

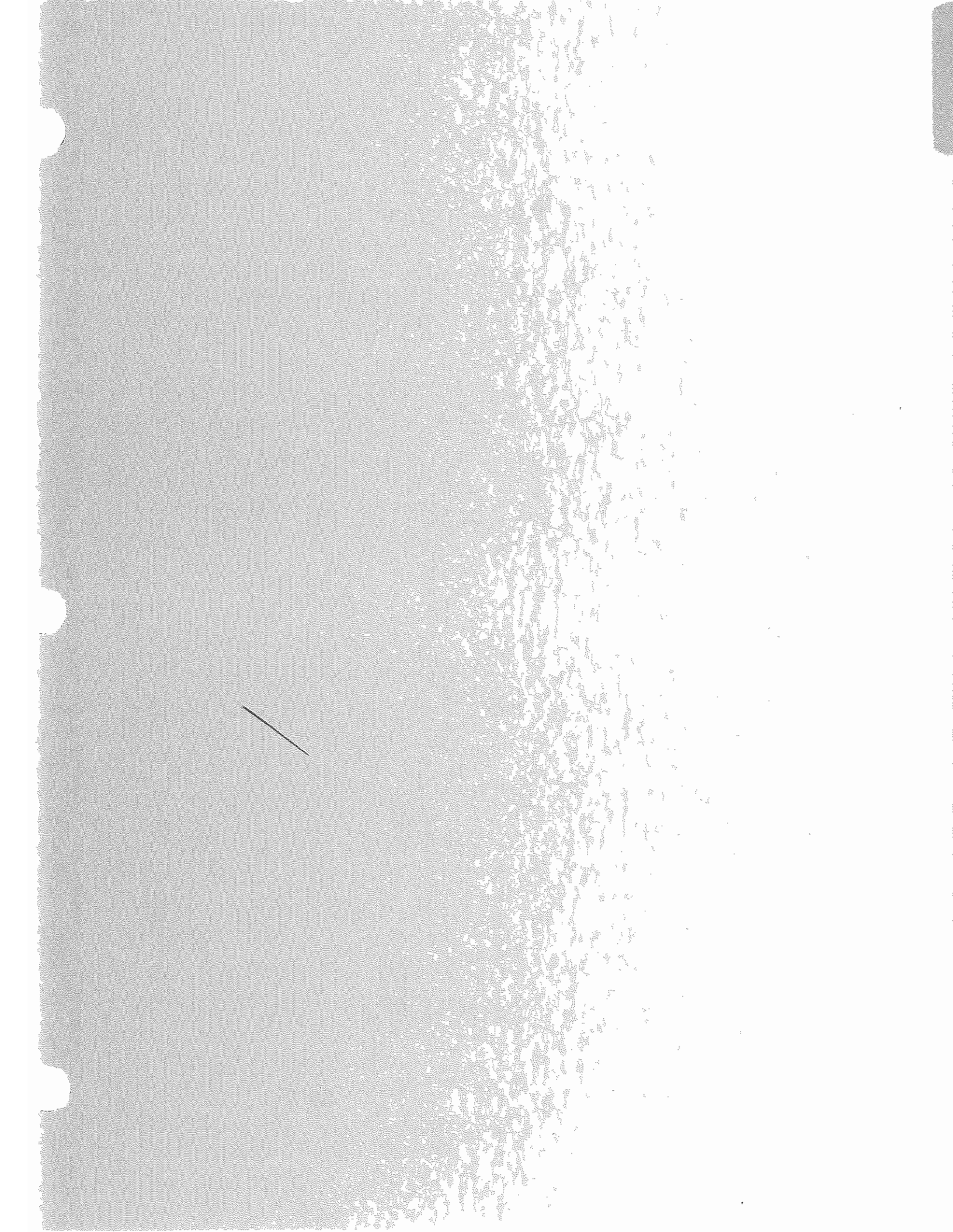
Documents in support of The Honourable Perrin Beatty's testimony

THE HONOURABLE PERRIN BEATTY

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BEATTY, The Hon. Henry Perrin, P.C., B.A.



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Date of Birth (yyyy.mm.dd): 1950.06.01
Place of Birth: Toronto, Ontario, Canada
Occupation: Businessman, public servant
Political Affiliation:
 ■ Progressive Conservative Party
 (1972.10.30 -)

Federal Political Experience

Years of Service: 7665 Days (20 years, 11 months, 26 days)

HOUSE OF COMMONS

Constituency	Date of Election (yyyy.mm.dd)	Result
Wellington--Grey--Dufferin--Simcoe, Ontario	1993.10.25	Defeated
Wellington--Grey--Dufferin--Simcoe, Ontario	1988.11.21	Elected
Wellington--Dufferin--Simcoe, Ontario	1984.09.04	Elected
Wellington--Dufferin--Simcoe, Ontario	1980.02.18	Elected
Wellington--Dufferin--Simcoe, Ontario	1979.05.22	Elected
Wellington--Grey--Dufferin--Waterloo, Ontario	1974.07.08	Elected
Wellington--Grey--Dufferin--Waterloo, Ontario	1972.10.30	Elected

CAUCUS

Party	Term (yyyy.mm.dd)
Progressive Conservative Party	1973.01.04 - 1993.09.08

PARLIAMENTARY FUNCTIONS

Minister

Portfolio	Term (yyyy.mm.dd)
Minister responsible for La Francophonie	1993.06.25 - 1993.11.03
Secretary of State for External Affairs	1993.06.25 - 1993.11.03
Minister of Communications	1991.04.21 - 1993.06.24
Minister of National Health and Welfare	1989.01.30 - 1991.04.20
Solicitor General of Canada (Acting)	1988.12.08 - 1989.01.29
Minister of National Defence	1986.06.30 - 1989.01.29
Solicitor General of Canada	1985.08.20 - 1986.06.29

Minister of National Revenue	1984.09.17 - 1985.08.19
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Minister / Secretary of State

Portfolio	Term (yyyy.mm.dd)
Minister of State (Fitness and Amateur Sport) (Acting)	1990.01.24 - 1990.02.22
Minister of State (Treasury Board)	1979.06.04 - 1980.03.02

Critic

Area of Responsibility	Term (yyyy.mm.dd)
National Revenue	1983 - 1984
Communications	1980 - 1983
Supply and Services	1978.12 - 1979
Sovereignty	1973.10.24 - 1975.11

COMMITTEES - HOUSE OF COMMONS

Member

Committee	Session
Standing Committee on Miscellaneous Estimates	32nd Parl., 2nd Session (1983.12.07 - 1984.07.09)
Standing Committee on Public Accounts	32nd Parl., 2nd Session (1983.12.07 - 1984.07.09)
Standing Committee on Communications and Culture	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Standing Committee on Justice and Legal Affairs	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Standing Committee on Miscellaneous Estimates	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Standing Committee on Public Accounts	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Subcommittee on Computer Crime of the Standing Committee on Justice and Legal Affairs	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Special Committee on TV and Radio Broadcasting of Proceedings of the House and its Committees	30th Parl., 4th Session (1978.10.11 - 1979.03.26)
Standing Committee on Broadcasting, Films and Assistance to the Arts	30th Parl., 4th Session (1978.10.11 - 1979.03.26)
Standing Committee on Miscellaneous Estimates	30th Parl., 4th Session (1978.10.11 - 1979.03.26)
Standing Committee on Privileges and Elections	30th Parl., 4th Session (1978.10.11 - 1979.03.26)
Special Committee on TV and Radio Broadcasting of Proceedings of the House and its Committees	30th Parl., 3rd Session (1977.10.18 - 1978.10.10)
Standing Committee on Broadcasting, Films and Assistance to the Arts	30th Parl., 3rd Session (1977.10.18 - 1978.10.10)
Standing Committee on Miscellaneous Estimates	30th Parl., 3rd Session (1977.10.18 - 1978.10.10)
Standing Committee on Privileges and Elections	30th Parl., 3rd Session (1977.10.18 - 1978.10.10)
Standing Committee on Transport and Communications	30th Parl., 3rd Session (1977.10.18 - 1978.10.10)

Special Committee on TV and Radio Broadcasting of Proceedings of the House and its Committees	30th Parl., 2nd Session (1976.10.12 - 1977.10.17)
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Standing Committee on Miscellaneous Estimates	30th Parl., 1st Session (1974.09.30 - 1976.10.12)
Standing Committee on Privileges and Elections	30th Parl., 1st Session (1974.09.30 - 1976.10.12)
Standing Committee on Broadcasting, Films and Assistance to the Arts	29th Parl., 2nd Session (1974.02.27 - 1974.05.09)
Standing Committee on Justice and Legal Affairs	29th Parl., 2nd Session (1974.02.27 - 1974.05.09)
Standing Committee on Miscellaneous Estimates	29th Parl., 2nd Session (1974.02.27 - 1974.05.09)
Standing Committee on Broadcasting, Films and Assistance to the Arts	29th Parl., 1st Session (1973.01.04 - 1974.02.26)
Standing Committee on Health, Welfare and Social Affairs	29th Parl., 1st Session (1973.01.04 - 1974.02.26)
Standing Committee on Indian Affairs and Northern Development	29th Parl., 1st Session (1973.01.04 - 1974.02.26)
Standing Committee on Transport and Communications	29th Parl., 1st Session (1973.01.04 - 1974.02.26)

COMMITTEES - JOINT

Co-Chair

Committee	Session
Standing Joint Committee on Regulations and other Statutory Instruments	32nd Parl., 2nd Session (1983.12.07 - 1984.07.09)
Standing Joint Committee on Regulations and other Statutory Instruments	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)

Member

Committee	Session
Special Joint Committee on Official Languages	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Special Joint Committee on the Constitution of Canada	32nd Parl., 1st Session (1980.04.14 - 1983.11.30)
Special Joint Committee on the Constitution of Canada	30th Parl., 3rd Session (1977.10.18 - 1978.10.10)

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BEATTY, L'hon. Henry Perrin, C.P., B.A.



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Date de naissance (aaaa.mm.jj) : 1950.06.01

Lieu de naissance : Toronto, Ontario, Canada

Profession : Fonctionnaire, homme d'affaires

Affiliation politique :

- Parti progressiste-conservateur (1972.10.30 -)

Expérience politique fédérale

Années de service : 7665 Jours (20 années, 11 mois, 26 jours)

CHAMBRE DES COMMUNES

Circonscription	Date de l'élection (aaaa.mm.jj)	Résultat
Wellington--Grey--Dufferin--Simcoe, Ontario	1993.10.25	Défait
Wellington--Grey--Dufferin--Simcoe, Ontario	1988.11.21	Élu
Wellington--Dufferin--Simcoe, Ontario	1984.09.04	Élu
Wellington--Dufferin--Simcoe, Ontario	1980.02.18	Élu
Wellington--Dufferin--Simcoe, Ontario	1979.05.22	Élu
Wellington--Grey--Dufferin--Waterloo, Ontario	1974.07.08	Élu
Wellington--Grey--Dufferin--Waterloo, Ontario	1972.10.30	Élu

CAUCUS

Parti	Mandat (aaaa.mm.jj)
Parti progressiste-conservateur	1973.01.04 - 1993.09.08

FONCTIONS À TITRE DE PARLEMENTAIRE

Ministre

Portefeuille	Mandat (aaaa.mm.jj)
Ministre responsable de la Francophonie	1993.06.25 - 1993.11.03
Secrétaire d'État aux Affaires extérieures	1993.06.25 - 1993.11.03
Ministre des Communications	1991.04.21 - 1993.06.24
Ministre de la Santé et du Bien-être social	1989.01.30 - 1991.04.20
Solliciteur général du Canada (par intérim)	1988.12.08 - 1989.01.29
Ministre de la Défense nationale	1986.06.30 - 1989.01.29
Solliciteur général du Canada	1985.08.20 - 1986.06.29

Ministre du Revenu national 1984.09.17 - 1985.08.19

Ministre/ Secrétaire d'État

Portefeuille	Mandat (aaaa.mm.jj)
Ministre d'État (Santé et Sport amateur) (par intérim)	1990.01.24 - 1990.02.22
Ministre d'État (Conseil du Trésor)	1979.06.04 - 1980.03.02

Porte-parole

Champ de responsabilité	Mandat (aaaa.mm.jj)
Revenu national	1983 - 1984
Communications	1980 - 1983
Approvisionnement et Services	1978.12 - 1979
Souveraineté	1973.10.24 - 1975.11

COMITÉS - CHAMBRE DES COMMUNES

Membre

Comité	Session
Comité permanent des comptes publics	32e légis., 2e session (1983.12.07 - 1984.07.09)
Comité permanent des prévisions budgétaires en général	32e légis., 2e session (1983.12.07 - 1984.07.09)
Comité permanent de la justice et des questions juridiques	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Comité permanent des communications et de la culture	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Comité permanent des comptes publics	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Comité permanent des prévisions budgétaires en général	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Sous-comité sur les infractions relatives aux ordinateurs du Comité permanent de la justice et des questions juridiques	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Comité permanent des prévisions budgétaires en général	30e légis., 4e session (1978.10.11 - 1979.03.26)
Comité permanent des privilèges et élections	30e légis., 4e session (1978.10.11 - 1979.03.26)
Comité permanent sur la radiodiffusion, les films et l'assistance aux arts	30e légis., 4e session (1978.10.11 - 1979.03.26)
Comité spécial de la radio-télédiffusion des délibérations de la Chambre et de ses comités	30e légis., 4e session (1978.10.11 - 1979.03.26)
Comité permanent des prévisions budgétaires en général	30e légis., 3e session (1977.10.18 - 1978.10.10)
Comité permanent des privilèges et élections	30e légis., 3e session (1977.10.18 - 1978.10.10)
Comité permanent des transports et des communications	30e légis., 3e session (1977.10.18 - 1978.10.10)
Comité permanent sur la radiodiffusion, les films et l'assistance aux arts	30e légis., 3e session (1977.10.18 - 1978.10.10)
Comité spécial de la radio-télédiffusion des délibérations de la Chambre et de ses comités	30e légis., 3e session (1977.10.18 - 1978.10.10)

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Comité permanent de la justice et des questions juridiques	29e légis., 2e session (1974.02.27 - 1974.05.09)
Comité permanent des prévisions budgétaires en général	29e légis., 2e session (1974.02.27 - 1974.05.09)
Comité permanent sur la radiodiffusion, les films et l'assistance aux arts	29e légis., 2e session (1974.02.27 - 1974.05.09)
Comité permanent de la santé, du bien-être et des affaires sociales	29e légis., 1ère session (1973.01.04 - 1974.02.26)
Comité permanent des affaires indiennes et du développement du Nord canadien	29e légis., 1ère session (1973.01.04 - 1974.02.26)
Comité permanent des transports et des communications	29e légis., 1ère session (1973.01.04 - 1974.02.26)
Comité permanent sur la radiodiffusion, les films et l'assistance aux arts	29e légis., 1ère session (1973.01.04 - 1974.02.26)

COMITÉS - MIXTES

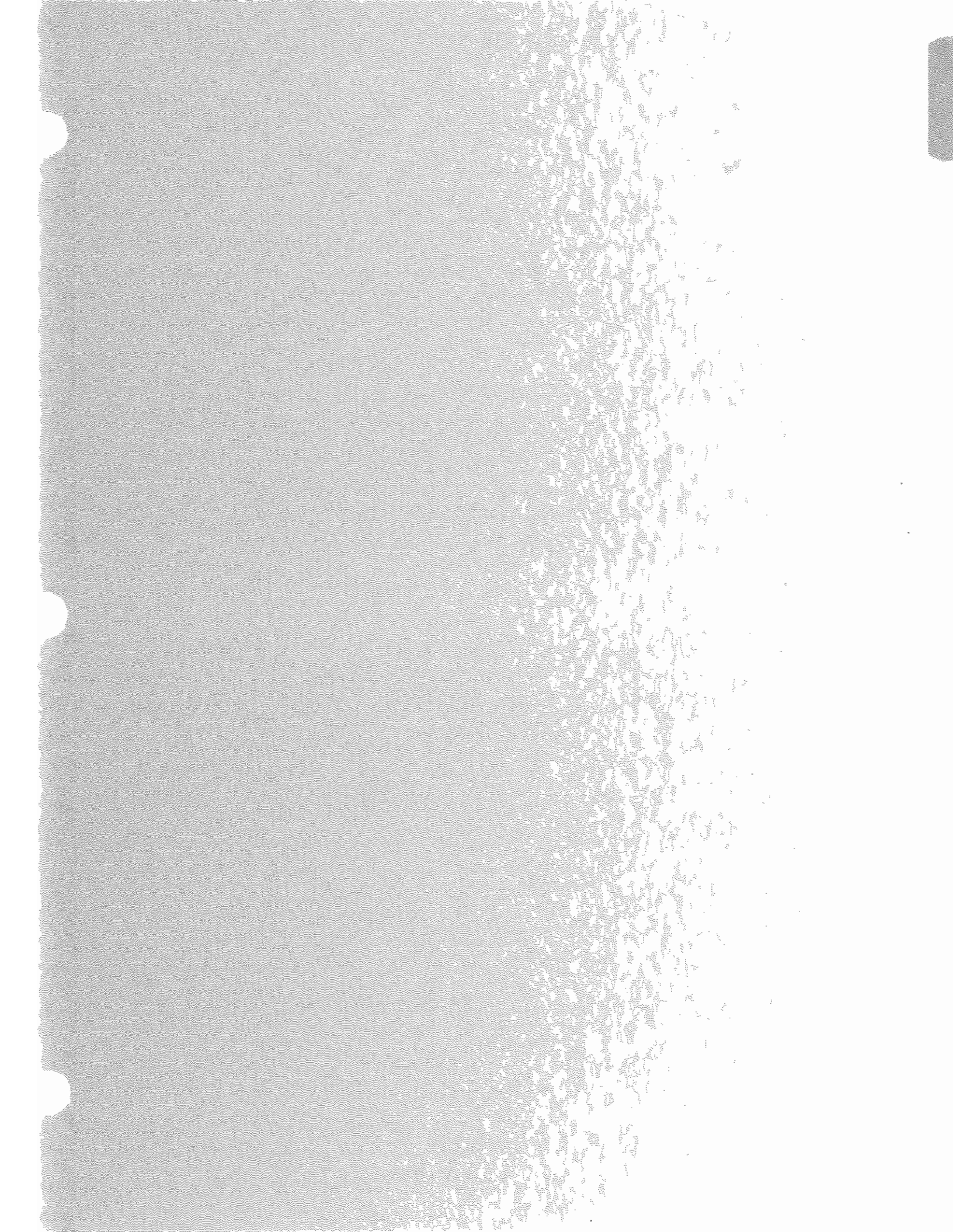
Co-président

Comité	Session
Comité mixte permanent des règlements et autres textes réglementaires	32e légis., 2e session (1983.12.07 - 1984.07.09)
Comité mixte permanent des règlements et autres textes réglementaires	32e légis., 1ère session (1980.04.14 - 1983.11.30)

Membre

Comité	Session
Comité mixte spécial sur les langues officielles	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Comité spécial mixte sur la Constitution du Canada	32e légis., 1ère session (1980.04.14 - 1983.11.30)
Comité spécial mixte sur la Constitution du Canada	30e légis., 3e session (1977.10.18 - 1978.10.10)

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SECRET

MARCH 4, 1986

PROPOSED SCENARIO

PRIORITIES AND PLANNING MEETING OF
THURSDAY, MARCH 6, 1986 9:00 A.M., 323-S

ALL MINISTERS PLAN TO ATTEND EXCEPT
MR. MAZANKOWSKI (TRANSPORTATION CONFERENCE IN TORONTO),
MR. DE COTRET (PARTY FUNCTION IN TORONTO) AND
MR. WILSON (BUDGET FOLLOW-UP IN TORONTO). MR. CROSBIE
WILL BE ONE HALF-HOUR LATE. MR. BEATTY HAS BEEN
INVITED FOR HIS MONTHLY COMMUNICATIONS REPORT,
FOCUSSING ON ITEM 1B (POST-BUDGET COMMUNICATIONS), AND
WILL REMAIN DUE TO THE NUMBER OF SENSITIVE
COMMUNICATIONS ISSUES ON THE AGENDA. MRS. MCDUGALL
WILL BE AVAILABLE FOR ITEM 4 (THYSSEN).

TENTATIVE TIME ALLOCATIONS ARE INDICATED NEXT
TO EACH ITEM. A HEAVY AGENDA WILL REQUIRE THAT YOU
KEEP A CLOSE EYE ON THE CLOCK.

1. GENERAL DISCUSSION

(15 MINS.)

A. POST-BUDGET COMMUNICATIONS

-- ASK MR. BEATTY TO COMMENT ON STEPS TAKEN TO COMMUNICATE THE GOVERNMENT'S BUDGETARY STRATEGY.

-- IN MR. WILSON'S ABSENCE, YOU COULD TURN TO STANLEY HARTT FOR A BRIEF UPDATE ON DOLLAR.

-- YOU MAY WISH TO STRESS IMPORTANCE OF AVOIDING CONFLICTING SIGNALS AT THIS DELICATE STAGE.

* THE BUDGET IS A GOOD ONE. CANADIAN REACTIONS HAVE BEEN GENERALLY POSITIVE. SOME INTERNATIONAL HESITANCIES REMAIN, HOWEVER, ABOUT THE STRENGTH OF OUR COMMITMENT TO DEFICIT REDUCTION AND EXPENDITURE RESTRAINT.

* THE PROMOTION AND EXPLANATION OF THE BUDGET BY MINISTERS IS A KEY ELEMENT IN SUSTAINING BUDGETARY CREDIBILITY.

" WE HAVE TO HOLD THE LINE COLLECTIVELY, AND DEMONSTRATE THAT WE ARE SPENDING LESS AND WISER. THERE CAN BE NO CONFLICTING SIGNALS.

" AS A FIRST STEP, WE MUST DECLARE A MORATORIUM ON ALL MAJOR SPENDING ANNOUNCEMENTS, EVEN THOSE INCLUDED IN THE FISCAL FRAMEWORK, TO AVOID GIVING THE FALSE IMPRESSION THAT THE GOVERNMENT IS NOT TOTALLY COMMITTED TO EXPENDITURE REDUCTION. UNLESS APPROVED BY ME, ALL SUCH ANNOUNCEMENTS MUST BE WITHHELD FOR THE TIME BEING.

" WE MUST ALSO TAKE SPECIAL CARE TO REVIEW PROPOSALS COMING FORWARD FROM NOW ON TO ENSURE THAT THEY SUPPORT OUR BUDGET OBJECTIVES, CONTRIBUTE TO ECONOMIC RENEWAL OBJECTIVES, AND ARE NOT PERCEIVED AS "GIVE AWAYS".

✓ EXTENSION OF SENTENCING COMMISSION

-- AT MR. CROSBIE'S REQUEST, AN OIC FOR YOUR SIGNATURE TO EXTEND MANDATE BY 4½ MONTHS (NOTE UNDER TAB 1).

2. HOUSE BUSINESS

(10 MINS.)

- ASK MR. HNATYSHYN TO BRIEFLY TOUCH ON HOUSE MATTERS, WHICH CAN BE REVIEWED IN GREATER DETAIL AT NEXT TUESDAY'S MEETING (MARCH 11).

- MR. HNATYSHYN IS ALSO PREPARED TO OUTLINE THE IMPACT OF HOUSE REFORMS ON THE MANAGEMENT OF THE GOVERNMENT'S AGENDA.

- MR. HNATYSHYN MUST LEAVE BY 11:00 A.M. TO SPEAK IN HOUSE ON REGULATORY MATTERS IN CONTEXT OF BUDGET DEBATE. AS ANNEX ITEM A-7 (FOOD INSPECTION) IS DIRECTLY RELATED, IT SHOULD BE DEALT WITH AT THIS POINT.

3. CANADA-U.S. ISSUES

(1 HOUR)

A. OVERVIEW

- MR. CLARK WILL BE MEETING SECRETARY SCHULTZ IN WASHINGTON ON FRIDAY (MARCH 7). IN VIEW OF THE NUMBER OF HIGH PROFILE SECTORAL CANADA-U.S. ISSUES ON TODAY'S AGENDA AND IN PREPARATION FOR

YOUR MEETINGS WITH PRESIDENT REAGAN ON MARCH 18-19, IT WILL BE IMPORTANT TO ENSURE THAT THE STANCE ADOPTED AND DECISIONS TAKEN OVER THE NEXT FEW WEEKS STRIKE AN APPROPRIATE BALANCE AMONG MAJOR ECONOMIC AND POLITICAL OBJECTIVES. IT WILL ALSO BE NECESSARY TO ENSURE THAT TRADE NEGOTIATIONS RECEIVE SOME IMPETUS IN THE FACE OF PERCEIVED INERTIA IN WASHINGTON.

- ASK MR. CLARK TO PROVIDE AN OVERVIEW OF CANADA-U.S. RELATIONS. INTER ALIA, HE WILL TOUCH ON BILATERAL IRRITANTS (LUMBER AND FISH), ARCTIC SOVEREIGNTY NEGOTIATIONS, ACID RAIN, AND CULTURAL SOVEREIGNTY. AS CHAIRMAN OF P&P SUB-COMMITTEE ON TRADE, MR. CLARK WILL ALSO REPORT ON U.S. DEVELOPMENTS ON THAT FRONT AND PROGRESS IN DISCUSSIONS WITH PROVINCES.

- YOU MIGHT ASK MR. CLARK TO REPORT BACK NEXT TUESDAY (MARCH 11) ON OUTCOME OF HIS DISCUSSIONS IN WASHINGTON.

B. PHARMACEUTICALS

- ASK MR. CÔTÉ TO PROVIDE AN UPDATE ON HIS PROPOSAL (BRIEFING NOTE WILL FOLLOW).



C. PRENTICE-HALL

- ASK MR. STEVENS TO OUTLINE TERMS OF AGREEMENT IN PRINCIPLE WHICH HE AND MR. MASSE HAVE REACHED WITH GULF AND WESTERN (BRIEFING NOTE WILL FOLLOW).

D. SPACE PROGRAM

- YOU WILL WANT TO PROVIDE DIRECTION TO MINISTERS ON THIS ISSUE (BRIEFING NOTE WILL FOLLOW).

4. THYSSEN (15 MINS.)

- SINCE P&P ON FEBRUARY 11, THYSSEN PROPOSAL AND GENERAL TENOR OF DISCUSSION WAS LEAKED TO GLOBE & MAIL AROUSING CONSIDERABLE PRESS COMMENTARY, MOST OF IT NEGATIVE. ISRAEL HAS ALSO REGISTERED CONCERN, AS HAVE VARIOUS DOMESTIC LOBBIES (BRIEFING UNDER TAB 4).

- THESE DEVELOPMENTS RENDER A PRO-THYSSEN RESPONSE EVEN MORE DIFFICULT TO MANAGE, BOTH FROM A DOMESTIC AND INTERNATIONAL PERSPECTIVE.

- THE DIVERGENCE OF VIEWS AMONG MINISTERS REMAINS UNRESOLVED. YOU COULD BE FACED WITH THE FOLLOWING OPTIONS:
 - REFER MATTER BACK TO COMMITTEE AFTER A FURTHER ROUND OF DISCUSSION IN P&P (THERE IS NO COMMITMENT TO ARRIVE AT A DECISION BY A GIVEN DATE).

 - DIRECT A DECISION YOURSELF ON THYSSEN, IF YOU WISH, IN ORDER TO BREAK THE LOG JAM.

- WHATEVER THE OUTCOME, NO DECISION SHOULD BE ANNOUNCED UNTIL COMMUNICATIONS COMMITTEE HAS REVIEWED ISSUE. SHOULD DECISION FAVOUR THYSSEN, ABSOLUTE SECRECY WILL BE IMPERATIVE UNTIL COMMUNICATIONS ASPECTS ARE FINALIZED TO MINIMIZE FURTHER EMBARRASSMENT.

- YOU COULD OPEN DISCUSSION BY CALLING ON MR. STEVENS TO REPORT ON WHAT EXTENT THYSSEN MIGHT BE WILLING TO MOVE AWAY FROM PURELY MILITARY PRODUCTION, AT LEAST IN EARLY STAGES OF OPERATION, AS YOU REQUESTED ON FEBRUARY 11.

- YOU COULD THEN CALL ON MR. CLARK TO OUTLINE FOREIGN REACTIONS TO THYSSEN PROPOSAL.

5. WAR CRIMINALS

(10 MINS.)

- ISSUE IS WHETHER REVOCAION OF CITIZENSHIP SHOULD BE UNDERTAKEN AGAINST AN ALLEGED NAZI COLLABORATOR CONVICTED IN ABSENTIA IN 1948 BY A DUTCH COURT. (BRIEFING NOTE UNDER TAB 5).

- MR. CROSBIE RECOMMENDS PROCEEDING WITH REVOCAION BEFORE DESCHÊNES COMMISSION REPORTS AT END OF JUNE. THERE IS, HOWEVER, NO GUARANTEE THAT THIS TEST CASE WILL SUCCEED, AND IT COULD RESULT IN ADVERSE PUBLIC REACTION BY EASTERN EUROPEAN COMMUNITIES IN CANADA.

- JUSTICE DESCHÊNES IS AWARE OF CASE AND HAS INDICATED THAT HE WOULD NOTE ANY GOVERNMENT

INACTION IN HIS REPORT. AT THE SAME TIME, THE COMMISSION'S MANDATE IS TO REPORT ON LEGAL MEANS AVAILABLE AND TO SUGGEST MODIFICATIONS TO AID BRINGING WAR CRIMINALS TO JUSTICE.

- ASK MR. CROSBIE TO OUTLINE HIS PROPOSAL.

- YOU COULD CONCLUDE DISCUSSION BY RECOMMENDING DEFERRAL WHICH WOULD ALLOW THE GOVERNMENT TO PROFIT FROM DESCHÊNES' RECOMMENDATIONS BY CONTRIBUTING TO CAPACITY TO ACT AGAINST WAR CRIMINALS. COMMUNICATIONS SHOULD BE DEVELOPED ACCORDINGLY TO COUNTER ANY CRITICISM OF PERCEIVED INACTION.

6. JAPANESE-CANADIAN REDRESS (10 MINS.)

- MR. EPP WILL BE PREPARED TO REVIEW THE DISCUSSION AND RECOMMENDATIONS OF HIS COMMITTEE (NOTE UNDER TAB 6). TWO KEY ISSUES FOR CONSIDERATION ARE CONTENT OF REDRESS PACKAGE AND TIMING OF ANNOUNCEMENT.

- MR. EPP WILL PROPOSE ACKNOWLEDGEMENT OF WRONGDOING AND APOLOGY, PLUS \$10 MILLION

ENDOWMENT TO ESTABLISH FOUNDATION AND CHAIR,
BUT NOT COMPENSATION. AT EARLIER DISCUSSION AT
P&P ON FEBRUARY 11, YOU HAD SUGGESTED THAT
ISSUE OF COMPENSATION BE REFERRED TO
PARLIAMENTARY COMMITTEE FOR RESOLUTION. SUCH
AN APPROACH WOULD, HOWEVER, FORECLOSE
POSSIBILITY OF REJECTING PRINCIPLE OF
COMPENSATION. THE ONLY GROUNDS REMAINING WOULD
BE COST.

-- TWO FACTORS INFLUENCE TIMING OF ANNOUNCEMENT:
NEED TO AVOID PUBLIC LINKAGE TO HONG KONG
VETERANS (WHICH SHOULD BE ANNOUNCED FIRST) AND
RELEASE OF PRICE-WATERHOUSE STUDY IN END OF
APRIL. IF COMPENSATION NOT TO BE OFFERED, AN
EARLIER ANNOUNCEMENT WOULD BE DESIRABLE.

-- ASK MR. EPP TO INTRODUCE.

7. ANNEX

IT IS EXPECTED THAT THESE ITEMS CAN BE CONFIRMED
WITHOUT DISCUSSION. SHOULD SUBSTANTIVE DISCUSSION
ARISE, RATHER THAN TRYING TO RESOLVE ANY PROBLEMS
AT P&P, REFER BACK TO APPROPRIATE POLICY COMMITTEE.

IN LIGHT OF YOUR DECISION ON MORATORIUM ON SPENDING ANNOUNCEMENTS, YOU WILL WISH TO ENSURE THAT SWEETENER POLICY (A-2), BAIE VERTE MINES (A-3), VETERANS LEGISLATION (A-10), AND CONSTITUTION REVIEW (A-11) ARE REVIEWED CAREFULLY.

A-1 REPORT OF THE TASK FORCE
 ON CHILD CARE

-- COMMUNICATIONS STRATEGY FOR TABLING OF REPORT
 ON MARCH 7, 1986.

A-2 CANADIAN SWEETENER POLICY
 1986-1990

-- APPROVAL TO NEGOTIATE LONGER TERM INCOME STABILIZATION PROGRAM ON FEDERAL/PRODUCER BASIS FOR 1986 AND ON FEDERAL/PROVINCIAL/PRODUCER COST-SHARED BASIS THEREAFTER. ALSO PROVIDES FOR STABILIZATION PAYMENT OF \$11.8 MILLION FOR 1984.

-- CONFIRMATION DEFERRED BY CABINET
 (FEBRUARY 27) DUE TO CONCERNS ABOUT

CONSISTENCY WITH FISCAL RESTRAINT THRUST OF
BUDGET.

- ASK MR. NIELSEN WHETHER DIFFERENCES HAVE BEEN RESOLVED.

A.3 BATE VERTE MINES INC.
(BVM) LOAN

- REPLACEMENT OF BVM LOAN OF APPROXIMATELY \$18 MILLION BY A NON-INTEREST BEARING CONTRIBUTION, REPAYABLE ONLY IF PROFITS REACH A PRE-SET (BUT UNDEFINED) LEVEL, AND CONDITIONAL ON NEWFOUNDLAND ENSURING VIABLE OPERATION.

- MR. MASSE MAY EXPRESS CONCERN ABOUT ASSISTANCE WHEN ASBESTOS MINES ARE STRUGGLING.

A.4 FOREIGN OWNERSHIP IN THE
CANADIAN NON-FUEL MINERALS
AND COAL SECTORS

- REPLACEMENT OF 50 TO 60 PERCENT RULE FOR CANADIAN OWNERSHIP IN MAJOR NEW NON-FUEL

MINERALS AND COAL PROJECTS WITH A NEW 50
PERCENT MINIMUM OBJECTIVE ON AGGREGATE BASIS.

A-5 ECONOMIC REGULATORY REFORM
OF TRANSPORTATION:
LEGISLATIVE PROPOSALS

- FOR INTRODUCTION IN HOUSE IN APRIL.
MR. MAZANKOWSKI TO CONSULT ON TRANSITIONAL
PROTECTION FOR CANADIAN TRUCKERS.
COMMUNICATIONS STRATEGY TO LINK WITH
REGULATORY REFORM INITIATIVE.

A-6 EXPORT CONTROLS POLICY: A REVIEW
OF POLICY AND PROCEDURES RELATING
TO THE EXPORT OF MILITARY AND
STRATEGIC EQUIPMENT

- ALIGNS CANADIAN POLICY WITH THAT OF ALLIES,
RENDERS POLICY CLEARER, AND PROMOTES JOINT
VENTURES. HAS NO DIRECT BEARING ON THYSSEN
CASE.

A.7 FEDERAL FOOD REGULATION
AND INSPECTION

- REFORMS AIMED AT INTRODUCING GREATER
COORDINATION AND CONSISTENCY INTO FOOD
INSPECTION AND REGULATION SYSTEM, INCLUDING
WITHDRAWAL OF MINISTER OF FISHERIES' RIGHT TO
OVERRIDE FISH INSPECTORS ON SPECIFIC,
TECHNICAL DECISIONS.

- ANNOUNCEMENT TO BE MADE DURING DEBATE ON
REGULATORY MATTERS ON THURSDAY MORNING, IF
COMMUNICATIONS RESOLVED.

A.8 AGREEMENT BETWEEN CANADA
AND THE UNITED STATES ON
CIVIL EMERGENCY PLANNING

- TO BE REVIEWED BY CABINET COMMITTEE ON
COMMUNICATIONS.

A-9 THE CANADIAN BROADCASTING
CORPORATION: BROADCAST
ENGINEERING CONSULTING
SERVICES IN INTERNATIONAL
MARKETS

- APPROVAL TO ALLOW CBC TO MARKET ITS EXPERTISE
IN PARTNERSHIP WITH PRIVATE SECTOR. ALL RISKS
AND COSTS TO BE BORNE WITHIN EXISTING
RESOURCES.

A-10 IMPROVEMENTS TO VETERANS
LEGISLATION

- AMENDMENTS TO IMPROVE BENEFITS TO VETERANS AND
THEIR FAMILIES. FUNDING CHARGED AGAINST
SOCIAL POLICY RESERVE.

A-11 THE CONSTITUTION REVIEW
PROGRAM

- EXTEND CONSTITUTION REVIEW PROGRAM FOR
15-MONTH PERIOD TO JUNE 30TH, 1987. FUNDING
OF \$5 MILLION FROM SPECIAL PRIORITIES RESERVE.

A-12 SUPPORT FOR NATIVE CO-OPERATIVES
IN THE NORTHWEST TERRITORIES

- JOINT INITIATIVE TO STABILIZE NORTHWEST
TERRITORIES CO-OPERATIVE SYSTEM TO MARCH 30,
1990.

A-13 NORTH AMERICAN WATERFOWL
MANAGEMENT PLAN

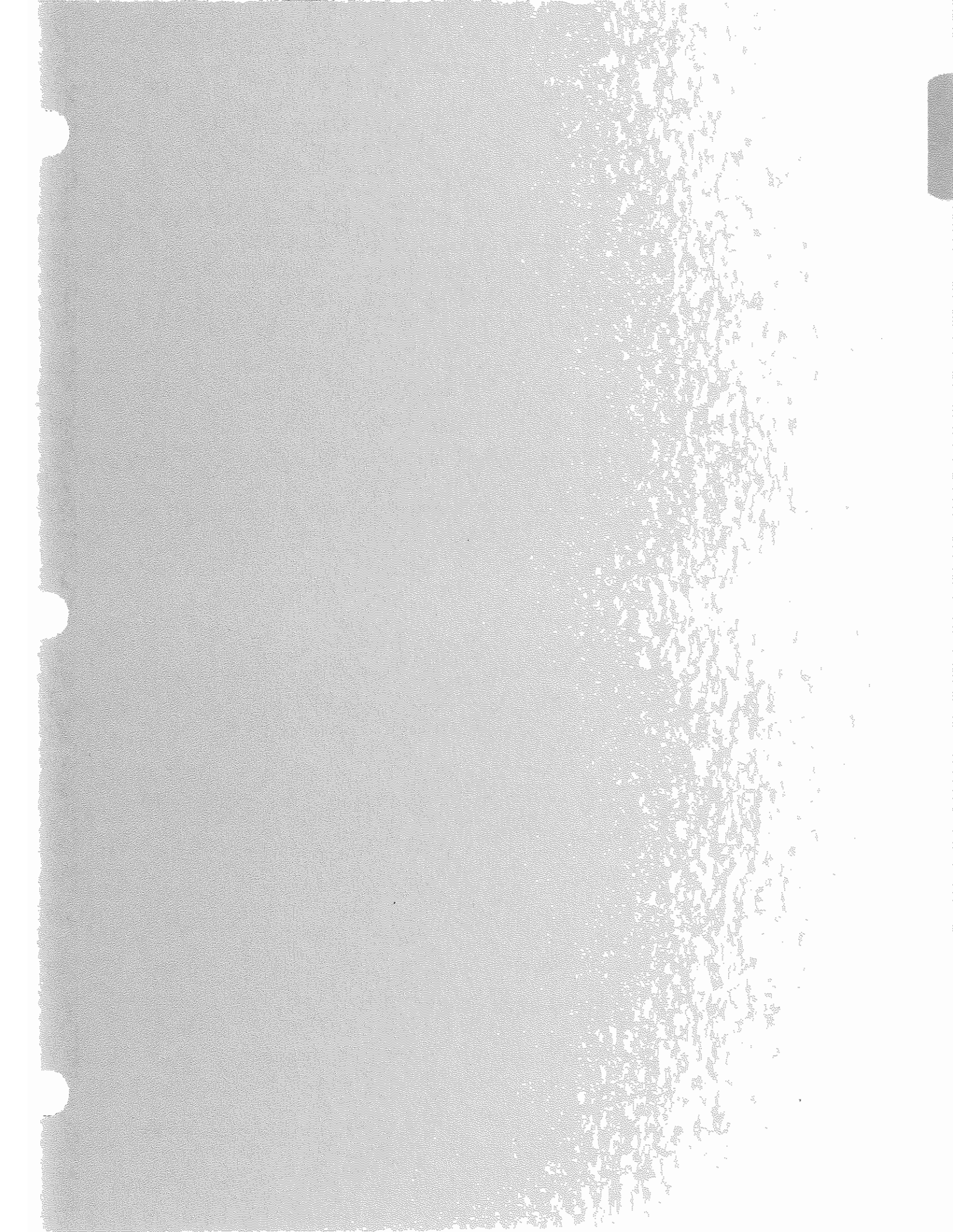
- NEGOTIATE AGREEMENTS WITH PROVINCIAL AND
TERRITORIAL GOVERNMENTS, NON-GOVERNMENT
ORGANIZATIONS AND UNITED STATES TO IMPLEMENT
PLAN.

A-14 RESPONSE TO THE FIFTH & SIXTH
REPORTS OF THE STANDING
COMMITTEE ON LABOUR, EMPLOYMENT
AND IMMIGRATION

- PREPARE RESPONSE FOR TABLING BY APRIL 18.



R. G. BLACKBURN



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CONFIDENTIALS	D.R.I.A.
MEMO TO FILE	Doc. no. 4622712 JUL 27 1987
	For comment

July 20, 1987

JUL 20 1987

Re: Meeting with Don McPhail, Ambassador to West Germany and President Designate of ACOA, July 16, 1987

DISCLOSED FOR INFORMATION	CLASSIFIED
FOIA	J. C. Leonard
DATE	91
SIGNATURE	

On July 16, Bill Pattipas and I met with Don McPhail, the Canadian Ambassador to West Germany and President-designate of the new Atlantic Canada Opportunities Agency (ACOA). ACOA became operational as of June 8, 1987. Sen. Lowell Murray is the Minister responsible for ACOA, a new board responsible for the coordination of all Federal regional economic development activities in Atlantic Canada. Most of DRIE's responsibilities for programs in Atlantic Canada have been transferred to ACOA.

The purpose of the meeting was to discuss the proposed Thyssen Henschel joint venture and the MAN-GM truck programs. Don McPhail, as Canadian Ambassador to West Germany, has had discussions directly with both MAN and Thyssen at various times on these topics. I wanted to find out the subject of the recent discussions in Ottawa between Perrin Beatty, Don Mazankowski and Sen. Murray concerning Thyssen. McPhail was briefed by Sen. Murray prior to our visit, and either directly, or indirectly through Murray, was aware of these recent discussions between Thyssen and the Canadian Government.

McPhail has on several occasions met with two of the top people at Thyssen (Dr. Spethmann and Mr. Bartels) to specifically talk about Canada and the proposed joint venture with GM. McPhail has had previous discussions with MAN concerning the HLWV Program, and indicated that MAN had been trying to meet with him when he was in Bonn last week.

