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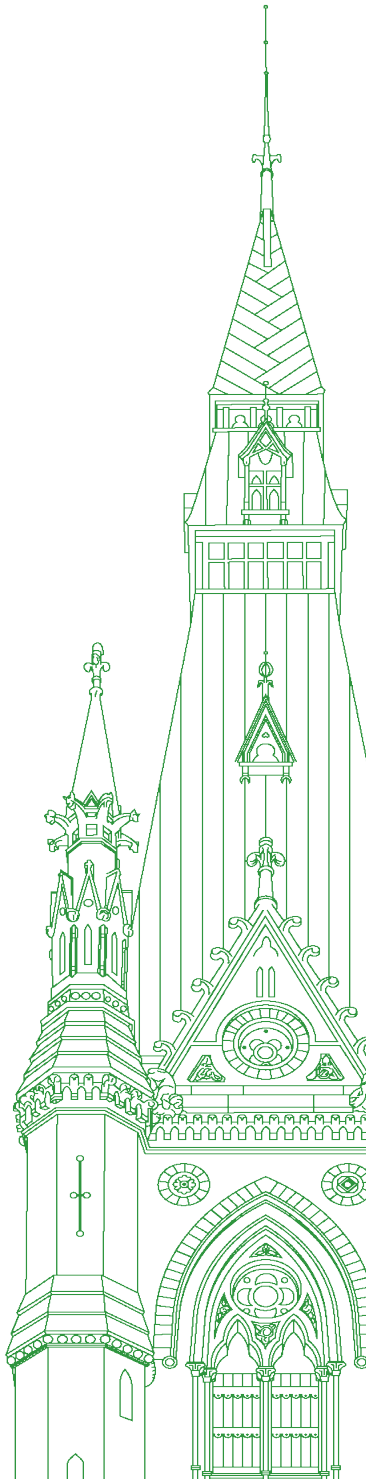

Chair: Charles Sousa

Standing Committee on National Defence

Monday, November 16, 2026

● (1530)

[*English*]

The Chair (Charles Sousa (Mississauga—Lakeshore, Lib.)): I call this meeting to order.

Welcome to meeting number 51 of the House of Commons Standing Committee on National Defence. Pursuant to the order of reference of Monday, October 26, and the motion adopted by the committee on Thursday, October 29, the committee is meeting to resume its study of 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 will 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. As a reminder to the members and witnesses, please wait until I recognize you by name before speaking. If you wish to speak, please raise your hand. For those on Zoom, please use the raise hand function. The clerk and I will manage the speaking order as best we can. All comments should be addressed through the chair.

For interpretation, use the earpiece and select the appropriate channel: floor, English or French. It's also available on Zoom. I'd like to remind witnesses that committee members may ask questions in either French or English. If you need interpretation, please take a moment now to prepare your earpiece and select the listening channel you need in advance of the committee meeting so we can take full advantage of the time allotted for questions and answers.

I'd like to welcome our witnesses.

We have Vice-Admiral Angus Topshee, vice-chief of the defence staff; Heather Sheehy, assistant deputy minister, materiel; and Robert Wight, deputy commissioner, Canadian Coast Guard, shipbuilding and materiel.

Admiral, I'll now proceed to open the floor to you for an opening statement of up to five minutes.

Vice-Admiral Angus Topshee (Vice-Chief of the Defence Staff, Department of National Defence): Mr. Chair and members of the committee, thank you for the opportunity to appear before you today.

I want to start by acknowledging the very sad news that Private William Dal Bianco succumbed to his injuries on Friday. Our thoughts are with his family and friends, as well as with those of the others who were killed or injured in the tragic fire at CFB Wainwright.

[*Translation*]

Turning now to the purpose of our appearance here today.

Canada is making a very significant investment in defence at a time when the security environment is becoming more dangerous and the demands on the Canadian Armed Forces are increasing. Our responsibility is to turn that investment into military capability as quickly and responsibly as possible, so that our members have what they need to succeed at home and abroad.

[*English*]

The Canadian Armed Forces remain responsible for understanding the threats we face, determining the military capabilities needed to address them and setting clear operational requirements. Under the proposed legislation, National Defence and the Canadian Armed Forces would continue to perform that role, while the Canadian corporation for defence investment would translate those requirements into procurement, production and investment activity through a suite of new approaches and tools.

● (1535)

[*Translation*]

We must be disciplined about what we ask the system to deliver. Defence resources are increasing, but they are not unlimited, and the modernization demands across the CAF are substantial. We therefore need clear priorities and a realistic understanding of the minimum viable military capability, its cost, when it will become operationally useful, and how it will be sustained over time.

To be clear, building the capabilities the CAF requires is not just about buying equipment. It is about creating the entire ecosystem that turns that piece of equipment into a real capability by surrounding it with properly trained personnel, the right doctrine and tactics, suitable infrastructure, robust and resilient supply chains that deliver whatever parts and ammunition it requires and ensuring the ability to grow and evolve that capability over time.

[*English*]

The pace of technological change and the speed at which potential adversaries are adapting increasingly challenge traditional procurement timelines and, indeed, approaches. This is true for emerging technologies such as uncrewed systems, artificial intelligence, sensors and communications, and it is equally important for major programs such as those for submarines, fighter aircraft, armoured combat support vehicles and NORAD modernization.

[*Translation*]

Defence investment must improve our ability to exercise sovereignty, particularly across Canada's vast territory, maritime approaches, airspace and Arctic. Canadians should see that investment translated into a greater ability to detect threats, make sovereign decisions, respond when required and operate effectively with our allies.

[*English*]

Canadians should also see a contribution to national prosperity. Defence investment should help build Canadian industrial capacity, strengthen secure and resilient supply chains, support innovation, develop a skilled workforce and create enduring economic value in Canada.

A stronger domestic defence industrial base can improve both our ability to sustain the CAF in times of crisis and our contribution to allied security. Bill C-40 puts us on a path to achieve these outcomes by translating defence investment into operational capability. Canadian industrial strength and national resilience will thereby ensure Canada's security.

Thank you, Mr. Chair. We look forward to your questions.

The Chair: Thank you for your opening statement and for your pause. Condolences to the fallen.

Mr. Bezan, it's over to you for the first six minutes.

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

I want to thank Admiral Topshee, Commissioner Wight and Assistant Deputy Minister of Materiel Sheehy for being here. I want to, again, extend condolences on behalf of the Conservatives for the loss of Private William Dal Bianco. Our thoughts and prayers are with his family, with the entire PPCLI team and with everyone impacted at Wainwright and across the Canadian Armed Forces.

Admiral Topshee, how many soldiers are still in hospital?

VAdm Angus Topshee: We've adopted an approach of not going into the detailed numbers of where all the soldiers are in hospital and everything else. We're leaving that to the families.

Suffice it to say quite a number of soldiers remain in hospital at this time in a number of different locations across Canada. We can get you the specific details, if you require, but we prefer not to go into details of their care at this time.

James Bezan: If you could just give the committee the total number, that would be good. I'm not necessarily interested in where they are, but of the original 39 who were injured, just the total number of soldiers who are still out.

We're here to talk about the DIA. I just wanted to know from all three of you if you were at all consulted by the government on the drafting of Bill C-40.

VAdm Angus Topshee: Yes. We've been involved in the evolution of defence procurement and in the direction that the government wants to go to make sure that we achieve the aim of speeding Canadian defence procurement and buying the equipment the Canadian Armed Forces need, while working with the Canadian defence industry to grow our sovereign capability.

James Bezan: That was on Bill C-40. Was it on Bill C-31 as well? Were you consulted on that?

● (1540)

VAdm Angus Topshee: It depends on what you mean by consulted, I suppose, but yes we've been a part of making sure that we are modernizing the defence procurement system to—

James Bezan: That doesn't necessarily answer my question. Again, the question is whether you were consulted on how Bill C-31 and Bill C-40 came into being. It's not necessarily on the procurement side but on how the agency is going to run. They are two different versions within Bill C-31 division 16 and what we have right now on Bill C-40.

VAdm Angus Topshee: What I would say before I turn to my colleague is that we have been studying how to modernize and improve the defence procurement system for some time. When the government first came into office, they created the Defence Investment Agency.

As we started to work with the Defence Investment Agency, we realized some ways that we could optimize that structure. There had been a long consultation process around the evolution of Bill C-40 that got us to where we are today.

Heather Sheehy (Assistant Deputy Minister, Materiel, Department of National Defence): I would just say yes, sir. I was consulted on Bill C-40 and on Bill C-31. That goes back quite a long way, but there was consultation on that as well.

James Bezan: Madam Sheehy, what was the change point? You're saying you were consulted going back to Bill C-31.

Over the summer, we heard that Doug Guzman was going to rage quit on us. That's why the government has moved into this Crown corporation mode. Were you consulted through the summer on the move towards the new, third iteration of the DIA?

Heather Sheehy: I'm not going to speculate on Mr. Guzman's considerations.

What I can say is that we understood that the government was looking at evolving the DIA. That is reflected in Bill C-40. The government had already indicated that it was their intention to look at a stand-alone body with respect to that.

Quite frankly, we have continued to work since it was stood up as a special operating agency in October 2025. That actually aligns very closely to when I came to DND. I've been working closely with the DIA and I continue to do so as it evolves.

James Bezan: One of your predecessors, Alan Williams, already appeared at committee. He was quite critical of the way the DIA is set up and how it's been turned into a Crown corporation. He says that it muddies accountability; that it has unchecked powers under the current structure in DIA and there are more costs and more time; that there are no performance measures within the agency; and that there's no requirement for it to actually buy what the Canadian Armed Forces wants. It's abandoning transparency, fairness, openness and accountability.

Do you agree with Mr. Williams?

Heather Sheehy: I have read Mr. Williams' testimony from when he was at the committee last week. I have looked at it closely. I do not know Mr. Williams. I have not spoken to him about this legislation—

James Bezan: He reports to you.

Heather Sheehy: —but what I can tell you is that I have been working with the DIA, on a very productive basis, since it was established as a special operating agency, and I continue to do so.

I see this legislation as an evolution of the Defence Investment Agency, further to when it was established in October 2025. It would bring a number of tools to the DIA, allowing for procurement and investment to be considered together. I can tell you that they work—

James Bezan: Mr. Wight, as the deputy commissioner in charge of shipbuilding and materiel for the Canadian Coast Guard, have you been consulted on the DIA?

Deputy Commissioner Robert Wight (Deputy Commissioner, Canadian Coast Guard, Shipbuilding and Materiel, Department of National Defence):

We were involved in the discussions, yes. We were consulted through Heather.

James Bezan: Okay.

The DIA is getting rolling now. We've already heard announcements, but we haven't seen much on the side of actual contracts and procurement. There are a lot of stories around the recent announcement on selecting the GlobalEye as the aircraft of choice and Saab as the supplier of choice for our new AEWC aircraft. There are concerns that the Canadian Armed Forces, in particular, the Royal Canadian Air Force, was not consulted on the statement of requirements.

Can you confirm that?

VAdm Angus Topshee: The Canadian Armed Forces and the Royal Canadian Air Force were part of the drafting of the statement of requirements for the airborne early warning capability.

James Bezan: Based on reporting, stories and people I've talked to, it was done before the statement of requirements was even finalized.

VAdm Angus Topshee: No. I'm familiar with the reporting. The defence capability board is responsible for defining the statement of requirements for the airborne early warning capability.

● (1545)

The Chair: Thank you.

Ms. Sherry Romanado, it's over to you.

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

Of course, our thoughts are with the family of Private Dal Bianco and those who are still undergoing treatment and care in hospital. I want to thank you for your words, Vice-Admiral.

You talked a bit about how the CAF's operational requirements would shape procurement decisions under the new model. You identified the statement of requirements in your opening statement. You mentioned that the CAF understands the threats, knows the capabilities and develops those requirements.

I'd like to make sure it's very clear to the committee and those listening that these would remain after the passage of Bill C-40. Could you elaborate on the importance of these remaining with the CAF, and how the CAF would continue to guide those decisions?

VAdm Angus Topshee: Absolutely, and thank you for the question.

The chief of the defence staff is responsible for defining the operational requirements of the Canadian Armed Forces. I execute that responsibility on her behalf through what's known as the defence capability board, a military-led committee with representation from across the department. This is to ensure that the capabilities we put forward meet operational requirements. We test them fairly comprehensively to ensure that they do.

There's also the Independent Review Panel for Defence Acquisition, which takes a look at capabilities and validates the high-level mandatory requirements for every capability we seek.

Sherry Romanado: You mentioned submarines in your opening statement. I think that could be a perfect example. We were able to reduce the time frame we normally take to acquire submarines. It was a much shorter time frame.

Given your past experience in the navy, can you elaborate on the importance of being able to provide those capabilities and to make decisions quickly so that our aviators, sailors and soldiers have what they need, when they need it?

VAdm Angus Topshee: Absolutely.

Very early on in the process of acquiring the submarines, we were able to define those high-level mandatory requirements and validate them through the Independent Review Panel for Defence Acquisition. We then identified a list of six potential options for submarines. One of those options chose not to proceed with the competition and did not respond to the request for information.

Of the five validated responses, we down-selected to two. A very thorough competition was held between the two finalists before the government made a decision as to the preferred supplier: TKMS, a German-Norwegian consortium.

Sherry Romanado: I was recently at the announcement at the Davie shipyard with respect to the icebreaker contract we were able to provide for Davie, in order to get the Coast Guard what they need in terms of that capability.

Can you elaborate on the importance of being able to work with industry to make sure we have an awareness of what the capabilities are here in Canada, and to make decisions quickly, so we can get the assets into the hands of our serving members?

VAdm Angus Topshee: Yes, absolutely. The government's been very clear that the path it would prefer us to pursue is that of strategic partnerships.

General Dynamics Land Systems-Canada, for example, which manufactures armoured combat support vehicles, is in a strategic partnership with the Canadian Armed Forces. What we're looking to do there is make sure that as it builds these vehicles for us, we're working with it to make sure that it understands how the vehicles are operating in the field and what improvements the soldiers would seek. At the same time, we're working with it to improve the quality of the vehicles and hopefully make it more competitive on an external export market as well.

Our goal is always to maximize the capability that we get. In particular, we work with General Dynamics on improving resilience and robustness. Can the vehicles be more easily repaired so they can stay in the field longer? One of the lessons of Ukraine is it's not so much about the high-end capability, but the ability to sustain the vehicle or the equipment in the fight. That comes to repairability and everything else like that.

These are the types of strategic partnerships we're working on. With all three of the shipyards under the national shipbuilding strategy, we have certainly developed strategic partnerships where we aim to.... They're mutually beneficial partnerships, where we benefit when they improve and our ships come out better as a result.

Sherry Romanado: You also mentioned that over the course of the summer, I guess, based on feedback and reflections.... We originally started with a stand-alone agency that is working on our defence procurement, and the decision was made to go with a Crown corporation through Bill C-40.

Can you elaborate a bit on how Bill C-40 will allow the Canadian Armed Forces to get what we need? Can you also elaborate on something that's a bit different in terms of the investment opportunities that this provides that were not included in the stand-alone agency?

● (1550)

VAdm Angus Topshee: I think the fact that the agency was named the Defence Investment Agency is a key indicator that this is about growing Canadian capacity. It's making sure that a small Canadian company that historically may not have been able to compete for a procurement.... Now the DIA or others might be able to invest in it to bring it up to the scale sufficient to do that.

The solution is not just in Bill C-40 and the DIA. It's also in changing our internal processes so that we can more clearly identify capabilities. We really want to push some of the money down to the edge, because a lot of procurement will happen below the level of the DIA at bases and wings across the country, where that capability will translate even more quickly into the hands of sailors, soldiers and aviators. If we can do that, there are smaller Canadian companies across this country near bases and wings that will benefit from our ability to buy the technology and the equipment that our soldiers, sailors and aviators need sooner.

