

Thyssen

14

14

Can. Generals got full briefing in Thyssen -

K.H. Will dine with a group of generals Dec/14.

next program = upgrading of headford I.

~~and~~ outdated machine - nothing for peace keeping

[Min. would have said: you will get only s. e. for peace keeping.]

Minimum figure for this particular project: \$95.

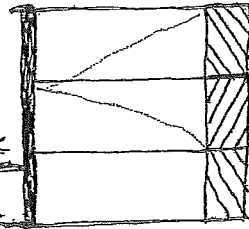
- Marnley has already got a brief from his officials.

- Ouellette, McChasen, Duguis, & MacEachen are members of Atlantic Bridge

{ (Canada-U.S. Germany Foundation) --

Colleagues.

- We want exports business for Canada
- DND. needed to test machine
- not asking to buy machine.

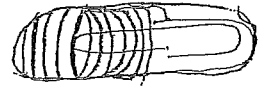


Unique opportunity for Canada - vs. Sweden - (Proximity to U.S. +

participation of General Dynamics when selling in U.S. - Thyssen already makes a Fox vehicle with G.D. & used in Gulf Ocean) -

Jurgen Massmann. + Greg Alfred.

Bruce Deaton, - ~~DoD~~ (Industry).
Michael Williams (DND).



- R+D is a priority & not testing by D.N.D.

- DND testing alone is not good enough - and is not essential to deal.

- Why bring in a govt.

- (1) - govt. participation is good.
- (2) Financial burden on Thyssen ~~is~~ about ^{about 10-100 mm. to conclusion} (170 mm. DM: for total program).
- (3) - compatibility for air defence (decision) and gen. carrying inf.

Target: Jan 15/94 - to answer questions.

Fowler - as a problem in D.N.D. - fought this project constantly.
[Generals aware of this trend to face buying + priority for govt.]

S.M. has a problem with the requirements -
[S.M. had to subcontract in V.K. some funds deliveries.]

c. of staff from Navy
Army chief visited Thyssen and is very favourable to project

Positive information on market for the officials.

- Recommendation going to 3 ministers to get direction - industry, D.N.D. + a 3rd (Int'l Trade or Ex. Aff.)
- Imp from Thyssen to be in by Dec early Dec.

K.H. S. - to be in Ottawa week of 13 Dec.
Meetings with ministers during that week.

arrange with ^{Manley} }
- Collette
- McLaren.
- Ouellet



retired general

iber. - Greg Alford + Jack Vance - (former ^{staff} D.N.D.)

- Cancellation of Helicopters -

- Peace-keeping + leadership role

- Germany has technology -

- Werner = Sec-General NATO + German authorities

- new vehicle that fits in a Hercules.

- fast reaction force.

- Protection against ABC weapons + reinforced steel.



Multi-role combat force -

- Fowler rd. tried to gear work to G.M. -

- Thyssen has developed + paid for development of vehicle.

- Standardization has the

- Prof Prof has to be made that there is an export market for this.

Nato figures = minimum 15,000 vehicles = \$30b. ^{incl. maintenance spare parts} rest of world - ^{at least \$400b.}

(Teaming with General Dynamics - for U.S.)

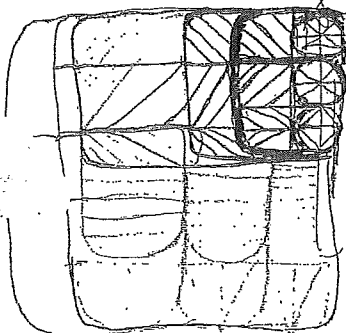
- may mean 65,000 jobs for 10 years -

Canada + Germany =

- meeting in with Mc Meachen + Wechs in Dresden 2 weeks ago.

- If you want to make big deals, you have to get the top ministers involved -

Designed quietly with Canadian generals -



\$1b order sent to G.M. - but G.M. fooling around about it.

- Deal only done to keep out. quiet because of helicopter deal.

General

- Testing now taking place with Can's defence +

- Thyssen -

①
r. (613) 234-8090
cel. 769-0806

Gordon Rae meeting.

Commander of Army - (St. Hubert).

- Replacement of M-113 + Peace mission. - Replacement: TH-495
(1st year of Peace Adm.)

- Germany - France - U.K. made study for Nato, (M.P.A.V.)

for standard vehicles (multi-purpose armored vehicle).

- Germany + France are trying to join together for a new M.P.A.V.

- Recently, Canada asked Germany, U.K. (+ France?) whether they could join?

- Such a vehicle not available before beginning of next century - 2004-5

- For export reasons, France wants to be no. 1 in M.P.A.V. - want lead price

German are unhappy with this eventuality - D.M. defence very offends

- Germans need equipment before 2000 - in order to join U.N. mission.

- French want to go on wheels only (rather than wheels and tracks).

- Canada knows their equipment can't do the job.

⇒ Collect this reaction -

⇒ Army (S. Rae) very interested in getting a new vehicle.

(TH-495) - Rae is in process of asking for a replacement vehicle.

⇒ Wants to have equipment from 1996 and on.

Advantage: - Canada can influence design - for Canada needs

- can get money as a priority now.

If it goes ahead with Germany - 2 w. in NATO could get
lead NATO into procurement (Canada-Germ. instead of France-Germ.)

Rae meets German colleague (Gen. ~~Burgdorfer~~) in May.

Procurement strategy is determined by other people in D.M.

① - Can we afford to have 2 producers of armored vehicle.?

② - Proposing to join German-French program as a junior partner.

- Some of these oppose entry of a 2nd producer. (Furber J.M.)

In any event, J.M. would have to build new facilities b/c

they are fully busy now until 2000 - Are doing

research on M.P.A.V. -

- Probability for J.M. to do many other things incl. wheeled vehicles.
- Recommendation to speak to director of procurement
- Rae - needs approval by Decharlelain, Fowler, + Minister.
- needs help to get that approval.
- need to change the philosophy of procurement directorate.

- Waste of £450mm. to upgrade + fix-up current equipment.
- Real money would have to start being paid.
- The project could cost £200mm/Year for 100 vehicle/Year.
- total need 1700 vehicles over period of 11 years.
- First phase requirement 400-600 vehicle until 2000.
- on a budget of £12b.

sty

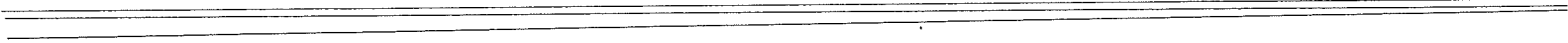
- getting reports on our export possibilities
 - see possibilities slightly and timing a little later.
 - No sense of urgency - unbearably slow.
 - Can't help D.G. (Bruce Deacons involved - Shows up in minister meetings)
 - Harry Swaine. - D.M.
 - John Bannigan attended meeting with Minister
- Meeting 20th in morning.

Colleneite.

- not sure whether they should have a 2nd producer.
- visited for M. & realized they are producing very slender
- licence from Swisso.
- Realizes impracticality of putting \$ on 30-year-old vehicle

Opposition led by Fowler up to now,

Meeting with Fowler after meeting ~~with~~ between De Chastelain +
[Roe in issue]



R. M. Fowler.

- (1) P&M P. - Massie - Ingstrup. - Centre de gestion.
- contrat initial - renouvelé.
- DND. 8000 civils + militaires mis à j. et. (200000 adhés.
moyen.
- Rencontre 2 mai

~~Lt. Général - Paul Adley~~

Centre - Amiral Paul Bennett.

~~Si contact système reflète un bon vent de conflit - Centre de j.~~

(2) Thyssen.

TH. 495 -

Replacement M-113 -

M. P. A. V.

L Gen (ret'd)

Jack Vance

Three BHI (613) 563-3321

~~to home (613) 478-5034~~



MEMO

TO: Karlheinz Schreiber
Klaus Sonneck
Marc Lalonde ✓
Jack Vance

FROM: Greg Alford

TEL: 613-563-3321

FAX: 613-563-7648 M P 17:28

DATE: June 13, 1994

SUBJECT: Minutes of Meeting with Industry Canada Department June 3, 1994

PAGES: 16

Please find attached the minutes of our June 3 meetings in Ottawa with the Industry Department and National Defence.

In follow-up contacts since that meeting, I am finding a more positive view and desire to bring the Government numbers somewhat higher than as it was originally portrait. That may reflect a direction by Mr. Deacon to include more of the Company's approach than was earlier accepted by the Government analysts.

We will continue to monitor this, if there are any changes in the Government view and forecast.

PROTECTEDSUMMARY OF DISCUSSION POINTS AT MEETING BETWEEN
THYSSEN AND INDUSTRY CANADA (IC)

on June 3, 1994

General

The purpose of the meeting was to discuss the findings of the inter-departmental review of the Thyssen BHI export market project on TH 495, to assess immediate action required to produce final data, and to discuss the way ahead including the potential for government support.

Conduct

The agenda for the meeting is attached. In attendance were:

Industry Canada
Bruce Deacon
Dick Krajewski
Baj Hafez

Thyssen BHI
Jürgen Massmann
Greg Alford
Ian Reid

Introduction

Bruce Deacon invited Thyssen to make observations on the responsive data produced by his staff. He stated that later in the meeting he would provide an update on the Government situation and was prepared to discuss the way ahead.

BHI Comment

Jürgen Massmann conducted the BHI review through presentation of comparative charts (attached) which summarized the respective positions on market potential, drawing attention to those areas of general agreement, and points where there appeared to be disagreement, or misunderstanding, due to differences in either approach or in input data employed.

It was agreed that two aspects were clear. Firstly that the gross market figures were remarkably close, and secondly that this represented an export market for the TH 495 type vehicle.

Not surprisingly there was a significant variance between market share projections ("probability-of-win" on specific projects), with the Company's estimates appearing more positive than those reported by Government. [This was considered natural as the TH 495

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was a new vehicle unknown to reporting officers, who were also unaware of the progress of the Company's marketing activities.]

Comment made on specific briefing slides was at follows:

Slide A - Specified NATO

Remarks: General agreement between Company and Government on gross market

• Difference on probability to win is understandable given Government perspective, but important point is Government does agree that TH 495 does have potential market.

• Government comment on US market is not reasonable in Company's view. "Buy US" bias has been addressed successfully in recent sale of NBCRS Fox to US Army.

• Important to realize that Company targets niche market in US not major, high profile projects, ie. 26,000 M 113 replacement.

• Mentioned "Battle lab" program at TRADOC, and its potential to lead into niche requirements

• Having Fox in service puts Thyssen in better position for follow-on and "off shoot" business

Slide B - Unspecified NATO

This slide demonstrates the Company's approach to this market, citing the fact that it is a reasonable and conservative approach to estimate a 20% net market win in contrast to the 30% forecast in the Specified NATO market. Though the Company did not make specific forecast for each nation, Mr. Massmann highlighted a few potential markets:

Italy could be approached through Otto Melara, already a partner with Thyssen in providing the turret for the six road wheel prototype TH 495.

Netherlands an established user of Thyssen vehicles with TPZ1 (Fox), is presently using AIFV (M 113 variants), which in future will likely be replaced.

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UK though they have established producers, this does not rule out teaming for market participation. They have made it very clear that they will procure a tracked solution and for that reason are not comfortable with VBM/GTK.

Dick Krajewski/Baj Hafez indicated that they had made no inclusion of any Canadian market in their approach to forecasting the Non Specified NATO market.

Slide C - Specified Non NATO

It was noted that Government and Company total gross market forecast are very close, and again on the probability to win, Government forecast is lower but nonetheless agrees with TH 495 having a potential market.

Slide D - Unspecified Non-NATO

The Government had been unable to identify a residual market. The Company maintains that an additional M 113 replacement market exist, as well as countries (eg. Malaysia) which were not M 113 users. Slide D shows some 22,000 M 113 in use in this market, and discussions on this point seemed to amend the original Government view, and brought the suggestion that the new remarks by the Company would be considered in their further analysis.

Malaysia

Massmann provided some information on this market and the status of the specific program which we are pursuing. His remarks were highly confidential and market sensitive, and were not to be recorded but reflected the rationale why the Company now sees the probability of this market occurring to be approaching a 1.0 and rate our present probability to win at 0.9 on a program that we now estimate will be some 450 units in its first phase.

The detail on Malaysia further revealed that the Company targeted program is one of three in the Malaysian market the other programs are: a wheeled vehicle project, and a medium battle tank.

In closing, Mr. Massmann added that TH has supplied 450 Condor 4x4 wheeled vehicles to Malaysia; and this program and its associated activity has provided a competitive advantage in positioning for the new market now developing.

Government Comment

On conclusion of discussion of the slides, Mr. Deacon remarked that the exercise so far has had the very important result of confirming that the total gross market forecasts by

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the Company and Government are similar and though there is a difference in the probability for TH 495 wins, this Government survey nonetheless still confirms that TH 495 does in fact have a market.

Mr. Deacon recalled that from the outset of the exercise, it was not expected that Government forecast could be the same as the Company, and suggested that the differences so far are understandable.

Discussion

Mr. Massmann offered the comment that the Company understands that Government view cannot be as accurate as the Company since the Government participants, though perhaps expert in the topic, have had no opportunity to actually see the TH 495 or to drive it, therefore their perspective in assessing the competitive design advantages against alternatives which they may already know is difficult. Such a situation is encountered by any new product being introduced to the market, and the complexity of defence vehicles only magnifies this.

Mr. Deacon suggested that in light of these discussions, the Government would now endeavour to consolidate its forecast of the possible market and generate some forecast market "curves" based on some basic assumptions. Those curves will be provided to the Company as the Government position. In its projections, Government will attempt to account for the non-specified non NATO market which the Company predicts, indicating that though Government has not yet embraced the Company's total forecast, the discussions today have adequately demonstrated that it is reasonable to assume some market will exist.