McPhail indicated that the Members of Parliament from the Atlantic region are apparently going to formally establish an "Atlantic caucus" similar to the "Quebec caucus". Although he did not say so, the clear impression was given that any program approved by ACOA could count on the full political backing of this caucus through Sen. Murray.

McPhail was told by Sen. Murray in briefings prior to our meeting that the Government is concerned about the future of GM's plant in

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London in light of the Government's initiatives to use defense procurement as a tool for Atlantic development. However, he also indicated that Government figures show that Atlantic Canada has not received a proportionate share of Canadian defence spending and the Government is determined to remedy the situation. The impression given was that Sen. Murray and McPhail are going to be key players in Canadian defence procurement, at least as long as the Conservative government remains in power.

McPhail indicated, as mentioned above, that the Government is trying to grapple with the problem of maintaining the GM facility in London. He made it clear that if GM presented a package proposal which included a new facility in Atlantic Canada (for example, a facility in Cape Breton for trucks for the HLWV Program?) subject to an "immediate" contract for the production of armoured vehicles in London, that ACOA and Sen. Murray would provide the required "support" for the total package. I personally feel that they have the clout to do this, and I base my opinion on discussions concerning Thyssen Henschel which are covered later in this memo. In other words, if GM is prepared to do something in Atlantic Canada, he gave the clear impression that something could be done to make sure the London plant gets some "early" armoured vehicle business. McPhail also gave the impression that the Government would probably prefer that GM, as opposed to Thyssen, go into Atlantic Canada, and that wheeled trucks, as opposed to tracked vehicles, be built there.

In so far as Thyssen is concerned, when I indicated that the major focus of our discussions with Thyssen had been the export market, McPhail made a point of making sure that we knew that his previous discussions with Bartels and the meeting in July between Beatty, Mazankowski and Sen. Murray had dealt with a Thyssen proposal to build 300 armoured personnel carriers in Cape Breton for DND. McPhail was surprised that this had not been discussed by GM and Thyssen, and he wanted to know what we had in fact talked about. When I indicated that the imminent market potentials that we had been discussing with Thyssen had focused on the export market, and the Middle East in particular, McPhail was surprised. In fact, he went so far as to say that the export of vehicles from Canada was not being considered by Thyssen based on his discussions and information. McPhail also gave the impression that notwithstanding the recent DND White Paper, that the Government is prepared to "adjust" the expressed procurement plans to make funds available for a purchase of armoured vehicles from Thyssen if those vehicles are manufactured in Atlantic Canada.

What this seems to indicate is that if GM was to put a facility in Atlantic Canada for the HLWV (and HET) programs, that the Government would probably be very receptive to giving an "immediate" order for 300 LAV's from London.

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When I again indicated that Thyssen had never discussed an immediate order for 300 vehicles from Canada, (these vehicles are probably TH 400 6x6 wheeled vehicles), McPhail gave the impression, although he certainly did not say it directly, that Bartels may not be receiving totally accurate information about the meetings between GM and Thyssen Henschel. At our meeting with Thyssen Henschel in August, we will obviously have to get this cleared up. Either GM or the Canadian Government, or both, are being misled by Thyssen or Frank Moores' GCI. The message being conveyed to the Canadian Government by Thyssen (or GCI?) is clearly different from our discussions.

McPhail said that when he talked to Bartels, after Bartels visit to Diesel Division in June, Bartels had indicated the following:

- . that Bartels was optimistic that a joint venture could be "worked-out" with GM.
- . that Thyssen was interested in providing vehicles for the Canadian Government, and McPhail had the clear impression that Thyssen was no longer proposing to build vehicles in Canada for the export market.

As far as the first point is concerned, McPhail expressed the view that the debacle surrounding Thyssen's first attempt to establish a facility in Atlantic Canada, "should have taught them" that they must cooperate with GM. In view of the "public relations" problems concerning Thyssen's initial attempts, Thyssen may now be trying (or perhaps more appropriately, Frank Moores and GCI may now be trying) to get a manufacturing facility in Canada on the basis of politically acceptable wheeled vehicles built solely for DND. Then Thyssen would start to manufacture tracked vehicles for export. At that point the plant would already be committed for and future jobs and the plant's continued operation could be used as a lever to get the necessary political support. According to McPhail, Thyssen has indicated that they are anxious to move very quickly to establish in Canada. This urgency ties in with my previous conjecture that Thyssen may already have a substantial commitment to deliver vehicles to some politically unacceptable foreign country for which the German Government has revoked Thyssen's export licenses. I am suspicious that certain elements in Thyssen may feel that by having a Canadian plant, Thyssen will be able to get out of that bind by running the production through Canada.

RECOMMENDATIONS

Based on these discussions with McPhail, the following is apparent:

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- . The objective of the Canadian Government to "regionalize" defence procurement in Atlantic Canada poses a threat to GM's armoured vehicle business in London.
- . Thyssen Henschel, or for that matter any other armoured vehicle manufacturer, which is willing to establish in Atlantic Canada could be awarded a contract for light armoured vehicles by DND.
- . Although the Canadian Government is in a quandary about what to do about GM's armoured vehicle plant in London, this concern may be secondary to the Government's primary objective of getting something going in Atlantic Canada.
- . The Canadian Government would probably be very receptive to a proposal which would accomplish both objectives of maintaining production in London and of establishing a facility in Atlantic Canada, whether that be a second GM plant in Atlantic Canada or a GM joint venture plant in Atlantic Canada with Thyssen.

The ideal solution for us may be the establishment of a GM plant in Atlantic Canada, financed with federal and provincial government incentives, for the manufacture of trucks for the HLVW and HET programs. This would have several benefits:

- . for the Canadian Government, this would be the best "political" solution because the product is wheeled, and is not an armoured vehicle.
- . for DND and GM the HLVW Program would likely be expanded.
- . for GM, the Government would probably be receptive to awarding an "immediate" contract for LAV 8x8's to Diesel Division to keep the London plant operating.
- . for GM, in addition to "immediate" armoured vehicle production, GM would preserve the London plant for the longer term, and could turn away the threat posed by the initiatives of Thyssen.
- . It places GM in the position of obtaining "strategic source" designation which could be a very important lever in any cooperation with Thyssen.

This strategy is dependent upon the HLVW and HET Programs. If GM is unable to proceed with those programs, then we may be "forced" to work something out in cooperation with Thyssen in Atlantic Canada.

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I told McPhail that we will be meeting with Thyssen. If we are not successful in reaching an agreement in principle at that time, we should get back to McPhail and explain exactly what the problem is so that he can have an opportunity to interact directly with Bartels. If Thyssen and GM cannot reach agreement, the HLW and HET Programs in an Atlantic plant may be critical to eliminating the threat posed by Thyssen.

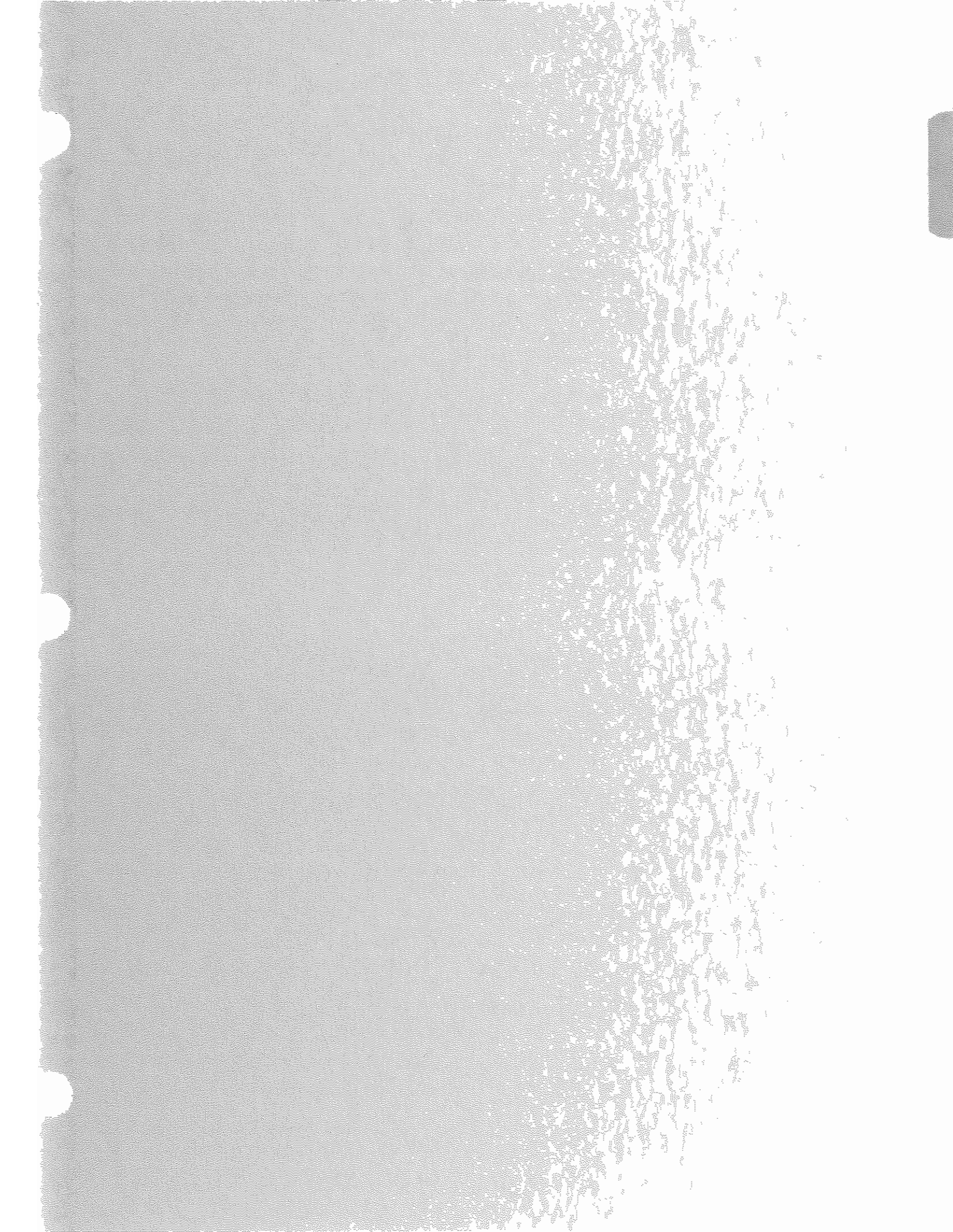
W. J. Beckley

/jp

cc: J. C. Larmond ✓
W. J. Kienapple
W. L. Claggett
H. E. Mitchell
W. J. Pettipas

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Minister of National Defence

Ministre de la Defense nationale

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 7-4913-87
 MINISTER OF NATIONAL DEFENCE
 OFFICE

November 17, 1987

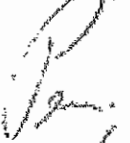
The Honourable Pat Carney, P.C., M.P.
 Minister for International Trade
 Room 436-K
 House of Commons
 Ottawa, Canada
 KIA 8A6

Dear Colleagues:

Enclosed is a copy of the letter I have sent to Dr. Manfred Weerner, Minister of Defence for the Federal Republic of Germany concerning the German industry's intent to offer technology to meet our requirement for light armoured vehicles and as well, of German industry's willingness to co-operate industrially in the establishment of assembling facilities for such vehicles in Nova Scotia.

My reply to Dr. Weerner addresses the offer of technology but does not respond directly to the matter of establishing facilities in Nova Scotia. Since such a proposal was originally made and considered during 1985, I believe its restatement will also be of interest to the Honourable Robert H. de Cotret, Minister of Regional Industrial Expansion and Minister of State for Science and Technology. For that reason I will forward a copy of Dr. Weerner's letter, along with my reply to Mr. H. de Cotret for his consideration.

Sincerely,



Ferrin Beatty

Enclosure: 1

Copy, Ottawa KIA 8A6

- 2 -

conclusion. Also I believe the close tie now being established between our defence industries bodes well for future co-operation and must be encouraged.

Sincerely,

ORIGINAL SIGNED BY
ORIGINAL SIGNÉ PAR
MCM. PERRIN BEATTY

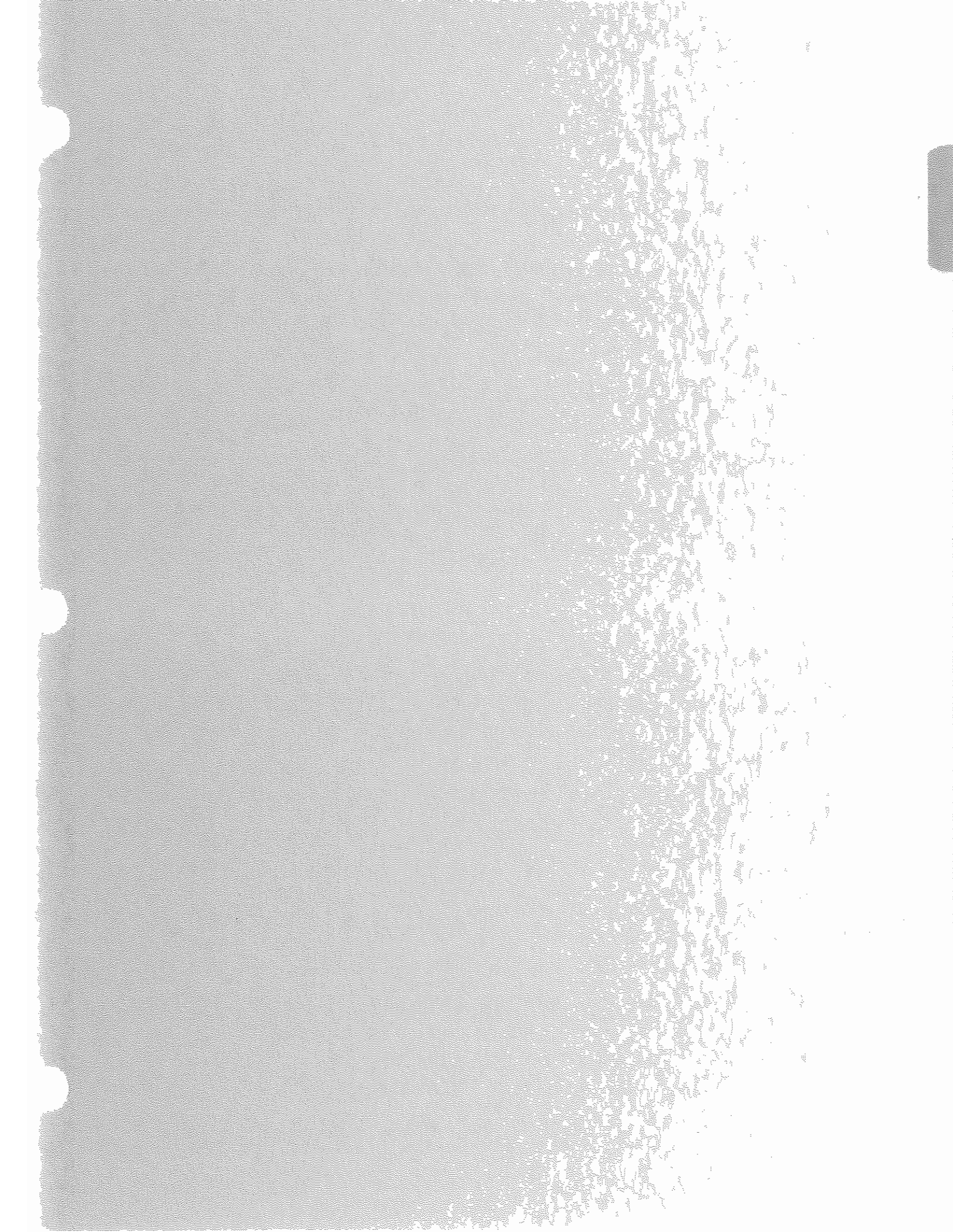
Perrin Beatty

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1987 Report of the Auditor General of Canada

- [1987 Report](#)

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Chapter 9—Department of National Defence—Major Capital Projects

Introduction

Audit Scope

Observations and Recommendations

Follow-up

Results of this Audit

Needs Identification

Planning

Implementation

Project Summaries

Close Support Artillery Weapon

Small Arms Replacement Project (SARP)

Canadian Towed Array Sonar System (CANTASS)

Region Operations Control Centres (ROCCs)

North Warning System

Tribal Class Update and Modernization Project (TRUMP)

Destroyer Life Extension (DELEX) Project

New Fighter Aircraft (CF-18)

Navigator Trainer and Transport Aircraft (Dash-8)

Challenger Aircraft

The Canadian Patrol Frigate (CPF)

1 1/4 Ton Truck Project

1/4 Ton Iltis Truck Project

Introduction

9.1 The Canadian Forces' requirements for equipment, people, facilities and systems are determined by the roles, objectives, and operational tasks that have been identified to meet the broad objective: "to ensure the security of Canada and to contribute to the maintenance of world peace". The detailed requirement for equipment items is determined as part of the overall force structure planning processes that occur for both the regular and reserve forces.

9.2 Since the late '70s, the Department of National Defence has spent billions of dollars on very large capital projects intended to upgrade or replace its deteriorating hardware. Billions more have been committed for future expenditures for these purposes. By the late 1970s most Defence equipment, such as fighter aircraft, ships and vehicles, was either at the end of its expected useful life or rapidly approaching it. By that time, expenditures on capital items had reached a low of eight per cent of DND's budget because of pressures to downsize the forces and cut back on expenditures. The Defence Structure Review, carried out in 1975, outlined in part a "re-equipment plan" that would attempt to reverse a critical situation that was contributing to a rapidly declining military capability.

9.3 As mentioned in the report on our 1984 comprehensive audit of National Defence, projects of this magnitude place a significant strain on management and personnel systems. They involve a wide range of private sector, inter-departmental and departmental interests that concern such diverse areas as regional and industrial benefits, technological considerations and social factors.

9.4 Notwithstanding all these difficulties, the projects must be delivered on time and within budget. The newer and more complex technology used now in equipment creates a greater demand for experienced project managers and life cycle support staff. It also demands rigorous and regular testing against operational requirements to ensure that the product meets the extreme demands of combat conditions.

9.5 The correct selection, use and care of equipment are essential to meeting operational commitments. The Department has established a comprehensive set of management systems for this purpose, and they are employed over the life cycle of all projects. Once identified, an operational deficiency, need or opportunity becomes part of the equipment program. After lengthy analysis and comparison to other proposals, it enters the Defence Services Program as a project and is processed through the various approval stages and decision points of the Defence Program Management System, until it is given departmental approval. For major capital projects (valued at more than \$10 million), Treasury Board approval is required. For major Crown projects (those valued at more than \$100 million), Cabinet approval is required.

9.6 Because of the enormous financial significance and impact of major capital projects, both within departments and on Canada's socio-economic well-being, this Office announced in 1985 that it would undertake to review and report to Parliament whether departments were exercising due regard to economy in managing them.

9.7 Our approach in the case of National Defence, which has about 80 per cent of the government funds devoted to major Crown projects, was to examine the management systems and practices that govern these types of expenditures, and to test individual projects' compliance with the controls established in the systems.

9.8 As part of our first comprehensive audit of National Defence in 1982, we reviewed several major management systems, including the Defence Program Management System, that the Department uses to screen equipment project requests for funding before submitting requests to Treasury Board. We

concluded that the Defence Program Management System was fundamentally sound and that it included appropriate checks and balances.

9.9 In 1984, as part of our second comprehensive audit, we focused more on case studies of equipment acquisition to test some specific elements of the total DND project management system. We reported on seven major Crown projects and made a number of observations and recommendations. In its meetings on the Defence chapter in February 1985, the Public Accounts Committee expressed its interest in continuing the approach of reviewing large Defence acquisitions individually.

9.10 The objective of this year's audit was to examine other aspects of the total project management system by reviewing a selection of major capital and major Crown projects through the Identification, Planning, Implementation and In-service stages of their life cycles. Elements of the system that were reviewed in the past were re-examined to assess progress in response to earlier recommendations and to re-test compliance with system requirements.

9.11 As part of our examination we paid particular attention to contracting activities; this resulted in our making some new observations that cross individual projects. These are highlighted later in the chapter. More detailed background information, conclusions and observations related to the projects audited are reported at the end of the chapter in individual project summaries.

Audit Scope

9.12 We examined 10 major Crown projects each costing more than \$100 million, and 3 others costing between \$60 million and \$100 million. We continued the approach used in 1984 of testing management systems and practices in National Defence by examining the projects through their life cycle stages. In addition, we followed up on broad issues that were identified during earlier audits. Exhibit 9.1 shows the life cycle stages examined for each project for this audit and for our 1984 comprehensive audit.

Exhibit not available

9.13 We reported in 1984 that departmental internal audit had not carried out any major Crown project audits, and we encouraged the Department to review these projects. Since then the Department has developed methodology and plans are in place to audit several major Crown projects. For the purposes of this audit, we relied on the work of the Department's internal audit group for the one project completed to date - the 1/4 Ton Iltis truck project. We carried out audit reliance tests to confirm compatibility of departmental audit approaches with our own.

9.14 We had originally planned to audit the Low Level Air Defence project, but have deferred it to avoid possible conflict with an investigation into the circumstances surrounding the purchase of land for the construction of a Canadian facility by the prime contractor.

9.15 Our audit of capital projects involved an examination of documents, interviews with officials in the Department of National Defence, the Department of Supply and Services and the Department of Regional Industrial Expansion, visits to several prime contractor facilities, observation of equipment under construction, and a review of project files and reports. We did not audit contractor records or facilities.

9.16 We also examined a sample of smaller capital projects in the \$5 million to \$60 million range for compliance with governing procedures and regulations. Projects of this size have not been the subject of our previous audits of the Department of National Defence.

Observations and Recommendations

9.17 The Treasury Board has issued directives and policies that Departments are expected to follow in the management of Government projects. DND has elaborated on these policies and directives with an extensive set of management systems and practices that it uses to manage projects through their full life cycle.

Our audit indicates that the management systems and procedures used by DND for major capital and major Crown projects are appropriate, and that projects are usually managed in compliance with the requirements of these systems and procedures.

9.18 DND's management systems and procedures related to major capital and major Crown projects are being steadily improved. By 1970, the Department's equipment acquisition budget had declined to a low of eight per cent of total expenditures; however, the increased activity of the last decade and the many very large projects that have been funded have placed extensive demands on management and on management systems. Each new project brought with it a new set of challenges, with lessons learned for later projects.

9.19 In previous audits we commented on the difficulties DND has encountered in planning and managing some projects, and we made a number of recommendations. As well, the Public Accounts Committee has put forward other recommendations. DND has made several changes to systems to address the concerns behind the recommendations. These initiatives are discussed in more detail in the next section dealing with follow-up.

9.20 As a result of this audit, we have suggested five areas where we believe additional management attention should be given. Two of these items - non-military objectives and project scope and cost - are extensions of points we raised in 1984. Three items, dealing with sole-sourcing, advance payments and warranties, result from the reviews of contracting arrangements that we included in this audit. These points are discussed starting at paragraph 9.49.

9.21 Our audit of smaller capital projects did not reveal any significant concerns where we believed additional management attention was required regarding further improvements to systems and procedures.

Follow-up

9.22 Of the 29 recommendations contained in our 1984 Report, five dealt directly with capital project planning and management. One other recommendation dealt with the need for a force structure plan, which affects the planning and management of all DND's resources. Seven of the eight recommendations made by the Public Accounts Committee focused on aspects of planning and managing of capital projects.

9.23 Our review indicates that DND has responded positively to these recommendations.

9.24 Project scope and cost. In our 1984 Report, we noted that projects managed by the Department are often bound by fixed funding ceilings. But in many cases they involve a high level of technological complexity and uncertainty because weapons systems are often still being designed and tested during the acquisition process. In the case of the CF-18, we reported in 1984 that this resulted in the identification of a large number of related highly desirable projects budgeted outside of the main project. To help address this dilemma, we put forward three recommendations: uncertainties in the concept of operation should be minimized before a project begins; alternatives to fixed ceiling funding

should be considered for equipment that is still in the development stage; and DND should ensure that all significant scope or cost changes are reported to Treasury Board. The Public Accounts Committee then made three related recommendations that dealt with the definition and disclosure of project life cycle costs.

9.25 DND has responded to these recommendations to the extent it can, given the size and complexity of these projects. The Department acknowledges the need for clarity in concepts of operation. To the extent possible it achieves this in the Statement of Requirement that is part of the approval process. Although funding ceilings may be a preferred management discipline, improvements in project costing and in the reporting of scope or cost changes to Treasury Board should ensure that difficulties which may result from fixed ceiling funding can be overcome. The Department is developing and testing approaches to define life cycle costs fully for major Crown projects, and has included project life cycle cost estimates in Part III of the Estimates.

9.26 Non-military objectives. In 1984, we noted that non-military objectives, including industrial benefits, complicate and constrain DND equipment projects. Non-military considerations have resulted in projects being split among potential suppliers to distribute the economic benefits; directing contracts to suppliers; additional costs to establish Canadian capabilities; and implementation difficulties with newly designed Canadian models. We recommended that contracts should clearly specify industrial benefits requirements, and the Public Accounts Committee recommended that non-military objectives be identified in the Estimates, Part III, and that their attainment be monitored and reported.

9.27 Implementation of all these recommendations is complete, and non-military objectives are reported in the Part III of the Estimates. But the cost of achieving these non-military objectives is not. This aspect is discussed later.

9.28 Project management. We noted in 1984 that DND did not have one basic management system that was common to all projects and different systems were implemented for every project. We reported the Department would benefit by establishing a common system that could be tailored to meet individual project needs.

9.29 By mid-1985, the Department had identified 45 areas for development and had published 17 papers dealing with this recommendation. In January 1987, DND reported that the management system was evolving satisfactorily, and that various mechanisms, including a Project Management Support Office, a Project Management Handbook, and a requirements definition for a Project Management ADP System, had been incorporated into the Department's operations.

9.30 Sources of spare parts. The Public Accounts Committee noted that savings were possible through diversification of equipment suppliers and direct purchases from original equipment manufacturers. It recommended that dual sourcing of CF-18 parts be implemented wherever possible. DND has reported that the transition to original equipment manufacturers is proceeding well and that contracts with Canadian industry will generate jobs in, and technology transfer to, Canada.

9.31 Internal audit. We noted in our 1984 Report that DND's internal audit group had undertaken few audits of major capital projects, and we encouraged the Department to do so. The Department has now established an ongoing program of audits of capital projects and has recently completed its first audit of a major Crown project, the acquisition of the Iltis truck. Another audit involving the Hercules replacement project is under way. Plans are in place for a continuing series of audits of major capital projects, including projects of major crown status.

9.32 Force structure requirements. In 1984, we recommended that DND develop and obtain approval for a force structure plan for peace and war. We believe that without such a plan the planning and management of virtually every aspect of the Department is impeded.

9.33 DND had initiated a Normative Planning Project designed to satisfy this need. By 1985 this project had been expanded into a "Defence Policy Implementation Process" intended to present and cost out various force structure options. These options are now being considered as part of Cabinet's White Paper deliberations. As we note later, the need for this kind of policy guidance continues to be felt throughout DND, including in the area of planning for major capital projects.

Results of this Audit

9.34 The following paragraphs discuss our major conclusions arising from our audit of the various life cycle stages of the projects included in this year's review.

Needs Identification

9.35 The absence of an approved force structure continues to complicate planning. Several of the projects we reviewed showed the effects of the lack of an approved force structure. For example, for the Howitzers and Small Arms Replacement projects the number of weapons needed was difficult to define. The number eventually purchased, however, was determined primarily by the funds available and was less than the number specified in DND documents.

9.36 The type of policy guidance needed as the basis for the definition of an approved force structure is now available in the recent White Paper on Defence.

Planning

9.37 Once the identification of needs has been completed, DND engages in a thorough process of defining project requirements, analysing options and specifying project cost, schedule, performance and scope objectives. Our review suggests that these activities are carried out in compliance with the applicable processes and controls, and that significant progress has been made to respond to concerns that were identified during previous audits. Two areas - project scope and cost, and non-military objectives - were the subject of recommendations in our 1984 Report.

9.38 Project scope and cost. In 1984, we reported that DND had identified a number of additional capital projects to support the CF-18 project that were being funded outside the CF-18 project. We expressed our concern that it was very difficult to identify what should and what should not be included in the scope of a capital project. The Department agreed with our assessment and has undertaken to clarify its scope statements and to upgrade methods for project life cycle costing. The Department has updated the costs of these associated capital projects and has taken steps to identify those projects that should have been included in the original project life cycle costs. These essential related projects would have cost \$2.1 billion in 1984; largely because of inflation, the cost of these necessary projects has grown to \$2.7 billion.

9.39 In 1980, the Department initiated a project valued at \$368 million to acquire advanced air-to-surface weapons. These weapons were needed to replace 30 year old bombs that were incapable of fulfilling their role. If this project is approved, it could cost as much as \$3.7 billion; the increase is largely due to increased cost of weapons, and the expansion of the project to include air-to-air and anti-radiation missiles.

9.40 In 1984 we also reported that some spares and maintenance costs were being charged to operations and maintenance, rather than to the CF-18 project budget. In this year's audit we noted that requirements have been established for two software support facilities. One of these facilities is being funded from the project capital budget. At the time of our audit, the other was to be funded from the departmental operations and maintenance budget; as a result of a recent departmental review, the project has been transferred to the capital budget.

9.41 During this audit we identified a life cycle costing problem with the Howitzer project. Ammunition valued at about \$40 million was removed from the project, despite the fact that DND policy states that "full operational stock plus two years training ammunition must be purchased" within the project's budget. The ammunition requirement is being funded through the recurring ammunition purchasing process. As a result, other ammunition requirements are being depressed below their normal two-year level. Another consequence is that this project was not managed as a major Crown project, which is more demanding in terms of approval and reporting requirements.

9.42 These observations reinforce our earlier concerns about the need for clarity in determining what should be included in project scope, improved life cycle costing, and control of project scope and cost changes.

9.43 Related project objectives. The long-term employment, industrial development and technological effects of DND's major acquisitions warrant continued attention. Also, DND is embarking on a program to reinforce the strategic sourcing capability of Canada's industrial base. In almost every project we audited, these objectives played an important role in project planning, or in identifying and selecting potential contractors. For example:

- For the CF-18 project, the selection of the systems engineering support contractor was based largely on technology transfer and other economic factors.
- For the Challenger and the Dash-8 purchases, the decision to advance the timing of the projects, and the choice of suppliers were determined to a considerable extent by the needs of the Canadian aircraft industry.
- For the Small Arms Replacement project, the cost of establishing a Canadian manufacturing capability was about \$16 million for items such as licence fees, tooling costs and upgrading the manufacturer's facility.
- The shipyard portion of two of the four ships involved in the Tribal Class Update and Modernization Project (TRUMP) was directed to a particular shipyard firm. It has been estimated that there could be an increase in cost should the remaining ships be placed with another shipyard.
- Also for TRUMP, it was decided to discontinue the competitive bidding process and to sole-source the implementation contract, partly on the basis of the urgent needs of the ship-building industry.
- In 1984, we noted that the shipyard construction contracts for the Patrol Frigate project had been split, with three ships to one shipyard in New Brunswick and three ships to two shipyards in Quebec, and that the cost of dividing the work among three companies was estimated by the Department to be \$58 million.
- For the Destroyer Life Extension (DELEX) project, an unproven radar was purchased in 1981

from a Canadian firm despite contrary DND engineering evaluations. It now appears that the system will be at least five years late. This significantly impacts on the operational capabilities of the ships involved.

9.44 In our 1984 Report we recommended that industrial benefits be clearly defined for contracting purposes. The Public Accounts Committee further recommended that non-military objectives be identified, monitored and reported in Part III of the Estimates. As we reported earlier, DND has made substantial progress in responding to these recommendations.

9.45 But we are still concerned about the impact that non-military and strategic sourcing objectives are having on planning and implementing these projects, and that their relative weight in decision making and their costs are not clearly defined. For example, in the case of the CF-18 maintenance contract, the Request for Proposal did not indicate to the competing firms that future technological spin-offs would be a major determinant in the selection process. As well, by using industry sector needs as the basis for accelerating projects, overall defence capability goals may not be effectively served.

9.46 In Chapter 10 of this Report, dealing with Materiel Support in DND, we have highlighted a concern related to the need to define "buy-Canadian" goals and objectives and to specify the premium that should be paid to purchase from Canadian rather than foreign suppliers. In a similar vein, our concern with non-military objectives extends beyond just identifying and reporting them; it also includes their cost, impact on project objectives, and consistency of application in the competitive process. To a great degree, these non-military objectives were directed towards satisfying the objectives of other departments, such as the Department of Regional Industrial Expansion, but their costs are charged against DND's budget.

9.47 Where it is reasonable to do so, the Department of National Defence should determine and report the direct and indirect costs associated with achieving non-military and strategic sourcing objectives, as part of its regular reporting of non-military objectives that now is included in Part III of the Estimates.

Department's response: Due to the nature of such costs, there are inherent limitations to the ability of the Department to identify all direct and indirect costs associated with achieving non-military objectives. The recommendation will however be implemented whenever possible.

Implementation

9.48 Our review of this area emphasized aspects of project management, contracting and quality assurance. Once again, our overall assessment is that these activities are carried out in compliance with approved processes and controls. Our review of contracting activities has identified three areas where additional management attention is needed - sole sourcing, payments and warranties.

9.49 Sole sourcing. Many of the projects we audited involved sole sourcing to a qualified supplier. The rifles portion of the Small Arms Replacement project was directed to a Canadian supplier, to support Canadian strategic sourcing. The ammunition for this project was sole-sourced to another Canadian firm. The Challenger and the Dash-8 aircraft purchases were largely defined by the needs of the Canadian aircraft industry, and were directed toward pre-selected firms. The TRUMP implementation contract was sole sourced largely to accommodate the urgent needs of the ailing ship-building industry in Canada.

9.50 Treasury Board contract regulations specify that competitive processes are to apply unless a) the need is of pressing emergency in which delay would be injurious to the public interest; b) the

expenditure is below certain limits; c) the nature of the work is such that it would not be in the public interest to invite tenders; or d) only one person is capable of performing the contract. For the four projects listed above, the rationale behind the decision to sole source appears to be related to the fact that the nature of the work is such that it was not in the public interest to solicit bids. For TRUMP we requested analyses to support the decision to sole source. But the information we were given did not include any cost-benefit, economic or financial analysis to support the decision.

9.51 These contract regulations were established to ensure, among other things, that the government obtains the optimum combination of quality, time and total life cycle cost. We are concerned about these instances because when the competitive processes are by-passed, the most cost-effective options may not be obtained. For example, in the United States, the Department of Defense has moved aggressively to limit sole sourcing, based on the potential for cost savings through competition.

9.52 The Department of National Defence and Treasury Board should ensure that competitive procedures apply wherever possible. Decisions to by-pass the competitive process should be supported by a full justification in the contract file that specifies the costs, benefits and risks of doing so in comparison to the national benefits expected.

Department's response: The Department supports the use of the competitive process wherever appropriate. An inter-departmental working group, which has been in existence for about two years, is examining this issue with the aim of increasing the use of the competitive process and to identify reasons for non-competition. Additionally, the soon to be promulgated Project Management Manual outlines the policy in this area including the interface with socio-economic benefits that may be associated with direct procurement.

9.53 Payments. Projects of the size included in our audit usually involve both down payments and milestone or interim payments. A number of the projects we reviewed involved either very large down payments, payments in advance of contractual requirements, or payments in excess of contractual requirements. These situations involve a cost to the Crown, unless some form of offsetting compensation is obtained from the supplier. Examples of these payments are:

- For the CF-18 project, the Crown incurred additional interest costs of \$7 million as a result of early payments made during 1984 and 1985.
- Also for the CF-18, an additional \$4 million of interest costs resulted from higher than necessary milestone payments between 1980 and 1984.
- The Patrol Frigate project involved a \$50 million payment in advance of need that cost the Crown \$220,000 in interest.
- The Artillery Weapon project involved a down payment of \$26.8 million, greater than 50 per cent of the contract value.
- The Challenger project involved a down payment of approximately 80 per cent of the project cost, with no apparent off-setting benefit.

9.54 We noted that in some instances compensation for advance payments was negotiated and received. For example, for the Patrol Frigate project, the contractor agreed to build a support facility at no additional cost to the project. Another example of offsetting compensation is found in TRUMP where, in return for receiving advance payments during the life of the contract, the prime contractor has undertaken to provide an interest credit payment of \$31 million (1984 dollars) to the Crown at the

end of 1991. In other cases no such off-setting compensation was obtained.

9.55 In 1985, the government introduced a policy of Payment on Due Date, and since then early payments have occurred much less frequently.

9.56 We believe, however, that high down payments, early payments and excess payments should be treated consistently and in a manner that provides adequate compensation to the Crown.

9.57 The Department of National Defence should establish policies and procedures to ensure that where large down payments, early payments and large milestone payments are necessary, appropriate off-setting benefits are obtained.

Department's response: It must be recognized that the negotiation of rates of payments is the responsibility of Supply and Services Canada and that policies and procedures in this area are contained in their publications. However, the Department will establish guidelines for departmental procurement managers on their roles and responsibilities as representatives of a customer department.

9.58 Warranties. Warranties provide protection to the Crown against product fault, discovered either during a project or after it is completed. Warranty protection increases the cost of a project, and the goal, therefore, is to purchase adequate protection at a reasonable cost.

9.59 For highly sophisticated and expensive weapon systems it is a very complex task to define the optimum level of warranty protection or to foresee all possible risks. For example, for the Small Arms Replacement project, DND accepted 12 million rounds of deficient ammunition; it is unclear whether the cost of this ammunition should be covered under warranty. In this case there is also difficulty the Crown penalizing a firm that it has paid to set up and is prepared to subsidize in order to sustain production. In the case of the Patrol Frigate, if the project is completed at the ceiling cost, the Crown can obtain up to \$61 million in warranty costs from the prime contractor. This \$61 million is also used as a lever to encourage the prime contractor to exercise the warranty provisions it has established with the sub-contractors. Once again, the question arises about whether, under the circumstances, additional warranty protection would have been cost-effective, given the other risk-reduction mechanisms, such as quality assurance, that operate during the production phase. In 1984, we reported that DND had declined the supplier's warranty for the 2 1/2 ton truck; this year we note that the 1/4 ton truck purchased from the same supplier will be covered by a warranty.

9.60 In 1984, we recommended that DND establish a project management system for managing all its major capital projects, and the Department has made substantial progress in this direction. As part of this initiative, guidelines have been drafted for warranty protection, and in co-operation with the Department of Supply and Services, the Department is considering the development of a standardized approach to warranties.

Project Summaries

Our audit indicates that the management systems and procedures used by DND for major capital and major Crown projects are appropriate. Projects are usually managed in compliance with the requirements of these systems and procedures.

9.61 In the following pages we describe the salient points of each project with comments where appropriate. Where we have concerns they are included in the Observations section at the end of each summary. Where no observations are made, it means that the project met our audit criteria for those

life cycle stages covered by this audit, as set out in Exhibit 9.1.

Exhibit not available

Close Support Artillery Weapon

9.62 Background. The Close Support Artillery Weapon project addresses part of the need for artillery to fulfil the operational requirements and commitments of the Canadian Forces. Specifically, the project has provided 26 155mm self-propelled howitzers, 44 tracked support vehicles and 4 armoured recovery vehicles for transporting disabled howitzers.

9.63 The need for this project was defined in large part by the deteriorating condition of existing howitzers and their inability to meet previously defined levels of operational activity. Other factors included the desirability of standardizing equipment and calibre of ammunition used by Canadian and allied forces.

9.64 The total approved budget for the project is \$73 million, not including ammunition. The actual expenditure will be \$59.7 million, due partly to a departmental decision to acquire rebuilt armoured recovery vehicles at a lower price than new ones, and because contract prices were lower than original estimates.

9.65 Observations. The Department initially planned to procure ammunition in accordance with the departmental policy that full operational stock plus two years' training ammunition must be purchased with the weapons. However, ammunition costs initially calculated at \$40 million were deleted from the project, and the Department decided to fund this item from the Land Recurring Ammunition Project by depressing other ammunition stocks. This permitted the Department to manage the project outside the major Crown project category, which is more demanding in terms of approval and reporting requirements. Furthermore, the Department identified that the action carried a risk that restrictions on training or operational activity could result.

9.66 The early planning documents identified requirements for the acquisition of 32 105mm towed howitzers and 63 155mm towed howitzers. Later, the quantity of 155mm towed weapons was increased to 80. The final quantity of 26 155mm self-propelled howitzers was considered as satisfying only the most urgent operational commitments. We found no documented risk analysis with regard to the reduction in quantity. There was no documented evaluation of the operational impact.

9.67 The contracting process used in acquiring the equipment followed approved procedures. However, down payments made under the three principal contracts amounted to \$26.8 million. This is more than half of the total price of the contracts which amounts to \$45.8 million.

Small Arms Replacement Project (SARP)

9.68 Background. This major Crown project covers the acquisition of new rifles, carbines and light machine guns (designated as C7s, C8s and C9s respectively), weapon accessories, repair parts and ammunition. These weapons fire the 5.56mm calibre ammunition agreed to by NATO nations. They replace C1 rifles, C2 light automatic rifles and the SMG CIAI sub-machine guns now in service. The total approved budget for the project is \$349.1 million.

9.69 Canadian Forces' trials resulted in selecting an upgraded version of the M16 rifle to be built under licence in Canada and the Minimi machine gun to be purchased from a Belgian manufacturer. The carbine is a shorter version of the rifle, also purchased from the rifle manufacturer.

9.70 A contract for the supply of the rifles and carbines was awarded to a Canadian firm with which DSS had entered into a sole-sourcing agreement for small arms work. The additional cost of pursuing strategic sourcing objectives is considered to be about \$16 million. Manufacture of rifles and carbines has been progressing on schedule. The contract for the light machine gun was awarded to a Belgian manufacturer, partly as an offset for the Belgian purchase of Iltis trucks from the Canadian manufacturer of these vehicles. Deliveries of the machine guns have been on schedule.

9.71 Project scope has been increased to include optical sights for the rifles and for the light machine guns. These are required to overcome deficiencies in sighting effectiveness discovered during the trials. The cost increase will amount to \$34.1 million. The Department considers that this can be paid for within the approved budget. The optical sights were the subject of a separate project until it became evident that the cost could be covered by the SARP budget.

9.72 The new 5.56 mm ammunition is being provided under a sole-source agreement between DSS and another Canadian manufacturer, as part of the government's Munitions Supply Program. An initial contract for 14 million rounds was signed in 1984.

9.73 Observations. A serious quality problem affects about 12 million rounds of ammunition valued at \$7.5 million. Investigation by DND has revealed that a standard test that would have detected the problem was not carried out by the manufacturer or enforced by the Department. Introduction of the new weapons to Canadian Forces Europe has been delayed one year as a result of the deficiency. The Department has reported that the ammunition is once again in production under improved manufacturing processes and more rigorous testing and inspection. Delivery of 12 million rounds of new, acceptable ammunition has been made on schedule under a new contract. The matter of payment for the replacement ammunition is still under negotiation.

9.74 The quality problem found in the ammunition leads to a concern about who pays for the mistake, given the sole-source contract. There is difficulty in the Crown penalizing a firm that the Crown has paid to set up and is prepared to subsidize in order to sustain production.

