKay: But the number you gave is not correct.

Hon. John McCallum: Okay. I'll accept that.

My next question has to do with the cost of the Libya mission. Again, I'm a strong supporter of that mission, but in terms of cost, I think your number was approximately \$60 million for the full six-month period.

Hon. Peter MacKay: That would be, yes, the extension, presuming that the vote—

Hon. John McCallum: But the Rideau Institute and others have said that the true cost is significantly greater than that. What do you include in the cost? Do you include depreciation on the planes or salaries of military people? And what is the per-unit cost of these smart bombs?

Hon. Peter MacKay: They're incremental costs, firstly, so they don't include such things as depreciation or salaries. That is not normally part of what would be considered incremental costs when it comes to the mission. So the Rideau Institute, as so often is the case, is wrong.

Again, on the price per ordnance, they are putting a figure forward that is double what the Department of National Defence has paid for the types of munitions that we've been using in this mission—that is, guided ordnances, colloquially referred to as smart bombs. They have ordnances in place that are designed and put in place, as you would know, Mr. McCallum, to ensure precision. Laser-guided ordnances by their very nature are going to be more expensive, but they are nowhere near—

● (1610)

Hon. John McCallum: Can you tell us the approximate unit cost of those smart bombs?

Hon. Peter MacKay: The unit cost I have seen has been between \$25,000 and \$40,000.

Hon. John McCallum: Okay.

When I was at defence and went across the country and talked to people in the Canadian Forces anywhere but Ottawa, they would all agree that headquarters was super-bureaucratic, super-bloated, out of control, and getting bigger and bigger all the time. My understanding is that it has become worse in recent years. I'm not blaming any of the people who work there, because I think the problem is greater than any one individual. I remember we brought in some outside people to try to at least contain the growth of the headquarters. So my question to you is whether you agree with that assessment. You would probably use different vocabulary, but do you agree it's somewhat too big? And might measures to perhaps redeploy some people from headquarters back to bases in Canada or abroad be a good move as part of a cost-saving exercise?

The Chair: You may want to come back to this in further questioning, but we're technically out of time on that round, so could we have a brief answer, please?

Hon. Peter MacKay: Let me put it this way, Mr. Chair.

Mr. McCallum, we are constantly, in this fiscal environment, looking for efficiencies both in the way in which we administer the department itself and in services to members of the forces and support for what they do. Clearly the Canada First defence strategy was an effort to allow for long-term planning, and to allow for the prioritization of the pillars within the department, which, as you know, are personnel, equipment, infrastructure, and the readiness of the Canadian Forces to respond.

With the relocation of many of the Canadian Forces personnel on the civilian side to the Nortel campus, we are, in my view, presented an optimal opportunity right now to look at efficiencies and to use attrition within the current bureaucracy of the department to achieve those efficiencies, but to do so in a way that's fair to ensure that we don't leave ourselves short. Because—make no mistake about it—the public servants on the civilian side are extremely important to providing services.

To come back to an earlier question about the new pension we're setting up for reservists, making sure that we're giving that pensionable time recognition and support is a critical priority for us. So we're balancing all of these competing priorities. We're always looking for ways to achieve efficiencies. We're always following your good example, because I know you are someone who places a high priority on fiscal prudence.

The Chair: Thank you.

Thank you, Minister.

Ron Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thank you, Ministers.

I also want to thank the department officials as well for the great work they do. Procurement is an important area of our economy. In my riding of Kelowna—Lake Country, Kelowna Flightcraft, an armour works company, was recently a supporter looking to provide services to our men and women who serve not only nationally, but abroad, and I want to thank them as well for their dedication.

My cousin's husband is back in Afghanistan for the third tour of duty right now.

Minister MacKay, you talked in your opening comments about how the Canadian Forces are fighting a very brutal enemy in Afghanistan. As we move closer to July 31 and the deadline to end our combat mission, maybe you can enlighten the committee a little bit about exactly where the troops will be located for the training mission and what they will be doing. Can you confirm whether the troops will be out of Kandahar by the end of July?

• (1615)

Hon. Peter MacKay: Thank you, Mr. Cannan, and thank you for your enduring support for the men and women in uniform.

The short answer is yes, the intention is fully to comply with the announced end to combat and transition to training. This is a volatile time. Very often near the end of a tour you'll see, especially during the fighting season, a ramped-up effort on the part of the Taliban to inflict optimal damage on forces and on civilians. It's a very volatile time in the Kandahar region, where the Canadian Forces find themselves predominantly in the Horn of Panjwaii, which is, as Mr. Alexander will know, one of the most fiercely guarded parts of the country. It's the spiritual home of the Taliban, and really the eye of the storm, where Canadian Forces have had a tremendous effect.

By "effect" I mean bringing about what we hope will be lasting stability and normalcy for the people, for the population. We are seeing schools there. We saw, during a recent visit with the Prime Minister, a wheat field in what is really hallowed ground for Canadians. It's where we have lost lives, where soldiers have served. The visual of seeing wheat growing on what was parched land in an area in the Arghandab region, where only the poppy had appeared to be a source of sustenance and cash crop.... Now beets, barley, pomegranate, and other agrarian pursuits are replacing the poppy.

The schools really are perhaps the biggest symbol of hope within that country, where alternative education, where girls can go to school for the first time—these are the things that soldiers will speak about with such passion. They've seen the difference. Most of them, as you mentioned, have been on at least one tour, if not more, and during their time in the country have seen the changes that are occurring in the villages and the confidence that is growing.

As we transition to the training mission, Canada will be able to contribute what I think will be one of the most important lasting legacies of this mission, and that's imparting their skill set—in some cases, very tragically hard-won skills, in combat—to Afghan security forces, both police and army, giving them the ability to do what we do for them, giving them the chance to defend their own sovereignty, to protect those villages and their populations. That's our ticket home. That will allow Canadian soldiers and others to come back knowing that they have made a lasting difference in that country: they'll be able to protect for the future that stability, that fragility that's there.

So I am continually impressed with the commitment and the professionalism and the sacrifices that they've made to get us to this point.

Mr. Ron Cannan: Thanks.

Little Women for Little Women in Afghanistan, a group of ladies in my riding, raised money to help women teachers in Afghanistan, so it's good to hear that the results are very positive. Reservists in our community, the B.C. Dragoons, have been part of that contingent.

I will just switch the channel quickly to the importance of Arctic sovereignty. A key message from Prime Minister Harper and our government has been to work on investing in and protecting the north. Maybe you could just elaborate a little bit on the investments and some of the exercises going on up north.