Among the curves which the Government will produce, they will include some scenario forecasts based upon certain assumptions.

1. Government Forecast Net Market, assuming sale to Malaysia. (This will have the direct result of total win of 450 units in Malaysia, plus the increase on probabilities to win in other markets.)
2. Government Forecast Net Market, assuming sale to Canada. (This will have direct result of total win of Canadian requirements, plus possibly a higher increase on probabilities to win in other markets.)

Mr. Deacon then went on to explain the Government's present situation as regards financial assistance to any approved project. The availability of money for new ventures is very limited with some easement likely in the fall. Higher than expected interest rates have impacted unfavourably on deficit reduction, and rates have just increased again. The Québec problem also adds to uncertainty. The Government operates on a 3 year fiscal frame work. DIPP (Defence Industry Productivity Program) contributions are

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usually for projects in the range of \$100,000 to \$5 Million and sometimes \$10 Millions spread over 1 to 2 years. DIPP contributions in the \$15 Million + range are considered extraordinary and would require specific contribution from Federal Reserves. The Company should observe public discussion of the current Federal financial situation to assess the full implications of this.

Massmann explained the nature if R&D work for TH 495 prototype development will lead to funding requirement over 3 years, ie.

1st year	15%
2nd year	25%
3rd year	60%

~~Furthermore the Company would cooperate with the Federal Government to make a schedule on funding that best fits Government resources and timing.~~

Future Action

Mr. Deacon then stated that the next logical step would be for the Company to produce a business plan. Agreed realistic market projections were a prerequisite for this plan. He assumed that the Company could accept a median (aggregate) number based on previously presented figures. He believed that Government staff and the Company could mutually adjust the figures to acceptable range for planning purposes. An inter-departmental consensus on these figures would then be sought prior to proceeding with the plan. Mr. Deacon indicated his intention to consult with his counterparts in the departments of National Defence, Foreign Affairs and the three regional development authorities FORDQ/Quebec, ACOA/Atlantic, WED/West on the agreement of markets existing and TH 495 having potential to win in that market. Additionally, he intends to seek consensus from interested departments and obtain their input on the way ahead.

If the Company wished some degree of assurance before embarking on a business plan, he was prepared to sponsor a presentation with key players in concerned government agencies at an early stage. There were attendant dangers to adopting this course but also advantages

Mr. Massmann stated that pre-commitment would be acceptable to Thyssen.

Mr. Deacon then stated that he would advise the Company on the results of his preliminary consultations on the week of the 13 of June.

The Company stated its desire to preserve a neutral position with respect to location, to permit consideration of all relevant factors until such time commitments must be made.

THYSSEN/BHI / INDUSTRY CANADA MEETING

June 3, 1994

11:30 a.m. - 3rd Floor East Lobby Boardroom

PROPOSED AGENDA

1. Company observations on preliminary market data received to date

2. Company observations on methods to develop a common understanding of market potential

3. General discussion on government support for defence industries
4. Next steps

A: Specified NATO Market

Within NATO fourteen (14) countries are equipped with M 113 variants and similar vehicles. Four (4) specific NATO Nations were covered by the BHI Study.

Country	Quantity in service No	Forecast gross market		Forecast net market	
		% ¹	No	% ²	No
Germany	3000	80	2400	40	963
Norway	112	143	160	0	0
Turkey	2850	42	1190	12	143
USA	26000	5	1210	6	73
Total	31962	16	4960	24	1179
Remove US M113	(26000)	5	(1210)		(73)
Total	5962	63	3750	29	1106

BHI Forecast gross market (excluding US)

3750 vehicles

BHI Forecast net market (excluding US)

1106 vehicles

¹Forecast gross market/ Quantity in service

²Forecast net market/ forecast gross market

B: Unspecified NATO Market

Within NATO fourteen (14) countries are equipped with M 113 variants and similar vehicles. Ten (10) NATO Nations were forecast on a combined basis by the BHI Study.

Country	Quantity in service No	Forecast gross market		Forecast net market	
		% ³	No	% ⁴	No
Belgium	736				
Canada	938				
Denmark	643				
France	1000				
Greece	1096				
Italy	1600				
Netherland	1326				
Portugal	276				
Spain	1213				
UK	2000				
Total	10828	76	8280	20	1656

BHI Forecast gross market **8,280 vehicles**

BHI Forecast net market **1,656 vehicles**

³Forecast gross market/ Quantity in service

⁴Forecast net market/ forecast gross market

C: Specified Non NATO Market

Outside NATO thirty-nine (39) countries are equipped with M 113 variants and similar vehicles. Nine (9) specific Non NATO Nations were covered by the BHI Study.

Country	Quantity in service No	Forecast gross market		Forecast net market	
		% ⁵	No	% ⁶	No
Switzerland	1350	111	1500	15	225
Venezuela	112	45	50	16	8
GCC	1000	60	600	30	180
Saudi Arabia	2100	57	1200	33	390
Indonesia	700	94	660	30	198
Malaysia	200	75	150	54	81
Thailand	1740	63	1100	30	330
Singapore	770	26	200	18	36
Hungary	0	0	300	30	90
Total	7972	72	5760	27	1538

BHI Forecast gross market 5,760 vehicles

BHI Forecast net market 1,538 vehicles

⁵Forecast gross market/ Quantity in service

⁶Forecast net market/ forecast gross market

D: Unspecified Non NATO Market

Outside NATO thirty-nine (39) countries are equipped with M 113 variants and similar vehicles. Thirty (30) Non NATO Nations were not examined by the BHI Study.

Country	Quantity in service No	Forecast gross market		Forecast net market	
		% ⁷	No	% ⁸	No
Iran	520				
India	600				
Israel	4000				
Jordan	1400				
Lebanon	1285				
Lybia	575				
Morocco	455				
Sudan	40				
Tunesia	120				
Yemen	76				
Australia	700				
Cambodia	30				
South Korea	900				
Laos	25				
New Zealand	78				
Pakistan	1100				
Philippines	480				

cont'd....

⁷Forecast gross market/ Quantity in service

⁸Forecast net market/ forecast gross market



cont'd Table D:

Country	Quantity in service No	Forecast gross market		Forecast net market	
		No	%	No	
Taiwan	1100				
Vietnam	2300				
Argentina	550				
Bolivia	40				
Brazil	775				
Chile	130				
Colombia	160				
Ecuador	120				
Guatemala	10				
Peru	300				
Uruguay	15				
Egypt	2650				
Others	1500				
Total	22034	75	16526	20	3305
Malaysia ⁹	0		2000	20	400
Total	22034		18526	20	3705

BHI Forecast gross market

18,526 vehicles

BHI Forecast net market

3,705 vehicles

⁹35 bataillions, total requirement 3080 vehicles; ratio tracked/wheeled 2:1

E: Summary

Market	No. of Countries	Gross Market BHI forecast	Net market BHI forecast
Specified NATO Market ¹⁰	4	3,750	1,106
Unspecified NATO Market	10	8,280	1,656
Total NATO Market	14	12,030	2,762
Specified Non NATO market ¹¹	9	5,760	1,538
Unspecified Non NATO market	30	18,526	3,705
Total Non NATO Market	39	24,286	5,243
Total	53	36,316	8,005

Vehicle potential NATO countries : 2,762 vehicles

Vehicle potential Non NATO countries : 5,243 vehicles

Total Vehicle Potential : 8,005 vehicles

¹⁰excluding US

¹¹including Thailand 1100 vehicles



MEMO

TO: Jürgen Massmann

FROM: Greg Alford

TEL: 613-563-3321

FAX: 613-563-7648

DATE: June 7, 1994

SUBJECT: Internal notes

PAGES:

The following additional point was recorded in our notes from the June 3rd. meeting with the Government. However, it is my recommendation that we not include this in our minutes which we will share with the Government. It would be a highly sensitive subject for DND, given that it extends the argument for using the Defence budget for regional and industrial development. DND expects this argument from the Industry department but would be uncomfortable seeing it coming directly from us.

Additional Note from June 3 Meeting with Government

On the topic of industrial benefit value of the BHI project in Canada, Mr. Massmann suggested the total cost to Government in R&D contributions and expenditure for vehicles is anticipated to be less than the cost to Government of the same number of jobs created by other means of Government investment, (using the standard Government estimate for cost per job created).

Mr. Massmann explained that a preliminary estimate suggests that in such a calculation, with all factors considered, end cost to Government for new vehicles for the Army would be negligible and possibly zero (0).

MEETING REPORT
DND - THYSSEN BHI
June 3, 1994

Attending for DND

Pierre Lagueux ADM Supply,
Col. Jim Stewart Director General, Industry Relations

Attending for THYSSEN BHI

Jürgen Massmann
~~Greg Alford~~

Mr. Massmann expressed appreciation for the meeting and for the participation of DND in the interdepartmental committee reviewing the BHI market forecast. He then provided an introduction to the Thyssen Group.

Mr. Massmann recapped the highlights of the preceding meeting with Industry Canada and the general points of agreement that a gross market exists, the size of which is generally agreed, and the view that TH 495 definitely has a probability to win part of that market; though the Government forecast is lower than that of the Company as was expected for understandable reasons.

Mr. Massmann raised the topic of VBM/GTK and the information from the German side that no participation was offered to Canada for the design phase. Col. Stewart replied that Canadian participants in recent meetings "found the situation as they expected", realizing before hand that there was little chance to participate in design, but nonetheless wishing to enter the discussions to determine what potential might exist.

Mr. Massmann mentioned the German side's continuing discussions on track vs. wheels which may eventually give rise to a new multi-lateral program for a tracked solution among Germany, UK, and Canada. Mr. Lagueux and Stewart acknowledged the German position was reported as not yet settled.

On the topic of M 113, Mr. Lagueux acknowledged the vehicle's advanced age, and the inevitability of at least some part of it being replace. Further, he agreed with Mr. Massmann that M 113 are presently operating in specific roles that can only be fulfilled by tracked vehicles, and therefore it is a logical extension that its replacement market will necessarily be tracked.

Mr. Lagueux mentioned the intention of DND to sell off or close the Land Engineering Test Establishment (LETE) and asked if that might upset the Company requirement for

testing. Mr. Massmann clarified that testing by DND would be nice to have, but it is not the primary requirement and it is not essential.

The meeting lasted 1¼ hours (double its scheduled length) and was cordial. Mr. Massmann extended invitations to Mr. Lagueux and Mr. Stewart, or any of their colleagues to visit TH in Kassel.

Eurosatory was mentioned and Mr. Stewart offered to provide the names of DND officials attending and extend a request that they visit the TH 495 exhibit.



THYSSEN BHI

MEMO

TO: Jürgen Massmann
cc: Karlheinz Schreiber, Marc Lalonde, Jack Vance, Ian Reid

FROM: Greg Alford

TEL: 613-563-3321
FAX: 613-563-7648

DATE: July 19, 1994

SUBJECT: Industry Canada

PAGES: 4

Attached are two slides which Industry Canada has prepared for their internal discussions on our project.

Scenario 1 shows the Government's position as last discussed in June, with no market forecast for Unspecified Non-NATO, due to their inability to independently verify our forecast.

Scenario 2 shows the alternative Government position where they have said that the Company has made reasonable arguments that the Unspecified Non-NATO market does in fact exist and is of importance, therefore, in the absence of specific Government sourced verification, they make the assumption that it will exist in similar ratio as the Government was able to verify for the Unspecified NATO market.

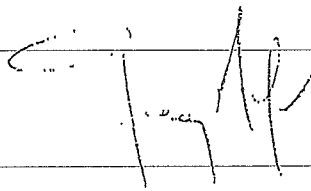
This results in the Government agreement on gross market rising to 80% (29,770 units) of the BHI forecast and net unit sales rising to 25% (2,053 units) of the BHI forecast.

The large difference in forecast sales is further explained by the inability of Government officials to assess competitive potential on the same level as the Company, this was acknowledged by Industry Canada at the outset of the exercise.

Also note that neither the Company nor the Government include any Canadian orders, and Industry Canada has acknowledged that when a first order is won, this will have a positive influence on their forecast "probability to win" in export markets.

These slides are part of Industry Canada's internal briefings to other departments as well as to their own senior level officials. However, to date they advise that their discussions are continuing with no conclusion reached yet.

Regards,

A handwritten signature in black ink, appearing to be 'J. M.', is written over a horizontal line. The signature is stylized and somewhat cursive.

TRACKED LAV MARKET FORECAST SUMMARY*

SCENARIO 2

MARKET SEGMENT	<u>BHI FORECAST 1996-2015</u>			<u>GOVT FORECAST 1996-2020</u>			<u>GOVT AS % OF BHI</u>	
	<u>GROSS</u>	<u>UNIT SALES</u>	<u>% OF TOI</u>	<u>GROSS</u>	<u>UNIT SALES</u>	<u>% OF TOI</u>	<u>GROSS</u>	<u>UNIT SALES</u>
1. SPEC. NATO	3960	1131	14	4700	515	25	119	46
2. UNSPEC. NATO	8280	1656	20	5800	270	13	70	16
3. SPEC. NON-NATO	6660	1845	22	6320	676	33	95	37
SUBTOTAL	18900	4632	56	16820	1461	71	89	32
4. UNSPEC. NON-NATO (5)	18500	3700	44	12950	592	29	70	16
TOTAL	37400	8332	100	29770	2053	100	80	25

NOTES

* BASED ON THE LATEST ITERATION ON TRACKED LAV MARKETS PRESENTED BY BHI-THYSSEN JUNE 15, 1994

1 GERMANY, NORWAY AND TURKEY (USA REMOVED)

2 BELGIUM, DENMARK, FRANCE, GREECE, ITALY, NETHERLANDS, PORTUGAL, SPAIN AND UK (CANADA NOT INCLUDED)

3 SWITZERLAND, VENEZUELA, GCC, SAUDI ARABIA, INDONESIA, MALAYSIA, THAILAND, SINGAPORE AND HUNGARY

4 CONSISTS OF 30 OTHER COUNTRIES (ORIGINALLY M113 REPLACEMENT MARKET) NOT ANALYSED IN THE SAME METHODOLOGY

5 GOVERNMENT FORECAST MAXIMUM SALES OF 592 UNITS BY APPLYING GOVT. RESULTS IN UNSPECIFIED NATO (SEGMENT # 2) TO THIS SEGMENT.