Canadian Towed Array Sonar System (CANTASS)

9.75 Background. The primary objective of the CANTASS project is to provide improved anti-submarine warfare capability for use on the new Canadian Patrol Frigates under construction, and on the existing destroyers of the DDH265 class.

9.76 Improvements in submarine weapon systems have resulted in the need to detect submarines at much greater distances than the range of earlier detection devices. For these extended distances, the towed array passive sonar systems are now recognized as the most reliable shipboard system. These systems detect the sounds generated by the source as opposed to sound reflection employed in active sonar systems.

9.77 The Department weighed the options and decided to use some system components available from the U.S. Navy combined with electronic signal processing and display equipment to be developed in Canada. Thus CANTASS was initiated in 1982 as a phased development and acquisition project.

9.78 The budget approved for CANTASS is \$216 million. It includes \$71 million for equipment for the Canadian Patrol Frigate. Procurement and development contracts are progressing on schedule.

Region Operations Control Centres (ROCCs)

9.79 Background. This project started in 1973 when the North American Air Defence (NORAD) Command decided to update the existing communications and control equipment in the regional control centres. These centres provide detection and identification of impending air attack. The old equipment was vacuum tube vintage and was becoming very difficult to maintain.

9.80 The American technical program was expanded to include a reconfiguration of NORAD regional boundaries. In 1974, Canada and United States agreed to a reconfiguration that provided for two regions in Canada, four in the continental United States and one in Alaska. Each region would have a command and control centre.

9.81 In developing the requirements for modernizing and expanding the system, several equipment alternatives and siting options were studied. It was decided that Canada would work jointly with the United States to develop and acquire state-of-the-art technology that would be common for all seven Control Centres. Based on a cost analysis, it was also decided to co-locate both Canadian centres at North Bay. The total estimated cost of the project was \$95.8 million. Despite the fact that the project was less than \$100 million, the Department decided to manage it as a major Crown project, and to accept the increased control and visibility that this requires.

9.82 The requirement for common equipment did not permit Canada to pursue competitive bids. The United States Air Force contracted with an American company to provide the required computer equipment and software. Through a negotiated Letter of Agreement, Canada participated in this contract for the supply of the same type of equipment for the two Canadian Regional Operations Control Centres.

9.83 The communications facilities to connect the centres to the radar installations in Canada are provided by the Trans-Canada Telephone System, with Bell Canada acting as the co-ordinator and system manager. This is covered by a separate communications contract. There was a major delay with the communications contract because the American supplier of the communication switchgear could not deliver until three years after the required date. As a result of initiatives taken by the DND project manager, a solution was found and suitable replacement equipment for the Canadian centres was obtained on time and within the budgeted costs.

9.84 The project was completed on schedule and under budget in late 1982. An evaluation test was conducted by the Tactical Air Command of the United States Air Force in 1983. This test demonstrated that the centres can fulfil their operational requirements.

North Warning System

9.85 Background. In April 1982, DND and the United States Department of Defense agreed on an Air Defence Master Plan that called for a perimeter surveillance system covering all approaches to North America. One segment of this system is the North Warning System (NWS), consisting of approximately 11 staffed long-range radar sites and 36 unstaffed short-range radar sites in Canada, with an additional 2 long-range and 3 short-range sites in Alaska. Wherever feasible, the long-range radar sites are to be situated at or near the existing Distant Early Warning (DEW) sites and extend southward at three new sites along the east coast to overlap coverage with the American Over The Horizon -Backscatter extra-long-range radar site in Maine.

9.86 Threat assessment studies established that an early warning system covering the northern boundaries of the continent is essential. Accordingly, the North Warning System was designed to meet the need for contiguous surveillance coverage to ensure detection of unfriendly bombers or cruise missiles. The existing DEW line, because of the smaller number of sensors and the basic design of the

equipment, cannot provide contiguous surveillance, and the CADIN-Pinetree radars are obsolete and, in most cases, no longer needed.

9.87 A study of the options available for the defence of North America concentrated on how to react to an attack. All these options included the NWS as the only practical surveillance system in the north.

9.88 Negotiations between Canada and the United States led to a Memorandum of Understanding that provided a cost-sharing ratio of 40 per cent to Canada, 60 per cent to the U.S. As far as possible, this would be accomplished by sharing the work rather than exchanging money. It was agreed that Canada would construct the sites and supply the communication system, and the U.S. would supply the radar equipment. The long-range radars were standard radars already in use. The short-range radars are now in the final development stage.

9.89 The need for this system was well documented and in accordance with the Department's established objectives.

9.90 The total Canadian cost of the system is estimated at \$829 million budget-year dollars, with completion scheduled for the end of 1991. Contracts have been awarded for the communications services (\$118 million), and design and construction work at three east coast sites (\$90 million). All contracts followed the prescribed procedures and are being carefully monitored.

9.91 An interesting variation being used on this project is that project management services have been contracted rather than being provided in-house. This has enabled the project to proceed much faster than usual. It is particularly important because of the short construction period in the north and the urgency being applied to the project. The initial period (14 months) of this contract will cost about \$5 million with the full cost estimated to be roughly \$35 million for the life of the project.

Tribal Class Update and Modernization Project (TRUMP)

9.92 Background. A program intended to upgrade and modernize the surface capability of Canada's navy was presented in a discussion paper to Cabinet in 1977. The paper identified, among other things, a need to conduct a major modernization of the four Tribal Class destroyers. This initiative is referred to as the Tribal Class Update and Modernization Project, or TRUMP. It was proposed that the enhanced Tribal Class capabilities should complement those of the Canadian Patrol Frigate, and that these two classes of ships would form the nucleus of Canada's surface naval force in the 1990s. The project involves a mid-life refit and the replacement of old equipment with modern capabilities such as air defence missiles and a new command and control system.

9.93 In July 1983 Cabinet gave approval in principle for TRUMP at an estimated expenditure of \$650 million (1983 dollars) and directed that the shipyard portion of the project would be given to a specific shipyard that was not involved in the construction of the Canadian Patrol Frigate. In May 1986 Cabinet announced that this shipyard would be given the shipyard portion of the project for the first two ships, with the last two put to open competition. Discussions with the Project Management Office staff indicated that, if the last two ships were awarded to another shipyard, there could be a cost increase based on the possible duplication of support requirements and the loss of learning curve benefits. The actual cost, if any, will not be determined until the tendering process is completed in early 1988.

9.94 In January 1984, Treasury Board authorized spending up to \$17.41 million for the TRUMP Definition Phase. Three bids were received for the contract to undertake the Definition Phase - one of \$7.9 million, one of \$10.7 million and one of \$12.9 million. All three were considered to be in

compliance with technical requirements. An evaluation of these proposals was conducted in April 1984, and the evaluation team ranked the proposals in the order shown above. An agreement was signed with the selected (lowest) bidder in June 1984 to begin the Project Definition work right away. Between June 1984 and April 1986, Treasury Board approved three amendments to the contract, the last of which raised the total contract price to \$19 million. Part of the rationale for the third amendment was the need to help the contractor retain engineering personnel and technical staff capabilities, presumably to permit carrying out the implementation phase of the project, despite the fact that no agreement had yet been made that that contractor would, in fact, be chosen.

9.95 Following completion of the project definition phase, DND and DSS recommended, and in April 1986 Treasury Board approved, a contract with the same contractor for the implementation phase of TRUMP at a total estimated cost of \$1.3 billion budget-year dollars. This contract, signed on 9 May 1986, was awarded without a request for bids from other potential bidders.

9.96 Observations. We have been unable to obtain any financial or economic options analyses for sole sourcing. We are concerned, therefore, that the action to by-pass the competitive bidding process may have been taken with insufficient cost-benefit analyses. We are also concerned that the decision to sole source the implementation contract may not have been in compliance with Treasury Board policy regarding competitive bidding which is intended, among other things, to ensure that the government achieves maximum economy in the purchase of goods and services. By sole sourcing the contract, DND might not have obtained the most cost-beneficial option.

9.97 The April 1986 decision to discontinue the competitive bidding process on TRUMP and award a \$1.3 billion implementation contract to the selected contractor was, according to DSS and DND, done in the national interest under section 8(c) of Appendix F of the Government Contract Regulations. The principal reasons given for this action were:

- to accelerate the contract award and place work with the ailing shipyard industry;
- to avoid a possible \$30 million to \$35 million interim ship refit cost that might occur if competitive bidding was continued; and
- to avoid placing contracts with any companies already involved with the Canadian Patrol Frigate Project to eliminate the possibility of overburdening that could result in Canadian Patrol Frigate project slippages.

9.98 The objective of Treasury Board regulations and Department of Supply and Services policies concerning competitive bidding is to secure the lowest price from qualified bidders. By not seeking competitive bids for the implementation contract, the project may have incurred additional costs that might offset the benefits achieved. However this could only be determined after careful consideration of the many complex factors involved.

Destroyer Life Extension (DELEX) Project

9.99 Background. The Destroyer Life Extension (DELEX) Project was designed to extend the operational life of Canada's 16 active steam-driven destroyers pending their replacement by new ships. All the ships have been repaired in critical areas and have had unsupportable equipment replaced or modified to provide continuing "safe-to-go-to-sea" capability. Ten ships have been furnished with updated equipment necessary to maintain approved combat and communication capabilities. The six oldest ships, which are to be replaced by the new Canadian Patrol Frigates, have received no additional work beyond the "safe-to-go-to-sea" package. No deliberate attempt has been made to

increase the capability of the fleet through DELEX.

9.100 In 1978, the Department approved the use of \$79.9 million from operations and maintenance funds for the "safe-to-go-to-sea" package. In 1980 Treasury Board approved the capital program for \$133.9 million. The project was to be completed by 1986, but the completion date has been set back to 1989-90 because of lack of operations and maintenance funding for refits in 1980-81 and delays in delivery of some equipment.

9.101 We reported in 1984 on the identification, planning and implementation stages of the life cycle. We had found that the identification and planning stages of the project met our audit criteria and that an analysis of available options had been made.

9.102 Observations. In 1984 we were concerned with an issue involving a non-military objective when an unproven radar was bought contrary to the recommendations of the Department's technical experts and against a departmental directive to buy "off-the-shelf" equipment. The radar was ordered from a Canadian company largely to support industrial development and Canadian sourcing objectives. In 1984 we reported that the Department was then estimating that the delivery of proven, militarized radars would be three years late. In response to Public Accounts Committee questions in March 1985, the Department responded that the problem was well in hand and that the radars would be less than three years late. But reliability problems have persisted, and the most recent estimate by the Department is that fully approved radars could be five years late. This creates a significant limitation in the capability of those ships involved during a substantial part of their life extension.

9.103 We noted that a new gun fire control system was failing to provide suitable stabilization data in rough seas. At first the supplier claimed that the problem would be eliminated by modifying system software, and the Department considered that correction of the problem was imminent. However, the stability problem has persisted and the supplier has concluded that its correction now requires installing a new reference sensor so that the contractor can match his system to existing shipboard equipment.

9.104 At the time of contract negotiations, DND dropped an option for a sea-going demonstration of the gun fire control system from the requirements in an attempt to save \$400,000 (U.S.). It amended the Technical Statement of Requirements to accept carrying out trials of the equipment on board ships alongside dock rather than at sea. The performance was satisfactory alongside dock but not at sea.

9.105 The supplier has sought additional payment for his work in fixing the problem, and the Department has agreed to pay \$800,000 (U.S.) as one-half of the claim. Acceptance of performance is now predicated on trials at sea.

9.106 In the interim, the shortcoming in the new fire control system has reduced the combat capability of the same ships that are affected by the radar problem.

New Fighter Aircraft (CF-18)

9.107 Background. In April 1980, Cabinet selected the CF-18 as Canada's new fighter aircraft to replace the fleet of CF-101 and CF-104 aircraft and those CF-5 aircraft committed to NATO. A budget-year ceiling of \$5.19 billion was approved for the procurement of 138 aircraft and associated logistic support including spares, maintenance and training equipment.

9.108 In 1984, we reported on the needs identification, planning, and the early stages of the acquisition of the CF-18 aircraft.

9.109 Since 1984, the Department has been heavily involved in introducing the aircraft to its bases in Cold Lake, Bagotville, and Baden. Activities have focused on taking delivery of new aircraft, training pilots and servicing staff, establishing second line support capability, and contracting for third-line maintenance support.

9.110 A contract was awarded to a consortium of Canadian companies in October 1986 to establish in Canada a system engineering support capability and airframe repair and overhaul services for the CF-18. Cabinet gave approval of expenditures up to \$104 million. This is based on estimates of the activities expected during the first four years of the contract.

9.111 Installation of a weapons software support facility is nearing completion at the Canadian Forces Base at Cold Lake, Alberta. This is the first of two software support facilities identified by the Department as being essential to supporting the CF-18 weapon system. The Department has estimated the cost of each facility to be approximately \$45 million.

9.112 A design defect that resulted in cracks in the area of the vertical tail assemblies of the aircraft became evident in 1984. The manufacturer subsequently arranged for the repair and modification of all aircraft in the field. During that period, the Project Management Office refused to accept delivery of new aircraft until the necessary modifications were completed at the factory.

9.113 In response to a directive from Treasury Board, the Project Management Office prepared a revised Project Brief to define more clearly those items that were being procured within the main project. Treasury Board approved the revised Project Brief in February 1985.

9.114 Delivery of the last aircraft is scheduled for September 1988. The Department estimates that the project will be completed within the approved budget.

9.115 Observations. The CF-18 Prime Mission Vehicle contract requires payments to be made within 30 days after accomplishment of certain events and the receipt of the contractor's invoices and supporting documents. Payments to the contractor may be made at a bank in Ottawa designated by the contractor. This enables the Department to take full advantage of the 30-day payment period. However, our review indicated that some payments were made in advance of due dates. As a result, the Crown incurred an avoidable interest cost of approximately \$7 million, based on Treasury Board rates and formulae. The Department told us that, in fact, this frequently occurred in projects of this type because of a government policy to expedite payments. In August 1985, the government introduced a different policy of Payment on Due Date, and since then payments have been made on the due dates.

9.116 The Prime Mission Vehicle contract provides for milestone payments to be made against approved invoices for 120 per cent of target costs for work scheduled to be completed at the time of payment. The contract also provides that these payments may be reduced if the payments to-date will exceed the sum of actual costs and allowable profit. We found that payments exceeded actual costs and profits between April 1980 and August 1984 without any reductions being made in milestone payments. As a result, the Crown incurred further interest costs of approximately \$4 million during this period. Since August 1984, contractor reported costs and profits have consistently exceeded DND payment amounts.

9.117 In 1984 we also reported on the audit provisions of the aircraft contract, and we expressed concern about the adequacy of the direction that the Department of Supply and Services had provided to the United States Defense Contract Audit Agency (DCAA) to verify the validity of costs recorded by the contractor. We have since found that significant improvements have taken place in the audit

coverage provided for the aircraft contract and in the information reported by DCAA to DSS.

9.118 We reviewed the planning documents for acquisition of software support. The requirement for a software support facility was identified in the 1979 CF-18 Project Brief. When funding for this project was approved, the design and cost for a software support facility was not defined because sufficient information was not available. Since then, a requirement for a second software support facility has been developed. The set-up of each facility is estimated to cost in excess of \$45 million. The weapon system software support facility is funded through the CF-18 project budget, but the electronic warfare software support facility was designated for funding from the departmental operations and maintenance budget. Projects of this type are capital in nature and proper, consistent treatment would require both facilities to be funded from the CF-18 capital budget. Following a departmental review, it was decided to fund the second facility from the departmental capital budget. We are concerned that projects of this nature are being funded from funds outside the CF-18 project and that the cost of the CF-18 project is therefore being understated.

9.119 We reviewed the contracting process for awarding the implementation contract for the weapon system software support facility. We found that the management practices employed were satisfactory.

9.120 In December 1983, Treasury Board directed that the 1979 CF-18 Project Brief be updated because the Ministers had expressed concerns about the visibility and accountability for the total cost of acquiring the entire CF-18 weapons system and about the clarity of the baseline against which the performance and costs of the CF-18 project are to be measured. In our 1984 Report we also expressed concerns that the 1979 Project Brief did not specifically and clearly define the requirements to be purchased from the project budget and those to be purchased from operations and maintenance. In February 1985, the Public Accounts Committee also expressed concern over this.

9.121 In February 1985, a revised CF-18 Project Brief was approved by Treasury Board. The revised Brief further clarified the items to be acquired both inside and outside the project budget. In our review of the revised Project Brief we noted that the project budget will procure spares to support the first three years of initial operations and follow-on purchases will be made from the operations and maintenance budget; the project budget will procure some aircraft maintenance support equipment for contracted maintenance for the first two years of operations when the manufacturer was providing contracted maintenance; technical data required for setting up and operating third level maintenance would be procured from the operations and maintenance budget; and the project budget would provide for certain stated major construction projects but would not include possible construction of additional quarters, or for modifications or facilities except for those located at the three main operating bases for the CF-18 aircraft.

9.122 In our 1984 Report we noted that the Department had identified a number of associated capital projects related to but not included in the CF-18 purchase. We also noted that these range from items considered indispensable to those classed as highly desirable for procurement if funding permits.

9.123 The explanation of the need for these projects, as stated in the revised CF-18 Project Brief approved in February 1985, confirmed our 1984 Report assessment of the priority of these projects. This Brief also identified that the costing data provided for most of these projects would be subject to amendment as the projects move through the departmental approval process. Our review of the acquisition status of these projects indicated a number of minor additions and deletions.

9.124 The Department has updated the costs of these associated capital projects, and has taken steps to identify those that should have been included in the original life-cycle costs. These essential related projects would have cost \$2.1 billion in 1984; largely because of inflation, we now estimate these

additional costs to be \$2.7 billion. To date, less than \$500 million has been approved by Treasury Board and another \$2.2 billion has departmental planning approval.

9.125 In 1980, the Department initiated a project valued at \$368 million to acquire advanced air-to-surface weapons. These weapons were needed to replace 30-year-old, time expired bombs that were no longer capable of fulfilling their role. The Department has updated the cost of this separate project at \$3.7 billion. The increase in cost is largely due to increased cost of weapons, and expansion of the project to include air-to-air and anti-radiation missiles.

9.126 In our review of the contracting process for the system engineering support capability we found that the technical and financial evaluations of the bid submissions were comprehensive. There were three consortia of companies participating in the final bid. The interdepartmental evaluation team rated one bid to be superior in meeting project requirements, and lower in cost than the second bid. The third bid was judged technically unacceptable. All three proposals satisfied the single socio-economic criterion stipulated in the Request for Proposal.

9.127 Consequently, the CF-18 Senior Review Board agreed with the recommendation that the contract be awarded to the leading consortium. This recommendation was then submitted to the Ministers of the Departments of National Defence, Supply and Services, and Regional Industrial Expansion. However, after their review, a submission was prepared by the Department of Supply and Services recommending that the contract be awarded to the group ranked second by the evaluators. Treasury Board gave its approval to this submission.

9.128 The President of the Treasury Board subsequently explained that the Government had made a very deliberate choice to favour the selected firm because it was felt that downstream technology transfer could be better done through the existing facilities of that firm which is a producer of aircraft as well as being in the maintenance business.

9.129 The terms and conditions of a Memorandum of Understanding signed by the aircraft manufacturer and the Departments of National Defence, Supply and Services and Regional Industrial Expansion cover the transfer of technology for use only on the CF-18 weapon system. Similarly, the Licence and Technical Assistance Agreement being negotiated between the manufacturer and the selected consortium is limited to the CF-18. Should this consortium wish to use the technology for other purposes, additional licensing agreements will have to be negotiated with the proprietors of the technology. The cost of these additional arrangements is not known.

Navigator Trainer and Transport Aircraft (Dash-8)

9.130 Background. This project was originally part of a larger project established in 1981 for replacing the several types of aircraft in the Department's fleet of medium multi-engined aircraft. It was to be implemented in the mid-1990s. That project also would permit redeploying, to their originally intended roles, four Hercules transport aircraft used for navigator training. No funds were to be provided in the Defence Services Program until 1991.

9.131 A separate project was established in 1984 to purchase Dash-8 aircraft to meet pressing needs of the aircraft industry for sales at that time.

9.132 The need for the aircraft can be clearly related to departmental roles and objectives. The type and level of service and the characteristics of the aircraft were reasonably well defined. But they were generally based on the premise of replacing an equivalent number of aircraft.

9.133 During 1982 and 1983, a number of meetings and informal reviews were held to consider the suitability of Canadian manufacturers' aircraft for various departmental roles. Early in 1984, an Interdepartmental Working Group on the Dash-8 program was established chaired by the Department of Regional Industrial Expansion. These initiatives resulted in a decision to purchase six Dash-8 aircraft that would permit the redeployment of the four Hercules used for navigator training and replace two Dash-7s used for light transport at Canadian Forces Europe.

9.134 Treasury Board project approval was obtained in August 1984 for a total expenditure of \$98 million including spares, maintenance support and training. The navigator trainer aircraft project also included the development of integrated airborne and ground navigator training stations.

9.135 A contract was negotiated and awarded to the manufacturer in August 1985 for six aircraft plus training and publications at a firm fixed price of \$77.5 million. The spares and maintenance were to be contracted separately when requirements were determined.

9.136 The contract provided for a down payment on execution of \$23.1 million representing approximately 30 per cent of the total value. The remainder of the payments were based on milestones related to the progress of the work. To accommodate the Department's funding requirements, two of the milestone payments were subject to the additional condition that they were not payable before 1 April 1986 and 1 April 1987.

9.137 Deliveries of the first two aircraft, originally scheduled for April and June 1986, were delayed for almost a year because of the complexity of producing aircraft to meet DND requirements and because of labour and production difficulties.

9.138 Observations. The normal review procedures in the Defence Program Management System for establishing departmental priorities were not followed. Under certain conditions the competitive bidding procedures normally required by the Government Contract Regulations can be waived. The conditions surrounding this acquisition were deemed to fall within these provisions. These aircraft were bought contrary to the Department's planned priorities for equipment acquisition.

9.139 The aircraft selected met the specified needs but the analysis of alternatives was limited to a confirmation that the Canadian product was suitable and that the socio-economic benefits outweighed any potential differences between Canadian and foreign built aircraft.

Challenger Aircraft

9.140 Background. This project was established to acquire 12 Challenger aircraft at an estimated total cost of \$211.2 million to meet three separate Department of National Defence requirements. Four of the aircraft were Challenger CL601s, for replacing executive airlift aircraft referred to as administrative flight services. Seven were Challenger CL600 aircraft for use as electronic warfare training aircraft, referred to as electronic support and training systems. One was the Challenger CL600 prototype for use as an avionics test bed aircraft.

9.141 The departmental requirement to replace administrative flight services aircraft was reasonably urgent, given a result of the government decision in November 1984 to consolidate the DND and Department of Transport executive airlift operations. The requirements for seven dedicated electronic warfare training aircraft and an avionics test bed aircraft were on a DND list of unaffordable projects. None of the projects had progressed through the normal review procedures in the Defence Program Management System to a point where funds had been allocated to them.

9.142 At the time, the manufacturer had four unsold Challenger CL601 aircraft nearing completion on its production line and eight used Challenger CL600 aircraft, including the Challenger prototype, in inventory. During this period, the government was in the process of divesting itself of the two Crown-owned aircraft manufacturers.

9.143 Early in 1985, the Department of Regional Industrial Expansion was proceeding with a Supplementary Estimate for \$140 million as an equity contribution to the manufacturer. About the same time, DND was proceeding with a Treasury Board submission for the purchase of four Challenger CL601 aircraft for the administrative flight service. A series of high-level interdepartmental meetings on the question of assistance to the manufacturer resulted in a decision by Cabinet on 28 February 1985 to purchase up to 12 Challenger aircraft.

9.144 The characteristics and numbers of the aircraft were subject to detailed analysis and were adequately defined. The selection of the aircraft was generally consistent with the requirements. But a major part of the analysis of alternatives was directed to assessing the suitability of the aircraft available from the Canadian manufacturer.

9.145 Treasury Board project approval was obtained on 8 March 1985 for a total cost of \$211.2 million. DND was to be provided with \$140 million for the project in Supplementary Estimates for 1984-85. The project was also exempted from the additional Treasury Board project management requirements for major Crown projects. A contract was negotiated and awarded to the supplier on 28 March 1985 for the purchase of the 12 aircraft at a firm fixed price of \$183.0 million.

9.146 A down payment of \$140 million was paid on the signing of the contract. An additional amount of \$7.7 million was payable as CL601 aircraft were delivered to the completion centre for finishing. The remainder of the contract was payable as the finished aircraft and other items were delivered to DND.

9.147 The large down payment was due to the advanced stage of completion of the aircraft and the need to ensure the funds were disbursed prior to 31 March 1985.

9.148 Deliveries of the administrative flight service aircraft, originally scheduled for January to March 1985, were delayed for periods from 7 to 10 months. The other aircraft were also delayed by similar periods. The Crown took legal action in May 1986 under the Breach of Contract provision to force the contractor to exercise better control over the contract.

9.149 An amount of \$480,000 was negotiated as a credit for the cost to the Department of the delays. The credit is to be used for purchasing additional spare parts, repair services or other services.

9.150 A decision was made in July 1985 to increase the level of spare support for the administrative flight service from a normal commercial operator dispatch reliability rate of 95 per cent to a "blue ribbon" level of 99 per cent. The total cost of the additional spares for the increased level of service was estimated at \$16 million, of which approximately \$8 million was to be charged to the Challenger acquisition project.

9.151 Observations. The decision to purchase the aircraft from the Canadian supplier precluded any opportunity to use competitive bidding procedures as required by the Government Contract Regulations.

9.152 An amount of \$27.2 million was improperly charged to 1984-85 expenditures when the cheque for \$140 million was issued at the signing of the contract on 28 March 1985. The amount should not

have been charged to the 1984-85 fiscal year since it was a holdback that was not due until the aircraft were delivered either to the completion centre or to the Department. This didn't happen until after 31 March 1985.

9.153 Most of the aircraft were bought contrary to the Department's planned priorities of equipment acquisition. Although eight aircraft can be linked to Department of National Defence broad roles and objectives, the decision to acquire them in February 1985 was made primarily to provide financial assistance to the manufacturer prior to 31 March 1985. As we reported in 1984, because DND does not have an approved force structure plan, it is not possible to assess the extent to which projects such as this satisfy clearly defined needs.

The Canadian Patrol Frigate (CPF)

9.154 Background. In December 1977, Cabinet authorized a \$63 million project definition study for Phase 1 of a ship replacement program. Phase 1 involved the acquisition of six ships. Our 1984 Report reviewed the Identification and planning phases of the life cycle of Phase 1. The focus of this audit was on the implementation stage of this project.

9.155 The objective of the Canadian Patrol Frigate project is to provide six fully supported frigates within the terms of the contract and on schedule, with delivery of the first ship in 1989 and the last ship in 1992. Treasury Board approval was received 25 July 1983, and the contract was signed on 29 July 1983. The total cost is to be within the approved ceiling of \$5.5 billion (budget-year dollars). This figure consists of about \$1.2 billion for the cost of government activities and \$4.3 billion for the contract work.

9.156 The project is in the hands of a Canadian prime contractor, with two major subcontractors responsible for integrating the combat systems and constructing and outfitting of three of the ships.

9.157 The contract provides for a number of incentives and penalties related to cost performance, scheduled deliveries, ship performance parameters and industrial benefit undertakings. The warranty provisions state that

- the ships are to be free from all defects in design and workmanship for one year after delivery and acceptance;
- the leadship will be free from all faults or defects in design for a period of two years after the delivery and acceptance of the leadship;
- the leadship will perform in accordance with all performance requirements contained in the specifications for two years after delivery and acceptance of the leadship; and
- the five other ships will perform in accordance with all performance requirements for one year after delivery and acceptance of the last ship.

9.158 The first ship, the Halifax, is under construction. Fabrication began in May 1986, and the first units such as the keel and the structure immediately above the keel have been completed and put in drydock. Float-up, which is the completion of the ship's hull structure and outfitting is due in January 1988 - with delivery of the Halifax to DND scheduled for October 1989.

9.159 Observations. We have a concern with the warranty as it now exists. The contractor is obligated to pay only 80 per cent of warranty claims that exceed the contract ceiling up to the warranty limits of

\$18 million for defects in material and workmanship and \$43 million for design. Once these warranty limits have been reached, the Crown must pay 100 per cent of all warranty costs. The potential risk to the Crown could be substantial. If the project is completed at the ceiling cost, the Crown will be liable for all warranty costs above \$61 million.

9.160 DND states that warranty provisions apply only after a comprehensive trials period, and provision was made within project contingency funds (about \$400 million) for unforeseen difficulties such as unexpected price rises and warranty expenditures. Also, the warranty with the prime contractor can be used as leverage to encourage the prime contractor to exercise warranty arrangements it has made with the various sub-contractors.

9.161 Our review of the project monitoring and control systems indicates that they are adequate. However, there are about 150 items in the software development process that are behind schedule in part because of a lack of clarity in the specification of software requirements. To get back on schedule, steps have been taken to clarify the requirements, and work is proceeding in parallel with this, where possible. Nevertheless, the area must be closely tracked to ensure that the schedule is met and costs are controlled. This process has taken approximately four months and is near completion. But this may further delay the Canadian Patrol Frigate Project with possible increases in costs. DND suggests that the delay in software development is due to start-up difficulties and an ambitious schedule, and that current projections are that the project will be completed on time and within the contract ceiling price.

9.162 We also have some concerns about milestone payments. The contract for the Patrol Frigate requires milestone payments "no later than April 15, 198X." A cheque for the second of these annual payments was issued 15 April 1985 and charged to the old year. The authority quoted for this action was a 27 July 1983 Treasury Board letter that contained permission to disburse advance payments ahead of schedule to facilitate the cash flow management needs of the Department. However, the charge to the old year is questionable because the payment was not disbursed until the new year. The Government's Payment at Year End directive allows an advance to be recorded as a charge to the old year only if it was due on or before 31 March. The term "no later than April 15" does not satisfy this requirement. This matter was reported as part of the Office's Year-end Payments Study in 1986.

9.163 A \$50 million partial payment of a \$74 million milestone payment, due no later than 15 April 1986, was paid 26 March 1986. If the Crown borrows money at the rate of 8 per cent, this early milestone payment would have cost the government about \$220,000. Proper cash flow management suggests that the advance should have been paid on 15 April 1986, or \$220,000 deducted from the \$50 million payment when the Department paid the money earlier than was necessary so as not to confer an interest benefit to the contractor and a loss to the Crown.

1 1/4 Ton Truck Project

9.164 Background. The purchase of 1 1/4 ton trucks is one component of a Military Operational and Support Trucks Project that deals with all logistic wheeled vehicles. It includes planning and implementing of the acquisition of replacement fleets.

9.165 Replacement of the 1 1/4 ton truck fleet had been planned for the early to mid 1980s, but funds were not available to satisfy all project requirements. So replacement of this fleet had to be postponed until the early 1990s. In the meantime, approval was given to a refurbishment project to extend the life of the 1 1/4 ton truck fleet until new replacements are provided.

9.166 The 1 1/4 ton truck fleet consists of 2,836 four-wheel drive commercial trucks that were acquired in 1976. They had an economic life expectancy of eight years. By 1982, significant corrosion

was evident, and an investigation made by independent consultants concluded that the main structure of the trucks was basically sound and that the life of the fleet could be extended to 1990 by patching over corroded areas and making some simple improvements for reinforcement and to protect against structural deterioration.

9.167 In 1983, a DND Senior Review Board decision approved the refurbishment project and the purchase of a life-time supply of spare parts that were being phased out of production by the manufacturer. The patching and product improvements were to be funded out of operation and maintenance funds with a budget of \$6.3 million. The purchase of spare parts was estimated at \$9.5 million and was to be made from capital budgeted for the original acquisition project in 1976. The implementation of the refurbishment was carried out in accordance with approved procedures.

9.168 The approach used to determine and report on the operational availability of the fleet is largely judgemental and varies from base to base. We were therefore unable to express an opinion on the integrity of the operational availability reporting system of the fleet because of the lack of consistent predetermined criteria for measuring availability.

9.169 Observations. Because of the effects of road salt, there was a noticeable disparity in the condition of trucks used in different parts of the country. Also, as shown in a departmental report prepared in 1983, there was a great difference in mileage accumulated from vehicle to vehicle; in fact, the difference varied from less than 600 miles to more than 80,000 miles. Both of these conditions indicated that the fleet had not been rotated in accordance with Canadian Forces' normal practice. The fleet was rotated in 1984-85, but DND has estimated that by not doing so previously on a regular basis, maintenance costs of \$6 million were incurred earlier than necessary. And some vehicles had to be disposed of because they were not economically repairable. This consequence has contributed to a shortfall of vehicles available for operational requirements.

1/4 Ton Iltis Truck Project

9.170 The 1/4 Ton Iltis truck project is the first in the major Crown project category to be audited by the Department's internal audit group. We carried out a number of tests to confirm compatibility with our audit approach and concluded that the work was appropriate and reliable.

9.171 Background. The purchase of 1/4 ton trucks is a component of the Military Operational and Support Trucks (MOST) Project which deals with the Canadian Forces' requirements for all logistic wheeled vehicles.

9.172 Iltis is the vehicle selected to replace the Jeep and Jeep-type 1/4 ton vehicles which had reached the end of their economic lives.

9.173 The Iltis is a European designed vehicle that has been used for several years by the West German army. It was chosen by the Canadian Forces over a selection of other vehicles because of design and socio-economic considerations and benefits.

9.174 Manufacturing rights were obtained by a Canadian company from the original equipment manufacturer with some design modifications made to suit the Canadian Forces' requirements. The basic vehicles have been produced in Canada and Canadian manufactured components have been substituted for foreign sourced items wherever possible.

9.175 Final Treasury Board approval was given in July 1985 for the acquisition of 2500 vehicles, special kitting and spare parts at a ceiling cost of \$115 million (budget-year dollars). The project is

scheduled to be completed by December 1987. Current departmental estimates show that total expenditures are expected to be \$110.2 million (budget-year dollars).

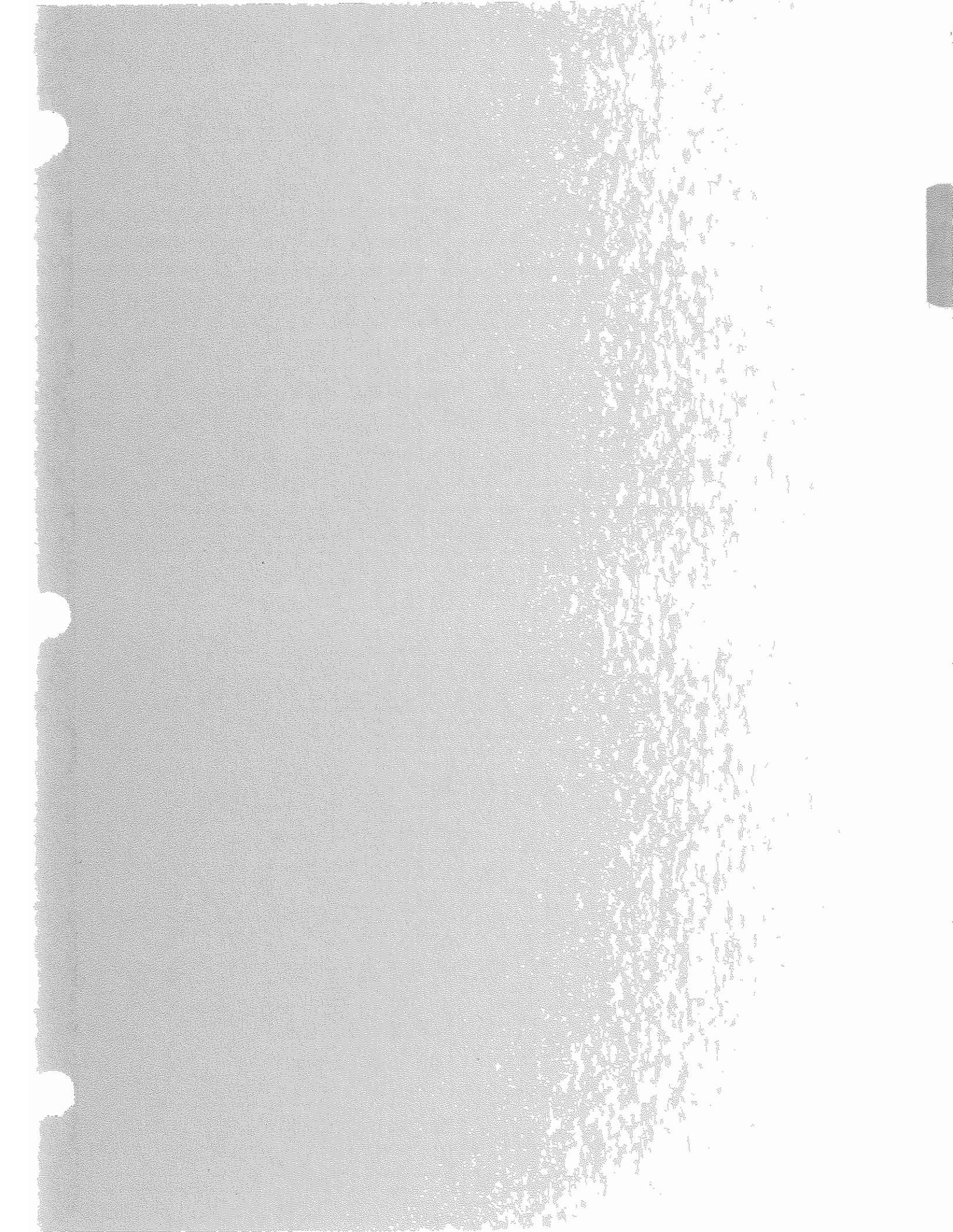
9.176 Observations. The contract terms for the Iltis vehicle have not adequately protected DND's interests. They have not provided a basis to negotiate recovery of additional foreign exchange costs attributable to late deliveries or to provide recompense for late delivery of spare parts. DSS officials advise that the prime contractor would not agree to provisions covering damages due to late delivery or exchange rate fluctuations in regard to the spare parts.

9.177 Some spare parts procured from off-shore sources have been delivered almost one year later than scheduled, despite the fact that the contract did not allow for price increases beyond those in force at the planned delivery date. In the meantime, the exchange rate for the foreign currency involved had increased steadily and the spares were paid for at the higher rate. The internal audit group has calculated that an additional cost of at least \$377,000 was incurred because of the increase in exchange rates between the scheduled and actual delivery dates.

9.178 Legal counsel concluded that there is no basis for obtaining any adjustment in price since the rate of exchange was not time-specific; that is, it was not tied to contract schedule dates.

9.179 Because of this and the absence of any penalties for late delivery of spare parts, there was reduced incentive for the supplier to meet schedule dates.

Date Issued: 1987-11-01



96-34-55

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Government of Canada

Gouvernement du Canada

MEMORANDUM

NOTE DE

TO
À

D.S. McPhail
c.c. J. Wilkins

FROM
DE

W. Potter

SUBJECT
OBJET

Results of July 6 Discussion on Thyssen

SECURITY CLASSIFICATION
SECRET C.C.I.
OUR FILE - N / RÉFÉRENCE
JMC-826
YOUR FILE - V / RÉFÉRENCE
DATE
July 6, 1988.

This morning's discussion on the proposed "statement of intent" (SOI) between Ministers and Thyssen was not encouraging.

Attendees were: ACOA - Potter, McDowell
DRIE - Mackay, Taylor
DND - Healey

ACOA Position

- Thyssen file has been ongoing for over a year;
- Thyssen anxious to conclude negotiations regarding:
 - a) its participation in the U.S. project; and
 - b) approval from their Board of Directors to proceed with a North American facility;
- SOI is nothing more than we would normally do;
- Senator Murray will be reporting to the Prime Minister on the status of the Bearhead project; and
- feel the SOI should be supported.

The general positions of both DND and DRIE were the following:

- not supportive of putting forward SOI as written to respective Ministers for signature, because SOI appears to imply a degree of contractual obligation;
- will respond formally to ACOA by the end of this week with particular concerns; and

W.P. 12/12/88

- 2 -

- . as a compromise -- and delaying factor -- suggest that Senator Murray exchange letters with each of Messrs. Beatty and de Cotret on respective undertakings -- letters which presumably could be shared with Thyssen.

The specific concerns raised were the following:

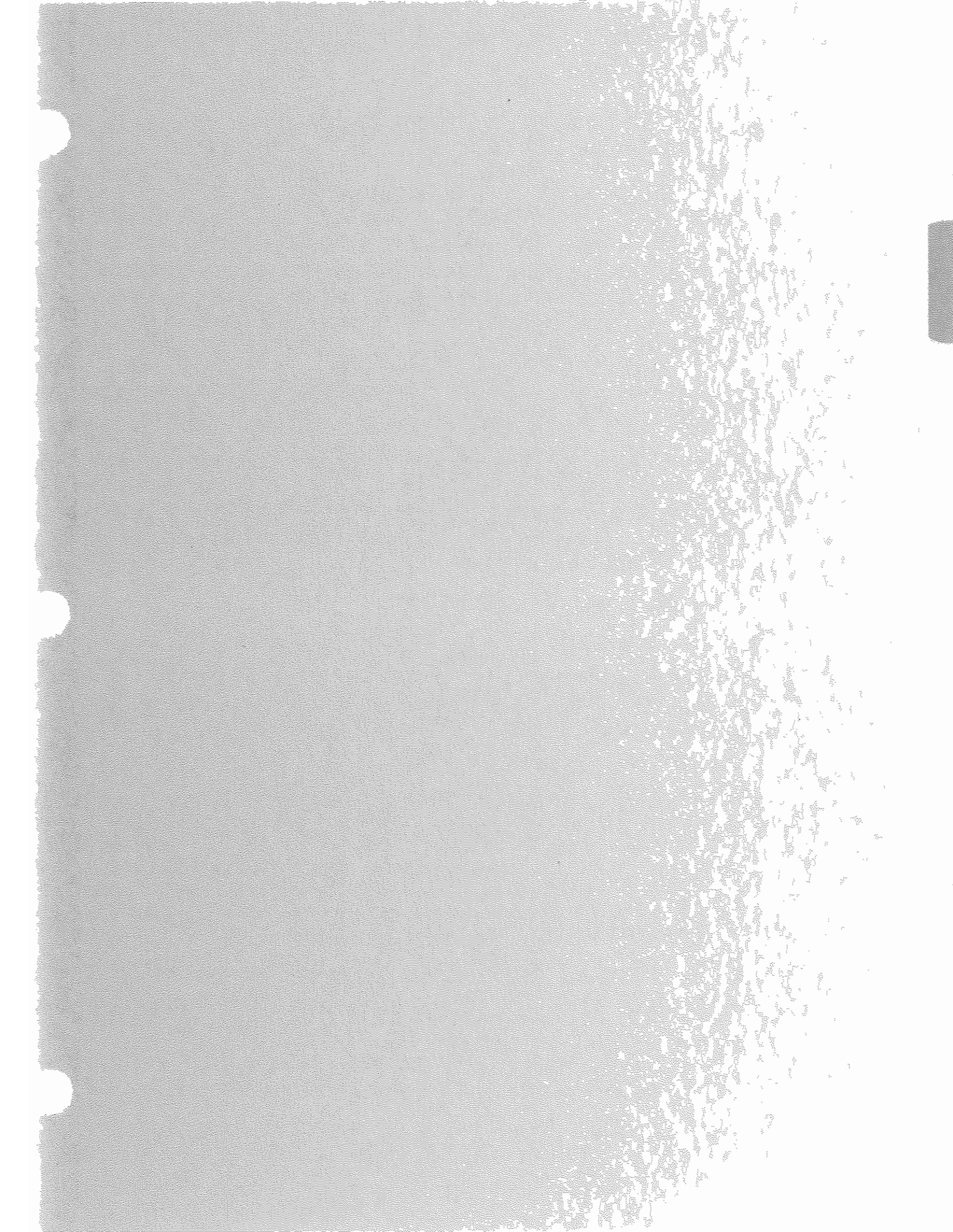
DRIE

- . worried about apparent lack of commitment by Thyssen to meaningful civilian diversification (worried about getting the Government "half-pregnant");
- . excess Canadian productive capacity in military vehicle sector -- speculated about possible closure of GM Diesel Division; and
- . cited historical controversy regarding Thyssen and "extremely-strongly-held views by Ministers" on this issue.

