

Thank you Mr. Chairman for inviting me to speak to you today about the Joint Strike Fighter. Throughout my 33-year career in the federal public service I have had many opportunities to appear before you on a range of subjects. I always found it to be an honour and privilege to do so and I always enjoyed our exchange of views.

During my career I was presented with 3 unique opportunities that went well beyond my basic job description at the time and afforded me the opportunity to do something exceptional for Canada and the Canadian people.

The first occurred in the 1990's when I worked in the Department of Indian Affairs, responsible for the capital program as well as the internal management functions such as finance, contracting and human resources. Nevertheless, the Minister Ron Irwin selected me to be the negotiator on what was to be called the Manitoba Framework Agreement Initiative. This agreement was negotiated and signed by all 60 First Nations of Manitoba and the Crown on Dec. 7 1994. Working closely with the First Nations to help advance their self-government hopes is one of my most cherished memories.

The second opportunity arose when I was fortunate to be the Assistant Deputy Minister that oversaw the completion of the Confederation Bridge. This bridge was opened on May 31, 1997 and obviously was a historic moment for Canada and I had a small part in it.

The third opportunity was in signing the memorandum of understanding with the United States on Feb. 7, 2002 that resulted in Canada's participation in the second phase of the Joint Strike Fighter, or JSF, program. As I will describe in more detail later on, this signing was unique because it's purpose had very little to do with my responsibilities as Assistant Deputy Minister of Materiel for DND but rather with what I could do for Canada, for Canadian industry and for the creation of jobs in Canada. This signing had nothing to do with buying or committing to buy these jets but rather everything to do with providing an opportunity for Canada's aerospace industry to participate in the U.S.'s largest defence procurement in it's history; a procurement valued at over \$200 billion dollars.

The U.S. launched the JSF program in an attempt to dramatically reduce costs for its next generation aircraft. To do so, the Pentagon established three key principles. First, that there would be one basic platform to meet the needs of its Air Force, Navy and Marine Corps. Second, suppliers would be provided with minimum performance measures and maximum allowable costs. Third, international participation would be encouraged thereby increasing the volume of jets produced and lowering unit costs.

There are three phases to this program. Pierre Lagueux, my predecessor as ADM Materiel at DND, wisely entered Canada as an observer into the first phase, called the Concept Demonstration Phase. The entry fee was \$10 million dollars. During this phase, the U.S. with its partner the U.K. specified the operational requirements and undertook a competition to determine who should build the aircraft. On Oct. 26, 2001 Edward Aldredge, Undersecretary of Defense for Acquisition and Technology announced that

Lockheed Martin was the successful candidate over Boeing. I vividly recall how we were all glued to our TV's awaiting the announcement. We were kind of experiencing our own defence academy award drama.

The second phase, was called the System Development and Demonstration, or SDD, phase and was to last from 2002 to 2013. To enter this phase required a much more substantial investment, approximately, \$150 million dollars. In the 2001/2002 timeframe, the issue of replacing our fleet of F-18's was, and pardon the pun, was not even on our radar. These jets were being modernized and were expected to last through 2017/2018. Nevertheless, there was one overriding reality that made the decision whether or not to join this phase rather easy. Namely, if Canada did not participate, its industry would not even be provided with the opportunity to compete in this \$200 billion dollar program. This possibility was one that we could not contemplate and so, Canada entered the program. True there were other benefits from being a participant but they paled in comparison to the benefits now open to our industry.

Canadian industry's performance has been nothing short of outstanding. The figures I have are dated as of Jan 2006 and the current statistics are likely even more impressive. But as of Jan. 2006, 376 competitive contracts were afforded to Canadian industry. Of these, 144 contracts or over 38% were won by 65 Canadian companies with a value of \$490 million; an exceptional return on the \$150 million dollar investment.

At this time I would also like to acknowledge a small group of public servants who, led by Michael Slack, were key to this success. Canada entered this program in Feb. 2002 when only the U.S. and U.K. had committed to it. It would take another four to five months before any other countries would join. During this interval, Michael and his team aggressively met with the prime contractors, assembled a rigorous database of opportunities and brought them to our industry for their consideration. Canadian industry took it from there. To this day, these public servants are, as the saying goes, "keeping the pedal to the metal" and helping to ensure our industry is aware of all opportunities.

When the government made the decision to sole source for the JSF as our next jet aircraft, I was disappointed. I could not understand why they took this decision.

There are obviously valid reasons to sole source. As you are probably aware, while defence procurement is excluded from the North American Free Trade Agreement and from the World Trade Organization-Agreement on Government Procurement, it is subject to the Agreement on Internal Trade or the AIT. The AIT is an agreement, internal to Canada, which came into force on July 1, 1995. In principle it requires procurements to be competed but recognizes there are exceptions. For example, in the event of National Security or where there is an unforeseen urgency, and I emphasize the word "unforeseen", competition may be bypassed. I listened closely to the reasons the ministers provided for sole sourcing this acquisition and frankly, all are flawed.

