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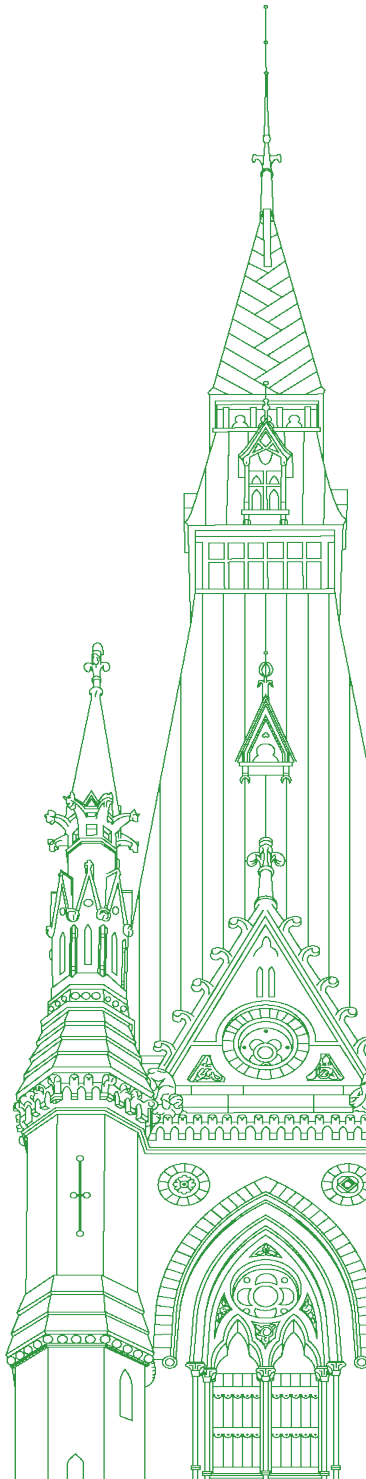
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Standing Committee on National Defence

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● (1100)

[*English*]

The Chair (Charles Sousa (Mississauga—Lakeshore, Lib.)): I call this meeting to order. Welcome to meeting number 50 of the House of Commons Standing Committee on National Defence.

Pursuant to the order of reference of Monday, October 26, 2026, and the motion adopted by the committee on Thursday, October 29, 2026, the committee is meeting to begin its study on Bill C-40, the strengthening Canada's defence sector act.

Today's meeting is taking place in a hybrid format, pursuant to the Standing Orders. Members are attending in person and remotely using the Zoom application.

Before we continue, I ask participants to consult the guidelines on the table. These measures are there to help prevent audio and feedback incidents and to protect the health and safety of our interpreters.

I have a reminder for the members and witnesses. Please wait until I recognize you by name before speaking. If you wish to speak, raise your hand; those on Zoom, use the "raise hand" function. The clerk and I will manage the speaking order as best we can.

For interpretation, use your earpiece and select the appropriate channel. If you need interpretation, I suggest that you take a moment now to prepare the earpiece and test it to make sure it works.

All comments should be addressed through the chair.

I would like to welcome our witnesses. We have Siobhan Harty, Slater family visiting scholar, Max Bell School of Public Policy, McGill University; Andrew Latham, professor of international relations, who is appearing via video conference; Alan Williams, former assistant deputy minister at the Department of National Defence; and Richard Shimooka, senior fellow, Macdonald-Laurier Institute.

Welcome, all of you.

We'll proceed now with an opening statement of up to five minutes from each witness.

Siobhan Harty, we will start with you.

Siobhan Harty (Slater Family Visiting Scholar, Max Bell School of Public Policy, McGill University, As an Individual): Thank you very much, Chair.

Good morning, everyone. I want to thank the committee for inviting me today to support you in your study of Bill C-40, the strengthening Canada's defence sector act.

Since this committee published its 2024 report entitled "A Time For Change: Reforming Defence Procurement in Canada", Canada's defence procurement system and broader ecosystem have been undergoing significant changes. Bill C-40 is the latest in a series of reforms to accelerate defence procurement by creating a Crown corporation, consolidating authorities, enabling more autonomous approvals and adopting commercial tools and practices.

To be successful, the design of the Crown corporation should correct some of the long-standing bottlenecks in the existing decision-making system. In that regard, I want to use my time this morning to highlight three design features you might want to consider in your study.

The first is governance. The DIA, or the Defence Investment Agency, will operate in and shape a rapidly expanding defence marketplace with new technologies and increased public and private sector investments. National security threats are evolving and warfare is changing, and so are alliances. Getting a range of views and perspectives on the board of directors will be important, so it's surprising that aside from the executive chairperson, the bill provides for only two directors from outside the public service. By comparison, the recently created Build Canada Homes Crown corporation has eight to 10, in addition to the chairperson; the Canada Mortgage and Housing Corporation has eight; Defence Construction Canada has four; and the Canadian Commercial Corporation has eight.

The second feature of the board that's unusual compared to most Crown corporations is the possibility of having up to three deputy ministers as ex officio members. The DM of National Defence is an ex officio member, and cabinet can appoint up to two more. On an already small board, that's strong representation from inside the public service compared to outside. It could be difficult to do things differently if new perspectives and interests are not sufficiently represented and if independence from the executive cannot be established.

The third is that Bill C-40 provides for the minister to issue directives to the Crown to carry out, or not, elements of its mandate that are specified in the bill, including how to carry them out. There's also the possibility that the Crown corporation might have to obtain the minister's approval before continuing to carry out an activity. Now, ministers can send letters of expectation or direction to Crown corporations, so this provision in and of itself is not unusual. What is more unusual is the possibility, explicitly stated, of the insertion of the minister in a decision-making continuum.

I raise these features because they point to a tension between providing more independence to the DIA, set up as a Crown corporation, and the need for oversight, particularly given the ongoing close co-operation that will be required with the Canadian Armed Forces and the Department of National Defence. The design features I highlighted could be included to manage that tension, but they could also, perhaps unwittingly, perpetuate some challenges with the existing decision-making processes—namely, multiple departments with different and sometimes competing interests and political interference in the decision-making process.

Of course, what exists on paper and what will exist in practice are two different things, but the DIA has been tasked with implementing the build, partner, buy framework from the defence industrial strategy, catalyzing industry, securing supply chains and driving innovation and investment, all while keeping the operational needs of the CAF front and centre. It's rightly ambitious and a new way of doing things.

To conclude, in that context, providing clarity on how decisions are made and by whom will be key for sending a market signal, building relations with industry and providing predictability in the procurement process.

Thank you.

● (1105)

The Chair: Thank you very much. I appreciate that.

Professor Latham, why don't we go to you on Zoom for five minutes?

Andrew Latham (Professor of International Relations, As an Individual): Mr. Chair and honourable members of the committee, thank you for the opportunity to appear before you today to discuss Bill C-40.

I want to begin with a straightforward proposition. The purpose of defence procurement is not just to support industry or create jobs, advance regional economic development or diversify trade relationships, however desirable those objectives may be in their own right, nor is reforming the institutional architecture of defence procurement simply a matter of improving administrative efficiency, streamlining procedures or accelerating the expenditure of public funds. The overriding purpose of defence procurement is to ensure that the Canadian Armed Forces are equipped to fight, and win, in the conflicts they will be engaged in. That means providing our armed forces with the right warfighting capabilities in sufficient quantities, delivered in time to meet emerging threats and supported by the industrial capacity supply chains, munitions stocks and sustainment arrangements necessary to remain effective through a prolonged conflict.

The appropriate measure of success is not how quickly contracts are signed, how much money is spent or how many domestic economic benefits are generated. It is whether Canadian soldiers, sailors and aviators have the equipment, weapons, systems and logistical support they need to prevail against capable adversaries under the actual conditions of modern warfare.

Industrial policy, economic development and administrative streamlining may all contribute to that objective, but they must remain subordinate to it. That, in my view, is the standard against which Bill C-40 and, indeed, every proposed reform of Canada's defence procurement system should ultimately be judged. If establishing the Defence Investment Agency as a Crown corporation advances that objective, the legislation deserves support. I, however, have a few serious reservations about whether the proposed reforms as presently structured, at least as I understand them, will achieve it.

My concerns fall in three areas.

First, procurement reform must begin with the realities of contemporary warfare, not with the mechanics of acquisition. The wars of recent years have demonstrated that modern combat is characterized not only by technological sophistication, but, echoing the First World War, ironically, by attrition, the enormous consumption of munitions, rapid adaptation to ever-changing battle space conditions and the vulnerability of supply chains. Military effectiveness depends not simply on possessing advanced platforms but also on having them in sufficient quantities, keeping them operational, replacing losses and sustaining them over time. A weapons system that cannot be maintained, supplied or replaced under wartime conditions is of limited military value, however impressive its technical specifications are.

Bill C-40 promises faster procurement and more effective industrial investment—I want to stress that those are very worthwhile objectives—but faster contracting does not necessarily produce greater combat power.

The proposed division of responsibilities between the CAF, the Department of National Defence, the Defence Investment Agency and the responsible ministers also raises questions about accountability. Who is ultimately responsible for ensuring that what Canada purchases is not merely delivered, but is operationally effective, available in sufficient numbers and sustainable in combat? Unless that responsibility is clearly established, we risk reforming the procurement process without solving the underlying capability problem.

Second, we must distinguish defence industrial co-operation from assured wartime supply. Canada's closer co-operation with European defence industries, including the European Union's SAFE network, offers genuine opportunities. The decisive question is not whether Canadian companies gain access to European contracts but whether those arrangements make the Canadian Armed Forces more capable and resilient in war. SAFE entails financial contributions and conditions governing industrial participation. Those costs and obligations require careful scrutiny.

More fundamentally, we must ask what happens if a major European war disrupts production and transportation or causes European governments, naturally, to prioritize the needs of their own armed forces. Under those circumstances, can Canada obtain the ammunition, replacement components, technical support and other supplies on which its military depends? Diversification is sensible in that context when it reduces strategic vulnerability; it is counterproductive when it simply replaces one set of dependencies with another.

● (1110)

Third, our procurement priorities must reflect the changing strategic geography of Canadian defence. For much of the post-World War II period, North America served as the secure industrial and logistical base from which NATO projected military power across the Atlantic and into Europe. That assumption, I would argue, is increasingly untenable. Long-range strikes, undersea threats, cyber operations, sabotage and other forms of hybrid warfare and grey-zone conflict mean that Canada and the North American continent are themselves potential theatres of attack. The Arctic, our main maritime approaches, critical infrastructure and defence industrial facilities are all no longer safely removed as a potential combat or operational environment.

This makes the Canada-U.S. defence relationship more important, not less. Whatever the political difficulties are in that relationship at the moment, and they are many—legion, in fact—geography and the requirements of continental defence remain unchanged. Our procurement choices must reflect those enduring realities rather than the political circumstances of the moment.

Mr. Chair, I would conclude with three questions that I believe should guide this committee's consideration of Bill C-40.

Will the proposed arrangements deliver the military capabilities Canada requires in the quantities required and within operationally relevant timelines?

Will those capabilities remain available and sustainable through a prolonged conflict, including one in which our allies face competing demands and international supply chains are disrupted?

Will Parliament hold identifiable decision-makers accountable for operational outcomes, not merely for the contracts awarded, money spent or industrial activity generated?

To my mind, these are the tests that matter.

I want to be clear that I support the objective of reforming Canadian defence procurement, but I remain skeptical, shall we say, that creating a more commercially agile Crown corporation by itself will resolve the deeper problems of strategic prioritization, military requirements, industrial resilience and accountability. The measure of success must not be how efficiently Canada buys military kit. It must be whether the CAF have what they need to fight, in the quantities they need it and when they need it.

Thank you. I look forward to your questions.

The Chair: Thank you, Professor.

Those are three good questions that I think this committee is going to be dealing with throughout our study.

Mr. Williams, it's over to you for five minutes, please.

● (1115)

Alan Williams (Former Assistant Deputy Minister (Materiel), Department of National Defence, As an Individual): Mr. Chairman, thank you for inviting me to appear before your committee on the subject of Bill C-40.