--3--

TRACKED LAV MARKET FORECAST SUMMARY*

SCENARIO 1

MARKET SEGMENT	BHI FORECAST 1996-2015		GOVT FORECAST 1996-2020		GOVT AS % OF BHI	
	GROSS	UNIT SALES	% OF TOI	GROSS	UNIT SALES	% OF TOI
1. SPEC. NATO	3960	1131	14	4700	515	35
2. UNSPEC. NATO	8280	1656	20	5800	270	18
3. SPEC. NON-NATO	6660	1845	22	6320	676	47
SUBTOTAL	18900	4632	56	16820	1461	100
4. UNSPEC. NON-NATO (5)	18500	3700	44	0	0	
TOTAL	37400	8332	100	16820	1461	100

NOTES

* BASED ON THE LATEST ITERATION ON TRACKED LAV MARKETS PRESENTED BY BHI-THYSSEN JUNE 15, 1994

1 GERMANY, NORWAY AND TURKEY (USA REMOVED)

2 BELGIUM, DENMARK, FRANCE, GREECE, ITALY, NETHERLANDS, PORTUGAL, SPAIN AND UK (CANADA NOT INCLUDED)

3 SWITZERLAND, VENEZUELA, GCC, SAUDI ARABIA, INDONESIA, MALAYSIA, THAILAND, SINGAPORE AND HUNGARY

4 CONSISTS OF 30 OTHER COUNTRIES (ORIGINALLY M113 REPLACEMENT MARKET) NOT ANALYSED IN THE SAME METHODOLOGY

5 GOVERNMENT FORECASTS ZERO SALES FOR THIS SEGMENT BECAUSE OF THE MANY UNKNOWN FACTORS.



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

September 21, 1994

M. Marc Lalonde
Stikeman, Elliott
1155 Dorchester Blvd. Ouest
Suite 3900
Montreal, P.Q.
H3B 3V2

Dear Marc:

On behalf of Jürgen Massmann and myself thank you again for your fine hospitality on Monday.

Thanks also for meeting us and Gen Jack Vance (Ret'd) on Tuesday.

As promised, I am pleased to enclose the reports which we haven written for the meetings with Industry Canada and National Defence.

I wish you and your family a pleasant vacation.

Kind regards,

Greg Alford

Lunch Meeting with Industry Canada**September 20, 1994****Participants: Bruce Deacon, Industry Canada
Dick Krajewski, Industry Canada****Jürgen Massmann, TH
Greg Alford, BHI
Jack Vance, BHI**

Mr. Massmann opened business discussions mentioning it was June 3, 1994, since the last discussions of the project with Industry Canada.

Mr. Deacon explained the delay by pointing out that Industry Canada has shared their conclusion of the TH 495 market analysis with all interested departments and urged them to acknowledge the existence of the export market, their understanding that it is a market different from the market which will be won by GM LAV and agree to the likelihood of TH 495 penetrating that market. (The Government forecast export market penetration for TH 495 is some 2,000 units over 15 years.)

Mr. Deacon explained that there still has not been a conclusive response to the market analysis which in turn has caused the delay in Industry Canada getting back to the Company.

Mr. Massmann expressed appreciation for the update, but then asked if Mr. Deacon could shed some light on concerns brought to the Company's attention recently. The Company has been told on three different occasions that within the Government's consideration there is a detailed negative summary of the BHI proposal by Industry Canada, to which Industry Canada has invited agreement from other departments on the closing of this file. The three points of criticism of the BHI proposal, attributed to Industry Canada are:

1. The Government should not support establishment of a new armoured vehicle producer when Canada already has a successful manufacturer in this sector, in GM Diesel Division, (suggesting that there is no product and market differentiation between GM's wheeled vehicle and the tracked TH 495).
2. There is international over-supply in the armoured vehicle market leading to uncertainty for any export market success for TH 495.
3. There is no Canadian DND requirement to which TH 495 could be a potential

supplier.

Mr. Deacon expressed no knowledge of such a position being taken by Industry Canada, though he did say that it is possible for a negative position to have been taken toward the Thyssen proposal at another level (it is assumed he refers to the political level). Furthermore, he indicated that the three criticisms more reflect the position of Industry Canada at the beginning of the discussions one year ago. Mr. Deacon acknowledged that at that time Industry Canada was doubtful that any market existed at all, however, after a year of investigation and analysis the Industry Canada view is that a market does in fact exist and the Government's own analysis has now concluded that the Thyssen TH 495 is a vehicle well designed to compete in that market and should achieve a minimum export market of 2,000 + units, with no assumption for any Canadian order.

Mr. Deacon expressed concern that if a negative position on the BHI file exists in the Government, it has been formed without benefit of the most current Government market analysis. In effort to correct any misunderstandings, he undertook to look into the situation described by Mr. Massmann and reply back through Greg Alford.

Mr. Deacon also mentioned that it would be premature for any assessment, either positive or negative, of the project's precise contribution to Canada, since there has not yet been a formalized project proposal since it was agreed between the Company and the Government that first an agreement on the market should be established as the basic input to a more formal business proposal.

Additionally, Mr. Deacon agreed to provide to the company a written acknowledgment of the elements in the market analysis as concluded so far;

1. *Industry Canada, along with input from National Defence and Foreign Affairs have examined the export market prospects for TH 495 over the past year, to conclude that there is a total export market of approximately 30,000 units.*
2. *Of that export market, the Government by independent analysis, estimated that TH 495 can penetrate and win a market share of at least 2,000 units.*
3. *The Government forecast is a conservative outlook, given that the Government forecast assumes:*
 - *no Canadian market sale*
 - *every market forecast is on the basis that it would be a "first order" for TH 495*
 - *once a first sale actually exists, the probability for winning other markets increases by a significant factor.*

It was understood that such a letter would also be copied to all interested departments.

On the topic of potential Government funding sources to support Thyssen establishment in Canada to produce for the export market, Mr. Deacon explained that his contact to the federal regional development agencies has found that the Atlantic and Western regional development agencies are likely unable to support the project, due to lack of funds, Ontario has no regional development fund, so that leaves Quebec as the only potential source of financial support.

Asked about the Defence Industrial Productivity Program (DIPP) which had been original source of funding proposed by Industry Canada, Mr. Deacon said this fund is overcommitted already.

Conclusion:

This meeting was very positive in that it brought to the attention of Mr Deacon and Mr Krajewski, the information that there may be a view formed at some level of Industry Canada which has not had the benefit of the Industry Canada led market analysis and most current conclusions. The actions proposed by Mr Deacon should bring remedy to the issues and concerns which had been brought to the Company's attention suggesting an Industry Canada opposition to the Thyssen/BHI proposal.

Visit with I.Gen R.N. Fischer**September 20, 1994****Summary of Discussion**

General

Jürgen Massmann, accompanied by Jack Vance, paid an office call on the new senior ADM Materiel of DND, LGen Bob Fischer on Sept. 20, 1994.

We hoped to accomplish the following during this meeting:

- a. establish that Thyssen is a professional and competent developer and builder of armoured vehicles, and a serious contender fully capable of meeting the emerging Canadian requirement for a new Armoured Personnel Carrier (APC).
- b. Clear the air regarding Thyssen's interests and intentions vis à vis DND
- c. Find out the current stakes of the Canadian APC Replacement project.
- d. Assess the probable procurement strategy: will it be open competition or will it be a directed contract to GM?

In summary, all of these purposes were accomplished. Additionally, I assess that the foundations were laid for a good, open and friendly relationship between Massmann and Fischer (the meeting scheduled for one hour, lasted over one and one half hours). Massmann extended a personal invitation for Fischer and his staff to visit Kassel. It was also agreed that the cancelled dinner should take place (along with perhaps Reay and Addy) the next time Massmann visits Ottawa.

Main Discussion Points

Fischer made the following "positional" points during discussion:

- a. he had no predetermined position vis à vis Thyssen
- b. he was already generally familiar with Thyssen capabilities and with Thyssen interests in Canada
- c. he had seen the TH 495 at EuroSatory and he had read the literature and seen

the video Greg Alford had forwarded to his office.

- d. he was very careful to identify the operational staff as the arbiter of vehicle requirements, stressing that he saw his job as procuring the vehicle they want.
- e. he showed confidence in his own engineering staff, intimated some confidence in Cindy Canizzo, and looked lost that we should think Mr. Lagneux would somehow be involved in aspects pertinent to us.
- f. he intimated that he and Reay had recent discussions about us and that they were working on the same net.

The TH 495 got a quite thorough exposure during discussion (both Massmann and Fischer being vehicle engineers helped). Massmann got the chance to develop a good discussion about vehicle characteristics, in the process underlining the advantages of tracked vehicles, modularity, growth potential, protection and possible future developments, and strategic mobility. (Fischer noted "en passant" that the requirements staff seem to be dropping the essentiality for airtransportability and this afforded us a good opportunity to talk about rapid reaction, response to tasks like Rwanda, and air requirements now being identified in France and Germany.)

Regarding Canadian plans, Fischer confirmed that the APC Replacement Project is emerging quickly and that it is accurate to think of it as seeking procurement of about 1,000 units, with contracting by the end of 1995, and first production not later than 1997. He stated that the full catalogue of potential contenders had been reviewed by the staff and reduced to the more serious contenders. While not yet a "short list", the TH 495 was still on and likely to stay.

At this point, Vance asked Fischer directly: Will procurement strategy really permit open competition or will it be directed, once again to GM? This gave Fischer the opportunity to:

- a. stress the need for competition
- b. acknowledge that the requirement does mean a new, modern vehicle, and
- c. admit that GMDD may not be capable of producing such a vehicle.

It also gave him the occasion to make what I took to be one of his most important messages: everybody must recognize the "reality of GMDD", the money the Government has already devoted to "its one centre of excellence", and, GMDD "will have to figure one way or another" in whatever procurement plan is approved.

Massmann stressed that Thyssen is completely open to a range of production options, which could include GM, and others, should the Government so wish.

Vance clarified that the two Thyssen initiatives, ie. participation in the APC Replacement Project, and developing a capacity to meet export potential, should best be viewed as two separate proposals, not necessarily dependent on each other. Fischer demonstrated some knowledge of the export initiative and some interest in the fact that present confusion about world market analysis would be clarified. (Nothing was said about CF participation, through testing. I think in retrospect we missed a chance here and should pursue it in the future if still appropriate).

Finally, Massmann led a good discussion about inter-Allied cooperation throughout the course of the meeting. It permitted an airing of the Franco/German VBM/GTK initiative, the potential for cooperation in track development, and in particular the prospect of joint CDN/GE work.

Conclusion

This was a good, useful meeting, providing a sound basis with a key player. We must plan to build on that in the near future.

Jack Vance



MEMO

TO: Mr. Jürgen Massmann

FROM: Greg Alford

TEL: 613-563-3321

FAX: 613-563-7648

DATE: October 20, 1994

SUBJECT: Meeting with Industry Canada (IC) on October 20, 1994

PAGES: 3

General

A meeting was held on October with IC as a follow-up to the October 11 meeting attended by Bruce Deacon and previously reported.

The primary purpose of this meeting was to examine the projected market total and Thyssen share for the Serial 4, specific NON-NATO (from the IC prepared table). The Company was prepared to explain our calculations. IC was anticipated to re-examine their position on market share and explain their calculation methodology.

Conduct

The meeting was chaired by Dick Krajewski (Bruce Deacon was not present), DND and Foreign Affairs were represented, and there were a number of IC staffers now involved in the project. The meeting was conducted in haste as little time had been allotted, and much of that was spent on introducing (and explaining matters to) first-time attendees.

BHI Calculations

Greg Alford explained the background source and calculations made by the Company to reach a gross-market total of 18,500 vehicles. As this included some 2 000 vehicles for an advised Malaysian project, it was agreed that the new Serial 4 market quantity calculated by BHI should amount to 16,500. The meeting was informed that this total was derived from extracts from both Jane's and Mönch publications which showed those

countries not previously covered on the survey which, were presently operating M 113 or like (Western design) vehicles.

Dick Krajewski questioned the assumption that these would be replaced at all, or if so, whether they would not be replaced by wheeled vehicles. These old arguments were effectively countered.

IC Actions

Attention then turned to the actions to be taken by IC to more realistically reflect BHI's possible market share in this segment (Serial 4). Krajewski said he now proposed to directly contact as many of these unspecified countries as possible in order to confirm their M 113 holdings, and to determine their upgrade and/or replacement intentions and attrition rate. When asked he believed that it would take about a month. This initiative was news to Ken Murata of Foreign Affairs who indicated that he wished to discuss it later with Dick. As regards IC's proposed calculation data once available, no method had as yet been decided.

Comment

This proposal is rather impractical, and appears to be a delaying tactic. They should make an educated assumption from existing market data to meet Bruce Deacon's direction to give Thyssen some credible share of the market. (This matter will be taken up in the immediate future with IC to avoid more time delay).