Hon. Peter MacKay: We do have northern sovereignty operations, and we'll have them again this summer. We have different units and regiments that participate. Again, there is a unique opportunity in Canada where the Canadian Rangers work with members of the Canadian Forces, teaching them important survival skills. They provide eyes and ears in the north in a way that really no other member of our population could. It's an incredible experience to see those operations take place and the type of training they do.

We know that the Arctic ice is changing. It's opening up in many cases, which will increase access. It will increase both Canadian and international interest in going to the north. Having a physical presence there will be extremely important, and falls in large part to members of the Canadian Forces, regular and reservists, who will be called upon to be there.

We have invested in and announced a large deep-water refueling station for Nanisivik. That project is proceeding. We are sharing, in some cases, the projects with Natural Resources Canada on the research and development side. We're looking at recovering some of the austere runways that exist in the north and making them serviceable in the future.

So as the environment changes, we'll be there to meet those challenges.

• (1620)

The Chair: I'm reluctant to interrupt you, but I know you're here for a limited time, and a lot of members would like an opportunity to question you personally.

Next is Denis Blanchette.

[*Translation*]

Mr. Denis Blanchette (Louis-Hébert, NDP): Good afternoon, minister.

In 2006, one of your predecessors announced the intention to acquire new military support vehicles. The invitation to tender was made last fall and, in the meantime, a company complained that the document was not available in French. They were told that it may take up to six months for the translation to be ready. That's a long time—since 2006—to acquire trucks our forces need. That also raises questions about the department's acquisition process.

Do the department and the minister intend to improve the acquisition process in order to accelerate the acquisition of the necessary products?

[*English*]

Hon. Julian Fantino: Thank you for the question.

This is all a work in progress. Certainly I think we have taken notice of the importance of respecting the duality of languages in our country, and if there are improvements to be made, this being a lesson for us, we'll certainly undertake to do those.

We're especially respectful of making sure that the process is fair, transparent—as I indicated earlier—and certainly equitably available to everyone who wishes to enter. We will work through these issues. We will strive for improvements, as there have been all along historically in regard to procurement. We'll continue to do that.

Thank you for raising that.

[*Translation*]

Mr. Denis Blanchette: Beyond that, the acquisition process itself takes a very long time from the intent to the completion of the invitation to tender. The forces really need those tools.

Does the minister anticipate reviewing the procedures in order to accelerate the acquisition process?

[*English*]

Hon. Julian Fantino: Mr. Chairman, in the interest of saving time, the answer is yes.

The Chair: There are still two and a half minutes.

Nycole Turmel.

[*Translation*]

Mrs. Nycole Turmel: Thank you, Mr. Chair. I appreciate the opportunity to ask the minister another question.

With regard to the backlog in the administration of the reservist pension fund, you said that you intend to prioritize that file. You also talked about the possibility of providing additional resources.

I would like to know exactly how many people the minister intends to add.

Priority-wise, how long should resolving these issues take?

I also want to add that the minister mentioned that Canadians would be very happy to know that he returned money to the main fund.

Don't you think that part of that money could have been used to solve this problem?

Hon. Peter MacKay: Thank you, Mr. Chair.

I'll let Mr. Lindsey answer that question. Still, I want to summarize things by saying that our department is very proud of the opportunity to introduce a new pension plan for the first time in 40 years.

Mr. Lindsey, go ahead.

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

[English]

The department has acknowledged the observations that the Auditor General made on that plan. The fact I would point out is that in 2007 the department was faced with a choice. It could have deferred the implementation of that pension plan until the new IT systems were built, until all of the staff were perfectly trained, and until everything was perfectly set to implement that plan, which would have taken some time, or it could have implemented the plan at the time, giving reservists the comfort that the plan was in place but recognizing that there would be growing pains. In fact, there have been, and the department has acknowledged that.

Over the last year the department has in fact increased by over 50% the number of people in the administration who are charged with administering that plan. It has developed a remediation plan, in fact, to speed up the processing of reservists' files and is doing what it can on a very old legacy IT system to expedite the movement of those files.

•(1625)

The Chair: Thank you, Mr. Lindsey.

I'm afraid that's the end of our time for that segment.

Peter Braid.

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

Thank you to the ministers and their officials for being here this afternoon.

Minister MacKay, there was a question a little earlier about the F-35 project, and I just wanted to follow up on that. It's a two-part question, in fact. First, are there any F-35 project-related costs reflected in the 2011-12 estimates? Second, at what point will the majority of the costs relating to that important project be reflected?

Hon. Peter MacKay: Those are two very good questions.

There certainly will be some costs, depending upon the progress we make in the memorandum of understanding with Lockheed Martin.

To answer your second question, we are proceeding towards taking ownership of these aircraft, these F-35s, in approximately the year 2016-2017. That is when the majority of the costs will in fact kick in. While the \$9 billion sounds like a significant amount of money—and it is—keep in mind that it is amortized over a 25-plus-year period of time. We are still approximately four to five years away from making the major investments that will be involved in the purchase of this aircraft. When one examines the utility we are seeing even today in Libya with the existing fleet of F-18s and the fact that those aircraft are now approaching 30 years of service, the per-aircraft investment for the F-35 procurement, when one includes the all-up in-service support, the spares, the simulators, and the training package that came with that initial purchase, is in rough order of magnitude on par with what the Department of National Defence paid for our existing fleet of aircraft.

To put it in that perspective, I would simply add, Mr. Braid, that this is an eye-watering aircraft in terms of its technological advances. It's the only fifth-generation aircraft on the market available to

Canada. It is inter-operable with other fleets, including those of NORAD and other countries that are purchasing the same aircraft. It will allow us, first and foremost, to protect our own sovereignty and that of continental North America and to be able to participate in missions similar to those we're seeing to protect civilians in places like Libya well into the future.

I stand behind this procurement. Mr. Fantino, of course, will be very involved as we move forward with Lockheed Martin.

Some of the criticisms that have been levelled at the aircraft don't pertain to the CTOL—that is, the conventional takeoff variant of this aircraft that Canada is buying. We're not purchasing other variants of the aircraft, the vertical takeoff model for the Marine Corps, which is similar to a Harrier jet, or the aircraft carrier model. Of course we don't have aircraft carriers. We're purchasing a different variant, which is on time and on budget according to Lockheed and the Pentagon.

Mr. Peter Braid: Thank you.