DND

- . entire DND capital acquisition program -- including LAV's -- is uncertain and mired in the Government's approval process;
- . see SOI approach as possibly requiring Cabinet approval due to need to seek views of other Ministers (Clark, Jelinek); and
- . Beatty extremely reluctant to "regionalize" additional major military issues in light of recent (TCCCS, NTV, NRMP) disappointments.


Wynne Potter





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DRAFT

MEMORANDUM

July 11, 1988

TO: The Honourable Lowell Murray
FROM: Don S. McPhail
SUBJECT: Attached letter to the Prime Minister
concerning Thyssen

Attached for your signature, if you agree, is a letter to the Prime Minister providing an assessment of the Thyssen proposal and stressing the significant economic benefits the Thyssen project would create in Cape Breton. Your letter also indicates the rationale for negotiating a "statement of intent" between the Government and Thyssen.

The letter points out that while the Thyssen facility would initially engage in defence-related production aimed at North American markets, the long-term intention of Thyssen and yourself is the establishment of a commercial, civilian-oriented manufacturing facility.

In concluding, the letter notes that if the Prime Minister shares your view that the Cape Breton heavy-industry facility be established, he may wish to speak to Messrs. Beatty and de Cotret to solicit their support.

Don S. McPhail

Attachment

Canada



Minister

Ministre

Ottawa, Canada K1A 0A4

SECRET

July 12, 1988

My dear Prime Minister,

Some time ago, you requested me to examine and further develop, as required, the proposal by Thyssen Industries A.G. to establish a heavy-industry manufacturing facility in Cape Breton. I am writing to provide you with my assessment, and to recommend a course of action for the Government to facilitate the realization of the Thyssen project.

I am fully satisfied that given the nature of the company's development approach to its world-wide operations, Thyssen's proposal for Cape Breton offers very considerable economic benefits, including substantial employment, and opportunities for technology transfer, to a particularly underdeveloped region of Canada. Under arrangements already tentatively in place, the Cape Breton plant would also pursue shared production and sourcing arrangements with Lavalin's revitalized Trenton facility, and be ideally-positioned to participate in the development of Hibernia. Moreover, the heavy-industry capability of the Thyssen plant would also dovetail exceedingly well with the production and sourcing requirements of Krauss Maffei's proposal to us for Canadian and West German coproduction of main battle tanks, and related components.

Although it continues to be clear that the initial basis for a decision by Thyssen to locate in Cape Breton is production aimed at North American defence markets, I accept the Company's assertion that the long-term intention of Thyssen is to establish a commercial, civilian-oriented, manufacturing plant. Thyssen believes, and we concur, that a facility of this nature would undoubtedly attract other manufacturing facilities to the Cape Breton region.

.../2

The Right Honourable Brian Mulroney, P.C., M.P.
Room 309-S, Centre Block
House of Commons
Ottawa, Ontario
K1A 0A3

Canada

This corporate requirement for a defence order as a basis for launching the Cape Breton plant, has been the stumbling block. Initially, Thyssen sought a commitment from the Government for a portion of our expected light armored vehicle purchase. We have consistently refused partly because such sole sourcing, even subject to certain conditions about price and quality, runs counter to policy; and partly because of the existence of other potential producers even in the Atlantic Region itself. Lately, Thyssen has become confident that the initial military order for the Cape Breton heavy-industry facility could be had in a contract to supply, on a sole-source basis, some 500 of the Thyssen "Fox" armoured vehicles to the U.S. armed forces. To meet this production, Thyssen is pursuing formal partnership arrangements with U.S.-based General Dynamics. It remains uncertain however.

I have directed Don McPhail to negotiate with Thyssen on the basis of a "statement of intent", which would set out the status of our progress to date. While of a non-binding character a written confirmation of our understandings so far would be quite helpful to Thyssen, not only to shore up its partnership negotiations with General Dynamics, but would also facilitate the authorization from Thyssen's own board of directors, to proceed in Cape Breton.

Such a statement of intent would be restricted to an affirmation of the Government's policy on economic development programming, and defence site-establishment assistance, for which Thyssen would normally be expected to be eligible. There would be no commitment, implied or otherwise, to source a military contract to Thyssen, on other than competitive grounds in complete accordance with our existing procurement policy. For its part, Thyssen would "undertake" to proceed with the plant subject to such assistance and once its formal submissions in the form of business plans are submitted - something it cannot do immediately.

Thyssen is counselling, and we concur, that to be most helpful, such a written statement be entered into, not only by myself, but also by Mr. de Cotret, in light of his responsibilities for defence industrial programming, and by Mr. Beatty.

Don McPhail and his staff have met on several occasions lately with senior representatives from each of DRIE and DND. These departments have not been supportive of the Thyssen proposal, nor the approach we have been pursuing, i.e. the statement of intent, which we have drafted. DRIE is concerned about existing capacity elsewhere (GM); and both argue the approach adds little to the existing situation, and the company should proceed to develop in Cape Breton without it.

.../3

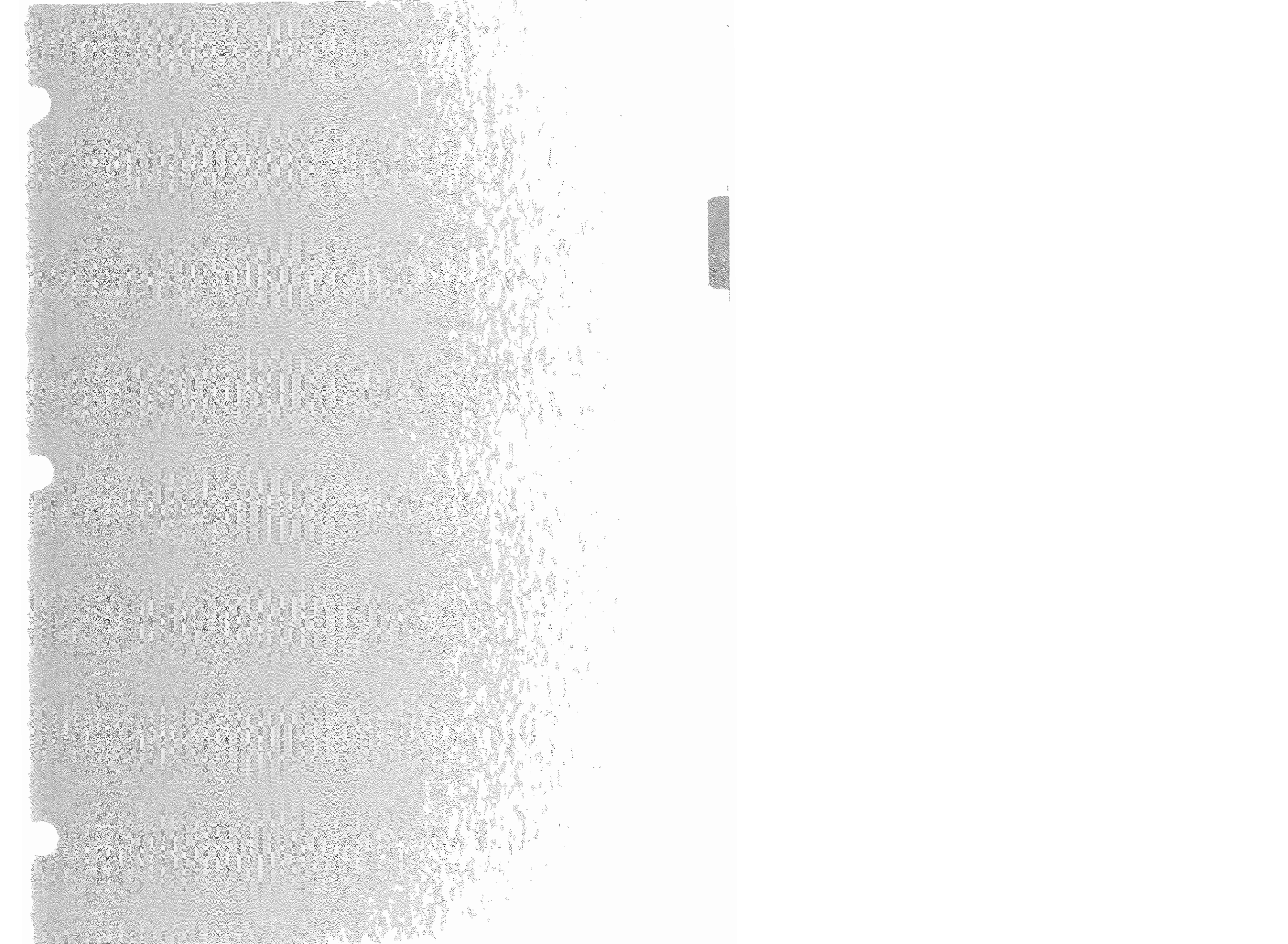
To conclude, I am confident that Thyssen's proposal would benefit Canada and Cape Breton. While the Cape Breton heavy-industry facility would engage initially in defence production, Thyssen plans to pursue diversification into civilian production as soon as practicable. Moreover, the proposed statement of intent is entirely in accordance with existing Government policy, and does not involve a commitment by the Government regarding upcoming defence projects. It is, of course, something that still has to be negotiated with the company, who will attempt to strengthen its terms. What I believe we must now have, however, is a kind of letter of intent - just as we had to have one, albeit somewhat more binding but in many respects incomplete, in order to move Lavalin to the point of taking over Trenton, and in other cases where some preliminary stimulus was needed.

If the Bearhead project is to be brought to fruition, you may wish to share your views with our colleagues, Mr. de Cotret and Mr. Beatty, in order to solicit their support for this approach.

Your sincerely,

Bowell Murray

Bowell Murray



National Defence

Défense nationale

SECRET

Assistant Deputy Minister
(Materials)

Sous-ministre adjoint
(Matériels)

National Defence Headquarters
Ottawa, Canada
K1A 0K2

Quartier général de la Défense nationale
Ottawa, Canada
K1A 0K2

14 July 1988

Mr. Wynne Potter
Vice President
ACOA Nova Scotia
Ottawa Office
P.O. Box 3442, Station D
Ottawa, Ontario
K1P 6N8

Dear Mr. Potter:

I refer to your letter of July 5, 1988, and the enclosed draft Statement of Intent. While I was able to state some initial thoughts at breakfast the following morning, I would like to elaborate slightly.

As a general comment, the Statement includes commitments and implied commitments which go well beyond what the Minister of National Defence would be able or willing to make. For example, the title uses the word "Intent" rather than "Commitment" which we had previously discussed. The Statement of Intent speaks of qualification and eligibility of Thyssen to participate in our proposed Light Armoured Vehicle (LAV) program with conditions which, as structured, imply an unspecified Thyssen product would be technically acceptable, direct the company to organize its business agents, and imply that prices may be determined by something other than competition. It is most important to recognize that the LAV program about which these intentions are stated has not been approved by government in its nature, size or timing. Mr. Beatty has spent considerable time and effort in gaining the support of his colleagues just to enter the preliminary stages - with no commitment to implementation - of a small number of well-developed projects, which are fully prepared for cabinet review and for which affordability can be clearly demonstrated. As LAV does not yet fit these criteria, I am quite certain that, even if we wanted to make commitments on LAV, Mr. Beatty would want to seek the agreement of other Ministers to such a course of action.

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Canada

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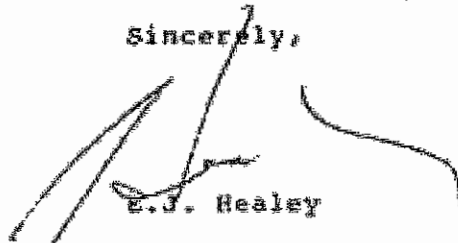
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- 2 -

It seems to me that the format and approach taken in the Statement should be changed substantially. As I suggested at our breakfast meeting, you may wish to draft a "Letter of Comfort" for Senator Murray's signature only. That letter could, from a DND point of view, provide comfort that if Thyssen were to establish a facility capable of producing products to meet DND requirements, they would be a welcome competitor.

I hope these comments will allow you to make revisions which will enable development of the proposal in a constructive and practical manner. I would be pleased to discuss any of these points further and to help in any other way I can.

Sincerely,

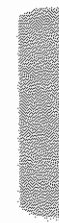
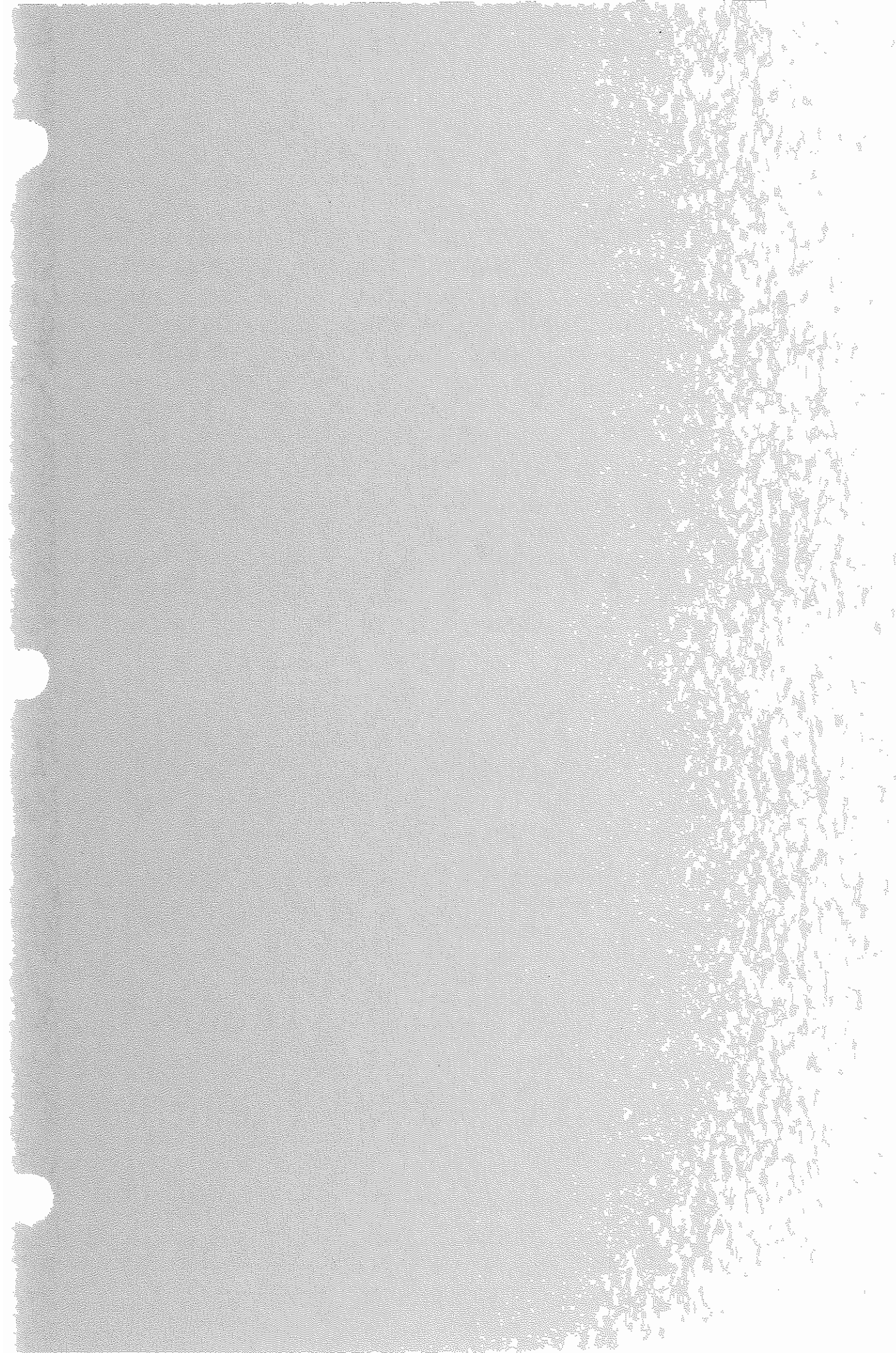


E.J. Healey

Enclosure: 1

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JULY 18, 1988

PROPOSED SCENARIO

PRIORITIES AND PLANNING MEETING OF
TUESDAY, JULY 19, 1988, 3:30 P.M., 323-S

ALL MINISTERS WILL BE PRESENT WITH THE EXCEPTION OF MR. WILSON (HOLIDAYS) AND MISS CARNEY (VANCOUVER). MR. CROSBIE MUST LEAVE AT 5 O'CLOCK TO CATCH A FLIGHT TO GENEVA. MR. MCKNIGHT HAS BEEN INVITED AT 4:00 FOR ITEM 3 (NORTHERN ACCORD); MR. WISE AT 5:00 FOR ITEM 6 (FCC); MR. MAYER AT 5:15 FOR ITEM 7 (WHEAT BOARD).

1. GENERAL DISCUSSION

A) JAMES BAY ROAD

(NOTE UNDER TAB 1A)

-- YOU ASKED MR. B. BOUCHARD TO LOOK INTO FEDERAL ASSISTANCE FOR A \$14M ROAD FROM LAC SAINT JEAN TO JAMES BAY.

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-- IF HE IS PREPARED TO ABSORB THE COSTS FROM HIS A-BASE, A FEDERAL CONTRIBUTION COULD BE FORTHCOMING VERY SHORTLY. HOWEVER, HE IS CONCERNED ABOUT THE PRECEDENT OF A FEDERAL CONTRIBUTION IN CONTEXT OF INCREASING NATIONAL PRESSURES FOR ROAD PROJECTS.

-- ISSUE IS HOW TO MANAGE THE QUEBEC EXPECTATIONS AS WELL AS THE NATIONAL PRESSURES FOR ROAD CONTRIBUTIONS.

-- ASK MR. B. BOUCHARD TO REPORT ON HIS PROPOSED STRATEGY, AND OTHER MINISTERS TO COMMENT.

B) ROYAL COMMISSION ON REPRODUCTIVE TECHNOLOGY
(NOTE UNDER TAB 1B)

-- ASK MR. EPP TO COMMENT ON POSSIBLE TERMS OF REFERENCE FOR ROYAL COMMISSION.

-- MINISTERS MAY WISH TO DISCUSS:

- SCOPE OF TERMS OF REFERENCE
- TIMING OF REPORT
- SIZE AND COMPOSITION OF COMMISSION

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- YOU MAY WISH TO HAVE SMALLER GROUP OF
MINISTERS DEVELOP THIS IDEA FURTHER -- E.G.
MINISTERS MAZANKOWSKI, EPP, McDougall, AND
HNATYSHYN.

c) CONFLICT OF INTEREST LEGISLATION
(NOTE UNDER TAB 1c)

-- ISSUE IS HOW FAR TO MOVE THE CONFLICT OF
INTEREST LEGISLATION (BILL C-114) TOWARDS
ADOPTION BEFORE THE END OF THE SESSION; AND
WHETHER TO APPOINT AN INTERIM GROUP OF CONFLICT
OF INTEREST COMMISSIONERS TO ADMINISTER THE
FUTURE LEGISLATION.

-- ASK MR. MAZANKOWSKI TO REPORT ON PROSPECTS FOR
MOVING BILL C-114 TO SECOND READING AND/OR
DEBATE STAGE OVER THE COMING WEEKS.

-- THE CREATION OF AN INTERIM BOARD OF
COMMISSIONERS WOULD REQUIRE NEGOTIATIONS WITH
HOUSE LEADERS, SINCE BILL C-114 GIVES
OPPOSITION LEADERS A SAY IN CHOICE OF CHAIRMAN
AND RIGHT OF APPROVAL OVER ONE OF THE
COMMISSIONERS.

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- PRIME MINISTER COULD UNDERTAKE TO TAKE OPENING STEP BY DISCUSSING WITH OPPOSITION LEADERS, AND ASKING MR. MAZANKOWSKI TO PURSUE DETAILED NEGOTIATIONS.

D) APPOINTMENTS

(LIST ATTACHED TO ANNOTATED AGENDA)

- PRIME MINISTER TO PROPOSE.
- LIST WILL HAVE BEEN DISTRIBUTED AT BEGINNING OF MEETING.

2. HOUSE BUSINESS

- ASK MR. MAZANKOWSKI TO:
 - OUTLINE LEGISLATIVE PRIORITIES AND STRATEGY TO THE END OF THE SESSION;
 - REPORT ON STRATEGY FOR ABORILON;
 - GIVE STATUS REPORT ON IMMIGRATION BILLS.

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3. NORTHERN ACCORD
(NOTE UNDER TAB 3)

- NORTHERN ACCORD HAS BEEN DISCUSSED EXTENSIVELY SINCE FEBRUARY (IN CCSD, VARIOUS MINISTERS' GROUPS AND OPERATIONS) WITHOUT RECONCILIATION OF MR. MCKNIGHT'S AND MR. MASSE'S DIFFERING VIEWS ON DEGREE OF OIL AND GAS MANAGEMENT RESPONSIBILITY TO BE TRANSFERRED TO TERRITORIAL GOVERNMENTS.
- MR. MCKNIGHT PROPOSES PROVINCE-LIKE ROLE IN MANAGEMENT OF ONSHORE (LIKE ALBERTA), AND SHARED MANAGEMENT OF OFFSHORE BASED ON EQUALITY OF GOVERNMENTS (LIKE NEWFOUNDLAND). THIS PROPOSAL HAS BEEN DISCUSSED WITH TERRITORIES, AND IS STRONGLY SUPPORTED BY GNWT.
- MR. MASSE HAS PROPOSED DIFFERENT APPROACH OF SHARED MANAGEMENT OF BOTH ONSHORE AND OFFSHORE ON BASIS OF CONSENSUS BUT WITH ULTIMATE DECISIONS IN NATIONAL INTEREST RESTING WITH FEDERAL GOVERNMENT.
- ASK MR. MCKNIGHT TO BRIEFLY OUTLINE PROPOSAL, AND MR. MASSE TO SPEAK TO HIS ALTERNATIVE.

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- GIVEN EXTENSIVE CONSULTATIONS WITH GNWT, ANYTHING LESS THAN MR. MCKNIGHT'S PROPOSAL MAY NOT BE WELL RECEIVED IN THE NORTH.

- KEY ISSUE FOR DISCUSSION IS WHETHER MINISTERS ARE PREPARED TO GO AS FAR IN TRANSFERRING POWERS TO TERRITORIAL GOVERNMENTS AS MR. MCKNIGHT PROPOSES. IF NOT, GIVEN MR. MCKNIGHT'S EXPOSURE ON ISSUE, CONSIDERATION SHOULD BE GIVEN TO DEFERRING ITEM TO NEXT MANDATE.

4. THE REGULATION OF ELECTRICITY TRADE
(NOTE UNDER TAB 4)

- MR. MASSE IS PROPOSING TO AMEND THE NEB ACT TO PROVIDE FOR NEB APPROVAL OF ALL ELECTRICITY EXPORTS AND INTERNATIONAL TRANSMISSION LINES BY ORDER, EXCEPT IN CASES DESIGNATED BY THE GOVERNOR-IN-COUNCIL.

- LEGISLATIVE DRAFTING WILL NOT BE FINALIZED UNTIL THE END OF THE MONTH. HOWEVER, THIS DOES NOT PREVENT A P&P DISCUSSION OF THE POLICY ISSUES, SHOULD MINISTERS DESIRE.

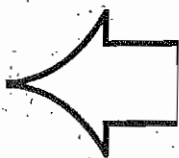
- MINISTERS COULD REVIEW:

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- WHETHER THEY SUPPORT MR. MASSE'S POLICY, BEARING IN MIND POTENTIAL OBJECTIONS FROM NEWFOUNDLAND AND PEI;
- WHETHER AN EARLY ANNOUNCEMENT IS DESIRABLE, RECOGNIZING THE APPARENT STRONG SUPPORT FOR THE POLICY IN QUEBEC.
- MINISTERS SHOULD ALSO DISCUSS IF THERE ARE POTENTIAL NEGATIVE REPERCUSSIONS ON THE FTA APPROVAL PROCESS IN THE U.S.
- ASK MR. MASSE TO OUTLINE THE PROPOSAL AND MR. CROSBIE TO COMMENT.

5. DEFENCE PROCUREMENT
(NOTES UNDER TAB 5)

- ASK MR. BEATTY TO OUTLINE PROPOSALS FOR APPROVAL-IN-PRINCIPLE AND PROJECT DEFINITION FOR:
 - ° TACTICAL, COMMAND, CONTROL AND COMMUNICATION SYSTEM (TCCCS)
 - PROJECT DEFINITION COST: \$82 MILLION
 - EVENTUAL IMPLEMENTATION COST: \$3.7 BILLION
 - A SUBSTANTIAL PORTION OF THE PROJECT TO BE DONE IN WESTERN CANADA



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- ° NORTHERN TERRAIN VEHICLE (NTV)
 - PROJECT DEFINITION COST: \$45.9 MILLION
 - EVENTUAL IMPLEMENTATION COST: \$421.6 MILLION
 - SOLE-SOURCED TO FOREMOST OF CALGARY WHICH HAS FORMED A JOINT VENTURE WITH HAGGLUNDS OF SWEDEN

- ° NAVAL RESERVE MINE COUNTER-MEASURES PROJECT
 - PROJECT DEFINITION COST: \$11 MILLION
 - EVENTUAL IMPLEMENTATION COST: \$756 MILLION
 - TO BE SOURCED BY COMPETITION AMONG CANADIAN PRIME CONTRACTORS

- MR. WILSON HAS CONFIRMED, IN A LETTER TO MR. BEATTY, THAT THESE PROJECTS ARE AFFORDABLE.

- ASK SENATOR MURRAY AND MR. DE COTREI TO COMMENT ON PROCUREMENT STRATEGY FOR TCCCS.

- SHOULD SENATOR MURRAY RAISE CONCERNS, PRIME MINISTER COULD SUGGEST THAT P&P APPROVAL SPECIFY NOT ONLY THAT "A SUBSTANTIAL PORTION OF THE ACTIVITY WILL OCCUR IN WESTERN CANADA" BUT ALSO THAT "SUBCONTRACTING IN ALL REGIONS WILL BE ACTIVELY PURSUED".

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-- SENATOR MURRAY MAY PROPOSE PROCEEDING WITH THYSSEN PROJECT AS QUID PRO QUO FOR WESTERN PROCUREMENT ASPECT OF TCCCS.

-- PRIME MINISTER COULD SUGGEST THAT THYSSEN PROPOSAL BE FURTHER DEVELOPED, BUT NOTE THAT THIS NEED NOT DELAY APPROVAL OF TCCCS.

6. RECOVERY PLAN FOR THE FARM CREDIT CORPORATION
(NOTE UNDER TAB 6)

-- MINISTERS MAZANKOWSKI, WILSON AND WISE ARE PROPOSING A FOUR-YEAR RECOVERY PLAN TO DEAL WITH FCC'S FINANCIAL RESTRUCTURING (DEBT CONVERSION TO EQUITY, NEW GUIDELINES ON INTEREST RATE SETTING).

-- FIRST YEAR WOULD SEE \$400M OF DEBT CONVERTED TO EQUITY. THERE IS NO AGREEMENT YET ON SUBSEQUENT AMOUNTS.

-- PLAN, IF APPROVED, IS TO BE ANNOUNCED THIS WEEK, AT THE SAME TIME AS TABLING OF FCC ANNUAL REPORT SHOWING LARGE LOSSES (\$500M).

-- ASK MR. MAZANKOWSKI TO PRESENT DEAL REACHED WITH MINISTERS WILSON AND WISE. MR. WISE MAY WISH TO COMMENT.

2024-2025

7. INCREASED INITIAL PAYMENTS FOR CANADIAN WHEAT BOARD GRAINS

(NOTE UNDER TAB 7)

-- MR. MAYER IS SEEKING APPROVAL FOR INCREASES TO THE 1988-89 INITIAL PAYMENTS TO GRAIN PRODUCERS FOR THE BASE GRADES DELIVERED TO THE CANADIAN WHEAT BOARD (CWB) TO REFLECT SHARP INCREASES IN WORLD MARKET PRICES.

-- THE PROPOSAL WOULD REVISE AN EARLIER CABINET DECISION OF APRIL 1988; THE NEW RATES PROPOSED WOULD BE IN LINE WITH THE SUGGESTIONS OF THE CWB AND HAVE THE SUPPORT OF FINANCE AND TBS OFFICIALS. THEY SHOULD NOT BE CONTENTIOUS.

-- ASK MR. MAYER TO PRESENT THE PROPOSED RATES AND TO COMMENT ON IMPACTS ON GRAIN FARMERS.

8. ANNEX

-- SHOULD SUBSTANTIVE DISCUSSION ARISE, RATHER THAN TRYING TO RESOLVE DETAILS AT P&P, REFER BACK TO POLICY COMMITTEE.

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A.1 AGREEMENTS ON OFFICIAL
LANGUAGES IN SASKATCHEWAN

-- A1 AND A2 ARE HOUSEKEEPING ITEMS WRAPPING UP
DECISIONS ALREADY TAKEN AT P&P. DRAFT RDs
ARE AVAILABLE FOR CIRCULATION IF NECESSARY.

-- CONFIRMATION OF INCREMENTAL FUNDING OF
\$86.15 MILLION OVER TEN YEARS FOR LANGUAGE
AGREEMENTS REACHED WITH SASKATCHEWAN, TO BE
PROVIDED FROM FUNDS SET ASIDE FOR POLICY
RESERVE REPLENISHMENT IN FEBRUARY 1988
BUDGET.

A.2 JOINT AGREEMENT WITH
SASKATCHEWAN ON THE SASKATCHEWAN
COMMUNICATIONS ADVANCE NETWORK

-- FEDERAL CONTRIBUTION OF \$18 MILLION OVER FIVE
YEARS, (INCLUDING \$10 MILLION FROM POLICY
RESERVE -- OFFSET BY \$10M REDUCTION IN
SECRETARY OF STATE BUDGET -- AND \$8M FROM
DRIE A-BASE) FOR SASKATCHEWAN COMMUNICATIONS
ADVANCED NETWORK (SCAN).

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A.3 A REVIEW OF THE CANADIAN
JOBS STRATEGY

- GOVERNMENT RESPONSE TO STANDING COMMITTEE
REPORT ON THE CANADIAN JOBS STRATEGY IS
POSITIVE ON THIRTY-FIVE OF FORTY-NINE
RECOMMENDATIONS, WITHOUT AGREEING TO EXPAND
THE PROGRAMS OR INCREASE THE CJS BUDGET;
RESPONSE EXPLAINS THAT CJS MONIES ARE
TARGETTED TO THOSE MOST IN NEED.

A.4 SUBSTANCE ABUSE AND THE
WORKPLACE

- APPROVE POLICY STATING THAT MANDATORY DRUG
TESTING IN THE WORKPLACE IS NOT WARRANTED
OTHER THAN IN EXCEPTIONAL CIRCUMSTANCES
INVOLVING PUBLIC SAFETY. MR. EPP AND
MISS CARNEY TO REPORT BACK IN SPRING 1989 ON
STRENGTHENING EMPLOYEE ASSISTANCE PROGRAMS
FOR GOVERNMENT EMPLOYEES AND ON CONSULTATIONS
REGARDING POSSIBLE REQUIREMENT FOR MAJOR
EMPLOYERS IN FEDERAL JURISDICTION TO PROVIDE
SUCH PROGRAMS.

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A.5 AMENDMENTS TO THE NORTHERN
INLAND WATERS ACT

-- DRAFTING AUTHORITY FOR AMENDMENTS DEALING WITH QUESTIONS OF LEGAL CERTAINTY, EXECUTIVE AUTHORITY, PROTECTION OF USERS, AND INSPECTION AND ENFORCEMENT; MR. MCKNIGHT TO UNDERTAKE FURTHER AND FINAL CONSULTATIONS WHILE BILL IS BEING DRAFTED.

A.6 RESPONSE TO THE FIFTH REPORT OF THE STANDING COMMITTEE ON TRANSPORT-DRUG AND ALCOHOL ABUSE IN TRANSPORTATION

-- RESPONSE OUTLINES STEPS ALREADY UNDERWAY TO ADDRESS THE ISSUE OF SUBSTANCE ABUSE IN THE RAIL INDUSTRY, AND IS CONSISTENT WITH MR. EPP'S POSITION ON SUBSTANCE TESTING (ITEM A.4).

A.7 AMENDMENTS TO THE INDIAN ACT:
DATE OF PARENTAL DEATH

-- DRAFTING AUTHORITY FOR AMENDMENTS TO INDIAN ACT TO CORRECT A TECHNICAL ERROR IN THE 1985 AMENDMENTS WHICH UNINTENTIONALLY DEPRIVED CERTAIN INDIVIDUALS OF THEIR RIGHT TO BE REINSTATED AS STATUS INDIANS.

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A.8 PROPOSED IRDP ASSISTANCE FOR
GLAVERBEL FLAT GLASS PLANT

-- MINISTER OF REGIONAL INDUSTRIAL EXPANSION TO
INFORM GLAVERBEL OF HIS DECISION TO PROVIDE
IRDP SUPPORT.

A.9 MTN AGRICULTURE:
CAIRNS GROUP PROPOSAL

-- REJECTION OF CAIRNS GROUP PROPOSAL MAKING
DIRECT REFERENCES TO CERTAIN MINIMUM
ADJUSTMENTS IN ADMINISTERED PRICES AND IMPORT
ACCESS FOR EACH MAJOR COMMODITY GROUP,
INCLUDING DAIRY (A SUBSEQUENT CAIRNS GROUP
PROPOSAL IS ACCEPTABLE TO CANADA).

A.10 REVISIONS OF THE
COPYRIGHT LAW

-- REVISION OF DEFINITION IN COPYRIGHT LAW OF A
"LOCAL SIGNAL" AS IT PERTAINS TO CABLE
RETRANSMISSION RIGHTS TO BE CONSISTENT WITH
FTA.

-- APPROVAL REQUIRED BEFORE ASSOCIATED FTA
REGULATIONS GO TO COMMITTEE IN MID-JULY.

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A.11 ENHANCED FEDERAL WATER
RESOURCE LEGISLATION
INCLUDING EXPORT PROVISIONS

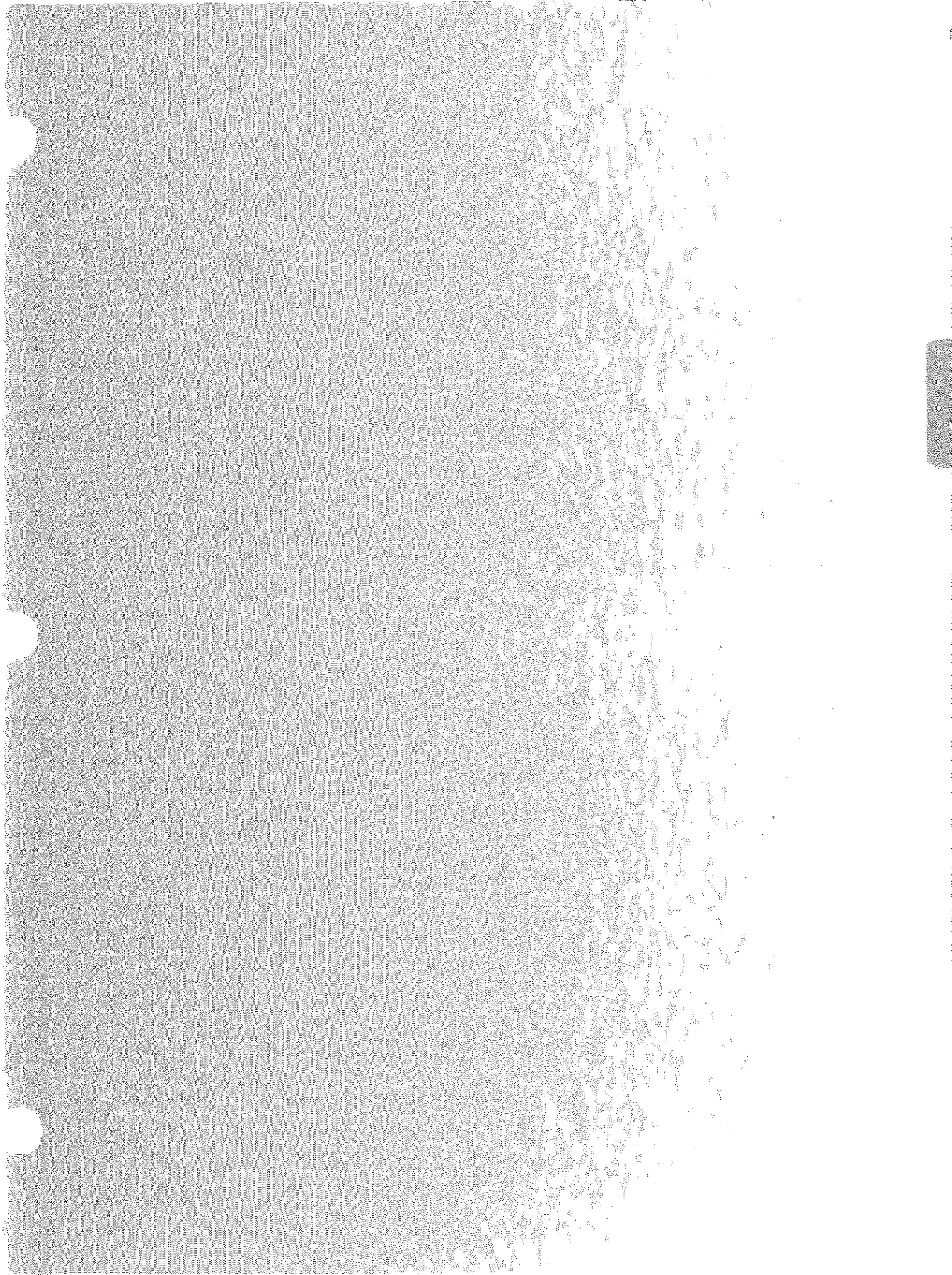
- LEGISLATION PROHIBITING ALL LARGE SCALE EXPORTS OF WATER TO BE DRAFTED ON A PRIORITY BASIS AND INTRODUCED AT AN APPROPRIATE TIME, TO BE DETERMINED BY MESSRS. MAZANKOWSKI, CROSBIE AND McMILLAN.

A.12 LEGISLATIVE AMENDMENTS RELATING
TO THE CANADA/UNITED STATES
FREE TRADE AGREEMENT

- AMENDMENTS TO BILL C-130 SPECIFICALLY TO EXPLAIN THAT WATER EXPORTS ARE EXCLUDED AND TO INTRODUCE A SERIES OF MINOR TECHNICAL CHANGES; MESSRS. CROSBIE AND MAZANKOWSKI TO DECIDE ON APPROPRIATENESS AND TIMING OF DELETING THE OVERRIDE CLAUSE; MESSRS. CROSBIE, WILSON AND MAZANKOWSKI TO DECIDE ON APPROPRIATENESS AND TIMING OF ENACTING A BAUCUS-DANFORTH TYPE PROCEDURE IN CANADA.


ROB WRIGHT

2724-2 Vol 100



SECRET

Robert Todd EST 942-7167
Doc. No. -NONE-
19 July 1988
FOR: P & P 19 July 1988

THYSSEN PROPOSAL FOR BEAR ISLAND, CAPE BRETON

Issue

A two year old proposal for the construction by Thyssen AG of a heavy engineering facility at Bear Head, Cape Breton, Nova Scotia is being revived as a high priority by Senator Murray, who is seeking funding for it under the Atlantic Canada Opportunities Agency. The principal product of this facility would be the Thyssen Henschel Light Armoured Vehicle (LAV).

In October 1986, the then FRG Defence Minister, Mr. Woerner, wrote to Mr Beatty and Miss Carney about Canada FRG Defence Cooperation mentioning specifically the desire of German industry to establish a tracked armoured vehicle production facility in Cape Breton to meet Canadian and eventually US needs. In their responses (attached), Mr Beatty noted that "our selection process must be highly competitive", while Miss Carney stated that "the German vehicles would be given every consideration in the source qualification stage". While we are not aware of any further correspondence on this subject, we understand that the subject was raised by Mr Genscher with Mr Beatty at the Toronto Summit. Mr Beatty's response was guardedly optimistic, indicating that things were going well and that the Thyssen proposal was making its way forward for Cabinet consideration. It would appear that these remarks were published in the FRG press, although we have not seen them yet.

DND officials have said they are not comfortable with the Thyssen proposal. They would be prepared, if required, to invite Thyssen to bid on future requirements for LAV's. DRIS officials have told that they are also unhappy with a proposal which suggests the creation of a fourth centre for the manufacture or assembly of military vehicles in Canada, when we do not at present and in the foreseeable future have sufficient demand to keep the existing three (GMDD, Bombardier, UTDC) in operation. Further, the proposal, such as they have seen it, is too vague and lacking in details on export possibilities.

Recommendation

That you advise P & P of your opposition to his proposal as it is incomplete and inadequately explained, and represents a manner of proceeding which is not in keeping with Canadian practice. Further, the proposal cannot be seen to be viable without an export component, because Thyssen's views of market possibilities in North America are not realistic. If the Government does not accept the company's condition that it purchase 250 LAV's in 1991/92, then to be viable it must export its product. This would almost immediately bring it in conflict with the Government's policy on the export of military goods. This then brings the issue back to the unresolved discussion of February 1986, when Thyssen sought a five year export permit.