[*Translation*]

After spending 20 years advocating for a single minister to be responsible for defence procurement, I was pleased to see a government finally attempt to correct this fundamental flaw in the procurement process by introducing Bill C-40.

[*English*]

However, as it is currently written, not only does Bill C-40 not hold one minister accountable for defence procurement, but it also muddies the accountabilities even further. Instead of two departments and two ministers involved in defence procurement, under Bill C-40, we will now have two departments, one Crown corporation and three ministers involved in defence procurement. While the minister of Public Services and Procurement Canada remains responsible for the renamed defence and national security production and procurement act at a departmental level, Bill C-40 explicitly gives the new Crown corporation many of these exact same powers. We will now have two ministers who can buy goods and services for the Department of National Defence.

Why not transfer the authority for the act to the Crown corporation? Why not have the DIA handle all defence procurements, not just those above an arbitrary and administratively dysfunctional threshold? Proper oversight by Parliament, the media, the Treasury Board and its regulations and procedures, the Financial Administration Act, the Department of Finance and the Auditor General should ensure that the DIA does not have unchecked power.

[*Translation*]

As I explained in detail in my book, *Reinventing Canadian Defence Procurement: A View from the Inside*, assigning responsibility to a single minister would generate significant savings by eliminating overlap and duplication, while shortening processing times by removing multiple approval chains. Under Bill C-40, however, we can instead expect additional administrative costs, with no reduction in processing times whatsoever.

[*English*]

In addition, placing full accountability with one minister would greatly facilitate the introduction of system-wide, publicly accessible performance measures. Famed management guru Peter Drucker once stated, “Any government, whether that of a company or of a nation, degenerates into mediocrity and malperformance if it is not clearly accountable for results”. Without indicators open to public scrutiny, performance suffers.

The fact is that performance measures have been proven to work. During my tenure as assistant deputy minister for materiel, by introducing performance measures we reduced the procurement cycle by 40%. However, these measures were only internal to DND, not system-wide, and they were not publicly monitored. They were dependent on people, not on a rigorous, well-defined process. When the people changed, the results changed. Unfortunately, within a few years of my departure these time savings evaporated. With one minister in charge and with system-wide performance measures open to public scrutiny, these time reductions would likely have endured or even increased.

I would like to close with one final comment. I have observed that under the pretext of improving the timeliness of the defence procurement process, the Defence Investment Agency is abandoning the tenets of openness, fairness and transparency that underpin the integrity of the process and ensure that our men and women in the military are getting the best products to meet their needs. Such actions are both dangerous and unnecessary.

Thank you. I look forward to responding to your questions.

The Chair: Thank you, Mr. Williams.

We will conclude our opening statements with Mr. Shimooka.

Richard, it's over to you for five minutes.

Richard Shimooka (Senior Fellow, Macdonald-Laurier Institute, As an Individual): Thank you, Mr. Chair.

Thank you for inviting me to this committee again. I will try to keep my comments short in order to maximize time for questions.

About a decade ago, a groundbreaking study was conducted by David McNicol at the United States' Institute for Defense Analyses, examining the outcome of organizational changes on the Department of Defense. Surprisingly, he found there was no correlation between the 40 years of structural reforms of U.S. acquisition systems and any improvement in program outcomes. During that time, there were a number of major reforms to their systems, which overhauled fundamental aspects of how they operated, similar to how Bill C-40 is conceived.

Other studies have found similar findings from different countries. I'm willing to bet that if we took Canada's data and ran it, we'd find the same outcomes.

What was correlated was strong budgets. Specifically, the stability of funding was critical for good outcomes. This tended to deliver objectives in terms of cost, performance and schedule.

Let's think for a moment about what a budget is, other than just money. In a way, it is the purest form of political priority. When money flows, the system and its inhabitants listen.

Robust budgets also develop and sustain program management capacity. Our current system itself has been suffering from decades of underinvestment, resulting in program offices that are severely understaffed, as National Defence has neither developed nor retained the technical and human capital required to oversee acquisition in this new era of military capabilities.

I think of these dynamics when I consider the various components of Bill C-40. Certainly, there are several positive initiatives, and there have even been reforms I've advocated for in front of this committee, such as increasing the flexibility of programs and simplifying authorities. However, I worry that Bill C-40's benefits are transitory at best and will not translate into long-term improvement.

I see three major concerns.

The first is that the priorities of the procurement system remain conflicted. There's a significant and underlying tension between acquiring capabilities for the defence of the country and fostering economic development. There are no criteria to determine what specific capabilities must be sovereign because of unique defence needs.

Rather, I'd argue, from the small sample size of DIA programs, that capabilities were selected purely because they provided some economic benefits for Canada. The selection of Saab's GlobalEye airborne early warning and control aircraft is one of the clearest examples of this. Navigating this tension can be highly problematic given the lack of accountability structures in the proposed systems, as some of the panellists have discussed.

Second, as I've noted above, there's a lack of experienced program management capacity within government. Bill C-40 potentially provides powerful new authorities, but to effectively utilize them, you need individuals who can exploit them. It takes what Richard Haass would describe as bureaucratic entrepreneurship.

My blunt assessment is that our government does not currently have the requisite technical management expertise to effectively utilize these authorities, something that requires decades of experience and human investment.

This brings me to my third and final point, which is perhaps the core of McNicol's study. Without long-term consistency of funding and strong sustained political direction, the potential benefits of Bill C-40 will be unrealized. Individuals will not have the room to undertake the necessary entrepreneurship.

I think back to the 2010s, when the need for cost controls resulted in any initiative and alacrity being thrashed out of the system in favour of increased process and the ensuring of value for money. There are already early signs of this occurring, such as the recent report that Canada may not acquire 12 type 212 submarines, as originally envisaged, but may instead acquire only eight.

The passing of Bill C-40 is just the first step, and it's certainly the easiest. I hope that the government appreciates this as it attempts to pass this monumental piece of legislation.

Addressing these challenges will take years, if not decades, of sustained political leadership and funding. The current political moment clearly has placed great political priority on improving the defence of Canada and, by extension, the system that acquires those capabilities, but many prior governments have made similar pledges only to renege on them as political priorities change. I hope the government can break this cycle, especially given the challenging future we now face.

With that, I thank you for your time. I look forward to any questions from the committee.

● (1120)

The Chair: Thank you, Mr. Shimooka.

We don't want to renege. We want to proceed to try to provide for and support our defence, our sovereignty and our economy.

With that, we'll go to our first round of questions, for six minutes. We're going to start with Ms. Gallant.

Cheryl Gallant (Algonquin—Renfrew—Pembroke, CPC): Thank you, Mr. Chairman.

My question is for Alan Williams.

This government is turning the DIA into a Crown corporation in order to prevent its CEO, Doug Guzman, from quitting after he claimed that he was frustrated with the slow pace of our public service.

Do you believe Mr. Guzman's account is accurate, or is he not accustomed to how our public service operates?

Alan Williams: I can't speak for Mr. Guzman, and I have no inside knowledge.

However, I have clearly articulated in my comments how, in fact, whether it's a Crown corporation or any other government structure, you can improve the performance and timeliness.

He comes from the private sector. I would hope that he knows that in the private sector, as well as in our own personal lives, if you hold people to account, you get results, but if you obfuscate accountability, you don't get results. If you tell your three kids to put out the garbage but don't specify which one should do it, it probably won't get done.

What I've articulated is that if he wants to improve the process, he should implement the kinds of actions we've talked about here: Hold one minister accountable and have performance indicators that everybody can measure. That will ensure improved performance, as was proven when I was the ADM in charge.

Cheryl Gallant: Will the DIA move projects faster as a Crown corporation?

● (1125)

Alan Williams: It won't by itself, simply because you change the structure. In fact, as I've articulated it and as I understand it—and if someone wants to correct me, I'm happy to hear that—you now have one more minister in the pot.

I appeared before the Senate committee last week. In the session prior to mine, all the questions by the Senate members were directed to the Treasury Board and DND officials about the interrelationship between the Crown and the department. Who has authority for what? This is muddying the waters totally. It makes no sense to me whatsoever that you would treat a $95-million program differently from a $105-million program. They're both subject to the same legal parameters. They both exceed the Canadian Free Trade Agreement threshold. In fact, if you do that, what happens to the other $95-million budget and the bids coming in at $105 million? Do you shift? Conversely, the other way....

It could be that they'll handle projects under $100 million anyway—bids coming under that—or that the department will handle bids over $100 million. I'm saying that this is unnecessary bureaucracy that just slows things down and allows for fights between the two organizations.

Cheryl Gallant: Is there a risk that the new Crown corporation will sometimes act against the interest of this government because of its fiduciary duty to act in the interest of the DIA?

Alan Williams: I can't anticipate that. I would hope that they would follow the direction of the Prime Minister and of the ministers in charge. As I think my colleague just mentioned, the minister gives direction in any case, so I would expect that not to be the case. I'd be disappointed if there was any hint of that.

Cheryl Gallant: Thank you.

Mr. Shimooka, as a Crown corporation, how would the DIA handle procurements differently from its current ability? For instance, how would it handle projects such as the arctic over-the-horizon radar?

Richard Shimooka: From what's been read and from looking at how the DIA has previously operated, they're hoping that trying to build out smaller groups able to make decisions more quickly and then having less accountability as parts of it will improve this capability. You'd have a single minister—or whoever's in charge of this new agency—who will push through these programs.

Now, what I will say is that, yes, there has been some improvement, but I have real difficulty trying to winnow out whether that is because of the structure or because the current Prime Minister sees this as a major priority and is pushing the bureaucracy to get programs done.

I think back to 2006 and 2007 when we bought the C-17s. It was because the prime minister at the time, Stephen Harper, basically said, “We want to buy this now. We have operations in Afghanistan, and this needs to happen”, and the system worked. However, when there isn't that political priority to push it through, the system slows down. Process builds up.

We want to ensure that we get the value for money and that we have fairness monitors in place. Right now, yes, we can see this. The hope is that this will continue. However—and this is probably the core part of what I'm trying to say—you aren't building a new system in which individuals have the ability to make decisions quickly and have the real view that it is a priority, continually, to push through these decisions. I don't see that with this legislation.

Cheryl Gallant: Having the Prime Minister squarely behind—as his priority—getting a piece of procurement through and using the Privy Council Office would be more efficient than building a new Crown agency.

Richard Shimooka: [*Inaudible—Editor*] like that.

Cheryl Gallant: How would we ensure that the DIA would meet up with its commitment and spend public dollars wisely in order to get our troops the equipment they need to carry out their duties, the missions we give them?

Richard Shimooka: There are many different parts to that.

Think about the previous system: the delays and the cost overruns that are associated with the lost financial firepower. You have a budget that was built for something that was supposed to happen within five years, and it really takes 15 years to get it. There are multiple ways in which the previous system was never cost-efficient. It was never designed to ensure that you would have the capability there. The hope is that, if we can deliver these capabilities quickly and nimbly and incorporate some aspects of industrial benefits, this would do so.

It's difficult for me to foresee how that's going to occur in the coming years, given that there are so many other variables.

Cheryl Gallant: Mr. Alan Williams wants to comment.

Alan Williams: What it shouldn't do is that it shouldn't do what it has done with regard to the submarines and the airborne aerial system.

In both cases—and I mentioned this—it bypassed openness, fairness and transparency. We do not know—no one here knows—why TKMS was chosen. We do not know how the selection was downloaded to just two suppliers when there are many other countries that, in theory, could have produced those submarines. With the GlobalEye, we don't know why it selected the Swedish model. We do know that the Swedish model does not meet our statement of requirements: It can't do.

It's this lack of openness and transparency. My view always has been that if you go through the front door and do things with due process, the result will be the right one. When you try to expedite procurements by bypassing all of that, chaos reigns at some point in time in the process. You either get something that doesn't function well, or you're spending a lot more money than you ought to. Most importantly, when you're spending billions of our tax dollars, we ought to be assured and have confidence that they were spent, as I think one of our colleagues just said, to get the best equipment for our men and women.