First, ministers said that a competition was already conducted, so there was no need for another one.

The ministers are referring to the competition I mentioned earlier, the one conducted by the United States to determine which company would build the jet. This competition had absolutely nothing to do with the need for a competition to determine which jet aircraft in the marketplace can meet the Canadian military requirements at the lowest life-cycle costs. Equating one competition with the other insults our intelligence.

Second, ministers said that the government is buying the JSF in order to provide Canadian industry with the opportunity to compete for \$12 billion in contracts. The fact is these potential benefits pale in comparison with the guaranteed benefits that would accrue to Canadian industry through a competition. In a competition of this size all bidders would be required to provide an Industrial and Regional Benefit (IRB) plan as part of their bid. This plan would require each bidder to provide a guarantee of benefits equal to or greater than the value of the contract.

Third, ministers said that our friends have it, so we need it too. To say that we can only fulfill our role in NORAD or in international operations with the JSF is absurd. Our allies operate with a wide assortment of jet aircraft. The logical process we should follow is to first, develop the policy that outlines the future role for our military and the associated jet aircraft; second, define the requirements for our jet aircraft that comply with the policy.

Fourth, ministers claimed that this is the best aircraft available. When asked how he knows this, Minister MacKay responded that it was on the basis of briefing notes provided to him from within the Department of National Defence.

Unfortunately, “in-house” analysis will reflect “in-house” bias. Other knowledgeable military experts have voiced other opinions. The JSF may in fact be the best aircraft to meet Canada’s needs. If it is, let it win in a competition. In his June 1<sup>st</sup> letter to The Honorable Ike Skelton, Chairman of the U.S. Senate Committee on Armed Services, Ashton Carter, the current Under Secretary of Defense at the Pentagon acknowledged that the procurement costs have risen significantly over the past 8 years and that the System Development and Demonstration Phase will be extended for 4 additional years of development activity. Clearly, this program is still incurring serious developmental challenges. Why must we commit to it now?

The only way to know for certain which aircraft can best meet Canadian requirements and at what cost, is to put out an open, fair and transparent statement of requirements and request for proposal and conduct a rigorous evaluation of the bidders’ responses. The bid that meets the requirements of the Canadian military with the lowest life-cycle costs would be selected.

Frankly, it is also shocking that we are considering buying an aircraft without knowing its full life-cycle costs. These costs can be two to three times the acquisition costs. It is like going to a car dealership to lease a car for 5 years. The salesman says there is a \$1000 down payment and a monthly charge that he cannot reveal. Would any of us lease that car

without that information? I doubt it. Yet, this is exactly what we are now doing with billions of dollars of taxpayers' money.

In response to some of this criticism, Minister MacKay, in a letter to the Ottawa citizen on July 29, states that the JSF provides the "best value". Without knowing the total costs of this aircraft and without receiving bids from alternative aircraft suppliers, this is obviously an impossible claim to make.

Directing the contract for aircraft jets to the JSF highlights the basic risks associated with avoiding competition. These include higher costs perhaps up to 20% more, reduced opportunities for Canadian industry and most importantly, uncertainty as to whether the best product has been acquired to meet the needs of the military. By the way, funds squandered because we pay too much, come from DND's capital budget- funds that were it not for sole sourcing would be available for reallocation to other military capital priorities. In this case alone, using the \$16 billion dollar price tag, up to \$3.2 billion has been wasted.

Yet the government continues to increase the percentage of non-competitive procurements at an alarming rate. In 2004, 8.8% of the value of DND contracts over \$25,000 was non-competitive. This figure rose to 14.6% in 2005, to 27.2% in 2006, to 31.9% in 2007, dropped to 25.6% in 2008 then rose again to 42.1% in 2009. Even worse, in 2009, 48.6% or nearly half of the value of DND contracts over \$100 million were non competitive. These stats should shock and dismay everyone here. Over 5 years the percentage of sole sourcing has gone from less than 1 in 10 to over 4 in 10. The phrase "competitive procurement" is quickly becoming an oxymoron. The procurement process is out of control and has degenerated into handouts for the chosen beneficiaries.

There is one other large downside risk to sole sourcing; namely, the increased potential for impropriety. Procurement demands not only the highest degree of integrity but also the appearance of the highest degree of integrity. Undertaking sole-source deals leaves the procurement process more vulnerable to fraud, bribery and behind the scene deal making and leaves the Federal Government more susceptible to such charges. If none of the reasons given by ministers to hand this contract to Lockheed Martin stand up to scrutiny, and they do not, then what is the real reason for the government's decision? Someone should find out.

Thank you and I will be pleased to answer your questions.