Costing Information

As an additional item Dick Krajewski asked the Company to table a revised calculation of R&D, Training, Technology transfer, Set-up costs, Plant construction (as purchase and conversion), and Project financing.

In response, the meeting was advised of the Company's R&D expenditure to date and the current prototype status. The other information would shortly be provided in the proper forum (when sufficient time had been allowed by IC for presentation and discussion).

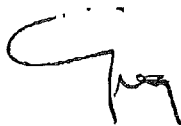
It was agreed to schedule a further meeting during the week of October 23.

General Comment

Dick Krajewski appears not to be responding adequately to Bruce Deacon's more positive direction. Some progress was made at this meeting in that the Company's market calculations were explained, however, IC's proposed action do not reflect the urgency of the project. Bruce Deacon's further intervention seems necessary. In the meantime, we will strongly suggest that they arrive at some level of market share using assumptions as necessary and record them as agreed footnotes to their report.

At the close of the meeting, Krajewski also advised that Bruce Deacon was continuing to determine level of support for our project in other areas of government.

Best regards



P.S. Jürgen,

Given this situation, I see it all the more important to get a meeting with Bruce Deacon and you "under four eyes".
I will advise as soon as I can confirm it.





1 Nov 1994

7 pages total

To Marc Lalonde
Stikeman Elliott

From: G Alford

Dear Marc,

I look forward to meeting you on Wednesday at Mirabel.

As mentioned the originally planned meeting with Bruce Deacon, Industry Canada, Director General, Defence Branch, was canceled on Monday due to his being called into the "program review" process for his department. We requested alternate times but none were available.

To provide an update to our discussions with Industry Canada I send the attached meeting notes from October 11 and 20. You will recognize that these describe the events mentioned in our most recent telephone conversations.

Bottom line: in the meeting of 20 September Industry Canada promised to put on record their conclusion that the export markets described by the company last year do exist and the Government assessment concludes that our vehicle will sell successfully into that market even without the assumption of a Canadian order. However to date we have only had meetings to discuss the process by which they will attempt to verify the 4th sector of the Market forecast dealing with "unspecified Non NATO markets" and their estimate that they will need another 30 days to carry out their work.

Attached: Meeting reports for Oct. 11 and Oct. 20, 1994



Visit with LGen R.N. Fischer

September 20, 1994

Summary of Discussion

General

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We hoped to accomplish the following during this meeting:

- a. establish that Thyssen is a professional and competent developer and builder of armoured vehicles, and a serious contender fully capable of meeting the emerging Canadian requirement for a new Armoured Personnel Carrier (APC).
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In summary, all of these purposes were accomplished. Additionally, I assess that the foundations were laid for a good, open and friendly relationship between Massmann and Fischer (the meeting scheduled for one hour, lasted over one and one half hours). Massmann extended a personal invitation for Fischer and his staff to visit Kassel. It was also agreed that the cancelled dinner should take place (along with perhaps Reay and Addy) the next time Massmann visits Ottawa.

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Finally, Massmann led a good discussion about inter-Allied cooperation throughout the course of the meeting. It permitted an airing of the Franco/German VBM/GTK initiative, the potential for cooperation in track development, and in particular the prospect of joint CDN/GE work.

Conclusion

This was a good, useful meeting, providing a sound basis with a key player. We must plan to build on that in the near future:

Jack Vance

Meeting Between Thyssen BIII and IC

October 11, 1994, 13.30h

Summary of Discussion

Attendance

IC Bruce Deacon
 Dick Krajewski
 Baj Hafez

Thyssen BHI Greg Alford
 Ian Reid

KPMG Marc Brûlé

General

This meeting was scheduled as a direct follow-up to the meeting held in Ottawa on Sept. 20, 1994, which was attended by Mr. Massmann. A specific aim was to reach agreement or accommodation on the Market projections based on Company and IC analysis.

Discussion

Mr. Deacon made the following points in his opening remarks:

- There was now a increasing political will to look at the Thyssen proposition
- Before the Government could determine its degree of support and financial investment, a Company business plan would be required.
- In advance of the business plan, certain sequential actions were required, they were:
 - an agreed market basis
 - confirmation of the political will to proceed with the Thyssen project
 - a summary of the Company's proposal/position, to include essential information such as company's commercial outline intent and government support sought (further discussed below).
 - a coordinated Government position of what support would or could be

~~6/1~~

available (subject to positive analysis of the full business plan). These are likely to include:

- a. Repayable contributions with recovery commencing after 6 years in the form of royalty payments on sales
- b. Direct assistance through testing, use of government labs and other facilities,
- c. possible government procurement to include the normal IB (Industrial Benefits) package,
- d. tax incentives

The discussion then turned to the resolution of outstanding differences on Market Data.

Market Data

After a comparison of the Company and IC projections (as summarized on the IC charts titled scenario 1 and 2) and an explanation of the significant areas of contention, Mr. Deacon made the following observation:

- based on the preceding logic, it was not correct for IC to project a zero market share in the "unspecified non-NATO" portion of the summary (line 4, scenario 1). The mathematical ratios used in arriving at the market share in the same serial in scenario 2 should also be reviewed. For example, he took the point that using the same "possibility of win" ratio as in the "unspecified NATO" serial did not appear to take into account that the majority of NATO nations have domestic armoured vehicle manufacturers, which is not the case in the majority of NON-NATO customers.
- What should be aimed for at the lowest end was a defensible conservative base. "Better to be low and viable (sustainable in discussion), than high and questionable" when the company projections could be the basis of commercial forecast (eg. incorporation in a business plan), the Government figures would form their basis for risk calculation.
- It appeared that there was a close similarity in the gross market figures on serials 1-3. We should therefore re-examine serial 4 to reach a level of common agreement. The Company agreed to re-examine their estimate in this area and meet with the Government as soon as possible..
- where nations had been deliberately omitted by the company (eg. Iraq on political

(H)



grounds, US and Canada due to sensitivity) this should be stated. He appreciated the Company's position in regard to Canada, but would welcome our re-examining the potential US market, regardless of the current official US DOD position. In any event deliberate omissions should be recorded in footnotes.

- Ultimately the market share projections would be subjective "judgement calls" but that would be a logical outcome. The reasoning should be as clear as possible for such projections. The company should not be inhibited from using their own figures.

After further discussion, Mr. Deacon proposed future actions as follows:

- a. BHI should re-examine (or re-substantiate) the Serial 4 "unspecific NON-NATO" gross market of 18,500 units
- b. IC should re-assess their rationale for their comparable figures in (a)
- c. IC should re-examine their unit sales projections for (a).
- d. BHI should endeavour to re-examine and reflect potential US market, and it should consider the appropriateness of including all markets (US, Middle East, Canada) in its "gross" market for units. If necessary from sources independent of DOD.
- e. BHI should furnish a summary of development status and costs to date and anticipated interim investment in R&D.
- f. BHI should be aware that due to the duration of their activity, there were a number of "facts and figures" concerning investment costs, jobs created etc, dating from the earliest initiatives through ACOA. It would be very helpful if these financial and other figures could be re-visited by the company and up-dated to IC so that the department and others could be sure that they were considering current and correct data. The Company agreed to undertake this.
- g. All the above actions should be taken as soon as possible to permit project staffing to proceed.

(+)



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO:

M. Lalonde
SUKEMAN ELLIOT

FAX NO:

FROM:

Greg Alfond, Thyssen

PAGES:

3

(including cover page)

DATE:

24. 11. 94

MESSAGE:

Marc.

Attached was sent to Bruce Jaeger - Industry Canada
in hope of encouraging them to issue their promised
letter.

I trust it will be received in the intended polite
and positive light.

Best Regards,
Greg



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7848

November 24, 1994

Mr. Bruce Deacon
Director General
Space, Marine and Defence Branch
6th Floor East
235 Queen Street
Ottawa, Ont.
K1A 0H5

Dear Bruce:

You will recall that in our discussion on September 20th, it was agreed that Industry Canada would provide us with written acknowledgement of the Government opinion of the projected market once finalized. The details still requiring resolution were identified, and the necessary action agreed.

From our discussion on October 11th, we appreciate that additional time was necessary for the Government to conclude its position on the fourth market segment identified as "Non specified Non-NATO". We understood from subsequent discussions on November 3rd, that the Government's position for that last market segment was imminent.

Based on these concluded discussions, we are now anticipating a written summary of your assessment which we trust will in part include the Government opinion that:

- i) by a market assessment made independent of the Company's, confirms it is reasonable to conclude an export market for the TH 495 can be penetrated from Canada;
- ii) the Government methodology clearly delineated the export market forecast for TH 495 as that of a tracked armoured vehicle market, differentiating the market for TH 495 as complimentary to the wheeled vehicle export markets which naturally would be pursued by the Canadian unit of General Motors which is producing wheeled armoured vehicles.



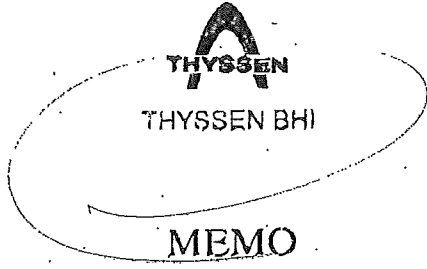
THYSSEN BHI

iii) the Government forecast considers only tracked vehicle export markets and makes no consideration for possible future domestic market requirements of DND.

I would greatly appreciate if this could now be actioned so we may proceed to the next phase of our initiative.

Sincerely,


Greg Alford
Sr. Vice President



TO: Messrs: Jürgen Massmann
Karlheinz Schreiber
Jack Vance
Marc Lalonde

*for meeting
Ottawa
14 dec*

FROM: Greg Alford

**TEL: 613-563-3321
FAX: 613-563-7648**

DATE: December 1, 1994

SUBJECT: Defence White Paper Release and Letter

PAGES: 6

Defence White Paper released today, 3 key pages attached.

Also attached is letter to Minister of Defence for signature by J. Massmann.

Please call Greg Alford if any changes to the letter are necessary.

immediately to identify options and plans to put into service new affordable replacement helicopters by the end of the decade.

The Special Joint Committee on Canada's Defence Policy found that submarines can conduct underwater and surface surveillance of large portions of Canada's maritime areas of responsibility, require relatively small crews, can be operated for roughly a third of the cost of a modern frigate, and work well with other elements of the Canadian Forces. It also recommended that, if it should prove possible in the current environment of military downsizing around the world to acquire three to six modern diesel-electric submarines on a basis that was demonstrably cost-effective (i.e., that could be managed within the existing capital budget), then the Government should seriously consider such an initiative. The United Kingdom is seeking to sell four recently constructed conventional submarines of the *Upholder*-class, preferably to a NATO partner. The Government intends to explore this option.

To maintain sufficient capability to sealift troops, equipment and supplies for multilateral operations, the support ship *HMCS Provider* (initially slated to be paid off in 1996) will be retained in service, and plans for the eventual replacement of the existing fleet will be considered. Starting in 1995, the navy will receive the first of 12 modern Maritime Coastal Defence Vessels (to be crewed primarily by reservists), intended to provide a coastal defence and mine countermeasure capability that has been lacking.

Operational Land Forces

The importance of the Canadian Forces' mission to support an allied land campaign in Central Europe has diminished, allowing the withdrawal of our forces from Europe. Multi-purpose combat capabilities are now maintained to carry out a wide variety of domestic and international operations.

Canada's land forces will be adequately equipped to carry out their new array of tasks. The materiel of the three brigade groups will be improved. Current plans call for the acquisition of a variety of modern equipment essential to the maintenance of a multi-purpose combat-capability.

There exists, for example, a recognized operational deficiency in the armoured personnel carrier fleet. Its mobility, protection and defensive firepower must be brought into line with the modern requirements of environments likely to be encountered in today's UN and other multilateral missions. The Canadian Forces will, therefore, acquire new armoured personnel carriers for delivery, commencing in 1997. Modernization of part of the present inventory will add other suitably armoured personnel carriers to the fleet. The relatively new *Bison* APCs will be retained in service.

What acquisition Strategy.

The fleet of *Cougar* armoured training vehicles that are part of the army's close-combat, direct-fire capability in peace and stability operations will eventually have to be replaced.

CONCLUSION

Several years after the fall of the Berlin Wall and the collapse of the Soviet empire, Canada finds itself in a world fundamentally transformed, characterized by considerable turbulence and uncertainty. Similarly, at home, Canadians now live and work in a society of more limited resources and new challenges, where many of the old rules and certainties have lost their validity. In these circumstances, ensuring Canada's security and defining an appropriate role for our armed forces is more than ever a challenge for all Canadians.

With this White Paper, the Government has fulfilled its obligation to provide Canadians with an effective, realistic and affordable defence policy. From the outset, our objective was not to discard sound practices in favour of simplistic solutions. Rather, the Government was committed to reviewing carefully every aspect of Canada's defence policy so that it could make reasoned judgements on how best to ensure the nation's security and well-being. At the heart of our approach were extensive and far-reaching public consultations, lasting for most of 1994. The Government believes the defence policy enunciated in this White Paper reflects a Canadian consensus.

The White Paper affirms the need to maintain multi-purpose, combat-capable sea, land and air forces that will protect Canadians and project their interests and values abroad. It also concludes that to maximize the contributions of our armed forces, their traditional roles — protecting Canada, cooperating with the United States in the defence of North America, and participating in peacekeeping and other multilateral operations elsewhere in the world — should evolve in a way that is consistent with today's strategic and fiscal realities.