I would point out, too, that with the submarines, when the announcement was made, we didn't say at all in the announcement “best product”. We lauded the industrial benefits. If you understand the procurement process, only 20% of the evaluation marks were given to the technical capability of the submarine. Usually, it's 60% to 70%. I think it's as my colleagues have mentioned. Where is our priority? Is it industrial benefits, or is it getting the right thing for our men and women?

● (1130)

The Chair: Thank you, Mr. Williams. I appreciate that. I gave you a little extra time because it was important commentary.

Ms. Lapointe, it's over to you for six minutes.

Viviane Lapointe (Sudbury, Lib.): Thank you, Chair.

Professor Harty, in your opening comments, you highlighted three features, I think, that you thought we should take note of, one of which was the governance model, where you talked about the composition of board directors being very important in terms of having a wide range of views and perspectives.

At the risk of asking an obvious question, which would then force you to give an obvious answer, what is that balance we need in terms of inside and outside representation? Who would you want to see from the outside that would bring that balance to the governance model?

Siobhan Harty: Thank you for the question.

I'll start by saying that the Crown is supposed to be at arm's length from government. That's why it strikes me as odd that you would have potentially three deputies on this.

If you look at CMHC, they have two deputies, ex-officio, so that's fine. You can do it, obviously, but it's more the balance. If a Crown is meant to operate more on private sector principles while fulfilling certain public sector objectives, I think it's important to find that balance.

It doesn't seem to be so present here. I don't mean balance like 50%. I think, indeed, if it's a Crown, then there's a reason for that. Given the evolution of the defence sector—some of the things Professor Latham noted—why not have both representatives from industry and previous CEOs of industry? Why not have former commanders? Why not have retired representation from the Canadian Armed Forces? There are plenty of experts out there in a burgeoning field.

If the Crown has authorities to do different kinds of things financially, obviously Mr. Guzman has that experience, but it might also be that you want to go and get that experience from more of a financial perspective. How do you procure new things like AI and fast-moving tech? There has to be some private sector expertise that could inform that. Having that on a board to provide guidance would kind of position the DIA to deal with all those changes that some of my fellow panellists have noted.

Thank you.

Viviane Lapointe: Still with you, Professor Harty, how does establishing the DIA as a Crown corporation bring Canada in line with other specialized procurement structures and organizations that we would see amongst NATO allies such as the United Kingdom, Australia and Sweden?

Siobhan Harty: It's not the Crown per se that would bring us into alignment. What would bring us into alignment are some things that have been noted by Mr. Williams. It's having that focus of authorities and that one point of responsibility, which is what this proposal was intended to do, as well as the previous one in Bill C-31.

There are some features of it, as noted by people on the panel this morning, that call that into question what it will look like when it hits the ground running. I pointed to some, but Mr. Williams also pointed to the fact that there will still be quite a number of ministers involved, so that could be a challenge. If the problem is that we have too many players and the solution is creating a streamlined organization with one clear point of accountability, I'm not sure that we'll have achieved that.

It's not just the presence of interest from within the public service on a board of directors. Similarly, there's the number of ministers that are involved from a legislative perspective. We'll see how having a new associate minister at defence will work, but the minister for PSPC will still be involved in terms of responsibility for the Defence Production Act. I would also ask why that is necessary. There's been some mirroring of authorities between the Defence Production Act and the bill to create the DIA. Why? It tells me that the Minister of Public Services and Procurement will continue to be involved in defence procurement if that minister continues to be responsible for the act.

I think that's going to be challenging in terms of holding the government to account on defence procurement, but even more fundamentally, it's going to be very confusing for industry. The promise to industry with the defence industrial strategy and other things was to have one door, and I don't know that will necessarily be achieved. At the end of the day, we'll see how it's implemented, but on paper, it continues to feel like there will be a lot of people involved.

● (1135)

Viviane Lapointe: I want this committee to fully benefit from your rich experience in procurement.

Can you tell us how Bill C-40 would ensure that the commercial independence of the DIA is matched with what I'm sure you would agree are the critically important notions of oversight, reporting, audits and guidelines, as seen in other government enterprises?

Siobhan Harty: There have been critics saying the challenge with a Crown is that there is an accountability issue. I would say that we have many Crowns at the federal level. There is already an accountability framework for Crowns. I am personally less concerned about that. It is definitely different accountability compared with that for a department, but there are trade-offs.

The government made a decision in considering those trade-offs that the advantage of having a Crown is independence and being able to use more commercial practices.

In terms of the question about whether things could go more quickly, there's a possibility for that to happen. The DIA won't need to go to Treasury Board for contract authority the way it does now. Some of the procurement policies that exist now won't necessarily be applied in a more commercial space. That needs to be validated, but that could be an assumption.

There is still going to be accountability through the minister. We'll have to see what the Auditor General's remit will be in that space, because that's not clear yet, but those things are still there. It's different, and it will obviously be different for you as parliamentarians, but that's not to say that there's no accountability framework whatsoever.

The Chair: Thank you.

Thank you for the questions and the responses.

[*Translation*]

Mr. Barsalou-Duval, you have the floor for six minutes.

Xavier Barsalou-Duval (Pierre-Boucher—Les Patriotes—Verchères, BQ): Thank you, Mr. Chair.

Ms. Harty, I found it interesting that you touched on the issue of the well-known $100-million threshold above which projects are handled by the Defence Investment Agency. Mr. Williams also raised the matter, saying that it creates confusion for industry. However, Bill C-40 makes no mention of this $100-million threshold.

Would you like to see the bill clarify that the agency's responsibilities are not limited to projects worth $100 million or more, as they are at present?

Siobhan Harty: Thank you for the question.

That's a policy matter. In my view, it doesn't belong in the legislation. It's not necessary.

The threshold is currently set at $100 million. That decision was made when the government created the agency, which currently falls under Public Services and Procurement Canada. That remains the threshold in effect today. However, there is no need to maintain that threshold if the agency becomes a Crown corporation. Changes could be made.

What's happening now, with the $100-million threshold in place, is that it has implications for small and medium-sized businesses. If the government wants to develop Canada's industrial base, it must recognize that this industrial base is largely made up of small and medium-sized enterprises—

Xavier Barsalou-Duval: Let me stop you there for a moment before we unpack the very interesting issue you've raised.

I do still have some questions. The Defence Investment Agency is a new organization, and we don't yet know whether it is actually operational. I therefore assume that the $100-million threshold may also have been intended to ensure that the agency had the capacity to handle the files assigned to it.

I take it that you view this $100-million threshold as a temporary measure that should eventually be removed once the agency has reached full operational capacity.

I'm putting words in your mouth, but I just want to make sure I understand correctly.

● (1140)

Siobhan Harty: Exactly. As I said, it's a choice. If Bill C-40 becomes law, the government will decide how to proceed and which files should be assigned to the agency.

Xavier Barsalou-Duval: Mr. Williams, do you have anything to add on that? I did hear you raise it earlier.

[*English*]

Alan Williams: I guess it's always theoretically possible that the government will move away from that threshold to no threshold, but from everything I've read and heard, I think that's very unlikely. There doesn't seem to be any suggestion of that. In fact, going from Bill C-31 to Bill C-40 clearly moved the DPA, the Defence Production Act, or whatever it's now called, back to that minister. They had it more in one part, if you will, with one minister, and moved away from that, so it's unlikely that they are going to basically move it back and have just one organization accountable for the whole management of defence procurement. That's what I would argue.

[*Translation*]

Xavier Barsalou-Duval: Do you get the sense that this is being done because the plan is to appoint the big shot, Mr. Guzman, to handle the major projects while leaving the smaller stuff to the regular public service?

[*English*]

Alan Williams: I can't comment on the motivation of the individual. As I think we've all said, though, it's dysfunctional. There is no benefit whatsoever in the dispersion of accountability. Make up your mind, hold one person accountable, put in performance measures and stop making excuses for why defence procurement is so slow. You can fix it.

Being a cynic, I would say the reason you don't fix it is that you like to argue it's so slow and you can't do anything about it. Fix the darn thing and get the men and women what they need as quickly as possible.

[*Translation*]

Xavier Barsalou-Duval: Thank you for your answer.

Ms. Harty, let me come back to you because we were about to discuss small and medium-sized businesses and the opportunity for companies to bid on contracts. I have two concerns that I would like to get your views on.

The first is about the competitive procurement process. To me, it's not clear that Bill C-40 reflects a genuine commitment to competition. Is there a way to ensure that it does?

The second has to do with your comments on political will and how decisions appear to be made on the basis of industrial and technological benefits, job creation and the like. However, that doesn't appear to be part of the agency's mandate either. At any rate, Bill C-40 does not clearly state that this is one of its objectives.

I would like to hear your thoughts on those two issues.

Siobhan Harty: The first question is about exceptions to the process, is that right?

Xavier Barsalou-Duval: Yes, I'm talking about the competitive process.

Siobhan Harty: Okay.

I think that's a question for Mr. Fuhr.

From the government's perspective, the important thing is clarity. The default is a competitive process, but what will the exceptions be? That needs to be made very clear.

It also needs to be clear to industry. As we've seen from other examples, the government's decision-making process isn't always transparent.

You could also link this to the buy Canadian policy.

This is one of a suite of policies. As I said, these are sometimes choices. There's a list of possible exceptions that the government could choose to apply depending on the circumstances.

In some situations, a competitive process may not be worthwhile, such as when only one company is capable of fulfilling the contract, or when the Canadian Armed Forces are involved in a situation abroad that requires a very rapid response.

Xavier Barsalou-Duval: Thank you.

I see that—

The Chair: Time's up, Mr. Barsalou-Duval.

[*English*]

I'm sorry. We'll come back.

We're going to our second round of questions now.

We're going to begin with Mr. Kibble for five minutes.

Jeff Kibble (Cowichan—Malahat—Langford, CPC): Thank you, Mr. Chair.

I'll start with Mr. Latham.

Thank you, everybody, for your amazing input.

Mr. Latham, I agree with you that the focus should be on building a military capability and that should be the metric. After reading the defence industrial strategy, the new national security strategy and the plan to have more plans, and after looking at the defence investment agency, they all seem to have a sense of making economics the priority and not the metric that you've defined.

Would you agree with that? What would you recommend that they change to get the focus right? I think we all agree that to defend Canada's sovereignty, we need to get this metric right. What do you recommend?

● (1145)

Andrew Latham: Thank you for the question. It's spot on.

If you ask me, part of the problem underpinning this entire debate is that defence procurement, not just in Canada but really across the world, is governed, shaped and inflected by multiple overlapping, competing and conflicting interests and incentives. Do we want regional economic development? Do we want technical innovation to take place onshore rather than offshore, etc.?

Only part of that mix and that very complex constellation or mosaic is this: What do our aviators, troops on the ground and sailors need in the actual combat environment they're likely to find themselves in? That's not the ones of yesteryear or the Cold War, and it's not peacekeeping and all of that, but real, hot war. It seems when you're trying to reconcile those conflicting and competing interests—some of which have institutional homes, by the way, which makes it even more complicated—that's what drags the process out seemingly endlessly.

I think Canada has something of a reputation on the world stage for being one of the slower countries when it comes to moving from idea to deploying weapons and systems. How—

Jeff Kibble: I'm sorry to cut that short, because it's important, but I have limited time.

I wanted to ask Mr. Williams a question.

I appreciated your “chaos reigns” comment, and I would like to explore public scrutiny and accountability. As it is drafted right now in the bill, is it open to manipulation? We've seen, with the GlobalEye, a sole-source contract and other Canadian suppliers cut short with no reasons given to the public or to Parliament. On top of all of that, there is no contract.

Is it being manipulated? What steps can be taken to solve this problem that we're seeing already?

Alan Williams: Let me be clear: Defence procurement is an art, not a science. Anybody who understands the rules and regulations knows how to work within the framework honestly to achieve it or to bypass it. Under the Canadian Free Trade Agreement, you can invoke article 801 on national security and bypass competition. You can do that whenever you want to do it. Is that the right thing to do? Obviously it's not.

Jeff Kibble: There were no reasons.

Do you feel there should be reasons for these types of decisions?

Alan Williams: There have to be reasons, but basically, it's unchallengeable, so the question becomes this: Does the government want to be open, fair and transparent, as Mr. Latham and others have said, to get the best product for our men and women by going through a competitive process, or does it want to bypass competition and select company X or company Y for some unknown reason, which opens the government up to challenges and questions?

