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Chair

Mr. David Christopherson

Standing Committee on Public Accounts

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• (0850)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): We'll now call this 41st meeting of the Standing Committee on Public Accounts to order.

My apologies for the delay of a couple of minutes. Some of us were at the National Prayer Breakfast and it took a little while to get over here. The Word was there, but it was a tad late.

Colleagues, the procedure is fairly straightforward this morning. We are hearing witnesses on chapter 2. We will have opening remarks from the deputies who are present, and then we will go in rotation in the usual prescribed fashion until our allotted time is exhausted.

If there are no questions or concerns about the procedure, then indeed we will begin.

Good morning to all our guests. It's a pleasure to have you back here at public accounts, and I know you're all thrilled to be here too

Mr. Mathieu Ravignat (Pontiac, NDP): Mr. Chair, I apologize for interrupting you, but may I propose, given that the witnesses were kind enough to give us their written comments, that we simply have those as written and pass to questions immediately in order to have enough time? We do recognize that there are eight people here today and we have very limited time for asking a question.

The Chair: All right. Let's try to do this quickly. Let me just test the room, then.

Colleagues, there has been a suggestion that we deem the opening remarks to have been received because they are in writing, although I understand that one deputy did not bring a written copy. I don't know why, but they didn't.

Notwithstanding that, I'm in the hands of the committee. Is there agreement?

Mr. Andrew Saxton (North Vancouver, CPC): I think it's normal practice that we allow our witnesses at least the opportunity to have opening remarks. I would recommend that we continue in the normal way, and that is to allow our witnesses to have their opening remarks.

The Chair: All right. I'm not seeing unanimity.

You have the right to place a motion, but I think you know where that's going to go, given what we've heard. I would suggest that we'll continue in the usual fashion.

Mr. Byrne.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thank you, Mr. Chair.

There may be unanimity if we were to allow or ask for just one minute of opening remarks, with the statements as presented tabled.

The Chair: Let me test the floor on that.

Are there those who are in favour of limiting it to one minute on opening remarks?

Mr. Andrew Saxton: Mr. Chair, I think the difficulty is that the witnesses have prepared opening remarks, so to ask them to change that would mean that it's not really fair to our witnesses to have to ad lib, to go off their written opening remarks. I don't think it's fair to the witnesses to do that.

The Chair: Okay.

Again, same as before, there is no unanimity. Are there further comments on this? Let's not get too bogged down here, folks.

Mr. Allen.

Mr. Malcolm Allen (Welland, NDP): I guess I understand that the government would like the opening remarks, but all I would suggest and ask the government to do, since we need to talk to these witnesses in as fulsome a way as possible, is this. We have Thursday open. I would suggest to the government that if we don't get through all of our questions in the sense of the fullness of talking to all eight witnesses, we actually do it on the Thursday. I would ask the government to think about that—not necessarily decide upon it at this moment.

Let's see where we get. I would be happy to get under way.

The Chair: All right.

Do you have the need to take the floor still? No? Thank you.

I'm not hearing unanimity on that and I don't have a motion in front of me, so unless I hear differently from colleagues, I am going to pick up where I left off.

I will proceed in inviting our guests both to introduce themselves and to read their opening remarks. Upon conclusion, then, we'll begin our rotation.

Again, if there are no further interventions, I guess we'll probably start with the Deputy Minister of National Defence. That would make the most sense.

But I leave it in your hands, folks. Please introduce yourself and your delegation and present your opening remarks.

Mr. Robert Fonberg (Deputy Minister, Department of National Defence): Thank you, Mr. Chairman. I can actually speak quickly.

With me I have Lieutenant-General André Deschamps, Commander of the Royal Canadian Air Force; Kevin Lindsey, Chief Financial Officer; and Dan Ross, ADM Materiel.

Mr. Chairman and members of the committee, thank you for this opportunity this morning.

I'll share my time briefly with the Commander of the Royal Canadian Air Force.

Acquiring major military capabilities is complex. It takes many years.

In his report, the Auditor General underscores the innovative and unique nature of the joint strike fighter program and notes, "There is no single set of federal policies or rules that govern participation in an international initiative such as the JSF Program". We agree with the Auditor General on this point. We are confident that the government's seven-point plan sets out a strong footing to move forward on the AG's concerns.

The government has been involved with the joint strike fighter program since 1997. With the advantage of hindsight, and with the AG's observations in mind, there are clearly things we would have managed differently in the program and things that all of us could have done better.

On the matter of costing, there are three key components: acquisition—

• (0855)

The Chair: Excuse me, Mr. Fonberg.

Madame Blanchette-Lamothe.

[*Translation*]

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): As a francophone, I must ask you to slow down a bit. I think our interpreters are really having trouble following you.

Thank you.

[*English*]

The Chair: All right. I think I'm seeing a smile on the face of the interpreters in agreement with that.

So if we could.... Just a bit—not much.

Mr. Robert Fonberg: I'm trying to balance between speed and—

The Chair: I understand, and we appreciate those efforts.

Mr. Robert Fonberg: Would the member like me to dial this back at all? Do you want me to go back to something?

The Chair: No, no.

Mr. Robert Fonberg: Fine.

On the matter of costing, Mr. Chairman, there are three key components: acquisition, sustainment, and operating. For the F-35 the acquisition envelope has been set at \$9 billion. Sustainment and operating costs are estimated at \$5.7 billion and \$10 billion

respectively for 20 years, beginning when the aircraft would be acquired later in this decade.

I would note that the approach we took for costing the F-35 is exactly the same approach—and the same 20-year timeframe—that has been taken with all our air asset procurements going back at least to 2004: for the maritime helicopter project, the Chinooks, the Hercules J models, and the new C-17 Globemasters.

In each case, announcements and communications focused only on the costs of acquisition and sustainment. Never did we talk about operating costs, Mr. Chairman.

On operating costs, the Vice Chief of the Defence Staff oversees a rigorous business planning process every year to ensure that the departmental costs of operating all of our fleets are affordable within our base budget.

[*Translation*]

The operating costs for the next generation fighter program would be included in the department's base operating budget—as are the operating costs of all other fleets—and debated in Parliament annually as part of the estimates process.

[*English*]

For decision-making purposes, we have assumed that the operating costs of the F-35s will be similar to those being incurred in our base budget for operating the CF-18 fleet.

[*Translation*]

Our approach to costing has never been characterized as "full-life cycle". Our approach has been consistent and compliant with Treasury Board policy and guidance.

[*English*]

In this regard, in posting a comparison of the department's estimates and the Parliamentary Budget Officer's estimates on our website, we used the same average price per aircraft as all nine partners are using and have received from the joint project office, and, on a good-faith basis, we presented our estimates on the understanding that the Parliamentary Budget Officer did not include operating costs in his calculations.

As stated in the chapter, Mr. Chairman, we accept the Auditor General's recommendation on life-cycle costs, and within the context of the seven-point plan set out by the government, we will report annually on cost estimates through the new national fighter secretariat.

I will now turn my remaining time over to the Commander of the Royal Canadian Air Force, Lieutenant-General André Deschamps.

Lieutenant-General André Deschamps (Commander, Royal Canadian Air Force, Department of National Defence): Thank you, Deputy.

Mr. Chairman, members of the committee, ladies and gentlemen, bonjour. Thank you for this opportunity to contribute to this important discussion on replacing Canada's fighter jets.

[Translation]

As mentioned in the Canada First Defence Strategy, the Canadian Forces need to replace our aging CF-18 fleet with new fighter aircraft to help our military personnel defend our sovereignty, to remain a credible partner in the defence of North America and to give Canada efficient and modern air capacity for international operations.

[English]

Following the announcement of that strategy in 2008, we analyzed the current and future operating environments and associated threats. We assessed current and emerging technologies and derived capability gaps that would be a reality in the 2020 era and for the follow-on 30 years. What became clear to us is that many nations are actively engaged in developing and fielding advanced technologies that will seriously challenge current fighter capabilities.

We also expect to see these advanced technologies proliferate in ways that will be difficult to anticipate and control. This is what formed the basis of our operational requirements for the next-generation fighter aircraft. Requirements focused on mission success and aircrew safety. This analysis led to a statement of operational requirements, including mandatory capabilities that clearly pointed toward a fifth-generation fighter.

The bottom line is that tomorrow's operating environment will require stealth, the ability to sense and process vast quantities of information in a very short time, and the ability to operate with others, starting with our closest allies, anywhere around the globe.

Based on our analysis and my responsibilities as the commander of the RCAF, I recommended the only aircraft available that could effectively deliver operational success and optimize the safety of our crews.

• (0900)

[Translation]

While the next generation fighter procurement process continues, I am going to provide the National Fighter Aircraft Procurement Secretariat with the information it requires to assume its coordination and oversight responsibilities. With my staff, I am confident of the successful transition to the next generation fighter aircraft, while discharging my accountability to deliver the operational capacity that our country requires.

[English]

Thank you, Mr. Chair.

[Translation]

Mr. François Guimont (Deputy Minister, Deputy Receiver General for Canada, Department of Public Works and Government Services): Good morning, Mr. Chair.

I am François Guimont, the Deputy Minister of the Department of Public Works and Government Services Canada. I would also like to introduce Mr. Tom Ring, who is the Assistant Deputy Minister for Acquisitions in my department.

[English]

Thank you for the opportunity to appear here today to explain the role of my department in the replacement of Canada's fighter jets. With respect to military procurement, my department is responsible for the acquisition of defence supplies for the Department of National Defence in support of their responsibilities.

Our colleagues in the Department of National Defence are the program and technical authority and as such have duties that include, for example, the definition of operational requirements, the preparation of technical evaluations, and the responsibility for associated budgets.

[Translation]

With regard to PWGSC, the Defence Production Act provides the minister of Public Works and Government Services with the exclusive authority to buy or otherwise acquire defence supplies required by the Department of National Defence. As such, the department is the contracting or acquiring authority for these types of acquisitions.

[English]

For ease of reference, the respective responsibilities of the technical authority as outlined by the Auditor General are appended to my speaking points today.

I would like to address the issue of due diligence with specific reference to my department's role in the replacement of Canada's fighter jets.

[Translation]

In that respect, we engaged in discussions with DND, the Technical Authority, to understand the high level mandatory capabilities. We consulted on the high level mandatory capabilities with the technical experts at DND, to determine if a competitive process could be conducted. These mandatory capabilities shaped the resulting procurement strategy. If more than one product can meet the mandatory requirements, then a competitive process should be held.