The Canadian Forces will maintain core capabilities to protect the country's territory and approaches, and to further national objectives. Given that the direct military threat to the continent is greatly diminished at present, Canada will reduce the level of resources devoted to traditional missions in North America. It will, however, remain actively engaged in the United Nations, NATO, and the Conference on Security and Cooperation in Europe. It will become more actively involved in security issues in Latin America and the Asia-Pacific region.

To achieve these goals, the Regular and Reserve Forces will both be reduced and refocused, the command and control system will be reorganized, and affordable equipment will be purchased so our troops have the means to carry out their missions. The Department of National Defence and the Canadian Forces will operate more efficiently, making optimum use of infrastructure and equipment, and ensuring full value is derived from the skills, experience

1994 DEFENCE WHITE PAPER

and professionalism of Canada's armed forces and civilian defence employees. The Government will also work towards harmonizing industrial and defence policies to maintain essential defence industrial capabilities.

This policy recognizes that the defence budget will be under continuing pressure as the Government strives to bring the deficit under control. More reductions can and will be accommodated, including the military reductions outlined in this Paper and cuts in the Department's civilian workforce arising from a number of additional facilities closures and consolidations. Further savings will be achieved through the elimination, reduction or delay of major acquisition projects currently included in the capital program. Only a few major re-equipment programs remain affordable, and these will directly support the new defence priorities identified in the White Paper. Taken together, these measures will have substantial implications for the Department and the Forces, their members and employees, as well as for local communities and the private sector across Canada.

This White Paper provides Canada's men and women in uniform and their civilian colleagues the direction they require to carry out their duties on behalf of the nation, whether the world of the future is a peaceful and stable one, or is plagued by increasing violence within and among states. Indeed, whatever the future brings, the new defence policy will enable Canada to respond and adjust as necessary to deal with the range of challenges to our security that could arise, now and into the next century.



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

December 1, 1994

Hon. David Collenette
Minister of National Defence
MGen George Pearkes Building,
101 Colonel By Dr.,
Ottawa Ontario
K1A 0K2

Dear Minister:

As you are aware, Thyssen BHI, a division Thyssen Industrie AG has been established in Canada for seven years, and seriously interested in bidding on the requirements of the Canadian Armed Forces in the field of armoured vehicles. It was our understanding that when a procurement program came up, we would have a chance to bid. In fact, we received formal written commitment that we would be given the opportunity to bid against possible Canadian requirements through a letter from the Minister of Defence dated on January 25, 1990, and an Understanding in Principle from the Ministers of Defence, DRIE and ACOA dated September 27, 1988.

Accordingly, we followed with great interest the proceedings of the Special Joint Committee on Defence Policy and noted that their report included a recommendation for the priority acquisition of new armoured personnel carriers (APC's). We now note that this deficiency is identified in your 1994 Defence White Paper which declares in part the intention to "acquire new armoured personnel carriers for delivery commencing in 1997"

We therefore write to express our keen interest in responding to this APC replacement initiative. In the area of operational requirements we have maintained contact over recent years with the user side of DND to ensure that we had the best possible understanding of the performance characteristics envisaged for a new armoured vehicle. We matched these with criteria found in the international market to guide us in design of our new vehicle, the TH495.

The TH 495 family of tracked vehicles is designed to meet the operational requirements of multi-purpose forces that include in their mission the need to perform peacekeeping and /or rapid reaction assignments. It also closely matches the NATO MBAV study for future light armoured vehicles.

Among the many key performance characteristics I would highlight TH495's ability to



THYSSEN BHI

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provide high armour protection without compromise to payload and mobility. Equally important is the growth potential of TH495 offered through its modular design with features such as a digital bus system, a commercial engine with up-rateable power output, modular armour, etc. With the significant financial outlay that a new APC project will represent, it is logical that the vehicle Canada selects should be expected to be able to offer these features in order to give the best value.

TH 495 is an "off the shelf" product as defined by DND to the Canadian Defence Preparedness Association, and we can confirm it could be available off Canadian production in 1997. TH 495 is a privately funded development, the prototypes of which have been operating in Company trials for several thousand kilometres. An APC configured TH 495 has been delivered last week to Malaysia for customer trials. Additionally, we have confirmed that a very significant export market will exist for TH 495 over the next 15 - 20 years.

Earlier this month the prospect of TH 495 as the vehicle system for a multilateral cooperative program was realized through joint activities in Germany and Britain. Specific bilateral talks were initiated by the German Army after their recent decision to include a tracked vehicle as a portion of their acquisition plan under the GTK project. In the interest of finding common ground with additional potential cooperative program partners, I understand that German and British officials have invited the Canadian Army to consider participation in the proposed cooperative program which is based on TH 495. As a tracked vehicle the TH 495 possesses an inherent off-road mobility superior to any equivalent wheeled vehicle. This capability maintains the Army's required general purpose capacity. [The GTK project also includes plans for a wheeled vehicle acquisition under a separate bilateral Franco/German project.]

We see this interest in Multilateral Cooperation as very consistent with our objectives as an industrial developer of the TH 495. As an independent development, we have been able to minimize the risk in design by using an assembly of the most advanced but proven components. This optimizes design while meeting the broadest possible market and lowering the cost of the production vehicle. It is the Company's preference to manufacture TH 495 in Canada with high Canadian content through partnerships with Canadian companies and concurrent industrial benefits. We would also intend to manufacture in Canada for export which would create significant new jobs, both at our facility as well as among Canadian sub-contractors. On this point, it is important to note that the export market for TH 495 is distinctly different from that which can be reached by General Motors.

Based on our previous contacts with your department, including recent discussions with the Senior ADM Materiel, we have been assured that the APC procurement will be based on the Army's operational requirements and will be met by an open bidding



THYSSEN BHI

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process in which we will be able to participate. I trust that this remains your intent as I am concerned by a recent press report and other indications that the matter may be managed differently. Now that your APC replacement requirement is specifically confirmed in the White Paper, I would welcome your early assurance in regard to your tendering process.

Sincerely,

Jürgen Massmann
President

STIKEMAN, ELLIOTT

Montréal

MEMORANDUM

DATE: Le 13 décembre 1994
À/TO: l'hon. André Ouellet

DE/FROM: Marc Lalonde
RE: **THYSSEN BHI**
Véhicules pour les Forces armées

DOSSIER N°/FILE No.: 17780-003

Nos clients, Thyssen BHI, ont reçu une information fiable, à l'effet que le ministère de la Défense annoncerait cette semaine que le Gouvernement s'équiperait de véhicules à armement léger, sans soumission, par une commande directe auprès de GM.

Inutile de dire que la possibilité d'une telle décision inquiète nos clients au plus haut point.

Depuis plusieurs années, Thyssen a entretenu des discussions avec le ministère de l'Industrie, en vue de démontrer pour le Canada les avantages considérables que représenterait l'établissement ici d'une usine pour la construction des véhicules TH 495. Ces discussions visaient en particulier à établir le niveau élevé des exportations de ce produit qui pourraient être faites à partir du Canada. Thyssen a remis à ce ministère, depuis de nombreux mois, ses propres estimations quant au marché extérieur disponible. Après des mois de tergiversations, le ministère concluait, lors de conversations tenues le 11 octobre et le 3 novembre, que ses propres analyses démontraient l'existence d'un marché extérieur pour le TH 495, qui pouvait être pénétré à partir du Canada. Le ministère concluait, en outre, que le marché pour le TH 495 était complémentaire à celui visé par le véhicule produit par GM. En fait, nos clients sont convaincus que le marché extérieur pour leur produit représente plusieurs milliards de dollars et ils ont produit des évaluations précises à ce sujet.

Concurremment, nos clients poursuivaient des discussions avec les autorités du ministère de la Défense, concernant le renouvellement éventuel de leur équipement. Un intérêt marqué était exprimé au niveau des autorités supérieures des Forces armées, mais celles-ci indiquaient qu'il leur était impossible d'en dire davantage tant que l'étude du comité de la Chambre des Communes n'était pas terminée et que le Livre blanc du ministère ne serait pas

déposé. Or, ces deux événements sont survenus durant les dernières semaines et la priorité est accordée au renouvellement des véhicules des Forces armées.

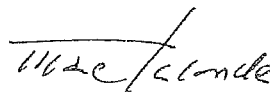
Au cours d'une conversation antérieure avec le sous-ministre de la Défense, celui-ci nous a déjà exprimé le point de vue qu'il n'existait au Canada de place que pour un seul producteur. Nous avons été étonnés d'une telle affirmation qui, à notre avis, n'est pas du tout conforme aux faits et, en tout cas, nous comprenons mal que, si le ministère est d'un tel avis, il s'arroge le droit de déterminer qui sera ce producteur «privilegié», plutôt que de laisser jouer la concurrence.

Vous comprendrez donc la très grande inquiétude de nos clients devant l'information qu'ils viennent de recevoir concernant une décision imminente en faveur d'un approvisionnement à source unique, sans soumission publique. Il s'agit là d'une pratique que le présent gouvernement a condamnée avec la plus grande vigueur, alors qu'il constituait l'Opposition et que le gouvernement antérieur y recourait. En outre, une telle décision serait extrêmement mal perçue par les milieux d'affaires et les autorités gouvernementales allemandes et contribuerait à ternir la réputation du Canada comme partenaire commercial en Europe. Enfin, il nous paraîtrait incompréhensible que le gouvernement canadien décide d'ignorer ainsi la possibilité d'un marché nouveau d'exportation qui se développera de toute façon, mais à partir d'ailleurs qu'au Canada.

Nous espérons, en conséquence, que le gouvernement voudra bien suivre la procédure normale en rapport avec un projet aussi important et aussi coûteux. Nous pouvons dire que, jusqu'à maintenant, nos clients n'ont pu obtenir aucune discussion soutenue et en profondeur avec les autorités du ministère de la Défense au sujet de ce projet.

Pour plus ample information, je vous fais parvenir copie d'une lettre que le président de Thyssen BHI, M. Hans Jurgen Massmann, faisait parvenir récemment au ministre de la Défense, sur ce sujet. Il n'a reçu aucune réponse à ce jour.

Nos clients et moi-même sommes à votre disposition, en tout moment, pour discussion ultérieure à ce sujet, si vous le désirez.



Marc Lalonde

P.J.

Translation rendir la

STIKEMAN; ELLIOTT
Montréal
MEMORANDUM

DATE: Le 13 décembre 1994
À/TO: ~~Jean Pelletier~~
DE/FROM: Marc Lalonde
RE: THYSSEN BHI
Véhicules pour les Forces armées
DOSSIER N°/FILE No.: 17780-003

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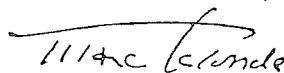
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Nos clients et moi-même sommes à votre disposition, en tout moment, pour discussion ultérieure à ce sujet, si vous le désirez.



Marc Lalonde

P.J.

002826


THYSSEN

THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

December 14, 1994

M. Marc Lalonde
Stikeman, Elliott
Suite 3900
1155 Dorchester Blvd. West
Montreal, Qué.
H3B 3V2

Dear Marc:

Attached, please find the summary of discussion from a conference call between Gen. Reay, Jürgen Massmann and Jack Vance.

As our action from this we intend to write to the Minister of National Defence, as well as the Ministers Ouellet, Manley, Martin, Dingwall and MacLaren.

Please let me know if you disagree with any part of these letters at your earliest convenience.

Regards.



Greg Allford

5 Pages total



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

December 14, 1994

Hon. David Collette
Minister of National Defence
MGen G.R. Pearkes Bldg.
101 Col. By Drive
Ottawa, Ont.
K1A 0K2

Dear Minister:

Further to the letter sent Friday, December 2nd by Jürgen Massmann, President of Thyssen BHI, I would like to expand on a few points which may be relevant to your considerations in developing a procurement strategy for the acquisition of Armoured Personnel Carriers (APCs) as announced in the Defence White Paper released December 1st.

Thyssen has a long and substantial history in Canada. Since coming to Canada over a quarter century ago, Thyssen has expanded in a variety of industrial areas and currently employs over 2,800 people in a variety of commercial operations across the country with the largest concentrations in Kitchener, Orangeville, Mississauga, Scarborough, Toronto, and Winnipeg. These businesses contribute not only to the Canadian economy, but also to the communities in which they are located.

Thyssen also has a well-established reputation for its manufacturing capability in the areas of armoured vehicles, in both wheeled and tracked configurations. When Thyssen first received encouragement from the Government of Canada to further expand its existing investment in Canada, this was a natural field to select. Consistent with Government policy as well as Thyssen's desire to forge closer links with other technically advanced Canadian firms, Thyssen offered to negotiate participation with other Canadian companies up to 49%.

an F. riding (In addition, Thyssen has remained sensitive to government priorities in terms of regional economic development priorities which are consistent with the commercial viability of the operation. Thyssen has been able to remain flexible on this issue because there are currently no tracked armoured vehicle manufacturing facilities in Canada. As such, the creation of such a capacity would not detract from an established capability in Canada. While such an operation would be economical to establish, it would require a different production facility than for wheeled vehicles. In fact, Thyssen itself utilizes separate facilities for the manufacture and assembly of its tracked and wheeled variants.

My purpose in writing to you is to seek your support for a competitive bidding process leading to the selection of a prime contractor to deliver APCs to the Department of National Defence. I feel that this would not only allow DND to consider all alternatives fully (both wheeled and



THYSSEN BHI

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tracked) from a combat capability standpoint, but also to realize the greatest economic and industrial benefits for Canada. If the Thyssen TH 495 is selected for Canada's APC requirements, our industrial benefits package will include manufacture of the vehicle in Canada for both the domestic and export market. The export market which we project for TH 495 is in a range approaching \$10 Billion over the next 15 to 20 years.