Jeff Kibble: Both of those paths are valid and are often required when you have to do that sole-source contracting. I agree with that.

Does this bill provide the accountability and openness to Parliament and the public when those decisions are made—not to challenge the decisions, but so that people are aware of what the government is doing and why?

Alan Williams: I don't think any bill can guarantee what you're asking for, because anybody can use the system publicly to get what they want if they know how to use it. You can't guarantee accountability. What you can do is make it easier to identify the point of accountability and hold that person accountable for undertaking an open, fair and transparent competition unless and until there's a legitimate reason not to do so, and there are. There are many exceptions to it, be they unforeseen urgency, compatibility or interoperability.

Jeff Kibble: Thank you.

Very quickly, Ms. Harty, you mentioned private sector directors, and there are only two right now in the MPO, the Major Projects Office. We're seeing employees who are still on the payrolls of companies and who are advising for those very companies and making recommendations within. I'm not saying that they're directors, but how do we prevent that from happening? Does this bill prevent that from happening? I don't see it anywhere in the regulations. I think it's important.

Do you agree, and how do we make this bill prevent that?

Siobhan Harty: My comments were about the board of directors. There are certain provisions in the bill about their status and how they would get paid. I think that part is fine. It's very similar to other legislation for Crown corporations.

I think you're talking about hiring people to be on staff.

Jeff Kibble: How do we prevent that conflict? It's not happening there.

Siobhan Harty: There are rules and regulations about conflict of interest. What I don't know is how it applies to Crown corporations. It's not something I know, but I'm assuming that those things would be in place too.

● (1150)

Jeff Kibble: Are you seeing that in the bill right now?

Siobhan Harty: I don't know that it's in the bill, but it doesn't mean that it doesn't exist and that it wouldn't be part of a hiring process.

The Chair: Thank you, both.

Mr. Malette, it's over to you for five minutes, sir.

Chris Malette (Bay of Quinte, Lib.): Thank you.

Thank you to the witnesses for appearing with us today. Your testimony is much valued.

I'll start with you, Mr. Shimooka. I heard your opening remarks and your interpretation of the legislation and where it might or might not go. Do you see any opportunities for Bill C-40 to create Canadian innovation in such areas as artificial intelligence, aerospace, cybersecurity and advanced manufacturing?

Richard Shimooka: I think the bill itself, as written, can do that. I think it gives a lot of flexibility. That's what is necessary. I can think of multiple different pathways that other countries are trying to follow, such as building defence marketplaces for not just drones but large-scale capabilities, or the innovative uses of IP and industry-government partnerships that allow for that.

The real challenge here is that we just don't have the human capacity to do it. We cannot execute. Some of the people you want to have run this may have to come from industry, because there's nobody in government who has ever trained for this and has any sort of idea of that. Also, if you think of some of these specialist areas in defence, such as electronic warfare, or some of those who have high-level security clearances, these people are as rare as hen's teeth.

Chris Malette: That brings me directly to my next question.

Richard Shimooka: I'm sorry. I cheated.

Chris Malette: No, that's okay. Let's carry on with that thought.

What role could the proposed Canadian corporation for defence investment play in attracting private sector investment and encouraging Canadian companies to expand not only their production capabilities but also their input in the areas you just outlined?

Richard Shimooka: I think there are two parts. One goes back to what Dr. Harty has already identified. Basically, if we have a governance structure that allows them to have some insight into some of these decisions.... I am not necessarily as hostile towards having industry input, because they are a critical part of this. With some of these technologies, frankly, government has just not looked at this forever, or it's so new that it has not gone through the science system and there's no IP that can be touched. Having a bit of that is helpful.

My core point is that they need to see this long-term demand signal. They need to see that in 2035 we are at 3.5% and to know that's the case. I think there is a growing worry that.... I mean, we have a budget today, so maybe that's part of it. Maybe this is not really relevant, but it can be changed very easily. I think back to the Harper era when they were going to do something for defence. In 2014 we were at 0.9%. That's critical as well.

The very last point is that I think Bill C-40 allows for bringing in individuals who are outside the pay scales, which will allow them to be compensated fairly. There is a real challenge here. If somebody can work for Google for $250,000 or $500,000 a year or get a government thing, they're not going to do the government thing. I actually know several engineers who would love to work for the government but who look at this and say, “I'm sorry. I'm just not going to do it.” That's just the reality of the technical expertise.

Chris Malette: I have one last question, then, for Dr. Harty.

Do you see an opportunity, Dr. Harty, for Canadian small and medium-sized businesses to benefit from the increased focus on domestic defence production and procurement?

Siobhan Harty: That would be the plan. I think the defence industrial strategy is very clear on that. It's a nation of SMEs, and that definitely is a key part of the developments in the defence industrial sector, not just here but elsewhere.

There are a couple of issues, such as how to bring them in on contracts. Often we contract with primes, and then it's the challenge of getting the subcontracts. I think the defence drone initiative is really a nice innovation in the space that tries to change things up. That was done with the DIA, despite the threshold of $100 million. There are opportunities there for sure. I think that will be really key going forward.

They are positioning themselves. They're very vocal. They're obviously interested to know where things will land. When this is all said and done, if the bill gets through Parliament, who will they interact with? They would, of course, want to be able to benefit from some of the flexibilities and other innovations that come with setting up the DIA. I think that's something the government will need to consider.

● (1155)

Chris Malette: To that point, we have the concierge service that has been brought online specifically for the SMEs to help give them that access they didn't have before.

Mr. Chair, how am I looking here...?

The Chair: Your time is up, Mr. Malette.

Monsieur Barsalou-Duval, you have two and a half minutes.

[*Translation*]

Xavier Barsalou-Duval: Thank you, Mr. Chair.

I'll pick up where I was interrupted earlier. I had asked Ms. Harty what guarantees there are under Bill C-40 that competitive procurement processes will actually be used. I'm concerned about that.

There also seemed to be some discussion about how this may benefit Canada. Even if it is a government policy, I don't see anything in Bill C-40 that imposes an obligation in that regard either.

I know that Mr. Williams and Mr. Shimooka wanted to add something.

Mr. Shimooka, I'll let you start.

[*English*]

Richard Shimooka: I want to tie this to your previous question about the $100-million threshold, because I think it in some ways reflects this issue. Why is it $100 million? It's because presumably everything above that threshold means that other considerations are at play. We have to ensure where the money is going through ITBs or what the domestic benefits are coming out of this. That's where the challenges start emerging. ISED has to ensure that they have the domestic here and that....

In my personal view, I would like to see thresholds go much higher. If we're thinking about what Professor Latham talked about and the need for a war-fighting procurement system economy and all of that, I see that when smaller programs are run through the department, they know exactly the requirements. They can very easily follow the same guidelines and say that this is the amount for which we have to ensure where the investments go when they apply. They can implement that. It's a very simple and effective process. We don't hear about programs that are under $150 million having real issues or major delays.

It's with the big programs, the large-scale ones, the River-class ones or programs like that, where the real challenges are, because we've incorporated—

[*Translation*]

Xavier Barsalou-Duval: I'll stop you there.

One of the arguments advanced for turning the Defence Investment Agency into a Crown corporation was that it would operate independently of government. The trouble is that its board of directors could be composed entirely of government officials, including deputy ministers and the CEO. It's actually a very small board.

I would also point out that directives could come directly from the minister and that the focus is specifically on major projects, which strike me as being even more political in nature.

Don't you get the impression that the opposite is actually happening here, namely that major procurements are being highly politicized because of this Crown corporation?

Mr. Shimooka, you can finish the point you were making, but I would also like to hear the other witnesses' views on this.

[*English*]

Richard Shimooka: The same challenges still apply. That's the problem, sir.

[*Translation*]

Xavier Barsalou-Duval: What do you think, Mr. Williams?

[*English*]

Alan Williams: I would just point to, as I've said, the reality. The fact is that the two major procurements that this organization takes accountability for and is proud of have both bypassed open, fair and transparent competition.

It's like Mr. Shimooka said. The risk is that it will become more political. It was set up potentially for that reason. We're the only country in the western world that has diffused defence procurement. We're the only country in the western world that has legislation governing defence procurement. No other department or no other country has that. We're unique with the Canadian Free Trade Agreement. Parliament has said, “We want you, basically, to run competitions, except for specific reasons that are laid out.”

We ought not to distort that by inventing reasons to bypass competition in order to say, “Look how fast we've done it.” As we've all argued, our objective isn't to do it fast. It's to do it right.

You can accomplish both by going through the front door—open, fair and transparent competition—and that's what we should do. As has been proven, if you do it and if you have performance measures, you will be successful. Any other approach, to me, is a complete violation of the ethical and moral obligation we have to our armed forces.

● (1200)

The Chair: Thank you, Mr. Williams and Monsieur Barsalou-Duval.

I am now going to Mr. Anderson for five minutes.

Scott Anderson (Vernon—Lake Country—Monashee, CPC): Thank you very much.

I'm going to ask each of you three questions. They're almost rhetorical, but I'd like an answer. I'd like to get this on the record.

What should the final priority be: national defence, security or economic stimulation?

Professor Shimooka is first.

Richard Shimooka: I have a personal view that the threat environment is so bad that we need to get capabilities now. We just do not have a military. Yes, it's defence.

Scott Anderson: Mr. Williams.

Alan Williams: Absolutely, its priorities should be getting the right thing for our men and women at the right time and for the right price.

Scott Anderson: Thank you.

Ms. Harty.

Siobhan Harty: We're doing this for national defence, at the end of the day.

Scott Anderson: Thank you.

Professor Latham.

Andrew Latham: It should be national defence, and we should be mindful that we are not in the 1930s or the 1990s. This is 2026. The battle space has changed. We need to equip our men and women for this battle space nimbly, quickly and effectively. That's the bottom line for me.

Scott Anderson: Thank you.

Would you support amendments that include additional reporting mechanisms to ensure greater transparency, Mr. Shimooka?

Richard Shimooka: Yes.

Scott Anderson: Mr. Williams.

Alan Williams: Absolutely.

Scott Anderson: Ms. Harty.

Siobhan Harty: Not necessarily.

Scott Anderson: Professor Latham.

Andrew Latham: I would say yes, as long as—and more importantly—there is military input and not simply political and/or industrial commercial input into the decision-making process.

Scott Anderson: Would you support the inclusion of an appeal process for individuals or companies excluded from the process, Mr. Shimooka?

Richard Shimooka: It would really have to depend.... That's a much more complex question.

Alan Williams: They exist today.

Siobhan Harty: I agree that they exist today.

Scott Anderson: Okay. I'll leave that one off then. I know it's a much more complex question.

Professor Latham, who should be accountable when military requirements change, contracts are delayed or procured equipment can't be sustained in service?

Andrew Latham: Since national defence is a government responsibility, it should be a government official, the minister, I presume. That shouldn't be outsourced.

Obviously, people down the food chain can be held accountable for what they're responsible for. However, the buck stops somewhere, and it would stop at the minister's door, I should think.

Scott Anderson: Bill C-40 is intended to improve the speed and effectiveness of Canadian defence procurement. Does the proposed DIA actually resolve the problems of fragmented authority, unclear accountability and shifting requirements, or might it add another institutional layer?

Professor Latham.

Andrew Latham: It would add another institutional layer. I don't see this as necessarily cutting through what it needs to cut through. It seems like it's introducing more players and more interests, and those are not primarily military-oriented or defence-oriented.

Scott Anderson: Can you go a little deeper into that?

Andrew Latham: As I said, you have competing and conflicting interests. It looks to me like this new Crown corporation will not be insulated from those people in NDHQ and elsewhere who should have a say in the military requirements, but there are more voices being heard or more players at the table—whatever the metaphor is.

I think the possibility exists, as it always does, that our eye will be taken off the defence ball and will fall on regional development, the spinoffs for SMEs or whatever the case might be. In my mind, we could afford that luxury in the post-Cold War era, but we cannot afford that luxury today. It's nimbleness.