Sherry Romanado: Thank you.

I think I'm out of time.

The Chair: You have 10 seconds.

Sherry Romanado: Thank you very much.

The Chair: Monsieur Barsalou-Duval, I'm going to give you 10 seconds more.

[*Translation*]

Xavier Barsalou-Duval (Pierre-Boucher—Les Patriotes—Verchères, BQ): Hello, and thank you to the witnesses for joining us today.

I would also like to extend my condolences to the families and loved ones of the soldiers who lost their lives in Wainwright. These are always difficult events.

My first questions are for you, Admiral Topshee.

At previous meetings, we discussed the threshold above which the Defence Investment Agency becomes responsible for procurement. It is currently set at $100 million, which means that projects under that threshold continue to be handled by Public Services and Procurement Canada, as before. At the same time, however, there are other projects, such as the replacement of the patrol aircraft fleet, the replacement of the F-18s, whether with F-35s or Saab Gripens, and the procurement of new destroyers, that do not fall under the Defence Investment Agency.

Within the Department of National Defence, you also have delegated procurement authorities up to a certain threshold. Could you tell us what that threshold is at present?

As a follow-up, how can we ensure that companies operating in the defence sector are able to navigate this system? It seems that there are now a great many players involved.

VAdm Angus Topshee: Thank you for the question.

The issue of thresholds is extremely important. It's true that the current threshold for the Defence Investment Agency is $100 million, but many procurement projects fall below that level, and there are a variety of approval and spending authorities within the Department of National Defence. In fact, for infrastructure projects, some of those thresholds are quite high, in my opinion. It depends. In some cases, authority rests with the minister; in others, it's at the deputy minister or assistant deputy minister level. There may well be a need to evolve these delegations of authority. Personally, I'd like to see them extended to the base and wing commander level, so that they have the authority necessary to acquire the equipment our soldiers, aviators and sailors need.

I know that Ms. Sheehy is far more familiar with the details of this issue, so I'd like to turn the floor over to her.

Xavier Barsalou-Duval: I look forward to hearing Ms. Sheehy's comments on that, but what I would especially like is for the committee to be given an explanation of the current delegation thresholds within the Canadian Armed Forces so that we can better understand the system currently in place.

What flexibility do you currently have? That's what I'd like to understand before we discuss any additional authorities that may be sought, because all of the players involved in procurement seem to overlap to some extent. A clearer understanding of the current framework would help us make recommendations as part of our study of Bill C-40.

VAdm Angus Topshee: Absolutely. I believe we can provide that information.

[*English*]

Heather Sheehy: The delegation thresholds are outlined through the Treasury Board Secretariat to different departments. That is public information. It can certainly be provided to this table, but it is publicly available.

To give you an example, DND currently has procurement authorities up to $9 million for competitive goods contracts. There's a variety of different subsets, but that's the threshold I usually think of. This $9 million is currently with DND.

I think what is important is that through this legislation, it's quite clear that the intention is for the DIA to become responsible for defence procurement. Those delegations to other departments are a matter of policy under Treasury Board authorities as opposed to legislation.

Given that this is a very significant change in the construct for defence procurement, I anticipate that there would likely be conversations about how to align that with departmental authorities as we move forward. However, that's a matter of policy as opposed to a matter of legislation.

● (1555)

[*Translation*]

Xavier Barsalou-Duval: Thank you for that answer.

I have another question that goes beyond the scope of Bill C-40 but is related to procurement.

During a visit to a shipyard not long ago, and through discussions with suppliers, I came to understand something. We often hear that the government needs to move more quickly in order to reduce costs and that this new structure will make the process more efficient and faster, among other things. However, I've also been told that the government, or decision-makers, don't always know exactly what they want and that when a design changes three times during the process, delays and additional costs are almost inevitable.

It's a bit like if I were renovating my house and, after the walls have been closed up and painted, I decide to move the plumbing and electrical outlets. Inevitably, everything must be opened up again and redone.

Is that something that's currently being taken into account? Are there ways to improve the situation, and is there a willingness to do so?

VAdm Angus Topshee: Yes, there is absolutely a willingness to improve that.

We've significantly increased the level of approval required before a project's requirements can be changed. Take the submarine procurement project as an example. We're seeking a standard submarine design. Our intention is therefore to acquire the submarines largely as designed. We don't intend to make changes unless they are absolutely necessary, and the threshold for approving such changes is very high. The submarines will be delivered largely as designed because we recognize that every change creates delays and increases costs.

At times, changes are necessary because of a fundamental shift in capability requirements. There may be circumstances in which one capability can be superseded by another. However, such situations are uncommon. Our preference is to establish the minimum requirements from the outset and remain within those parameters. We also recognize that, once a new capability enters service, it can be improved and upgraded throughout its service life.

The Chair: Thank you.

Your time is up, Mr. Barsalou-Duval.

[*English*]

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

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

Thank you, everybody, for coming tonight.

Deputy Commissioner Wight, we've talked about this before. The Coast Guard is a civilian organization. Is that correct?

D/Commr Robert Wight: Yes, it is.

Scott Anderson: It will remain that way.

D/Commr Robert Wight: Yes.

Scott Anderson: It is unarmed and unionized.

D/Commr Robert Wight: It is unarmed and unionized with different unions, yes.

Scott Anderson: Thank you.

As far as you know, is it the only one in the western world that is civilian?

D/Commr Robert Wight: Not to my knowledge. There are many incarnations of coast guards across the world. Each one is uniquely different and has different requirements. I can't speak to that, but I can get back to you with that, if you'd like.

Scott Anderson: It's recently come under DND.

If a civilian vessel or agency is used to actively contribute to military operations, it's known as a civilian auxiliary fleet. We've discussed this before. In the event of hostilities, it's well past time to arm these things if we need them to be armed.

I wanted to establish that they are, in fact, combatant vehicles during a war. If there are hostilities, the San Remo manual from 1994 says an auxiliary vessel "other than a warship, that is owned by or under the exclusive control of the armed forces of a State" is considered an armed combatant. Rules 40 to 65 say they may be attacked without warning if they are operating with the forces. The Newport manual of 2023 explicitly states that they are military objectives, and rule 22(a) in the 2009 HPCR manual lists them as legitimate targets.

I'm wondering if you have brought this to the attention of the members of the Coast Guard.

● (1600)

D/Commr Robert Wight: We have had numerous discussions about this, but not particular to what you've brought forward.

Scott Anderson: Not particular to...?

D/Commr Robert Wight: They weren't about what you've brought forward.

I'll let Admiral Topshee weigh in. I'm not sure I'm in complete agreement.

VAdm Angus Topshee: It is absolutely the case that in times of war, like the Second World War, we take ships up from trade. We would also take government vessels into military service. For example, we operated armed yachts in the Second World War. All of those vessels, once they are brought into service like that, are clearly identified by the flag they fly. If that was done, they would fly the royal Canadian naval ensign.

That's the type of thing that would happen under the invocation of something like the Emergencies Act during a state of conflict, which would impact all of the people in that type of service.

Scott Anderson: In that event, they would become legitimate military targets.

VAdm Angus Topshee: Yes, they would become legitimate military targets. That doesn't necessarily mean the crews that operated them would still be the crews that operate them. The crews that operated those armed yachts in the Second World War were Royal Canadian Navy crews.

Scott Anderson: Would it be wise in 2026, as opposed to in 1845, to train those crews before there are hostilities or wait until there are hostilities and then start training them?

VAdm Angus Topshee: We're actually looking at exploring the idea of a national reserve. How would we create the capacity—

Scott Anderson: With respect, sir, we're talking about the Coast Guard, not a national reserve and not some other announcement. We're talking about it as it is now.

VAdm Angus Topshee: It's difficult to imagine a scenario in which Canada is in a major combat where we would go there, but if that's the case, we would likely be looking at something very similar to what we have done in the past, mobilizing—

Scott Anderson: With respect, if that's something we're not really expecting, why do we have a military? Clearly, we are expecting that, or we would not have forces.

VAdm Angus Topshee: We have a team that is working through what mobilization would look like and what those skill sets are. If that were to be the case, there would be a discussion with the Coast Guard and with everybody else that would be interested in serving or might be asked to serve.

Canada's tradition is that we have voluntary service in war.

Scott Anderson: The way we are approaching this is we wait for a conflict and then we worry about the Coast Guard. Is that correct?

VAdm Angus Topshee: We are planning for mobilization as it goes right now and we are working through those questions, as well as a whole host of other questions, about what authorities would need to change across Canada as we move from a country that is at peace to a country that is in active conflict.

Scott Anderson: We would have to change that in the event of hostilities, then.

VAdm Angus Topshee: We expect that we would probably look to change a number of regulations, authorities and, potentially, legislation in the event that Canada is in a state of war.

Scott Anderson: The DIA is expected to develop Canadian industry and arm the forces. If a Canadian industrial project takes three years longer than something we can buy off the shelf elsewhere, who gets to decide whether that delay is acceptable?

VAdm Angus Topshee: Ideally, we'd never accept the delay.

Scott Anderson: Say we did have that—

The Chair: I have to move on, sir.

Mr. Watchorn, it's over to you.

Tim Watchorn (Les Pays-d'en-Haut, Lib.): Thank you, Mr. Chair.

I also would like to send my deepest condolences to the family of William Douglas Dal Bianco, who died today.

I'd like to get back to the good work that has been done by the DIA so far.

I've been here for 18 months. On the other side, they seem to say that there's no contract signed.

If you bear with me for a moment, I'd like to list a few of the contracts that have been signed already: the Canadian modular assault rifle; six Global 6500 aircraft replacing the CC-144 Challengers; the Arctic over-the-horizon radar with the acquisition agreement signed; the enhanced satellite communications project with Telesat; the surveillance of space two ground-based optical capability; 190 additional armoured combat vehicles through GDLS; the CC-330 Husky fleet support contract, which was done just next to my riding, in Mirabel, by L3Harris; the CC-130J Hercules sustainment and modernization; the joint strike missiles for the future fighters, which were awarded to Kongsberg; the six Coast Guard program icebreakers at Davie; the Coast Guard midshore multi-mission vessels with Kongsberg; and the initial defence drone initiative acquisitions, the initial contracts of which collectively total up to $50 million. You guys have been doing some good work here in the first year.

This is the first iteration of the DIA, which is the special—

● (1605)

James Bezan: It's the third. Catch up.

Tim Watchorn: Well, it's the first since I've been here. Since I've been here, it's the first. It was done under Bill C-31.

I'm trying to imagine what we can do with a Crown corporation. I'd like you to elaborate on what the advantages are of going to a Crown corporation versus all of the good work you've been doing so far.

VAdm Angus Topshee: That's a great list of things.

I'd say off the top that the most important thing about the Canadian modular assault rifle is that next year our soldiers will start to see the first of those rifles entering service. It's a real, tangible achievement to move that quickly into fielding a new capability.

I think we saw, with the submarine procurement, what the DIA can bring to the table. We got down to two suppliers. Then it became a competitive process, and that is not an area of our expertise. Mr. Guzman was able to bring in a very corporate, commercial mindset and made sure that we extracted the best possible value for that. If anyone doubted that was a full-blown competition, all they had to do was come through the Ottawa airport. It was awash in ads for the various different contenders. I'm looking forward to more things like that.

What we're really trying to do inside the military right now is identify other places where we can say, “This is a very short list of equipment. We would like you to find the best fit for us, because any of these will work for us.” What's the best deal for Canada, not just for the Canadian Armed Forces? We're conscious of the fact that this level of defence investment has to translate into economic impact and prosperity for Canadians.

Tim Watchorn: That's a great answer.

People from the Coast Guard are here. What we've been hearing from the Coast Guard is that they're very happy to be under the Minister of National Defence now. They're very happy to be integrated.

Now they have new capabilities that are being announced. We have the two big polar icebreakers that are being built and the six program icebreakers. We also have the Arctic and offshore patrol vessels, which have now been delivered.

I'd like to know how these new capabilities are helping the Coast Guard to move ahead and be able to protect the three sides of our country that have water.

D/Commr Robert Wight: I'll start with the Arctic and offshore patrol vessels, our Glacier class. They have not quite been delivered. The first six have been delivered. We're expecting to take delivery of the first of the red and white hulls next week and of the second one a year later.

That capability in particular is allowing us to do more multi-mission work. That ship is a capable icebreaker. It is also a capable offshore patrol vessel, meaning that we can go out on the Grand Banks to perform our NAFO patrols there around fishing. We can also use it in the lower Arctic, on the river and in the gulf for winter icebreaking.

It also has some things that we changed from the navy design in terms of science capability, with sensors for working with partners like the Department of Fisheries and Oceans, as well as some humanitarian types of things that we don't normally have on some of our ships. A hospital is one that I would point to there, and there is a large back deck area where we can house equipment and/or people in times of need.

Those two vessels have given us a change in terms of what we can employ them to do. It's much more than the ships we have doing that work right now.

Tim Watchorn: How is the mood of the men and women of the Coast Guard now that they're moving towards National Defence? Are they happy? How are they feeling?

D/Commr Robert Wight: I think that, in general, the move has been very good. There was some trepidation at first until we got to where we are now. At the senior management level, that happened quite quickly. At the lower levels, it took a bit of time to see that we were in a place that was more akin to the operational environment in which we work, as opposed to a more science-based department.

Among the general management under the deputy minister, the conversations that go on there are now integrated into those discussions in a way we hadn't been doing before, so there's a more structured interaction with members of the CAF on a day-to-day basis rather than one that is ad hoc or occasional, as before.

The addition of the security mandate to the move has meant that we've been able to link up very closely on places like the Arctic and what we're going to do there and how we're going to be key to marine domain awareness in the Arctic along with the Navy. We are there all summer long. We had a record of 11 different ships that were in the Arctic this year doing icebreaking for various reasons, including escorts, resupply and science.

The Chair: Thank you, Deputy Commissioner. I appreciate your time.

Mr. Watchorn, thank you.

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

● (1610)

[*Translation*]

Xavier Barsalou-Duval: Thank you.

I will continue with you, Admiral Topshee.

Section 15 of Bill C-40 provides that the Minister of Public Works and Government Services, or the responsible minister, could have the authority to stockpile goods for national security purposes. It also specifies that this includes economic security.

To what extent do you believe such stockpiling authority should be governed by clear parameters? For example, do you believe that stockpiles maintained by the Defence Investment Agency should be connected to defence-related activities? Otherwise, could virtually any type of goods be stockpiled for political reasons? In that case, resources that ought to be directed toward the military sector could be diverted elsewhere.

VAdm Angus Topshee: We use the acronym DIME to refer to the four pillars of national power: diplomatic, informational, military and economic. It may therefore seem unusual that goods could be stockpiled for economic reasons, but a country's economic strength is indeed an element of its overall power. Tariffs, among other examples, demonstrate that.

It's important that we have the ability to acquire our equipment and sustain our supply chains in a sovereign manner. Beyond that, I would expect such measures to be aimed at ensuring that the overall system remains strong and resilient.

Xavier Barsalou-Duval: Economic security is a very broad concept. It could encompass almost anything. Do you believe, then, that the Defence Investment Agency could stockpile virtually any type of goods?

VAdm Angus Topshee: No. I would expect that governance mechanisms are already in place. Deputy ministers will sit on the board responsible for overseeing the Crown corporation, and there will always be a chief executive officer who is accountable for its management. Given that governance framework, I would expect that any activities undertaken would need to have a clear connection to security.

Xavier Barsalou-Duval: Let's be candid: The person responsible for the Defence Investment Agency will be appointed by the government. As you noted, deputy ministers are also involved and report directly to ministers. Do you not see a risk there? I certainly do. With a term as broad as “economic security”, there's a risk that the agency could be diverted from its intended purpose.