You mentioned our current mission in Libya as well today. In fact, in Parliament today we are debating the proposal to continue that important mission—a mission, I might add, that's commanded by a Canadian general, Lieutenant-General Bouchard. Could you explain to the committee the progress we've been able to make in Libya and why it's important to continue that progress?

•(1630)

Hon. Peter MacKay: Thank you, Mr. Braid.

That was the subject of a very important debate that happened in the House of Commons, as was the initial decision to participate. Yes, progress is being made. First and foremost, civilian lives are being spared as a result of the efforts of NATO, of which Canada is a very active participant in the no-fly zone. That is preventing Gaddafi from using his own air assets to wreak havoc on his own population. He expressed in no uncertain terms a very murderous intent to do just that and was in the process of doing so when the mission began.

You mentioned Lieutenant-General Charlie Bouchard. He is doing an outstanding job. I heard about it recently at NATO meetings in Brussels. Everyone from the Secretary General to other participant countries in their leadership were full of praise for General Bouchard and for Canada for what we're doing and for the leadership demonstrated. We're doing all of this work, as you know, very much within the parameters of the UN Security Council resolutions 1970 and 1973. We're there to protect civilian life, to further humanitarian efforts, and in simple terms to force Gaddafi's regime to retract their military forces back to the barracks and to stop wreaking havoc on their civilian population.

We are furthering those efforts. Progress has been made, in that prevention has occurred. We also have the HMCS *Charlottetown* in the region providing support as well. She was initially a forward deployment in case there was a need for civilian evacuation.

The Chair: Sir, we're having a bit of a mission creep in our answers here. They're creeping into the next round.

This is probably the last round for the time you have to spend with us, and it's for Mr. Matthew Kellway.

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

Minister MacKay, you alluded in your opening comments to some wildly divergent estimates for the cost of the F-35s. That gives rise to considerable uncertainty over the price and to a lack of confidence in the government's estimates. Do you continue to maintain the accuracy of the government's cost estimates for the F-35s, or are the estimates under reconsideration, or do you have revised estimates that you can share with us today?

Hon. Peter MacKay: Nine billion dollars is the budgeted cost for the F-35s—

Mr. Matthew Kellway: I'm sorry, but I couldn't hear you.

Hon. Peter MacKay: Nine billion dollars is the money that we have budgeted for the purchase of the F-35s, which includes the spares, the training, and the avionics, the on-board equipment.

Mr. Matthew Kellway: Okay. Are those estimates under constant review, or are you concluding that this is going to be the final cost?

Hon. Peter MacKay: That's the budgeted amount we have for the purchase of new aircraft.

Mr. Matthew Kellway: It's the budgeted amount, Minister, but what if the costs diverge from the budgeted amount? I presume that might happen. You've budgeted \$9 billion, but what are you estimating for the actual costs?

Hon. Peter MacKay: Nine billion.

Mr. Matthew Kellway: Nine billion? Okay.

Second, Minister, for the last two years the Department of National Defence has returned billions in unused revenue, which raises questions about the department's ability to manage its budget. Have you been able to identify the reasons for or the sources of the department's budgeting difficulties? Could you share your findings with us?

Hon. Peter MacKay: I've already mentioned some of those causes. The causality was due in some part to procurements that did not proceed on time through circumstances that I would describe as being beyond the control of the Department of National Defence.

However, just to put it in perspective, this is an aberration, because in the last fiscal year, 2009-10, the residual lapse was \$123.5 million, which was well within the carry-over that is permitted under the Treasury Board guidelines.

Sir, the restrictions placed upon the Department of National Defence are quite unlike those of any other department of government, in that—and Mr. McCallum would be aware—the carry-over permitted at the Department of National Defence is 2%. With a budget now in excess of \$21 billion, it is a large challenge, to say the least, to ensure that your annual spending is within that 2% for carry-over.

Every other department of government is at 5%, and the Department of National Defence actually just went to 2.5% in the last fiscal year, I believe. Someone with much more fiscal acumen than I have described this as the equivalent of trying to land a 747 on an aircraft carrier. It is a very challenging undertaking to budget your amount for the fiscal year within that 2%—now 2.5%—carry-over.

Our accounting officers, our deputy minister, and certainly Mr. Lindsey are working very hard within those parameters, and they're working hard to ensure that the Auditor General and others we have brought in to look at this situation, including independent auditors from Deloitte and Touche...to see that we are transparent, that we are open, and that we are complying with the Treasury Board guidelines.

Thank you, Mr. Chair.

• (1635)

The Chair: Thank you.

We have a minute remaining.

Alexandre.

[*Translation*]

Mr. Alexandre Boulerice: Minister, you confirmed that the F-35s will cost \$9 billion. If my memory serves me right, that's not really in line with the assessment made by the Parliamentary Budget Officer.

My question is more specific. You said that the \$9 billion was for equipment, parts and training. How much will each F-35 unit cost?

[*English*]

Hon. Julian Fantino: If I may answer that, Mr. Chair, first and foremost, the \$9 billion includes a whole lot more than just the actual unit, the aircraft. As Minister MacKay alluded to, it speaks to simulators, training, spare parts, and all those kinds of issues. That said, the ceiling on that project is \$9 billion. That is what is allocated. We will do our utmost to work within that amount. So the actual unit price of those aircraft is...

Is it seventy...?

Mr. Dan Ross (Assistant Deputy Minister (Materiel), Department of National Defence): With the latest version of the selected acquisition report from the Pentagon, it is estimated to be between \$75 million and \$80 million. That estimate is being very rigorously revised by the Pentagon, based on the technical baseline review they did through the second half of 2010, and we expect them to give us revised estimates late this year.

Hon. Julian Fantino: If I may finish, I know we're talking about a huge amount of money. It was mentioned earlier that these units will not come on stream until 2016.

The other item that should be talked about in the context of this enormous purchase is obviously the absolute need. The F-18s will be finished. Everything has a life cycle. In essence, the F-18s will have outlived their usefulness. As it is, they are being extended through some very innovative and creative work done by our people. So either we are in the business of providing sovereignty for Canada and being involved in NATO and doing all those issue and going there, or Canada is going to be, once again, regressive in terms of our ability to provide a military service and to support the kinds of things we need to do.

Having said all of that, the one thing that also needs to be said here is the enormous amount of job creation and opportunities for employment for people in this country, because a lot of the units that make up this particular aircraft are manufactured, produced, or otherwise developed here in Canada. The price ultimately will depend on just how many units are manufactured. We now have various countries that are on board with huge numbers of F-35s.