[English]

We considered the DND market analysis. Moreover, we met with another potential aircraft manufacturer to discuss its ability to meet mandatory capabilities set forth by the technical authority. We determined that the procurement strategy was in accordance with the Treasury Board's contracting policy and that this acquisition met the requirement of paragraph 6(d) of the government contracts regulations for a sole-source acquisition. In accordance with our department's supply manual, we requested written confirmation from DND, the technical authority, that the F-35 is the only aircraft available to Canada that has fifth-generation capabilities and that meets the high-level mandatory capabilities of the Royal Canadian Air Force.

Mr. Chair, it is on that basis that Public Works and Government Services feels that it exercised due diligence commensurate with the current stage of the project. In fact, in his appearance here last week, the Auditor General noted that we did exercise some due diligence. However, he deemed it insufficient.

[Translation]

While no recommendation was directed at PWGSC, we use every opportunity to continually improve our due diligence actions for complex and unique procurements.

[English]

The government action plan announced on April 3 clearly frames how due diligence will be applied as we move forward with replacing Canada's fighter jets. These seven action points identify the respective roles of key departments, including my department. A secretariat will be led by Public Works and will ensure the delivery of the government's seven-point action plan.

The terms of reference governing the committee structure are being drafted, and we are also active in staffing and defining priority tasks for actions.

[Translation]

The secretariat will focus on the following outcomes: first, governance and coordination through collaborative arrangements with the key departments involved; second, strengthened due diligence through increased oversight and third party involvement; finally, openness and transparency through clear articulation of timelines, expectations and timely communications.

• (0905)

[English]

The deputy minister governance committee, which will be a key component of a new governance structure, recently met and began its work in support of the action plan. Public Works and Government Services Canada is committed to playing a lead role in both coordination and oversight of the process in a manner that meets the expectations of Parliament and citizens.

[Translation]

Thank you.

[English]

I will be happy to reply to your questions.

Mr. Simon Kennedy (Senior Associate Deputy Minister, Department of Industry): Mr. Chair, I will be very brief in my remarks.

The Chair: Thank you.

[Translation]

Mr. Simon Kennedy: Good morning, my name is Simon Kennedy and I am the Senior Associate Deputy Minister at Industry Canada. Thank you for inviting me to speak here today.

[English]

Industry Canada's mandate is to help make Canadian industry more productive and competitive in the global economy. This includes leveraging major investments in military equipment to

encourage long-term industrial development and significant economic activity in Canada.

The F-35—or joint strike fighter—program is unique, as is its approach to industrial participation. All JSF partner countries agreed to forgo offset programs, like our industrial and regional benefits policy, which would normally be applied to military procurement. Instead, work on the JSF program is awarded on a best value basis, meaning that companies are given the opportunity to compete for F-35 work.

While we forgo the guaranteed minimum amount of economic activity that would come with an IRB approach, the industrial participation model being pursued through the F-35 consortium offers other important benefits for Canadian companies.

First, these companies have the opportunity to be involved in the early development of a very advanced fighter aircraft, allowing them to develop cutting-edge technologies that can be applied elsewhere in their businesses. Second, these companies can bid on contracts involving the production of a global fleet of over 3,000 partner aircraft, not just those planes that are directly associated with Canada's purchase. Finally, Canadian firms that are involved in the production of the JSF are well positioned to maintain and repair the equipment they make over the decades to come.

Because of the unique nature of this program, Industry Canada has been actively engaged in educating Canadian companies about the program and in helping them position themselves to succeed. We've been doing so for more than a decade through the development and production phases of the program and, increasingly, the sustainment phase.

Canadian companies have done well. Since Canada joined the joint strike fighter program in 1997, 70 Canadian companies have received \$435 million U.S. in contracts. Participation in the JSF program provides the opportunity to compete for billions more over the program's lifetime.

Canadian companies are well positioned to succeed. Canada has the fifth-largest aerospace sector in the world and the third largest within the JSF partnership. The globally competitive nature of our industry is a strong base from which to pursue opportunities going forward.

[Translation]

I would be pleased to answer any questions you might have regarding Industry Canada's role in this program.

Thank you.

The Chair: Thank you.

Ms. d'Auray, you have the floor.

Ms. Michelle d'Auray (Secretary of the Treasury Board of Canada, Treasury Board Secretariat): Mr. Chair, members of the committee, good morning. I am Michelle d'Auray, the Secretary of the Treasury Board.

The Treasury Board and its secretariat set policies to guide departments in a wide range of management and resourcing activities, including the acquisition of assets. The Treasury Board is also the committee of cabinet which provides ministers with expenditure and contracting authority, when an acquisition process reaches that stage. As a point of information, the F-35 project has not yet reached that stage.

[English]

Our guidance on costing and the elements to be considered in estimating costs are predicated on the purpose for the costing and the decisions for which the information will be used.

For example, if an entirely new program is being considered, relevant or appropriate costs would include: personnel and benefits; accommodation; grant or contribution funds, if that is indeed the nature of the program; administration or overhead, which includes a range of activities such as communications, legal services, financial and human resources services, etc.; and any asset or materiel required to deliver the program.

For the acquisition of an asset, relevant or appropriate life-cycle costs would include the purchase price of the asset and other one-time costs directly related to its acquisition, such as the project office to manage the process. They would also include the delivery and set-up required and any consequential costs related to maintenance, replacement, refit, and repair to keep the asset operational throughout its useful life.

Where relevant to the acquisition itself, and only in those situations, personnel and training costs would also be factored. In instances where such costs are not incremental and are covered by an existing program for which the acquisition is made, they can be provided for information but are not directly related to the acquisition.

But as our policies also indicate, costs are one factor among many that are considered in any major decision. The ultimate goal is to achieve an optimal balance of overall benefits to the crown and the Canadian people in relation to the objective sought and results to be achieved.

● (0910)

[Translation]

In the context of the audit on replacing Canada's fighter jets, as the Auditor General has indicated in his report and in testimony before this committee, the nature of the multi-country development program, the assessment of the requirements for Canada's defence and security, the setting of a budget for the replacement of a fighter jet capability, and the opportunities provided for Canadian companies are all unique elements that do not easily lend themselves to the normal sequencing of an acquisition process or the usual application of our set of policies and practices. In recognizing this, and in accepting the Auditor General's recommendation, the government has given us a clear direction on the way forward.

[English]

As part of the seven-point action plan issued by the government on April 3, 2012, TBS will commission an independent review of DND's acquisition and sustainment project assumptions and

potential costs for the F-35, which will be made public. Prior to project approval, TBS will also review the acquisition and sustainment costs and ensure full compliance with Treasury Board policies.

I would be pleased to answer any questions.

[Translation]

Thank you, Mr. Chair.

[English]

The Chair: Merci. Thank you.

Are there any other submissions? No. Okay.

Before we go on rotation, I have a couple of points. One is a welcome to Mr. Alexander and Mr. Hawn, who are both returning from the previous meeting and have interest and involvement in this file. We welcome them back.

I remind colleagues that non-members are eligible to speak, providing their caucus colleagues are prepared to give their time to them. I hope there will be no problems moving in and out of that process.

If I could mention this, deputies will know that when they come to the public accounts committee for a hearing, there is an expectation that they will provide a departmental action plan.

Mr. Fonberg, you made reference to a seven-point plan, but I don't actually see a plan tabled. Is there a particular reason why, sir?

Mr. Robert Fonberg: No, Mr. Chairman, we're working on the precise approach. We did agree with the Auditor General's recommendations on life-cycle costing. We are working with the Treasury Board and the Comptroller General on the precise methodology, which is work carried over from last year, and we thought we would be better to complete that work before we tabled the plan.

The Chair: It's not necessarily so. The reason this rule was implemented—I was here when this rule was brought in—was to prevent exactly what you're saying, because by the time we get the action plan, we're pretty disjointed from the focus of the discussion.

I can appreciate that it may not be complete, but I would suggest in the future, sir, and other deputies, that you at least bring what you've done. It's almost like a teacher with homework. If you're not done, at least bring in something to show me you've made some effort, but don't show up with nothing.

So in the future, please, all deputies, that is a respectful request and requirement from this committee when you come before a hearing.

I'd ask you to honour that, sir.

Mr. Robert Fonberg: My apologies, Mr. Chair.

The Chair: Not a problem. Thank you very much.

Hearing no interventions then, we'll begin in the rotation. We will start with Mr. Saxton.

You have the floor now, sir.

Mr. Andrew Saxton: Thank you, Mr. Chair.

Thanks to our witnesses for being here this morning.

My first questions will be for National Defence. The debate following the Auditor General's spring report has been primarily focused on the difference in accounting between the Department of National Defence and the Parliamentary Budget Officer.

Can you tell the committee how the Department of National Defence and the Parliamentary Budget Officer arrived at two different cost projections?

Mr. Robert Fonberg: I can, Mr. Chairman. I will start by telling you that the department's work is based on a bottom-up approach that works through all of the information that's developed by the joint project office and the joint estimating team in Washington. It's very detailed work. My colleague can speak to that issue.

This is our understanding of the Parliamentary Budget Officer's methodology. I would say the Parliamentary Budget Officer was handed a very difficult task, asked to do an independent assessment of the costs, which we took to mean independent of the work of the joint project office and independent of our own work. But he did the best he could. He took a top-down approach. He used what is called parametric analysis, generally deemed to be not appropriate or suitable for a project in this state of development.

I could ask the chief financial officer to elaborate a little bit on those methodologies, if you would like.

• (0915)

Mr. Andrew Saxton: Yes, please.

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

Mr. Chair, as the deputy has pointed out, the PBO used this parametric modelling, which is normally reserved for projects in the conceptual stage of development where there's very little cost data available to do a bottom-up analysis.

In doing so, the PBO estimated the acquisition price of the aircraft at \$148.5 million each, and all of his subsequent costs derived from that. Because that acquisition price is significantly inflated above what we understand the cost to be from the joint project office at the time, all of the subsequent data and costs estimated by the PBO are similarly inflated, by significant amounts.

If the PBO had used what we understood the acquisition price of the aircraft to be at the time—that is based on SAR 2009, \$75 million—then the PBO's estimate, other things being equal, would have been about \$17.2 billion over his 30-year timeframe rather than the \$29 billion. That difference is entirely attributable to the PBO's assumption about the acquisition cost of the aircraft.

Mr. Andrew Saxton: Thank you.

This government, in accordance with the recommendations of the Auditor General in his spring report, is implementing a new secretariat similar to the national shipbuilding procurement strategy. In your opinion, how will establishing this new secretariat bring more transparency and openness to the process of replacing the CF-18 fighter jets?