We shouldn't be looking to Australia, the U.K. or any of these countries for the model of rapid deployment and development. We should be looking to Ukraine. It's the one at the front line having to adapt very quickly. Guess what: It's doing a pretty good job. That might be the model that we ought to be looking at. I haven't looked at it, but it strikes me that it is a better model than what Australia or Sweden are up to.

Scott Anderson: Thank you very much.

We have some terms in Bill C-40 that aren't exactly clear to me. I can come up with 10 different definitions. “Urgent operational requirement” is one.

Can you define that with any specificity, Professor Latham?

Andrew Latham: Not off the top of my head...no. It has a commonsensical meaning, which is that we should pay attention to what our military commanders are telling us they need in this evolving battle space that they'll be engaged in.

Like a lot of terms and a lot of legislation, it's a little vague and open to interpretation and, perhaps, abuse.

Scott Anderson: Mr. Williams, you had....

Alan Williams: It's often used. For example, when we had to go into Afghanistan, it was not something that was contemplated for years, so we needed to get different kinds of pieces of kit to protect our men and women. By invoking “urgent operational requirement”, we were able to expedite the process.

There are, as I said, ways and means of doing the right thing in the right way, and that's a common way of getting to it.

● (1205)

Scott Anderson: Economic security....

I'm sorry. Go ahead.

Richard Shimooka: I was going to say that, at this committee, I should discuss the need for a short-range air defence system. It was put into a UOR, and it had to be competed.

We've had instances in the last five years where there was a requirement to identify this, and then there was no reply—again.

Scott Anderson: Thank you.

The Chair: Thank you, Mr. Shimooka.

Thank you, Mr. Anderson.

I'm now going to Ms. Idlout for five minutes.

Lori Idlout (Nunavut, Lib.): *Qujannamiik, Iksivautaq*. Thank you, Chair.

Tunngasugitti to the witnesses.

First, I want to ask the witnesses one quick question. What I'm concerned about is the generalization of the focus on the procurement of big items only. In your response, have you factored in some of the realities that are in the Arctic?

I'll start with the witness online and then we can move over to Richard and Siobhan.

Andrew Latham: Yes, we need to pay attention, especially to the Arctic, which has different operating concerns. Tents and sleeping bags matter and have to be configured and produced to meet the requirements of the Arctic environment, obviously.

We found that in Germany, in the run-up to this war in Ukraine, the Germans were not equipping their troops with even underwear that was appropriate for the combat environment. It matters, from the smallest things up to the major things and the complex weapon systems. All of them matter to the person on the front line in combat on the day of. Therefore, we should be paying attention to it in the run-up to that day.

Richard Shimooka: I have a couple of points to make.

One is that because of the thresholds we've talked about, smaller procurement certainly sits underneath that part.

What I think it is very critical to understand about warfare, potentially, in the Arctic or the defence capabilities there, is that a lot of the stuff has to be integrated. We have to have layered capabilities that interoperate or are interchangeable, which is some of the terminology that is used, to ensure that they can communicate.

One of the issues I've heard about specifically is having real-time information coming from individuals on the ground, whether they be the rangers or whoever, and bringing that information in. Building that out requires very high levels of technical abilities. Going back to my talk about bureaucratic entrepreneurs and people who can implement things effectively and quickly, that is a perfect case to show how we can do this quickly, and that requires real expertise to execute.

Alan Williams: As I've said, my view is quite strong.

I think any dispersion of accountability is a negative and unnecessary roadblock to efficiency and effectiveness. I would argue, having run programs inside, that having one minister accountable and measuring that person's performance is the right way to go.

Having said that—I'll follow up on and agree with what Richard said—if you're going to be buying things or getting services, they have to be built on a structured foundation. You have to identify the threats the military is meeting. The military has to be able to identify the pieces of equipment that it's going to need to protect our country and then set out a plan to get them.

That's why I have also argued.... We haven't talked about it directly today—

Lori Idlout: I apologize for interrupting, but you've gone beyond my line of questioning in what your responses have been and whether they've considered the realities of the Arctic.

I have limited time and I want to make sure that Siobhan has some time—

Alan Williams: That's one of many projects. For sure, it would naturally be encompassed by the overall accountability regime.

Siobhan Harty: Thank you for the question.

I agree with what's being said. I think it's a capability question, and as it comes into the procurement department, those questions will have been addressed. It's a matter of finding whether it exists, whether we have the suppliers and whether we can do it, but it is definitely factored in.

Lori Idlout: Siobhan, in my remaining minute, could you respond to the importance of Arctic security, with Arctic sovereignty being at the forefront of today's issues?

There are infrastructure projects that are going to be occurring, such as the NOSH sites and the nodes in Iqaluit, Rankin Inlet and Inuvik. I think this bill can help make sure that there's flexibility, given the challenges of the environment. I wonder if you could share your views on that.

● (1210)

Siobhan Harty: I think your insight is bang on. I think it's a good example of something that is difficult to do. Hopefully, the flexibility is built in, and the Crown corporation being able to do things with more commercial tools could help deliver in that kind of challenging environment.

Thank you.

The Chair: Thank you.

Mr. Bezan, it's over to you for five minutes.

James Bezan (Selkirk—Interlake—Eastman, CPC): Thank you, Mr. Chair.

I want to thank our witnesses for their expertise and for sharing that with us here at committee as we study Bill C-40.

All of you also looked at Bill C-31. I believe Professor Harty even helped draft Bill C-31 before she moved on to the glowing world of academics. This is a question for all of you. Which bill has the better definition of a defence investment agency? Is it the concept that was presented in Bill C-31 or the one we're looking at in Bill C-40?

Both bills are still before the House. Bill C-31 is at report stage. Bill C-40 is here at committee. We're dealing with two defence investment agencies at the same time.

I'll go around the table and start with you, Professor Harty. Which is better?

Siobhan Harty: I feel a bit conflicted, but at the end of the day, a lot of good things have been said about what the ultimate objective is here. I would just invite the committee to consider that in your study. I think Professor Latham stated it quite elegantly. If that's something you agree with, then as you look at the design, ask yourself which design will help get us there. It doesn't have—

James Bezan: Let's define it, then, because I think that is the definition. Ultimately, this is about the defence of Canada. Properly equipping and tooling our Canadian Armed Forces is paramount. We as legislators also have the fiduciary duty to protect the taxpayer, ensuring that their dollars are being used to accomplish what we set out as Parliament and government. Which one accomplishes that in the best way?

Siobhan Harty: They will both accomplish that. On your last point about you as parliamentarians, as I said earlier, you will have different roles. At the end of the day, the money is the money of the Department of National Defence. It's National Defence's money. I don't know how it will move over to the agency—

James Bezan: Actually, it's the taxpayers' money, but okay.

Siobhan Harty: —but you will still have that oversight in terms of the budget.

James Bezan: Okay.

Mr. Williams.

Alan Williams: I would say that of the two, Bill C-31 was far better in terms of accountability, but even it didn't go far enough because even then I presume there would still be a threshold. As I said, my view is very clear. Have one minister looking after it all, not with separate thresholds where it's above a certain amount and below a certain amount.

James Bezan: Did Bill C-31 do that underneath the agency as well as through the DPA?

Alan Williams: Yes. It moved it to the agency, but there was still a threshold, as I understand it. Even though PSPC would be out of the loop, the department itself under the threshold would be involved in defence procurement with PSPC, separate from the Crown corporation. It was still more complicated than I would like.

James Bezan: Mr. Shimooka.

Richard Shimooka: I'm going to say that I don't like either.

Voices: Oh, oh!

Richard Shimooka: I know this is going to sound.... If I had to, my ideal is....

I'm sorry. I don't mean to—

James Bezan: [*Inaudible—Editor*]

Richard Shimooka: I know.

I think the model has never been great. We had a discussion before about the creation of PSPC. It used to be under defence. It was actually hived off from defence through Glassco in order to ensure that there was some...and it's not been a model that has really served us well.

If we think about Professor Latham's discussion about warfighting capability and we look at what many of our allies are doing, we see that they are going to a single point of accountability model, saying, “You're in charge.” It's usually put into the services. The speed and rapidity needs of warfare are about innovating systems version by version and week by week. They've started moving them back into the services in order to ensure that they have that concept.

I don't personally love the separation there. In my ideal world, I would rather see it go back to the military, or at least the Department of National Defence directly, and give them the authorities.

James Bezan: I appreciate that.

Professor Latham.

● (1215)

Andrew Latham: It would be hard not to agree with Mr. Shimooka on that particular point. In fact, I couldn't agree more.

I'll leave it there.

James Bezan: Thank you.

If we just named the Minister of National Defence responsible for the defence investment agency as well as control over the Defence Production Act, we'd be a lot better off. Is that right?

Richard Shimooka: The U.K. has an associate minister who does it within that structure. I could see that, but personally I would—

James Bezan: We don't have to create, really, a new agency to do all this—

Richard Shimooka: Precisely...yes.

James Bezan: —or create another layer of bureaucracy and another institution.

Bill C-40 lists a number of reasons for exemptions. In that is economic security. Does that open up the door for abuse of the defence dollars to stabilize the economy rather than actually do stuff that's in the interest of national security and national defence? To build on that, as an example, it's also in legislation that the defence investment agency can build non-military housing on federal lands. Does that accomplish a different project and program for the Government of Canada that's not at all related to national defence?

I'll start with you, Mr. Williams, on whether or not this opens it up to political interference. Are those good examples of how that...?

Alan Williams: As I've said, the CFTA has a number of exceptions that are allowable. I think they're sufficient. I worry about terminology like that only because if I were inside the government, inside the bureaucracy, I think it could be misused or misapplied.

As we've all said, my focus as ADM materiel was to get the best thing for our men and women in the military. The industrial benefits were important, and there was a place for them to ensure that we did that too, but not at the expense of getting the best product. That's where I stand.

As many of us have commented, I don't know exactly how those words can be interpreted to perhaps put the emphasis on the wrong syllable. I don't want that to happen. I don't think any of us wants that to happen. That's the risk. That's why I fear these.... As a Crown corporation, it has the potential to bypass the rigour of a competition more readily than otherwise, and perhaps, sadly, that's why it was set up in that way.

The Chair: Thank you, Mr. Williams and Mr. Bezan.

It's over to you now, Mr. Earle, for five minutes.

Philip Earle (Labrador, Lib.): Thank you, Chair.

Thank you to the witnesses. I appreciate your being here.

I'll begin by declaring a bias. I've done extensive business with the Canada Post Corporation, the Canadian Commercial Corporation, aerospace and defence.

I want to focus my questions on procurement, relative to the bill, no doubt, but the.... You said earlier, Mr. Williams, that “procurement is an art, not a science.” I would disagree. I would agree with you that it is an art, but it's also a science when we get into the weighting averages that occur, and I want to come back to that.

Mr. Williams, have you ever sat in a bid room?

Alan Williams: Yes.

Philip Earle: In sitting in a bid room—with my Newfoundland and Labrador accent, maybe that sounded like “bed”, but it's “bid room”, and I'm declaring that as well—did you spend more time focused on the flaws in the EOI or the RFP that allowed a proponent to have a compliant bid and win the submission versus the requirements and the ask within the RFP?

Alan Williams: No, because that's not how the system works. Setting up the statement of requirements is a military function. It goes through a very rigorous process within the Department of National Defence, with all of the environment weighing in, including the vice-chief.

As ADM materiel, I would also weigh in. It was not to challenge the requirements, but I needed to ensure that those requirements were subject to availability in the marketplace.

Philip Earle: Okay. Thank you.

I'm reminded that I'm part of the committee and you're the witness, but having been part of many bid teams in this space, I would argue that a lot of time and attention goes to the weakness of the RFP.

If we agree that Bill C-40 is necessary because the existing process is simply not working in the eyes of suppliers and we have never been able to go fast enough to meet the needs of our women and men in uniform, would you agree with me that we should improve the procurement process so that the focus is on the supply versus on an RFP that may have weaknesses and is very inefficient by way of time?

● (1220)

Alan Williams: I don't agree with your premise, to start with, and I would argue, as I have proven, that the process can go much faster if accountabilities are clear and performance measures are in place. I don't think this bill does anything to alter that in one way or another.