I hope that sort of mitigates somewhat the thought that this is a loss leader. It's not. It has many advantages, including job creation and enhancing the economy in our country.

The Chair: I'm afraid that's all the time we have.

I don't know what your time is like, Minister. Let me say, in case we are running out of time, though, how much we appreciate your being here. We invited three ministers to attend, and two others found themselves too busy to attend this committee to answer to their estimates. You have a very important debate going on in the House of Commons—a very timely and topical debate—and you still made time to be here. We appreciate that very much.

If you do have five more minutes, there is one more Conservative member who has questions.

• (1640)

Hon. Peter MacKay: Thank you, Mr. Chair. I'd be pleased to take another question.

The Chair: Fair enough. Thank you.

Bernard Trottier.

Mr. Bernard Trottier (Etobicoke—Lakeshore, CPC): Minister MacKay and Mr. Fantino, thank you for coming in and being with the government operations and estimates committee.

Recently in the news there was some mention of the Canadian Forces planning operational hubs in various parts around the world. First, could you explain to the committee what those are, and what are the strategic and operational objectives of those hubs?

Second, and perhaps just a qualitative answer, what is the impact of those hubs on the budget and on the estimates?

Hon. Peter MacKay: Thank you very much, Mr. Trottier.

I want to congratulate you on your position on this committee and on your election to Parliament.

There has been a lot of misunderstanding about this. Operational hubs, in essence, allow us to either pre-deploy in position or to support ongoing operations. The open secret that we had a base such as this in the United Arab Emirates is a perfect example.

During the deployment for humanitarian relief into Haiti we used Jamaica to put large aircraft, like the C-17, in place, with supplies, water, food aid, medicine, and with individuals, and then we flew a smaller but large transport plane, the C-130 Hercules, into Haiti on austere runways. It is giving us that ability to maximize proximity to a theatre of operations.

It was not accurate to report that we were in any way envisioning setting up large, permanent bases in locations throughout the world. We are simply negotiating and discussing with various countries the ability to make use of existing facilities and perhaps have a hangar or

pre-deploy individuals and equipment for the purposes of increasing Canada's ability to contribute to the world, as we are doing in Libya in a place like Sigonella. We are using existing airfields in Sicily, in Italy. We've been able to maximize Canada's effect in the world. Many members of the Canadian Forces and their families will remember being in Lahr, Germany.

So we are trying to mirror the success that we've achieved in other regions of the country by simply using those forward deployment areas and negotiating that with allies. It makes perfect sense in a world of quick response and the necessity of the Canadian Forces to be able to get to these areas and contribute mightily, as they do. I'm extremely proud of the effect that those men and women have had, and we're doing everything we can to support them through equipment readiness and the diplomatic interventions that can help them achieve their missions.

Mr. Bernard Trottier: I have a follow-up question. It's not related so much to the operational hubs; it's more for Minister Fantino and is about the national shipbuilding strategy.

Maybe you could describe some of the components of that strategy. What will be the impact on the Canadian navy? How is that going to make us a more effective defence force when it comes to defending our territory as well as taking part in missions around the world?

Hon. Julian Fantino: Without getting too deep into this particular process that's led by Minister Ambrose, one could say that, as with the other assets, the aircraft we spoke about, so too it goes with the ships. It's a matter of having in place the ability and the resources to replace outdated equipment that no longer serves today's needs nor meets the exigencies that prevail.

The primary objective right now is to identify a procurement process that will be, as I indicated earlier, fair and transparent, but which also will ensure maximum benefit to Canadian industry wherever that's going to be. It's a cycling of equipment. These things get a lot of use. If we're going to put on these ships men and women who are willing to serve their country, we need to ensure that we provide them with the tools they need. I call them tools, but they are critical resources actually, to enable them to effectively do their job.

• (1645)

The Chair: That pretty much wraps up your time, Bernard.

Again, I want to thank both ministers for a very fruitful exercise. There were good questions and very fulsome answers. We appreciate that very much, Minister MacKay and Minister Fantino.

I'm going to suspend the meeting for a minute or two while the ministers take their leave. Then we will continue with the departmental officials for the rest of our two-hour meeting.

Hon. Peter MacKay: Thank you, Mr. Chair.

The Chair: Thank you very much to both of you.

•(1645) _____ (Pause) _____

•(1645)

The Chair: I will call the meeting back to order.

The government operations committee meeting will continue with the questioning of departmental officials. In continuing the round we had going, the first questioner would be from the Liberal Party, John McCallum.

John, it's your turn to question if you would like.

Hon. John McCallum: Okay.

Perhaps what I'd like to do is go back to this question of the lapsed money, because I would say that although the minister said I was wrong, I think I was right in terms of how I was looking at it.

I just had a discussion with Mr. Lindsey, and I think Mr. Lindsey and I agree that for 2009-10, the lapse was \$1.2 billion in the following sense. The department proposed to spend a certain amount. They thought they'd spend a certain amount. At the end of the year, it turned out they'd spent \$1.2 billion less than what they thought they'd spend. I have heard that the number is even bigger for the following year, for 2010-11. It could be that up to 10% of the budget of the Department of National Defence isn't spent.

Now, he will explain about reprofiling, but I just want to put it in these terms first. My concern would be that the Department of National Defence has some enemies in town, like the Department of Finance; if they see that National Defence is spending only 90% of the money it has, why not just take that money away?

If your lapse is \$2 billion, that's half of the amount the government has to save in total across the government—\$4 billion a year. I'm not saying that's necessarily reasonable, but I'm saying that it could be interpreted that way.

I guess I'm asking Mr. Fonberg, Mr. Lindsey, or anyone who wants to answer for an explanation.

•(1650)

Mr. Kevin Lindsey: Thank you.

There are two parts, I guess, to respond to Mr. McCallum, the first technical. In any given year, the department is appropriated money through main estimates and supplementary estimates. It spends money and gives a rendering of those accounts in the public accounts. However, through the course of the year, the department's authority to spend money that has been appropriated can be fettered or reduced by the executive.

In fact, in 2009-10 and in virtually every fiscal year, that winds up happening. It winds up happening usually because deliveries of equipment, or infrastructure that we had planned to build, will get delayed for whatever reason. So the money that we require to pay for the infrastructure when it ultimately is built, or to pay for the equipment when it ultimately is delivered, gets transferred from, in the year we're talking about, fiscal year 2009-10 to some other fiscal year in the future. Our spending authority for the year in question is actually reduced. That becomes the benchmark against which we compare, and in fact all other departments compare because they all

have the same phenomenon to some extent or another, our actual expenditures.