Do you not believe that the term “economic security” should be more clearly circumscribed, or at the very least defined in a way that differs from the usual understanding of the concept? Bill C-40 contains no definition of the term either.

VAdm Angus Topshee: There's often value in retaining a degree of discretion in order to adapt to circumstances that may differ from one situation to another. When rules are drafted too prescriptively, the flexibility needed to respond to emergencies or crises can sometimes be lost. I have confidence in the governance framework and in the committee responsible for overseeing the Defence Investment Agency.

The Chair: Thank you. That's all the time we have.

Mr. Bezan, you have the floor for five minutes.

[*English*]

James Bezan: Thank you, Mr. Chair.

Despite the long list my buddy Tim Watchorn had there, almost all of that is just announcements and not actually signed contracts. They signed contracts on only one, two, three, four and five. Including icebreakers, only five contracts were actually signed where we're finally moving ahead with some of those procurements. Otherwise, it's just all fanfare and paper. It doesn't really mean anything in capabilities until we actually start getting cheques written, contracts signed and kit delivered.

I want to go back to the issue around the statement of requirements and making sure we meet the needs of the Canadian Armed Forces. My understanding is that the GlobalEye doesn't meet all the statement of requirements. We didn't even go through the process, knowing that there are two other alternatives for AWACS aircraft, to do a request for information to see how they matched up.

Do you have concern at all that we are making a rush to do an announcement rather than getting what is actually needed by the Canadian Armed Forces and what will meet the needs to protect Canada?

● (1615)

VAdm Angus Topshee: I am comfortable with the path we're proceeding down. The capability is at the heart of integrated air and missile defence. The airborne early warning capability is not just the platform; it's all of the systems and sensors that go into that and the ability to detect any threat that's approaching Canada.

We know that the future also involves a combination of uncrewed and potentially fully autonomous systems as well that will augment the range of anything else. As you look—

James Bezan: Do any of the other platforms also bring that to the table? The big concern, of course, with GlobalEye is that it doesn't have 360° radar on it. The radar cuts out on banks and turns and on takeoffs and landings. With the configuration on that Global 6500 aircraft, it doesn't have the ability to do air-to-air refuelling.

VAdm Angus Topshee: In terms of what we were looking at in that particular aircraft, it was also the selection for NATO's use. The advantage of the fleet is the commonality with NATO. We send some of our operators to fly in the NATO airborne early warning fleet as well. This will allow us to continue that with a platform that we use back home in Canada.

Every platform has advantages and disadvantages. As I said, the goal for us is to make sure we're using the full capability, which will include uncrewed systems, some ground-based sensors and potentially some space-based sensors to really get after the full picture. The challenge is that as we look at the evolving threat environment, we're not sure how many different types of aircraft are actually survivable in that environment and where this space will be evolving overall.

James Bezan: Let's look at the current situation with the fleets we have within the Canadian Armed Forces. Based on the 2025-26 performance report from the Department of National Defence, the maritime fleet has only 53.9% availability. When we look at land fleets, it's under 50%, at 48%. If we look at the aerospace fleets, it's even worse, at 41.9%, or 42%. It has continued to decline over the last three or four years.

If we don't have the equipment, how are we going to maintain training and readiness, never mind being able to deploy or defend our own sovereignty?

VAdm Angus Topshee: You're absolutely right to highlight the fact that at those equipment rates, it's a challenge to build the trained effective strength that the Canadian Armed Forces require. That's the reason we've stood up what's known as a “personnel generation” board within the military right now. It is designed to make sure that we continue to generate enough flying hours, sea days and field days to create the soldiers, sailors and aviators we need for the future.

We are also trying to accelerate the transition of as many of those fleets as possible. Most of those numbers are due to the fact that the fleets that were operating today passed their best-before date a little while ago.

James Bezan: Knowing that we have urgent operating requirements, if we look at Bill C-40, they now have 13 different national security exemptions, including economic security, which may not necessarily mean we're getting what meets the urgent operational requirements we have within the Canadian Armed Forces. Before this, using existing Treasury Board guidelines, when we look at when we were in Afghanistan, we had urgent operational requirements as well. We quickly bought what was required. As well, we modernized our fleets of CF-18s and frigates as well as Auroras. They were all modernized during that time and shortly after that.

How do we ensure that those urgent operational requirements that are clearly seen here, based on the fleet availabilities, are being met rather than the economic and industrial benefits that the government tends to push harder than what we actually need to defend Canada?

VAdm Angus Topshee: We're pretty comfortable that we're moving at pace to fill in both. I'm firmly of the opinion that under the build, partner, buy approach, we're prepared to go out and buy equipment if there's not an option to build it in Canada, or to partner with another company to do that. In fact, on the list of procurements that we've discussed so far, each has shown different metrics of that build, partner, buy approach.

On the purchase of the submarines, we didn't take the time to try to develop a sovereign submarine capability in Canada, because we knew that would take far longer than the navy has. We went out and bought an existing submarine.

The Chair: Mr. Malette, it's over to you for five minutes.

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

Thank you and welcome to our witnesses today. It's an important discussion.

My first question is for Admiral Topshee.

One of the objectives of Bill C-40 is to accelerate procurement. My riding contains CFB Trenton and 8 Wing, which sees a lot of procurement and an awful lot of purchases. What can I tell the people of 8 Wing at CFB Trenton about the specific improvements you expect military personnel to see in terms of receiving equipment, technology and capabilities more quickly? Have we seen a manifestation of that through the DIA? I know we have various suites of services, including the concierge service now and others.

● (1620)

VAdm Angus Topshee: For Trenton specifically, I think that among the first things they'll see arriving are the Global 6500s. I think the first one is due to arrive next summer. Those tend to be supported out of a combination of both Trenton and Ottawa. I think we're going to see an increase in procurement of other fleets as we go. The advantage of DIA is that once we determine that we have a procurement path and the funding, they're very good at closing the deal and getting us into a contract.

It is early days yet to see more of that equipment delivered, but we're going to see the first of it with the Canadian modular assault rifles. In Trenton, as the Royal Canadian Air Force delivers their security force, that security force will be equipped with those rifles. I think they're going to see the equipment coming faster.

I will also note that it's not all about Bill C-40 and the DIA. Much of it is about reorganizing our own procurement authorities.

The assistant deputy minister for materiel does incredible work with her team to make sure we're getting all of the equipment our people need.

Chris Malette: Thank you for that, Admiral.

Further to your last statement, how will the military ensure that the agency prioritizes urgent operational requirements rather than allowing large, complex, long-term projects to dominate the procurement resources, if you will?

VAdm Angus Topshee: We're inviting them into our governance and making sure they have a seat at the table as we make the decisions about the sequencing and prioritization of our equipment.

It's not black and white. There are going to be times when we're going to say, “This is our number one priority,” and they might say, “Yes, but there's no one who can deliver that right now, and instead, we could get this other piece of equipment a little bit faster if we focus there first and then get that other thing when it comes off the production line.”

Some of it is their commercial knowledge about how to sequence orders, how to move money and how to manage the staff who are supporting all of these efforts. I think we're going to see some of the benefits of that.

Chris Malette: Thank you.

My next question is for Deputy Commissioner Wight.

Last fall, I was proud to be at the ribbon cutting for the new Cobourg Coast Guard station, which is a great improvement. As we all know, one of the primary responsibilities for Coast Guard is the Great Lakes. Will the Coast Guard have a meaningful role in establishing procurement priorities and ensuring that its operational requirements are reflected in decisions made by the DIA?

D/Commr Robert Wight: Absolutely. As the admiral has discussed, our requirements are provided by the Coast Guard, in particular under the deputy commissioner for programs. That is where requirements for our equipment or for what has to be performed are decided upon and then passed to my side of the house and shipbuilding and materiel to execute. We'll go out into industry and either compete or look for the capabilities that are out there.

Chris Malette: You just answered my second question as well.

I have one question for Madam Sheehy.

What performance measures will be used to determine whether the new agency is actually delivering faster procurement, better value and improved outcomes for the CAF?

Heather Sheehy: We will be working on actual performance measures.

The one I will really be looking for is speed of procurement. It is my view that we have not adequately assessed the risk of delay with respect to procurements. In the government, we are very good at looking at a variety of different risks associated with procurement, but the risk of delay has not, in my view, been adequately documented. I'm particularly keen to make sure that one is well documented and that it is understood that acceleration is actually materiel in the hands of the Canadian Armed Forces and the Coast Guard, which is the ultimate performance measure.

Chris Malette: I can attest to that as someone who has had very close contact with 8 Wing. Over the years, I was a journalist covering that. One of the long-standing complaints and almost standard procedure is, “Yeah, we'll see that whenever.” Everybody gets excited about the announcement, but we need to see speed of delivery.

I appreciate that. Thank you.

● (1625)

The Chair: Thank you, Mr. Malette.

We're excited to hear from Ms. Konanz, who is a sub today.

Welcome to our committee.

Helena Konanz (Similkameen—South Okanagan—West Kootenay, CPC): Thank you, Chair.

I'd like to turn my time over to my colleague, MP Bezan, please.

Thank you.

James Bezan: I wasn't expecting that. Thank you. I appreciate it, Helena.

If we look at Bill C-40 and the comments that have already been made by previous witnesses, some of the concerns raised were about governance. We're talking about a very small cadre of directors who are going to oversee the operations. Yes, deputy ministers will be on there ex officio. However, other than the CEO, the chair and the vice-chair being government appointees, we don't see any room for appointing people who are experts in defence, in the defence industry or in looking at interoperability capabilities with our closest allies.

Are there any red flags for you, as officials from the Department of National Defence, the Canadian Armed Forces and the Canadian Coast Guard? Do we need to make sure that there's expertise on that board of governance?

VAdm Angus Topshee: We're comfortable with the team DIA has been assembling. We've been working with them closely, and every indication we've had so far is that this is a robust team.

James Bezan: It is as it currently operates, but this changes under Bill C-40. It becomes a Crown corporation. It becomes arm's length from the Canadian government. It will definitely have the ability to operate more autonomously without any accountability to Parliament and to the Government of Canada.

Are we comfortable that there may not be expertise sitting on that board of directors and that there may be those who come to the table without a background in national defence and/or in defence industrial complexities that take place when you have to go out there and start buying equipment?

VAdm Angus Topshee: I'll start by saying simply that we work with Defence Construction Canada, which is a Crown corporation today. We have a good relationship there.

I'll defer to Madam Sheehy.

Heather Sheehy: Thank you for the question.

I did note the conversation about this when some of the previous witnesses came here.

What I would say is that it's a lean board of directors, with respect to the proposed Bill C-40. Lean does not necessarily mean it's not robust. It does, very importantly, include the deputy minister of the department, who supports the minister. What that would mean for defence—if that's the associate minister of defence, as proposed in the legislation—is that there would be a very direct connection back to the Department of National Defence, which will allow us to be quite streamlined.

James Bezan: There's also the fact, though, that every deputy minister who sits on this board of directors has also been appointed by the Governor in Council. The same thing is true for the CEO and the chair.

Wouldn't we want to make sure that we go outside of the political processes to ensure that there is going to be fairness, transparency, oversight and expertise on that board of directors?

Heather Sheehy: I would add that the government has made a commitment to set up the new defence advisory forum. That defence advisory forum will have a variety of different members and representatives on it, and that will also be a mechanism for hearing from other stakeholders and industry. That's an important parallel development.

With respect to accountability, a Crown corporation, as you well know, has different accountabilities in terms of how they report to Parliament. Ultimately, they are still responsible to Parliament, both through corporate plans and through their minister. Also, any appropriations would be under the parliamentary approval process.

James Bezan: They're still not accountable at the same level as departments are. We make sure that we get you guys in here every time we're dealing with budgets, estimates and supplementary estimates (A), (B) and (C). We have the opportunity to call department officials at any point in time. That isn't as consistently done with Crown corporations.

There was also concern about political interference because of the ministerial directives within Bill C-40 that essentially give the minister carte blanche to say, “This is what I want,” rather than work through the process to make sure that we get what is needed for the Canadian Armed Forces.

Is there a concern that the dollars that are currently in DIA, and now it goes to a Crown corporation, it can do things like non-military housing on federal lands...? If it's not for the military, why are we doing it under the DIA?

● (1630)

VAdm Angus Topshee: Simply, I would say it's the Defence Investment Agency.

How is it we can do non-military housing on military lands? Do you know what? As we look at the housing solutions we require, if we're able to get to a place where we can build the housing we require by having a portion of that dedicated to non-military users, that seems like a pretty good solution to me.

Every base and wing situation is a bit different, and I think we want to be flexible and create the opportunity for different approaches.

James Bezan: What's going to happen is that—

The Chair: What's going to happen is we're going to go to Mr. Earle now.

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

Philip Earle (Labrador, Lib.): Thank you, Chair. That was a great move.

I'd be remiss if I didn't take a moment to mention the fallen. I believe I can speak for all of the committee in saying that this impacted all of us as Canadians at a point in our lives that's probably like never before. I want to recognize that.

I'm trying to formulate an angle on a question this afternoon that has been somewhat challenging. The testimony has been fantastic, and on both sides we're getting great questions around Bill C-40.

Ms. Sheehy, you talked about reading the testimony from the last committee meeting. A predecessor of yours talked about procurement. I explained my background of being a supplier to Public Works and Government Services Canada, the Canadian Commercial Corporation and so on. More important than my past, however, is some testimony here in a past government around iteration one of procurement for government. It was identified in a lot of that testimony that the system was slow and there were disagreements among department heads. It was described as a bottleneck. We heard the same thing last week or the week before—the last time we met—around the same bottlenecks.

I wonder if you could speak to that, Ms. Sheehy. Tell us how you believe that Bill C-40 will clear up some of that bottleneck to allow us to procure more succinctly, to go faster and to buy the items that our women and men in uniform require so desperately.

Heather Sheehy: There are provisions in the act that give powers, duties and functions to the DIA, which allow us to go more quickly. A variety of tools, including investment tools, are included in the legislation.

What I would say, however, is that this alone won't make us go more quickly. The vice-chief of the defence staff and I have had many conversations about what we need to do internally to DND to look at ways to speed procurement.

I will say that procurement in the Government of Canada has traditionally been quite risk-averse. We have responded to that environment by having layers of authorities, policies and processes that ensure that every risk is thought about and considered deeply before proceeding—except for the risk of delay.

We are working and, in fact, have started a sludge audit—that is actually the terminology we're using—on our own processes. It maps out our processes end-to-end within defence to look at ways we can reduce that time of consideration for those things that are the most important. That should help us while we work with the DIA to accelerate procurement.

I think it is fair to say that procurement in the defence space has been traditionally quite long because of risk aversion to a number of things, which is fair, but the risk of time hasn't been fully assessed.

Philip Earle: Vice-Admiral, you mentioned DCC, Defence Construction Canada, a couple of times. As you know, we are rebuilding four bases in the north. That's an example, I believe, of a Crown corporation that has done great work for Canada and is getting good value for money. From the construction side interacting with DND through that process, we've seen a lot of things built well and built fast.

Can you give us some examples from DCC that may relate to what we will now create as a Crown corporation from the DIA to be able to buy goods for the CAF?

● (1635)

VAdm Angus Topshee: The strength of DCC, when it comes to managing complex projects with security issues, like the Atlantic Research Centre in Halifax for Defence Research and Development Canada, is in overseeing that construction to make sure that, as we build a secret facility, it meets all the standards that we would expect in order to achieve that certification standard. As a Crown corporation, it has contracting powers that we don't have within the department. That allows us to go to them to become the agent by which we can deliver infrastructure at various scales.

Philip Earle: Thank you.