Philip Earle: RFP extensions are not a reality, then. Do they not occur?

Alan Williams: Sure.

Philip Earle: Why would that be necessary?

Alan Williams: For a number of reasons.... It might be that you put out an RFP, doing all of your due diligence, and you found out that something in the statement of requirements has been changed. It could be because of time—

Philip Earle: Does that aid in a timely delivery of goods for our people in uniform?

Alan Williams: Can you say that again? I'm sorry.

Philip Earle: Do extensions to RFPs add to the efficiency—

Alan Williams: Yes, of course—

Philip Earle: It adds to the efficiency...?

Alan Williams: The inefficiency....

Absolutely.

Philip Earle: Okay. Thank you.

My next question is for Mr. Latham online.

Chair, I'm not sure how much time I have left—

The Chair: You have time.

Philip Earle: Thank you.

Again, I want to talk about procurement and advance procurement, and buying items versus buying services. Here this morning, we've talked a lot about buying items versus buying services.

When I think about items, I think about fixed quantities and variable orders. The current mechanism to achieve that is through contract change orders, which I believe add a lot of additional costs to procurement.

Can you talk to me, in the context of the statement I've made, about how we can get the best value for our Canadian Armed Forces with certainty?

Andrew Latham: In general, I'm in favour of the open competition. I think the RFP extension just adds.... There are competing interests at play.

What I do know, though, is that there should be some nimbleness built into the system, because the world and the battlefield can change very quickly. If the Ukrainians had taken 10 years to deploy and develop drones or these systems, the structures that you're talking about in support of that, they would have lost the war.

Nimbleness matters, but as a rule of thumb, whether it's for services or goods, open competition that is transparent—as much as that is possible in the defence realm—is to be preferred over something that is a bit more opaque and lacks transparency—

Philip Earle: In the 30 seconds I have left—I apologize for interrupting you—would you consider the process that we've used in the past a nimble process to get to where we need to be?

Andrew Latham: No, I would not.

Philip Earle: Thank you, Chair.

The Chair: Thank you.

Monsieur Barsalou-Duval, it's over to you for two and a half minutes.

[*Translation*]

Xavier Barsalou-Duval: Thank you, Mr. Chair.

I'm going to continue the discussion about competition and transparency in procurement, as well as the issues that may arise from the passage of Bill C-40 and the current government's vision.

We've also learned that the Office of the Procurement Ombud would not have the necessary authority to review decisions made and work done by the Defence Investment Agency.

First, to what extent is that a concern for you? Second, if the procurement ombud doesn't have that authority, who should? I think there has to be recourse for businesses that are adversely affected. Do you agree that there should be some form of recourse?

My question is very broad, but I think it's pretty clear nonetheless.

I'll start with Mr. Williams. If others want to weigh in afterward, that's fine by me.

[*English*]

Alan Williams: I'm happy to.

You're right. The ombudsman's jurisdiction is essentially for procurement below the threshold articulated in the Canadian Free Trade Agreement. I think it's about $30,000 or something for goods and $130,000 or something for services. Also, he can only make recommendations. He can't direct anything to happen. Is this a problem? I don't think so.

As I articulated, there are so many oversight elements right now that should be able to keep the organization on track if they're applied. I argue that we need performance measures in there. We don't have those right now. Those would dramatically help members here, as well as the public, to monitor performance, which is what you want.

Even without that, you have the oversight by these committees. You have the Auditor General, who can do reviews. You have the media going into it. You have corporations. By the way, and we've talked about it before, if a company feels it was ill-advised or mishandled, it can go to the Canadian International Trade Tribunal and/or the federal courts, so there are enough mechanisms in there—

● (1225)

[*Translation*]

Xavier Barsalou-Duval: I'm going to stop you there because I don't have much time and I'd like to give your two colleagues a chance to respond as well.

Let's start with you, Ms. Harty.

[*English*]

Siobhan Harty: I agree with what was said. There's plenty of oversight.

[*Translation*]

Xavier Barsalou-Duval: What about you, Mr. Shimooka?

[*English*]

Richard Shimooka: I think one of the biggest weaknesses of our system, and this is with no disrespect to this body, is that other countries—I would say, obviously, the United States, because of its bicameral system with Congress—have much stronger parliamentary or legislative oversight in this area.

I can spend hours talking about how their systems work, but they have a huge number of staff members, who may be veterans, who have worked for them for years and can delve really deep into a project and say, “Look, your costs went up by $20,000, yet you were charging us by this much.” They can have that kind of insight into perspectives to understand why this is happening, what can be done and why it is going this way.

It's a weakness in our system. I think this goes for a much broader range of issues than just what we're talking about here, but it's an area that I wish could be—and, really, actually think could be—the vanguard of building up a better Canadian defence civil society that can understand these issues, have better oversight and inform all of these aspects of it. Unfortunately, this body just doesn't have the wherewithal to do that, and it's one of my biggest regrets.

The Chair: Thank you, Mr. Shimooka.

Thank you, Monsieur Barsalou-Duval.

Ms. Gallant, it's over to you for five minutes.

Cheryl Gallant: Mr. Chairman, several times, ITBs were mentioned, and it's my understanding that they're just added to the cost of procurement. Since it's agreed that defence procurement must get the soldiers the capabilities they need in sufficient quantities and at sustainable levels, and given that the Prime Minister touted all the industrial benefits and went on ad nauseam about the submarine purchase from TKMS, do you think the ITB costs played a role in the short-changing of the submarines, whereas we were ordering 12 but are now ordering only eight?

Richard Shimooka: I don't know because I haven't seen the bids. I think it may have to do with the schedule by which Canada wants its submarines delivered, because this is a big opening of a production chain. I don't think that's necessarily the case, but I can't fully say because there are so many variables at play there.

Cheryl Gallant: Mr. Williams, you said there's a place for ITBs. Is this it?

Alan Williams: There is a place.

Let me make one clarification: They used to be called industrial and regional benefits, not ITBs. It's not just a nomenclature change but a clear impact on how you do business. It used to be that when a bid went out, the bid was evaluated for technical—get the right guys, the right product—and the cost to taxpayers. The winning bidder then would also have to have submitted an economic plan that had the industrial and regional benefits that Industry Canada determined was necessary. That was pass-fail. That always worked because industry knew that going in.

The system changed with ITBs in the sense that ITBs were also part of the evaluation process. You rated somebody the best on technical, cost and ITBs. Personally, I didn't like that because it provided further potential that you were going to select a suboptimal product because you got seven more jobs 10 years down the road. I didn't like that.

Having said that, I will say, though, that every country in the world has some kind of economic input to these decisions. We can't be naive and think that we won't have any. Industrial benefits are important, but there's a place for them. Based on what we've seen, it's been excessive, and the emphasis has been on that as opposed to the equipment.

Cheryl Gallant: Now that we're going from an agency to a Crown corporation, the government can invest in the companies through the Crown. By virtue of the government investing in defence companies that may be bidding on contracts that the Crown corporation is procuring for, how will this new structuring prevent conflicts of interest?

What provisions do you see in place to prevent the government from favouring the bids from companies it has already invested in?

● (1230)

Richard Shimooka: If you had the same question in the United Kingdom or in France, specifically, they would say that this is not even a thing because they have companies.... They say, “We need to invest to ensure that we develop the capabilities and all that.” France, specifically, owns half of Dassault and all these companies.

That being said, there is danger in there, not in the sense that.... Are we actually getting good value for money on this? Is this investment here really going to ensure that we are getting the capability?

There are examples in Canada's past. Victory Aircraft was at Canadair, where it needed to be rescued. It was sold off, and it went on and was actually one of the most successful aviation manufacturers. That makes sense here.

Currently, there's a political moment in which we are making investments, like the United States into Intel and all of these companies. I don't know if that's going to continue in the next couple of years and if that makes sense. If that's the model, I don't think that's an effective model. I actually don't know if it's going to achieve whatever objectives the government is saying it will, because I don't even know what the objectives are with this.

Cheryl Gallant: Mr. Williams.

Alan Williams: I want to raise a point aligned with your question.

My big fear is that the government.... I'm using my procurement hat. When I run a competition, I want the best product. I do not want to have to buy suboptimal product because the government has invested in something. I don't want to have to buy a product, if it doesn't meet the standards, simply because it's Canadian. I have no trouble with the government investing in defence industries to raise them to the level of being amongst the best products in the world in order to allow them to compete. What I don't want—and what I fear—is to be obligated to buy a product to create 70,000 more jobs simply because it's a Canadian company. To me, that's a big risk.

Cheryl Gallant: Are there any safeguards?

The Chair: Thank you, Mr. Williams.

Ms. Gallant, you are over.

James Bezan: According to her clock, she had three seconds.

The Chair: Three seconds...? I'm sorry.

Cheryl Gallant: Are there any safeguards?

Alan Williams: No...except for openness, fairness and transparency.

The Chair: Okay, guys, I'm going to Ms. Romanado.

It's over to you for five minutes, please.

Sherry Romanado (Longueuil—Charles-LeMoyne—Greenfield Park, Lib.): Through you, I'd like to thank the witnesses for being here.

I was not on this committee in the previous Parliament, but I know there was a study done and some of you testified before the committee. I've read the report, the government's response, the supplementary reports and so on. I would say, looking at where we were when that study was done in 2024 and where we are now, we're in a very different place, I think, in terms of threats, geopolitics and the situation we are in.

I also think there has been a shift in Canadians' understanding of the importance of investing in defence and our capabilities. It's been very clear, and the Prime Minister has stated very clearly, that it is a priority. I'm thankful for that. I have children serving in the CAF, and I absolutely want them to have everything they need when they need it. That is my priority.

In terms of Bill C-40 and the improvements, we can agree that the system, as it was, was not working as it could have been. There were definitely places for improvement. It should not take decades to get materiel to those who need it.

The fact that the statement of requirements for the capabilities the CAF needs remains with the CAF, the fact that we are moving to a place to have an associate minister of defence procurement who will ultimately be responsible for getting what we need and liaising with the Crown corporation, the fact that I don't think we would necessarily put in legislation managerial oversight.... I don't think I've ever seen in legislation that this minister must have these key performance indicators. I don't think that would actually show up in legislation, but I agree. I think we need to have that.

There are opportunities for us to look at it in terms of the board. I think that was a flag as well, with having only two members from outside of the government community.

I believe there is enough oversight, whether it be this committee calling the associate minister or the minister to come and explain where we're at and so on, or.... I believe that's there.

Some of the questions I have.... I'll start with Professor Harty. On Bill C-40, do you think, because of that dual minister involvement, there should be something that we change a bit in the legislation to make it very clear that it's the associate minister of defence procurement who is responsible, ultimately, for making sure that we deliver on time to the CAF?

● (1235)

Siobhan Harty: I'm not sure you could put that in legislation, for some of the reasons that have been identified. You raise an interesting point, from policy and accountability perspectives, which is something for the committee to think about, but I'd be careful about that. That's my personal view. I think that could be a bit challenging.

I would think about what exists in other legislation. We have the Westminster system. There is a system in place. You can call the minister in, as you noted, so we already have that. If you looked at other legislation across portfolios, I don't know that you would see something so explicit in it.

Sherry Romanado: Because something may not necessarily be in the legislation, it doesn't mean that it cannot be done in terms of standard operating procedures. For instance, the Prime Minister could very clearly direct that minister to look these at the deliverables and say, “These are the expectations.”

Just because it's not in the legislation doesn't necessarily mean that it's not going to be there. Is that correct?

Siobhan Harty: That's correct. In previous governments, the use of mandate letters made clear what the Prime Minister's expectations were for a minister, and then you, as parliamentarians and committee members, could use that in how you interacted with them at committee. There could be something like that put in place.

Sherry Romanado: My next question is with respect to the ability of the DIA to invest. This is something different. We've never done this before. I believe the Crown corporation would have the ability to invest.

We heard from Lieutenant-General Maisonneuve and Lieutenant-General Rouleau—I'm sorry; I'm going to forget who the other one was—who talked about the importance of being able to help small and medium-sized enterprises in the supply chain be able to ramp up. We want to be able to purchase from Canadian suppliers. We want to be able to purchase in real time so that we have what we need, but they need assistance in terms of ramping up.