With respect to 2009-10, after allowing for that amount of money that is reprofiled to the future to pay for future obligations, the amount of money that DND did not spend, or the amount of money, to put it euphemistically, "left on the table", was \$123 million. In fact, in the preceding five years, the total amount of money that fits into that category, that DND left on the table or did not spend, was less than \$500 million for the entire five years.

The Chair: That's interesting.

Can I ask a question as the chair?

I won't take this from your time, John.

We've learned you're allowed to carry over or roll over up to 5% from year to year, or 20% of...?

I'm being corrected here.

Mr. Robert Fonberg (Deputy Minister, Department of National Defence): Mr. Chairman, we are allowed to carry 2.5% forward. Other departments are allowed to carry 5% forward.

The Chair: Really? That's interesting.

Mr. Kevin Lindsey: [*Inaudible—Editor*]...on capital.

The Chair: I see.

Mr. Robert Fonberg: We are allowed 2.5%.

The Chair: Interesting. Okay, thank you.

Sorry, John, go ahead.

Hon. John McCallum: Okay.

I understand that, but to go back to my original point, it's still the case that in 2009-10 you ended up spending \$1.2 billion less than you thought you would spend at the beginning of the year. I don't understand why it's so asymmetrical. If you base your estimates on when you think the equipment will be delivered, then some years it might come sooner than expected and other years it might come later, but in your case it seems to be always much later than you expect.

Why don't you adjust your expectations to match the reality and then you wouldn't have these huge lapses?

Mr. Kevin Lindsey: It's a fair question, Mr. McCallum, and I would defer to my colleague, the ADM for materiel, as to whether he has any anecdotes about equipment being delivered earlier than anticipated. But with regard to process, perhaps I could defer to Mr. Ross.

•(1655)

Mr. Robert Fonberg: If I could just make one quick point, the bet that's made when we finally go to Parliament for appropriating money is a bet that's supported by the Department of Finance and by Treasury Board, which actually believe that basically we have it right. As you can imagine and as I think you would know from your time, those are pretty rigorous challenge functions. We don't just put up our own estimates without them being unchallenged.

So in some ways there is an asymmetry here, but now I'll let Dan speak to that question.

The Chair: Because we're way over time, could you wait until it is in the context of answering the next question?

Mike Wallace is next.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

Thank you to the officials for being here.

I have a number of questions and I'm going to try to go quickly, but I actually have a chart of what you've done in the last five years: main estimates over previous year, total supplementary estimates for the year, the As, Bs, and Cs, the actuals. There isn't a department I have found thus far that has busted its votes and is overbudget; they are all under budget, of course, because you want to spend less than what you ask for or you would be in real trouble if you didn't get appropriations for those.

But I want to ask you actual questions from the blue book, if you don't mind. This is my first opportunity to actually question this department. I have questioned many others, so they're used to me dealing with the blue books. Some are very basic explanations.

On page 244, for example, can you explain something to me? On the column that reads "Less: Revenues Credited to the Vote", down near the bottom, for "Defence Team Personnel Support", for example, where do those revenues come from and what do they mean? I was surprised to see so many line items with revenues generated. How does the defence department generate revenues?

Mr. Kevin Lindsey: First, on the authority issue, on the revenues credited to the vote, the department does in fact collect revenues from various sources. Normally, government revenues are, by law, deposited to the consolidated revenue fund.

Mr. Mike Wallace: That's right.

Mr. Kevin Lindsey: However, many departments, DND included, have, by virtue of Parliament's approval of the Appropriation Act in these estimates, the authority to spend certain kinds of revenue up to certain amounts. The specific revenues that you've asked about on page 244 I believe are related to recoveries of advances from CF members who are on temporary duty or who, for other reasons, received temporary cash advances in the pursuit of their duties. So that money represents the members repaying those advances—

Mr. Mike Wallace: Got it.

Mr. Kevin Lindsey: —and Parliament gives the department the authority to re-spend that revenue.

Mr. Mike Wallace: Okay.

On transfer payments, then, there are a lot of line items with transfer payments. Who is transferring money to you? Where are these transfers of payments coming from and what are they for? Give me some examples. I don't need specifics. Just give me some examples.

Mr. Kevin Lindsey: These transfer payments refer to transfers of money from DND to some other party and take the form of either grants or contributions. As you can see, there are a whole range of recipients of those.

Mr. Mike Wallace: Okay. So all the things under transfer payments are grants and contributions, Gs and Cs?

Mr. Kevin Lindsey: Yes, grants or contributions.

Mr. Mike Wallace: On page 245, I find it interesting that we have an allocation to give you an automatic acceleration of 2%, or whatever the number is, but then we decrease by \$102 million because you did cost containment stuff. Can you give us one or two examples of the cost containment pieces that are in here?

Mr. Kevin Lindsey: Sure. In fact it's all the same phenomenon. You may recall that budget 2010 removed a provision whereby departments would be reimbursed for costs associated with increases coming out of the collective bargaining process.

Mr. Mike Wallace: Right.

Mr. Kevin Lindsey: In other words, if a bargaining unit would negotiate an increase of 1.5% per year, where in the past Treasury Board would have given a department the money to cover that cost increase, going forward, departments would have to absorb that increase from existing reference levels. The truth is that in anticipation of future increases departments had already received the money in their budgets for these increases in the future years, so what this represents is that money being clawed back—

Mr. Mike Wallace: Okay. It's clawed back.

Mr. Kevin Lindsey: —in 2011-12 pursuant to budget 2010.

• (1700)

Mr. Mike Wallace: On page 246, one of the grants you give is to the Institute for Environmental Monitoring and Research. Why would DND give money to that organization? What are they doing for you?

Mr. Kevin Lindsey: We'll have to get back to you, Mr. Chair, on that one.

Mr. Mike Wallace: I'm looking forward to that.

Thanks.

The Chair: Thank you.

Jack Harris, go ahead for five minutes.

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

I'm sorry I wasn't here for the two ministers.

Maybe someone can explain—Mr. Fonberg, perhaps. Is there a separate deputy minister for the associate minister for procurement? How does that work with regard to reporting within the department?

Mr. Fonberg, are you the deputy minister to both of these ministers? How does that work?