The Chair: Mr. Xavier Barsalou-Duval, go ahead.

[*Translation*]

Xavier Barsalou-Duval: Thank you.

Admiral Topshee, in response to another committee member, you rightly stated that the role of the Department of National Defence is essentially to define requirements. Procurement is then carried out by the appropriate procurement authorities, whether that be the future agency or the current organization responsible for those functions.

I note that Mr. Watchorn provided us with a lengthy list of procurement projects that he indicated would result from Bill C-31. I also note, however, that the bill has not yet been passed by the House. It's therefore somewhat surprising that it has already produced all of those results.

That said, with respect to the relationship between the Department of National Defence and the agency, what do you expect that collaboration to look like? I assume that even after requirements have been established, there continues to be ongoing engagement between the two organizations. Do agency representatives continue to consult with you? What do those interactions look like in practice?

VAdm Angus Topshee: The interaction is very regular. We meet continually. In fact, the submarine procurement project was managed by an integrated team that included personnel from the Defence Investment Agency working alongside our own staff.

The relationship does not end once a contract is signed, because there's always a desire to evolve the capabilities of the equipment we acquire throughout the life of the contract. For example, in the case of armoured vehicle production for the army, we established a strategic partnership with General Dynamics Land Systems-Canada, or GDLS-C.

Xavier Barsalou-Duval: Does that type of collaboration take place systematically across all projects, or does it depend on the willingness of the Defence Investment Agency?

VAdm Angus Topshee: It applies across the board. In my experience, those involved have been very co-operative.

Xavier Barsalou-Duval: So what you're saying is that you're genuinely part of the team responsible for moving projects forward at every stage and in every respect.

VAdm Angus Topshee: Ideally, a company shouldn't be selling equipment solely to the Canadian Armed Forces, but also to other countries and military organizations around the world. That's only possible if the equipment is regarded as among the best in the world. For us, the objective is to determine how we can help establish the Canadian defence industry as a global leader in defence procurement expertise.

[*English*]

The Chair: Ms. Borrelli, welcome to our committee. I was hoping we would have an opportunity to hear you ask a question.

Kathy Borrelli (Windsor—Tecumseh—Lakeshore, CPC): Thank you.

This question is for Admiral Topshee.

The navy and the air force have major equipment replacement programs under way, but maintaining existing equipment remains a significant expense. How much of your current equipment is unavailable because of maintenance problems or shortages of spare parts?

VAdm Angus Topshee: You heard the stats earlier that we report. Our equipment rates and our serviceability rates are quite low. Part of the challenge, though, is trying to figure out what we should be reporting against.

As commander of the navy, I knew that I would always have three frigates in deep maintenance, so should I be reporting against those three frigates as completely unavailable? I was planning for them to be unavailable, because they need to go through docking work periods and everything else.

It's a challenge for us to ask what we think we can achieve, given the age of the platforms and our ability to maintain them. What's the operational schedule that we set as a result that trains all of our people and meets our operational commitments? Can we adhere to that?

In fact, on that basis, the navy actually has done fairly well, and the air force generally also does well.

● (1640)

Kathy Borrelli: Would you prefer spending additional maintenance funding to improve operational wellness rather than acquiring some new equipment?

VAdm Angus Topshee: The challenge is always to figure out when to transition from a piece of equipment to a new thing. The thing you're used to operating, that you're really comfortable with and that you have everything set up for is eventually going to get too old to be easily maintained, but the new equipment comes with its own teething problems. We talk about a U-shaped curve. You'll see the most problems with a piece of equipment when it's introduced into service and when it's getting towards the end of service.

Ideally, we would be on a continuous asset-replacement program where, before we get to that end-of-life situation, we're replacing it with new equipment.

The vision of the national shipbuilding strategy is, in fact, that we get out of the boom-and-bust cycle, and after we've recapitalized the coast guard and navy fleets, we build their replacements on a recurring basis before the ships reach end-of-life, maintaining the expertise in the shipbuilding industry and maintaining those skill sets. You're seeing the benefit in that already. The Irving yard's efficiency metrics are improving because it's been in the shipbuilding business long enough to see that.

Kathy Borrelli: How many operational days did you lose last year because of maintenance or equipment shortages, and what would it cost to address those deficiencies?

VAdm Angus Topshee: I don't have in front of me the exact number of maintenance days or sorties that we weren't able to fly because of unforecasted maintenance issues. We can provide information on that.

As for what it would cost, the challenge is that if you're prepared to pay an unlimited amount, you can maintain just about anything in service, but at what point is it no longer worthwhile? We do manage that through the.... They've changed the title on me.

Heather Sheehy: It's the fleet and equipment readiness operational committee, I think.

VAdm Angus Topshee: We do have a committee that looks after that, and we try to find the balance between money that we spend maintaining the equipment that's in service and procuring the equipment that is the next generation of things.

Kathy Borrelli: Thank you.

Earlier, a member across the table mentioned the opening of a new Coast Guard station in Cobourg. I think it's very important that we know what's going on at our southern border.

Mr. Wight, does the Coast Guard have any plans to improve observation of what's going on at our southern border, say, through the Great Lakes area, where my riding is?

D/Commr Robert Wight: Yes, on the southern border, in particular along the St. Lawrence River and into the Great Lakes, the inclusion of security into our mandate has now given us that responsibility.

Kathy Borrelli: We have no ability to surveil what's going on along the Detroit River and on Lake Erie and Lake St. Clair whatsoever. There can be crime going on there quite often. It's a very short distance to cross from Windsor to Detroit, so there have been incidents of drugs and firearms coming across in boats, and we're not surveilling that.

D/Commr Robert Wight: It is our intention to begin surveilling the border in a more comprehensive fashion.

Kathy Borrelli: When do you plan to start that?

D/Commr Robert Wight: We have started doing that. The MSOCs, the marine security operation centres, are beginning to look at that information more closely.

Some of the other things we're doing and looking at are drone surveillance that we're trying to get up and going, as well as radar surveillance at several approaches and narrow spots along the Great Lakes for that purpose.

The Chair: Thank you, Ms. Borrelli.

Ms. Sudds, welcome to the committee. It's over to you for five minutes.

Hon. Jenna Sudds (Kanata, Lib.): Thank you, Chair. It is great to join the committee today.

Thank you to all of the witnesses for being here, but more importantly, thank you for your leadership and your service.

I'm going to start by directing my questions to ADM Sheehy.

Reflecting on some of the questions we've heard already today, I was thinking about a specific example. That would be the defence drone initiative as an example of where we have moved at record speeds and engaged industry. As a member of Parliament representing a riding here in Ottawa, I've certainly heard a lot of feedback from companies in the national capital region that were quite excited to see this opportunity come forward so quickly.

I'm wondering, building on that, what specific procurement activities and/or approval processes you believe could be improved upon or streamlined as Bill C-40 moves forward and is implemented.

● (1645)

Heather Sheehy: We're undertaking a fairly broad assessment of different ways that we can do procurement and get the capability for the Canadian Armed Forces. We're working very closely with the DIA. I meet with them essentially every single day in terms of those discussions.

Picking up on the defence drone initiative in particular, as an example, that is one where we were able to very quickly pre-qualify a variety of different companies, and then we do procurements against those pre-qualifications. That is an example, perhaps, of what we could do in other instances as well. It doesn't align with every type of procurement, but in this instance, especially because drone technology is evolving so rapidly, we knew we had to put in place something that would allow us to respond in a more real-time capacity.

For other large capital equipment, that same approach may not be the one that we would work with, but we will learn, for example, from the submarines. The vice-chief of the defence staff already spoke about the fact that we have an integrated project team for submarines, and we have that for other procurements as well. People from the DIA and people from my team all literally sit on the same floor of a building and work that closely together. That is a really good example of how we can do things in a more accelerated fashion.

Hon. Jenna Sudds: Absolutely. It's exciting and it's impressive to hear a few examples of the new way of moving forward.

When I think about this bill, obviously, the primary objective is to make sure that the Canadian Armed Forces get the equipment that they need. It is also about building that domestic Canadian industrial capacity. A lot of the conversations that I've been having with industry, particularly with small and medium-sized enterprises, are about the excitement, but they're also about the question of how we engage.

I'll pose that question again, ADM Sheehy. As this is moving forward, where do you see those opportunities to enhance that collaboration and those opportunities to build that capacity with Canadian small and medium-sized enterprises?

Heather Sheehy: We had a conversation within the department about this very thing: What opportunities are there for small and medium-sized enterprises within the DIA construct?

One thing I would share with you from that conversation is that by bringing together those investment tools, as well as the procurement elements that are in Bill C-40, we see that as an ability to support small and medium-sized enterprises as they develop the skills. We have great small and medium-sized enterprises here in Canada, and yet they, in some instances, perhaps have not had the capacity to be able to bid on some of the procurements.

We see this as a way to bring them along with us, as we will then be able to garner their expertise on procurements. We see lots of advantages here.

Hon. Jenna Sudds: That's amazing. Thank you very much.

I believe that's my time.

The Chair: Mr. Bezan, it's over to you.

James Bezan: To follow up on what I was saying before, Bill C-40, in paragraph 21(2)(c), under “defence projects”, says, “works in relation to residential communities, including non-military residential communities, on federal real property or federal immovables under the administration of the Minister of National Defence”.

That's essentially taking bases and armouries across this country, especially in high-value markets—I'm thinking about armouries in downtown locations—and building high-rises there. Forget the armoury; it's federal land and hopefully it doesn't count towards the 2% if it's non-military residential housing in an urban setting.

Just so you're aware, Admiral Topshee, that was in there.

Commissioner Wight, to follow up on MP Borrelli's comments about interdiction capabilities, I thought the Canadian Coast Guard didn't have interdiction capabilities unless you asked the RCMP or somebody else to come on board to help with that interdiction.

Is that true?

● (1650)

D/Commr Robert Wight: Yes, that is correct. We do not have that constabulary—

James Bezan: You would never engage if you encountered someone who was trafficking drugs, guns or even humans. You would not intervene unless you had somebody on board who could do that interdiction.

D/Commr Robert Wight: No. We would not do that interdiction. What we have are programs—

James Bezan: When you're doing a survey, then, you're doing a survey based on the criminals who are caught: Why are you guys running the border here?

Is that it? You talked about how they're starting to do surveys of what's happening in and around Lake Erie, for example, with smuggling or illegal activities. You said you guys are doing a survey. What does that mean?

D/Commr Robert Wight: I'm sorry, doing a...?

James Bezan: That was the way you responded to the question by MP Borrelli.

D/Commr Robert Wight: I'm sorry if I was confusing. What we're doing is contributing to the marine domain awareness picture—who's on the water and where they are—by a combination of those who are on the water and things like our lifeboats and science vessels as well as radars that are placed along the Great Lakes now. Part of the $816 million we got for security, when we achieved a security mandate, is for that purpose of adding radars in the north as well as the south in order to enhance that marine domain awareness picture.

We have programs such as MSET, where we host RCMP on board our ships. They are responsible for doing the interdiction and constabulary functions.

James Bezan: Okay.

To follow up on one of the questions from Mr. Anderson, when we're talking about the coast guard and other nations in the world and we're looking at our allies in the Arctic, the Canadian Coast Guard is the only unarmed coast guard in the Arctic. Is that correct? The U.S. Coast Guard is armed up. The Danish navy doesn't have a coast guard, so they use the navy in and around Greenland. Norway has an armed coast guard. Finland, again, uses mainly navy vessels, but they're armed. Sweden recently armed up their coast guard, even though they're civilians, because of the threat environment we're in. That means we're the only ones, outside of....

The Russians, of course, are fully armed. China, who wants to be in there, is armed up as well. We've witnessed what they're doing with the Philippines in the South China Sea, ramming their coast guard vessels. We're the only ones who don't put a gun on a coast guard vessel, and there are no plans in the future to procure vessels that have the ability to be gunned up.

D/Commr Robert Wight: There are currently no plans to arm the Coast Guard ships. The icebreakers in particular—

James Bezan: You had 11 vessels in the Canadian Arctic this year. If you'd run into trouble up there, you would have called the navy, but the navy might not have been in the neighbourhood. It would take days, if not weeks sometimes, to get up to where you guys get to with the heavy icebreakers. Is that correct?

VAdm Angus Topshee: We were, in fact, up there with the Coast Guard this summer. In fact, *Robert Hampton Gray* went through the Northwest Passage at the same time that those 11 ships were operating up there. One of the great things about *Robert Hampton Gray* is that a Coast Guard helicopter embarked on board it.

From my perspective, bringing the Coast Guard into the Department of National Defence and giving them a security mandate has moved the yardstick immeasurably far—

James Bezan: I think you really could debate whether or not there's a security mandate when they don't seem to have the ability to defend. If they detect, they're fleeing. People question whether or not that's a proper investment as part of the NATO 2%.

VAdm Angus Topshee: It really comes down to what we're defending against, right?

James Bezan: Russia.

VAdm Angus Topshee: Right—in which case, I don't think there's any number of weapons that you could put on a Coast Guard ship that would protect it against those threats. The mere presence of a gun doesn't necessarily mean that the ship is safe.

James Bezan: That's right, but at least you can fight back. Submarines will be a little tougher.

Anyway, let's move on. We have a difference of opinion on this.

Now, there are—

The Chair: Mr. Bezan, you spent a lot of time on that one. We spent a lot of time on a study that we've done already, but we have to move on.

Ms. Romanado.

● (1655)

Sherry Romanado: Thank you, Chair.

When I talk to a lot of companies that are in the defence industry, they're excited about a different way of doing what we've been doing. I think we can all agree that under consecutive governments, both Liberal and Conservative, defence spending has not been where it needs to be. We're changing that in terms of making sure we are putting those dollars toward national defence and recapitalizing our armed forces.

When we're talking with the defence industry, one thing they have said to us, as another colleague also brought up, is that there doesn't seem to have been an engagement with industry early enough to give indicators to them that we need something. We're not quite sure about the capability, but we know we need to be able to do something. What is available in the Canadian marketplace, and/or what are they working on that could be beneficial for the Canadian Armed Forces?

I know that in terms of the DISHs we've announced, we're engaging academia, research, industry and defence to talk about what we're able to do and to solve these problems together. How has that change in mindset about engaging industry in finding solutions enabled you to be a little more creative in terms of innovation and forecasting? We don't even know what we're going to need tomorrow, let alone in five years' time, and what that next-generation innovation will look like. How has that engagement enabled you to do this, and how will Bill C-40, in terms of having that expertise in a Crown corporation, be able to help us as well?

VAdm Angus Topshee: We learned a few years ago that we really needed to engage with and speak to industry more to make sure we understood. We started trying deliberately to communicate more with industry. You see that through the outlooks that CADSI helps us with for the army, the navy and the air force, and now also digital services.

We discovered that sometimes we'd find a company that had something we were really interested in, but there might be an impediment of some sort, such as not being able to figure out how to scale it. The Defence Investment Agency now has the tools to do that. When we run into something like that, I can call up a contact at DIA and say, “Hey, what do you think about this situation? This looks like it might be something, but they're not at the point where we can buy from them. Are there tools that we could use to get there?”

There's another part of the process that we want to bring in. You mentioned academia, but we also want to bring in Defence Research and Development Canada, or BOREALIS, as it's becoming. We want to allow a good idea to come from anywhere and make sure that if we pick it up on our radar, we can take it through to fruition. Ideally, it then becomes capability within the Canadian Armed Forces and also something that Canadians can sell abroad. We believe that some of our technology is world-leading, and when it is, we want to make sure that it hits that global market.