We are certain that the TH 495 can be cost competitive in a bidding situation. A recent NATO study for Multi Purpose Base Armoured Vehicles (MBAV) confirmed that the acquisition costs for a modern tracked vehicle will be lower than a wheeled vehicle with the same mission capabilities. Additionally, that study concluded that neither of the two wheeled vehicle concepts defined were able to meet all the target mission requirements, the required performance characteristics were only achievable by the tracked concept.

TH 495 closely matches the tracked vehicle concept defined in the NATO MBAV study and meets all of the target mission requirements. The NATO MBAV study is a valuable independent work by which we judge the complete suitability of TH 495 to meet new APC requirements. We hope this will be considered in the Canadian requirements because a vehicle which meets the NATO MBAV target so completely as does the TH 495 will offer significant benefit in potential for international joint procurement programs.

To these important characteristics of superior capability and competitive cost, we also have added a designed-in growth potential. This is a very significant feature when considering the longer-term utility of the vehicle and its adaptability for the tasks it may be required to perform. In this respect the value of the considerable procurement investment is far better protected than is the case with equipments which lack this inherent capacity.

With respect to availability by 1997, our TH 495 is now fully developed in its APC prototype meeting the definition of "Off the Shelf" equipment, and capable of entering production for delivery in 1997.

I would also appreciate your views on the procurement strategy to be employed in the selection of a new APC, particularly with regard to partnering arrangements and preferred locations from a regional benefits point of view.

I look forward to hearing your views on this subject. In the interim, if you have any questions regarding the Thyssen Group of Companies and operations in Canada or solutions which we may be able to provide to Canada's APC requirement, please contact me at your convenience.

Yours sincerely,

Greg Alford
Sr. Vice President



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648
December 14, 1994

Hon. Paul Martin
Minister of Finance
21st. Floor, East Tower
L'Esplanade Laurier
140 O'Connor St.
Ottawa, Ont.
K1A-0G5

Dear Minister:

On December 1, 1994 the Minister of National Defence tabled the Defence White paper in the House of Commons. One of the key recommendations of the White Paper was that the federal Government procure Armoured Personnel Carriers (APCs) before 1997. It is with regard to this proposed procurement that I am writing to you.

Thyssen has a long and substantial history in Canada. Since coming to Canada over a quarter century ago, Thyssen has expanded in a variety of industrial areas and currently employs over 2,800 people in a variety of commercial operations across the country with the largest concentrations in Kitchener, Orangeville, Mississauga, Scarborough, Toronto, and Winnipeg. These businesses contribute not only to the Canadian economy, but also to the communities in which they are located.

Thyssen also has a well-established reputation for its manufacturing capability in the areas of armoured vehicles, in both wheeled and tracked configurations. When Thyssen first received encouragement from the Government of Canada to further expand its existing investment in Canada, this was a natural field to select. Consistent with Government policy as well as Thyssen's desire to forge closer links with other technically advanced Canadian firms, Thyssen offered to negotiate participation with other Canadian companies up to 49%.

In addition, Thyssen has remained sensitive to government priorities in terms of regional economic development priorities which are consistent with the commercial viability of the operation. Thyssen has been able to remain flexible on this issue because there are currently no tracked armoured vehicle manufacturing facilities in Canada. As such, the creation of such a capacity would not detract from an established capability in Canada. While such an operation would be economical to establish, it would require a different production facility than for wheeled vehicles. In fact, Thyssen itself utilizes separate facilities for the manufacture and assembly of its tracked and wheeled variants.

Thyssen has received repeated assurances from the federal government over the years that it would be allowed to bid on an APC requirement, including a letter from National Defence dated January 25, 1990; and an Understanding in Principle with National Defence, the then-Department of Regional Industrial Expansion and the Atlantic Canada Opportunities Agency dated September 27, 1988.

Thyssen remains interested in bidding on the APC requirement stated in the White Paper on Defence. Our international market study which we presented in December 1993 to a Government committee lead by Industry Canada demonstrates that even by the most conservative estimate, there is certainly a world market for tracked armoured vehicles in the Thyssen's TH 495 category, and Thyssen's likely share of the world market for tracked APCs is sufficient to sustain a Canadian operation. Moreover, preliminary discussions with the German Army indicate that they may be willing to consider a joint program with Canada and Britain. This would be entirely



THYSSEN BHI

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consistent with the recent Report of the Special Joint Committee on Canada's Foreign Policy, which recommended a more multilateral approach to trade and foreign relations.

My purpose in writing to you is to seek your support for a competitive bidding process leading to the selection of a prime contractor to deliver APCs to the Department of National Defence. I feel that this would not only allow DND to consider all alternatives fully (both wheeled and tracked) from a combat capability standpoint, but also to realize the greatest economic and industrial benefits for Canada. If the Thyssen TH 495 is selected for Canada's APC requirements, our industrial benefits package will include manufacture of the vehicle in Canada for both the domestic and export market. The export market which we project for TH 495 is in a range approaching \$10 Billion over the next 15 to 20 years.

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To these important characteristics of superior capability and competitive cost, we also have added a designed-in growth potential. This is a very significant feature when considering the longer-term utility of the vehicle and its adaptability for the tasks it may be required to perform. In this respect the value of the considerable procurement investment is far better protected than is the case with equipments which lack this inherent capacity.

With respect to availability by 1997, our TH 495 is now fully developed in its APC prototype meeting the definition of "Off the Shelf" equipment, and capable of entering production for delivery in 1997.

I trust that the above brief summary will assist you in understanding our position in regard to the APC replacement project, and our desire to compete from Canadian manufacture.

In the interim, if you have any questions regarding the Thyssen Group of Companies and operations in Canada or solutions which we may be able to provide to Canada's APC requirement, please contact me at your convenience.

Yours sincerely,

Greg Alford
Sr. Vice President



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: MARC LALONDE
CC J. MASSMANN
K. SCHREIBER

FAX NO:

FROM: GREG ALFORD

PAGES:
(including cover page)

DATE: 19. D. 1994

7 pages
Total

MESSAGE:

2 page LETTER + 4 page attachment follows.



THYSSEN BHI

Suite 908, 360 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

December 16, 1994

M. Marc Lalonde
Stikeman, Elliott
Suite 3900
1155 Dorchester Blvd. West
Montreal, P.Q.
H3B 3V2

Dear Marc:

Thank you for the copy of your letter of December 13, 1994 to Hon. André Ouellet. We have provided an English translation of that to Messrs. Schreiber and Massmann today.

In subsequent discussions, they have asked me to pass on the following points for your reference:

1. NATO MBAV Study

As we hear that options for the APC program now includes a sole-sourced buy of GM's wheeled vehicles (the licensed technology of MOWAG/Switzerland), and possibly upgraded M 113 tracked vehicles, it is worthwhile to note the independent considerations of NATO which judged these solutions impractical.

In the NATO study for a new Multi Purpose Base Armoured Vehicle (MBAV) the NATO Working Group of Experts (WGE), which included Canadian representation, referred to the risk in upgrades as follows:

"Current Situation. Within the Alliance there are a multiplicity of light armoured vehicles (LAV) (M-113, VAB, PT2, FV432, etc.) in service. Some are capable of upgrades which will make them usable beyond 2010. There is a risk, however, that the cost of upgrades will be increasingly expensive and, in any event, will prove ineffective in the face of newer technology. Others will reach the end of their useful lives by 2000, necessitating their removal. Existing fleets generally offer limited protection, mobility, firepower and protection and are not truly suitable for the post - 2000 battlefield even in relatively benign situations." [page 4 of NATO MBAV ONST]



THYSSEN BHI

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From that situation the NATO WGE then set out their target requirements to which a NATO Industrial Advisory Group (NIAG) produced a set of possible concepts fulfilling these targets. Of the three concepts described, concept 1 is a tracked design, meeting all of the target requirements and offering the lowest acquisition costs. TH 495 matches that concept and fulfils all of the NATO MNAV requirements.

We believe this not only speaks well to the suitability of TH 495 to be considered a contender in the Canadian APC requirement, but it also strongly endorses the export market projected for TH 495. (Attached are excerpts from NATO MNAV study and a magazine article reporting on same.)

2. Industry Canada

As we review the situation, we cannot overlook the fact that in September this year, it appeared the Minister of Industry was soliciting agreement from his colleagues to dismiss the Thyssen proposal based on three points of criticism:

- i. "TH 495 will have no international market;
- ii. TH 495 will compete directly with GM; and
- iii. there is no Canadian requirement for armoured personnel vehicles (APCs) in the foreseeable future".

This communication attributed to the Industry Minister was clearly in contradiction to our department level discussions with Industry Canada which agreed on markets and the clear differentiation of export markets for the tracked TH 495 from the from the markets available to the wheeled GM vehicle. The third point, suggesting no Canadian requirements, was questionable since everyone following the defence policy review anticipated there would be a priority placed on procurement of new APCs for the Army. In fact, Mr. Rompkey, deputy chair of the House/Senate Committee on Defence made a public statement in July stating "new APCs for the Army were an agreed priority recommendation of the committee". This was confirmed in the committee's report Oct. 31, 1994, then included in the Government's White Paper on Defence December 1, 1994.

The actions by Industry Canada seem to have been designed to dismiss the Thyssen proposal before the White Paper, perhaps so we would not make awkward requests for a chance to be included in a fair competitive selection process for the APC project.

Regards,

Greg Alford

INTRODUCTION

1.1 General. The NATO ~~Multi~~-Purpose Base Armoured Vehicle (MBAV) which is intended for the period post-2000 will be a low cost light armoured tactical vehicle. It will be a fundamental vehicle which will provide the characteristics of protection, mobility, capacity and firepower. The base vehicle will be capable of metamorphosis which will yield required variants (armoured personnel carrier, command post vehicle, artillery observation vehicle, etc). A fuller list of possible variants, derived from the MND for MBAV, is attached for information at Annex A. The characteristics will be provided to the extent necessary appropriate to the role of the variant. While it is not intended that the MBAV be primarily a direct combat vehicle, it must be capable of participating in combat operations in conjunction with other arms. In addition, MBAV must be capable of withstanding incidental indirect fire while moving about the combat zone.

1.2 Current Situation. Within the Alliance there are a multiplicity of light armoured vehicles (LAV) (M-113, VAB, PT2, FV432, etc.) in service. Some are capable of upgrades which will make them usable beyond 2010. There is a risk, however, that the cost of upgrades will be increasingly expensive and, in any event, will prove ineffective in the face of newer technology. Others will reach the end of their useful lives by 2000, necessitating their removal. Existing fleets generally offer limited protection, mobility, firepower and protection and are not truly suitable for the post-2000 battlefield even in relatively benign situations.

1.3 Commanders' Requirements. NATO commanders require a MBAV with a high degree of standardization and accompanying interoperability of basic components and supply. Ideally, MBAV should be a single universally accepted vehicle family which would ease acquisition, training, supply, repair and sustainment. Given national priorities, timetables, requirements, etc., commanders require that, as a minimum, MBAV will have standard parts utilized to the greatest extent possible, and that rearming should be possible, refuelling feasible and repair available at any consolidated NATO re-supply or repair depot. Notwithstanding the foregoing, the differences between each nation's MBAV should be minimal.

1.4 General Requirement. MBAV will be required to:

- a. Quickly move troops and/or materiel about the combat zone while out of direct contact with the enemy but subject to the possibility of accurate, lethal, indirect fire or ambush;
- b. In co-operation with other arms, transport troops into an attack thus becoming subject to enemy direct fire including anti-tank;
- c. Provide appropriate protection for the MBAV crew, personnel and cargo from direct, indirect, air delivered and NBC weapons and any resulting residual hazards existing on the battlefield;

Over the years, NATO has actively promoted collaboration and standardization of various weapons systems, with some success in the ammunition, aircraft and missile areas. However all attempts at collaboration on armoured fighting vehicles (AFVs) have failed, from the Franco-German AMX30/Leopard 1, through the US/German MBT 70 in the mid 1960s; to the UK/German FMBT project in the mid 1970s. It will be interesting, therefore, to note the progress of the Multi-purpose Base Armoured Vehicle (MBAV — see *DDR* 10/1992, p.971) study now being conducted by the NATO Industrial Advisory Group (NIAG), which is due to report at the end of this year. Will much smaller defense budgets throughout NATO finally force countries to co-operate on this vehicle, thereby producing the first truly common AFV?

Even before the collapse of the Warsaw Pact and the unforeseen civil war in the former Yugoslavia, it was recognized that replacement of the most commonly used AFVs (epitomized by the M113) would become a necessity before the end of the century. Many of these vehicles were designed in the 1960s, and there are over 150,000 worldwide, costing ever more to maintain and becoming uneconomic to update. The roles for which these vehicles were designed have changed considerably, but a relatively large number would still be needed by NATO armies and production costs could be kept down assuming there were to be the necessary level of co-operation.

There are currently five different armoured vehicles operating in Bosnia — from the British Warrior to the French VAB — attempting to carry out a role for which they are not ideally suited. Such small numbers of different vehicles, each requiring their own logistic support, leads to severe operational problems. How much easier it would be if all the vehicles used the same basic chassis.

Design requirement

Hence, the Outline Staff Target (ONST) for a Multi-purpose Base Armoured Vehicle was put to NIAG in 1991. The vehicle required is a light armoured tactical vehicle able to be used in a variety of roles (see Figure 1) and able to accept any number of add-on or plug-in packages. It must, of course, be low-cost, use the latest technologies, require little maintenance and be transportable in the C-130 Hercules aircraft — not surprisingly, a true "ATTAM" ("all things to all men") requirement.

To meet it, an extremely versatile design would be needed, probably weighing between 20-30t, able to carry around 10 men in the personnel-carrier role, and probably a 105-120mm gun in the anti-tank kinetic energy (KE) role. The NIAG Subgroup 41 (SG41), which had its first meeting in May 1992, found itself presented with a formidable task.