Mr. Robert Fonberg: I would start by saying, Mr. Chairman, that the secretariat will address many of the concerns and gaps that the Auditor General identified in his report.

I would turn to my colleague from Public Works, who will chair that committee, to spend a minute talking about some of the details and work plans of that secretariat.

Mr. François Guimont: Thank you, Mr. Fonberg and Mr. Chair.

There are two ingredients. First is a structural set of elements, which very much mimics the approach we took for the national shipbuilding strategy. There are three levels: coordination, oversight, and consensus decision-making.

The first level is a top-tier, deputy minister coordinating committee that I will chair. Colleagues here today will be with me on that committee. We also have ex officio members, which is not unusual—Treasury Board, Finance. This top tier will be supported by an ADM committee similar to what we did with the assistant deputy minister committee, similar to what we did for national shipbuilding. Mr. Tom Ring will chair that committee. These are colleagues who will be doing the tasking and pushing forward the agenda.

The actual working-level tier is the secretariat, people co-located from various departments who essentially carry out the work.

There is one point I would make about oversight and transparency. There is one variable, which is new for the secretariat, and that is the inclusion of two external members on the DM coordinating committee. We are in the process of selecting these individuals. This was not the case for the national shipbuilding strategy. I want to be clear, however, that we are going to use third parties throughout the work of that tiered structure. So third parties were used for national shipbuilding, and we will continue doing that, but the difference I'm making is that there will be two independent members on the DM coordinating committee as well.

That is a structure that will be superimposed on the actual seven-point action plan. We are now working at developing the terms of reference, which essentially will be the modus operandi of the committee structure, and from there we will move on to tasking and defining priority elements against the seven-point action plan.

At the macro level, this is where we are right now.

The Chair: Thank you. Your time has expired.

Over now to Mr. Allen. You have the floor, sir.

Mr. Malcolm Allen: Thank you, Chair.

Mr. Fonberg, how long have you been Deputy Minister of the Department of National Defence?

• (0920)

Mr. Robert Fonberg: I think about four years and seven months, Mr. Chairman.

Mr. Malcolm Allen: So sometime in 2008 you would have been appointed, give or take a month or two.

Mr. Robert Fonberg: It was 2007, I believe.

Mr. Malcolm Allen: Thank you.

You would have been around in 2010 for the Auditor General's fall report, chapter 6, on the Chinooks and the maritime helicopters. Is that correct?

Mr. Robert Fonberg: I would have been the deputy minister at the time, yes, sir.

Mr. Malcolm Allen: Did you read the report of the Auditor General, chapter 6, in the fall 2010 report?

Mr. Robert Fonberg: I did, indeed.

Mr. Malcolm Allen: Did you make note of the recommendation? It says that we should have full life-cycle costs involved when we bring estimates to government.

Mr. Robert Fonberg: Mr. Chairman, we tabled a fairly detailed management action plan—not this time but at that time—in response to that particular recommendation, and we are prepared to talk to the progress we've made in responding to that recommendation.

Mr. Malcolm Allen: Rather than talk to the progress, sir, why indeed didn't it happen with the F-35s, if you acknowledge that you didn't do full life-cycle costing for the maritime helicopters and the Chinooks and agreed with the AG that you would do it in future projects? Yet you've now come back to me...and let me quote you, sir, from your statement this morning:

I would note that the approach we took for costing the F-35 is exactly the same approach—and the same 20-year timeframe—that has been taken with all our asset procurements going back at least to 2004: for the maritime helicopter project, the Chinooks, the Hercules J models, and the new C-17 Globemasters.

In each case, announcements and communications focused only on the costs of acquisition and sustainment; never on operating costs.

Sir, in light of your statement today and that in 2010 you accepted the Auditor General's report—and I'm not going to go back and quote the report from the book I have in front of me from 2010—why didn't you do what you said you would do in 2010 with this project?

Mr. Robert Fonberg: Mr. Chairman, just to get the timing and the sequencing right, the costing and the decision documents for cabinet were completed in the spring of 2010 and the Auditor General's report was in the fall of 2010. Our management action plan, which spoke to that recommendation, spoke to timing that would have seen that work completed, I believe, later in 2011. We can update on the timing, but the fact is, the costing we did was seven or eight months before the Auditor General's report in 2010.

Mr. Malcolm Allen: Actually, sir, I beg to differ. The costing you did goes back to the 2008-09 budget, when you said the costing was \$25 billion. Clearly in 2008-09 you knew it was \$25 billion. In 2010 you came out with a new costing.

How did \$25 billion get to \$15 billion, sir? In light of the fact that you had asked for \$25 billion as a costing estimate, a full life-cycle cost...and kudos for doing it right in 2008-09. So how did you get it so wrong after the fact, when you dropped it to \$15 billion from \$25 billion?

Mr. Robert Fonberg: Mr. Chairman, we actually tried to clarify with the Auditor General his comments about \$25 billion in 2008-09. We never had such an estimate. So you'd have to speak to him about where that estimate actually came from.

The fact of the matter—

Mr. Malcolm Allen: Thank you, sir.

I'm interrupting, and I hate to do this to you—you know that—but time is sensitive here.

He takes the number from the budget that your minister put forward to cabinet to ask Parliament to authorize \$25 billion; that's where it came from. Are you saying, sir, that you as deputy minister did not require the \$25 billion and did not ask for it?

Mr. Robert Fonberg: No. What I'm saying is that there was no \$25 billion in a decision document in 2008, Mr. Chairman, as far as we can tell. You'd have to ask the Auditor General where that number actually came from. We spoke to his office and told him we would be clarifying that issue.

If you'd like me to go on with regard to the \$25 billion to \$15 billion...if there's time; I don't know.

The Chair: It's up to you, Mr. Allen. Do you want him to conclude or do you want to move on?

Mr. Malcolm Allen: What you're telling me, just so I'm clear, is that the department never costed the life-cycle cost of the F-35 in 2008-09, and that the department did not ask in that budget for \$25 billion, and that the Auditor General is wrong when he makes that statement in that paragraph?

Mr. Robert Fonberg: To the absolute best of my knowledge, that's actually correct, Mr. Chairman.

Mr. Malcolm Allen: So the correct part is that the Auditor General is wrong.

Mr. Robert Fonberg: His statement, not in his report itself but to my understanding from his testimony last week, was that he got it wrong on the 2008 issue and the \$25 billion.

Mr. Malcolm Allen: I guess we'll have to ask the Auditor General how he got his numbers wrong.

Notwithstanding that, sir, are you saying that your number has always been \$15 billion, that you never had a number of \$25 billion?

Mr. Robert Fonberg: No, in.... I think, actually, that issue has been clarified, Mr. Chairman.

Just to be clear, in 2008, when the Government of Canada approved the Canada First defence strategy, we included at that time—publicly, I believe—a \$9 billion acquisition envelope. When the decision documents were prepared for cabinet in 2010, we sought \$9 billion for acquisition, \$5.7 billion for in-service support over 20 years, and we indicated that we expected that the operating costs of the aircraft over 20 years would be roughly the same as the CF-18 fleet, about—

• (0925)

Mr. Malcolm Allen: Could you tell me the number, sir? I hate to interrupt you, but I don't know what the number for the CF-18 is. Do you know what it is?

Mr. Robert Fonberg: Yes. It's basically the same number we used for the F-35. We said we thought the operating costs would be similar, so some \$10 billion over 20 years.

Mr. Malcolm Allen: So that number would be—

The Chair: Mr. Allen, time has expired.

Mr. Malcolm Allen: Thanks, Chair.

The Chair: Thank you.

We'll go now to Mr. Kramp, vice-chair of the committee.

You now have the floor, sir.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair.

Welcome to all of our witnesses here today. It's a pleasure to have you here. We'll try to get some clarity with regard to some of the perceptions or misperceptions that are out there.

The bottom line is that at some point we'll need to know exactly how much this will cost Canadian taxpayers. Treasury Board and/or cabinet will actually make a decision. Of course, there have been no acquisitions to date, and no expenditures for acquisitions, but when that time does come, obviously information is critical.

The Auditor General made it clear that many of the costs are not yet reliably known, or cannot even be fully estimated at this point. That, of course, includes the basic recurring flyaway costs, which of course are debatable in a number of areas. There are the costs of the required Canadian modifications. We're not buying an identical aircraft. I understand there are three models out there. There obviously will be cost differentials. Of course, the different equipment on them will obviously make a significant difference.

Going forward, my question to National Defence would be that at some point in this process.... As a matter of fact, this might even eventually come to the secretariat, but I'm asking for an opinion now from National Defence. When do you anticipate that these cost estimates, as this process becomes more complete, will become available?

Mr. Robert Fonberg: Mr. Chairman, I would speak just very briefly to this and then turn it over to the assistant deputy minister of materiel, who has a very close working relationship with the joint project office.

Just on one point you raised, on the issue of the variant, I think there has been a lot of confusion. Of three variants of this aircraft, Canada is buying the one that is most advanced in its flight testing, in the conventional take-off and landing, which is tracking very well in its flight testing and will be the cheapest of the three models.

A lot of people use averages of the three models and various other numbers. The joint project office's number, which they send to Congress and which has been consistent, for the variant we would buy in the years we would buy it, was \$75 million, the unit recurring flyaway cost in the SAR 2009, in that report. That number in the latest report, which we'll build our estimates off, is up around \$85 million. But I would ask the ADM Materiel—so our acquisition envelope, fixed at \$9 billion—to speak to the issue of how the estimates for in-service support and operating will be firmed up as we go forward.

Mr. Daryl Kramp: Go ahead, please, Mr. Ross.

Mr. Dan Ross (Assistant Deputy Minister, Materiel, Department of National Defence): Thank you, Deputy and Mr. Chair.

I would like to clarify that of the four phases of a project—identification, options analysis, where you identify your high-level requirements, do your preliminary estimates and seek approval in principle to begin a project, and then the definition work, where you've refined those detailed costs and plans for infrastructure and weapons and logistics set-up, etc.—we're still in the options analysis stage. We have not received Treasury Board approval to begin funded definition, in which you do the detailed, refined, uniquely Canadian costing work.

But to answer the question specifically, annually the joint strike fighter program office in Washington provides cost estimates to the partners on two things: the unit flyaway cost—the cost of an actual joint strike fighter, by the years in which those aircraft were produced—and as well, their estimates of what in-service support and sustainment would cost.

We receive those estimates every spring, and we go down to the joint project office, sit down, and have a very detailed formal dialogue with them, to have a detailed understanding of the acquisition piece and the sustainment piece, to which we add anything that would be unique to our fleet of aircraft—our choice of how many simulators, our logistics set-up, etc. That process happens annually and is normally completed by the summer of each year.