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alking Points

- There are many as yet unanswered questions about the viability of the Thyssen project. None of these questions has yet been satisfactorily resolved despite the passage of two years since the original proposal was studied by Cabinet in February 1986.
- The focus of the company's attention has apparently moved from a purely export oriented market to a purely North American market. While such would obviate the necessity of export controls, this is not certain, because incomplete information from Thyssen and as yet unformulated requirements from both our Armed Forces and those in the USA do not permit us to decide whether in fact Thyssen's proposal is commercially viable in the absence of exports outside North America.
- The company's demand for a Letter of Intent from the Government to procure 250 Canadian assembled vehicles in 1991/92 as a major condition of their investment in Canada can be seen as a statement of their own doubts as to the commercial standing of their proposal.
- Such a manner of proceeding is out of keeping with Canadian practice, but in line with the unacceptable condition which Thyssen had put forward in their original 1986 proposal, that they be given an iron clad export permit good for five years to export LAV's to a number of sensitive destinations in the Middle East and South Asia. This situation then is no different from the unacceptable situation which Cabinet reviewed in February and March 1986

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Background

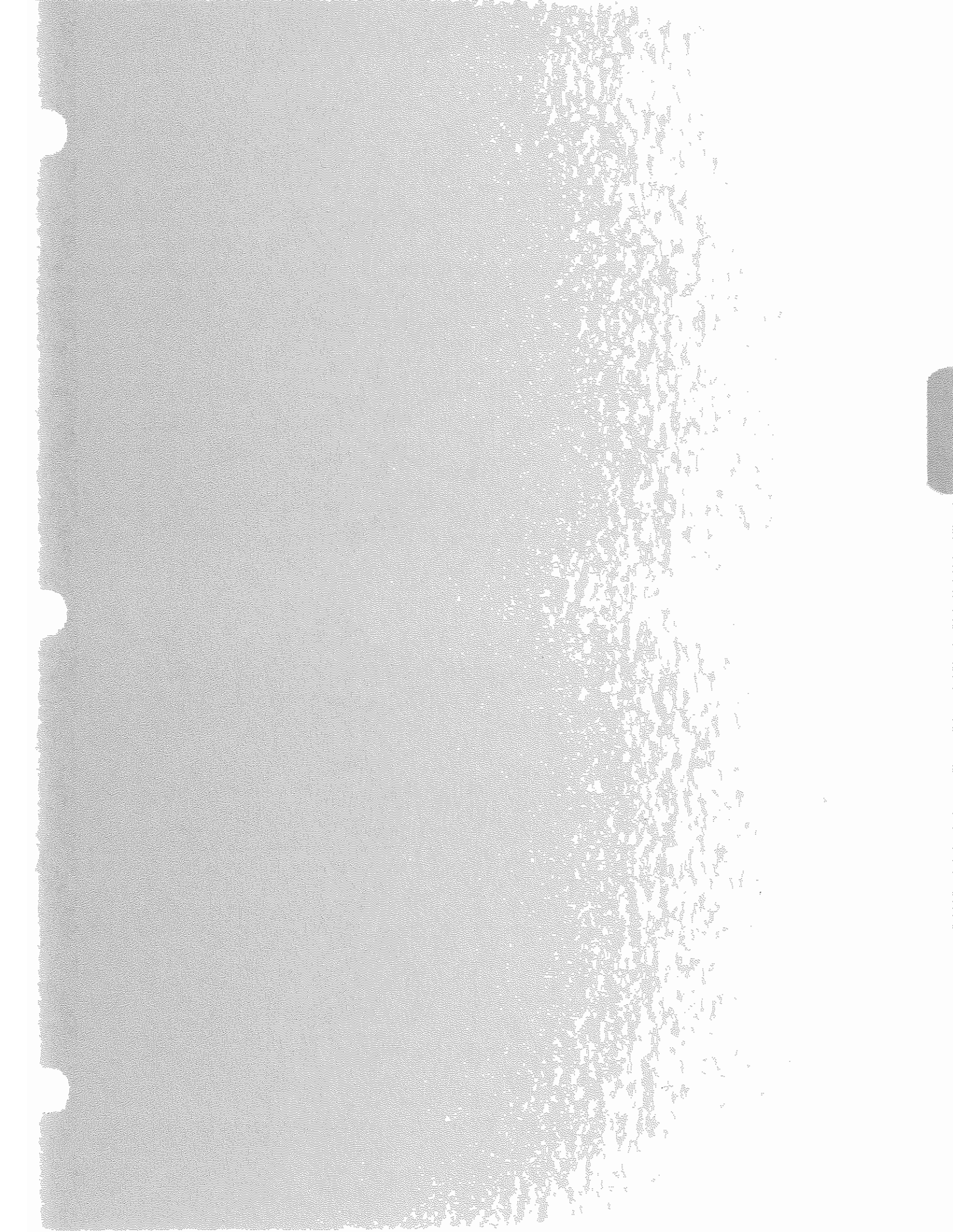
The current proposal (it has gone through a number of revisions) has been discussed by Thyssen or their Canadian representatives on several occasions over the past year with various Ministers. In its most recent formulation, as officials have heard it from DRIE, Thyssen proposes to invest \$58 million in this facility (unchanged from 1986), in return for a range of Government funding and other support measures, but with a major condition: they wish a Letter of Intent from the Canadian Government for 250 LAV's to be delivered in 1991/92. Thyssen is said to be focusing on the Canadian and the USA market for its vehicles, at least initially it would appear, and may then to seek wider markets for the LAV's and also take on more varied civil heavy engineering contracts for the Canadian market, although no example is given.

The details of this proposal are not yet known to officials. Nevertheless, it presents certain difficulties: Most importantly, the Letter of Intent aspect is not acceptable to DND officials, as this diminishes the important aspect of competitiveness in Government procurement of high value military items. The Canadian Forces have not procured any LAV's to date, although they are under pressure to do so from GMDD. GMDD benefited from heavy Government support in winning a contract to supply LAV's to the US Marine Corps. This was the first time a contract for a complete armoured military system awarded to a non US resident company since World War I. Through its US parent, it could have further sales in the next decade.

US Armed Forces expect to be procuring some \$350 billion in armoured vehicles starting in 1995. Thyssen has already made presentations to US DOD officials. However, given the background to the GMDD procurement, Canadian officials are not aware of any short term requirement for wheeled or tracked armoured vehicles for any US Armed Service, which would likely to be awarded to Thyssen if it were in Canada. A US Army directed contract to the Thyssen AG parent company in West Germany to evaluate 6 Nuclear/Chemical/Biological reconnaissance vehicles has recently caused protest from US suppliers. Should there be a willingness by US DOD to award a contract to Germany for a significant military procurement, it is as yet unclear whether it would be for this vehicle, but were it to be, it is unlikely to be acceptable to the FRG Government that the German LAV be assembled in Canada. In addition, such a procurement would place the German LAV in competition with the General Motors LAV and similar armoured vehicles produced by other American manufacturers.

Beyond the Canadian and US markets (for which there are no export controls considerations), we return to those other markets, mostly in the Third World, where Canadian export controls policy is involved. In most of these markets, particularly those outlined to officials by Thyssen in 1985, there are policy concerns, and we are not in a position to provide any assurances to Thyssen (which they would surely seek) about the ease with which they could exploit such markets from a Canadian manufacturing base.

When the Thyssen plan became known in 1986, it did not meet with universal approval, even in Cape Breton. A letter writing campaign from a wide range of persons not claiming affinity to the more vocal peace and disarmament NGO's expressed their distaste for this proposal, and their support for your (imputed) opposition to it.



SECRET

July 20, 1988

Conclusions of July 19 P&P Meeting

James Bay Road

- * no discussion, B. Bouchard to report once provincial review has progressed.

Royal Commission on Reproductive Technology

- * issue to be reviewed by smaller group of Ministers -- Mazankowski, Epp, Murray, McDougall, Hnatyshyn.

Conflict of Interest

- * DPM to try to manage Caucus support for bill passing ** second reading.
- * this progress would help PM to name Commissioners (in cooperation with Opposition Leaders) under the Inquiries Act.

Abortion

- * Ministers may move with single resolution, at an early date --- but Caucus reaction critical.
- * Issue will be reviewed by smaller group of Ministers before Caucus.

Matane

- * Issue will only proceed when Crosbie and Wilson are onside.

Electricity Deregulation

- * Ministers approval in principle but timing is a factor.
- * No announcement before 3rd week of August, and before prior agreement of PM, Crosbie, Wilson.

272x-2 Uof101

Defence Procurement

- ° Mr. Beatty's proposals were approved for:
 - TCCCs
 - Northern Terrain Vehicle, and
 - Mines Countermeasures
- ° Mr. Murray raised Tyssen project
 - many Ministers had serious concerns:
 - uncertain of details
 - wanted better process
 - Senator Murray or his staff to organize meeting for full review of proposal, before it proceeds to the Committee

Farm Credit Corporation

- ° Agreement between Wise and Wilson was ratified.
 - convert \$400 M. of FCC debt to government equity, etc.
 - continue to review
- ° Mr. Wise will announce in the House this week.

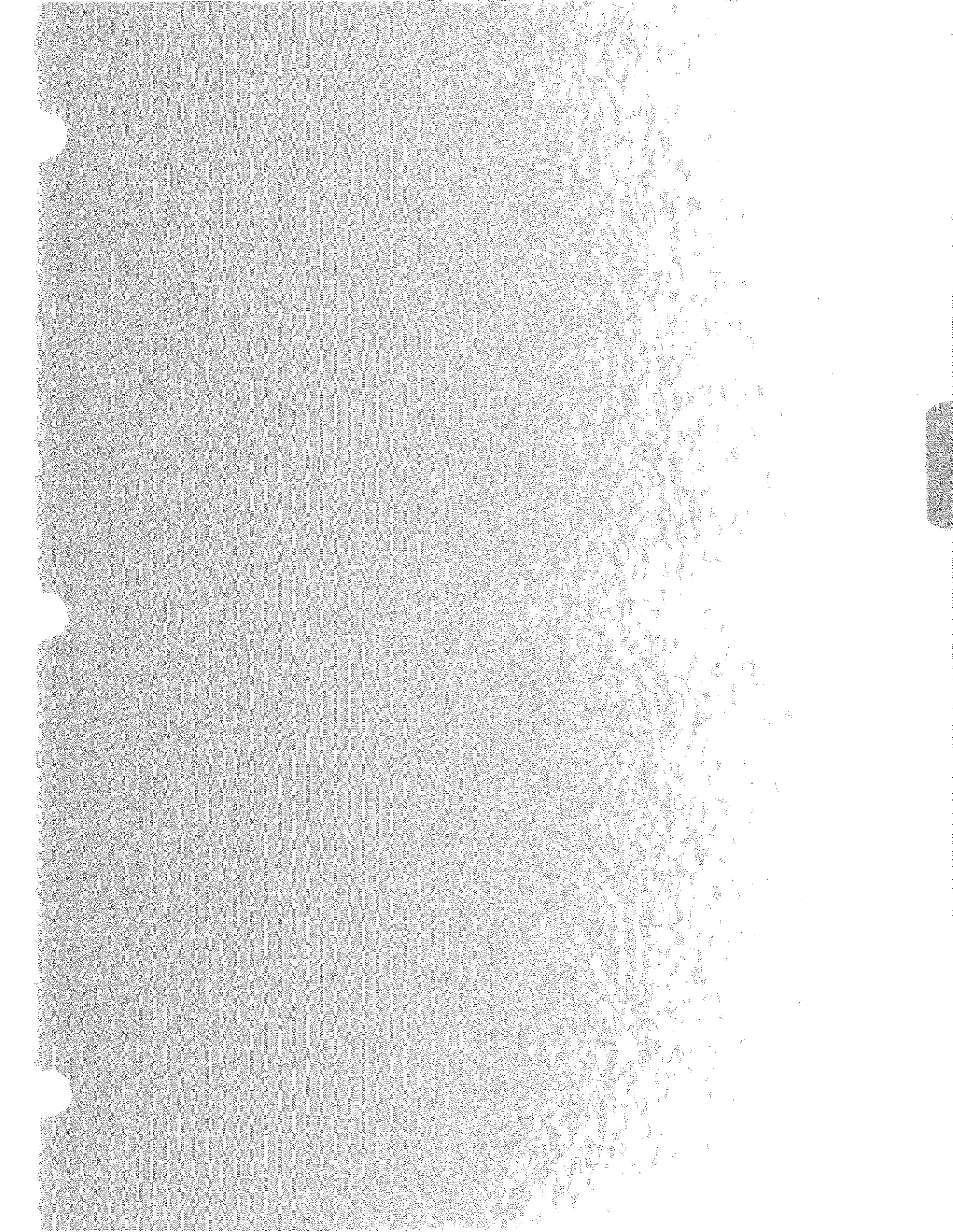
Grain/Wheat Prices

- ° Mr. Mayer's proposed price increases were approved.

Annex Items

- ° All 12 items were approved but Amendments to Northern Inland Waters Act to await progress on Trade debate.

272X-2 Vol 101



**FRED DOUCET
AGENDA
1988**

8 AUGUST

88

Monday
221-145

S	M	T	W	T	F	S
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BLUENE

9 AUGUST

88

Tuesday
222-144

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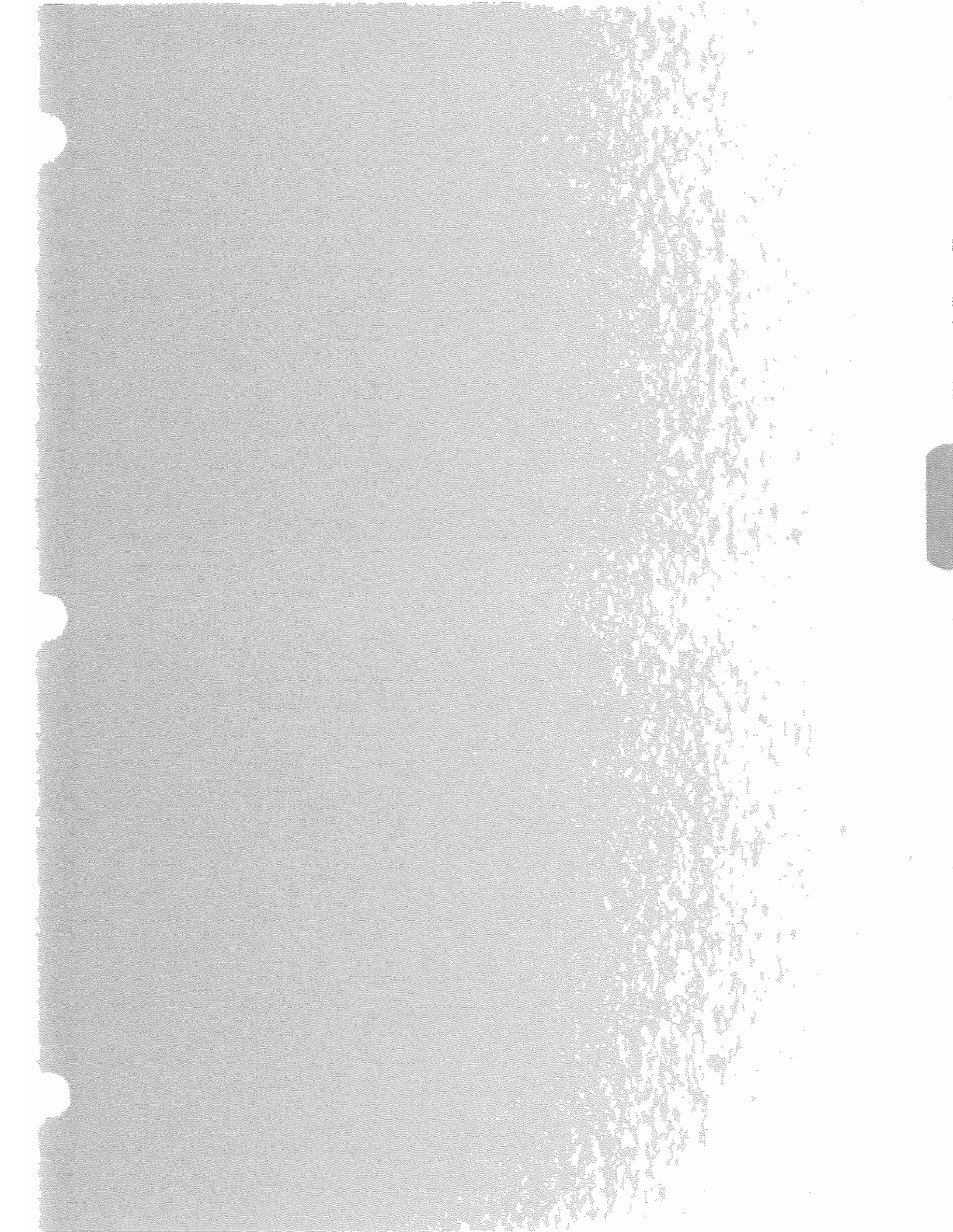
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BLUENE





Government of Canada

Gouvernement du Canada

3

MEMORANDUM

NOTE DE SERVICE

TO
A

Don S. McPhail
c.c. Jaffray Wilkins

FROM
DE

Wynne Potter
Vice President
ACOA Nova Scotia

SUBJECT
OBJET

THYSSEN: DEPARTMENTAL CONCERNS

As you know, we met with representatives of DRIE, DND, Finance and Justice this afternoon. Specifically, departmental positions and concerns raised were the following:

DRIE (Cliff Mackay)

Position: Will recommend to Mr. de Cotret that he not sign.

- Concerns:
- need to prioritize Nova Scotia requests for federal funding -- e.g. Westray, Louisiana Pacific, Thyssen, especially since a political undertaking in support of the Westray project may have been made to the Province by Minister de Cotret/PMO;
 - lack of money in DRIE budget for assistance programs, including DIPP;
 - excess capacity (GM); and
 - further details (business plan) required on civilian diversification.

DND (Ed Healey)

Position: Will recommend to Minister Beatty that he not sign.

- Concerns:
- Thyssen proposal only one of several unsolicited proposals, each of which DND would like to reject because they involve some degree of sole-sourcing or lowered competition;
 - source of funds, operational requirements for LAV project so far undefined;
 - uncertain regarding Thyssen's ability to meet DND's operational requirements.

.../2

SECURITY - CLASSIFICATION - DE SECURITE
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OUR FILE - N / REFERENCE
JMC-910
YOUR FILE - V / REFERENCE
DATE
August 31, 1988

- 2 -

Politically: NTV sole sourcing in Calgary may have caused Ministers to be "gun shy" on directing military contracts; and

Mr. Beatty may have responsibilities as regional (Ontario/GM) Minister.

Finance (Sheryl Kennedy, Director, Economic Development)

Position: Continued fundamental concerns beyond narrow legal issue.

- Concerns:
- source of funds, extent of draw on funding, so far, unknown;
 - document is de facto binding -- represents "moral and political" commitment;
 - Wilson wishes priority setting for projects -- including Thyssen -- within context of likely draws on DRIE/DND funding;
 - communications/capacity (GM) worries; and
 - lack of apparent commitment to civilian diversification by Thyssen, lead to worries regarding ongoing dependence on Government.

Politically: Mr. Wilson may have responsibilities as regional (Ontario/GM) Minister.

Justice (Jacques Gauthier, A/General Counsel, Commercial)

Position: Document is contractually binding, but legal interpretation is that various undertakings are within mandates/authority of respective Ministers.

- Concerns:
- does not legally require Cabinet approval prior to signature;
 - "consider participation" preferred legally to "seek participation of"; and

.../2

96-34-56

94

- 3 -

- each proposed phrase however, comprises a degree of commitment -- and risk -- between no commitment on the one hand and "shall ensure participation of" on the other hand.



Wynne Potter



3080-T
207
ACO-A-OTTAWA JMC-91



Atlantic Canada
Opportunities Agency

Agence de promotion économique
du Canada atlantique



CIRC./CHRON FILE
CR
FAXED:
BY-HAND: 10/8/88
OTHER:
G.C. P. B. P. 24

Ottawa Office
P.O. Box 3442, Ste. D
Ottawa, Ont.
Canada K1P 6N8
(613) 954-8060
FAX (613) 954-0429

Bureau J.Ottawa
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FAX (613) 954-0429

SECRET

MEMORANDUM

September 1, 1988

TO: The Honourable Lowell Murray
FROM: D.S. McPhail
SUBJECT: Thyssen: Update and Attached Letter

Please find attached for your signature, a brief letter to Mr. Karlheinz Schreiber, Chairman of Bear Head Industries (BHI), enclosing the "Understanding in Principle" document tabled during discussions last evening with Messrs. Doucet and Alford, representing BHI.

You will recall that Derek Burney instructed me to modify, if necessary, the "Understanding in Principle" -- if the Department of Justice determined that the document was legally binding -- so as to ensure that "no significant commitment on the part of the Government would arise from the signing of the "Understanding in Principle" by the three Ministers". Once this was completed, the signatures of each Minister were to be sought.

In presenting the departments's formal opinion on August 4, 1988, the Deputy Minister of Justice, Mr. Iacobucci, indicated that the document was likely

Redacted



.../2

Canada

I have clearly highlighted to the company this amendment in the "Understanding in Principle". Furthermore, I have advised the company that, at this stage, the document does not enjoy the support of the departments of National Defence, and Regional Industrial Expansion, but that a formal reaction from the Company to the Government -- in preliminary acceptance of the arrangements contemplated by the "Understanding in Principle" -- is required at this juncture.

You may wish therefore to sign the attached letter to Mr. Schreiber.

The remaining issue is to seek the signatures of Mr. Beatty and Mr. de Cotret.

You should be aware that -- although this was not the outcome of the July 27 meeting on Thyssen chaired by Mr. Mazankowski -- the Privy Council Office, for reasons of due process, is urging that the Thyssen initiative be discussed by Cabinet, prior to the signature of the document. You may wish to consider this option, if it is the most expedient course to ensure the necessary support of your colleagues.

Indeed, in light of Mr. Wilson's comments at yesterday's meeting of Operations Ministers concerning available funding, you may wish to support strongly the Thyssen project -- as first among the initiatives of Thyssen, Louisiana Pacific, and Westray -- in keeping with your mandate to "assume the responsibility for the coordination and overall planning of all federal activities contributing to economic growth in the Atlantic region", assigned you by the Prime Minister.

D.S. McPhail

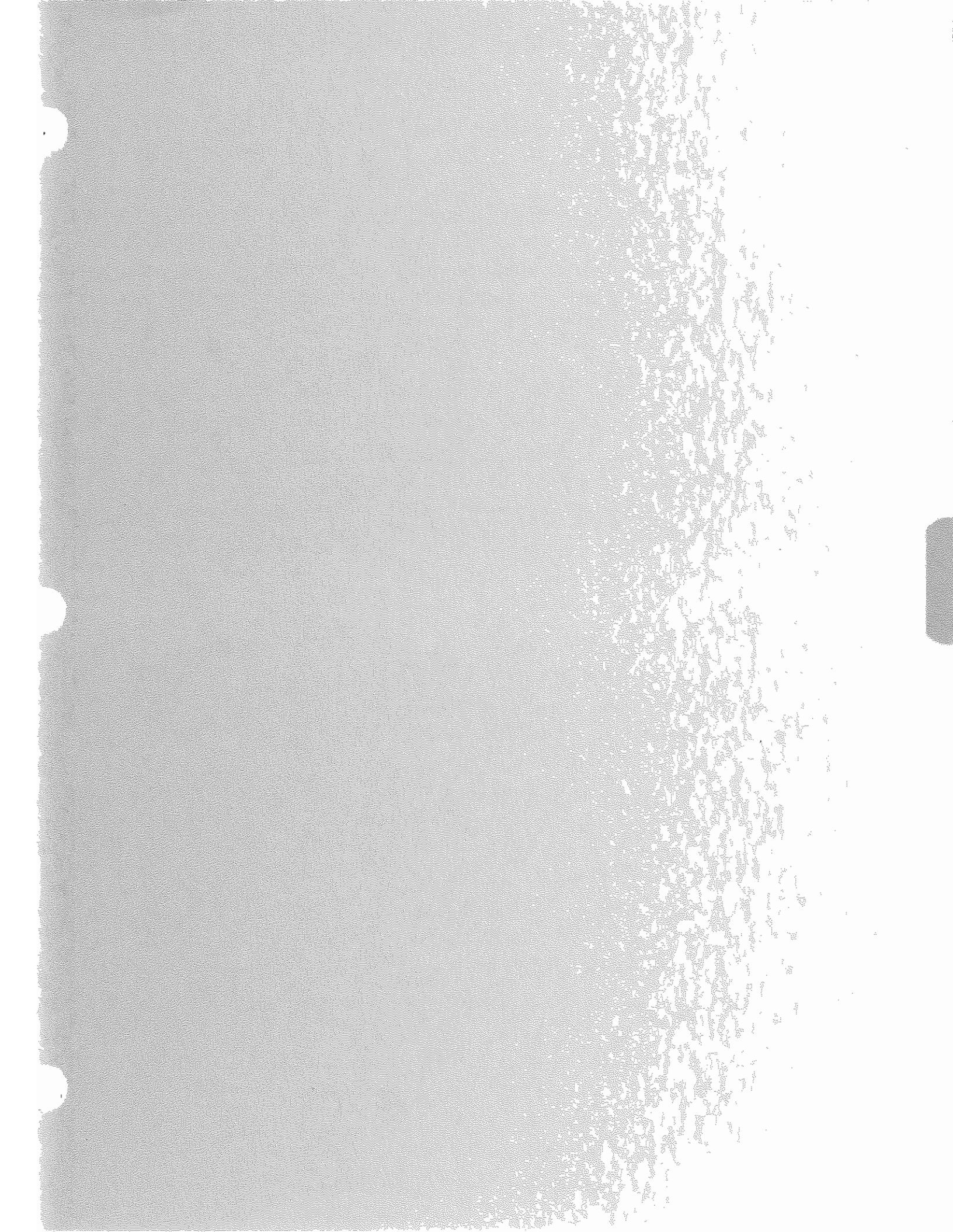
Att.

- 2 -

If you agree that the document, as written, is suitable to your requirements, and if signed by each party, will trigger your heavy-industry investment in Cape Breton, please let me know by noon, September 2, 1988.

Following a positive reply from you, I intend to submit the "Understanding in Principle" to my Ministerial colleagues for their signatures.

Lowell Murray





Government of Canada

Gouvernement du Canada

MEMORANDUM

ACOA-OTTAWA: Jmc. 918
 CIRC. CHRON FILE
 N: (GR) 199
 FAXED: 7.9.88
 BY-HAND:
 C.C. P. 25.1.88

OUR FILE - N / REFERENCE
 JMC-918

YOUR FILE - V / REFERENCE

DATE
 September 6, 1988.

TO
A

D.S. McPhail
C.C.: J. Wilkins
W. Potter

FROM
DE

John McDowell

SUBJECT
OBJET

~~MEMORANDUM~~ Update

Senator Murray called this afternoon to seek further information on Thyssen, prior to placing a phone call to each of Messrs. de Cotret and Beatty to urge that they sign the Understanding in Principle.

Specifically, the Senator sought:

- 1) confirmation on DRIE's position, reflected in the September 2 letter from Cliff Mackay to Wynne Potter;
- 2) further enlightenment on DND's position, which I relayed, based on the views Mr. Healey had expressed to Wynne Potter on August 31.

The Senator also asked whether -- in the event that he was unsuccessful in persuading his colleagues to sign -- we could be ready to go to Cabinet, and in particular P&P next Tuesday.

You may wish therefore to get in touch with the Minister to determine the outcome of his discussions, and if necessary, to initiate the preparation of further documentation.

John McDowell

3452 0000216

~~3452 0000217~~

AA


- McDowell advised (by Zankl) that Thyssen had signed U.S. arrangement for cooperative production with General Dynamics (shared verbally with McPhail, Potter and Wilkins); and
- McDowell spoke to PCO (Adams) who was concerned re: Thyssen issue especially on defence procurement angles.

September 2, 1988

- the above departments received a copy of the formal Justice review of August 4, 1988;
- DRIE formally responded to ACOA in a letter to Potter. Concerns: Excess capacity in armoured vehicles/heavy equipment, plus lack of A-base funds for projects greater than \$20 million;
- McDowell spoke to Schumacher. EA has no concerns, whatsoever, as long as Thyssen operates within Canadian export policy; and
- Senator Murray spoke to Mr. Beatty:

McPhail debrief:

- . "our Minister read language of the UIP to Mr. Beatty"
 - . "Beatty was not wholly negative ..."
 - . "Beatty asked if LAV contract would be put to open public competition - Senator Murray responded affirmatively".
- Senator Murray received draft letter to BHI attaching UIP of August 31 (not yet signed 6/9/88).


John McDowell

3452 0000217

~~3452 0000219~~

AK

06-09-88

Perrin Beatty =

Next week returning,

His nom. tomorrow -

Blair Wright called him to speak

Had been trying to get Healy

Had a staff note - They agree with his advice
not to touch it with a
10 ft. pole

Perrin wants to talk to him personally.

Concerns

29 Aug Justice memo says Dep Fin letter

04 Aug should Cda enter,

Asst Genl Counsel

Asst Genl Counsel

- "slightly reduces the
risk"
"consider the parts"

View of Asst Genl Counsel Aug. 29 ←

Reality of announcement cd look us in

Potential

Ordeal Division 8/10/88

⊙ GM's concern for the future of FHC Corp. -
be strict

Bottom line in memo "don't sign it":

Healy will be in office tomorrow
I want to talk to her

- 2) Do they or will they ever ~~we~~ have equipment we need --
- 3) Are we creating excess capacity to shut down plants elsewhere.

- If all were saying as well
let you bid - not asking
much -

wd we be doing the best
company (Dresel Adv Bm)

weakening ^{def} ind base -

12-09-88

Perrin Beatty

Talked to Ed Healy. Said to keep in terms of the legal arguments,

Obj is to guarantee competition.
Question as to appropriateness

Outstg aspect

defence - ind base
+ we'd be setting ourselves up to
exert pressure on us.

Not under any real
Early + up front pressure to direct a military contract.

C^t to balloon no more c^{ts}.
No \$ in budget. -

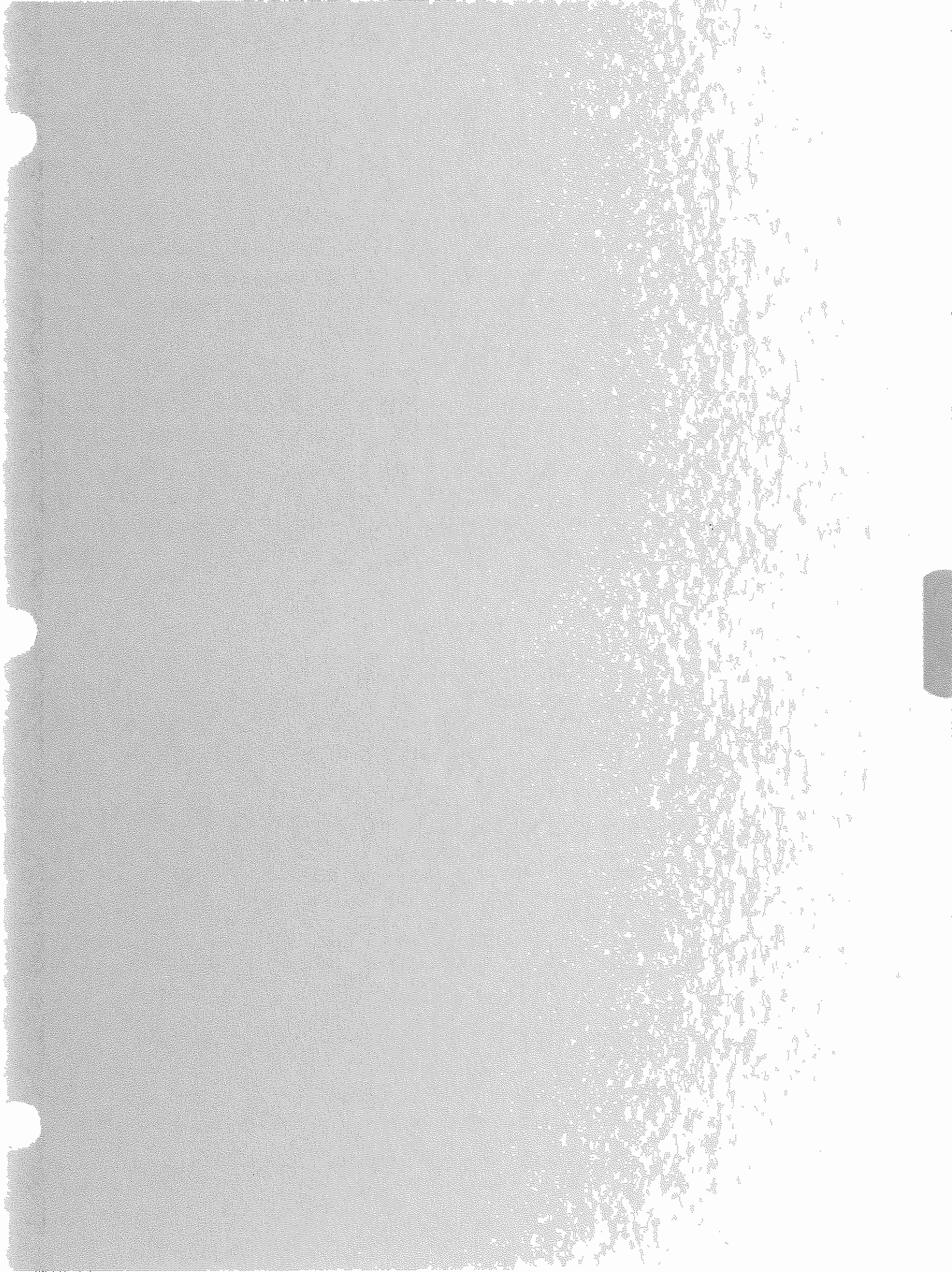
Cd bring an Am. military contract
Likely Amos will compete their contract

Pol. concern paper trail several diff depts
advice of officials negative. -

Returning

Get Supply & Servs Min. to sign!
More appropriate, as contracting minister

Whether advice from Privy Council had changed.



Rob

SECRET

Absent: Mr. Beatty (Goose Bay);
Mr. Hnatyshyn (riding); and
Miss Carney (riding).

Invited: Mr. McMillan invited at 9:30 for
 first five environmental items
 under General Discussion;
Mrs. Virginia at 10:30 for item 4
 (UI Parental Benefits) and item 5
 (UI Variable Entrance Requirement);
Mr. Rutherford (Acting Deputy
 Attorney General) at 10:45 for
 item 4 (UI Parental Benefits).

file

ANNOTATED AGENDA

Priorities and Planning
Tuesday, September 13, 1988, 9:30 a.m., 323-S

1. GENERAL DISCUSSION

*Based
on
to OPS*

- a) PCB Update (Note under Tab 1a) -- Prime Minister to ask Mr. McMillan to report on:
 - reactions to Federal-provincial action plan;
 - negotiations over mobile PCB disposal unit;
 - need for further measures.
- b) Environmental Roundtable (Note under Tab 1B) -- Prime Minister to ask Mr. McMillan to provide status report on terms of reference and composition of roundtable.
 -- Ministers may wish to review timeframe for announcement.
- c) Rouge River (Updated note attached) -- Prime Minister to ask Messrs. Wilson and McMillan to present proposal for one-time \$10M federal contribution to Rouge River urban park.
 -- Discussion to focus on timing (September 15?) and strategy for announcement and containment of precedent.
- d) Grasslands Park v (Note attached) -- Prime Minister to ask Mr. McMillan to present proposal for amending Grasslands Park agreement, and Mr. Wilson to comment on funding. *differs*
- e) Communications Reserve Program (Note under Tab 1d) -- Mr. Mazankowski to propose \$1M allocation from Communications Reserve for the Environmentally Friendly Products Program. *same*
- f) CBC All-News Decision (Note under Tab 1f) -- Item is for discussion only, as no decision can be taken before October 31.
 -- Prime Minister to ask Miss MacDonald to report on Mr. Juneau's proposals to address Ministers' concerns re. concentration and French language news network.
 -- Ministers should express preliminary views on 3 options available (opt-out, refer, send back).
 -- Prime Minister to encourage Miss MacDonald to develop strategy with Messrs. Epp and Mazankowski and report back to P&P as required.

done

*Ho.
draft
to*

*needed basis
- this PM I will
announce please*

2724-2 Vol 106

g) Operations Report
(Note under Tab 1g)

-- Prime Minister to ask Mr. Mazankowski to report on August 31 Operations meeting.

h) Air Canada Offering

-- Prime Minister to ask Mr. Mazankowski to provide brief update on stock sale.

i) Atlantic Projects
(Note under Tab 1i, Speaking Points for DPM attached)

-- Prime Minister to ask Mr. Mazankowski to review Operations Ministers' deliberations on: Westray Mining; Louisiana Pacific; Caribou; and Thyssen. Louisiana Pacific and Caribou are strong projects, but neither Mr. Murray nor Mr. de Cotret are willing to fund them from existing resources.

*A.D.
if needed.*

→ D

-- The basic issue for Ministers is whether ACO's \$204 project threshold should stand in the way of announcement of two worthwhile projects.

-- Thyssen has been a controversial project, particularly with Mr. Beatty who objects to the procurement commitments being sought.

-- Since Mr. Beatty cannot be present, you could ask Mr. Mazankowski to coordinate a resolution of the Thyssen issue with Ministers de Cotret, Beatty and Murray.

j) Interest Rate Policy

-- Prime Minister to ask Mr. Wilson to review current interest rate outlook and common line to deal with questions.

k) Appointments

-- Prime Minister to propose appointment of Mr. B. Schussacher as Head of Mission in Seoul.

-- Prime Minister to propose other appointments (list to be circulated at the meeting).

H.O.

2. HOUSE BUSINESS

-- Prime Minister to ask Mr. Mazankowski to review House plans.

3. CANADA SAVINGS BONDS CAMPAIGN

-- Prime Minister to ask Mr. Wilson to explain non-price terms and conditions for 1988-89 CSB campaign.

-- This is a routine item. Orders in Council will be available for signature.

4. UI PARENTAL BENEFITS
(Note under Tab 4, possible hand-out attached)

-- Ministers support Mr. Inatyshyn's decision to appeal federal court ruling.

-- At time of appeal, Mrs. Vézina wishes to issue policy statement committing Government to adding 15 weeks of parental benefits to existing maternity benefits.

-- Mr. Wilson will not accept any solution entailing more than 20 weeks of benefits in total.

-- Prime Minister to ask Mrs. Vézina to review issue, with Ministers Epp and Wilson to comment.

-- Given the diverging views, the preferred approach could be a general compromise statement which explains that Government remains committed to removing discrimination in the UI Act.

-- As a fallback, if Ministers cannot agree, Prime Minister could ask Mr. Epp to convene Ad Hoc Committee on an urgent basis, to report back to Operations Ministers on September 15.

OWC

*HO
|
MC*

2704-2 Vol 106

5. UI VARIABLE ENTRANCE REQUIREMENT
(Note under Tab 5)

- Prime Minister to ask Mrs. Vézina to present proposal to renew variable entrance requirements.
- Issue is not controversial and should require little discussion.

6. TAXATION OF ARTISTS
(Note under Tab 6)

- Prime Minister to ask Mr. Wilson to present proposed reply to Standing Committee and Miss MacDonald to review communications strategy for artistic community.

7. CPP SURVIVOR BENEFITS
(Note under Tab 7)

- Prime Minister to ask Mr. Epp to outline proposed reply; it is not substantive and requires no discussion.

8. SPACE STATION MOU
(Note under Tab 8)

- Prime Minister to ask Mr. Clark to review form of MOU in light of Cabinet's previous instructions.
- Ministers may wish to focus on communications strategy for dealing with likely questions on the unrelated Space Agency issue.

9. ANNEX

- A.1 Commemorative Statues of Prime Ministers
- A.2 A Real Property Capital Investment Strategy for The National Capital Region

10. OTHER ISSUES

a) Refugee Backlog
(Note attached)

- Mr. McDougall may raise possibility of immediate statement on the Government's intended approach to the refugee backlog. You received a briefing note on the matter and agreed with its conclusion that such a statement would be premature.

b) Central Western Railway
(Note attached)

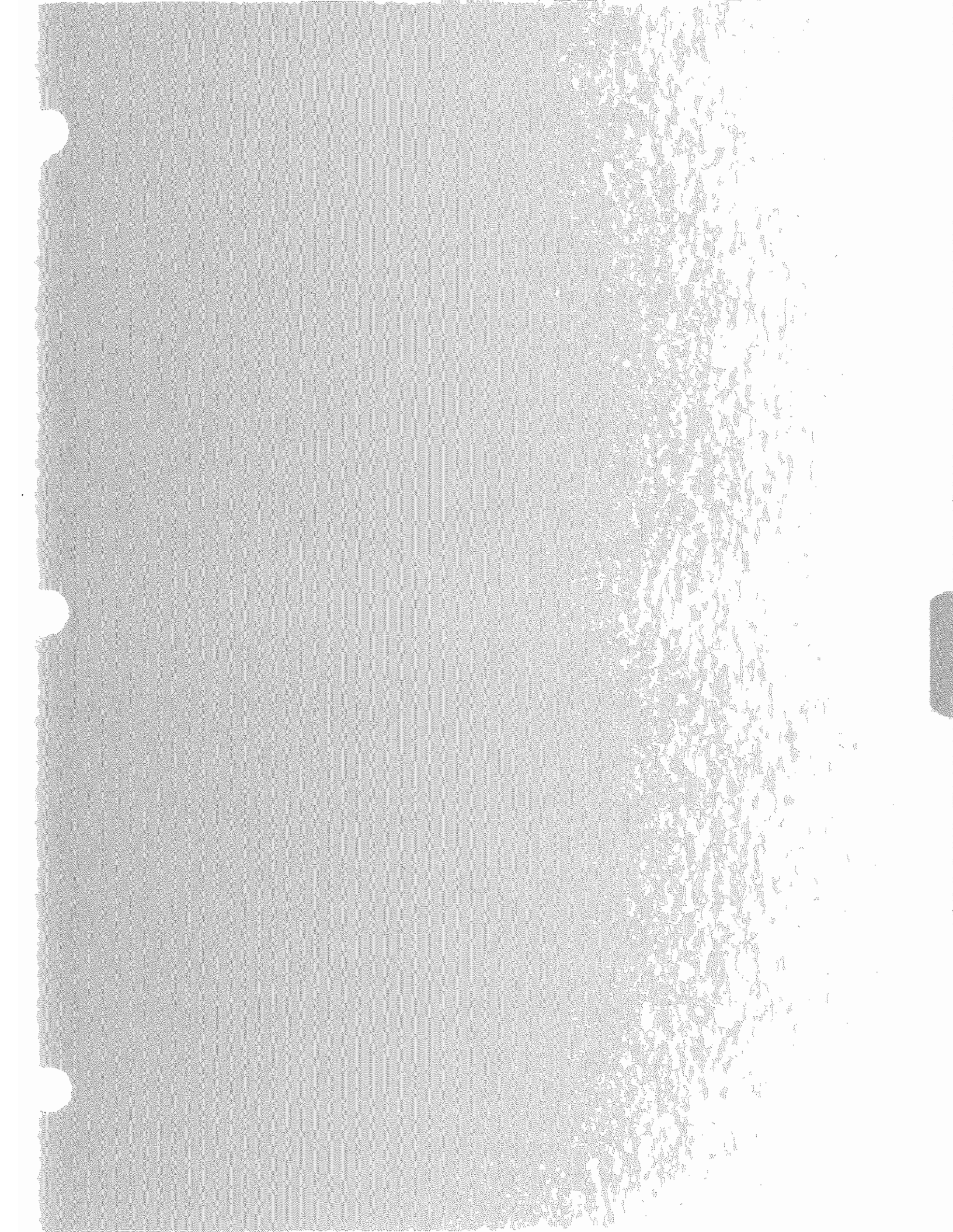
- Mr. Mazankowski may seek ratification of a Committee Report to rescind the declaration that designates Central Western Railway a "work for the general advantage of Canada".
- While the decision would correct an anomaly, it will have to be carefully managed to minimize a backlash from labour and union circles.