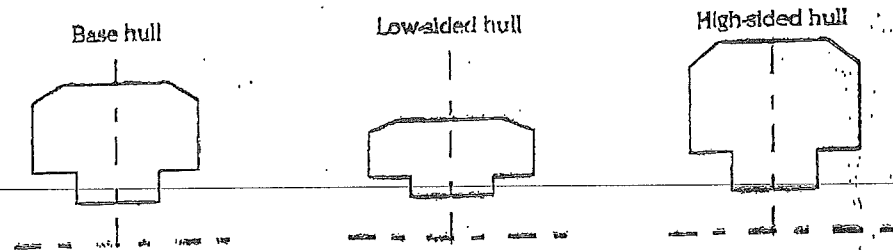
* The author is a defense consultant and former Research Director at Vickers Defence Systems, UK.

MBAV

NATO's best chance for a truly co-operative vehicle program?

by J.H. Brewer*

Figure 1



Roles:

BASE HULL:

1. APC
2. Radar carrier
3. NBC reconnaissance
4. Artillery observation
5. Repair/recovery
6. Combat engineer vehicle
7. Anti-tank missile platform
8. Weapon carrier
9. Anti-tank KE missile (LOSAT)

LOW-SIDED HULL:

1. Anti-armour (gun)
2. Mortar
3. Reconnaissance
4. Scattering/mine laying

HIGH-SIDED HULL:

1. Ambulance
2. Command post
3. Communication
4. Electronic warfare
5. Logistics carrier

Three different hull configurations would be required for the 18 different roles envisaged for MBAV

Three study teams were set up, each with its own chairman and rapporteur, to cover platform, payload, and systems. These teams were to examine the latest technologies, define the overall vehicle concept, examine the trade-offs and risks involved, and attempt to arrive at a common base vehicle. In particular the system team was charged with forecasting the number of vehicles likely to be required, and to explain how the NATO procedures might be adapted to assist in the procurement process. The design process was dominated by the need to incorporate the many roles into the concept, while ensuring the resulting vehicle could still fit inside a C-130 Hercules. Many suspension systems were examined for both wheeled and tracked concepts, including hydrogas, rubber and similar materials, and even electric springing to incorporate active actuation.

The same applied to the power train. Future multi-compound diesels, gas turbines and electric traction were considered, but the specified production date meant that the final concepts would have to use current or near-term diesel engines and transmissions of the current epicyclic type. Electric traction had been closely studied in 1988-1989 by the

earlier SG25 and examined once again part of the MBAV study, since there are obvious advantages in being able to do away with drive axles and differentials in the wheeled concepts, though such advantages are not so obvious for the tracked concept. However, it is unlikely the technology will be mature enough to meet a production date early in the next century.

Unfortunately, it also seems highly unlikely that engines and transmissions will be developed specially for MBAV, since fuel will not be available and the chance of pricing reliability in this timescale would be low and costs high. This has led to all concepts having to be based upon powertrains which are larger than would be the case if sufficient time and development funds were available.

In the protection studies, many armoured systems were examined within the security constraints. It is likely that steel and aluminium hulls will be proposed, depending on the concept, and all will be able to accept a plique armour to meet the stringent protection requirements of the various roles. It is expected that the add-on armour would be removed for transportation. Composites for the hull structure have also been considered.

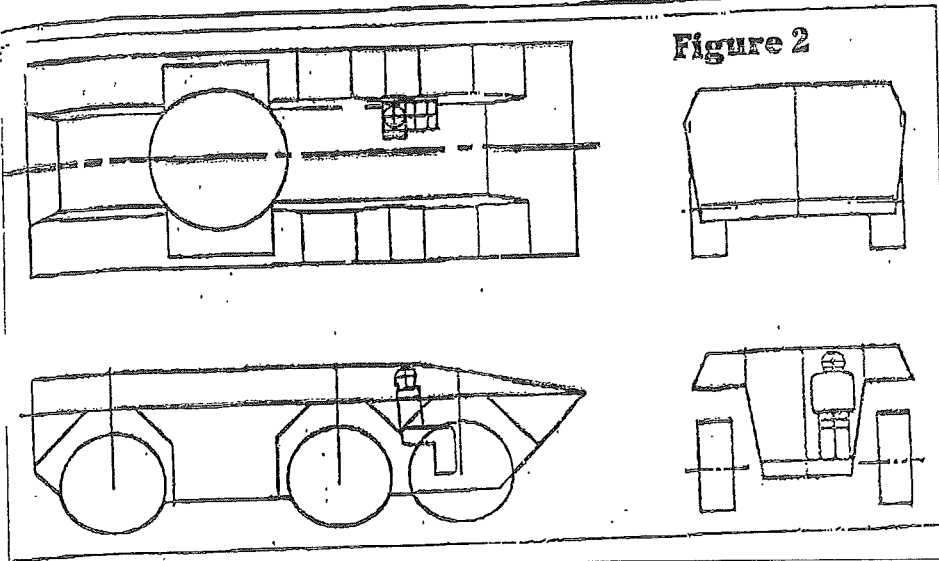


Figure 2

Six-wheeled concept of MBAV with a combat-loaded weight of 23t.

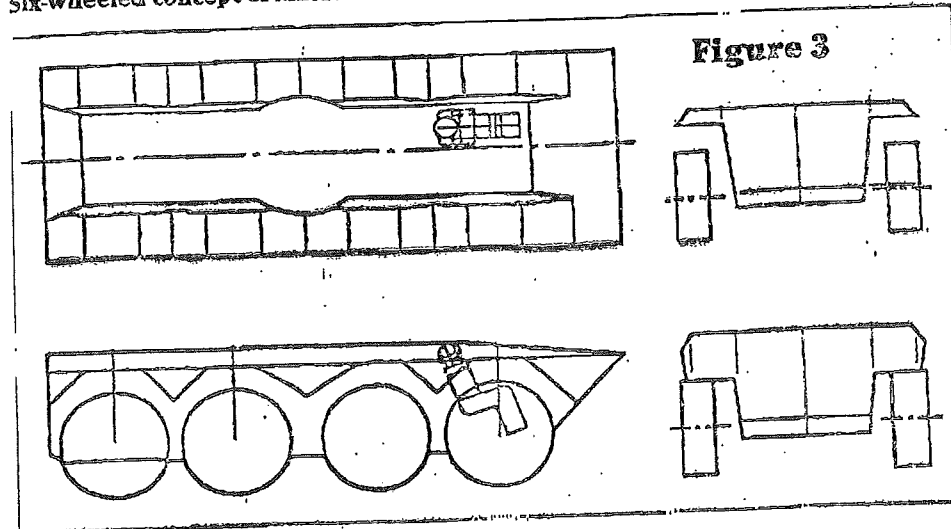
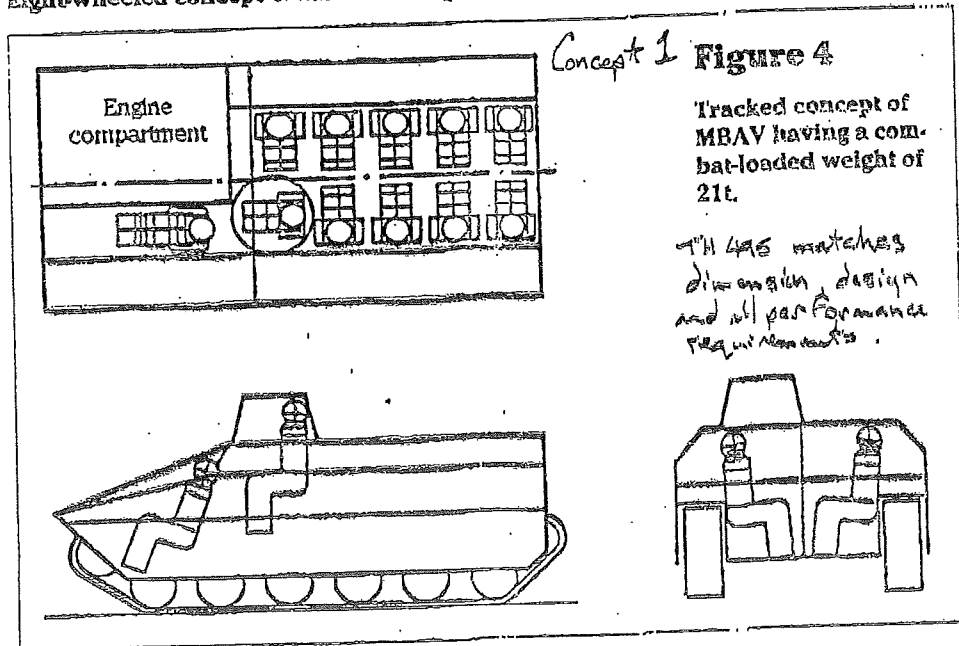


Figure 3

Eight-wheeled concept of MBAV having a combat-loaded weight of 25t.



Concept 1 Figure 4

Tracked concept of MBAV having a combat-loaded weight of 21t.

It has matches dimension design and all performance requirements.

which is fortunate since every spare cubic centimetre of space in the MBAV will be crammed with electronics. There is no doubt that MBAV will carry far superior firepower and surveillance systems compared with current vehicles.

Wheels or tracks?

Another area generating a great deal of work was a computer-based systematic trade-off study, used to select the best concepts. This covered such variables as prime cost, long-term cost of ownership, logistic support, reparability, maintainability and so forth, as well as the concepts' ability to meet all the various roles. This analysis highlighted the differences between wheeled and tracked solutions, showing that the tracked vehicle will always have more internal volume than a wheeled vehicle for the same external dimensions. The protagonists of the wheeled concept began to examine skid-steering and front-and-rear steering in order to reduce the volume needed to turn the vehicle. But even with the skid-steered solution, the large wheels needed for good cross-country mobility also need large suspension-travel so using valuable hull volume. There is no argument that the tracked vehicle will always be superior to the wheeled vehicle under extreme cross-country conditions, but is that what is needed for future peacekeeping and smaller conflicts? Wheeled vehicles have proved considerably cheaper to operate and maintain, and will perform most of the tasks that are now more likely to occur. Until a new material emerges to enable the track to last as long as the modern run-flat tyre, the wheeled AFV will always be cheaper to operate, even though it will not be that much cheaper to produce.

From all the discussion and analysis it seems highly likely that both a wheeled and a tracked solution will be suggested as base vehicles. It will certainly be easier to agree and produce a basic chassis than attempting to standardize on, say, the anti-tank guided missile variant. Perhaps then a complete missile module could be designed and produced by one country which could then be made available to other alliance members, thereby maintaining standardization.

SO1 will produce a comprehensive report which will then be commented upon by government experts. In the cases of the 1985-1986 SO18 and 1988-1989 SO25 studies (both concerning future MBTs), no follow-on actions were taken once these had been completed. At that time a cooperative tank was self-evidently not required by NATO or by any of its armies, as manifested for example by the survival of both Challenger 2 and Leclerc as national programs. This, to date, has always been the problem. Whilst it was obvious even then that a common tank could have saved money in the long run, their respective national solutions were obviously not so expensive that the UK and France could not afford to go their separate ways. National pride is also involved, but

but were ruled out, presumably due to risk and timescale.

Weapon systems and electronics were studied to suit each role; this sector probably

being the most important and difficult part of the study. In general, weapons and electronics have tended to improve in performance without an increase in weight or volume.

until the cost of unilateral development and production becomes prohibitive, as has happened in the aircraft and missile fields, cooperation will not begin.

The MNAV study is being carried out by experts from industry and there is no doubt the report could provide the basis of a comprehensive specification for this type of vehicle. Since industry has thereby already been made well aware of what is required, there is every reason to believe agreements could be made between interested companies to enable international consortia to be formed

for the design, development and production of the MNAV, as soon as several countries have shown a willingness to fund the project.

Note that standardization would be an automatic outcome, since the consortia would be working in conformity with the MNAV specification, and the chosen team would have to agree the design of the powertrain, sighting systems, armour and weapon system, and all other components with its subcontractors. Further, it would probably be constrained by governments to guarantee areas of work or production to the countries

involved. In fact, a good example of such a standardization effect has been the Tomado collaborative aircraft production program, in which the workshare and costs are determined by the production numbers required, and investment made, by each country in the consortia.

However, under normal NATO procedures, it would take at least until 2007 before MNAV saw the light of day. Meanwhile, both Germany and France have been pursuing studies with a view to procuring an MNAV-type vehicle by 2003, the French with their VBM and the Germans with the GTK program. The UK has let three contracts for a feasibility study for TRACER, which is intended to produce reconnaissance and utility vehicles to replace the old Scorpion and FV430 families of vehicles. All three countries are hoping to get into production by 2003-2005. So far, the US has not made clear its policy, even though it has been actively involved in the MNAV study and has both Future Scout Vehicle and Light Contingency Vehicle requirements outstanding.

So, will the European or NATO countries at last cooperate on an armoured vehicle? The time would appear to be right, with three countries actually looking at what is needed to replace the most common AFVs in service. Certainly industry is willing and able to form international companies which could bid to produce MNAV by 2003, if a specification could be agreed between interested countries early in 1994.

NIAG: concord between competitors

The NATO Industrial Advisory Group (NIAG) is a standing group within the NATO organization which consists of senior representatives from the major defense companies of the alliance nations.

Its main task is to advise NATO of the capabilities, capacity and views of the defense industry on a wide variety of subjects, from future technologies to advice on the contraction of the industrial base. NIAG is able to set up partly funded sub-groups to study in more detail subjects which are of particular interest at that time. Previous sub-groups have covered frigates, aircraft, helicopters, missiles, communications and armoured vehicles as well as studies on economic matters affecting the defense industry. Such groups operate to an agreed work program for about two years and are then disbanded.