● (0930)

Mr. Daryl Kramp: Okay. So you're suggesting, then, that there will be a strong monitoring process in place. Are you comfortable with the process right now, or do you think this will be more fully developed within the new secretariat?

Mr. Dan Ross: The secretariat will assist us in that and provide more rigorous...not necessarily a challenge function, but assistance. The process is as rigorous as it can be for an aircraft that we won't take delivery of for eight years. At this point in time, without funded definition activities ongoing for our own costing, we really are price-takers in the unit flyaway costs and the preliminary estimates of sustainment.

Mr. Daryl Kramp: Okay. Thank you.

Just—

The Chair: I'm sorry, Mr. Kramp. We're at 5:04. Your time has expired.

Monsieur Ravnat, you have the floor, sir.

[Translation]

Mr. Mathieu Ravnat: Thank you, Mr. Chair.

Thank you for being with us today. My question is for Ms. d'Auray.

[English]

Is the Department of National Defence exempt from any Treasury Board policies with regard to relevant costs over the useful life of equipment?

Ms. Michelle d'Auray: Mr. Chair, the Department of National Defence is subject to the policies, as any other department or agency.

Mr. Mathieu Ravignat: When we're talking about the relevant costs over the useful life of equipment, would you calculate them at the Treasury Board on the basis of 20, 30, or 36 years?

Ms. Michelle d'Auray: Mr. Chair, when we have received submissions from the Department of National Defence concerning the timeframe for the costing of a life cycle, 20 years has been deemed to be an appropriate timeframe. It is set by the Department of National Defence.

Going beyond 20 years is considered too high-risk to ensure that the value in contracting with industry would be sustained, or the costs would be going beyond the 20-year mark. So that, for us, is considered to be reasonable, and as the Deputy Minister of National Defence indicated, all of the submissions to date that have been presented to the Treasury Board have used a 20-year cost estimate.

Mr. Mathieu Ravignat: With regard to the types of costs, were all types of costs related to the lifetime of the equipment taken into consideration by the Department of National Defence, according to Treasury Board guidelines?

Ms. Michelle d'Auray: Mr. Chair, just to be clear, as I indicated in my remarks, the project for the F-35 has not come to the Treasury Board for consideration for its acquisition. So we are not in an acquisition stage at this particular juncture, and therefore we have not been analyzing or considering the cost of the acquisition at this particular juncture.

As the government's action plan indicates, however, we will review and commission an independent review, so that before the proposal comes to the Treasury Board for consideration, there will be a framework that will be setting what those costs should contain.

Mr. Mathieu Ravignat: With regard to the government's seven-point plan, what will be the role for Treasury Board going forward?

Ms. Michelle d'Auray: There are two specific functions that are attributed in the action plan. The first is that we will commission, as I indicated, an independent review of DND's acquisition and sustainment project assumptions and potential costs. Then, prior to the proposal coming to the Treasury Board, the cabinet committee, for consideration, we will review and apply the full due diligence for compliance to Treasury Board policies.

Mr. Mathieu Ravignat: Thank you.

My next question is for Monsieur Guimont. Thank you for being here.

What was in that short letter from the Department of National Defence that gave you the confidence that PWGSC should not be involved?

Mr. François Guimont: The letter was addressed to Mr. Tom Ring, so I'll let him address the specifics of the content.

[*Translation*]

Mr. Tom Ring (Assistant Deputy Minister, Acquisitions Branch, Department of Public Works and Government Services): Thank you.

[*English*]

Thank you, Mr. Chair, for the question.

As Monsieur Guimont said in his opening comments, our supply manual requires that the client department—the technical authority, in this particular case—give us written confirmation that in a sole-source case the equipment they're planning on acquiring is the only one that meets their requirements, and that was what the letter said.

Mr. Mathieu Ravignat: As briefly as that?

● (0935)

Mr. Tom Ring: I don't know precisely how many words were in the letter—

Mr. Mathieu Ravignat: Okay. Thank you.

Mr. Tom Ring: —but it contained the validation and verification that we sought so that we could indicate—

Mr. Mathieu Ravignat: Thank you.

Mr. Chair, I'd like that letter to be tabled for the committee.

Mr. Tom Ring: That can be done.

The Chair: Very good. Thank you.

Mr. Mathieu Ravignat: Who signed off on the sole-sourcing of the F-35 on the basis of that short letter? Also, who sent the letter from DND?

Mr. Tom Ring: The letter was sent to me from Mr. Ross, the assistant deputy minister of materiel.

Mr. Mathieu Ravignat: Let's turn to the recommendations made by the Auditor General—

The Chair: Very briefly, sir.

Mr. Mathieu Ravignat: Could you just give me this in a nutshell? When did PWGSC inform the OAG that they disagreed with the conclusions of paragraph 2.8?

Mr. François Guimont: We have had a number of interactions with the AG's office. That started pretty much at a level in the interaction where you're getting closer to the ultimate draft. That's the first point.

On the second point, our position with respect to recommendation 2.81 was one where we felt that we had demonstrated “some due diligence”, as stated by the AG last week. Recommendation 2.81 says we “did not demonstrate due diligence”.

“Did not demonstrate due diligence” is an absolute; demonstrated “some due diligence” is what we did. That is why we had a discordance.

The Chair: Thank you.

I'm sorry. The time has expired.

We're over to Mr. Shipley now, who has the floor.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair.

I want to follow up on that if I can, Mr. Guimont. As you know, you disagreed with paragraph 2.82 of the report from the AG, but since then, the ministers have set up a seven-point plan. We've talked a little bit about that. I believe Mr. Deschamps did earlier. It would include the secretariat.

Do you still disagree, or was the disagreement based on an understanding of the wording?

Mr. François Guimont: Thank you for the question. I appreciate it.

I feel very comfortable with the statement made by the OAG; that is, some due diligence was exercised, but it was not sufficient. I accept that. I accept it in the sense that on a going forward basis, as explained by Madame d'Auray, this has not yet reached the preliminary program approval stage. Further due diligence is needed, and the seven-point action plan frames how that due diligence will take place, clearly, and on a go-forward basis, absolutely.

We are in a department where every procurement...despite the fact that it comes across as a competition look-alike from a distance, it's not.

Another point I would agree with the OAG on is that this is a unique process. Mr. Ring, I don't remember seeing this in the time that I've been in Public Works. It was 15 years of development, moving into another phase....

Looking back, we should probably have taken a different look at how to undertake that ongoing due diligence, but the seven-point action plan does that on a go-forward basis.

Mr. Bev Shipley: The seven-point action plan was presented, and we have that in its points, but my understanding is that the development, a strategy of how it would come forward and be implemented, is the part still under way. Is that correct?

Mr. François Guimont: Yes, Mr. Chairman. The plan is very clear, the mandate is clear, and we are now framing this into our terms of reference that all deputies will sign onto. It sanctions the tier structure I described, the roles and responsibilities.

Maybe Mr. Ring wants to add a few words on how the secretariat will function.

Mr. Tom Ring: Thank you, Mr. Chair.

I will link back to an earlier question about the parallels with shipbuilding. That was an experience where several attributes were identified that we felt allowed us to move forward and gave us, we think, a tremendous result, in terms of public confidence in that result.

In the first instance, it was an openness and transparency in our engagement with all those who would be involved. In the second case, it was an oversight and due diligence through a governance structure that Monsieur Guimont has fully explained, so I won't go through that again. Finally, the third attribute was the use of third parties to independently review and validate decision points and considerations. Those three attributes, we felt, were instrumental in the success of shipbuilding. As Monsieur Guimont indicated, we believe the seven-point action plan will allow us to implement those attributes and arrive at a similar result.

● (0940)

Mr. Bev Shipley: Thank you so much.

As I mentioned, we've all had access to the background of the seven points.

I would like to go to Mr. Kennedy from Industry Canada.

In your presentation you talked about the value that our mostly aerospace companies within Canada have been able to benefit from in the development stage. It's clear that no money has been spent on the acquisition of an airplane, but there are different stages in which it is developed. Canadian companies have been able to attribute a great amount of success to that, quite honestly.

Can you tell us about what those benefits are, so that maybe the general public can understand the difference between the acquisition of a plane and the development stages from which Industry Canada and our companies in Canada have been able to benefit?

Mr. Simon Kennedy: Thanks, Mr. Chair.

There are three principal benefits, but mainly it's getting in on the ground floor of the development of a brand-new piece of technology. As has been discussed, the F-35 joint strike fighter project is really meant to be at the cutting edge of aircraft technology. The Canadian companies participating in the development of that are in, from the very early days, on the development of the technology, which gives them a couple of advantages.

One advantage in the longer term, when the product actually goes into production, is to participate in the building of those pieces. The second advantage is, having developed this technology, that they can then take it and apply it elsewhere in their business. We do have real examples in Canada of companies that have participated in the development of the JSF being able to take that technology and apply it in other businesses, such as in the civil aircraft business.

The Chair: Thank you.

Your time has now expired, Mr. Shipley.

Over to our second vice-chair, Mr. Byrne. You now have the floor.

Hon. Gerry Byrne: Thank you very much, Mr. Chair.

On the conclusions reached by the Auditor General and the grey-area disagreements, would the Deputy Minister of Public Works and the Deputy Minister of National Defence table to the committee the specific letters that were forwarded to the Auditor General regarding the conclusions reached by the Auditor General?

Mr. Robert Fonberg: I have no problem with that.

Hon. Gerry Byrne: Thank you, Mr. Chair.

We have limited time. We have a number of witnesses before us. I appreciate that Conservative Mr. Daryl Kramp said to us just a little while ago:

The last thing we need is to have a whole group of witnesses coming in here, eight or nine witnesses at one point, and not be able to dig down and drill down when we should and when we need to.

There are eight witnesses before us. The final witness list was just presented to the committee members at 7:22 this morning. So I wish we had more time. I would like to have them all back again.

Mr. Fonberg, you told us that the way you presented information in 2008 and 2009 was the way you did life-cycle cost descriptions for 20 years. On the costs that were included in the Auditor General's report and the costs that were included in the Parliamentary Budget Officer's report, the discrepancy was created because they included costs that you normally hadn't included for 20 years. So nobody should be surprised that if you've done something for 20 years, that process would be repeated in 2008 and 2009. Is that correct?