A.D.
CR

2724-2 Vol 106

Amragh
• Interview
• out of study team





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1) Westray Coal Inc. (Pictou County, N.S.):

The federal government has been asked to assist the project through a guarantee and interest rate buydown on a commercial loan by the company, at a cost to the federal government of up to \$59 million. Operations Ministers agreed that Mr. de Cotret should write a letter of comfort to the Nova Scotia government, indicating that the federal government would support the project, subject to resolution of a number of issues, including obtaining written commitments from the Nova Scotia Power Commission to maintain coal purchases from DEVCO at a level sufficient to ensure a sound future for the Cape Breton mines.

The letter was sent and on September 1, the company announced that the project would proceed.

It is proposed that an RD be issued authorizing Ministers Mazankowski, Wilson and de Cotret to determine the final details of assistance to the project, including a source of funds for the federal assistance, to come from existing resources of federal departments.

2) Louisiana-Pacific (Port Hawkesbury, N.S.):

The federal government has been asked to contribute \$32 million to this \$64 million project, which involves the construction of a new plant to produce gypsum fibre board (93 direct jobs). The assistance would include infrastructure support, an interest rate buydown and a contribution for plant and equipment.

The central issue to be resolved is a source of funds for the federal assistance. Mr de Cotret argues that DRIF does not have sufficient funds, and Senator Murray is reluctant to provide ACOA funds on the grounds that ACOA's mandate and credibility could be harmed if ACOA is seen to support major industrial projects.

3) Caribou Mining (Bathurst, N.B.)

The federal government has been asked for interest rate buydown, at a cost of \$4 million. The \$40 million facility will produce bulk lead and zinc concentrates and create 175 direct jobs.

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The central issue is again finding a source of funds. The size of this project would normally make it a DRIE responsibility but Mr. de Cotret argues that the Department does not have the funds. ACOA funding is an option, but Senator Murray has been unwilling to make an exception to the arguments he has put forward with respect to the other three projects.

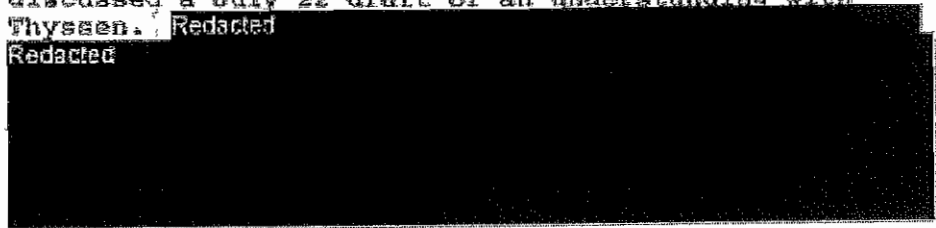
4) Thyssen (Port Hawkesbury, N.S)

The company is seeking an assistance package including \$27 million in infrastructure support, plus unspecified support from programs normally available to defence projects or projects in Cape Breton Island and some sort of undertaking that the company will participate in future Canadian procurement of armoured vehicles.

The \$85 million dollar facility could create 500 direct jobs if the company secures armoured vehicle orders in Canada and the United States. Prospects for non-military production are limited.

The central issue, other than source of funds, is the impact on defence procurement, and the language of any undertaking given to Thyssen. Mr. Beatty is opposed to providing any undertaking that would limit the government's options with respect to an armoured vehicle competition in the early 1990's. Some Ministers may raise the potential impact of a new facility on existing capacity, such as General Motors' facility in London, Lavalin/UTDC in Kingston and Bombardier in Valcourt, Quebec.

The Deputy Prime Minister and Mr. Beatty discussed a July 22 draft of an understanding with Thyssen. Redacted
Redacted



*Solicitor -
Client
Privilege*

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PCO COMMENT

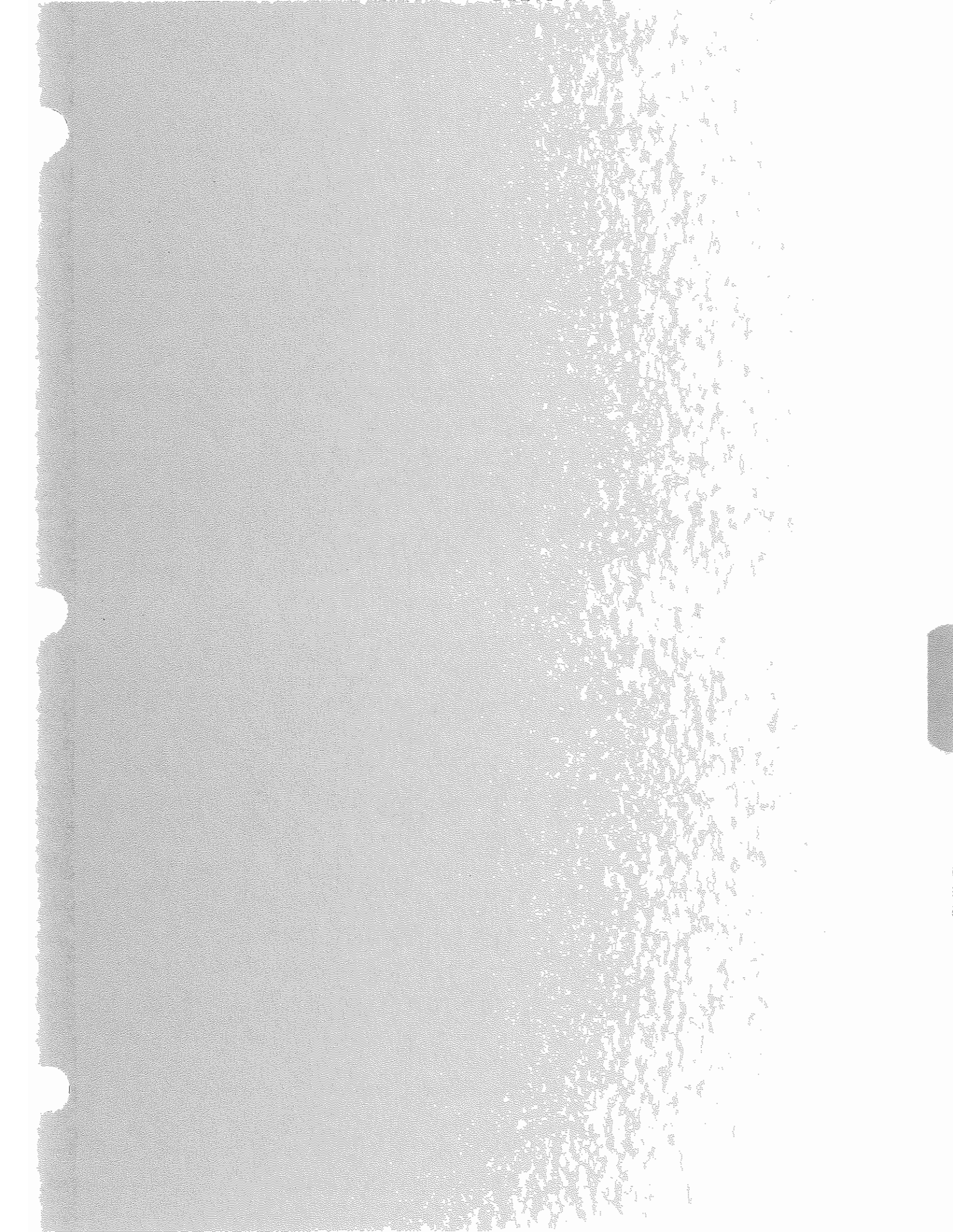
The Westray project has been announced and you should call a decision authorizing Ministers Mazankowski, Wilson and de Cotret to determine the final details of federal assistance. If Ministers agree on a source of funds, this can be incorporated into the RD. We would suggest that DRIE deliver the assistance from funds made available from the ACOA A-base.

The Louisiana-Pacific and Caribou projects can proceed if a source of funds is found. We would recommend that no decision be called unless this issue can be settled. Again, a transfer from ACOA seems the only option.

Thyssen presents particular problems with regard to procurement. Mr. Beatty will oppose any commitment that could oblige the government to buy armoured vehicles from Thyssen. Ministers may suggest not proceeding with Thyssen if the Louisiana-Pacific project, also located near Port Hawkesbury, is supported. Alternatively, Senator Murray could be authorized to make a final offer to the company, using language acceptable to Mr. Beatty and Mr. de Cotret, on the understanding Thyssen must choose whether or not to proceed.

Wernick/cb

2724-2 Vol 105



100-41169 4142

Minister of National Defence



Ministre de la Defense nationale

September 19, 1968

The Honourable Lowell Murray, P.C., Senator
Leader of the Government in the Senate and
Minister of State (Federal-Provincial Relations);
Room 271-B Centre Block
The Senate of Canada
Ottawa, Canada
K1A 0K4

Dear Colleague:

I refer to the enclosed ~~"Understanding in
Principle" between the Government of Canada and Bear Head
Industries Ltd.~~ and our meeting with Mr. Derek Burney of
September 14, 1968.

69

In agreeing ~~to sign the document~~, I did so with the
understanding that it does not thereby commit the Department
of National Defence, either internally with respect to other
Government Agencies or private industry, to a project for
the acquisition of light armoured vehicles, now, or in the
future.

Further, I am led to believe that in lending my
support for the ~~"Understanding"~~ I will not find myself in
the position of abrogating my commitment to our colleague,
Mr. Nilson, as regards funding of future defence projects.

2100
69

Lastly, I am pleased to see that you intend to
adopt a low-key approach to the public announcement of this
~~Understanding~~. Let me assure you that senior officers of
my Department look forward to lending assistance in creating
a communications plan as well as preparing correspondence to
Bear Head Industries Ltd., as well as its parent, Thyssen
Industries A.G.

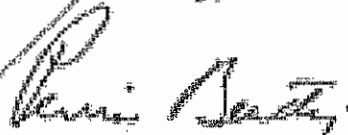
69

SECRET

Ottawa, Canada K1A 0K2

For your information, I am sending copies of this letter to our colleagues, the Minister of Regional Industrial Expansion, the Minister of Finance, Mr. Derek Burney at the Prime Minister's Office, and also to the Honourable Gerald Harrithow.

Sincerely,



Ferrin Beatty

Enclosure: 1

cc: The Honourable Gerald S. Harrithow, P.C., M.P.
The Honourable Michael H. Wilson, P.C., M.P.
The Honourable Robert De Goez, P.C., M.P.
Mr. Derek Burney, Chief of Staff, Prime Minister's Office

SECRET

EXHIBIT - Ministerial correspondence
position of Minister on Cabinet decision

18

Minister of National Defence



Ministre de la Défense nationale

DND
21/12

(2)

DRAFT FROM
15/1/88

The Honourable Senator Lowell Murray, P.C.
Leader of the Government in the Senate
Minister responsible for the
Atlantic Canada Opportunities Agency and
Minister of State
Federal/Provincial Relations
Room 189-S Centre Block of
Parliament Buildings
The Senate of Canada
Ottawa, Ontario
K1A 0A4

Dear Colleague:

I refer to the enclosed "Understanding in Principle"
between the Government of Canada and Bear Head Industries
Ltd.

In signing the document, I did so with the
understanding that it does not thereby commit the Department
of National Defence, either internally with respect to other
Government Departments, or externally by Government Agencies
or private industry, to a project for the acquisition of
light armoured vehicles, now, or in the future.

Further, I am led to believe that in lending my
support for the "Understanding", I will not find myself in
the position of abrogating my commitment to our colleague,
Mr. Wilson, as regards funding of future defence projects.

Lastly, I am pleased to see that you intend to adopt
a low-key approach to the public announcement of this
"Understanding". Let me assure you that senior officers of
my Department look forward to lending assistance in creating
a communications plan as well as preparing correspondence to
Bear Head Industries Ltd., as well as its parent, Thyssen
Industries A.G.

.../2

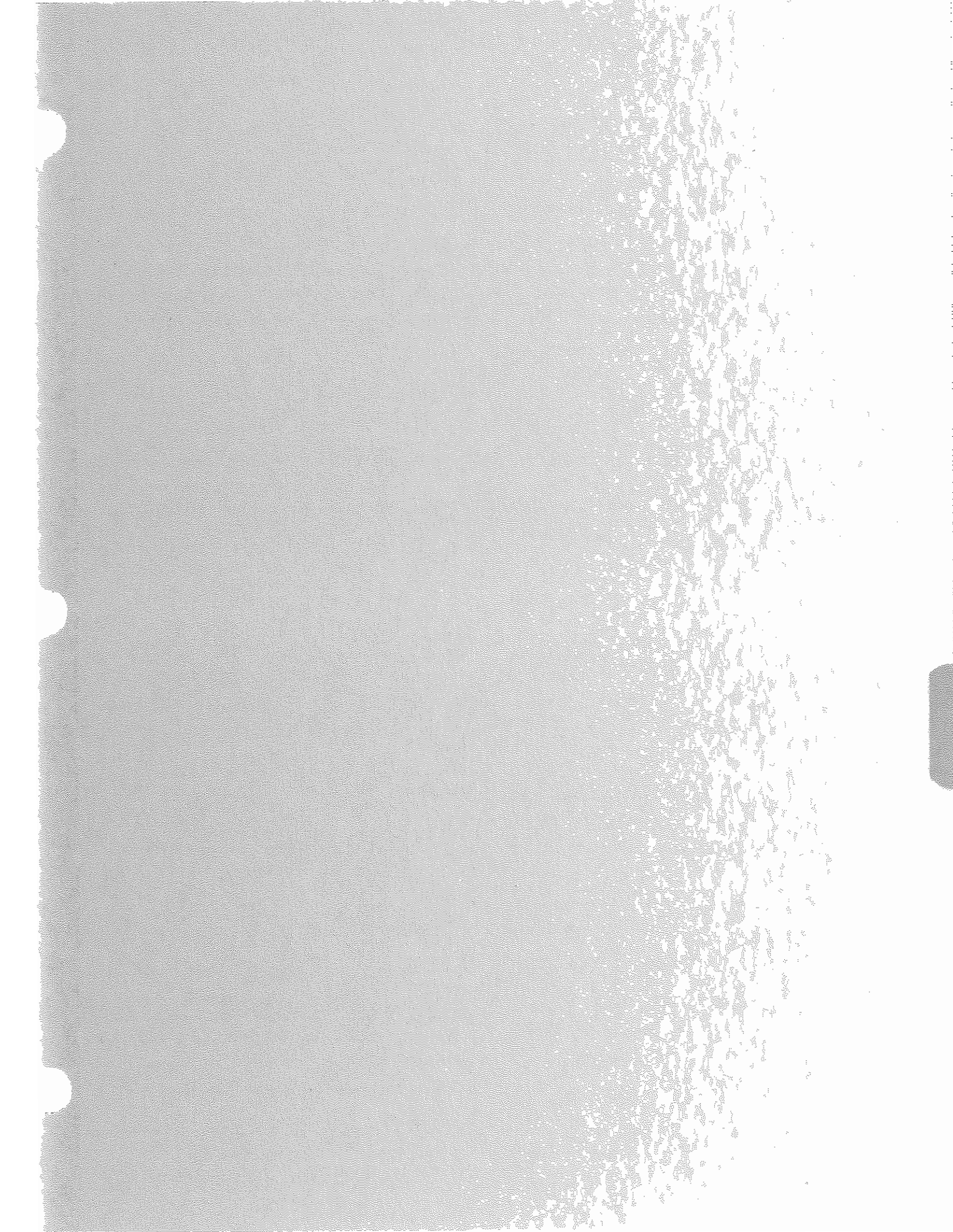
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- 2 -

For your information, I am sending copies of this letter to our colleagues, the Minister of Regional Industrial Expansion, and the Minister of Finance, as well as to Mr. Derek Burney at the Prime Minister's Office.

Sincerely,

Perkin Beatty



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Exempt - Cabinet

SECRET

Aide Mémoire

Aide Mémoire

A PROPOSAL BY BEAR HEAD
INDUSTRIES TO ESTABLISH
A HEAVY MANUFACTURING
FACILITY IN CAPE
BRETON

PROPOSITION DE LA BEAR
HEAD INDUSTRIES POUR LA
FABRICATION DE PRODUITS
DE L'INDUSTRIE LOURDE.
AU CAP-BRETON

September 19, 1988

le 19 septembre 1988

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AIDE MEMOIRE

PURPOSE: To develop an appropriate response by the Government of Canada to the proposal by Bear Head Industries Limited, (a subsidiary of Thyssen) to establish a heavy-industry manufacturing facility in Cape Breton, which would support the region's economic development.

PROPOSAL: Thyssen Industries AG, based in the Federal Republic of Germany, is one of the world's largest industrial manufacturing companies with annual sales exceeding \$10 billion, and 130,000 employees world wide. Of Thyssen's annual sales, less than 5% are in the defence sector.

In Canada, Thyssen's holdings include:

- Budd Canada Inc., Kitchener (automobile parts);
- Northern Elevator Holdings Ltd., Toronto (elevators);
- Greening Donald Co. Ltd., Hamilton (metal fabrication);
- Thyssen Marathon Canada Ltd., Mississauga (steel importers); and
- Thyssen Canada Ltd., Rexdale (steel importers).

In all, Thyssen employs some 3,000 Canadians.

13a

In the U.S., the company has recently reached an agreement with General Dynamics concerning technology sharing for the production of light armoured vehicles for the U.S. military, further increasing Thyssen's existing North American commitment.

In 1985, the then DRIE Minister during a visit to Germany, requested that Thyssen submit a proposal to establish a manufacturing facility in Cape Breton. In March 1988, Thyssen submitted a revised proposal to the Government, through ACOA, to establish an \$85 million heavy-industry manufacturing facility at Bear Head, Cape Breton.

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The initial capital cost of the facility would be \$58 million, assisted by the federal (and possibly the provincial) government in accordance with existing programs and guidelines. A further \$27 million for common-user infrastructure would be provided by the federal and the provincial governments. Thyssen would work closely in its production and subcontracting requirements with Lavalin (through the Trenton Works facility), possibly Sysco (to source its steel requirements), and Krauss Maffei, if the latter is successful in supplying DND with main battle tanks. Formal undertakings in support of these work-sharing arrangements are in place.

Thyssen proposes to establish the Bear Head facility in two phases:

- Phase I, the production of military vehicles for the North American defence market; and
- Phase II, diversification, within twelve months, into civilian production.

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SECRET

The exact product mix, and markets, associated with Phase II are currently being discussed with Thyssen, and the company is preparing a formal business plan for Phase II. Thyssen has consistently maintained that Phase I is a necessary launching pad for ultimate diversification into civilian production, and the company is willing to commit to repay portions of government funds received under Phase I, should Phase II not proceed.

THE UNDERSTANDING IN PRINCIPLE: The attached Understanding in Principle is not a formal Memorandum of Understanding (MOU), but instead, has been prepared to set out the nature of discussions to date. This document is required to initiate a decision from Thyssen's Board of Directors to proceed in Cape Breton. To this end, it is desirable that this document be signed by the ACOA Minister, the DRIE Minister, and the DND Minister.

While the Understanding in Principle formally binds neither the Government nor Thyssen in a manner which the other side would wish, the company is cited to be considered for participation in the light armoured vehicle project (part of the Government's projected modernization of the Canadian Forces, envisaged by DND to proceed in the early-to-mid 1990s), provided the company meets the Government's technical, operational and industrial/regional benefits requirements.

Since the Prime Minister's direction to Senator Murray in June 1987, to evaluate and report back on the Thyssen proposal, senior ACOA officials, in consultation with officials of DRIE, DND, and on occasion, PCO, Finance, Justice, and External Affairs, have met with Thyssen at length and developed further the company's heavy-industry proposal. Although Thyssen had originally sought a directed contract from the Government to provide DND with 250 LAVs in the early 1990s, the company has softened considerably its position, and is now willing to proceed with the heavy-industry facility on the basis of established government regional and industrial development assistance, and on the understanding that it will be considered for participation in the LAV program.

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From the Government's perspective, the heavy-industry proposal for Cape Breton offers very considerable benefits, including technology transfer, to a particularly underdeveloped region of Canada. The Cape Breton plant would also pursue shared production and sourcing arrangements with Davallin (at Trenton), and is ideally positioned to supply heavy-industry requirements of Hibernia.

At this point, Thyssen will commit to establishing a facility which would employ a minimum of 400 people. Employment is expected to grow considerably when diversification occurs.

STATUS: In order to report to the Prime Minister on the Thyssen proposal, the Prime Minister's Office and Senator Murray asked ACOA officials to take discussions

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with Thyssen to the point where the minimum undertakings required from the Government of Canada to allow the project to proceed, would be determined.

On September 12, Senator Murray met with Mr. de Cotret to discuss the Thyssen proposal. Mr. de Cotret agreed to sign the Understanding in Principle, in recognition that to proceed, the Bear Head proposal required the document as an interim step, prior to the development of a formal business plan.

Mr. de Cotret observed to Senator Murray that DRIE had some 800 projects seeking applications for financial assistance for which no DRIE funding was available. In this context, Mr. de Cotret stressed that the Government would have to develop a source of funds for projects valued in excess of \$20 million, and that, in the case of Thyssen, funds would have to be earmarked prior to Thyssen's submission of a business plan, and application for funding.

On September 14, Mr. Derek Burney chaired a meeting attended by Senator Murray and Mr. Beatty. Mr Beatty agreed to sign the Understanding in Principle subject to further Ministerial discussion, as required, providing that:

- (1) the company be informed clearly that in signing the UIP, the Minister of National Defence was not binding the Government to proceed with the LAV project;
- (2) a letter be sent from the DND Minister to the ACOA Minister noting that in signing the Understanding in Principle, the Minister of Defence was not limiting his discretion to determine the timing of the LAV project, and to recommend a preferred bidder to Cabinet; and
- (3) communications of the initiative be "low-key".

These conditions are entirely in accordance with the Thyssen proposal and Understanding in Principle. Efforts for their implementation are well underway.

DEPARTMENTAL POSITIONS: The Department of External Affairs has no concerns regarding the Bear Head proposal, providing that its stated objective, defence-related production aimed at North American (or NATO) markets and in the long-term, diversification into civilian production, is realized. External Affairs would, however, be concerned, if, in the long-run, with these markets, the Bear Head facility was not commercially-viable, and as a result, petitioned the Government to allow military exports into markets prohibited under Canada's export control policy. In this regard, External Affairs cautions that Thyssen's entry to U.S. military vehicle markets is by no means assured, because the U.S. Department of Defense has historically purchased its vehicle requirements almost exclusively from domestic sources.

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The Department of Finance is concerned that if Ministers sign the Understanding in Principle, the Government will be entering into a de facto commitment, and moreover, a commitment not supported by a business plan. Finance is also concerned that if Ministers wish to enter into such a commitment, that a source of funds, from existing resources, be identified.

The Department of Regional Industrial Expansion is concerned that within its reference levels, funding for major projects, including Thyssen, is unavailable. On industrial policy grounds, DRIE cannot support the establishment of the Thyssen facility because the Thyssen project would exacerbate existing excess capacity in Canada, in the heavy fabrication including the, military-vehicle sector.

DND
2(1)

The Department of National Defence is preparing documentation to meet the requirements of the position adopted by Mr. Beatty in his discussions with Senator Murray and Mr. Burney on September 14, 1988, as summarized on page 5. Mr. Beatty has agreed to sign the Understanding in Principle, on the understanding that he is acting in accordance with his commitment to the Minister of Finance, concerning the funding of future defence projects.

(1)

TIMING: Thyssen must establish shortly a manufacturing facility in North America to be in a position to win -- in conjunction with its partner, General Dynamics -- a portion of an upcoming U.S. Department of Defence procurement of armoured vehicles, valued at about \$750 million (U.S.). Moreover, the U.S. government plans to proceed with a massive procurement of armoured vehicles, valued at some \$200 billion, for which Thyssen, at Bear Head, would be eligible to compete, under the Canada-U.S. Defence Production Sharing Agreement.

From the Government's perspective, the Thyssen proposal has been developing for some time. Given the timing of the U.S. project, if Ministers wish to support the establishment of the heavy-industry facility at Bear Head, a decision to proceed further will have to be reached soon.

FINANCIAL IMPLICATIONS: Thyssen is not applying for government assistance at this juncture, and any such application cannot proceed without a formal business plan. Moreover, in the absence of a business plan for both phase I and Phase II, the ultimate draw on (and profile of) government funding, arising from the Bear Head project, is very difficult to determine.

13-C

However, should the Bear Head project proceed as envisaged, including Phase I and Phase II, federal Government assistance could be as high as \$50 million, over at least three years, beginning in 1989/90. The province of Nova Scotia, in addition to land, would provide a further \$8 million, as its share of the common-user infrastructure.

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4/2

A source of funds for the federal assistance has not been identified, and must be developed prior to Thyssen's submission of a formal business plan and application for funding.

It will be necessary to agree with the Government of Nova Scotia to augment the approximately \$11 million in funds currently available in the Strait of Canso Industrial Development Agreement, which be used as an instrument and a partial source of funds to provide the infrastructure assistance. This funding would come from the Atlantic Cooperation (ERDA) funds notionally set aside.

Funding under the Defence Industry Productivity Program (DIPP), which historically has not been a particularly active program in Atlantic Canada, is not available within existing DRIE reference levels. Further, Atlantic Enterprise Program funding, delivered by DRIE, is also not available within existing DRIE reference levels.

Additional funding for this project must eventually be considered within the broader issue of how -- following the expiration of the IRDE -- the government is to provide assistance to industrial projects in Atlantic Canada, valued at greater than the \$20 million ceiling for ACOA participation.

EVOLUTION OF THE THYSSEN PROPOSAL: Since Thyssen's original request in 1985, the Federal Republic of Germany has revised its armaments exports policy to allow for specific arms exports from Germany to the Middle East. Accordingly, the current proposal by Thyssen is entirely independent of domestic German exports policy.

RELATED ISSUES: In the course of responding to the Thyssen proposal, Ministers may wish to weigh the following considerations:

17. 11/85
Suitability of the Thyssen vehicle for DND: The operational and technical requirements for the LAV vehicle must be determined solely by DND, and, as noted in the Understanding in Principle, Thyssen will be required -- as will other potential contractors -- to satisfy fully these operational requirements prior to being considered for participation in the "LAV project" foreseen for the early-to-mid 1990s. While Thyssen has consistently maintained that it will be able to meet DND requirements, DND officials observe that Thyssen does not currently manufacture a vehicle which meets the operational requirements envisaged for the LAV project.

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Support of the Government of Nova Scotia: Thyssen has already entered into an agreement with the Government of Nova Scotia regarding the provision of land, and provincial site-establishment assistance.

Creation of additional Canadian military vehicle production capacity: While there is no question that the Bear Head heavy-industry facility would add to Canada's existing industrial capacity in this sector,

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now comprising primarily the GM plant in London, Ontario, (and also potentially including FMC, Canadian Foremost, Lavalin, Bombardier, and so on) the proposed arrangement with Thyssen for participation in the LAV contract would not exclude others -- including GM -- from participating as well. Moreover, when diversification into civilian production occurs, the Bear Head facility would contribute greatly to the industrial base of Atlantic Canada, and create a facility capable of competing for military vehicle contracts -- and in other civilian markets -- in the U.S. On the contrary, in order to establish an Atlantic facility, GM, so far, has sought directed, sole-source, military contracts on a single-product-facility basis, with little of the regional or other industrial diversification benefits of the Thyssen proposal.

Consistency of the "Understanding in Principle" and the Government's procurement policy: The Government would stress from the beginning that while Bear Head would be considered for participation in the LAV contract, the proposed arrangements in no way constitute sole sourcing, nor guaranteed participation, and that the fundamental principles of operational requirements and competitive pricing are protected fully.



NEXT STEPS: Should Ministers wish to contemplate a regional development proposal of this kind, the following course of action could be pursued:

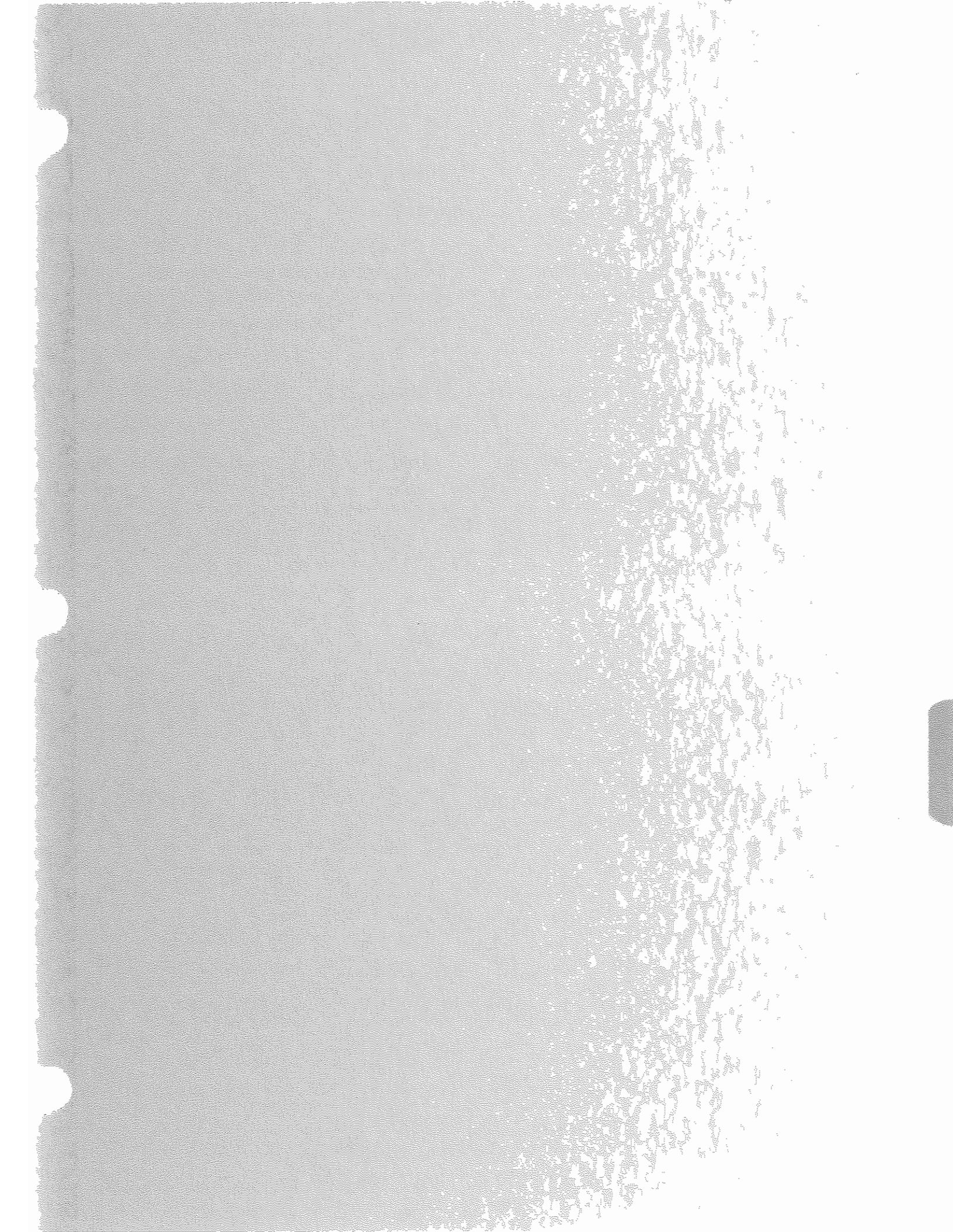
September 1988

- immediate finalization of the Understanding in Principle; and
- agreement on, and signature of, the Understanding in Principle by involved Ministers.

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Fall 1988

- formal, detailed negotiations between key federal departments (ACOA, ERIC, DND, Supply and Services) and the company to develop fully a corporate business plan and assistance package;
- concluding negotiations between the federal Government and the Government of Nova Scotia on the common-user infrastructure arrangements;
- preparation of a formal Memorandum of Understanding between the Government of Canada and Bear Head Industries Ltd.;
- formal submission of a Memorandum to Cabinet to CCERD;
- the signing of a formal contractual, legally-binding agreement between Bear Head and the Government.





Atlantic Canada
Opportunities Agency

Ottawa Office
P.O. Box 3442, Stn. "D"
Ottawa, Ont.
Canada K1P 6N8

(613) 954-8860
FAX: (613) 954-0429

Agence de promotion économique
du Canada atlantique

Bureau d'Ottawa
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Ottawa (Ont.)
Canada K1P 6N8

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FAX: (613) 954-0429



MEMORANDUM

September 23, 1988

TO: The Honourable Lowell Murray

FROM: Don S. McPhail

SUBJECT: Letter to Bear Head Industries attaching
"Understanding in Principle"

Please find attached for your signature a letter to Mr. Karlheinz Schreiber, Chairman of Bear Head Industries Limited, formally transmitting the Understanding in Principle from the Government to the company for signature. As the letter indicates, following signature by the company, the Understanding in Principle will be returned to you so that you may seek the necessary signatures of your colleagues.

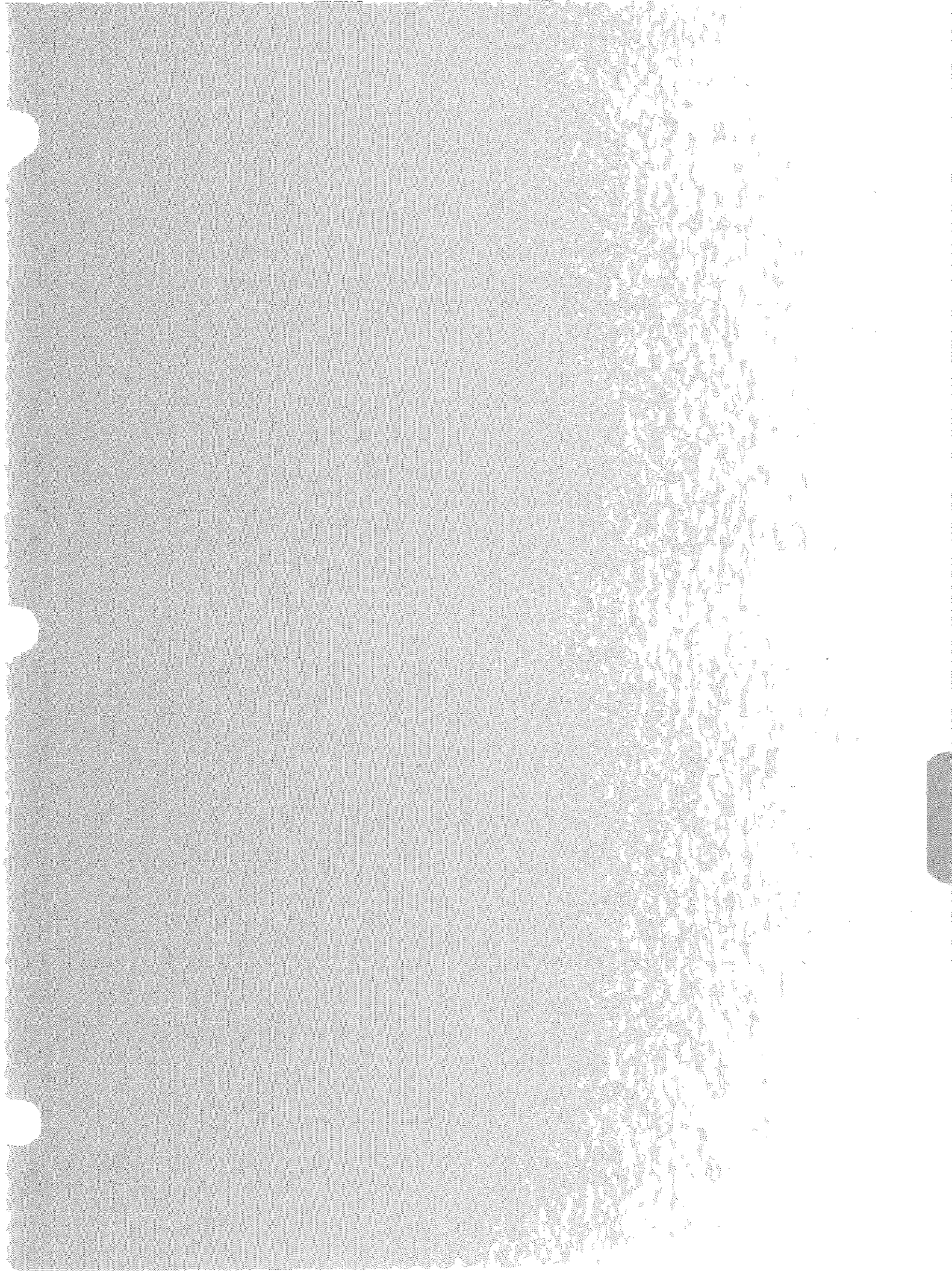
As you may recall during your meeting with Mr. Beatty and Mr. Burney on September 14, Mr. Beatty insisted, as a precondition to signing, that the company be informed that the Understanding in Principle in no way compromise the ability of the Minister of Defence to recommend to Cabinet, a preferred bidder for the LAV project. Accordingly, in order to satisfy the request of their Minister, the Department of National Defence has inserted the second sentence, paragraph 3, page 2.

In addition, this letter has been reviewed by the Department of Justice to ensure its legal appropriateness, and the minor amendments suggested by Justice have been incorporated.

Don S. McPhail
Don S. McPhail

Attachments

Canada



The Cabinet Committee on Priorities and PlanningLe Comité du Cabinet chargé des
Priorités et de la planificationMinutes

A meeting of the Cabinet Committee on Priorities and Planning was held in Room 323-S, House of Commons, on Tuesday, September 27, 1988 at 9:30 a.m.

Procès-verbal

Une réunion du Comité du Cabinet chargé des Priorités et de la planification a eu lieu dans la pièce 323-S, Chambre des communes, le mardi 27 septembre 1988 à 9h30.

- 1.) Assistance to Bear Head Industries/Aide à la Bear Head Industries
(S-0361-BHRD(01)(NED))

The Committee agreed that:

- 1. the Minister responsible for the Atlantic Canada Opportunities Agency, the Minister of Regional Industrial Expansion, and the Minister of National Defence be authorized to sign an Understanding in Principle, as set out in the annex to this Cabinet Decision, with Bear Head Industries Limited, a subsidiary of Thyssen Industries AG, regarding the establishment of a heavy-industry manufacturing facility in Cape Breton;
- 2. the Minister responsible for the Atlantic Canada Opportunities Agency return to Cabinet with a proposal to assist Bear Head Industries Ltd. in the establishment of this manufacturing facility once full project details are available;
- 3. the source of funds for any federal assistance is to be determined once full project details are available; and
- 4. the press release announcing the project state specifically that the project will comply with Canada's arms export policy.

ANNEX

UNDERSTANDING IN PRINCIPLE

This document signed this day of September, 1968,
between:

THE GOVERNMENT OF CANADA, as
represented by:

i) the Minister responsible for
the Atlantic Canada Opportunities
Agency (hereinafter called "the
ACOA Minister"),

ii) the Minister of Regional
Industrial Expansion (hereinafter
called "the DRIE Minister"), and

iii) the Minister of National
Defence (hereinafter called "the
National Defence Minister); and

BEAR HEAD INDUSTRIES LTD., a
company incorporated under the
laws of Nova Scotia, a subsidiary
which is one hundred (100%)
percent owned by Thyssen
Industries A.G. of the Federal
Republic of Germany (hereinafter
called "the Company").

WHEREAS the Government of Canada desires to foster the economic expansion and industrial development of Cape Breton;

WHEREAS the Company must have in place a North American heavy-industry manufacturing facility on an urgent basis, and desires to establish such a facility in the Bear Head peninsula region of Cape Breton;

WHEREAS the Government of Canada recognizes that the proposed Bear Head facility represents an important economic development and diversification of the industrial base of Cape Breton; and

WHEREAS the Company is preparing financial details on its proposal, to meet the information requirements of the Government's established regional development capital contribution, and other assistance programs.

1. In accordance with this Understanding in Principle, the Company shall establish a diversified heavy-industry manufacturing facility in the Bear Head region of Cape Breton, Nova Scotia, which will:

(a) create in Cape Breton a new and diversified activity in the Canadian civilian and defence industrial base, with access to the North American defence markets, under the Canada U.S. Defence Production Sharing Agreement;

(b) transfer to the facility, all technology necessary for the construction of light armoured vehicles, and other heavy-industry products;

(c) source its requirements co-operatively from, and implement arrangements for joint-venture activities with, the Lavalin (UTDC) heavy-industry facility, in Trenton, Nova Scotia, in accordance with existing agreements between the Company and Lavalin;

(d) to the greatest extent possible, source its requirements from, and promote the establishment of, small business enterprises located in Atlantic Canada;

(e) implement arrangements for co-production with Krauss Maffei, in accordance with existing agreements between the Company and Krauss Maffei, if, under the Main Battle Tank project envisaged by the Government of Canada, Krauss Maffei is selected to manufacture Canada's replacement battlefield tanks; and

(f) employ a minimum of 500 people on a permanent, full-time basis and, where necessary, train these individuals in required skills and knowledge, utilizing, where appropriate, local educational facilities.

2. In accordance with this Understanding in Principle, the Government of Canada, in order to facilitate the establishment of the Company's heavy-industry manufacturing activity in Cape Breton, will:

(a) enter into negotiations with the Province of Nova Scotia, in accordance with existing letters to the Company from the Premier of Nova Scotia, to put in place financial arrangements for the co-funding of required physical infrastructure, up to a maximum value of \$27 million, and to use the Strait of Canso Industrial Development Subagreement as a source of funding;

(b) entertain an application by the Company to the Minister of National Revenue for assistance based on eligible project costs up to a maximum of \$68 million, under the provisions of the Cape Breton Investment Tax Credit, in accordance with the formal application for such assistance filed by the Company prior to June 30, 1988;

(c) entertain an application by the Company to the Minister of National Revenue for duty remission on the importation of machinery, parts, and components for the manufacturing of vehicles, under the Machinery and Equipment Tariff Program, consistent with this program at the time of such importation; and

(d) entertain an application by the Company to the Minister of Employment and Immigration for government participatory funding, for initial employee training.

3. In recognition of the need to proceed urgently, the Government of Canada and the Company agree to adopt a two-phased approach to the establishment of the Bear Road facility.

PHASE I

4. The Government of Canada and Company agree that in Phase I, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed forthwith with the construction of an initial plant, as described in the document submitted to ACOA in March 1988, requiring an initial capital investment of \$98 million, to manufacture defence products for the North American markets;

(ii) the Company will have submitted a formal application to Enterprise Cape Breton, in advance of June 30, 1988, seeking assistance under the Cape Breton Investment Tax Credit (CBITC); and

(iii) the Company will provide by October 31, 1988, financial and other details associated with Phase I, and, in the shortest time possible thereafter, the remaining information required in order to qualify for assistance under the Defence Industries Productivity Program (DIPP), and other government assistance programs, under which funding is sought.

(b) the Government of Canada:

(i) the ACOA Minister, and the DRIE Minister, will consider assistance to the Company, up to a maximum of fifty (50) percent of eligible project costs, under programs delivered by Enterprise Cape Breton, consistent with these programs at the time the Bear Head project becomes eligible for such assistance.