Mr. Robert Fonberg: Yes, sir. I am deputy minister to both.

Mr. Jack Harris: You are it.

Mr. Robert Fonberg: I have an associate deputy minister as well, Matthew King, but I am deputy to both ministers.

Mr. Jack Harris: Thank you.

I ask because my question is somewhat related to procurement and has to do with the concerns about search and rescue. As you know, we just heard some news about changes in the coast guard facilities in Newfoundland and Labrador and in Quebec, and of course through the defence committee last year we were working on trying to have a look at search and rescue response times. One of the issues we encountered in our travels was that they didn't have enough Cormorants to service an increased need, and this was a very expensive idea.

I have some information, and perhaps Mr. Ross may be able to help me with this. The American government has a variant of the Cormorant known as the VH-71 Kestrel, which was in use for the presidential helicopter service, and I understand the government has purchased a number of "parts", which in fact include nine airframes and considerable other parts that could be assembled into Cormorants or used for search and rescue.

Mr. Ross or Mr. Fonberg, I wonder if you could confirm that such a purchase from the Americans has taken place. I have a figure I received from American sources, but perhaps you can tell us what you know about it.

Mr. Dan Ross: Mr. Chair, earlier this spring we negotiated a purchase from the U.S. Navy of the entire remaining material from the VH-71 program, which included several hundred thousand spare parts, the majority of which are common to our version of the EH-101 Cormorant. There were nine aircraft in various states of completion that were in an excellent state of preservation. We inspected them. We purchased that package of spare parts with the primary objective of increasing our stock of individual spares and of major assemblies like transmissions and so on that we could feed into our repair and overhaul supply chain.

One of the key limitations to maintaining our Cormorants as serviceable is the length of time that a major assembly is away in the supply chain, and we had too few of those to feed the system.

We paid pennies on the dollar for those spare parts, and they are already having an effect on increasing the availability of our Cormorants.

Mr. Jack Harris: I understand it was a very good deal. The figure provided to me was \$125 million for this package of parts. Perhaps you can confirm that, and that if not all of these are delivered yet, they will be very shortly.

Given the fact that there are nine airframes involved, is there a possibility these airframes could form the basis of increasing the size of our Cormorant fleet? We did lose one of the fifteen that were originally purchased, and of course we've heard reports that the helicopters in use, the Griffons out of Trenton for example, are not the kind of aircraft you'd want to have for maritime rescue. Is there a possibility that these airframes could in fact be used as part of a project to increase the size of our fleet?

• (1705)

Mr. Dan Ross: Thanks, sir.

No, there is no intention. The airframes are not common in configuration to the SAR aircraft that we use. Extensive modification would be required. We made it clear in our purchase that there was no intention of bringing them into service.

The nine airframes will be cannibalized and de-assembled to access those spare parts, and eventually we will have nine bare shells.

Mr. Jack Harris: I appreciate your intention, but I would see it as a potential opportunity. Has that been canvassed, the cost of doing that and the effect of doing that? Obviously there would be some differences with the existing fleet, but if you could, with the amount of equipment that's involved here, which to my understanding is very considerable, perhaps a group....

For example, I know there are four in Gander and five in Greenwood. If you had three or four or five made from those parts, it seems to me that you could have a relatively inexpensive project. And when I say "relative", I mean relative to a new procurement plan where in fact we could acquire a useful addition to our helicopter fleet.

I recognize you say that there was no intention when you bought it, but has it been canvassed? Has it been considered? Has any study been done as to whether that could in fact take place?

The Chair: Give a very brief answer, please. We're well over time.

Mr. Dan Ross: There was no analysis done of that. There's been no stated intention to do that. The current plan is to continue using Griffons, which have been configured for SAR out of Trenton.

The Chair: Thank you.

I'd like to suggest that we need a few minutes at the end of the meeting to do the votes associated with the estimates, so I think we have time to do a Conservative, New Democrat, Conservative, Liberal, and then cap it off. So that would be two more Conservatives and one each for the opposition benches. If that's agreeable, that brings us to about 5:25.

Is that okay with everybody?

Some hon. members: Agreed.

The Chair: Scott is next.

Mr. Scott Armstrong: Thank you.

I have three quick questions, and I want to go back to the carry-over first.

We learned today, and Mr. Martin actually confirmed it, that most federal departments, if not the rest of the federal departments, are allowed a 5% carry-over at the end of their budget year. We found out today that the Department of National Defence is only allowed a 2.5% carry-over. I think that's been increased in the last couple years from 1.5% or thereabouts, in that range.

We haven't heard a justification for this. Why is your carry-over percentage half of what it is for the other departments?

Mr. Kevin Lindsey: Just to recap the numbers, until fiscal year 2009-10 our allowable carry-forward was 1%—or \$200 million, actually; the absolute dollar value ceiling was \$200 million.

Partly as a result of the Auditor General's observations on DND and our own representations, in 2009-10 that carry-forward was increased to 2.5% on our operating and capital budgets. At the time it was increased, other departments had a 5% carry-forward ceiling on their operating budgets and a one-off provision for capital budgets to a maximum of 5%. What's happened in the interim is that the capital carry-forward provision for other departments has been increased in fact to 20%. DND continues to be at 2.5%.

As to the "why" part of your question, DND has a budget that is, quite obviously, as you know, larger than any other department's. It also has, as is evidenced in part by this discussion and by some of the numbers that Mr. McCallum has pointed out, a high degree of unpredictability.

With respect to the Department of Finance, one of whose concerns is fiscal forecasting, there's a high degree of fiscal risk attached to the DND budget. If we were allowed the higher carry-forward ceiling that other departments have, it would make fiscal forecasting and predictability a more difficult task. So that is one very serious consideration.

• (1710)

Mr. Scott Armstrong: It's the size of the budget, then; it's the immense size of your budget compared to that of some of the other departments.

Mr. Kevin Lindsey: And it's the unpredictability of the cashflows.

Mr. Scott Armstrong: Okay. Thank you for that.

I'm going to turn to the F-35 purchase. We've already invested a great deal in this project. I think over the last almost ten years we've invested money in this in the hundreds of millions of dollars. What would be the implications for the Canadian government if they were to try to suddenly pull out of this deal with the F-35s? I'm sure there would be a financial penalty for that. Could you elaborate on that a bit?

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

We have contributed about \$200 million to the program through the memorandums of understanding with our eight partners. Just to be clear, it is a United States government program; we're not buying from Lockheed Martin. The only way to purchase them is from the Government of the United States. If you're not in the partnership, you must go through foreign military sales and pay all the fees associated with foreign military sales.