Mr. Robert Fonberg: I don't mean to be difficult, but I'm not sure about the 2008 and 2009 reference. I spoke to the issue of the last four and then the consistency of the fifth major air asset acquisition since 2004. In each case we have spoken publicly to the issue of acquisition costs and sustainment costs, and we have said that operating costs are affordable and prioritized within our budget that goes before Parliament every year. The total costs for all of our fleets to operate on air, land, and sea are close to \$4.8 billion a year, approved by Parliament.

• (0945)

Hon. Gerry Byrne: I'm trying to give you a way out here, Mr. Fonberg. In 2010—and I'll just pick up on my colleague's point—something changed with the Auditor General's report on the acquisition of the Chinook helicopters. You agreed that the past practices on full life-cycle reporting were not adequate. On what I was trying to help you out with here, if you made a life-cycle acquisition cost in 2008 and 2009, reported it, and got cabinet to use those figures, nobody should be blaming the Department of National Defence for using that in any calculation of F-35 costs prior to 2010, if you were to describe to cabinet that is the way you do business.

When you agreed with the Auditor General's report on the problems with the acquisition of the Chinook aircraft in chapter 6, did you agree that from June 2010 forward you would use a new methodology in reporting to cabinet and to Parliament about life-cycle cost reporting?

Mr. Robert Fonberg: There are a number of questions there, but I do appreciate the member's offer to help me on this.

We'd have to go back to the action plan, but I believe that in 2010 we undertook to develop appropriate methodologies to life-cycle costs. We are in the process of developing those methodologies.

I would say just one thing—and the CFO may want to speak to this in response to a question. There is a difference—and I think people get a little bit confused—between the total cost of ownership of something and the life-cycle cost of a project or acquisition. So it is accurate to say that we agreed to address the methodological issues following the 2010 report, but we also acknowledged in our management action plan that it would take us time to develop those methodologies. Life-cycle costing is not a simple issue.

Hon. Gerry Byrne: Mr. Fonberg, let me ask you this. Based on the Auditor General's Chinook helicopter report, the recommendations, and your acceptance of the recommendations on reporting of life-cycle costs, would the \$9 billion acquisition cost figure and the \$16 billion sustainment or operational cost figure—as presented by the Auditor General and roughly by the Parliamentary Budget Officer—be the correct numbers that you would have reported if you were to follow the recommendations and keep true to the recommendations of the Chinook helicopter report?

The Chair: Briefly, please.

Mr. Robert Fonberg: I don't know because we actually haven't done it. We have reported \$9 billion for acquisition; that is the envelope. Then \$5.7 billion is for sustainment. As you all know, \$10 billion was the estimate for operating, which we will firm up over time.

The Chair: Thank you. Time has expired.

Moving along now to Mr. Aspin.

Mr. Jay Aspin (Nipissing—Timiskaming, CPC): Thank you, Chair. At this time I will defer my questions and my time to my colleague, Christopher Alexander.

The Chair: Very good.

Mr. Alexander, welcome again, sir. You now have the floor.

Mr. Chris Alexander (Ajax—Pickering, CPC): Thank you.

As I was saying at our last meeting, before being rather rudely interrupted, the government has accepted the recommendation. The government has accepted the conclusions of the Auditor General's report. I want that to be on the record, both because it relates to the question I want to ask and because Mr. Byrne was seeking to obscure those facts at the end of our last meeting.

My question is for Mr. Guimont, the Deputy Minister of Public Works. It strikes us on this side, sir, that the Auditor General's conclusions relate to three main items. One is the sequencing of decisions. The second concern he had related to full life-cycle costs, which we've talked about at some length. And the third related to the whole question of a risk management framework for this unique project, which we have all agreed has characteristics that we haven't seen before in defence procurement in Canada because of the scale and nature of the project.

Could you, Mr. Guimont, outline for us how the seven-point plan and your oversight of the secretariat will serve to mitigate those three areas of concern that the Auditor General raised in his report and discussed with us at our last meeting?

• (0950)

Mr. François Guimont: Thank you, Mr. Chairman, for the question.

I would say the approach we will take in the secretariat is that we are going to focus on the tasks and priorities outlined in the seven-point action plan. We will look at the work that has been carried out for the F-35 program, and there's obviously a clear highlight on the issue of cost. It's front and centre on the seven-point action plan. So two key elements will be a review of the work carried out to this point, together with a clear understanding of costing.

We will, in achieving this or as we carry out our work, measure ourselves against the observations made by the OAG. There is a document that clearly speaks to certain deficiencies and concerns. That's the way we're going to be measuring the progress of the work we're going to be carrying out for the steps taken on the F-35, including the cost issues. That's the strategy or approach we're going to be using. That will address the issue of sequencing. It will address the issue of risk management. That's the thinking. That's picked up by—highlighted, I should say—the OAG.

Mr. Chris Alexander: Thank you for that answer.

My next question is for my colleagues from National Defence. We've focused, so far, overwhelmingly on the program to acquire an aircraft to replace the CF-18, as they're aging. It is a very important program, but as you've all said, it's still at the pre-acquisition stage, with a long way to run. In the meantime, there is a program under way to develop a joint strike fighter that involves Canada and roughly 10 other countries in one way or another. There was praise in the Auditor General's report for the way your department, Mr. Fonberg, handled Canada's involvement in that program, generating industrial benefits for Canadian companies, generating an opportunity for us to take part in a technological breakthrough in the field of military aircraft.

Could you describe for the committee, so that we all understand the benefits of this program to date for Canada, how you managed that program successfully, and what the main ingredients of success have been to date in ensuring that over 60 Canadian companies participate in the world's leading fighter jet development program?

Mr. Robert Fonberg: Thank you very much, Mr. Chairman.

I will just say a couple of things. When we worked with the Auditor General, or with his office, on this report, I think we all recognized that stepping back over 15 years, this truly was a unique program that allowed us, with nine other partners from the beginning of 1997, to spread the developmental risks, the technological risks, and the cost risks of development, where most of that was actually being absorbed by the United States.

Dan Ross has been intimately involved with the program and the MOUs and development costs since his tenure in that job. I'll turn to Dan for a minute just to talk about the unique nature and the benefits.

Mr. Dan Ross: Thank you, Mr. Chair.

My organization has been involved in the program since 1997. I have a very small section that was instrumental, working with Industry Canada, in working with industry and leveraging opportunities for Canadian companies in a very proactive manner. As Mr. Kennedy said, or could say, our aerospace industry is the third largest in the world among the partners in the program for very small investments. In 1997, our initial contribution was \$10 million, and in 2002 it was \$100 million U.S. In 2006 we went to Treasury Board to continue to participate in the production, sustainment, and follow-on development phase, which gave us, and specifically the RCAF, unprecedented access to highly classified information. It also, as Industry Canada has mentioned, gave Canadian industry access to the development of new, leading-edge technology that will be exportable worldwide.

Back in 2006 we clearly felt there was no obligation to buy joint strike fighters at that time. But they continued to have the door open—for Canadian companies, my staff, and the air force staff—to the privileged information on how the program was developing.

We looked at the joint strike fighter at that time. That continues to be a viable option. As we told the government at that time, we would come back in the 2010 to 2012 timeframe to propose a solution for replacing the CF-18.

• (0955)

The Chair: Okay.

I'm sorry. Time has well expired. Thank you both very much.

We'll go over now to Madame Blanchette-Lamothe.

You have the floor, Madame.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Thank you, Mr. Chair.

With your permission, I am going to ask some questions on projections regarding benefits for industries.

Would you agree that those projections support some of the key decisions involved in the participation of Canada in the JSF program and the acquisition of the F-35s?

[*English*]

Mr. Robert Fonberg: Simon, would you like to answer?

Mr. Simon Kennedy: Thank you for the question.

Industry Canada is responsible for working on the industrial—

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Forgive me for interrupting you, but I have a lot of questions to ask.

I would like to know whether, yes or no, you would agree that industrial benefit projections are very important when it comes to deciding whether Canada will take part in projects like the F-35 one?

[*English*]

Mr. Simon Kennedy: They are certainly a part of the decision-making process of the government. Industry Canada gives advice on what the likely industrial participation benefits will be for industry. But the primary driver of acquisitions is the defence needs of the country. Industry Canada comes in after those needs are defined to work on what the industrial benefits would be.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: So it plays a role, even if it is not the only factor.

Mr. Simon Kennedy: Exactly.

Ms. Lysane Blanchette-Lamothe: And yet, the Auditor General expressed some concerns with regard to benefit projections for industry. He said this: “We found that briefing materials prepared by the departments for decision makers and ministers did not explain the basis for the projections, or the consequent limitations involved in relying on those projections for decision making.”

Was there indeed a lack of information or transparency regarding these benefit forecasts?

[English]

Mr. Simon Kennedy: A good deal of work actually goes into the development of the estimates you're talking about.

Very briefly, the government receives, twice a year, from the prime contractors a very detailed list of all their requirements for the manufacture of the aircraft and a detailed list of all the Canadian companies that they believe can play a role. We sit down with the prime contractors twice a year to go through that list, discuss it, and validate it. In addition to that, we have site visits with many Canadian companies that are interested in the program or are part of the program to, in effect, do triangulation. We actually discuss with the Canadian firms their view of what the prime contractors are saying. All of that, which is actually a fairly significant amount of work, goes into the numbers you see in the documents.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

You say that a lot of work is done and you explain what it is, but that does not at all answer my question.

In his report, the Auditor General says: "We found that briefing materials prepared by the departments for decision makers and ministers did not explain the basis for the projections, or the consequent limitations involved in relying on those projections for decision making."

Do you agree, yes or no, that decision makers lacked information on the projections regarding industrial benefits?

[English]

Mr. Simon Kennedy: I think we would agree, certainly in hindsight, that we probably could have provided more detailed information and perhaps presented the information differently.

Having said that, I think it's been very clear since the outset of this program that this is a very different approach, that the nature of the opportunities was contingent, and that we would do our best to provide estimates to the government of what the potential total amount could be. But it's been very clear in our discussions with the industry over the last 10 years. In fact we were doing road shows with the industry as far back as 10 years ago to discuss the very different nature of this procurement and the fact that companies would have to compete on a best-value basis.

I think if one were to look at the testimony of ministers, both before committees of the House of Commons and from when the announcement of the MOU with the companies was made in 2006, it would be quite clear that the basis of this approach was one of best value and that companies had to compete.

I think it's been very clear that this is not a standard procurement, that there is uncertainty in terms of the total value, and that we've done our best to try to provide projections to the government of what the maximum amount of the opportunities might be. Could we have perhaps given a better breakdown or provided more detailed information? We certainly take that to heart.