We're seeing a lot of changes, and it's not just there; t's also with BDC and EDC. In fact, now we're getting connections into those agencies that we'd never had before. They recognize the need to leverage this investment in defence to make sure it doesn't deliver only the capability the Canadian military needs but builds a defence industrial base, because that builds our sovereignty. If we can make and repair our own equipment here at home, we're less dependent on others. If we can get to the point where that equipment then sells to others abroad, we deepen the pool of available parts and operators and we build better partnerships around the world. We have a pretty positive vision of how we can go.

Sherry Romanado: Building on that, in conversations with our allies, what is their feedback on the way we're going to be changing procurement? Have they given you any feedback in terms of saying that they're looking at revamping, because everyone is looking to increase their defence investments and defence spending? Have you had feedback from our allies saying that they like what you're doing, that this is a different way of doing the model in terms of defence procurement? Is there any feedback you could share with us on that?

VAdm Angus Topshee: Yes, we're seeing an increased desire for partnerships, because the reality is that we can now bring money when we do it. We have a number of different tools and a number of different mechanisms available. You mentioned the DISHs, and there are a number of things under defence industrial strategies.

We're working with partners at NATO to make sure that wherever we share a need in common, we're looking to figure out how we can actually get to something. As opposed to just talking about things, how do we get to doing the things?

Heather Sheehy: I would add that I have conversations with my ally colleagues at NATO all the time, and with other allies. A lot of them are doing a lot of what we're doing in revamping how they do procurement and revamping their investment strategies.

I would say that the partner part of the build, partner, buy defence industrial strategy is a very exciting space right now. I think there are a lot of conversations about where can we partner, where can we lead and where can we build our defence industry in Canada, knowing that often our procurement needs for the CAF are not suitable for building a full defence industry here but knowing where we can partner with other countries to have economies of scale, and then we can deliver out. It's a pretty exciting space right now.

● (1700)

Sherry Romanado: Thank you.

The Chair: Thank you.

Monsieur Barsalou-Duval, it's back to you.

[*Translation*]

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

Admiral Topshee, section 29 of Bill C-40 provides that the minister, or at least the Defence Investment Agency, could decide to exclude certain persons from a procurement process, particularly where there are concerns relating to national security, public safety and similar considerations. That strikes me as entirely reasonable and to be expected. What gives me pause, however, is that the minister would not necessarily be required to provide the reasons for the exclusion.

Can you explain why the reasons for excluding a person should not be disclosed? I have some difficulty understanding that.

VAdm Angus Topshee: Yes. That would be the case where the decision is based on information that cannot be disclosed because it's classified, whether secret or top secret. If information suggests that there's a vulnerability, we may not wish to reveal the basis for that assessment. There is, however, a review mechanism through the National Security and Intelligence Committee of Parliamentarians, or NSICOP.

Today's world is far more dangerous than most Canadians realize. There are actors seeking to do us harm. At times, vulnerabilities are identified through the excellent work of organizations such as the Canadian Security Intelligence Service and the Communications Security Establishment. However, that information may be classified at a very high level, making it impossible to provide a detailed explanation.

Xavier Barsalou-Duval: I understand your point. If the information was obtained through sensitive means and you don't want adversaries to know that you possess it, disclosing the reason could reveal that fact. Nevertheless, should the ability to withhold reasons be available so broadly? Should it not instead be limited to exceptional circumstances such as those cases?

In my opinion, when a company is competing with others in a procurement process and is excluded, it's generally preferable that it be told why. I appreciate that there may be exceptional circumstances, but I wonder to what extent this authority could be exercised without any reasons being provided. That is my concern.

VAdm Angus Topshee: Yes, I agree that it should be used only in exceptional circumstances. In most cases, the reasons for a decision should be explained. However, as I mentioned, there may be situations that justify an exception.

Xavier Barsalou-Duval: Ms. Sheehy, earlier, when I asked Mr. Topshee about the collaboration between the Defence Investment Agency and the Ministry of National Defence in the context of advancing the procurement process and the selection of items, you seemed to have something to add. I do not know if you still have them in mind.

[*English*]

Heather Sheehy: I was trying to remember the question we were talking about. I recall the conversation being about whether we have governance between the two organizations. The answer to that is yes. There is both formal and informal governance, whereby DND and DIA come together to discuss how we proceed with respect to procurement. That makes an alignment among the requirements of the CAF, the project delivery and the procurement requirements of that particular project. That exists.

The Chair: Thank you.

[*Translation*]

Your time is up.

[*English*]

Up next will be Mr. Bezan, Mr. Watchorn and Mr. Anderson.

Mr. Bezan is first.

James Bezan: Thank you.

It was reported in the last couple of days that the CDS wants to increase the primary reserves to 30,000.

Is that correct?

● (1705)

VAdm Angus Topshee: Yes.

James Bezan: That's not the supplementals. That's the primary reserves, up to 30,000.

VAdm Angus Topshee: I'm not going to touch that, and—

James Bezan: Don't take that....

VAdm Angus Topshee: The authorized strength of the primary reserves is 30,000 right now. We are considering whether or not we want to increase that further.

James Bezan: Okay. To what number...?

VAdm Angus Topshee: We have been debating 40,000. We've been looking at other numbers. It really comes down to the context of mobilization and what makes sense for Canada.

James Bezan: I had a reservist in my office earlier today who was talking about how, when they go for training, the army reserve in particular gets all the hand-me-downs and the stuff nobody else wants to train on, such as TAPVs.

You're talking procurement. How are we going to train up on new equipment, as it fits underneath the new mobilization?

VAdm Angus Topshee: We are making sure the equipment we procure is going to equip both the manoeuvre division and the defence of Canada division in the army.

James Bezan: We're hearing from reservists across this country. They're contacting us. There's been a cutback in the budget. They have been told there will be no training from now until the end of the fiscal year, which is March 31.

Can you confirm that?

VAdm Angus Topshee: I can't tell you exactly how budgets are applied throughout the Canadian Armed Forces.

What I can tell you is that we have noted that we have an awful lot of reservists on full-time class B service who are not doing the functions we normally want a full-time class B reservist to do. Often, they are fulfilling regular force functions, as opposed to reserve force ones. We are trying to refocus that effort to make sure those we're paying for.... This is the C127 allocation of money. That goes towards supporting the reserves, not the regular forces.

James Bezan: I'm hearing from armouries, particularly on the reserve side, that they've been told not to exercise and that the class Bs have been laid off. Contracts are being cancelled and they're being laid off. I've heard that some of them even had to apply for EI.

What type of message is that sending to young Canadians who want to join the Canadian Armed Forces as reservists, knowing they could get laid off?

VAdm Angus Topshee: What we've been very clear about is that, as we work to refocus all the spending and prioritization of resources in the Department of National Defence, nothing should touch the development of trained effective strength. That is being clearly signalled by the CDS as one of her top priorities: restoring the trained effective strength of the Canadian Armed Forces.

I've been very attuned to trying to figure out if that direction has been misinterpreted in any way. I've been trying to get to the ground truth on that, to make sure it's clear that if those actions are going to impair our ability to reach that trained effective strength, then absolutely that is not what is intended.

However, there is a lot of effort going on in the department that is not focused on the generation of trained effective strength and not focused on the priorities of the department at the moment.

James Bezan: Feel free to send information to this committee so we can determine whether the cuts coming down on the reservists seem to be disproportionate compared with others within the Canadian Armed Forces. We don't want to cut out that middle management doing the training and developing the next generation of soldiers, such as our master corporals and sergeants.

Chris Malette: Pardon me, Mr. Chair.

We're discussing procurement and Bill C-40 here. I fail to see how recruiting and reserve numbers are in scope of—

James Bezan: The reserves train on the equipment we buy. We started off with that.

Chris Malette: It's a bit of a reach, Mr. Chair.

James Bezan: The vice-chief is not new to this committee. He can answer the questions as they come forward and—

The Chair: That's understood.

I know they were requesting information for you to deliver to this committee regarding Bill C-40. I think Mr. Malette was asking whether that information will be relevant to the Crown agency's procurement. I'll leave that to your discretion.

It's back to you, Mr. Bezan.

James Bezan: I have a final question on this particular issue.

We have people who have been recruited to join the Canadian Armed Forces and who are training in their trades on equipment getting procured for the Canadian Armed Forces. My understanding is that they are no longer getting signing bonuses for taking on certain trades.

Is that true as well?

VAdm Angus Topshee: No. We are continuing to pay bonuses to any trade that is deemed to be critical. The critical occupation recruitment allowance, or CORA, still applies. In fact, it applies to a disturbingly large number of trades.

Our goal is to make sure we get the health of the institution up to the point where we're not paying that out for a large number of trades.

James Bezan: The goal is to cut off that bonus down the road.

VAdm Angus Topshee: The bonus is tied to a trade that is in distress, so the goal is to get—

James Bezan: Once you meet those numbers, will the bonuses be gone?

VAdm Angus Topshee: What we want to do instead is look at other incentives that we have in the recruiting system.

What we're seeing right now, in fact, is an unprecedented number of people applying to join the Canadian Armed Forces. I think Canadians would expect us to be judicious and make sure we recruit the best people. If we don't need to pay them money to join, we shouldn't. If they've earned that money, they should get it, by all means.

● (1710)

The Chair: We're out of time.

I'll go to Mr. Watchorn, and then I'll come back to you.

Mr. Watchorn, go ahead.

[*Translation*]

Tim Watchorn: Thank you, Mr. Chair.

I would like to thank the witnesses once again.

I have two brief questions.

First, I met with members of the ACDC.

[*English*]

That's not the band but rather the association.

[*Translation*]

This is the Alliance of Canadian Defence Companies. It has 200 members, all of which are small or medium-sized enterprises. They told us that they had opportunities in other countries, but that they were being asked why they should be trusted if the Government of Canada did not award them their first contract.

Will the Defence Investment Agency, or DIA, and the investment mandate we are going to give you enable these companies to compete not only here at home, but also internationally?

VAdm Angus Topshee: Yes, that is absolutely our intention. It is one of the most frustrating things to hear a Canadian company say that it has contracts with the Pentagon, but not with the Canadian Armed Forces. We really do intend to change that.

Tim Watchorn: So, allowing the DIA to have an investment budget will, we hope, enable these companies to secure contracts with the Canadian government and expand into other markets as well.

VAdm Angus Topshee: Yes. The intention is really to create a Canadian industry that is competitive on a global scale.

Tim Watchorn: The other thing these companies tell me is that it is difficult to get pre-approved. I know this isn't directly within the remit of the DIA, but rather falls under Public Services and Procurement Canada, but how can the DIA help other organizations to ensure that Canadian companies are approved quickly in terms of security? Is there a role for both organizations to play?

VAdm Angus Topshee: We are currently improving our process for assessing everyone's security clearance. For a long time, we didn't really have the necessary capabilities, but with the investments we're now making in defence, we're able to process security clearances and all that at a much faster pace.

[*English*]

Heather Sheehy: I have also heard that the security issue is something we need to spend time on to ensure that it is not holding up procurement, especially among our small and medium-size enterprises. Those enterprises have a greater challenge in this space because they may not be as integrated as the larger defence companies that already have those security processes.

It is something we are looking at.

[*Translation*]

Tim Watchorn: In a similar vein, I attended an event last week where there were several small and medium-sized enterprises trying to do business with leading companies. For a small business, this is one of the best ways to integrate into the defence supply chain.

How can the DIA help these companies gain access to the Government of Canada's initial supply chain?

VAdm Angus Topshee: That is certainly the goal. We can see this in the shipbuilding sector, where a genuine supply chain is being created for all ship components. With the DIA, we will have even more tools to ensure that these companies are represented within the supply chain.

[*English*]

Heather Sheehy: I would just add that for the ITB policy, which is really about having investments actually in Canada, including with smaller firms, the responsibility is now with the DIA. It had previously been with the industry department.

Part of the negotiations and the conversations they have with suppliers is about exactly that, the ITBs. For me, ITBs now are the base. Then it is plus what else we can get in terms of economic benefits to Canada. Those are the conversations the DIA is leading on behalf of Canada.

[*Translation*]

Tim Watchorn: I have one final question.

My colleague Mr. Barsalou-Duval said that, when we want to buy something, we sometimes make changes. As an engineer, I know that engineers now use building information modelling systems. I had the opportunity to speak with representatives from Chantier Davie, who told me that they were working with essentially the same systems to avoid construction errors and improve production times.

Do you see any improvements in ship delivery times? I assume so, but when you're involved in this, do you feel comfortable working with these systems?

● (1715)

VAdm Angus Topshee: Yes, we are definitely seeing an acceleration in production across the board.

In fact, I can see that the people at Irving are keen to learn from South Korea, which has excellent shipyards. It uses a system similar to IKEA's for building ships. Everything needed to build a ship is there when it's needed. This makes the assembly of a ship very quick.

Tim Watchorn: Thank you very much.

Thank you, Mr. Chair.

[*English*]

The Chair: Thank you very much.

We'll go to Monsieur Barsalou-Duval, and I think we'll finish there.

You have some motions, Mr. Bezan.

[*Translation*]

Xavier Barsalou-Duval: Ms. Sheehy, my question relates to what we were discussing earlier, namely the collaboration between the Defence Investment Agency and the Department of National Defence in the procurement process.

How will the introduction of Bill C-40 affect the way this currently operates?

As I understand it, at present, the Defence Investment Agency falls under the remit of Public Services and Procurement Canada. However, once it becomes a Crown corporation, I imagine there may be an impact on the way things are done.

What sort of impact can we expect?

[*English*]

Heather Sheehy: This legislation is still before the House. In parallel, we are looking at what it would take in terms of putting it into place, should it be passed.

We already have a good foundation on which to build. We already are working with the DIA. If it should become a Crown corporation, I see us continuing to work very closely together. I don't see that changing.

Perhaps what is not always well understood is that the procurements the DIA does are done on behalf of the Canadian Armed Forces and DND. That funding actually comes from DND budgets, and then we work with them in terms of making sure those procurements fill those CAF needs. That will continue to be the case. I see that as only maturing, because it's still a new organization. Continuing along, that will only become more formal, I would say.

[*Translation*]

Xavier Barsalou-Duval: Will the fact that it is becoming a Crown corporation change the way processes are carried out?

[*English*]

Heather Sheehy: From the level I work at with the DIA, at the assistant deputy minister level, I see the collaboration continuing somewhat along the lines of what already has been established, except for perhaps just evolving, because there will be a broader mandate of the Defence Investment Agency under the bill, as it is envisioned. I see that as continuing.

What will be new is the board of the agency and having the deputy minister responsible being on that board. Those will be new mechanisms that we're going to have to work through.

[*Translation*]

Xavier Barsalou-Duval: All right, thank you.

The Chair: Thank you.

[*English*]

Mr. Bezan, it's over to you. We have 10 minutes. Do you want to put forward your motions now?

James Bezan: Yes.

Sherry Romanado: Chair—

James Bezan: I have the floor.

Sherry Romanado: Before we do that, if we're not going to be asking the witnesses—

The Chair: I don't know that. That's why I'm asking.

Sherry Romanado: I don't know how—

James Bezan: You talked about the $1 billion of consolidated revenue. There is that money that can be used at any time, at the direction of the minister and/or the CEO of the DIA. Just for clarification, what would you consider that $1 billion for? You touched on it.

Heather Sheehy: When I was talking about the money that comes from DND, that is for the procurements. That is the procurement money.

James Bezan: What about beyond that $1 billion?

Heather Sheehy: That is all of the resources that DND manages to purchase capital equipment or sustainment equipment. We then work with the DIA. They get the money from us, and then those procurements and contracts are put in place. That is what I was referring to.

James Bezan: I will thank our panel for being here, and for facing the grilling for an hour and 50 minutes. I appreciate that information.

I do want to move the motion which I gave notice of on Thursday, November 12. I move:

> That the committee invite the Minister of National Defence to appear for one hour on the defence and NATO spending implications of Budget 2026 and one hour on the Supplementary Estimates (B) prior to December 5th, 2026.