(ii) The Minister of National Defence, in recognition of the excellent international reputation for quality and performance earned by Thyssen Industries A.G. in the military vehicle sector, and in the context of the major acquisition program for the upgrading of the Canadian Forces envisaged in the Defence White Paper, will consider the participation of the Company in the Light Armoured Vehicle Procurement Program, envisaged to occur in the early-to-mid 1990's, provided the Company:

(a) develops, designs, and manufactures, in its Cape Breton facility, these vehicles from its entire technology range according to the operational requirements of the Government of Canada,

(b) meets the Government's requirements for quality, delivery, and logistic support, including personnel training,

(c) delivers and performs at internationally competitive prices, and

(d) provides acceptable regional and industrial benefits; and

(iii) the DRIE Minister will consider capital establishment assistance to the Company, under the defence Industries Productivity Program (DIPP), consistent with this program at the time the Bear Head project becomes eligible for such assistance.

PHASE II

9. The Government of Canada and Company further agree that in Phase II, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed not later than twelve (12) months after the commencement of production under Phase I, with diversification into heavy civilian manufacturing production targeted at Canadian and international markets;

(ii) the Company will provide within six (6) months after the commencement of production under Phase I, financial details including product and market projections associated with Phase II; and

(iii) should Phase II not be proceeded with, the Company will reimburse the Government of Canada for:

- (1) assistance as is provided by the ACOA and DRIE Ministers under paragraph 4 b(1) above, and
- (2) a portion, to be determined in subsequent negotiations, of the infrastructure assistance provided under paragraph 2 (a) above, in the event that the planned employment level of 400 people for Phase I is not sustained for 5 years.

(b) the Government of Canada:

The ACOA Minister, and the DRIE Minister, will consider assistance to the Company, under established regional and industrial development programming, consistent with such programs at the time the Bear Head project becomes eligible for such assistance.

6. This Understanding in Principle may be complemented by future Memoranda of Understanding.

7. The understandings in principle set out in this Understanding in Principle do not create any enforceable, legal or equitable rights, nor obligations, but merely serve to document the:

- (a) parameters that have been set; and
- (b) areas on which discussions have been held, and understandings in principle reached.

Further clarifying negotiations and the requisite approval from all appropriate parties (including without limiting the foregoing, Treasury Board, and the Board of Directors of Bear Head Industries Ltd.) are needed before contractual documentation can be entered into.

THE GOVERNMENT OF CANADA

Minister responsible for the
Atlantic Canada Opportunities Agency

Minister of Regional Industrial
Expansion

Minister of National Defence

BEAR HEAD INDUSTRIES LIMITED

Le Comité convient :

1. que le ministre responsable de l'Agence de promotion économique du Canada atlantique, le ministre de l'Expansion industrielle régionale et le ministre de la Défense nationale soient autorisés à conclure, avec la société Bear Head Industries Limited, filiale de la Thyssen Industries AG, une entente de principe conforme à l'annexe à la présente concernant l'établissement d'une usine de fabrication de produits de l'industrie lourde au Cap-Breton;
2. que, une fois que tous les détails du projet seront connus, le ministre responsable de l'Agence de promotion économique du Canada atlantique soumette à nouveau au Cabinet une proposition visant à aider la Bear Head Industries à établir cette unité de fabrication;
3. que la source des fonds destinés à toute aide fédérale soit déterminée une fois que tous les détails du projet seront connus; et
4. que le communiqué de presse annonçant le projet mentionne expressément que celui-ci sera conforme à la politique canadienne d'exportation d'armes.

ANNEXE

ENTENTE DE PRINCIPES

Le présent document a été signé le septembre 1988,
par : LE GOUVERNEMENT DU CANADA,
représenté par

i) le ministre responsable de
l'Agence de promotion économique du
Canada atlantique (nommé ci-après
"le ministre responsable de
l'APECA"),

ii) le ministre de l'Expansion
industrielle régionale (nommé
ci-après "le ministre de l'ER"),
et

iii) le ministre de la Défense
nationale (nommé ci-après "le
ministre de la Défense nationale");
et

BEAR HEAD INDUSTRIES LTD., société
constituée en vertu des lois de la
Nouvelle-Écosse et filiale à cent
pour cent (100 %) de la Thyssen
Industries A.G. de la République
fédérale allemande (nommée ci-après
"la Société").

VU que le gouvernement du Canada veut favoriser l'expansion économique et l'essor industriel du Cap-Breton;

VU que la Société a besoin sans tarder d'une unité nord-américaine de fabrication de produits de l'industrie lourde qu'elle veut établir dans la région péninsulaire de Bear Head au Cap-Breton;

VU que pour le gouvernement du Canada, l'unité qu'il est proposé d'établir à Bear Head, assurera un important essor de l'économie et la diversification de la base industrielle du Cap-Breton; et

VU que la Société est en train de préparer un état détaillé du financement de son projet pour répondre aux exigences prévues en matière d'information par l'apport de capitaux au développement régional et les divers programmes d'aide gouvernementaux en vigueur.

1. Conformément à la présente entente de principe, la Société va établir une unité diversifiée de fabrication de produits de l'industrie lourde dans la région de Bear Head au Cap-Breton (Nouvelle-Ecosse), qui :

a) créera au Cap-Breton une activité nouvelle et diversifiée s'inscrivant dans la base industrielle civile et de défense canadienne, avec accès aux marchés de défense nord-américains, aux termes de l'Accord canado-américain sur le partage de la production de défense,

b) transférera à l'unité toute la technologie nécessaire à la fabrication de véhicules blindés légers et d'autres produits de l'industrie lourde,

c) s'approvisionnera auprès de l'unité de fabrication de produits de l'industrie lourde de la Lavalin (UTDC) située à Trenton (Nouvelle-Écosse) et donnera suite aux accords conclus avec celle-ci sur des coentreprises, conformément aux ententes intervenues entre la Société et la Lavalin,

d) dans toute la mesure du possible, favorisera la création de petites entreprises commerciales dans le Canada Atlantique et s'approvisionnera auprès de celles-ci,

e) donnera suite aux accords de coproduction intervenus avec la Krauss Maffei, conformément aux ententes existant entre la Société et la Krauss Maffei si dans le cadre du projet de char de combat principal auquel songe le gouvernement du Canada, cette dernière est choisie pour fabriquer les chars de combat de remplacement du Canada, et

F) offrira des emplois permanents et à temps plein à au moins 500 personnes et, quand il le faudra, fera acquérir à celles-ci les compétences et connaissances nécessaires en faisant appel, s'il y a lieu, aux services pédagogiques locaux.

2. Conformément à la présente entente de principe, le gouvernement du Canada, pour faciliter l'établissement de l'unité de fabrication de produits de l'industrie lourde de la Société au Cap-Breton, va :

a) engager des négociations avec la province de la Nouvelle-Écosse, conformément aux lettres adressées à la Société par le Premier ministre de la Nouvelle-Écosse, pour conclure des ententes financières sur le cofinancement de l'infrastructure matérielle nécessaire, jusqu'à concurrence de 27 millions de dollars, et se servira des ressources prévues dans l'entente auxiliaire sur le développement industriel du détroit de Canço comme source de financement,

b) examiner la demande d'aide adressée par la Société au ministre du Revenu national en fonction des coûts admissibles du projet de 60 millions de dollars au maximum aux termes des dispositions du Crédit d'impôt à l'investissement au Cap-Breton, conformément à la demande d'aide officielle déposée par la Société avant le 30 juin 1988,

c) examiner la demande présentée par la Société au ministre du Revenu national en vue de la remise des droits de douane sur les machines, pièces et éléments entrant dans la fabrication des véhicules à importer aux termes du Programme tarifaire de la machinerie et de l'équipement, conformément au programme en question au moment de l'importation, et

d) examiner la demande adressée par la Société au ministre de l'Emploi et de l'Immigration en vue de la participation du gouvernement au financement de la formation initiale des employés.

3. Vu le caractère pressant du projet, le gouvernement du Canada et la Société conviennent d'adopter un plan d'établissement de l'unité de Bear Head en deux étapes.

PREMIER ÉTAPE

4. Le gouvernement du Canada et la Société conviennent de prendre les engagements que voici dans le cadre de la première étape :

a) la Société :

1) La Société procédera sans tarder à la construction de l'usine première décrite dans le document remis à l'APECA en mars 1988, exigeant un investissement initial de 50 millions de dollars, pour fabriquer du matériel de défense destiné aux marchés nord-américains,

ii) la Société aura présenté, avant le 30 juin 1988, une demande d'aide officielle à la Société d'expansion du Cap-Breton aux termes du Crédit d'impôt à l'investissement au Cap-Breton (CIICB), et

iii) la Société va fournir, d'ici le 21 octobre 1988, les détails d'ordre financier, et autres etc., se rapportant à la première étape et, le plus tôt possible par après, le reste de l'information nécessaire pour avoir droit à l'aide prévue par les programmes d'aide gouvernementaux et le Programme de productivité de l'industrie du matériel de défense, aux termes desquels des fonds sont demandés;

b) le gouvernement du Canada :

i) le ministre responsable de l'APECA et le ministre de l'EIR vont envisager la possibilité d'offrir une aide à la Société, jusqu'à concurrence de cinquante pour cent (50 %) des coûts admissibles du projet, aux termes des programmes exécutés par la Société d'expansion du Cap-Breton, conformément à ces programmes au moment où le projet de Bear Head pourra avoir droit à pareille aide,

ii) vu que le Thyssen Industries A.G. est renommée mondialement pour la qualité et la performance de ses véhicules militaires, et dans le contexte de l'important programme d'achats prévu dans le Livre blanc sur la défense au titre de la modernisation des Forces canadiennes, le ministre de la Défense nationale fera en sorte que la Société soit considérée à participer au Programme d'achat de véhicules blindés légers qui devrait intervenir entre le début et le milieu des années 90, à condition que celle-ci :

a) conçoive, dessine et fabrique ces véhicules dans ses installations du Cap-Breton en se servant de l'ensemble de ses connaissances techniques, conformément aux exigences d'ordre opérationnel du gouvernement du Canada,

b) réponde aux exigences gouvernementales pour ce qui est de la qualité, de la livraison et du soutien logistique, y compris la formation du personnel,

c) offre ses produits à des prix internationalement concurrentiels,

d) offre des retombées régionales et industrielles acceptables, et

iii) le ministre de l'EIR envisagera l'éventualité d'offrir une aide financière à l'établissement à la Société aux termes du Programme de productivité de l'industrie du matériel de défense, conformément à ce programme au moment où le projet de Bear Head pourra avoir droit à pareille aide.

DEUXIÈME ÉTAPE

5. Le gouvernement du Canada et la Société conviennent en outre de prendre les engagements que voici dans le cadre de la deuxième étape :

a) la Société :

i) la Société procédera, dans les douze (12) mois qui suivront le début de la production dans le cadre de la première étape, à la diversification de son activité en fabricant des produits de l'industrie lourde civils destinés aux marchés canadiens et internationaux.

ii) la Société va fournir, dans les six mois qui suivront le début de la production dans le cadre de la première étape, les détails d'ordre financier, y compris des projections sur les produits et marchés, se rapportant à la deuxième étape, et

iii) s'il est renoncé à la deuxième étape, la Société remboursera au gouvernement du Canada :

- 1) l'aide offerte par le ministre responsable de l'AFECA et le ministre de l'ÉIR aux termes de l'alinéa 4 b i), et
- 2) une partie, à être déterminée dans le cadre de négociations ultérieures, de l'aide fournie au titre de l'infrastructure aux termes du paragraphe 2 a) pour le cas où le niveau de 400 emplois prévu pour la 1^{re} étape ne serait pas maintenu pendant cinq ans;

b) le gouvernement du Canada

le ministre responsable de l'AFECA et le ministre de l'ÉIR envisageront la possibilité d'offrir de l'aide à la Société aux termes des programmes de développement industriel et régional en vigueur, conformément à ces programmes au moment où le projet de Bear Head pourra avoir droit à pareille aide.

6. La présente entente de principe pourra être complétée par les protocoles d'entente à venir.

7. La présente entente de principe ne crée ni droits exécutoires, légaux et équitables, ni obligations, mais sert simplement à indiquer :

- a) les paramètres qui ont été fixés, et
- b) les points dont il a été discuté et sur lesquels une entente de principe est intervenue.

Il faudra d'autres négociations et l'approbation nécessaire de toutes les parties compétentes (notamment le Conseil du Trésor et le conseil d'administration de la Bear Head Industries Ltd.) avant qu'un contrat puisse être conclu.

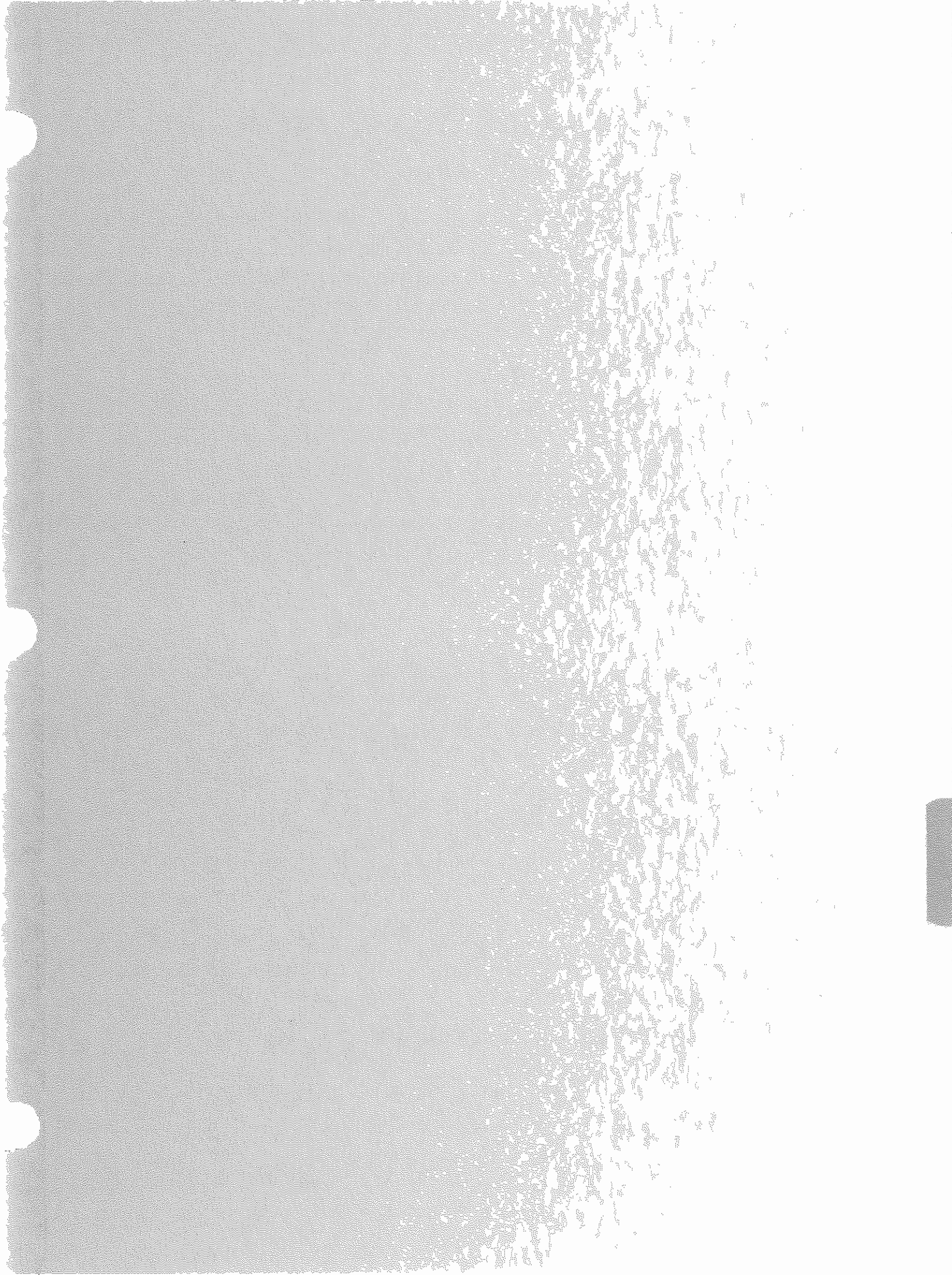
LE GOUVERNEMENT DU CANADA

Ministre responsable de l'Agence de
promotion économique du Canada Atlantique

Ministre de l'Expansion industrielle
régionale

Ministre de la Défense nationale

BEAR HEAD INDUSTRIES LIMITED



UNDERSTANDING IN PRINCIPLE

This document signed this 27 day of September, 1988,
between:

THE GOVERNMENT OF CANADA, as
represented by:

i) the Minister responsible for
the Atlantic Canada Opportunities
Agency (hereinafter called "the
ACOA Minister"),

ii) the Minister of Regional
Industrial Expansion (hereinafter
called "the DRIE Minister"), and

iii) the Minister of National
Defence (hereinafter called "the
National Defence Minister); and

BEAR HEAD INDUSTRIES LTD., a
company incorporated under the
laws of Nova Scotia, a subsidiary
which is one hundred (100%)
percent owned by Thyssen
Industries A.G. of the Federal
Republic of Germany (hereinafter
called "the Company").

WHEREAS the Government of Canada desires
to foster the economic expansion and industrial
development of Cape Breton;

WHEREAS the Company must have in place a
North American heavy-industry manufacturing facility on
an urgent basis, and desires to establish such a
facility in the Bear Head peninsula region of Cape
Breton;

WHEREAS the Government of Canada
recognizes that the proposed Bear Head facility
represents an important economic development and
diversification of the industrial base of Cape Breton;
and

WHEREAS the Company is preparing financial details on its proposal, to meet the information requirements of the Government's established regional development capital contribution, and other assistance programs.

1. In accordance with this Understanding in Principle, the Company shall establish a diversified heavy-industry manufacturing facility in the Bear Head region of Cape Breton, Nova Scotia, which will:

(a) create in Cape Breton a new and diversified activity in the Canadian civilian and defence industrial base, with access to the North American defence markets, under the Canada U.S. Defence Production Sharing Agreement;

(b) transfer to the facility, all technology necessary for the construction of light armoured vehicles, and other heavy-industry products;

(c) source its requirements co-operatively from, and implement arrangements for joint-venture activities with, the Lavalin (OTDC) heavy-industry facility, in Trenton, Nova Scotia, in accordance with existing agreements between the Company and Lavalin;

(d) to the greatest extent possible, source its requirements from, and promote the establishment of, small business enterprises located in Atlantic Canada;

(f) employ a minimum of 500 people on a permanent, full-time basis and, where necessary, train these individuals in required skills and knowledge, utilizing, where appropriate, local educational facilities.

2. In accordance with this Understanding in Principle, the Government of Canada, in order to facilitate the establishment of the Company's heavy-industry manufacturing activity in Cape Breton, will:

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(a) enter into negotiations with the Province of Nova Scotia,

D.200)(b)

and to use the Strait of Canso Industrial Development Subagreement as a source of funding;

(b) entertain an application by the Company to the Minister of National Revenue for assistance based on eligible project costs up to a maximum of \$68 million, under the provisions of the Cape Breton Investment Tax Credit, in accordance with the formal application for such assistance filed by the Company prior to June 30, 1988;

(c) entertain an application by the Company to the Minister of National Revenue for duty remission on the importation of machinery, parts, and components for the manufacturing of vehicles, under the Machinery and Equipment Tariff Program, consistent with this program at the time of such importation; and

(d) entertain an application by the Company to the Minister of Employment and Immigration for government participatory funding, for initial employee training.

3. In recognition of the need to proceed urgently, the Government of Canada and the Company agree to adopt a two-phased approach to the establishment of the Bear Head facility.

PHASE I

4. The Government of Canada and Company agree that in Phase I, the respective parties will undertake the following:

(a) the Company:

(1) the Company will proceed forthwith with the construction of an initial plant, as described in the document submitted to ACOA in March 1988, requiring an initial capital investment of \$58 million, to manufacture defence products for the North American markets;

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(ii) the Company will have submitted a formal application to Enterprise Cape Breton, in advance of June 30, 1988, seeking assistance under the Cape Breton Investment Tax Credit (CBITC); and

(iii) the Company will provide by October 21, 1988, financial and other details associated with Phase I, and, in the shortest time possible thereafter, the remaining information required in order to qualify for assistance under the Defence Industries Productivity Program (DIPP), and other government assistance programs, under which funding is sought.

(b) the Government of Canada:

(i) the ACOA Minister, and the DRIE Minister, will consider assistance to the Company, up to a maximum of fifty (50) percent of eligible project costs, under programs delivered by Enterprise Cape Breton, consistent with these programs at the time the Bear Head project becomes eligible for such assistance.

(ii) The Minister of National Defence, in recognition of the excellent international reputation for quality and performance earned by Thyssen Industries A.G. in the military vehicle sector, and in the context of the major acquisition program for the upgrading of the Canadian Forces envisaged in the Defence White Paper, will consider the participation of the Company in the Light Armoured Vehicle Procurement Program, envisaged to occur in the early-to-mid 1990's, provided the Company:

(a) develops, designs, and manufactures, in its Cape Breton facility, these vehicles from its entire technology range according to the operational requirements of the Government of Canada,

(b) meets the Government's requirements for quality, delivery, and logistic support, including personnel training,

(c) delivers and performs at internationally competitive prices, and

(d) provides acceptable regional and industrial benefits; and

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(iii) the DRIE Minister will consider capital establishment assistance to the Company, under the Defence Industries Productivity Program (DIPP), consistent with this program at the time the Bear Head project becomes eligible for such assistance.

PHASE II

5. The Government of Canada and Company further agree that in Phase II, the respective parties will undertake the following:

(a) the Company:

(i) the Company will proceed not later than twelve (12) months after the commencement of production under Phase I, with diversification into heavy civilian manufacturing production targeted at Canadian and international markets;

(ii) the Company will provide within six (6) months after the commencement of production under Phase I, financial details including product and market projections associated with Phase II; and

(iii) should Phase II not be proceeded with, the Company will reimburse the Government of Canada for:

- (1) assistance as is provided by the ACOA and DRIE Ministers under paragraph 4 b(i) above, and
- (2) a portion, to be determined in subsequent negotiations, of the infrastructure assistance provided under paragraph 2 (a) above, in the event that the planned employment level of 400 people for Phase I is not sustained for 5 years.

(b) the Government of Canada:

the ACOA Minister, and the DRIE Minister, will consider assistance to the Company, under established regional and industrial development programming, consistent with such programs at the time the Bear Head project becomes eligible for such assistance.

6. This Understanding in Principle may be complemented by future Memoranda of Understanding.


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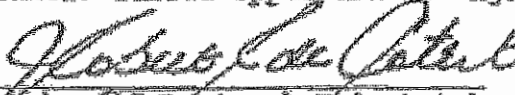
7. The understandings in principle set out in this Understanding in Principle do not create any enforceable, legal or equitable rights, nor obligations, but merely serve to document the:

- (a) parameters that have been set; and
- (b) areas on which discussions have been held, and understandings in principle reached.

Further clarifying negotiations and the requisite approval from all appropriate parties (including without limiting the foregoing, Treasury Board, and the Board of Directors of Bear Head Industries Ltd.) are needed before contractual documentation can be entered into.

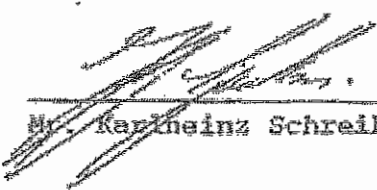
THE GOVERNMENT OF CANADA

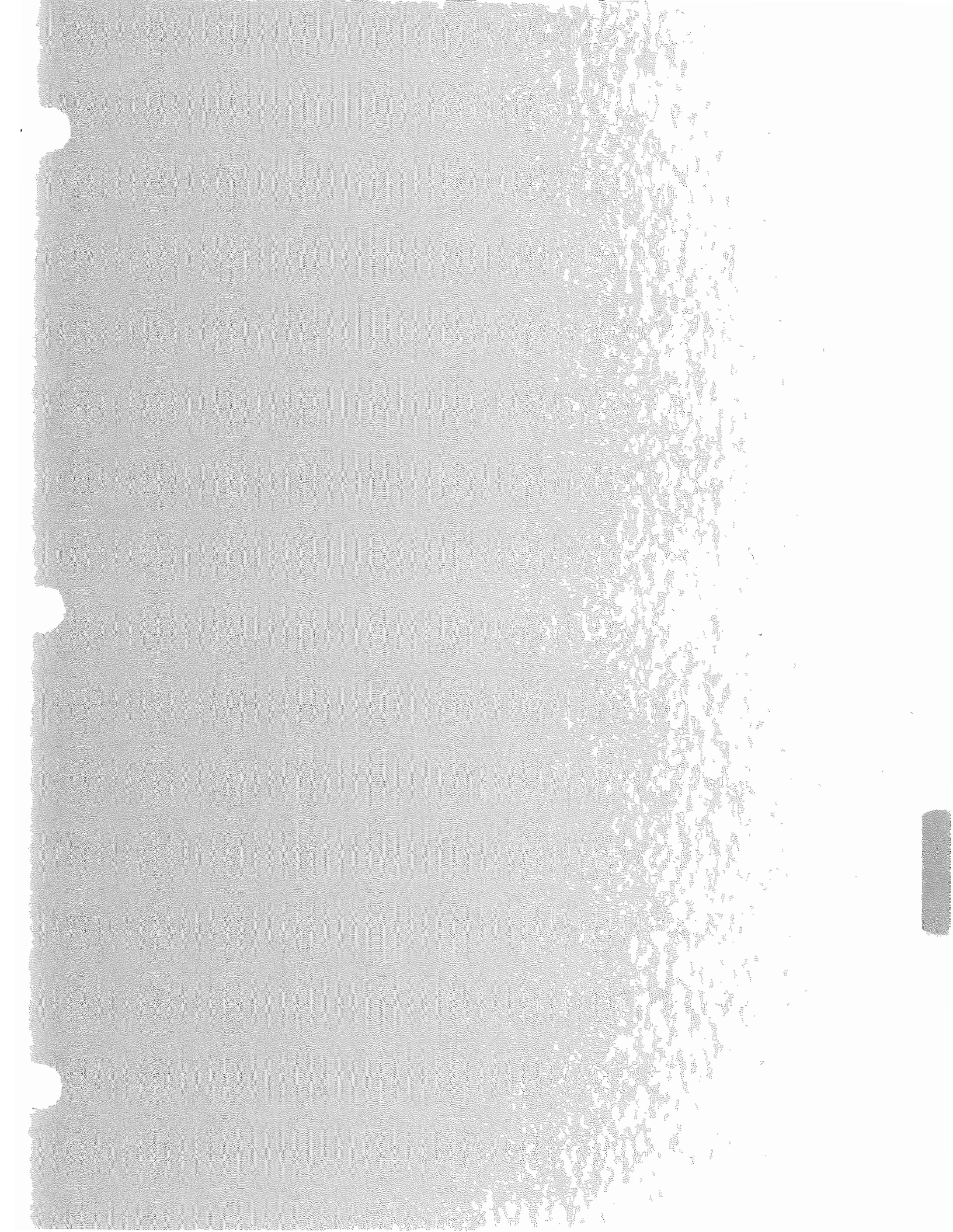

Minister responsible for the
Atlantic Canada Opportunities Agency


Minister of Regional Industrial
Expansion


Minister of National Defence

BEAR HEAD INDUSTRIES LIMITED


Mr. Karlheinz Schreiber, Chairman



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FROM ADM(NAT)

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Minister of National Defence



Ministre de la Défense nationale

October 20, 1985

**Mr. G.A. Paspples
President and General Manager
General Motors of Canada Limited
215 William Street East
Oshawa, Ontario
L1G 1K7**

Dear Mr. Paspples:

Further to my letter of September 26, I am pleased to advise you that the evaluation of the General Motors Diesel Division Unsolicited Proposal for Light Armoured Vehicles has been completed.

As you are no doubt aware by now, officials of my Department met again last week with representatives of the Diesel Division in order to conduct a more detailed review of individual elements of the Unsolicited Proposal and its costs. During these meetings, it was determined that \$175 million for all elements of the proposal is the order of the magnitude of costs required for implementation of the proposal.

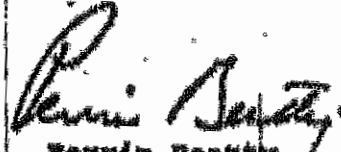
The purpose of this letter is to advise you that, on the understanding the 200 Light Armoured Vehicles and all other elements of your proposal can be delivered at a "not to exceed" cost of \$175 million, I am prepared to support the proposal to meet my Department's urgent requirement for Light Armoured Vehicles associated with our Land Reserve Modernization Program. Consequently, it is my intention to recommend to my Cabinet colleagues that a contract award be made to your Company, subject to successful negotiation of specific terms and conditions and total costs by the Department of Supply and Services. I am confident, therefore, that a decision will be taken in sufficient time to ensure the viability of the General Motors manufacturing operation in London and the continuance of its contribution to Canada's defence industrial base.

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I am also forwarding copies of this letter to my colleagues, the Minister of State, Finance, the Honourable Tom Heckin and the Honourable Otto Jelinek, the Minister of Supply and Services who have also agreed to support your proposal.

Sincerely,


Ferrin Beatty

C.c. The Honourable Tom Heckin, P.C., M.P.
The Honourable Otto Jelinek, P.C., M.P.





Atlantic Canada Opportunities Agency / Agence de promotion économique du Canada atlantique

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Minister / Ministre
Ottawa, Canada K1A0A4

THIS DOCUMENT IS THE PROPERTY OF THE GOVERNMENT OF CANADA AND IS TO BE PROTECTED IN ACCORDANCE WITH TREASURY BOARD CIRCULAR 1933-45 DATED 30 AUGUST 1983.	DISPOSITIONS DE LA C. 1983-45 DU CONSEIL TR. EN DATE DU 30 AOÛT 1983.
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SECRET

The Honourable Perrin Beatty, P.C.
Minister of National Defence
Room 707, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Handwritten notes and signatures, including "740" and "25252".

My dear Colleague:

It was with great concern that I recently learned of your letter of October 20th to Mr. George Peapples, President of General Motors Canada (GM), which states your intention to recommend to Cabinet that GM be selected as the contractor for the upcoming \$175 million militia-vehicle contract. While of course, as your letter points out, such a contract award will require thorough consideration by Cabinet, I am disturbed that you proceeded in your arrangements with GM, without advance consultation with me, and our Atlantic colleagues, despite previous concerns of an Atlantic nature associated with the militia contract, expressed to you by my predecessor the Honourable Lowell Murray.

As you will recall, following discussions between you and Senator Murray he followed up with letters to you on May 18, and June 15, concerning a possible arrangement between Atlantic Defence Industries Limited (ADIL) of Nova Scotia, and U.S.-based FMC, which could result in considerable Atlantic benefits, particularly if the M113 FMC vehicle was selected under the militia contract. ADIL pursued discussions with FMC on the understanding, clearly expressed by your officials, that for operational purposes, the M113 tracked vehicle was the only vehicle which might be considered appropriate for militia-training.

In stating your intention to recommend to Cabinet that the GM wheeled vehicle be selected instead, it would appear that not only have the vehicles' operational requirements changed substantially, but, as I understand GM's proposal, you would be seeking approval for a proposal which promises minimal regional industrial benefits for Atlantic Canada. Indeed, the GM proposal, as submitted, offers only ten percent of the contract for Atlantic Canada and, under GM's scenario, this minimal benefit would not be provided directly, but instead would depend on future sales.

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THIS FOLD / DOCUMENT CONTAINS CONFIDENCES OF THE QUEEN'S PRIVY COUNCIL FOR CANADA WHICH ARE TO BE PROTECTED IN ACCORDANCE WITH TREASURY BOARD CIRCULAR 1983-45 DATED 30 AUGUST 1983.

AVERTISSEMENT
CE DOCUMENT / DOCUMENT CONTIEN
CONFIDENCE DES RENSEIGNEMENTS "PRIVILEGIE" DU CONSEIL PRIVE DE LA REINE POUR LE CANADA. LESQUELS DOIVENT ETRE PROTEGES CONFORMEMENT AUX DISPOSITIONS DE LA CIRCULAIRE 1983-45 DU CONSEIL DU TRASOR EN DATE DU 30 AOÛT 1983.

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Moreover, I am most interested in your views on whether a selection by the Government in favour of GM, under the militia program, will assist GM in its expected bid to supply the Government with vehicles under the much-larger light armoured vehicle (LAV) program, anticipated in the mid-1990s. Indeed, would it not be the case that a non-GM company participating in the competitive process for the LAV contract -- such as Bear Head Industries which proposes to meet the Canadian LAV requirement from its plant in Cape Breton -- would be prejudiced in submitting a bid based on an armoured vehicle of non-GM origin? Consequently, I am deeply concerned about the implications of your letter to GM, as I do not believe that there has been adequate consultation for this type of commitment on behalf of the Government.

In fact, I would like to refer to our Cabinet deliberations earlier this year, where we and our colleagues agreed upon a strategy for the consideration of government procurement, including its application to defence procurement. Specifically, I refer to the Record of Decision for the Canadian Annual Procurement Strategy (1-0159-88RD). Amongst other things, it was decided that federal procurement objectives embraced the pre-eminence of operational requirements, competition, fairness, and accessibility as well as long-term industrial and regional development. Additionally, it was agreed that in reviewing regional development opportunities, special provisions might be necessary to develop regional economies and the defence industrial base.

As I see it, the purpose of the whole exercise was to enhance the effectiveness of the procurement system as an instrument for long-term industrial and regional development. It was noted to Ministers that they would have an early opportunity to test the practical application of these objectives in their consideration of specific upcoming major Crown projects.

Finally, in ratifying the CAPS process, including defence procurement, it was directed that federal industrial and regional development procurement efforts include "coordinating the implementation of such policies and strategies in cooperation with the Ministers responsible for WED and the Atlantic Canada Opportunities Agency". It is in accordance with this policy that I am making an effort to assist in safeguarding the competitive position of Atlantic Canadian firms wishing to have a real opportunity to compete for the LAV program.

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<p>SECRET</p> <p>WARNING</p> <p>THIS FOLDER / DOCUMENT CONTAINS CONFIDENCES OF THE QUEEN'S PRIVY COUNCIL FOR CANADA WHICH ARE TO BE PROTECTED IN ACCORDANCE WITH TREASURY BOARD CIRCULAR 10045 DATED 30 AUGUST 1933.</p>	<p>AVERTISSEMENT</p> <p>CE DOSSIER / DOCUMENT CONTIEN RENSEIGNEMENTS "PRIVILÉGIÉS" DE PRIVÉ DE LA REINE CANADA, LESQUELS ÊTRE PROTÉGÉS CONFORMÉMENT DISPOSITIONS DE 1833-45 DU CONSEIL EN DATE DU 30 AOUT 1933.</p>
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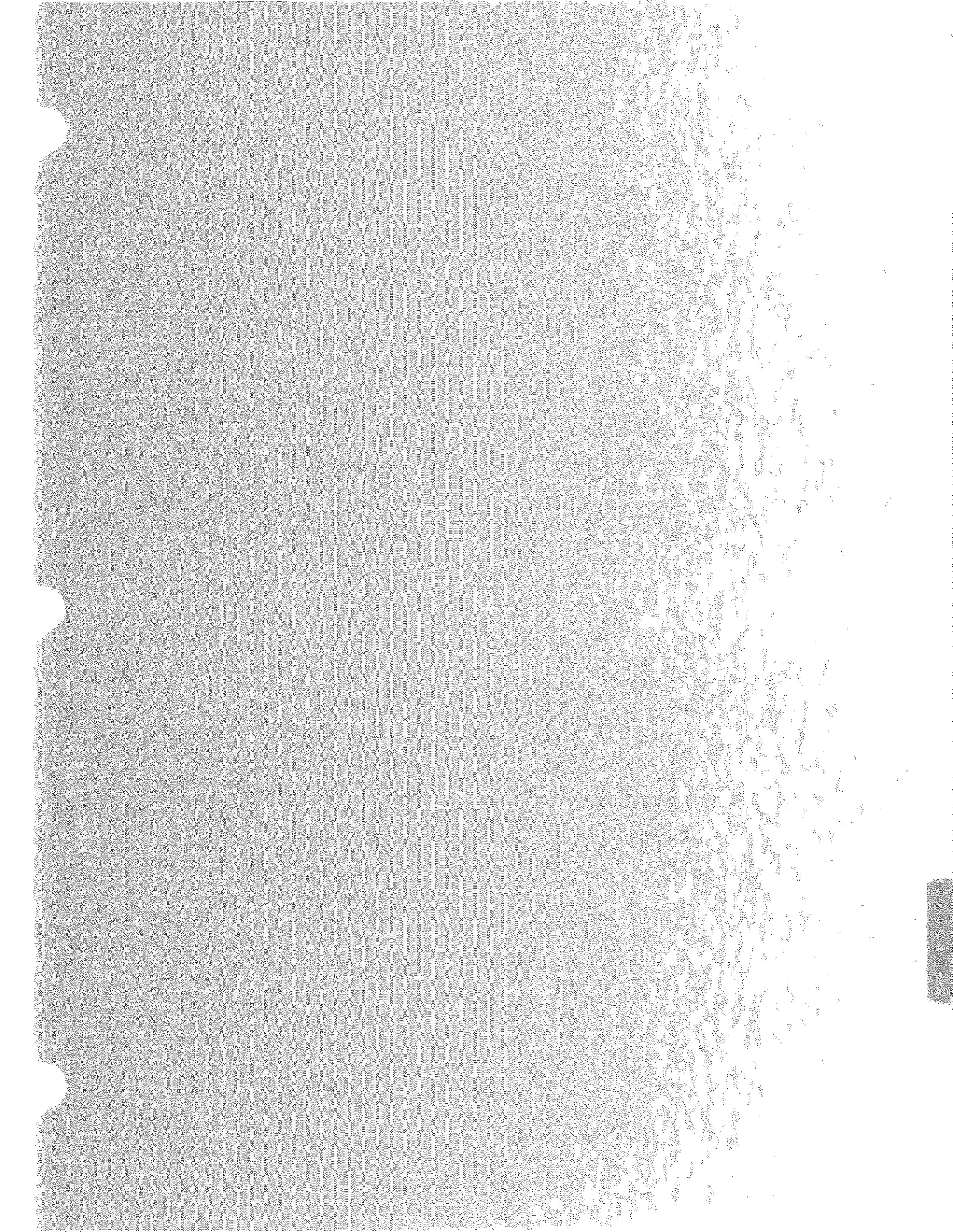
I am available to discuss this matter with you, prior to its formal consideration by Cabinet, at your convenience.

Yours sincerely,

Gerald S. Merrithew

c.c. Hon. Otto Jelinek
Hon. Robert de Cotret

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SUGGESTED REPLY

The Honourable Gerald S. Merrithew, P.C., M.P.
Minister of Veterans Affairs
Minister for the Purpose of the
Atlantic Canada Opportunities Agency Act
Room 435CB
House of Commons
Ottawa, Canada
K1A 0K6

Dear Colleague:

Thank you for your letter of November 1988 in which you clearly express your concern over my Department's proposal to procure a limited quantity of light armoured vehicles from Diesel Division of General Motors (DDGM) in London, Ontario. Allow me to explain our rationale and attempt to allay the fears you have expressed on behalf of both Atlantic Canada and Bear Head Industries.

Until August of this year we were actively considering procurement of FMC Corporation's M113 tracked vehicles for the Land Reserve Modernization Program requirement. The rationale for this decision was, in part, that troops should train on equipment identical to that which they would use in combat. In June, 1988 Supply and Services Canada requested on DND's behalf, price, availability and industrial/regional benefit information from FMC Corporation on this program. The request specifically asked FMC to

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indicate what arrangements it had with ADIL or any other companies for Canadian participation.

In its July 29, 1988 response, FMC indicated that a "co-production program for these vehicles...is difficult to justify in economic terms based on this program alone".

While acknowledging some possibility of Canadian participation at a 15-40 per cent premium (excluding amortization of facilitization, capital equipment or shut down costs), there was no indication from FMC of any partnership with Canadian industry.

FMC next submitted an unsolicited proposal in September 1988 to meet all DND's present and future light armoured vehicle requirements. This proposal specifically recommended against Canadian production of the Militia vehicles and concentrated on the future Light Armoured Vehicle Project, aimed at replacing and upgrading the existing M113 fleet.

FMC's unsolicited proposal and its earlier response to the Supply and Services request for information, essentially put to rest any serious possibility that FMC would be either prepared or able to meet the small Militia

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requirement from a Canadian-based source in an economic fashion in the necessary time frame.

While the possibilities of an M113 procurement were being pursued, this department received an Unsolicited Proposal, dated August 4, 1988 from Diesel Division General Motors of Canada Ltd. The proposal was for the purchase of 200 Light Armoured Vehicles from General Motors for the Land Reserve Modernization Program. This procurement would prevent the continued layoff of their skilled workforce and, more importantly, would ensure the continued operation of their plant through a forecasted shut-down period. This relatively small procurement would also position the company for billions of dollars worth of future light armoured vehicle export defence business, largely in the United States.

General Motors expressed concern that should the existing production gap in the 1988-91 time frame not be bridged, there were some questions regarding the future viability of the Defence Operations Branch at DDGM and a strong possibility that Defence Operations would be transferred to a U.S. location, unlikely to return to

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Canada. At the peak of production, the Defence Operations Branch of DDGM employed 800 people, whereas at the time of the unsolicited proposal, the level was 375 moving down to a strength of less than 200 by August 1989.

Recognizing the requirements of this program, DDGM redesigned their 8x8 vehicle to closely resemble the configuration of the M113 Armoured Personnel Carrier, thus making it acceptable to the user for training purposes. The GM 8x8 vehicle has been successful in trials by the United States Marine Corps and ultimately resulted in their procurement of 759 vehicles.

It was in this context of maintaining an existing and proven capability within the Canadian defence industrial base, together with the unfavourable future prospects for the Defence Operations Branch of DDGM, in terms of a possible transfer of production capability to the United States and the subsequent loss of Canadian jobs and technology, that a decision was made to support the DDGM unsolicited proposal.

I can assure you that the decision to support the DDGM proposal was not an arbitrary one based on a reversal of

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operational requirements. I can also assure you that ACOA staff along with other concerned departments have been fully involved in discussions on the development of the industrial and regional development aspects of the proposal, and the staffing of the approval documentation, including attendance at the Interdepartmental Senior Review Board held December 20, 1988. I am sure you were as pleased as I to hear that discussions with GM indicate that it may be feasible to improve their proposed regional benefits package to 15% of the value of the contract in direct or offset work to both Western and Atlantic Canada.

In closing, please be assured that nothing in our current proposal to maintain this valuable capability of DDGM in Canada is intended to reduce in any way the potential for members of the Canadian Defence Industrial Base, including Bear Head Industries, to compete in the main DND procurement of light armoured vehicles, which is planned to occur in the 1993-95 time frame.

I am forwarding copies of this letter to our colleagues, the Minister of Industry Science and Technology,

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the Minister of Supply and Services, and the Minister of State for Finance, who are also concerned with this matter.

Sincerely,

Perrin Beatty

cc: The Honourable Robert de Cotret, P.C., M.P.
The Honourable Otto Jelinek, P.C., M.P.
The Honourable Tom Hockin, P.C., M.P.