[Translation]

Ms. Lysane Blanchette-Lamothe: You are saying "maybe", but you nevertheless recognize the appropriateness of doing more, given the context of the concerns expressed by the Auditor General. Is one "maybe" equivalent to saying "if it is possible to do better, we will do that the next time"?

• (1000)

[English]

Mr. Simon Kennedy: Absolutely. We've been looking very carefully at his recommendations and at ways we can provide a fuller picture of the potential opportunities going forward.

[Translation]

Ms. Lysane Blanchette-Lamothe: In fact, it is not a formal recommendation and that is why I am raising it again. There is something else that has been emphasized and relates to projections. It has been said that only one optimal scenario was presented, rather than introducing some nuances and presenting other scenarios aside from the most optimistic one. Can things be done differently? Could they present different scenarios that would help the decision-makers make decisions based on an array of possibilities rather than on the most optimistic scenario alone?

[English]

Mr. Simon Kennedy: We'll certainly take a look at that. We're well aware of the comments the Auditor General has made in that area.

We know that at the very earliest development of this project, ranges were developed. When we actually had a prime contractor selected and we had gone further along, we felt we had good information to provide kind of the upper bound, but really there wasn't necessarily the same basis of information to start making projections of what a lower bound could be. We'll have to go back and take a look at that.

As I say, I think the concern about ranges is tempered by the fact that it's been common knowledge in the industry and within government circles for many years now that this is a project for which people have to compete and compete to win. There's been no uncertainty about the fact that there is some contingency to the opportunities.

The Chair: Thank you very much. Time has well expired.

We go now to Madame Bateman.

[Translation]

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you, Mr. Chair.

I would like to share my time with my colleague Mr. Laurie Hawn.

[English]

The Chair: Very good. Do you mean share or...?

[Translation]

Ms. Joyce Bateman: He may use my speaking time as he wishes.

[English]

The Chair: You're giving him the full five minutes. Very good. Thank you, Madame.

Again, welcome, Mr. Hawn. You now have the floor, sir.

Hon. Laurie Hawn (Edmonton Centre, CPC): Thank you, Mr. Chair.

Thank you to our witnesses.

I have a number of questions. The first one is for Mr. Fonberg, and it will have a brief answer.

It's been suggested—and this is just for the record—that DND kept two sets of books on the F-35. Could you comment on that very briefly?

Mr. Robert Fonberg: No, we just had one set of books, Mr. Hawn.

Hon. Laurie Hawn: Thank you.

Mr. Lindsey, we talked about the PBO's assumptions in his top-down analysis. Was the problem with his cost projection of \$148 million, or whatever, that it was based on the average of the three models and not just on the F-35?

Mr. Kevin Lindsey: No, Mr. Chair. In this case the PBO's estimate was based on the variant that Canada is going to buy but on a point on the production and learning curve far behind where we actually are today. As a consequence, that number was significantly overstated from the SAR 2009 acquisition cost.

Hon. Laurie Hawn: Thank you.

Mr. Fonberg, we talked about the fact that for many years DND has typically used 20 years to project life-cycle costs. I would suggest that's because of the risk of all the unknowables: cost of fuel in 20, 30, or 40 years; missions the airplane might undertake; technological challenges that come along. My recollection of the F-18 program is that the same process was applied there. We had projected the airplane to be for phase-in plus 15 years, which would have taken it to 2003, when we'd be looking for new aircraft, which in fact we have been doing.

Could you comment on the fact that this has been the methodology through successive governments of both stripes, notwithstanding what's going to happen going forward?

Mr. Robert Fonberg: I think that's true. ADM Mat could speak to that in a little bit more detail. It's at the 20-year point, especially in sustainment, that the confidence bands really start to weaken around estimates.

Dan, would you like to say anything on that issue?

Mr. Dan Ross: Yes. As the deputy said, we've used these 20-year estimates for air programs since 2004. There is a significant amount of uncertainty in aerospace technology costs when you get beyond the 20 years. It becomes very difficult to predict. We have 60 years of experience in flying jet fighters, and we understand how difficult it is to predict those technical and structural issues.

For example, when we introduced the CF-18, we experienced structural issues with the vertical stabilizers. This was totally unpredictable, and we had to resolve those issues.

Over the past seven years we've tried to put in place performance-based, long-term support contracts for our air fleets, like the new Hercules CC-130J fleets. Industry came back to us and told us they could not agree to long-term rates without imposing large price increases to mitigate the uncertainty of future costs. We ended up negotiating 20-year contracts based on firm fixed rates for only five years at a time.

● (1005)

Hon. Laurie Hawn: Mr. Fonberg, it's also been stated that \$25 billion budgets have been approved in cabinet, which is not true. Could you comment on how the budget approval process would work as the program progresses?

Mr. Robert Fonberg: The government has been clear that there will be a \$9 billion acquisition envelope. At the time of the decision in 2010, we put forward for approval a \$5.7 billion envelope estimate for in-service support and sustainment. We acknowledged that we expected the operating costs to be similar to those of the F-18, on the order of \$10 billion over 20 years. The affordability within our budget would be checked off in much greater detail when those documents cleared cabinet and finally got to Treasury Board, which they haven't done yet. This will ensure that those estimates are affordable within our base budget, which comes back to Parliament every year in the appropriations process.

Hon. Laurie Hawn: General Deschamps, there have been criticisms about the airplane and the test program from people who have no knowledge of test programs and what they're designed to do. Is it fair to say that a test program like we had with the F-18 is happening with the F-35? I'm talking about one designed to discover faults so that they can be corrected before the aircraft goes into production. Just because an airplane fails some test point in the test program doesn't mean the airplane won't ultimately do its job, does it?

LGen André Deschamps: Thank you for that question.

We've been flying fighters in Canada for over 60 years, and there's been a lot learned on how to do tests and evaluation. If you've seen the movie, *The Right Stuff*, you know what it looked like in the fifties and sixties, when there was high risk in testing new platforms. We've progressed a long way now. There are always surprises in test and development, even though they're a lot fewer than they were 20 or 30 years ago. But there will still be discoveries as they do these testing and development phases.

We're certainly not perturbed. We expect that they will discover challenges as the airframe is pushed to a wider envelope, as happens in its test and evaluation phase. But that discovery phase is useful. The last thing you want is to have these airplanes deployed and then five years later find these faults. At that point, they would be far more problematic to repair, even if they're repairable after they're on the line. We're quite happy to see the discovery phase take care of those issues ahead of procurement.

The Chair: Sorry, your time has expired, Mr. Hawn.

Mr. Byrne, you have the floor.

Hon. Gerry Byrne: Mr. Fonberg, do you still hold true your statement that the life-cycle cost of the CF-18 Hornet and the F-35 were identical? Do you hold that view today?

Mr. Robert Fonberg: I don't think I ever said the life-cycle cost of the CF-18 and the F-35 were identical.

Hon. Gerry Byrne: Maybe I misinterpreted you. I thought you said the operational costs of the CF-18 and the F-35 were the same.

Mr. Robert Fonberg: No. What I said was that for decision purposes we informed cabinet and the decision-makers that we thought the operating costs of the F-35 would be in a zone similar to those of the F-18 fleet. I believe that's what I said.

Hon. Gerry Byrne: Do you still hold that view to be true?

Mr. Robert Fonberg: As an estimate, it's the best estimate we have right now, yes.

Hon. Gerry Byrne: You've never been informed by the U.S. joint strike fighter program office to suggest anything contrary to that.

Mr. Robert Fonberg: I could turn it over to Mr. Ross. I don't believe the joint strike fighter program would have a particular view about our operating costs.

Dan, would you like to comment on that?

Mr. Dan Ross: The joint strike fighter office gives us estimates of acquisition cost for flyaway F-35s. We put ammunition and fuel in. It also gives us estimates for maintenance, repair, overhaul—what we call sustainment. It doesn't give us estimates on how we would pay salaries or fix buildings or provide base services in Bagotville and Cold Lake, which is what the deputy was referring to as operating costs.

Hon. Gerry Byrne: Thank you, Mr. Ross.

Notwithstanding the actual U.S. joint strike fighter program office, have you received no other information from any other source that would cause you to question that particular linear equation, that one-to-one cost estimate?

•(1010)

Mr. Dan Ross: We haven't entered the detailed definition phase yet, and when we do, we'll do detailed studies on any infrastructure we need to upgrade in Bagotville and Cold Lake, on the number of simulators, training, and those detailed operating cost estimates when we get into definition.

Hon. Gerry Byrne: Thank you.

Mr. Fonberg, what is the number you would now report to this parliamentary committee as the total acquisition and total operational sustainment costs over the life cycle of the F-35? Is it different—I'll just use these numbers descriptively—from the \$9 billion and \$6 billion figures, or would you now switch it to the \$16 billion and \$9 billion figures?

Mr. Robert Fonberg: The CFO may want to comment on this. Just to be clear, the numbers we used, very clearly, Mr. Chairman, were the \$9 billion acquisition envelope, \$5.7 billion for sustainment for 20 years, and operating cost estimates of \$10 billion within our base budget for a 20-year period.

Hon. Gerry Byrne: You never reported the \$10 billion to Parliament. You just reported the \$9 billion operational sustainment and the \$6 billion capital acquisition. The \$10 billion is what's unique and is the cause for the Auditor General to suggest that Parliament was misinformed—and potentially cabinet was misinformed, but that's another story.

What I'm asking, then, is if you were to use the recommendations as outlined in chapter 6 in the Auditor General's report on the acquisition of the Chinook helicopters, which was received by Parliament in June 2010, I believe, and you accepted all of the recommendations.... If the Department of National Defence, the Government of Canada, accepted all of the recommendations, what number would you report now to a parliamentary committee and therefore to Parliament as the appropriate number?

Mr. Robert Fonberg: Again, to be clear, I believe the report the member is referring to is November 2010, not June 2010—

Hon. Gerry Byrne: Excuse me. Thank you.

Mr. Robert Fonberg:—which came some time after we did our estimates. As I said, we accepted the Auditor General's recommendation on producing appropriate life-cycle costs 60 days after we receive our information from the United States.

I don't have an answer to the question about if we went back and tried to apply the methodology—

Hon. Gerry Byrne: Mr. Fonberg, that's very important, sir, because in November 2010—I appreciate the correction—the Department of National Defence, the Department of Public Works and Government Services, and the Government of Canada promised Parliament they would do things differently.

I respect and understand, sir, that any analysis or cost description prior to November 2010 could potentially be different, using the 20-year methodology. But after November 2010 a commitment was given to Parliament that we would use a new methodology, and any information that was given after 2010 that differed compared to what you promised you would do results in a contempt of Parliament, in my opinion.