The Chair: We will have further debate, but I'm going to tell the witnesses that they have the liberty to go. We're going to be discussing a few motions here.

Witnesses, thank you for coming today. Thank you for your service and your leadership. We recognize the importance of our expediting these contracts and procurement processes more quickly. We appreciate your input and advice as we proceed forward.

All the best to all three of you.

Is there debate on the motion?

Yes, Mr. Earle.

● (1720)

Philip Earle: I'd like to propose an amendment to the motion, a small deletion and a small addition.

I have the amendment in both official languages, which I can share with you.

The Chair: Mr. Earle, do you want to read your amendment?

Philip Earle: Yes. The small deletion is after “Budget 2026 and”. I want to delete “one hour on the Supplementary Estimates (B)”. The addition is “and that the Department of National Defence appear for the second hour”.

In essence, the spirit of the amendment is that the minister would appear for one hour versus the two hours as proposed in the motion.

The Chair: Okay. An amendment to the motion has been moved. Is there further debate on that?

Mr. Bezan.

James Bezan: I'm sure that the minister would love to come here and speak for two hours. One hour would be on the budget because there is a section in budget 2026, and then we would go through supplementary estimates (B), which is part of our responsibility as a committee. Those were referred to us about a week ago. We want to make sure we engage, and I think we have to give it proper consideration by having the minister appear for one hour on each.

I'm opposed to the amendment.

The Chair: Ms. Romanado.

Sherry Romanado: As has been the practice in the past, the minister, when he came, would answer questions for the first hour and then we would have the departmental officials for the second hour. This committee has been quite generous in terms of questions we allow, in terms of relevance, so I have no doubt that this committee, as of today, would absolutely ask the minister anything that has to do with spending when he is here.

I think it's up to the members of Parliament to determine if the question is regarding the supplementary estimates or if it's about defence and NATO spending. I have no doubt that they can get that in during the allotted time.

That's my comment.

The Chair: Thank you.

Is there any further debate?

We have an amendment to the motion. We can vote on it now, if we wish, and then proceed to the motion again.

(Amendment agreed to)

The Chair: We now have an amended motion before this committee.

An hon. member: On division.

The Chair: Yes, Ms. Romanado.

Sherry Romanado: I think we should have a recorded vote.

The Chair: A recorded vote has been requested.

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

The Chair: Mr. Bezan, do you want to move another motion?

James Bezan: I would like to move the following motion. I gave notice of it. I move:

> That the committee report Bill S-246, the Wartime Service Recognition Act, back to the House without amendment at the earliest opportunity.

Mr. Chair, as you know, our Persian Gulf veterans have been waiting 31 years for their service to be considered wartime service. We also know the Afghanistan veterans were in a hot conflict for the entire time they were deployed, from 2002 to 2014. They would like to see that recognized as wartime service.

We have had this in the House. I suggest that we support this and get it back to the House for third reading before Christmas so that our veterans no longer have to wait to be recognized for their sacrifice and service to this country.

● (1725)

The Chair: Mr. Bezan, thank you for that motion. I think all of us around this table agree on its relevance and importance. There are those of us in this committee who have jointly seconded it, and the individual who's part of that bill came before us recognizing its importance.

However, there are certain things that have to be modified modestly with regard to the motion itself. Unfortunately, it's out of order, since it goes against Standing Order 75(1), regarding the proceedings of bills in committees. Unanimous consent would resolve that, but we note that it is out of order.

The bill, I believe, and the amendment to it are coming our way. We all want to see it done.

James Bezan: [*Technical difficulty—Editor*]

The Chair: It's still proceeding. The bill is in committee. They haven't finalized their issues.

That's what we want to see happen.

I think we should entertain your motion on Thursday or maybe on Monday, so that we can do it. We all want to see it done.

James Bezan: If you call that one out of order, I'll accept that. What standing order are we quoting to say it is out of order?

The Chair: It's Standing Order 75(1).

James Bezan: I'll have to look that one up.

The Chair: We're going to deal with this. We all want to see it happen.

James Bezan: I'll bring it back. I have the other motion with a timeline on it.

The Chair: I know.

Someone's hand is up. Is it with regard to this?

Chris Malette: I'm moving that we end the debate—

The Chair: There is no debate.

Chris Malette: Oh. It's out of order.

An hon. member: [*Inaudible—Editor*]

The Chair: There's no challenge. We all want to see it happen.

What's your next motion?

James Bezan: It's 5:25. We have five minutes, and the next panel is here. If you want to set it up, I'll save the rest for Thursday.

The Chair: I think we could deal with it pretty quickly, but we'll deal with it next time.

With that, folks, I'm going to suspend our meeting. We'll be back in 10 minutes.

● (1725)

_____(Pause)_____

● (1735)

The Chair: Welcome back. We're resuming our study of Bill C-40, the strengthening Canada's defence sector act.

I want to welcome our witnesses.

We have Alexander Jeglic, the procurement ombud, and Lindsay Mellan, senior procurement adviser.

Welcome to our committee. I open the floor to you for five minutes.

Alexander Jeglic (Procurement Ombud, Office of the Procurement Ombud): Before I start, I'd like to express my sincere condolences to the family of Private William Douglas Dal Bianco, who died courageously serving this country.

I'd now like to acknowledge that we're gathered on the traditional unceded territory of the Algonquin Anishinabe people.

Thank you, Mr. Chair and members of the committee, for inviting me to discuss Bill C-40.

Although I've had the opportunity to appear before this committee once before, I'd like to briefly outline my office's mandate and work.

[*Translation*]

The Office of the Procurement Ombud was established in 2008 to provide Canadian suppliers and federal buyers with an independent and impartial mechanism for addressing concerns relating to procurement and the awarding of contracts at the federal level.

● (1740)

[*English*]

We are an independent, neutral organization with a government-wide mandate, although Crown corporations are currently excluded. Specifically, my legislative mandate is to review complaints from Canadian suppliers regarding the awarding of certain contracts below $34,700 for goods and $139,000 for services; to review complaints respecting the administration of certain contracts of any dollar value; to provide alternative dispute resolution services, including mediation and mediation arbitration, in order to assist suppliers and federal organizations in resolving administration issues related to contracts of any dollar value; and to review the procurement practices of federal departments in order to assess fairness, openness, transparency and consistency with laws, policies and guidelines. Again, there is no dollar-value threshold.

My office also conducts research on federal procurement issues through knowledge deepening and sharing. Earlier this year, we published a study on Canada's defence procurement system that provides an overview of the system and identifies 16 considerations to strengthen it. My colleague Lindsay Mellan was the author of that piece. Our research identified several outstanding challenges, many of them echoed in this committee's 2024 report on defence procurement reform.

I'd like to highlight five key considerations.

First, fragmented accountabilities and competing priorities across capability, economic benefit, cost and schedule remain persistent challenges in defence procurement. Our study suggests that Canada could consider establishing a clear framework for prioritizing these interests.

Second, good, reliable data is an absolute must. Our defence study suggests that Canada should map the end-to-end procurement process and centralize performance data to improve transparency, better identify issues and support evidence-based decisions.

Third, success depends not just on awarding contracts but also on managing supplier performance. A strong vendor performance management system would identify and address underperformance, recognize strong results and inform future procurement decisions, in order to ensure that our military receives the tools it needs to succeed and thrive.

Fourth, defence procurement requires a workforce with specialized expertise to manage increasingly complex contracts and to navigate evolving technologies, security considerations, international partnerships and competing priorities. Canada lacks a dedicated certification program to develop these skills.

Fifth, our study highlights the well-known “valley of death” issue between government-funded innovation and procurement. While Canada may be successful in supporting the development of promising technologies, it often struggles to move these innovations into procurement and operational use.

[*Translation*]

These are just a few examples taken from our report, and these barriers are nothing new.

[*English*]

Many have persisted for decades, despite repeated efforts to address them within the existing system. Recent reforms recognize what has become increasingly clear: Canada's procurement system needs foundational change, not fine-tuning.

In this regard, the creation of the Defence Investment Agency Crown corporation and the measures proposed in Bill C-40 have the potential to address some of these challenges by centralizing procurement responsibilities, streamlining processes, reducing bureaucracy and enabling faster and more flexible decision-making. More broadly, a new model designed for today's realities may prove to be faster and more effective than trying to retrofit a system never designed to meet today's demands. While these developments are encouraging, reforms of this scale must be implemented thoughtfully to ensure that efforts to solve existing problems do not create new ones.

In the case of Bill C-40, my office will focus on the areas where we are most directly impacted and knowledgeable.

The first is independent procurement oversight.

[*Translation*]

As the Government of Canada prepares to make what has been described as a one-of-a-kind investment in defence, this is precisely the moment when independent oversight is essential.

[*English*]

Let me be clear about what I mean by independent oversight. Oversight must come from an independent body, separate from those making procurement decisions and free from political influence. It must be timely, targeted and efficient. In a world that's changing as rapidly as ours, reviews every five or 10 years are simply not timely enough. We need timely oversight that can identify issues as they emerge and help address them in real time.

While Crown corporations are subject to oversight by the board of directors and responsible ministers, these important mechanisms are not a substitute for independent procurement oversight. If Bill C-40 is passed, the Defence Investment Agency would fall outside of my office's current mandate, as our jurisdiction does not extend to Crown corporations. Stakeholders would lose three avenues of recourse through my office: complaints about DIA contract awards and administration, reviews of systemic procurement issues and alternative dispute resolution for contract disputes. We currently have ongoing files with the DIA and a positive collaborative relationship, and we hope that will continue.

At a time when accelerating defence procurement is a top government priority, I want to make one thing clear: Oversight is not a roadblock to getting things done; it is part of getting things done right. It helps identify problems early, strengthen procurement practices, ensure accountability and ultimately deliver better value for Canadians.

● (1745)

[*Translation*]

The implications of Bill C-40 extend beyond defence procurement, which brings me to my second point on the harmonization of federal procurement.

[*English*]

As the Defence Investment Agency assumes responsibility for major procurements, an increasing number of suppliers will find themselves operating within this new model. The decisions made here will therefore influence how businesses interact with the federal procurement system more broadly. This presents an opportunity to simplify the broader procurement landscape because suppliers should not have to navigate different sets of rules depending on which federal organization they are dealing with. This is also an opportunity to ensure that indigenous suppliers can participate meaningfully in defence procurement. This is particularly important if the Defence Investment Agency continues to handle procurements valued at $100 million or more, as this would create multiple procurement regimes in the defence procurement space alone.

It is worth remembering that Crown corporations were designed to operate at arm's length from government and outside many of the legislative and policy frameworks that bind departments. If the goal is greater harmonization, I would suggest that we look for opportunities to bring departmental procurement practices closer to the flexibilities traditionally afforded to Crown corporations, rather than burdening Crown corporations with the very constraints they were created to avoid. This means that oversight must be efficient, be effective and preserve the flexibility needed to achieve timely conclusions.

Lastly, I have long advocated for reform within federal procurement, and I am encouraged by the growing momentum for change.

[*Translation*]

It really does seem that the system is evolving, and meaningful oversight must evolve to meet the new needs of stakeholders.

[*English*]

Let me leave you with this thought. As we modernize, we must not lose sight of the core principles that make our procurement system strong: fairness, openness and transparency. These principles are not dated or obsolete. They are the bedrock of how suppliers are chosen, to preserve legitimacy in the expenditure of Canadian taxpayer dollars.

Above all else, we must provide Canadian troops with the equipment and services they need to be successful, and this is non-negotiable. We owe them this obligation in return for their commitment to and sacrifice in defending this great country.

[*Translation*]

I will now be happy to answer your questions.

Thank you.

[*English*]

The Chair: Thank you, Mr. Jeglic. I appreciate your opening statement.

We're going to start on the first round of six minutes with Mr. Anderson.

Scott Anderson: Thank you very much.

I'm going to ask a series of questions of Mr. Jeglic.

You've told the Senate that establishing the DIA as a Crown corporation could put a significant portion of defence procurement outside of your office's jurisdiction. Am I correct that your office can currently investigate certain procurement complaints involving National Defence?

Alexander Jeglic: Mr. Chair, yes. As I mentioned in my opening statement, there are multiple components of our legislative mandate that would be affected by the DIA becoming a Crown corporation.

Scott Anderson: You might lose some authority over certain things.

Alexander Jeglic: Yes.

Scott Anderson: Which specific oversight mechanisms would we lose?

Alexander Jeglic: Mr. Chair, to answer the question, it also depends on what the final landing spot is in terms of the dollar-value threshold that the DIA may handle. Assuming it remains at $100 million, then we likely would never be implicated in reviews of a complaint about the award of contracts, but we would remain eligible to review complaints about the administration. We could do systemic reviews about the procurement practices of the DIA—

Scott Anderson: What couldn't you do, though?

Alexander Jeglic: It's reviews of complaints about the award of contracts, so the actual selection process of the preferred supplier.

Scott Anderson: The government assures us that the new Crown corporation will remain accountable to the Auditor General, but the Auditor General is slightly different. Can you explain that?

Alexander Jeglic: Absolutely. The Auditor General does play a significant role in the review of Crown corporations. Within 10 years, the Auditor General must conduct a special examination. I think what's different between the Auditor General's mandate with Crown corporations and the oversight that we provide is at the transactional level. On an individual contract, if a supplier feels like they haven't been treated fairly, they would not bring a complaint to the Auditor General. They would bring a complaint to either our office or that of the Canadian International Trade Tribunal.

Scott Anderson: If a Canadian company believes that the DIA has unfairly awarded a contract to somebody else, who would independently investigate that?

Alexander Jeglic: In the current context or as a Crown corporation?

Scott Anderson: As a Crown corporation.

Alexander Jeglic: As a Crown corporation, they could still be subjected to the Canadian International Trade Tribunal's jurisdiction. However, there are limitations on the Canadian International Trade Tribunal's jurisdiction—

● (1750)

Scott Anderson: What are those?

Alexander Jeglic: —particularly when the national security exception is invoked.

When the NSE is invoked, the CITT's jurisdiction is limited to ensuring that the right authority, so an associate deputy minister, provided the approval and that it was approved prior to contract award.

If those two things were done by the appropriate person at the right time, then the substantive aspects of the complaint could not be assessed by the CITT.

Scott Anderson: There's no way they could just claim national security and that's as much as it would take.

Alexander Jeglic: It would lock aspects of the CITT's mandate, absolutely.

Scott Anderson: Okay, thank you.

Before the government decided to turn the DIA into a Crown corporation, were you consulted about the implications for your office's oversight?

Alexander Jeglic: Not directly. However, we did provide briefings associated with the report that I mentioned in my opening statement. We did write a substantive piece of about 60 pages where we identified considerations that we thought were important. These considerations were actually tabled to the DIA directly and several of the associated ministers.

In terms of consultation specifically on Bill C-40, we were not.

Scott Anderson: Do you feel, as the DIA was created, that your concerns were actually paid attention to?

Alexander Jeglic: Certainly, we did that assessment to see how many of our considerations were in fact addressed. I would say there was partial addressing of many. The one that I highlighted in my opening remarks is addressing the valley of death. That's been a long-standing concern. It's one of our considerations where funding is provided by the government through grants and contributions, however there is no procurement vehicle available to then take successful prototypes and commercialize them.

One of the exceptions under the new legislation would allow for a directed contract where the government has already provided funding to that supplier.

That was certainly something industry had been calling for, for some time. That's something that was addressed and it was a consideration in our report.

If I may, I will also indicate that in Bill C-31 there is an active discussion around our mandate. It's not specific to the DIA, but rather it's a potential change to our regulation. The regulation that could be in place could be altered to include Crown corporations. There are certain factors that change the dynamics moving forward.