It is possible to withdraw from the MOU and eventually come back and try to purchase them through foreign military sales at that increased cost. If you withdrew, there would be some penalties that would have to be negotiated, because the cost-sharing agreement right now among the nine partners is based on the agreed contributions of the nine partners to the design, development, and testing.

Our current commitment is \$551 million over 40 years. If we pulled our \$551 million out of the partnership, that would have to be made up by our colleagues, and we would have to negotiate what portion of that—and it would probably not be a small number—we would have to pay.

The other dimension I would mention is that the number of industrial opportunities for the country is proportional to the number of aircraft you buy and the contribution you make to the MOU. The potential of \$12 billion of direct Canadian participation in building them would not end instantly. The existing contracts and orders would stay, but they would not be renewed. For example, if you were buying 50 sets of landing gear from Héroux-Devtech in Montreal, there would be no follow-on order for landing gear from Héroux-Devtech. They would let that die. So there are two parts to that.

The Chair: That concludes our time.

Thank you.

Matthew Kellway.

Mr. Matthew Kellway: Thank you, Mr. Chair.

Mr. Ross, this is for you. In response to a question concerning the per-unit cost of the F-35, I think I heard you advise that \$75 million or \$80 million per unit cost is the current estimate and that revised estimates will be provided by the Pentagon at some point in the near future. Is the estimate of \$75 million to \$80 million what the \$9 billion package is based on—that per-unit cost, the training, plus all the other things that come along with it?

Mr. Dan Ross: On the National Defence website there's a detailed cost breakdown chart. It is largely extrapolated from the unit price that's available at the time Canada or a partner purchases its aircraft. There are obviously estimates of how much a current price will decrease as it gets to the most efficient point of the production with the largest numbers being produced. We expect 2016-2018 will be the most efficient point at which to buy, and that's what we're scheduled to do. Right now, that estimate is \$75 million to \$80 million for the conventional takeoff variant. It's not for the other two, which are more expensive and have more developmental risk. Our variant has finished its development. It is in production, and the United States Air Force has taken its first production aircraft and will stand up its first squadron this year.

But to go back to your fundamental question, yes, that unit price is a very key factor that goes into the formulas for our detailed cost analysis. We also add on our infrastructure estimates, our contingency training simulators, and all the rest of it that goes into delivering a complete system.

• (1715)

Mr. Matthew Kellway: Will the estimates you're expecting from the Pentagon change as the aircraft goes through production?

Mr. Dan Ross: We expect that the estimates, which are generated by a very detailed rigorous analysis right down to the component level by the global supply chain, will gradually change year by year. The trend is downward. All of the predictions that people have read about in the newspaper, the actuals of confirmed fixed-price contracts with Lockheed Martin, have been below those lines. We are expecting to watch those numbers gradually decrease. We will pick the most efficient point at which to place our order and purchase our aircraft. We have some flexibility, because our F-18s have been designed and maintained and their life has been extended to get us to 2020.

Mr. Matthew Kellway: Similarly, the estimates may also go up. It sounds like a complicated process with global supply chains and that sort of thing. Is it possible that the estimates that come in as it goes through production will be going up?

Mr. Dan Ross: It's very unlikely that they'll go up.

Mr. Matthew Kellway: It's very unlikely?

Mr. Dan Ross: As the supply chain becomes more mature, as the production facilities in Europe and in Fort Worth, Texas, become faster and more efficient, and with the scales of quantity—as you start getting up to the point where you're delivering an aircraft every 1.5 days with a moving production line—clearly it will be more efficient, and those estimates of unit price will continue to come down to some point where they will bottom out.

Mr. Matthew Kellway: And is there a regular schedule for those estimates that comes from the Pentagon?

Mr. Dan Ross: There is an annual schedule for a selected acquisition report. Our current numbers are based on what's called SAR 09. The SAR 10 figures came out recently, but they will be revised later this year based on what I referred to as the detailed technical baseline review that my counterpart in the Pentagon did in 2010. It will sharpen the accuracy of the SAR 10 numbers. There will be a SAR 11 and a SAR 12, etc.

The Chair: Thank you very much.

Mike Wallace.

Mr. Mike Wallace: With respect to page 244, I need a little bit of a clarification. The one big number that did pop out—and I think the New Democrats pointed it out—was the 134% increase for recruiting of personnel and initial training.

Last year, in the main estimates you had \$604 million. It looks as though it's up to \$1.4 billion this year. If I look in the priorities and planning document for your department, which I don't have with me, unfortunately—I have the year before, but not last year—does it show that you're doing something different, or were there changes in supplementary estimates that we don't have here because these books compare only main estimates to main estimates, and there were supplementary estimates last year? Or in terms of recruiting are we doing something different this coming year from what we have done in the past number of years?

Or is there an error?

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

I can't give you a great explanation for that, so we'll have to get back to you on that. What I can tell you is that recruiting has been ramped up significantly in the last four years or so. The intake has been much greater. The volumes of people coming through basic training and then into trades training have gone up significantly. New investments have been made in that area, but I'll have to get back to you on a detailed explanation on that.

Mr. Mike Wallace: My message to the deputy minister who's looking at this is that I'm encouraging my colleagues to look more carefully at these numbers, whether we change anything or not, but a 134% increase is something you should have an answer for in case a

member asks in the future, and I know he'll give that message to other deputy ministers at his Wednesday meeting.

I have a question for you regarding page 246. The security and defence forum class grant is not included in this budget. There's a little asterisk saying it would be included in the future. Did you mean in supplementary estimates A, B, and C—well, not in A, because we're doing A today, but in B and C of this year? Is that what that little asterisk is telling me at the bottom of page 246?

• (1720)

Mr. Kevin Lindsey: It actually is in supplementary estimates A.

Mr. Mike Wallace: It is in supplementary estimates A already.

Mr. Kevin Lindsey: It is in supplementary estimates A.

Mr. Mike Wallace: It's in supplementary estimates A. All right. So we've already added that.

My final question is on the Canadian Forces Grievance Board. They have a potential increase of 25% for review of Canadian Forces grievances. The operating costs went up 25%, but the internal services went down 27%. What's happening there? Can you tell me?

Mr. Kevin Lindsey: Bearing in mind, Mr. Chair, the member's admonishment with respect to the 134%, I did in fact go to the grievance board to ask that very question, but did not get an answer in time for today's meeting, so we beg your indulgence and will follow up.