Was any information given to Parliament after November 2010 that was contrary to what you promised to do—not you, sir, but the department and the Government of Canada?

Mr. Robert Fonberg: I guess I just need some clarification, Mr. Chairman.

Hon. Gerry Byrne: I think you do.

Mr. Robert Fonberg: Yes, I actually—

The Chair: We're over time, so I'm going to ask you to briefly respond, Mr. Fonberg.

Mr. Robert Fonberg: Okay. In November 2010 we provided a management action plan to respond to the recommendation of the Auditor General's report. We have been working, in a very clear and deliberate manner, on developing the methodologies for life-cycle costing in response to that report.

On the question of whether we have provided alternative estimates since that time, I'd have to go back and look at the record. I actually don't recall, Mr. Chairman.

The Chair: Okay. We'll have to leave it there for now.

Thank you, Mr. Byrne.

Over to Mr. Hayes, who now has the floor.

Mr. Bryan Hayes (Sault Ste. Marie, CPC): Thank you, Mr. Chair.

This is great that we're doing this level of scrutiny before any money has actually been spent. It's unprecedented, and it's good that we're doing this now, as opposed to afterwards, and finding out for some reason that we have actually overspent.

My first question would be to Mr. Guimont. Can you explain the process that leads to a sole-sourced decision and how it played out in this particular circumstance?

Mr. François Guimont: I'll say a few words using the one-pager that I appended to my remarks, and I'll let Mr. Ring expand on this.

The technical authority, in this case DND, could be another department. If it were a vaccine, it could be PHAC, Health Canada. Essentially, it comes up with the basic requirements. We refer to them as technical requirements. As they do this, they also carry out analysis. They look to see if there are potential competitive fields at the macro level, so they carry out a number of very in-depth reviews. They start interacting with us, and our responsibility is one of validating that either a competition is to be had, because there is a procurement competitive field, or that a sole-source acquisition is justified.

If we see and validate that the rationale provided, as explained by Mr. Ring before, supports a sole-source acquisition, this is allowed in the Government of Canada contracting regulations. There are a number of exceptions. If I remember, there are four of them: one has to do with value—below \$25,000; one has to do with emergencies, which kind of makes sense; one has to do with public interest; and one has to do with it being the sole company that can meet the requirements identified by the technical authority and validated by the contracting authority.

I'll just let Mr. Ring say a few more words about this. It's a very important field.

• (1015)

Mr. Tom Ring: As Mr. Guimont has just outlined, the government policy is for the competitive sourcing of all solicitations, but there are exceptions as noted. The role of Public Works is to work with the client department in making sure that the justification and rationale for an exception to the government contracting regulations is fully justified. The client department must provide that rationale as to why they are seeking an exemption. In fact, there is quite an extensive checklist in our Treasury Board guidelines that must be filled out. The Department of Public Works works with the client department to make sure this justification is extensive, is on file, is available, and can support the rationale for justifying that only one supplier can do the work. That was all done in this particular case.

Mr. Bryan Hayes: Thank you.

Mr. Guimont, again, the Auditor General has made a number of findings on this process. Now that you've had time to reflect on his report, what would you have done differently on this file?

Mr. François Guimont: I would like to note, Mr. Chairman, that we didn't really have a problem with the findings, the facts put forward by the OAG, so this is something that's important. There was really no recommendation directed at Public Works; it was directed at DND. I'll just mention that.

The bone of contention, I guess you would say in English....

[*Translation*]

We have a difference of opinion precisely on recommendation 2.8.1

[*English*]

As I said before, we feel we took commensurate due diligence measures, because this procurement process is far from being over, so due diligence will continue as per the seven-point action plan. The statement made was more one of an absolute "did not exercise", and that was like....

What we would do differently, frankly, is captured largely in the seven-point action plan. This is a big procurement. We look back at shipbuilding, which Mr. Ring and colleagues around the table managed, and it is a very good framework to apply to a major procurement of that style, which is unusual. I'm not saying that the identical shipbuilding governance structure would have to be applied to all procurement, but if there is a very unique procurement, this is a good fit. Mr. Ring spoke about the attributes of the national shipbuilding strategy, to make a difference between that and structure. These attributes are fully applicable to that procurement.

The lesson learned here is one of looking back. Earlier on we could have said that we should better define roles and responsibilities. This is going to be a different procurement, developmental in nature, very long—15 years—so let's put in place a structure that will carefully monitor and create the necessary oversight and transparency vis-à-vis parliamentarians and citizens. To me, that's a big lesson, but that's water under the bridge. We are putting it in now. No decision has been made in the context of an acquisition/purchase, so the time is right for the action plan to deliver on those commitments.

• (1020)

The Chair: Thank you. Your time has expired, Mr. Hayes.

Now we'll go to Mr. Allen.

Mr. Malcolm Allen: Thank you, Chair.

Mr. Fonberg, I'm referring to the AG's report on page 27. I recognize that you don't have it in front of you. It's exhibit 2.6, a chart. The source, according to the Auditor General's report, is indeed National Defence.

The title at the top of the column says, "National Defence's estimates used for decision making June 2010". It shows \$6 billion. It shows the capital acquisition costs for aircraft. It shows additional acquisition costs of \$8.9 billion. It goes through the different pieces. It shows personnel, operating, and maintenance costs of \$16.14 billion. That gives me a total of \$25.120 billion.

Is that a fair assessment of what the department did at that time?

Mr. Robert Fonberg: I believe it is.

Mr. Malcolm Allen: In that chart there's an additional column on National Defence's public response to the PBO's report of March 2011. It shows \$6 billion, \$9 billion, and then \$5.7 billion for contracted sustainment. It gives us a total of \$14.7 billion.

You said earlier to Mr. Hawn that you didn't have two books. What exactly are those two estimates?

Mr. Robert Fonberg: One is acquisition sustainment, which is the way we have reported on each of our acquisitions over the last four major airframe assets. The other one includes operating costs, which we haven't reported on publicly because it's included in the base budget of the Department of National Defence.

Mr. Malcolm Allen: On the first one I quoted to you—the \$25.1 billion—was that reported to the minister in cabinet?

Mr. Robert Fonberg: Yes.

Mr. Malcolm Allen: Was that reported publicly?

Mr. Robert Fonberg: Was what reported publicly?

Mr. Malcolm Allen: The \$25.1 billion—did you ever report it publicly?

Mr. Robert Fonberg: No. In June 2010 we reported the right-hand column. The left-hand column was for decision-making.

Mr. Malcolm Allen: To be clear, you're telling me you were telling the minister \$25.1 billion and you were telling the Canadian public \$14.7 billion. Is that correct to assume, sir?

Mr. Robert Fonberg: What we told the Canadian public was exactly what the government has told the Canadian public—

Mr. Malcolm Allen: Excuse me, Mr. Fonberg, I don't need an explanation. I just need to know if the report of \$25.1 billion was to the public or to the minister. You've said it was to the minister. I want to know if you ever reported to the general public and to Parliament that it was \$25.1 billion, or did you maintain that it was \$14.7 billion? You went at it quite often and told us about how it was different. But you said you only had one book.

One book is one book, in my view. So you either had a book that said \$25.1 billion or you had a book that said \$14.7 billion. You can't have two unless you had two books, but you said you only had one. I'm going by that that you had one book. So why didn't you give the same figures from the same book to two different groups of people—the cabinet and the Canadian public?

Mr. Robert Fonberg: There was one book. The column on the left-hand side went to cabinet for decision-making purposes. The government decided to communicate exactly the same way they have communicated since 2004 on the acquisition of major airframe assets—acquisition costs and sustainment costs. We were not seeking incremental funding from cabinet at the time for operating costs, nor do we expect to seek incremental funding for operating costs.

Mr. Malcolm Allen: Thank you. I appreciate that clarification.

So you're saying you told cabinet it was \$25 billion, and cabinet told the Canadian public it was \$10 billion less. Thank you, sir.

Mr. Ross, you said earlier that we are in the options analysis stage of the F-35. Although I may disagree, I think we're actually further along in the timeline, but I will take you at your word. Does that

mean, if we're at that stage, we are now going to look at other planes besides the flying piano dubbed the F-35?

Mr. Dan Ross: I think I will return to my deputy colleagues or the Chief of the Air Staff going forward.

LGen André Deschamps: Thank you, Mr. Chairman.

On the best way to frame the answer here, the F-35 is the aircraft we assessed in 2010 as the platform that met our needs and all of our requirements. The fact that it's still going through testing and development is certainly what's occupying a lot of our attention right now, and any issues of cost.

Mr. Malcolm Allen: I understand that you are going to take me through that. I'd love to talk to you for an hour about it, but I only get five minutes.

Basically you're saying we are not looking at other options. Is that fair to say?

•(1025)

LGen André Deschamps: Currently, from an air force perspective, we are focused on delivering the transition to the F-35.

Mr. Malcolm Allen: Thank you.

Mr. Fonberg, it was said earlier under testimony that the costs are up by 13% on the F-35. We know the budget is frozen. The Prime Minister has told us that the envelope is \$9 billion. Costs are up by 13%—that's testimony from the end of the table, not from me—and 65 was the number we could procure for \$9 billion. If the costs are up by 13%, how many can we buy now, knowing you have a frozen envelope?

Mr. Robert Fonberg: I actually didn't do the math, Mr. Chairman.

I said \$75 million. Now it's around \$85 million. If that's 13%, that's fine. That is manageable within the context, if you go back to exhibit 2.6, Mr. Chairman, of the allowance for contingency and inflation.

The Chair: Time has expired.

We'll go over to Mr. Dreeshen. You have the floor, sir.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you, Mr. Chair.

Mr. Allen was attempting to put a few words in your mouth, Mr. Fonberg.

I was just wondering if you would like to, first of all, take an opportunity to clarify where you were going there.

Mr. Robert Fonberg: Mr. Chairman, thank you for that opportunity. I was going to say that I don't think the government was trying to put any other words in anybody's mouth.

We worked off the left-hand column. The right-hand column was how we responded to the Parliamentary Budget Officer, in the exact same categories. We were trying to demonstrate that the Parliamentary Budget Officer, as far as we could tell, also did not use operating costs. The Auditor General picked it up from decision-making documents and laid it beside what we responded to the Parliamentary Budget Officer. The Auditor General could just as easily have put in the Parliamentary Budget Officer's column, and there would have been much more clarity on that issue.

Thank you, Mr. Chairman.

Mr. Earl Dreeshen: Thank you very much.