If we have great innovations and great technologies that are available, would this allow the Crown corporation to invest in them to help them scale up? Is this another vehicle for them to be able to help finance that Canadian capability?

Siobhan Harty: The Defence Production Act is about production and being able to have things at the ready. That was the intent historically, and I think it remains relevant now. The minister, in the current iteration of the act, did not really have a lot of financial tools. I think the government felt that in setting up something called the defence investment agency, it would make sense to be able to consider what a financial tool kit could look like, and you see it both in the amendments to the Defence Production Act and in the DIA legislation, so that's there.

There are a number of controls on that. You'll notice that the Minister of Finance has to be consulted. I think, from a policy perspective, there's probably still work to do, both on the policy side and perhaps through regulations about what that would look like.

The government's taking a stake in corporations. We saw recently that the government has taken a stake in Cohere, so that's possible.

I think what we're seeing with this government is a recognition that it could be a policy choice to get Canada to where the Prime Minister sees our potential. It could certainly do that. What it will focus on is something that links with the defence industrial strategy and the sovereign capabilities, so you have to make a choice about where the gaps are in the sector and whether the DIA could play a role.

I'd also say we're seeing a lot of changes in terms of private capital moving into the space. That certainly wasn't the case when you did your study in 2024, so that's been a dramatic change. You can think about working both through the DIA but also through the private sector and how those things come together to enable a more robust defence industrial sector.

● (1240)

The Chair: Thank you, Dr. Harty.

Thank you, Ms. Romanado.

Mr. Bezan, it's back to you for five minutes.

James Bezan: Thank you, Mr. Chair.

We talked about how there may be times when the government should own shares or companies that are in the defence production's interest. Because this bill also has the whole issue of economic security around it, let's do a theoretical scenario.

The auto industry is collapsing, and it's in the country's economic interest to stabilize the industry, so nationalizing our big automakers becomes a priority. Is that a proper use of the DIA and the DPA?

Richard.

Richard Shimooka: I had dark hair in 2008....

I think that is a tool that should be used in extreme moments.

James Bezan: Do you use the defence investment agency for that tool, or do you—

Richard Shimooka: Do you mean for the auto sector or for the defence sector?

James Bezan: I mean the auto sector.

Richard Shimooka: I think that's probably a bit too far.

I want to make an addendum to a point earlier about investing in small and medium-sized enterprises. I think there are so many tools that—

James Bezan: Let me get back to you on that. I want to get everybody else's opinion on this.

Mr. Williams.

Alan Williams: I'm not an expert in this, but I would think the DIA was established to help ensure that the men and women get the products that they need. That's the overriding priority, and they should invest where, in fact, those investments are helping to achieve that objective.

James Bezan: Thank you.

Professor Harty.

Siobhan Harty: I have two points. I'd say the Minister of Industry has those tools. The second—

James Bezan: Why is it in Bill C-40? Why does economic security become part of this discussion?

Siobhan Harty: I think it's because of the link between economic security and national security. We certainly saw that in the government's statement that came out recently. I think that's the case among our allies as well.

My second point is just to point to the mandate of the DIA. That's going to set the frame for how the corporation uses the authorities in the act.

James Bezan: Mr. Latham.

Andrew Latham: Absolutely not. Economic security and national security are categorically different things altogether. They should have different instruments. The trade-offs that would be required.... You would invest in resuscitating the auto sector at the expense of what? You couldn't invest directly in national defence...? That is a recipe for disaster.

Clarity of mandate, clarity of responsibility and clarity of concepts should be the point of departure. Muddying the waters between economic security, which can mean just about anything, and national security, which is broadening in its definition but has a meaning, I think is a huge mistake.

No, I would not use the DIA to invest in a failing automobile sector.

James Bezan: That's good. I appreciate that very much.

We talked earlier about expertise, whether it's in the board or in the staff. Ultimately, the end-user, the client, is the Canadian Armed Forces. They need to have a statement of requirements that is not just drafted, but mature.

Look at the GlobalEye, in particular. Based on reports and from people I've talked to in the know, the Royal Canadian Air Force wasn't even consulted, never mind having a draft statement of requirements before that decision was made.

Where does the expertise in that situation come from? Does the DIA have that expertise internally, or does it still fall back onto the end-users, the Canadian Armed Forces and the Department of National Defence?

Mr. Williams will kick us off.

Alan Williams: I'm not inside the organization, but I would have hoped that the military's statement of requirements was very clear in terms of what it needs. I don't think there's any doubt about that, and the DIA would likely have gone to those experts within the department to gather that. This is why I'm surprised when the needs for refuelling inflight or for 360° coverage, which are clearly logical requirements to anybody, are not present as of now in the Swedish model.

I don't know how you go from A to B in an open, fair and transparent way, and that's my big fear.

James Bezan: In that case, we know there are three companies in total. First of all, have a statement of requirements and then have a competition to determine which is actually the best platform.

Alan Williams: In my mind...absolutely.

● (1245)

James Bezan: Okay.

Do I have another minute?

The Chair: You're down to two seconds, but I will come back to you.

Right now, we're going to Mr. Watchorn.

You have up to five minutes.

Tim Watchorn (Les Pays-d'en-Haut, Lib.): Thank you, Mr. Chair. Thank you for Mr. Bezan's two seconds. I'll take them.

Professor Shimooka, I wanted to let you finish. You were going to say something about SMEs and the possibility of investing in SMEs, and I think the Crown corporation can do that.

Richard Shimooka: We have a lot of tools that are not fully exploited by any stretch of the imagination. The $25-million cap on ideas is pocket change for a lot of companies. It may be good enough if you're doing something low-tech and your technical readiness level is three, four or five, but if you have to, say, build a prototype now that's going to cost $200 million to put together for testing and it may not be purchased, you're not there.

If we think about those, they are real things we could do right now without having to think about these other tools that should be used only in an emergency.

Tim Watchorn: You don't think the possibility of the billion-dollar fund that we have with the Crown corporation could be used for exactly that and try to support SMEs.

Richard Shimooka: If the caps are raised and that is the case, it could be a possibility. I think this is the case, but it needs to.... It goes back to my expertise comment. You need individuals who can properly assess and have that real technical knowledge that we're just really deficient in at this time.

Tim Watchorn: Mr. Williams, we had a wonderful conversation a few months ago. I had the chance to take a look at your book and the things you put forward in it. I'm not going to ask you this by heart. I'm going to quote it.

I think Bill C-31 is exactly the model you proposed on page 81 of your book, but you called it something different. We call it the DIA and you called it the DPC, which is defence procurement Canada, but they're basically the same thing. You wrote, “defence-procurement authority under the Defence Production Act continues to be conferred on the minister of PWGSE”, back in the day, and “employees of DPC exercise DPA procurement authority for and on behalf of the minister of PWGSC.”

We're seeing that this has worked so far. What we're hearing from companies, industry and the military is that everything that has been going on in the DIA since we formed it within PSPC is a positive step forward. I think everybody around the table wants to get our armed forces the stuff they need as quickly as possible and, exactly as you said, to get the best possible equipment for our military people.

I would argue that the Crown corporation is one step better than that because, I would say, the Crown corporation gives the flexibility for the new associate minister of defence to have more leeway to get that quicker. I would like everybody's opinion on the Crown corporation versus inside. I think it's better.

Professor Harty, what do you think? We'll then go to....

Siobhan Harty: I said earlier that it depends on what your objective is. You've set the objective as trying to get the equipment quickly. The Crown provides some additional flexibilities that don't exist in a department.

There's a reason the government sets up things such as Crown corporations or arm's-length organizations. It's not about just speed. It's not about just commercial provisions. It can also be about independence and other things. It's a choice. If a country decides that's the best way to procure, then that's the model.

There was a question earlier about what our allies do, and I think most of them do something like that. It's rarely embedded inside the ministry of defence or department of defence. It's usually a structure that might sit in the defence portfolio, but it has a different skill set and so it's apart.

Tim Watchorn: Thank you.

Mr. Williams, you're next.

Alan Williams: The big difference, of course, is that, under this model, one minister has full accountability. That's not the case now, when it's still split among three. That's what's bad about what we're talking about now.

Having said that, giving a Crown corporation more flexibilities in terms of loans, advances and insurance is all good stuff. I'm in favour of that, but not at the expense of undermining accountability. I don't know why we can't have both.

Tim Watchorn: Okay.

Professor Shimooka, I'll ask you the same question.

Richard Shimooka: I don't know if it matters that much. I know that sounds really.... Right now, because we have the Prime Minister making this an issue, things will happen, as I said before.

Things have happened before, but when the priorities change.... Let's say that we think about the debt load or something like that and we have to shift the spending. The system will regenerate itself. Process will be reintroduced to ensure value for money, and that's okay.

The flexibility may help. I think it will, but I don't know if it's going to.... There are other variables that I think will have greater transit on how this may achieve its outcomes.

● (1250)

The Chair: I'm sorry, Mr. Watchorn. Thank you.

Monsieur Barsalou-Duval, we're back to you.

[*Translation*]

Xavier Barsalou-Duval: Thank you, Mr. Chair.

Mr. Shimooka, in your opening remarks, you emphasized that the ability to procure effectively and efficiently depends not only on the model or organizational structure, but also on predictability and stability, both for industry and for government. If we don't know where we're headed, it's much harder to move forward.

With that in mind, let's look at the requirement in Bill C-40 for an annual plan to be submitted to the minister and an annual report to be tabled in Parliament. That's the same for all other Crown corporations. However, annual planning does not necessarily foster a long-term perspective.

Do you think there is a need for more long-range planning opportunities or a longer-term vision? Should planning occur over a five-year or 10-year horizon, for example? Should it be made public so it can be monitored?

[*English*]

Richard Shimooka: Let's look at other countries for a second. There are good models there.

This government has started to do this, but I've had comments about the national security strategy. Other countries have a very structured, clear statement of what their national security strategy is and what their defence policy is, and from there that feeds out into potentially what the investment plans are and what the defence industrial strategy is. We have seen many of our allies develop really comprehensive defence industrial strategies.

As for Professor Latham's point, what's going to happen in wartime? What are the dual-use industries that we're going to strip out and then build munitions or capabilities out of? We're not even there yet. I made a comment in a co-written piece just a couple of days ago that if we can't name China and Russia as threats....

We need to build out the capabilities to define that threat and build this out. This is how industry knows. That's when they're going to say, “Oh, they're serious about this.” Then they put dollars to those accounts.

[*Translation*]

Xavier Barsalou-Duval: I understand what you're saying, but I don't think it fully answers my question.

Would the Defence Investment Agency be responsible for that, or would it be the role of another organization? Could this role be shared, with two organizations putting forward plans based on their respective responsibilities?

I see you have your hand up, Mr. Williams. I'll give you a chance to comment on that.

[*English*]

Alan Williams: I haven't talked about it here because my focus is on Bill C-40, but when I appeared before the Senate last week, I mentioned one other item that is crucial, and it's the answer to your question. What the government needs to produce—and the DIA or whatever organization is accountable—is a long-term, cabinet-approved and fully costed capital plan.

If in fact we had a 25-year vision, based on the government's view of the role that it wants our military to play, and if the military said what the different systems are and what the products and acquisitions they need to undertake are, year by year, over the next 25 years, with costed acquisition and long-term support—long-term support is 70% of the cost—that would.... If it's cabinet approved—so it's not in firm concrete, but they're pretty sure that's what it's going to be—industry then can position itself, knowing that this is the capability the government wants in four years' time.

It can develop that capability and be ready, either as the prime or as one of the subcontractors, to be present and to bid successfully. If you have that capability, that best serves industry. They know what the future is. They can invest—

The Chair: Mr. Williams, thank you.

Alan Williams: Thank you very much.

The Chair: Mr. Kibble, I'm going over to you now for five minutes, sir.

Jeff Kibble: Thank you, Chair.

Mr. Watchorn asked whether a Crown corporation can be good. That was a very generic question. What we're looking at, and what we want to stay focused on, is whether the version that's in this bill is any good. We've heard all kinds of challenges, especially around accountability, which has been my focus.