There are multiple things happening at the same time. Bill C-31 implications for us are slightly different from the Bill C-31 implications in terms of the agency and the DIA.

Scott Anderson: What independent review should be required when the minister decides not to hold a competition?

Alexander Jeglic: I'll refer to my opening remarks, where I think an independent oversight is necessary and something that's not redundant. There's a need to streamline across the board. I think that at times there is a growing fatigue of oversight. Having an effective oversight is what's appropriate and needed. I'm not solely advocating that it should be my office, but I do indicate that our office has the capability to provide those oversight services if asked.

Alternatively, there are other things that can be done specifically in terms of unlocking the CITT's mandate, for example if the NSE is invoked, to expand their rights to inquire about fairness issues beyond the invocation of the NSE.

One of the questions I had when reading the legislation is if there is an invocation of the exception or one of the 13 exceptions, would that have the same outcome as the invocation of the NSE, meaning it would lock the CITT's jurisdiction? If that's the case, then all non-competitive procurement would be blocked from CITT review, in my assessment.

Those are concerns. There are other oversight mechanisms. One of them I would suggest is the board of directors. You will note that they can appoint two ADM level or DM level directors to the board. I could put forward a suggestion that they could appoint the procurement ombud to the board. That would provide oversight within the existing framework of their governance model. It would ensure that I wouldn't have a mandate specifically to review, so therefore the conflicts that would exist for many other implicated parties would not exist for the position of the procurement ombud.

The Chair: Thank you, Mr. Anderson.

Thank you, Mr. Jeglic.

I'm going to Mr. Malette.

Chris Malette: Thank you, witnesses, for coming today. Your presence here and your expertise are greatly appreciated.

You answered one of my top questions just a moment ago, Mr. Jeglic. I have another one along the same lines.

Does the legislation as it stands provide sufficient safeguards, in your estimation, to ensure that the Defence Investment Agency remains subject to appropriate standards of fairness, openness and transparency, even though it will operate outside the traditional departmental procurement structure?

● (1755)

Alexander Jeglic: Mr. Chair, for full disclosure, I will disclose that both Lindsay and I had worked for multiple Crown corporations, so we do have a pretty deep understanding of how Crown corporations work. That being said—

Chris Malette: That's why we appreciate your expertise.

Alexander Jeglic: I will say there certainly is oversight of Crown corporations, so I don't want to give this committee the sense that there is no oversight. As I mentioned, the Auditor General has a specific responsibility. The Crown corporation has to submit a corporate plan in an annual report on an annualized basis. You'll note that the legislation also requires the minister to undertake a report on the act within five years that has to be reported to Parliament. You have multiple reporting mechanisms, plus you have the PBO, the Parliamentary Budget Officer, who will do a financial analysis prospectively. Those are certainly aspects that provide oversight.

I think what is still lacking is that transactional oversight. If there are suppliers in the community that feel like they haven't been treated fairly, where can they go? That would probably limit them to the federal court. As you can imagine, that's a pretty high threshold and not many suppliers will take their issues to the federal court.

I suggested in a previous answer relooking at the CITT's jurisdiction and suggesting that the CITT might play a broader role. If there is NSE invocation or if one of the exceptions to competition is invoked, perhaps they could play a more enhanced role than they do now.

Chris Malette: You actually started answering yet another question. You must be clairvoyant.

If a Canadian company believes it was unfairly excluded from a defence procurement competition or that a contract was awarded improperly, where would that company turn?

Can you walk us through the process of that?

Alexander Jeglic: Yes, absolutely. The one distinction between the CITT and ourselves is the CITT's jurisdiction derives from free trade agreements. Its role and expertise is interpretation of free trade obligations when it comes to award issues. Typically it's higher dollar-value threshold complaints that would go to the CITT.

Both the CITT and the procurement ombudsman's office work in tandem. We have a memorandum of understanding to ensure suppliers get timely recourse. If the supplier comes to us and they should have gone to the CITT, we have a memorandum of understanding to make sure that their information, if they consent to it, is shared with the CITT. If the CITT believes it has jurisdiction, then it can conduct hearings and ultimately render a decision.

Equally for us, we would issue a report within 120 days and make a determination as to whether we believe that the supplier was treated fairly or not. Ultimately, we can also make recommendations for compensation of up to 10% of the total contract value.

Chris Malette: Ms. Mellan, I have a question for you.

In your estimation, what protections should be in place to ensure that the increased commercial flexibility of the new agency does not create an uneven playing field between large defence contractors and smaller Canadian suppliers? We've heard again and again in committee that we are looking to broaden this for SMEs wherever and whenever we can.

Lindsay Mellan (Procurement Review Manager, Office of the Procurement Ombud): I'm sorry, can you rephrase the question or repeat it?

Chris Malette: In your estimation, what protections should be in place to ensure that the increased commercial flexibility of the new agency does not create an uneven playing field, if in fact it does, between large defence contractors and those SMEs?

Alexander Jeglic: If you want, I could take it.

What I would suggest certainly is the allowance for advance payments. When we're looking at what mechanisms are available for small and medium-sized suppliers, that's one that I will certainly suggest is helpful. That's certainly something that they've been long calling for. Again, that's addressing the valley of death. Maybe a start-up has developed a prototype under funding from the government and doesn't have a lot of seed funding to substantiate one or two years of no real income. Now all of a sudden one of the exceptions allows for a directed contract to be awarded to successful prototypes.

Those are certainly two elements that really help small and medium-sized business. There are others. Obviously, the opportunity to receive loans from the organization could be beneficial to small and medium-sized businesses. There are a number of tools that are available to small and medium-sized businesses as a result of the new legislation.

● (1800)

Chris Malette: How am I making out here?

The Chair: You have 20 seconds.

Chris Malette: I have a whole 20 seconds. I will pass.

The Chair: Thank you for donating your time.

I'm going to Mr. Barsalou-Duval.

You have 20 seconds more.

[*Translation*]

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

I would like to thank both witnesses for joining us today.

Mr. Jeglic, you mentioned that your office has existed since 2008 and that you did not have the power to carry out your activities in relation to Crown corporations. However, among the powers you currently hold, you do, in a sense, exercise authority over the Defence Investment Agency in its current form.

Have you ever been involved with the Defence Investment Agency?

Alexander Jeglic: I would like to thank the member for his question.

Yes, we have a few projects with the agency.

Xavier Barsalou-Duval: So, if Bill C-40 is passed, I imagine that the monitoring of these cases will automatically come to an end. What will happen to them?

Alexander Jeglic: It depends. I hope not. I hope this work will continue, because it's mediation. Perhaps it will be completed before the bill is passed. Otherwise, we'll have to discuss it, because if we lose powers halfway through the process, that could be a problem.

Xavier Barsalou-Duval: When you refer to mediation cases, I assume you are talking about mediation between potential suppliers and the agency, but you also have other powers and carry out other activities, particularly with regard to process review.

In the short space of time since the Defence Investment Agency was set up, have you nevertheless already had the opportunity to take a look at these processes?

Alexander Jeglic: I can say that there are many instances, within the scope of our mandate, where we have powers that enable us to assist many suppliers with contracts that would fall under the new agency's administrative process. I do not think it is in the suppliers' best interests for us to lose these aspects of our remit. So I really hope we will be given good reasons as to why we cannot have these same powers in relation to this Crown corporation.

Xavier Barsalou-Duval: My question was, in part, to find out whether you have already identified any shortcomings or issues in the current operation of the Defence Investment Agency that would be worth highlighting so that they can be rectified promptly, for example.

Alexander Jeglic: We have just published the report produced by Ms. Mellan, which sets out our considerations on this matter. However, with regard to the agency's transactions to date, there is not enough transparency for us to say that there is a systemic problem requiring us to intervene within the scope of our mandate. Furthermore, we need a year to carry out an examination of systemic issues. So, even if we were to start today, it would take a long time to complete this process.

Xavier Barsalou-Duval: I see.

At the moment, there's a lot of hype surrounding the new agency, with people saying it's working miracles, but we don't have an independent view on it, as such. It might have been useful, before losing that perspective, to have an overview of the situation. Perhaps we won't lose it after all. Perhaps we'll be able to adopt amendments to ensure that you can carry out this work.

Furthermore, if I understand correctly, at present you are not able to examine all contracts, amongst other things. There are certain limits to what you can do. For example, as I understand it, you do not necessarily have authority over contracts worth $100 million or more.

Can you explain to us what the current limitations are? Shouldn't these specific limitations be reviewed?

● (1805)

Alexander Jeglic: This is because our mandate corresponds to the lower thresholds set out in free trade agreements. So, that is approximately $140,000 for services and $40,000 for goods. It is the CITT, the Canadian International Trade Tribunal, which has jurisdiction over contracts awarded that reach or exceed these thresholds. Our mandate is for contracts awarded with a value below these thresholds. We are referring only to awarded contracts.

However, when it comes to administrative reviews, there is no threshold. It could be $100,000 or $1 billion. The same applies to mediation and reviews of systemic issues. We can therefore examine all contracts relating to these aspects of our mandate, regardless of their value.

Xavier Barsalou-Duval: Thank you, that's very interesting.

If you did not have the authority to oversee procurement activities, would you suggest that a separate structure be created? For example, do Crown corporations have their own internal ombud? Would it be worthwhile to develop this expertise within such a Crown corporation?

Alexander Jeglic: I believe there are some Crown corporations that have their own ombuds, but they are a different type of ombud. These individuals do not carry out reviews relating to procurement. Their work is instead linked to human resources. I did not wish to confuse the two, as they are different types of ombuds.

As I said in my opening remarks, if we have a new agency managing a large number of high-value defence procurement contracts, I really do think it is necessary to have a body we can turn to in order to find a mechanism for resolving disputes. It cannot be us, because the new agency will be a Crown corporation, but I agree that we could find another body that is

[*English*]

nimble, efficient and not redundant.

[*Translation*]

The Chair: Thank you very much.

[*English*]

Mr. Bezan, we'll go to you for five minutes.

James Bezan: Thank you, Mr. Chair.

Thank you to our witnesses for joining us.

You mentioned that you looked through Bill C-31 and Bill C-40. Are there any amendments that you would suggest to Bill C-40 to resolve that issue regarding openness, fairness and transparency?

Alexander Jeglic: One thing I will say is with regard to prioritization.

The closing remarks in my opening statement asked what the ultimate priority is of the DIA, reinforcing that it's the provision of goods, services and construction for the Canadian Armed Forces and indicating that that's the number one priority for the DIA. Therefore, that is something that could be reflected in legislation, and I think it's something that's incredibly important.

James Bezan: Would you support that the minister designated for the DIA, as a Crown corporation under Bill C-40, should be the Minister of National Defence in order to ensure that the issues of national defence are being dealt with by the agency?

Alexander Jeglic: Not necessarily.

As long as there's a prioritization in the statute, the minister would be required to follow the prioritization in the statute. It would be an addressing of the potential transactional tensions. If there were tension between growing Canadian industry versus providing timely equipment to the Canadian Armed Forces, the legislation would already determine how that conflict would be resolved.

James Bezan: Do you see that in Bill C-40 now?

Alexander Jeglic: There is no prioritization.

James Bezan: We'll have to look at making that amendment.

When you look at “Rules on Competitive Procurement”, starting on page 24, proposed section 26 and on, the exceptions are listed under proposed section 28, and there are 13 of them now, which is much higher than what currently exists. A national security exemption usually means that we're under threat and are actively deployed or that there's an urgent operational requirement.

Have you gone through this and looked at it? Are those exceptions listed here reasonable? Is economic security a reasonable defence response underneath the legislation?

● (1810)

Alexander Jeglic: I would certainly say that the new exceptions are an expansion of the existing exceptions. I will note that the previous witnesses probably rightfully identified that it's easier to have an exception and not use it than to not have one and need it. It becomes a question of how these exceptions are going to be interpreted and how often they're going to be utilized.

The mere fact that they exist may not be a significant problem, because it may offer the type of leverage and creativity necessary to address evolving circumstances. That being said, the preamble, which is proposed section 27, says competition by default. Then proposed section 28 creates very broad exceptions.

The answer to your question will be how often we use those exceptions found in proposed section 28. However, I also agree that they're very broad and that, arguably, most transactions could be found to fit within one of those exceptions if one tried.

James Bezan: Okay.

Proposed section 29 is on exclusion and reasons not required. The minister does not have to say the reason anyone was excluded or why the decision was made not to run a competition. That's where you would no longer, under this legislation, have any oversight.

Is that correct?

Alexander Jeglic: I interpret proposed section 29 a bit differently. I interpret it in terms of an individual's exclusion to participate. It's as if the minister has the authority to exclude individuals from participating in the process.

James Bezan: By excluding someone from competing in the process.... We'd essentially be giving the minister the opportunity to politically interfere in a procurement, if they had one particular bidder that they preferred over another.

Is that correct?

Alexander Jeglic: Perhaps, Mr. Chair. Again, I interpret it this way. For example, if there were a security concern with a specific supplier and they didn't want them to be—

James Bezan: We wouldn't know the reasons required. It could be political interference as well.

Alexander Jeglic: It is true, certainly, that the construct of this Crown corporation would give the minister additional powers that are not normally seen in a Crown corporation. There's the fact that no reasons are required. I believe the provision, though, includes “reasonable grounds”. Reasonable grounds would have to exist, but no reasons would be required, if I remember my reading correctly.

James Bezan: How would they have reasonable grounds if we don't know what they are, if the reasons aren't given?

Alexander Jeglic: Mr. Chair, I'm not disagreeing with you.

James Bezan: When you look at the governance structure.... You said that you and Ms. Mellan have experience with Crown corporations. This would be a very small board compared with those of most Crowns. They wouldn't have the ability to go out there and attract a large number of individuals with expertise in both national defence and national security, as well as people familiar with the defence industrial complex we have in Canada and abroad.

Do you see that being a shortfall in the overall governance of this new Crown?

Alexander Jeglic: Certainly, the governance model would be unique in terms of the composition of the board. The board would predominantly be members of the government or in government-associated positions.

That being said, we can also imagine that a procurement agency having many independent actors sitting as board members could also create conflict issues. We want to allow for meaningful participation by board members, but having members who are also implicated parties could create some complexities.

When I said that they could appoint the procurement ombud to the board, I was not joking. That is something that should be considered for this reason: It would allow for independent oversight and a vetting of open, fair and transparent practices at the transactional level, which wouldn't otherwise be available. No amendments of the legislation would be required.

James Bezan: Other than making sure the procurement ombudsman is actually named in the legislation as one of the people who would be appointed to the board....

The Chair: Monsieur, you don't have to respond.

We're going over to Mr. Earle.

Philip Earle: Thank you, Chair.

Thank you to the witnesses.

I have a number of questions.

Two or three times in your testimony, you talked about having a seat on that board. You're the ombudsperson. How do we remove the conflict of interest, or the perception of conflict of interest, if the ombud were to sit on the board of directors of an agency procuring for Canada?

● (1815)

Alexander Jeglic: I think the question is, would I have jurisdiction or not? Ultimately, if the determination is that I have no jurisdiction over the DIA by virtue of it being a Crown corporation, conflicts would only exist at the point where suppliers to that Crown corporation are also suppliers complaining to our office. I suggest that this would be no different than any other actor on that board.

The reason I'm advocating for this is not because I believe the ombudsman should sit on the board. I think it's a solution to a problem that doesn't require an amendment. It simply requires an action on the part of government to include what I believe to be independent oversight without it impacting timeliness or governance. It would simply be a perspective brought to the board discussions.

There is other director potential in the legislation that would allow for the appointment of deputy minister ex officio members. One can anticipate that there would perhaps be deputy ministers better placed than the procurement ombud. It's not that I believe my experience, per se, is beneficial. What I could bring to the table is neutral, independent oversight to an organization that might not have that perspective.