My second question is to Defence. I wonder if you could expand on the validity of using a weight-based comparison for assessments for estimating costs.

Mr. Robert Fonberg: That's a very interesting question, because as far as we could tell, the Parliamentary Budget Officer based his \$148 million per aircraft estimate on the actual weight of the aircraft.

I would turn either to the ADM Materiel or perhaps to the CFO on the methodological question of the appropriateness of using that to build a price on the aircraft.

Mr. Kevin Lindsey: Mr. Chair, there is a fair amount of historical data that demonstrates that at the very early conceptual stages of an aircraft there is a correlation between the anticipated weight of the aircraft and a rough order-of-magnitude estimate of its cost. That is the basis upon which the PBO estimated the acquisition cost of the aircraft.

The methodology they used, which derives from a private sector company and which the database derives from a private sector company in the U.K., led them to use an assumed acquisition cost of \$148.5 million U.S. This was at a time when the joint project office in the United States provided us its best estimate of an acquisition cost of \$75 million for the aircraft.

The rest of the PBO's analysis is really quite simple, basic arithmetic. In order to arrive at logistics costs, it multiplies the acquisition cost by a factor by the number of aircraft. It does the same for operating costs.

The key is that if you have the acquisition cost wrong, you're going to wind up with an estimate that is far off the mark. If you get the initial acquisition cost way wrong, your total estimated cost is going to be far off the mark.

Given the assumed acquisition cost in the PBO report of \$148.5 million versus the \$75 million.... If the PBO had used the \$75 million number and had kept all other variables in his methodology constant, he would have arrived at an estimate of \$17.2 billion, which is remarkably close to the estimate we had for acquisition and sustainment. That is part of the reason we were led to believe that the PBO's numbers did not include these operating costs.

Mr. Earl Dreeshen: Next, could you explain how the access point to the cost acquisition curve gives you confidence in that \$75 million to \$85 million you were talking about versus some of the numbers we hear? As time goes on, the date you plan on accessing this particular asset is I think what's critical to all of this.

• (1030)

Mr. Robert Fonberg: Dan, you must have the convergence of the cost curves over the various SAR reports.

Mr. Dan Ross: Yes. Thank you, Deputy.

Mr. Chair, thanks for that opportunity.

The joint strike fighter program office work is based on hundreds of thousands of hours of detail work by experts, project managers, engineers, test experts, and costers. It is also based on actual contract expenses that have gone into the 40 or so joint strike fighters that have been produced. The estimates going forward are called selected acquisition reports.

The 2010 decision was based on the SAR 2009 acquisition report. That was at about \$75 million per aircraft. In the 2010 report it grows slightly to about \$83 million, and in the latest it is about \$85 million.

What we're seeing is the curve, which has the very high cost to build the first prototype sinking downwards to the most efficient point of production, where we're going to buy, becoming very tight. The variation is becoming very small year to year, because their degree of understanding of what the costing would be is getting very high. And the fixed inputs to setting up production have been done. Testing has well progressed. The remaining technical issues are being resolved. So confidence is becoming much higher.

Thank you, sir.

The Chair: Thank you.

Time has expired, so I thank you for that.

That takes us once through our speaking rotation, colleagues. We still have 15 minutes on the clock. I would draw your attention to the fact that, as of right now, given the decision by this committee in its wisdom to eliminate the steering committee, we're not as well planned going forward as we have been. However, we do manage.

At this point, however, we have nothing scheduled for Thursday. I see your hand, Mr. Saxton. I see a number of hands shooting up, and that's good. That's what I was hoping for.

I have a suggestion for you. There has been some questioning around PBO numbers. There has been some questioning about Auditor General numbers. Whether this committee wants to have a further hearing is, of course, in the hands of this committee, and that can be scheduled for Thursday if we wish, or we can schedule a continuation of this for a week from now. On Thursday we could meet to do report writing, and we could do any forward planning that you'd like after that. I'm in your hands, but we do need to make a decision within the next 13 minutes as to what we're going to do at the next meeting or there won't be one. I'm in your hands.

After we've decided that, if there's time, we can decide what we want to do for the balance of this meeting, for the few moments that may remain, although I have a hunch they may evaporate pretty quickly. We'll see.

Mr. Saxton, I will recognize you first.

Mr. Andrew Saxton: Thank you, Mr. Chair.

I agree with your comments, and we do need to plan ahead. In that spirit, I would like to propose a motion to the committee at this time. That motion would read that on May 3, 2012, the committee hear from the Parliamentary Budget Officer for its first hour, and from the witnesses here today from the departments of DND, PWGSC, TBS, and Industry Canada for its second hour, as part of its study of chapter 2 of the Auditor General of Canada's spring 2012 report.

The Chair: Let me just throw this at you. Would it be helpful to bring the AG for the PBO part, since there was a question about his numbers?

Mr. Andrew Saxton: I think we'd take it one step at a time. I would put this motion forward.

The Chair: All right. I'll take that motion then.

Again, the motion is to continue Thursday. The first hour would be the PBO; the second hour would be a continuation of our guests today. That's the motion. It's in order. I'll now put that before the committee.

Go ahead, Mr. Allen.

Mr. Malcolm Allen: Yes. Thank you, Chair.

In the spirit of cooperation with my friend across the way, I appreciate his endeavours to bring the PBO and our witnesses here back on Thursday. I would like to amend it, though, to include that we have the AG come back next week at the earliest opportunity, which of course would be Tuesday morning, for at least an hour. I would also amend to say that if our witnesses down at the end are not completed on Thursday in the second hour, that they come back for the other hour, whether it be the first or second hour of the day.

It simply gives us some flexibility. If we're finished with all of these witnesses on Thursday, the AG would be the first hour. If not, the AG would be the second hour, and our witnesses would continue in the first hour of next Tuesday, which would be a week today.

I thank the parliamentary secretary for his overtures to make sure we have an opportunity to talk to all of the folks in full on this point.

•(1035)

The Chair: All right. In that same spirit, is there a possibility that this could be a friendly amendment, Mr. Saxton? Do you see that consistent with where you are going?

Mr. Andrew Saxton: I think part of it could be a friendly amendment. I think we would be fine with having the Auditor General come back for the first hour, as Mr. Allen has suggested. I would accept that amendment to my motion.

The Chair: All right.

Are you good with that, Mr. Allen? We'll fold into the motion that we will do the first hour with the PBO on Thursday. The second hour will be a continuation. The following Tuesday, the first hour will be the Auditor General, and the second hour is to be determined.

Mr. Andrew Saxton: I would recommend that we say it could be a planning session, or to be determined.

The Chair: I'm trying to go for unanimity, and if you can leave it at that, I think that might get us close.

Colleagues, can I quickly ask if anybody has a problem with that? Does anybody need to speak to it? Can you accept that as a work plan going forward, colleagues?

Go ahead, Mr. Byrne.

Hon. Gerry Byrne: Thank you, Mr. Chair.

Yes, I certainly can. It sounds like a good idea. I would have liked to have even more time with this particular group of witnesses because there are some witnesses who we really didn't hear much from because of the limitation of time.

I have a motion that has already been tabled on the floor of the committee calling for the production of documents, and I ask that we deal with it after dealing with this motion. Many of these documents were actually referred to by our witnesses during the course of their testimony, such as the actual statement of operational requirements, the Public Works and Government Services statement that confirms the validity of the statement of operational requirements.

I would like to go ahead and pass this motion. I'm not going to ask for a friendly amendment to it, but as soon as we deal with this, if we could deal with my motion on the production of documents and do so in a public way, I'd appreciate it.

The Chair: Okay.

I did recognize Monsieur Ravignat, so I will go to him before I go to you, but I will allow you that opportunity.

However, on the motion that's before us—that's your motion, Mr. Saxton, as amended through friendly discussion—let's have a quick show of hands.

All those in favour, please indicate.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: Monsieur Ravignat, you'd asked for the floor earlier.

That has now gone by? Thank you.

Mr. Byrne, you have the floor.

You're bringing forward your notice of motion?

Hon. Gerry Byrne: Yes. Thank you, Mr. Chair.

My notice of motion reads as follows:

That the Committee request, in electronic form, that the Department of National Defence and the Department of Public Works and Government Services provide it with the following documents:

The document that confirms the validity of the Statement of Operational Requirement.

The actual statement of Operational Requirement.

The full life-cycle cost analysis.

The Statement of Work and Performance Specification (Acquisition and in-service support).

The Bid Evaluation criteria.

The Treasury Board Submission for the F-35.

The requisition form for goods and services sent to Public Works and Government Services Canada from National Defence.

The questionnaires explaining the decision to proceed with a sole-source process for this acquisition.

The cost analysis for the infrastructure modification to operate the F-35.

The risk analysis produced by the Department of National Defence and Public Works and Government Services Canada for the acquisition of the F-35.

The cost analysis to keep the actual CF-18 operational until 2023.

The cost analysis for the phasing out of the CF-18.

The option analysis for the replacement of the CF-18; and

That the committee request this information within five calendar days.

The Chair: Okay. Very good.

The motion's in order. It's before you. It's debatable.

Mr. Byrne, did you wish to say anything further?

Hon. Gerry Byrne: No. I think, Mr. Chair, we—

The Chair: “No” and then you start speaking.

Some hon. members: Oh, oh!

Hon. Gerry Byrne: Thanks, Mr. Chair. I appreciate it very much.

The Chair: You're welcome.

Hon. Gerry Byrne: This is all information that was referred to by our committee members, so maybe just let's get on with the vote.

The Chair: Very good. Thank you.

Is there further discussion?

Mr. Saxton.

Mr. Andrew Saxton: Thank you, Mr. Chair.

The officials here today have promised the documents that you asked for earlier today, that were asked for by the committee. I assume the chair and the clerk will work with them to gather the documents that had been asked of them earlier today.

We do not seek to redo the work of the Auditor General in this committee. We seek to study the report of the Auditor General.

Therefore, Mr. Chair, at this time I would like to move a motion to adjourn.

• (1040)

The Chair: The motion's in order. It's not debatable.

Therefore, I'll ask the—

Hon. Gerry Byrne: I'd like a recorded vote.

The Chair: Yes. I was going to ask for a recorded vote myself.

Mr. Byrne has formally requested a recorded vote. I will ask the clerk to conduct a formal roll call vote on the motion to adjourn.

(Motion agreed to: yeas 7; nays 4)

The Chair: By order of a vote of seven to four in the affirmative, the motion carries. Therefore, this meeting now stands adjourned.

Thanks to our guests.

We'll see you all again on Thursday.

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