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CONFIDENTIAL

November 2, 1988

MEMORANDUM FOR MR. TELLIER

FROM: Ernest Hébert

Letter from Mr. Beatty to Mr. Peapples,
President of General Motors of Canada

Attached for your information is a letter from Mr. Beatty to Mr. George Peapples, President of General Motors of Canada, in which he agrees to seek Cabinet approval for a \$175 million contract for 200 Light Armoured Vehicles for the Army Reserves. This letter comes in response to an earlier one from Mr. Peapples - which we have not seen - in which Mr. Peapples stated that in the absence of further defence contracts, General Motors Diesel Division (GMDD) in London, Ontario could face closure.

The reasons for sending this letter would appear to be a combination of the following:

- * the desire to be seen to do something for the Militia, which have yet to benefit greatly from the Defence White Paper despite the priority placed on their revitalization (as part of the reserve component of the Canadian Forces);
- * the desire, in the current context, to satisfy the special interests of those such as Tom Hockin, in whose region GMDD is located;
- * the desire to maintain GMDD as a viable competitor to Thyssen when the Army LAV contract comes up and to deny Thyssen the possibility of this contract for 200 LAVs for the Reserves. (You will recall Mr. Beatty's opposition to the Thyssen deal, partly on the grounds of the damage it might do to GMDD.)

AGC00926

We find the letter somewhat disturbing for the following reasons:

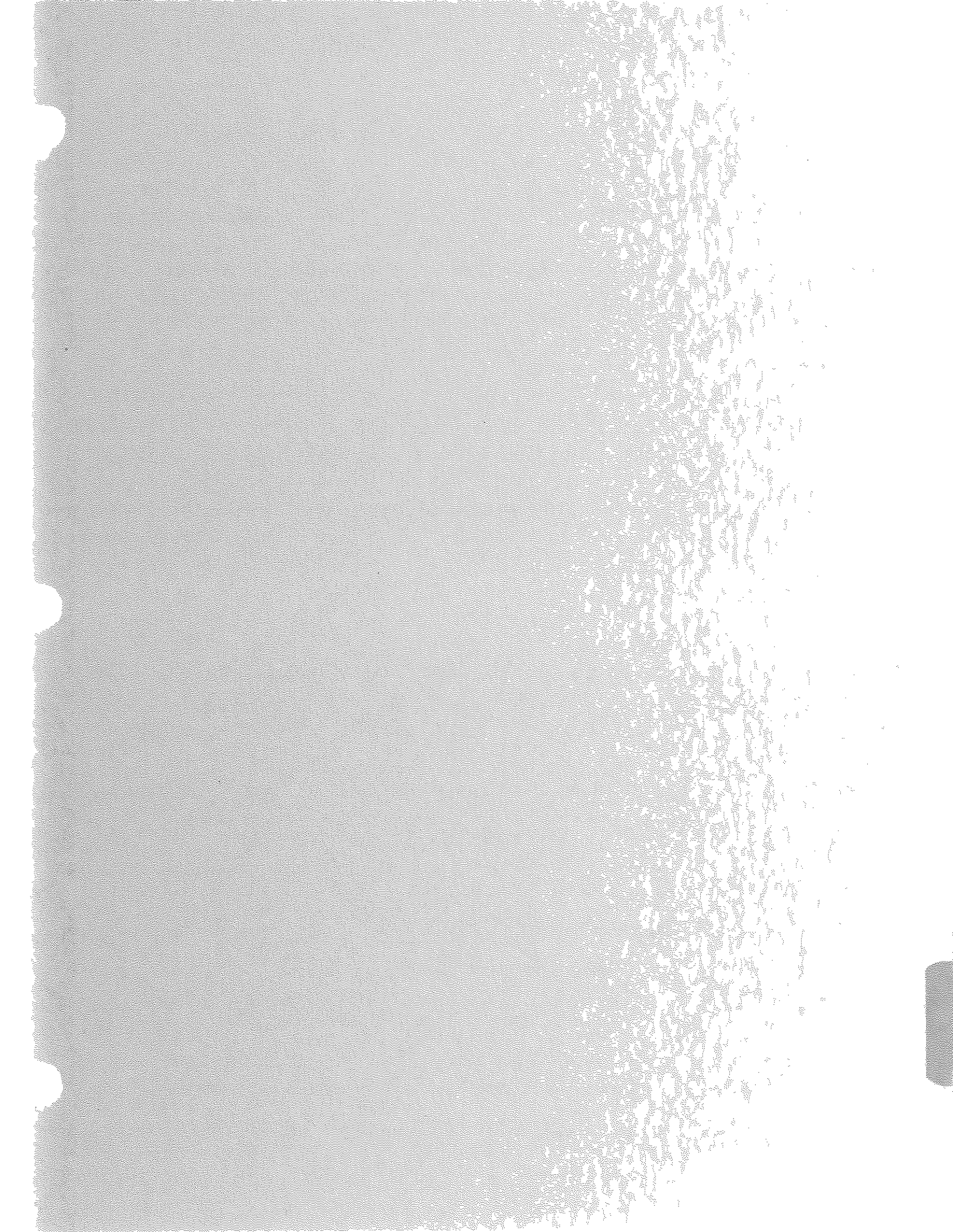
- " if followed up on, it will constitute yet another sole-source decision something which DND has fought hard to avoid in principle;
- " it was written without Cabinet approval. As a major Crown project, this contract requires Cabinet approval. Mr. Beatty notes his intent to ask his colleagues for approval, but the letter would seem to be designed to pre-empt that process. It will now be extremely difficult to deny GMDD this work. One also wonders if, in purely legal terms, the letter can be read as a letter of intent.

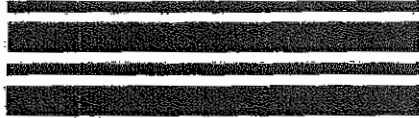
You should be aware that this arrangement proceeded without the knowledge of Defence officials. In the current political situation, such letters are, perhaps, to be expected. They are not, however, any less disturbing as a result.



E.H.

Hagen





SUPERText

**RCMP/GRC "A" DIVISION A
Commercial Crime
Délits commerciaux**

**Project/projet A102
File/dossier: 95A517**

EXHIBIT INFORMATION

Date Seized: 2001-06-27

Seized By: S/Sgt. ALEXANDER

Exhibit No.: 95-27

Item No.: 222

Sub Location No.: 24

Location: Industry Canada, 236 Queen St., Ottawa

COMMENTS: These documents were handed over to us by Kurt THEORET of Industry Canada. They are original files and were held by him since we first indicated an interest in them. He had previously turned over photocopies of these files to us. Upon his retirement, he handed over these files to us.

These documents are from a file labelled:

5400-8, B-RÉG-2
MAJOR DEVELOPMENT PROJECTS.
THYSSEN.



Atlantic Canada
Opportunities Agency

Nova Scotia Office
Suite 3000, The Brewery
1489 Hollis Street
Halifax, N.S.
Canada B3J 3M5

(902) 426-8361
FAX: (902) 426-2054

Agence de promotion économique
du Canada atlantique

Bureau de la Nouvelle-Écosse
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Halifax (N.-É.)
Canada B3J 3M5

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Bob Russell
[Signature]
R
[Signature]

January 31, 1989

Mr. Greg Alford
Senior Vice-President
Corporate Affairs
Bear Head Industries Ltd.
Suite 908
350 Sparks Street
Ottawa, Ontario
K1R 7S8

Dear Mr. Alford:

Thank you for your December 21, 1988 presentation to me, and my colleagues from Enterprise Cape Breton, the Department of Regional Industrial Expansion, and the Government of Nova Scotia, on the interim Bear Head Industries (BHI) business plan for the heavy-industry facility planned for Cape Breton.

As you know, the business plan was shared with these and other departments, and as a result, the views outlined below are the combined concerns of key federal departments.

As we indicated to you on December 21, in general, the business plan, as submitted, is underdeveloped, inadequate in key information areas, and does not yet meet established standards.

As you will appreciate, prior to reaching a decision on a project of the magnitude of the BHI heavy-industry facility, Ministers will require detailed information, not only on the financial viability of the facility itself, but also on the projects' anticipated draws on Government funding, its implications for Canadian suppliers, and so on.

Accordingly, in order to develop the BHI proposal more fully, the business plan will require strengthening in a number of areas. (In this context, I have attached a series of detailed comments as Annex A.)

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Canada

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In addition, I believe it might be helpful for you to clarify further the relationship between the Government's planned acquisition of light armoured vehicles (LAVs) and the intentions of BHI for its Cape Breton facility. As you know, under the agreement reached by the company and the Government last fall, the company pledged to proceed in Cape Breton, provided, inter alia, that the company, having met the Government's various requirements, was considered for participation in the LAV procurement program. The nature of this agreement should therefore be expressed in your business plan.

As a separate matter, while I recognize that your anticipated materiel requirements are at a very early stage, you may wish to consider incorporating into your revised business plan, a section on sourcing in which you discuss potential sub-contracting from other regions, including Western Canada.

Having visited the Thyssen group of companies in Germany, and seen first hand the company's depth, its extremely broad range of activities, and Thyssen's obvious commitment to excellence, I am confident that BHI is more than capable of providing a fully-strengthened business plan. In order to begin further development of the BHI initiatives, I suggest that a revised business plan be submitted by March 1, 1989 if at all possible.

Please get in touch if I can be of assistance.

Sincerely,



Wynne Potter
Vice-President

Attachment

c.c.: D.S. McPhail
T. Merriam
K. MacVicar
B. Russell

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22224117

ANNEX A

Assessment: Bear Head Industries Business Plan

In general, the Bear Head Industries business plan, while containing a variety of information, requires strengthening in the following areas:

I. Financial

Basic financial data. For example, the plan lacks detailed financial projections (including five-year pro-forma statements), sufficient financial analysis, and does not demonstrate the financial viability of the Cape Breton facility.

The source and application of funds, the facility's cash flow forecasts, and operating statements, are similarly lacking, and must be included.

Capital Costs

While estimates for capital costs are provided, more disaggregation is required on the nature of equipment required for military production, and that required for civilian manufacturing. In this regard, a costed equipment list is a necessity, and the plan should incorporate a strong rationale to support the increase in estimated plant cost from the \$58 million contemplated by the company in 1988, to the \$95 million cost currently envisaged.

Infrastructure

The business plan should include an assessment of the facility's off-site physical infrastructure requirements, and the estimated costs of this infrastructure.

Government Assistance

The original business proposal, submitted by the company one year ago, sought, in addition to the 250 vehicle contract, government assistance for infrastructure support only. The current proposal seeks a considerably-enhanced level of government assistance. Accordingly, the business plan should

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provide clear details of government assistance contemplated, and a strong rationale, based on return on investment, and other factors, to support the government aid -- including direct financial assistance, training and so on -- that is being requested.

II. Products

The business plan lists a wide range of environmental products. This list should be supported by detailed references to specific products, their components and associated production volumes at the Cape Breton facility. This analysis should also provide further clarification of the proportion of military versus commercial production envisaged by BHI.

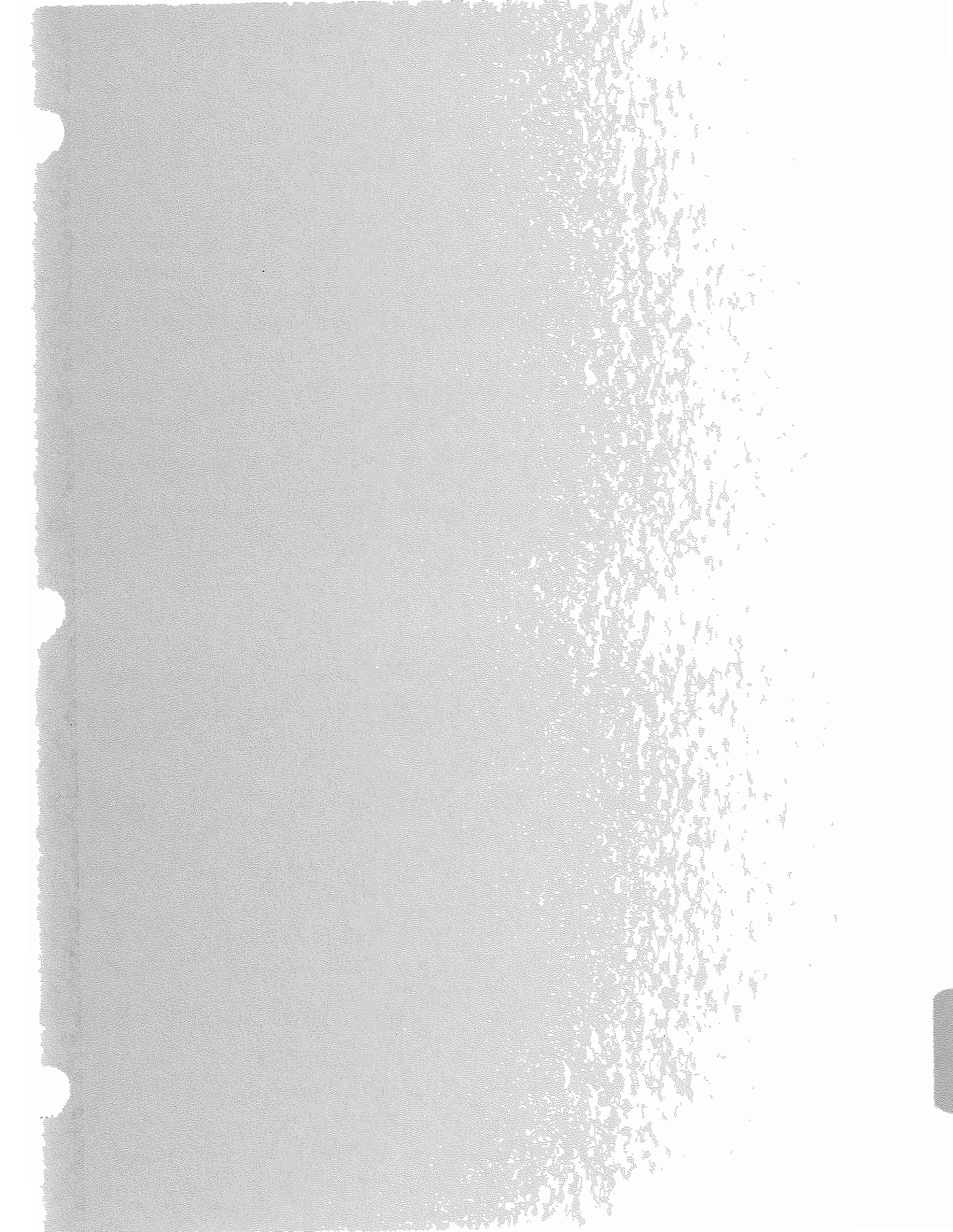
Markets and Marketing

The final business plan will require detailed market forecasts, supported by a market strategy and analysis. Markets for specific products will have to be identified, including long-term export markets for both military and commercial products.

III. Milestones

The business plan would benefit from a listing of key dates associated with plant construction, training, and production activities.

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D		Dr. Sheela Basrur's incredible journey	CLICK HERE to read the latest edition of Desi Life Magazine	
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the star.com

Mulroney, Schreiber: A tale of pals and cash

One chapter of Mulroney-Schreiber saga has its roots in the Maritimes' chronic joblessness and a plan to fix it by opening a plant to build tanks in Cape Breton's Bear Head peninsula

January 05, 2008

THOMAS WALKOM
NATIONAL AFFAIRS COLUMNIST

At its core, the story of Karlheinz Schreiber and Brian Mulroney is a classic Canadian tale of deals, pals and cash.

On the one side are businesses anxious to share in the largesse that only government can dispense.

On the other are politicians hoping to attract, at the very least, the investments that can win them votes.

Between are the fixers who make it all happen. That is the world of Schreiber, the 73-year-old Canadian desperately trying to avoid extradition to his native Germany on charges of fraud, bribery and tax evasion.

And it is also the world of 68-year-old Mulroney, the labour lawyer who rose to become Canada's 18th prime minister and who is now – equally desperately – trying to salvage a reputation that he says is being unfairly besmirched.

The two men have already testified before the Commons ethics committee on their complex business and personal relationship. They are due for a repeat performance at a formal judicial inquiry – if Prime Minister Stephen Harper carries through with his promise to call such a probe.

(Harper now says he'll decide only after he hears next week from David Johnston, the lawyer and academic he has asked to draft the inquiry's terms of reference.)

These days, Mulroney and Schreiber are at daggers drawn. Schreiber dismisses the former Conservative prime minister as "Lyin' Brian." Mulroney accuses his one-time employer of creating "a complete fabrication." But the two did not always have such harsh words for one another.

"A hard-working, diligent successful business person" is how Mulroney described Schreiber under oath in 1996.

"I like the man Brian Mulroney even more than Prime Minister Brian Mulroney," wrote Schreiber eight years later, in a glowing letter to his then friend. "Is Brian Mulroney Canada's greatest deal broker ever? I say yes."



FRED CHARTRAND/THE CANADIAN PRESS
Former prime minister Brian Mulroney testifies in Ottawa yesterday before the Commons ethics committee. He said agreeing to meet German-Canadian businessman Karlheinz Schreiber was the worst error he's ever committed. The second worst? Taking the money.

That they were once mutual admirers should be no surprise. In many ways, the pair are very much alike – self-made men from humble beginnings who rose to the top through ambition, charm and the ability to stay on the right side of the right people.

There are three strands to the story that generally goes by the name of the Mulroney Airbus affair. The first has to do with sensational allegations, which first surfaced in 1995, that bribes were paid to persuade then Crown corporation Air Canada to purchase \$1.8 billion worth of jetliners in 1988 from the Franco-German Airbus consortium represented by Schreiber.

Ultimately, those allegations went nowhere. In 1997, the Liberal federal government formally apologized to Mulroney for suggesting that he might have been involved in any wrongdoing and paid him \$2.1 million. In 2003, the RCMP formally ended its investigation without charging anyone.

The second strand involves Ottawa's 1986 decision to buy, for \$24 million, 12 coast guard helicopters from a firm linked to Airbus and Schreiber. The allegation here was that illegal commissions were paid. But after a lengthy and secretive preliminary hearing that ended in 2005, an Ontario judge threw out all charges.

The third strand of the Mulroney-Schreiber saga, the one that has come under recent scrutiny, took shape after Mulroney's first election victory in 1984 and centred on that perennial Canadian problem: double-digit unemployment in Atlantic Canada.

The new Conservative government was determined to cut what it viewed as government waste and, in particular, to axe Devco, the money-losing federally owned coal-mining corporation of Cape Breton Island.

For Sinclair Stevens, Mulroney's newly appointed industry minister, Cape Breton posed a daunting problem. Politically, the government would suffer if it shuttered one of Nova Scotia's main employers without providing replacement jobs. But where would the new jobs come from?

In early 1985 came a heaven-sent opportunity. During a trip to Germany, Stevens was introduced to Franz Joseph Strauss, the premier of Bavaria and an important figure in the country's arms industries. Strauss had a proposal – to manufacture tanks and armoured cars in Cape Breton.

That, said the former minister, is where he recalls meeting Schreiber.

"He would keep popping up," said Stevens. "He obviously was close to Strauss. When I met Strauss at his home, Karlheinz was there. ...

"The thing that made an impression on me was how attentive he was in Munich. He was very much the man, 'What can I do for you minister,' this type of thing.

"He'd go out of the way to develop a personal relationship. It wasn't just an acquaintance that he wanted. He would get to you on the basis that it wouldn't be unusual to have dinner with him. ... That's where it was quite clever. You had a relationship develop that was not arm's length any more. ...

"He was such a craftsman in his approach," says Stevens admiringly. "It almost turned you off."

The scheme Strauss and Schreiber were pushing had its origins in a German law that banned weapons exports to the Middle East. In order to circumvent that rule, Thyssen AG, a major Bavarian arms company, needed an offshore site. Nova Scotia's government was ready to give the company land on Cape Breton's Bear Head peninsula. Revenue Minister Elmer MacKay, a Nova Scotia MP close to Mulroney, was on side. Would Stevens help push the file along?

To the industry minister, the German offer was most attractive. Thyssen already manufactured elevators and auto parts in Canada. A new defence plant would employ hundreds. With spin-off jobs added in, the scheme seemed irresistible.

All that Thyssen asked for in return were the lucrative government subsidies Ottawa routinely offered anyone investing in high-unemployment areas – plus a chance to sell armoured cars to Canada's defence department.

Stevens did push the file along. By early 1986, he says, he persuaded cabinet to approve the Bear Head project.

A few days later, he got a late-night phone call at his Toronto-area home from someone he describes as a senior figure in the Canadian Jewish Congress. According to Stevens, the caller said: "We hear the Thyssen project is approved. ... We think this is a very hostile act."

Shortly after, the Canada-Israel Committee issued a press release saying the Bear Head scheme would "escalate the Middle East arms race and be detrimental to Israel's security."

Stevens, rattled that news of the decision had leaked, called Schreiber, who by this time was chairman of Thyssen's still fledgling Bear Head division. The lobbyist, Stevens says, gently chided him for revealing the scheme to the entire cabinet before it was complete.

"The Jews are watching us all the time," he recalls Schreiber saying.

The outcry caused cabinet to temporarily back down.

In May, Stevens was forced to resign over allegations of conflict of interest in another matter – allegations that were eventually dismissed as groundless.

Stevens says he doesn't remember Mulroney being particularly involved in the Bear Head file.

Still, the project didn't die. In a separate interview, Perrin Beatty, who was defence minister back then, described the three-way debate over Bear Head that gripped Mulroney's cabinet.

In one corner, Beatty told the *Star*, were those, led by Nova Scotian Mackay, who wanted the jobs Thyssen could provide.

In another were those who objected to doing business with a firm that had made armaments for Adolf Hitler.

The third faction was led by External Affairs Minister Joe Clark, who objected to Canada being used as a conduit for dodgy German arms shipments to the Middle East.

Added to all of this was the vexing problem of military contracts. Thyssen wanted assurances that it could sell armoured cars to the Canadian Forces. Beatty was reluctant to be too obliging.

By the fall of 1988, Beatty says, the duelling ministers had come to a consensus: It would be a green light for Bear Head. Thyssen would build its plant; the government, in turn, would "consider" giving the German company a defence contract to build light armoured vehicles.

Beatty, a supporter of the project, signed off on this so-called understanding in principle on Sept. 27, 1988. Four days later, the country was plunged into a federal election campaign.

Was Mulroney much involved in that Bear Head debate? The former prime minister told a Commons committee last month that he was "supportive of the project." But Beatty says he doesn't remember Mulroney taking a strong position.

"I don't recall him weighing in one way or the other," he says.

Asked about Schreiber, Beatty says: "I am pleased to say I have no recollection of ever meeting him."

One who did meet Schreiber was a very unwilling John Crosbie.

Interviewed by the *Star* last month, the former transport minister – now Newfoundland's lieutenant-governor-designate – described his determined, yet ultimately unsuccessful, attempts to avoid Schreiber.

For Crosbie, the late '80s were a tricky time. Air Canada, at that time a Crown corporation under his jurisdiction, was about to buy a new fleet of airplanes.

One of the contenders, Airbus, had hired Crosbie's old Conservative pal, former Newfoundland premier Frank Moores, to promote its cause. The other, Seattle-based Boeing, was championed by U.S. ambassador Tom Niles.

According to Crosbie, Niles was convinced that Airbus had Mulroney's government in its pocket, an impression he may have gained when the Conservatives appointed lobbyist Moores to the Air Canada board of directors. (Moores, who died in 2005, resigned from the board in 1985 after his many conflicts of interest became public.)

"Whenever I saw Niles he was complaining that the fix was in and that the government was on the side of Airbus," recalled Crosbie. "He was almost hysterical about this ...

"In his view if Moores said 'Jump,' Jesus, the whole cabinet jumped, which is ridiculous."

Crosbie says he was assured by Air Canada brass that there was no political interference in the competition. And he refused to cut off Moores.

"We were good friends: I'd been in his cabinet. He knew I'm the snarky type, I suppose – independent. So he never attempted to say anything about this competition at all or ever suggest that Airbus should be favoured."

But the transport minister drew the line at meeting Moores' paymaster.

"I warned them (my staff) to steer clear of Schreiber, not that I knew him very well but I knew of him and I didn't like what I knew about him. ...

"I wanted to make sure we didn't appear to be having anything to do with people actively lobbying for Airbus or Boeing."

In the end, he didn't succeed. Moores insisted that Crosbie meet Schreiber and, eventually, the minister gave in.

"I couldn't keep Frank away forever you know, so I did see him with Schreiber once," he says. The three men didn't discuss Airbus. But they did talk about Bear Head.

The Cape Breton scheme didn't appeal to Crosbie. Nor did he warm to Schreiber.

"I wasn't a Schreiber subscriber. He wasn't the type that I liked. ... If you had much to do with him you were just going to get under suspicion."

Throughout Mulroney's nine years in office, Bear Head lingered on. It never quite went ahead. Yet it never quite died.

Mulroney has testified that his cabinet quietly killed the project in the early '90s when it determined that the \$100 million price tag was too expensive. But he also testified that Schreiber kept plugging away and, by 1993, had come up with a modified proposal to put the arms plant in east-end Montreal.

Indeed, Schreiber has said he kept pushing the Montreal project after Jean Chrétien became prime minister in 1993, having hired Marc Lalonde, a well-connected Liberal and former finance minister, to help.

But Mulroney, it seems, was not forgotten. As payment for the original 1988 memo of understanding, Thyssen gave Schreiber \$4 million. He told the Commons committee that a portion of these and other so-called success fees from his Canadian operations eventually ended up in a Swiss bank account.

Schreiber told MPs that it was the cash from this account that he used to pay Mulroney in three successive meetings in three successive hotels over the 1993-1994 period. The businessman said he paid the former prime minister \$300,000 in cash. Mulroney said it was only \$225,000. Neither man, it seems, kept any records.

Brian Mulroney's credo in politics is to remember your friends. As he likes to say: "You dance with the one that brung you."

Karlheinz Schreiber has a similarly straightforward view of business and politics that also rests on the time-honoured principle of reciprocity.

As he explained to the Commons committee, the key is to remember that in any successful relationship everyone should be rewarded.

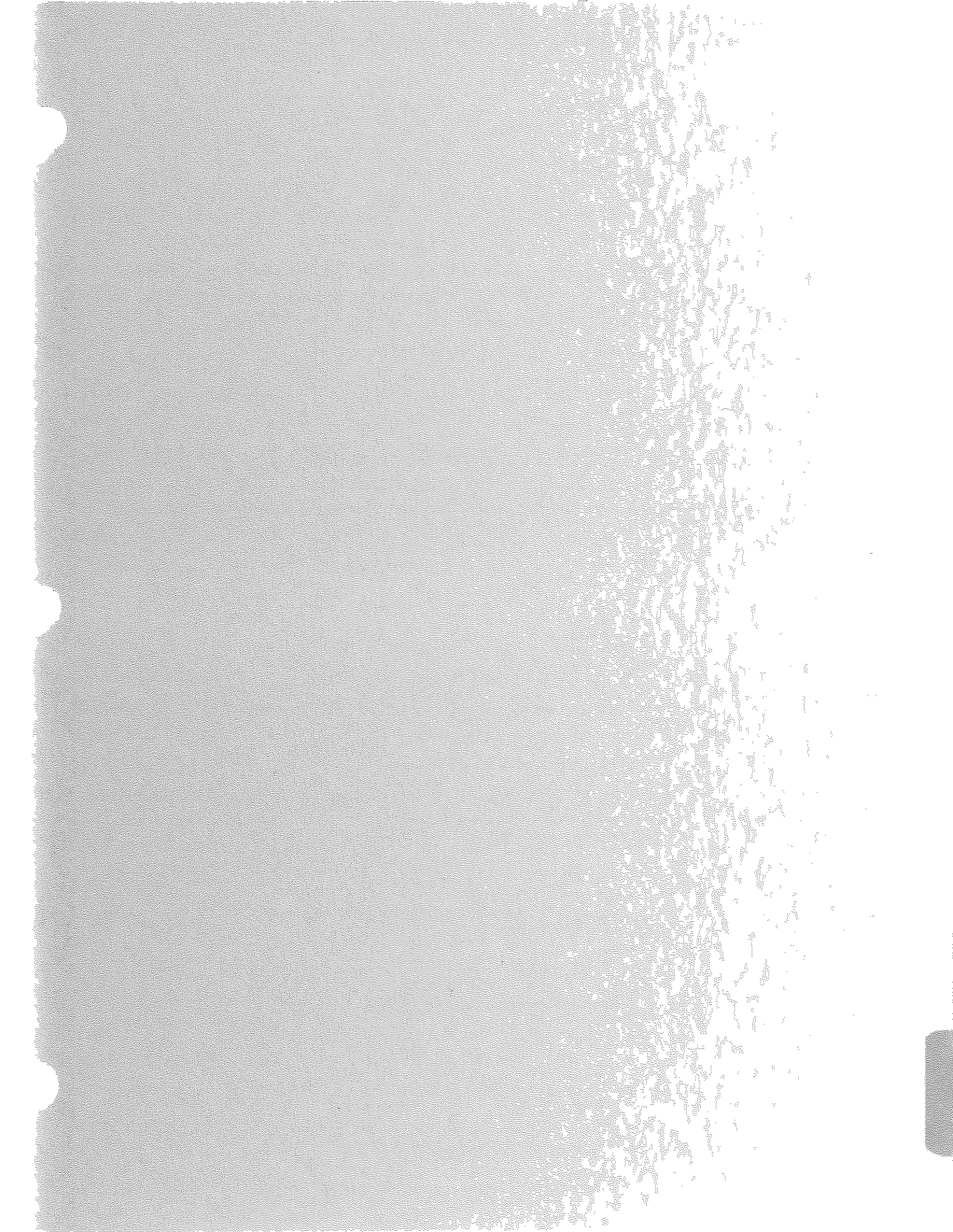
"This was an agreement from the beginning, from the early '80s," Schreiber told MPs. "If Mr. Mulroney becomes prime minister, everybody gets something."

Moore, in particular, he said, was confident that access to government would bring rewards.

"You can imagine when ... we have all our friends there, really they can help do business, create jobs, do business and make money," he said Moore told him then.

And when Mulroney was no longer prime minister, he said, the deal was that he would get something too - "because he should have a living."

In Karlheinz Schreiber's world, that was only fair.





How one file set off Schreiber's string of mystery payments

Mulroney's Atlantic minister speaks out on proposed arms plant

-  Article
-  Comments

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GREG MCARTHUR
FROM FRIDAY'S GLOBE AND MAIL
MARCH 14, 2008 AT 2:46 AM EDT

It was Lowell Murray's first day on the job and his boss – Prime Minister Brian Mulroney – had one task in particular he asked the senator to tackle.

The two men were flying somewhere over Eastern Canada in the government's Challenger jet, bound for an afternoon news conference in St. John's.


It was June 6, 1987, the day Mr. Mulroney announced the creation of the Atlantic Canada Opportunities Agency and Mr. Murray's appointment as its inaugural minister. At some point during the three-hour flight, Mr. Mulroney reached over and handed a single file folder to Mr. Murray.

“Here's something you want to have a look at,” Mr. Murray recalled Mr. Mulroney saying.



Internet Links


- **Audio Slideshow:** Reporter Greg McArthur takes you through the paper trail



Inside there was a single letter – a proposal for a light-armoured vehicle factory that Thyssen Industrie AG, a German arms manufacturer, wanted to build in Cape Breton.

It's been more than 20 years since that flight, and until now it has not been understood how this factory became such a priority for the Mulroney government. Speaking for the first time publicly about the proposed factory, Mr. Murray, a Progressive Conservative senator, played down the significance of that handoff. “I didn't attach any greater importance to it,” he said.

However, when Mr. Mulroney gave Mr. Murray that file, it set in motion a chain of events that resulted in some of the former prime minister's friends and political allies getting paid hundreds of thousands of dollars by German-Canadian lobbyist Karlheinz Schreiber.



There's no evidence to suggest Mr. Mulroney knew his associates stood to profit from the Thyssen file he handed Mr. Murray in 1987. What is clear is that after receiving that assignment, Mr. Murray spent the next 15 months trying to make the factory, known as Bear Head Industries, a reality, and he helped persuade three ministers to sign an “understanding in principle” to support the project.

Those signatures prompted \$2-million to take a circuitous route from Thyssen's headquarters in Germany to shell companies in Liechtenstein, on to Mr. Schreiber's Swiss bank accounts, until a portion of that money made its way into Canadian pockets. The factory was never built.

Mr. Murray, who still serves as one of three Progressive Conservatives in the Senate, says he was shocked to discover through recent news reports who was paid as a result of that document being signed 21 years ago. He also expressed bewilderment that Thyssen would pay so much for a document that, he says, didn't force the government to do much of anything.

"Incredulous. That's all I can say. Absolutely incredulous. But of course I don't know what [the money] was for," Mr. Murray said, later adding, "I'd like to know."

In his interviews with *The Globe*, Mr. Murray said the recipients of those commissions – only two are still alive – should publicly explain what work they performed for the money.

"It's important at a minimum because it's become a public issue. It's out there."

Mr. Murray insists that his intentions were pure; he wanted to make the agency a success and bring a potential 500 manufacturing jobs to an economically depressed area of Cape Breton, he said.

Others who were close to Mr. Mulroney also saw an opportunity. And documents originally obtained by CBC's *the fifth estate* – including Mr. Schreiber's Swiss banking records show just how much money there was to spread around.

Pushing the proposal

Ten days after receiving the Thyssen file from the Prime Minister, Mr. Murray's phone rang.

On the other end of the line was Fred Doucet, Mr. Mulroney's former chief of staff and long-time friend, Mr. Murray said. The senator says he made a note of the conversation in his agenda book. Mr. Doucet, who had recently left the Prime Minister's Office to become Canada's ambassador of international summits, congratulated Mr. Murray on his new post and encouraged the senator to get moving on his first assignment, Mr. Murray said.

"[He] also told me that the Thyssen thing was important," Mr. Murray said. "The idea was that it would be of great political advantage, that it was extremely important, that the Prime Minister thought it was important."

"I didn't consider that untoward. [Mr. Doucet] had been a political assistant in the PMO and he came from Cape Breton and he was interested in the political fortunes of the party."

The very same day, Mr. Murray says he received a call from Mr. Doucet's brother, the lobbyist, Gerry Doucet. Gerry Doucet was one of the partners of Government Consultants International, the firm made up of prominent Tories such as Frank Moores, the late former Newfoundland premier, and Conservative organizer Gary Ouellet, who has also died. The firm represented Mr. Schreiber and Bear Head Industries and Gerry Doucet called to make sure the senator was "moving the project forward," Mr. Murray said.

In the latter half of 1987, Mr. Murray would go on to have more than a dozen conversations with the Doucet brothers – three with Fred and 10 with Gerry – about the proposed factory, Mr. Murray said. The senator also recalled Fred Doucet urging Mr. Murray to promote the project with Perrin Beatty,

who at that time was defence minister.

(When contacted by The Globe, Fred Doucet declined to comment on any of his conversations with Mr. Murray. Gerry Doucet did not return messages.)

Across the Atlantic, Karlheinz Schreiber and his accountant Giorgio Pelossi were plotting to ensure that lots of money would be available if the federal government made its support for the factory more official.

A series of 1987 letters between Mr. Pelossi and Thyssen show that the arms manufacturer gave Mr. Schreiber \$1.9-million to support his lobbying efforts, and the company agreed to give him another \$2-million if he delivered a "letter of intent" from the Canadian government.

On Christmas Eve, 1987, Mr. Pelossi sent Thyssen the good news -- such a letter was just around the corner.

"On the part of the responsible government offices, we have been assured that this letter of intent will be granted to you at the beginning of next year," Mr. Pelossi wrote.

Back to the drawing board

It took a little longer. On Aug. 30, 1988, Mr. Murray spoke with Fred Doucet again, and again, Mr. Murray says, the former PMO staffer was calling about the proposed factory -- but this time in a different capacity.

Mr. Doucet had left the government just weeks earlier and became a lobbyist. Mr. Murray says Mr. Doucet called to let him know he was now representing the Bear Head project. He would go on to speak with Mr. Doucet three more times in September about the project, Mr. Murray said. With hindsight, it was a good time to be associated with the project. A windfall was on the horizon.

A federal election was imminent, and Mr. Murray said he wanted something in writing to make sure the proposal wasn't left behind when all the campaigning was over -- especially if there was a change in government. His agency started to pursue a "letter of comfort," Mr. Murray said.

The only problem was, the defence department was firmly against the idea -- and had already rebuffed Mr. Schreiber's proposal on numerous occasions. The only way Mr. Beatty was going to sign anything, the former defence minister told The Globe in an interview, was if "there was no obligation to choose" the Thyssen vehicles.

Mr. Murray went back to the drawing board.

"So we then started drafting and redrafting and drafting and redrafting," the senator said. "Originally we thought agreement in principle and this thing was lawyered and lawyered and lawyered again. And the Department of Justice, I think it was, probably came up with 'understanding in principle' to make the commitment even less serious on the part of the government," Mr. Murray said.

Finally, on Sept. 27, 1988 -- just days before Mr. Mulroney called a federal election -- the ministers signed the document. Thyssen issued a press release and the Nova Scotia media ran with stories about a potential 500 jobs for Cape Breton.

But back in Ottawa, at least one high-ranking defence official was still in the dark, saying it was the

only occasion he could recall not being informed about his minister, Mr. Beatty, signing such an agreement.

"It wasn't processed in normal channels," said the official. "We were not interested in this deal because we just didn't have the money or the priority... and that position was taken quite consistently."

"I frankly, to this day, don't know what the [understanding] in principle was supposed to achieve."

Invoices roll in

After the document was signed, one of the first invoices to arrive for Mr. Schreiber was from Fred Doucet, whose new company was Fred Doucet Consulting International.

It was dated Nov. 2, 1988, which was less than three months after Mr. Doucet left his government job and about a month after the document was signed. His invoice was for \$90,000.

Other invoices started rolling in. The law firm of Gerry Doucet, Mr. Doucet's brother, also billed for \$90,000. Gary Ouellet's consulting company billed for a further \$90,000. Frank Moores sent his \$90,000 invoice and his lobby firm, Government Consultants International, issued an invoice for \$250,000.

All of the invoices used similar language to describe the work that was performed: "professional services," "services rendered" and "consulting services."

And sure enough, over a period of 20 days, money started winding its way from Germany back to the lobbyists. Thyssen sent \$2-million to one of Mr. Schreiber's Liechtenstein shell companies. That was transferred to another shell company, which in turn sent \$1-million to one of Mr. Schreiber's Swiss bank accounts. Then, \$610,000 was transferred out of the Swiss bank account – codenamed "Frankfurt" – the same day Fred Doucet invoiced Mr. Schreiber.

After the money made its way through another Liechtenstein company, Mr. Schreiber paid all of the parties – a total of \$610,000 – on Nov. 15, 1988, from one of his Calgary companies, Bitucan.

(Neither of the former ministers interviewed for this story – Mr. Murray and Mr. Beatty – said they had any knowledge of the commissions that were set to flow as a result of that document being signed. Mr. Beatty said he never received "any pressure" to sign the document.)

Mr. Murray said he couldn't recall speaking about the factory with Mr. Ouellet, and he said he has a vague recollection of meeting with Mr. Moores, but said he couldn't remember the exact date.

Fred Doucet's only public comments about his role with the Bear Head project came in February when he testified before the House of Commons ethics committee. In his sworn testimony, the former Mulroney staffer was asked when he started working for Mr. Schreiber. His answer – "I believe I got on the payroll in February of '90" – was 14 months after he issued his \$90,000 invoice to Mr. Schreiber. When the contradiction was exposed in the media, Mr. Doucet's lawyer sent a letter to the committee apologizing and explaining that his client was "mistaken" – but neglected to explain how Mr. Doucet came to make that mistake.

Questions about what Mr. Mulroney knew about the commission deal, and why he selected the Thyssen file as the only file to hand Mr. Murray during his first day on the job remain unanswered.

The public relations firm handling inquiries for the former prime minister declined to comment.

In December, Mr. Mulroney testified before the House of Commons ethics committee that he was "supportive of the project" but was never asked about the money that was funnelled back to Canada as a result of that document.

TIMELINE

Behind the Bear Head project

Feb. 23, 1982: A 42-year-old Brian Mulroney sends a Telex to German businessman Karlheinz Schreiber, congratulating him on becoming a Canadian citizen.

January, 1983: Progressive Conservative Leader Joe Clark announces a leadership race after receiving only 66.9 per cent support from delegates at a Winnipeg convention. Mr. Schreiber later reveals that he paid to fly anti-Clark delegates to the convention.

Sept. 4, 1984: Brian Mulroney, who replaced Mr. Clark as Progressive Conservative party leader, becomes Canada's 18th prime minister.

June 6, 1987: During a flight to St. John's to announce the creation of the Atlantic Canada Opportunities Agency, Prime Minister Brian Mulroney hands his new minister, Senator Lowell Murray, a single file folder, Mr. Murray says. Inside is a proposal from Thyssen Industrie AG, a German arms manufacturer, to build a light-armoured vehicle factory in Cape Breton known as Bear Head Industries, Mr. Murray says. There's no evidence to suggest that Mr. Mulroney knew his associates stood to profit from the Thyssen file he handed Mr. Murray.

June 15, 1987: Mr. Murray says he receives a phone call from Fred Doucet, the ambassador of summits and Mr. Mulroney's friend. Mr. Doucet tells Mr. Murray the Prime Minister considers the project "important," Mr. Murray says. The same day, Mr. Murray gets a phone call from Mr. Doucet's brother, Gerry Doucet, a lobbyist with Government Consultants International, the firm representing Bear Head, Mr. Murray says.

Nov. 26, 1987: In a letter, Thyssen informs Karlheinz Schreiber that the German-Canadian middleman is entitled to millions of dollars in success fees if he can deliver a "letter of intent" from the federal government for the proposed factory.

Dec. 24, 1987: Mr. Schreiber's accountant informs Thyssen that a letter is on the way.

July 13, 1988: Mr. Murray says he starts drafting a "letter of comfort" to solidify the government's support for the project.



Aug. 30, 1988: Mr. Murray gets a phone call from Fred Doucet, who informs the senator that he's now working as a lobbyist and representing Mr. Schreiber and the Bear Head project.

Sept. 27, 1988: Three of Mr. Mulroney's ministers sign an "understanding in principle" with Bear Head Industries.

Oct. 25, 1988: Thyssen sends \$2-million to the Liechtenstein bank account of Mr. Schreiber's shell company, half of which later flows into Mr. Schreiber's Swiss bank accounts.

Nov. 15, 1988: Mr. Schreiber's Alberta company, Bitucan Holdings, issues \$90,000 cheques to Fred Doucet's consulting company, Frank Moores, Gerry Doucet's law firm and Gary Ouellet's consulting company – as well as a \$250,000 cheque to Government Consultants International.

1993-1994: Mr. Mulroney accepts at least \$225,000 in cash from Mr. Schreiber in hotels in Montreal and New York.

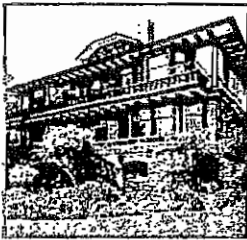
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