Philip Earle: Another example of a Crown corporation in Canada that does a tremendous amount of procurement in the very small scale to the very large scale would be Canada Post Corporation. It is written directly in every request for proposal from Canada Post. It takes away the ability of a supplier to launch a lawsuit or open a claim. Why wouldn't such language work in this particular case, if we assume that it works currently with the Canada Post Corporation?

Alexander Jeglic: Mr. Chair, that's a fair question.

I do think there are a number of Crown corporations that do engage in a certain level of volume of procurement. Canada Post is one that engages in a relatively high volume of procurement.

I'm not suggesting that all of a sudden all Crown corporations should be subjected to the ombudsman's mandate. What I am suggesting is that there are changes being contemplated. By that, I mean under Bill C-31 there is already an amendment being proposed to the Financial Administration Act that would allow for regulations to also apply to Crown corporations.

I'm not sure if the committee is aware, but buy Canadian was the first order in council that was actually made to each individual Crown corporation by the government. I think that this change to the Financial Administration Act is being done in a way to streamline that process.

Philip Earle: I'm being considerate of the time the chair has given me. You're taking me to my last question on Canadian content.

Looking at Bill C-40, we're going to build an industry in Canada that, in some cases, does not exist today. We're going to buy at home. We're going to buy for value. We're going to build fast, so that we can get those supplies out there.

Particularly in aerospace and defence, teaming is quite common. A Canadian company could team with a U.K. company, which could team with an Australian company.

Drawing on your procurement background and your role as an ombuds, how do you see that being measured in weighting criteria in an RFP, where a potential supplier could be punted from the RFP because too much of its content is from another country or not Canadian enough—if I can say it that way.

I was in another committee quite recently where you were a witness and you answered the question very well. I'm throwing your question back at you.

Alexander Jeglic: It's a fair question.

It's a combination of the buy Canadian and ITB policies. Both have important functions and each is doing a different type of assessment. The intention behind it is to create preferences for Canadian suppliers without being offside of our free trade obligations. It is a delicate dance.

I know there are some frustrations on the part of suppliers that might not understand why the definition of "Canadian" is worded the way it is. I think it's to demonstrate that there is certainly a preference for Canadian suppliers. That is specifically contemplated as part of the ITB process that the DIA is currently now responsible for. That's part of the value proposition that is considered in many procurements and that I think will be considered in the future as well.

● (1820)

The Chair: Well done.

I am now going to Monsieur Xavier Barsalou-Duval.

[*Translation*]

Xavier Barsalou-Duval: Thank you.

I have a further question for you, Mr. Jeglic.

There has been much discussion about the fact that, under the current bill, you would not have the power to oversee the new agency, as it would be a Crown corporation. Apart from that, are there any other aspects of Bill C-40 which, in your view, could potentially lead to procurement issues?

Alexander Jeglic: I would like to thank the member for his question.

Perhaps it is because I do not know exactly how this will be assessed, but I think there could be conflicts arising from investments. If we have a financial stake in a supplier wishing to tender in a competitive process, this gives an advantage, because information about that supplier is already available. To make an investment, one needs to know a great deal about the supplier. Consequently, there will be far more information available on that supplier than on others. This could be positive or negative, but how can one continue to hold a stake in such a situation?

Secondly, there could be a second type of conflict relating to the contract administration process. If the supplier fails to comply with the terms of a contract, will the department or the DIA ensure compliance with the contract terms even if there is a financial stake and enforcing those terms could reduce the investment?

These are two aspects of the investment that I would like to understand clearly. How will the DIA be able to make a financial contribution to suppliers who are themselves participating in a procurement process?

The Chair: Thank you.

[*English*]

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

Kathy Borrelli: Thank you, Chair.

Given the Department of National Defence's reliance on international suppliers for certain defence procurement contracts, what consideration has been given to ensuring that capital assets, such as moulds and press machines, are sourced from Canadian manufacturers?

Alexander Jeglic: The way the legislation is structured is that there are certainly provisions within the exceptions found in proposed section 28 that would allow for directed contracts in those priority areas. If a determination were made that a priority area met one of the exceptions, then it would offer the government an opportunity to award contracts directly in those areas.

Kathy Borrelli: That's great.

What proportion of the value of a major foreign-supplied defence contract typically remains with Canadian companies?

Alexander Jeglic: Unfortunately, that's information I don't have. Perhaps you could ask another witness.

Kathy Borrelli: All right.

Could you give us an actual example, with approximate figures, showing how much of a major defence contract was spent on Canadian production and how much ultimately went to the foreign prime contractor?

Alexander Jeglic: While I love to answer all questions directly, I do think these questions are better placed with the DIA. I'm sure they would be happy to provide you with that information.

Kathy Borrelli: All right.

From an industry perspective, how important is open competition in giving smaller Canadian companies an opportunity to establish themselves in defence manufacturing?

● (1825)

Alexander Jeglic: Absolutely. This is where I think it is interesting. There is certainly an effort to grow the Canadian defence industry. That is certainly evident in the bill. As the industry becomes more robust, competition becomes incredibly important. That's why my initial remarks in my opening are so important in terms of not losing sight of open, fair and transparent. We're trying to develop an industry that is so robust that we can compete amongst Canadian suppliers. Ultimately, the goal is to create a robust industry that has natural Canadian competitors who will benefit from a competitive process.

The answer to your question is that we want to continue to grow those small and medium-sized businesses who might be subs now but who might become primes in the future with the benefit of the DIA and additional contracts. They would benefit from competition. I think at that point, the use of exceptions should be limited where we have robust Canadian competition available.

Kathy Borrelli: Can you see that it could possibly become easier for small and medium businesses to get into that procurement line?

I've spoken with many small and medium mould businesses or tool and die businesses that have had to hire lawyers. They've had to hire consultants. The application process is very difficult. Some of them have been working almost a year on this initiative, and they're nowhere near completing their journey to be considered for bidding.

Alexander Jeglic: Mr. Chair, I will say that the bulk of the people that our office works with are from small and medium-sized businesses. That being said, the current threshold for the DIA is likely going to be $100 million, which may be reduced in time. That $100-million threshold makes it very difficult for small and medium-sized businesses to compete as primes. I think your comment goes to the complexity of federal procurement as a whole, and I would echo the concern raised by those small and medium-sized suppliers. It really has been my lifelong mission to simplify federal procurement.

I think Bill C-40 is an attempt to add creativity to a procurement process that was in need of an overhaul. As we migrate into a bit of the unknown, we will certainly break things, and that's why oversight is so important. As we break things, we want to correct as quickly as possible and put ourselves back in a position so that when we cross the line, which will happen periodically, we pull ourselves back and continue using those lessons learned.

There will absolutely be more opportunities for small and medium-sized suppliers, and hopefully the DIA gets to a point where they're doing many more transactions well below $100 million.

The Chair: Thank you very much.

Ms. Romanado, it's over to you.

Sherry Romanado: Thank you, Chair, and through you, I'd like to thank the witnesses for being here today.

I have two questions. First, I just want to get clarity.

You mentioned, with respect to award complaints, that the threshold was set by the CITT and that is for goods below $34,700, and for services below $139,000.

Can you clarify that this threshold was in place when we were doing procurement through PSPC? Before the stand-alone agency, was this also something that was in place?

Alexander Jeglic: I'll explain it with a little more clarity.

The thresholds don't come from the CITT. They come from the CFTA. That's the free trade agreement that delineates the mandate between ourselves and the CITT.

The CITT handles everything at or above that threshold. That threshold is indexed every two years and goes up by inflation. Those numbers have gone up incrementally over time. That's the delineation. The expertise of the CITT historically has been the interpretation of free trade obligations, and our expertise has been the interpretation of other things, like FAA provisions, government contracting regulations and the directive on the management of procurement now. Historically, that hasn't included Crown corporations.

What I will say is that there are changes being contemplated, so there may be a broader harmonization of rules. You heard me mention Bill C-31. In Bill C-31, there is contemplation to add Crown corporations to the regulations, and therefore it would include a broader harmonization, which I think is a good thing. It also implicates our mandate. Historically, Crowns were rightfully excluded from our mandate, because each Crown was different, and they applied their own procurement policy. If you're having more harmonized rules apply, I think having an oversight body that doesn't need specific expertise into the procurement policy of a specific Crown, starts to make more sense.

● (1830)

Sherry Romanado: I have one last question, because you've piqued my interest, my having worked in higher education prior to being elected.

In a report on national defence in the previous Parliament, when you testified, you mentioned creating courses with respect to procurement. In your opening statement, you mentioned the lack of expertise, specifically in terms of procurement related to defence.

While I champion the idea of making sure that universities and colleges are looking at perhaps adding to the curriculum with respect to defence-specific procurement so that we can develop that expertise while we're developing our industry, would that not normally be something that is not in legislation? I don't think we would legislate that. It could be a recommendation in a report, as it was.

I just want to get clarity from you. When you made that recommendation, you weren't expecting that it would be included in Bill C-40. Is that correct?

Alexander Jeglic: That's correct.

Sherry Romanado: Okay. I just wanted to get that clarity.

I do agree that we might want to look at having those conversations with academia about a need for people who are specialized in defence procurement down the line, given the amount of money that Canada is going to be spending in defence. We could absolutely have conversations about that, but I just wanted to have clarity that you weren't recommending that we put it in legislation, because I think that's outside the scope of the federal government.

Alexander Jeglic: Absolutely, that's correct.

The one thing I will say, though, is that what we're contemplating is a unique skill set within the DIA. That's where the Crown corporation is so beneficial, because there will be more flexibility in the type of employees that they might be able to attract as a result of being a Crown corporation.

The sophistication required in negotiating transactions of $100 million plus is very different from what's required in negotiating a $50,000 contract that might be awarded through a competitive process. If that skill set is begun in university in complex negotiating courses, I think it would be incredibly helpful for it to be grown through a formal certification program. That's what we were advocating: a formal certification in defence procurement that would allow for that growing skill set of negotiation.

It's because we're seeing that more and more of the transactions that are not awarded pursuant to a competitive contract, or even those that are, involve significant negotiations with very sophisticated counterparties in the private sector. The worst thing is to not have sophisticated counterparties that are operating on behalf of the Government of Canada, so we owe it to ourselves to ensure that the employees at the DIA have the requisite skills and training that they should have and will have as a Crown corporation, I think.

The Chair: Thank you.

We have only a few minutes left.

Ms. Konanz, you're up next. Did you want to have a question?

Helena Konanz: That would be great. Thanks, Chair.

I want to thank the witnesses for being here. I think you've been asked a lot of the same questions in different ways. I really appreciate that you know the subject so well.

Mr. Jeglic, we know that your office was established specifically to promote fairness and transparency in federal procurement, but you did mention earlier that there's a growing fatigue of oversight. I know that this oversight is really important to you, though. You live it, which is great. Could you explain where this fatigue of oversight is coming from?

I think that if you go to any main street in Canada and ask somebody along the street if they would like less transparency and less oversight in any part of government, I think they would probably tell you, “No, I don't have a fatigue of oversight. In fact, I worry that there's not enough.” There's a distrust of politicians and government in general.

Do you think you could explain what you meant by that? How do we explain that to the Canadian people who are watching this right now?

Alexander Jeglic: I just want to be clear. I was not suggesting that oversight is not required. It's absolutely essential. What I don't think is required is redundant oversight.

For example, we have an authority to do systemic reviews. A strikingly similar authority is given to the OAG, so there have been instances in the past when both the OAG and our office have been looking at the same style of issues at the same time. You can imagine what it's like if you're a department trying to deliver on your mandate and you're having to respond to two series of questions.

We did try our best to work with the OAG in those circumstances to make sure that everything was as streamlined as it could possibly be, but ultimately there was a redundancy, so we found a way to scope things differently. That's what was intended by the remark.

● (1835)

Helena Konanz: That clears it up. As I mentioned, I believe Canadian people want more oversight, not less.

I want to go back to something else you said, which is that things will be broken. There will be crossing of lines, and we'll have to reel them back.

Do you think pushing through bills like this so quickly, and possibly without amendments, although I'm hoping not.... Hopefully, this committee will agree to the amendments that are being brought forward by every party represented here. If we do that, we can avoid anything becoming broken and anybody crossing a line that we'll have to bring back.

Do you think that by slowing it down and making sure we have those amendments, we can make sure to avoid that?

Alexander Jeglic: Scrutinizing the most interesting aspects of the bill is absolutely essential. I agree that a high level of scrutiny should be applied to the bill, because the bill will be first reviewed after five years. That's a pretty significant length of time before a substantive review is undertaken.

That underscores the importance of this committee's work in doing that line-by-line assessment. I know you have a robust list of witnesses who are yet to come, and I would encourage you to continue to challenge provisions that you believe could be fraught with potential risk and to ask for interpretation as to how they are intended to be operationalized.

Mandates are incredibly important, but as someone who has been asked to interpret mandates, I will say that you can be creative and that you don't want to be hamstrung by the mandate. You want to ensure that mandates provide enough autonomy to do what's necessary and do not provide handcuffs that need to be undone almost immediately.

That's the delicate balance. It's giving them enough leeway to do what they need to do while ensuring that there are, as you mentioned, appropriate oversights.

The Chair: Thank you, Ms. Konanz.

Witnesses, I appreciate your testimony and your being here today and providing some input into our committee, and the last question is actually relevant to my next request of the committee.

Our last witness is going to appear on November 23 at 6:30. The blues will be available 24 hours thereafter, and we are looking to the members of the committee to submit to the clerk all of their proposed amendments to Bill C-40, the strengthening Canada's defence sector act, no later than four o'clock on Wednesday, November 25. I'm asking for agreement to do that.

Mr. Bezan.

James Bezan: We agreed to 16 hours of meetings—no, 14 hours. We've had five hours. How are you going to get to the—

The Chair: We're proposing that our next meeting be on Thursday, November 19, starting at nine o'clock in the morning and going until two o'clock. That's a five-hour meeting.

That is what's proposed. That's what I'm trying to fit in, and then we're still going to have meetings on November 23.

Is that correct, Mr. Clerk?

James Bezan: You're doing five hours.

The Chair: That gets us to Thursday.

James Bezan: You'll still have six to go.

The Chair: We have another four hours on Monday—

An hon. member: You're still short two hours.

The Chair: —and then we have November 26.

How do we have two short? We have this one....

Let me get the witnesses' availability in order to confirm our opportunity to extend those hours, and we'll get back to you on Thursday as to what we're going to do.

● (1840)

James Bezan: You have two problems. One is that we have to fulfill the motion, which is for 14 hours. The second is that we need the blues in both official languages so that we can make sure that the testimony that we're hearing is not just in French or English. It has to be in both.

The Chair: Your comments are well taken.

Clerk, can we work with that?

We'll determine availability of the witnesses and try to get the blues as necessary in both official languages, and we'll aim to get your amendments to the bill in by November 25. We'll do what we can to make it work.

James Bezan: Hopefully you can get to the amendments. I think we're at November 26.

The Chair: I know. We'll do that. Thank you.

[*Translation*]

Xavier Barsalou-Duval: I just have one comment to make.

I agree with most of the comments made by Mr. Bezan, but I think it is important that we take one thing into consideration before setting a deadline for the moving of amendments. It is not very realistic to think that we will be able to move amendments 10 minutes after a witness statement, for example. We must also allow a reasonable period for the moving of amendments after the witness statements have concluded.

[*English*]

The Chair: Yes, the point is well taken. Of course, we do want to provide the appropriate time after the last witness to allow you to go through the blues, make a determination and make the appropriate amendments—understood.

Are we okay with all of that?

Thank you again to the witnesses.

This meeting is adjourned.

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