He also said it has worked so far, but we see a submarine contract that's not signed and is now being walked back to eight. We've seen the unsigned GlobalEye contract, etc. I wouldn't say it has worked so far.

Mr. Williams, you said that you felt Bill C-31 was better. Is Bill C-40 even salvageable? Should we look at trying to amend it, or should we try to amend and fix Bill C-31, which has its own faults? I'll start with that.

● (1255)

Alan Williams: Let me just say what I think the result has to be: one minister with full accountability. I don't care which way you get at it. You can get rid of both bills, as far as I'm concerned, and draft something up that makes this absolutely clear. That, to me, is the answer. Anything short of that, given that this is a one-time opportunity, would be very tragic.

Jeff Kibble: That's fair. Thank you.

Effectively, we could start all over again or try to fix these.

I'd like to go around the table very quickly. Here's your opportunity to name a flaw and then give us your recommendation to fix it.

I know what you're going to say, Mr. Williams.

Mr. Shimooka, let's start with you on the biggest flaw and then the area that should be fixed, whether we work to fix Bill C-40 or we decide to start all over again.

Richard Shimooka: I like the point about having a capability set that gives the industry model, because that's important. This goes back to the technical capacity within the department. You can make any system work to some degree, but if you don't have that fundamental piece there—the people who can implement this...that is the case.

Having some of the flexibility aspects of Bill C-40 and allowing differing...is good. We need more of that to encourage this, and concentrating on individuals who have the technical expertise to make decisions is a key portion of it.

Jeff Kibble: Thank you.

We heard Mr. Latham suggest that we look at the Ukraine model. Is there another country that you think we should be looking at? You mentioned that the United States has a fairly robust system. Would modelling after those two combined be better?

Richard Shimooka: Yes. We are seeing some huge adaptations in the United States. An example I'll give you right now is that they have a medium unmanned surface vessel program marketplace for $40-million vessels. That is a technical.... The requirement set for this is one page for these $40-million ships.

That is a level of management expertise that I think is going to get there in maybe five, 10 or 15 years, but we can't do it now. We have to think about those terms.

Jeff Kibble: Thank you.

Ms. Harty, what are your recommendations for the biggest...?

Siobhan Harty: I'm focusing on the legislation, in addition to my remarks; I gave you some things there.

I suggest that, as a committee, you look at the question that Mr. Williams raised. Should there be a single point of accountability or multiple points? I can't necessarily think of a good reason for us to want multiple. That has been the critique of the system we've had to date.

Jeff Kibble: It's good to reinforce that.

Go ahead, Mr. Latham.

Andrew Latham: I would say that the input from the end-user has to be guaranteed at a meaningful point in the process, especially given the changing character of war. We see attrition with $40-million pieces of kit that can't be replaced easily, but $40,000 pieces can.

What that means for small or medium-sized enterprises, for example, is that you might have to build some redundancy into their ability, which looks wasteful until you need to replace parts or replace systems on a rapid basis. This is something a commercially driven enterprise is not going to be mindful of but that the end-user, who knows about combat in the modern world, will be very sensitive to.

Jeff Kibble: Thank you very much.

I'm going to give my last question to Mr. Williams.

We've talked about reporting, public accountability and reporting back to Parliament. We didn't see that with GlobalEye, the submarines or even Telesat, as you alluded to earlier.

Clause 9(2) of the bill says, “The Corporation must do”—it doesn't say it may, it says it must—“as the Minister directs”, and what he says is “deemed to be in the best interests of the Corporation.”

Is that too much power? Is there not enough oversight? Is that what has led to, even though this bill's not in effect, some of the decisions that have been pushed forward on the projects we've mentioned?

If you agree that it's too much, is there a better way to do that? Should it be reporting to Governor in Council, where there's a bit more accountability, something we're not seeing?

Alan Williams: It's called the antirogue provision in the legislation.

It's of concern, for sure, because direction given by the minister to the corporation is not something that anybody around here can be aware of. That's the real risk. That's why I get back to the basic premise. If you have one minister accountable, you hold that person to account, and you don't have to worry about other kinds of information flowing under the table.

Jeff Kibble: It says, “the Minister directs”, so it's just one minister, but how do we bring accountability to that?

● (1300)

The Chair: Accountability has to go now to Ms. Viviane Lapointe.

We'll continue from there.

I'm sorry, Mr. Kibble.

Jeff Kibble: Thank you for keeping me accountable to my time. If you can do the same for the defence contracts, that would be great.

The Chair: I am sensitive to time.

Ms. Lapointe, go ahead.

Viviane Lapointe: Thank you, Chair.

Mr. Shimooka, I appreciate your transparency when you say you like neither Bill C-31 nor Bill C-40.

Do you know what? I see that as a signal and as a sincere and genuine attempt on your part to perhaps make changes to and modify the legislation to a degree that you feel it would be improved. We'll see if this committee is up to that task.

I know that we've touched on SMEs a lot. I want to ask you about the fact that there has been a rise in Canadian small and medium-sized enterprises and start-ups within the defence space recently. I can tell you we've certainly seen a great increase in innovation hubs in Sudbury. Given the role of SMEs in creating a more resilient domestic supply chain and training skilled workers, how could Bill C-40 help create predictable conditions to scale these enterprises?

Richard Shimooka: The ability to have increased engagement with SMEs is positive, to some degree. That gives them some of the demand signal, in addition to better signals overall.

One of the challenges with our defence industry overall and how SMEs operate is that it's not a single market that they operate in. They operate in two markets, usually. One's in Canada and one's in the U.S., and a lot of them will have a big transition. They say, “Oh, wait a sec. This market's way bigger”, and then they'll start working with that market. A lot of their IP will come under the ITAR regime because it's funded by DOD. In a lot of cases, that's good, because then they will have a larger production capacity.

To some degree, for some of these areas in which we are concerned about the real sovereign capability and we can identify that, it can have the potential—it doesn't mean it's going to be achieved there—to allow them to sustain those areas through, potentially, investments or any other ability to do so.

Viviane Lapointe: Okay.

How could a Crown corporation help bridge the gap between the early stage of research and scale and then domestic manufacturing lines? There's a challenge in the valley of death that we hear a lot about. How can that Crown corporation help in those...?

Richard Shimooka: It's not necessarily just Crown corporations that could do that. There are other government agencies and partners who can continue, whether it's BDC or whoever. The big “if” is whether you can effectively coordinate this and create a real ecosystem. This is not a Canada-only challenge. You can go to the United States and they'll talk about the valley of death. You can go to France and you can go to other countries.

This is a challenge that's never easy, because in a lot of cases the challenge looks something like this: “Do we want to fund it? However, if it doesn't work, we've just wasted it and there's a big risk.” Governments are just not built to do that. Are we going to sustain this and see it through and hope that it's going to turn into real capability? That's the fundamental challenge that you will never resist. If you can coordinate it, and if you can do it effectively and make sure you get value for money, then yes, it is possible.

Viviane Lapointe: Thank you.

Professor Harty, one of the many goals of Bill C-40 is that it aims to strengthen Canada's defence industrial capacity, and its international partnerships as well. Something that we've heard a lot about at this committee from various studies that we've done is the need to work closely with allies and ensure system interoperability and so forth.

How will the DIA create those opportunities for greater joint procurement, shared production and defence industrial co-operation with NATO and with G7 countries?

Siobhan Harty: Thanks. That's a great question.

Not just in Canada but when I talk at conferences internationally, this is the subject that comes up. With the latest developments with the EU, it's a big topic here. It's not just a procurement question, though. It's also a question for the CAF and DND, because interoperability is their stake in this. I think those conversations start more in their realm too.

The procurement piece is just this: Can we make this happen? Do we have the rules and regulations and the processes in place to make it happen? I think we've shown that we do. Some things already exist. Also, increasingly, there are vehicles on the European side that can enable that. SAFE was mentioned. There is also the NATO Support and Procurement Agency and others. The tool kit is there.

The biggest challenge is that, when you look to Europe, you find there's still a tendency to favour domestic industry. We know about the classics in France and the U.K., but it's the same in Spain. It's the same in Germany. They're all investing in their defence industrial sectors.

The reflex is to invest in their domestic sector. It is a challenge now in the EU, despite the investments at the EU level, despite the programs and despite the vehicles, to get that to happen. This is going to be Canada's biggest challenge. It's to find those bilateral partnerships. If we want to move beyond the bilateral ones, it's to get the Europeans to start working together and for us to be a part of that.

● (1305)

The Chair: Thank you, Dr. Harty.

Thank you, members. We've had a good discussion today.

I know that Mr. Anderson wants to ask a question, but I do want to reflect on what we discussed today. I've taken note that our national security is very dependent upon our sovereignty when it comes to strengthening our defence measures, as well as strengthening the industries that protect our defence—critical minerals, steel, energy and things of that sort—and nurturing the Canadian capability to do so.

It is both a defence measure and an economic issue, because without a strong economy, we can't support our defence to a 25-year horizon in order for us to do what's necessary. This committee is acutely aware and attuned to strengthening our defence base and increasing those measures so that we can get things done with speed, adaptability and nimbleness. Someone mentioned the Ukrainian model as one to reflect upon, which is often non-competitive when it comes to doing what we need.

I appreciate all that you've done.

Mr. Anderson, I'm going to give you the last question, as you asked for.

Scott Anderson: Professor Latham, you mentioned the Ukrainian model. I was over there. They're in an existential model. They were attacked and now they're scrambling. In Zaporizhzhya, there were teenagers making cam nets and trench candles in a cottage industry. To the best of your ability, can you describe the Ukrainian model?

Andrew Latham: Yes. I haven't looked at it closely, but with broad brush strokes, they've had to adapt very quickly.

I'm sure that on the eve of this war they had a procurement system that looked a lot like the French, the German or the Canadian system. What they realized was that the character of war had shifted, so they didn't need a few expensive pieces of kit. They needed a lot of inexpensive pieces of kit—drones, for example. They also needed to find ways of fielding those, of getting them from soup to nuts very quickly. Sometimes that involved procuring things on the global market from Europe, the United States and Canada, but often it was from cottage industries, or small and medium-sized enterprises, if one prefers that term.

The broader point is that they had to adapt to a new kind of warfare, which is different from what NATO, Canada and the U.S. prepared for in the last half century. The stakes were existential. If I were to draw parallels, I might say that we are where the Brits were in 1938, when Neville Chamberlain was running around, not in appeasing Hitler, but in buying time to rebuild the RAF and their radar infrastructure to get ready for the new war that was coming.

We're kind of there right now. If we're not paying attention to things such as attrition and sustainment, listening to the operators and the military folk on the front line who know what the demands are going to be and thinking about investment.... It's not just “Let's buy 10 of these” but “Let's think, okay, 10 for now, but it might be that in the context of war we're going to need 1,000 of these, and can we ramp up production?” That's going to require a different kind of investment than just the ordinary run-of-the-mill kind. We need to have some production capabilities that are idle now because we might need them in the future.

The Chair: Thank you, Mr. Latham.

Thank you for the question, because it's an important piece.

What we've just witnessed is that in order for Canada to be ready—wartime ready, as Ukraine is now—we have to be fast. We have to be nimble. We have to put in the resources and the direction enabling us to do so. I do appreciate the comparison, recognizing that Canada has to make those changes to get ahead. I think we all agree to do that.

Before I gavel out, I have to do some housekeeping here.

Is it agreed that the deadline for the submission of briefs in relation to the study of Bill C-40, strengthening Canada's defence sector act, be Wednesday, November 18, at noon? We're being constrained, and I just want to make sure everybody is okay with those briefs coming in by November 18 so that we can then use them for our study.

Some hon. members: Agreed.

The Chair: Okay. We're good for that.

Is it agreed that the new routine motion on associate members, agreed upon by the whips, be adopted?

Some hon. members: Agreed.

The Chair: Are we good? Good.

Is it agreed that the study for the budget for ourselves—our budget—for the consideration of Bill C-40 be adopted?

Some hon. members: Agreed.

● (1310)

The Chair: With that, ladies and gentlemen, I thank you very much for your time.

This meeting is adjourned.

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