Mr. Mike Wallace: Sure, no problem.

Mr. Kevin Lindsey: Thank you.

Mr. Mike Wallace: Those were my questions.

The Chair: That was an interesting point you raised. That figure, the 134% increase, represents an \$812 million increase to the budget. It's a pretty staggering figure.

John, it's your turn for three or four minutes, and then we need to vote on these estimates. So if you can, truncate things as much as possible.

Hon. John McCallum: Thank you, Mr. Chair.

Perhaps I could just follow up on my previous line of questioning, for Mr. Ross this time.

The gross money that has lapsed, if you want to use that term, is \$1.2 billion in 2009-10. I understand that it's significantly more this coming year. Much of that is from procurement, I understand.

It seems that the department consistently looks on the rosy side as to the timing of when various procurements will happen. So I guess my question is.... If you took a more realistic view of when the equipment would arrive, then effectively you could reduce the department's budget by a billion dollars and nothing material would change at all.

You probably don't like that suggestion, but I believe it's true. But you would have to be assuming that the billion-dollar lapse would be continuous at that level in future years, which may not be the case.

Mr. Dan Ross: Yes, which may not be the case.

Thank you for the question.

Deliveries are rarely early. Often in our business it's complex, difficult material that we need to take, which we put through rigorous testing. I will give the example of our truck project right now. We are buying the baseline shelters that go on the back of the trucks. The testing of that hasn't been passed, so we don't accept it and we don't pay for it until it passes our testing.

We don't know whether it's going to pass testing in the summer of 2011, but I'm contractually required to budget for having to pay for it because I have to estimate that six months in advance, prior to the main estimates being produced and consolidated by Mr. Lindsey and presented to Parliament. I have to estimate and commit to my contractual obligations for the year.

Now, as the year progresses and companies deliver stuff, and it fails testing and technical air-worthiness reports are not certifiable and signed off on, there is a natural slippage. Historically that slippage has varied between 5% and 10% sometimes. What we're seeing now is that we're spending a lot more money on recapitalization in the Canadian Forces.

The other comment I would make—and I think Mr. Lindsey is of this view—is that a lot of our money now is not traditional baseline vote 5 within our appropriations. It is accrual cash provided by the department as we require to pay for deliveries. If the deliveries occur this fiscal year, that's fine. If they occur next fiscal year, that's fine. We only get it in the fiscal year in which we actually take deliveries and need to pay for it. I think that's a smart flexibility.

Is there absolute predictability, let's say within a per cent of what those deliveries will be annually, as we get into a figure well north of \$3 billion annually? No, there isn't. It's a hard business to manage with great accuracy, and I don't control the levers.

The Chair: Okay. We do need some time left to actually undertake the votes on the main estimates and the supplementaries, so I'm going to thank all the witnesses: Mr. Lindsey, Mr. Fonberg, Mr. Donaldson, and Mr. Ross. It has been very helpful and very useful. Thank you for being here.

I'm going to suspend for about 30 seconds while the witnesses leave. Then we will jump right into the votes.

• (1725) _____ (Pause) _____

• (1725)

The Chair: I will reconvene the meeting.

We're still televised, and we want to go through the process of the votes, first of all on the main estimates. These are massive amounts of money, so they shouldn't be entered into lightly. We have to acknowledge that vote 1 is \$14 billion in and of itself, so there is a certain gravity associated with playing with that kind of money. I'll ask the questions and you tell me whether the votes go or not.

Shall vote 1 under National Defence carry?

National Defence

Vote 1—Operating expenditures.....\$14,964,971,000

(Vote 1 agreed to on division)

The Chair: We'll proceed to the other votes.

Vote 5—Capital expenditures.....\$4,663,663,000

Vote 10—Grants and contributions..... \$241,678,000

Canadian Forces Grievance Board

Vote 15—Program expenditures.....\$6,060,000

Military Police Complaints Commission

Vote 20—Program expenditures.....\$3,209,000

Office of the Communications Security Establishment Commissioner

Vote 25—Program expenditures.....\$1,971,000

(Votes 5, 10, 15, 20, and 25 agreed to on division)

The Chair: Shall the chair report the main estimates 2011-12 to the House?

Some hon. members: Agreed.

A voice: Immediately.

The Chair: It is agreed, not quite immediately.

Shall vote 10a under National Defence carry?

National Defence

Vote 10a—To authorize the transfer of.....\$18,386,400

(Vote 10a agreed to on division)

The Chair: Shall the chair report the supplementary estimates (A) 2011-12 to the House?

Some hon. members: Agreed.

The Chair: Thank you very much, ladies and gentlemen.

We do have some brief committee business. We have been informed by the Minister of Health that she is only able to be with us on Monday morning, from 10 a.m. to noon, and in fact for only one hour of that time period.

Mr. Mike Wallace: The second hour is for estimates.

The Chair: Yes.

This is the change that's just been announced during this meeting. In that case, we would consider the Department of Health estimates from 10 a.m. to 12 p.m. and the Treasury Board estimates from 3:30 p.m. to 5:30 p.m., with the minister with us for one of those hours as well. It's the best we can do.

Is it agreed that we will book those meetings and attend?

Some hon. members: Agreed.

The Chair: Great. Thank you for your cooperation.

Mr. Mike Wallace: We're going to meet in the morning and the afternoon.

I do have to comment, Mr. Chair. You thanked the ministers that were here today. The ministers are busy and they are making every effort to be here. They just couldn't make it next week for the meetings and the time slots that we had. It doesn't mean that they're not interested in coming.

The Chair: I didn't mean to imply they weren't.

Mr. Mike Wallace: That was the implication.

The Chair: Let's face it. We are trying to get all this done by the 16th and it's not going to happen now because two of the ministers, even though they were sitting in their chairs in the House of Commons, wouldn't answer a call to our committee to defend their own estimates.

Mr. Mike Wallace: Well, they are coming.

The Chair: They're asking our permission to spend money. Let's keep it in perspective here. In the future, when we reconvene in the fall, we're going to be a lot more forceful in what ministers attend and when, believe me.

Mr. Mike Wallace: You need to be fair, Mr. Chair.

The Chair: We'll be fair and we'll be firm.

Mr. Mike Wallace: Remember, you're the chairman.

The Chair: With the emphasis on firm.

Mr. Mike Wallace: Remember, you're the chairman now.

The Chair: The meeting is adjourned.

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