Early groups tended to be large, but in recent years numbers have been about 40-50 people, with the ability to call on specialists as required. Each group chooses a chairman and a deputy chairman, along with a secretary or rapporteur. The latter really has the hardest job, bringing the report together in reasonable English which is not the native language of most of the members of the group. An organization and structure to suit the subject to be studied, and the number of meetings required, are agreed with NATO.

There have been two subgroups on AFVs since 1985, SG18 and SG25, before the current SG41 was set up in 1992 to carry out a pre-feasibility study on MNAV. Bearing in mind that most of the companies involved are competitors, it is surprising how much cooperation is achieved, and how a balanced mix of expertise is brought to bear regardless of nationality.

* This is now under formal consideration by Germany and UK as focus of a future joint production program. Germany has extended invitation to Canada to join this in hope of creating a tri lateral joint project. Canadian acceptance was not available until after the White Paper on Defence, and is still await

THYSSEN

THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: M. Marc Lalonde

FAX NO:

FROM: Greg Alford

PAGES:
(including cover page)

DATE: 22. 12. 94

MESSAGE:

Please find attached the draft letter as discussed on the phone.

CONFIDENTIAL

DRAFT

Dear Minister,

Further to my letter of December 14th, 1994 you will recall our meeting one year ago when ADM John Banigan and your policy assistant, Diana Durnford allowed us the opportunity to present an introduction to the Thyssen Group of companies and an overview of the Thyssen BHI (the Company) proposal for an export based manufacturing facility in Canada.

The initial product for our proposed Canadian facility is the Thyssen TH495 light armoured vehicle which has been designed to meet an international market which we estimate to be in excess of 35,000 units. On this overall market we have done a detailed analysis projecting market share for TH495 of approximately 20%, which will lead to Canadian exports approaching \$10 Billion over the next 15 to 20 years.

At the time of that meeting we had already been in discussion with your officials for a few months, and on December 14, 1993 submitted our detailed export market analysis for the TH495. Industry Canada, leading a government committee which included representatives from National Defence and Foreign Affairs and International Trade then carried out an independent analysis of the Export market described for TH495.

There was extensive consultation between the Company and the government committee over the next several months leading to the point when Industry Canada began in July 1994 to confirm their conclusions verbally in formal meetings with our company. You will no doubt have received information from your officials describing the progress which they have made in their independent analysis of this market. Their formal discussions with the company are summarized as follows:

With respect to gross market for the tracked TH495, the company and Government agree that the market can be examined in four segments. On the first three of those segments there is general agreement that a gross market of between 17,000 units (Gov't estimate) and 19,000 units (Thyssen estimate) exists. The forecast of TH495 market share was estimated in a range from 9% (Gov't estimate) to 25% (Thyssen estimate).

DRAFT**CONFIDENTIAL**

2

With this important agreement on a basic market existing, and agreement that TH495 can be expected to win a share of that market, it is then reasonable to expect that the probable market which will be achieved will fall in the range between 9% and 25%.

The fourth market segment dealing with non-NATO markets accessible within Canadian export policy is estimated by the Company at approximately 18,000 units from which is forecast a market share of 20%. Timing of this market segment is generally later with its peak being reached between 2008 - 2014.

Industry Canada officials have indicated they are now finished their review of this segment and are expected to provide a written acknowledgement of their views on this, as well as the earlier agreed segments. Given the goodwill extended on all sides we hope any obstacles to providing acknowledgment of this market opinion have been overcome and we can look forward to receiving this any day now.

The efforts of the Company and the Government committee over the past months have established the very reasonable outlook that TH495 will bring a significant net increase to Canada's exports. At the outset of the Government market analysis considerable effort was made in discussions with the company to understand that TH495 is a tracked vehicle and competitive only in export markets where tracked vehicles are specifically demanded. This was an important product differentiation to establish in order to ensure that the export markets targeted by TH495 would not overlap with those naturally pursued by the Canadian branch of General Motors, GM Diesel Division (GMDD), operating at London Ontario, where it manufactures only wheeled vehicles.

In addition to the net Canadian value added by our new production facility, there will also be the additional benefit to Canada through the Canadian suppliers of parts and components which would naturally include companies like Computing Devices, Deimaco/Devtek, Diehl, GMDD, Industrial Rubber, Invar, Miltech, to name a few.

The current discussions with Government were initiated on the mutual assumption that there may have been no near term Canadian requirement for armoured personnel carriers (APC's); but the Government wished to consider the merits of our proposal on the basis of exports. Accordingly, when the export potential associated with our TH495 was confirmed by the Government's independent analysis, Industry Canada would have considered eligibility of the project to receive financial contributions through the Defence Industry Productivity Program (DIPP) to the R&D investment in the overall prototype program combined with possible regional incentives available in order to provide incentive for establishing the world product mandate for TH495 in Canada.

However, at this point, there appears little capacity in DIPP for the Government to provide significant incentives for the TH495 Project, and the Company has progressed

CONFIDENTIAL

3

DRAFT

independently to complete the first two prototypes, finding a positive market reception, with the APC version being delivered last month to Malaysia for customer trials.

Meanwhile the Canadian Defence requirement for new APCs was confirmed in the White Paper on Defence, and we are confident that TH495 will fully meet the requirements and delivery schedule "commencing in 1997", and we look forward to tendering a proposal to supply the required vehicles.

Assuming the Government will invite proposals from industry for the supply of APCs and include in that call for proposals a request for industrial benefits, we would like to revise our original concept for establishing the manufacture of TH495 in Canada. We are prepared to include the commitment to build in Canada and to place the world product mandate for the TH495, among the industrial benefits to Canada if selected as the contractor to supply Canada's Land Forces with new APC's .

Therefore, given the expressed desire of the Government to create jobs and particularly export based jobs, and your officials' positive assessment of export market prospects for TH495, we are writing to ask for your support for our request for the opportunity to be included in a selection process for new APC's for the Canadian Army.

Please call me at your convenience should you have any questions or concerns regarding our proposal.

In closing I extend best wishes to you for the holiday season .

Sincerely,

CONFIDENTIAL

Greg Alford,
Sr. Vice President



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: Mr. Madsman
MR. SCHRIEBER
MR. LALONDE

FAX NO:

FROM: GREG ALFORD

PAGES: 4
(including cover page)

DATE: 23 12. 94

MESSAGE:

For your file:
The attached letter is the final
version to Minister Manley as per
your approval this week.

It was sent today with copies
to Min. Ouellet and Min. Callonette.

Greg



THYSSEN BHI

Suite 808, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

December 22, 1994

Hon. John Manley
Minister of Industry
Room 408, West Block
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Minister,

Further to my letter of December 14, 1994, you will recall our meeting one year ago when ADM John Banigan and your policy assistant, Diana Durnford allowed us the opportunity to present an introduction to the Thyssen Group of companies and an overview of the Thyssen BHI (the Company) proposal for an export based manufacturing facility in Canada.

The initial product for our proposed Canadian facility is the Thyssen TH495 light armoured vehicle which has been designed to meet an international market which we estimate to be in excess of 35,000 units. On this overall market we have done a detailed analysis projecting market share for TH495 of approximately 20%, which will lead to Canadian exports approaching \$10 Billion over the next 15 to 20 years.

At the time of that meeting we had already been in discussion with your officials for a few months, and on December 14, 1993 submitted our detailed export market analysis for the TH495. Industry Canada, leading a government committee which included representatives from National Defence and Foreign Affairs and International Trade then carried out an independent analysis of the Export market described for TH495.

There was extensive consultation between the Company and the government committee over the next several months leading to the point when Industry Canada began in July 1994 to confirm their conclusions verbally in formal meetings with our company. You will no doubt have received information from your officials describing the progress which they have made in their independent analysis of this market. Their formal discussions with the company are summarized as follows:

With respect to the market for the tracked TH495, the Company and Government agree that the market can be examined in four segments: i) Specific NATO Nation Projects, ii) Non specific NATO demand, iii) Specific non NATO Nation Projects and iv) additional non NATO Demand. On the first three of these segments there is general agreement that a gross market of between 17,000 units (Gov't estimate) and 19,000 units (Thyssen estimate) exists. The forecast of TH495 market share was estimated in a range from 9% (Gov't estimate) to 25% (Thyssen estimate).



THYSSEN BHI

2

With this important agreement on the size of the basic market , and agreement that TH495 can be expected to win a share of that market, it is reasonable to expect that the most probable market share will be in the range between 9% and 25%.

The fourth market segment dealing with additional non-NATO markets accessible within Canadian export policy is estimated by the Company at approximately 18,000 units from which is forecast a market share of 20%. Timing of this market segment is generally later with its peak being reached between 2008 - 2014.

Industry Canada officials have indicated they are now finished with their review of this fourth market segment and are expected to provide a written acknowledgement of their views on this, as well as the earlier agreed segments. We look forward to receiving this report in the very near future.

The efforts of the Company and the Government committee over the past months have established the very reasonable outlook that TH495 will bring a significant net increase to Canada's exports. At the outset of the Government market analysis considerable effort was made in discussions with the Company to establish that TH495 is competitive only in export markets where tracked vehicles are specifically demanded. This was an important product differentiation to establish in order to ensure that the export markets targeted by TH495 would not overlap with those naturally pursued by the Canadian branch of General Motors, GM Diesel Division (GMDD), operating at London Ontario, where it manufactures only wheeled vehicles.

In addition to the net Canadian value added by our new production facility, there will also be the additional benefit to Canada through the Canadian suppliers of parts and components which would naturally include companies like Computing Devices, Deimaco/Devtek, Diehl, GMDD, Industrial Rubber, Invar, Miltech, to name a few.

The current discussions with Government were initiated on the mutual assumption that there may have been no near term Canadian requirement for armoured personnel carriers (APC's) and the Government wished to consider the merits of our proposal only on the basis of exports. Accordingly, with the export potential for TH495 confirmed by the Government's independent analysis, Industry Canada would have considered the eligibility of the project to receive financial contributions through the Defence Industry Productivity Program (DIPP) combined with possible regional incentives. These programs could provide incentive for establishing the world product mandate for TH495 in Canada, in the absence of a domestic market share.

Towards the latter stages of the discussions, we were made aware that in light of budgetary constraints the Government had little capacity to provide significant incentives for the TH495 project. Furthermore, in the interim the Company had progressed independently to complete the first two prototypes, finding a positive market reception, with the APC version being delivered last month to Malaysia for customer trials.



THYSSEN BHI

3

Meanwhile the Canadian Defence requirement for new APCs was confirmed in the White Paper on Defence, and we are confident that TH495 can fully meet the requirements and delivery schedule commencing in 1997.

Assuming the Government will invite proposals from industry for the supply of APCs and include in that call for proposals a request for industrial benefits, we would like to amend our original concept for establishing the manufacture of TH495 in Canada.

We would propose to include the commitment to build TH495 in Canada for the domestic and export market among the industrial benefits to Canada if selected as the contractor to supply Canada's Land Forces with new APC's .

Therefore, given the expressed desire of the Government to create jobs and particularly export based jobs, and your officials' positive assessment of export market prospects for TH495, we are writing to ask for your support for our request for the opportunity to be included in the selection process for new APC's for the Canadian Army.

Please call me at your convenience should you have any questions or concerns regarding our proposal.

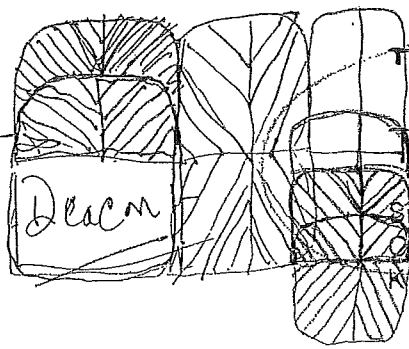
In closing I extend best wishes to you for the holiday season .

Sincerely,

Greg Alford,
Sr. Vice President

cc: Hon. Andre Ouellet
Hon. David Collenette

CONFIDENTIAL



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

11.15A

ITC.

Queen St.

Carroll Bank

231 Sparks

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO:

MARC LALONDE
c/o Westin Hotel.

FAX NO:

234 5396

FROM:

GREG ALFORD

PAGES:

(including cover page)

DATE:

9.02.95

MESSAGE:

Attached is the draft note
to support the meeting on
FRIDAY AT 14:30 Hrs.

WE CAN REVISE THIS ON FRIDAY
MORNING IF NEEDED.

THANKS

10 February 1995

CONSIDERATIONS FOR THYSSEN TH495 PROPOSAL

Background:

Further to letters of December 2 and December 14, 1994 to the Hon. David Collenette, Minister of National Defence from Thyssen BHI, the Company continues to have a keen interest to participate in the supply of APCs to the Canadian Army.

The following proposal argues for the fair consideration of the Thyssen BHI proposal as at least being part of the APC solution. Not only does the Thyssen offer meet the technical requirements of the Army, it also offers valuable industrial benefits to Canada in association both with the domestic and the international markets.

Thyssen has followed the Army requirement for APCs as it developed over the past several years and has observed basic elements which are important considerations in making a procurement decision.

Canadian Armoured Vehicle Fleet and Recent Purchases:

The Army operates a mixed fleet of light armoured vehicles, some tracked, some wheeled. Each type of vehicle has its merits and can be deployed where it is best suited. Due to the advanced age of the Canadian APC fleet, many of the vehicles are older than their drivers, and their capabilities, especially for protection and mobility are severely lacking.

The **tracked M113** vehicle presently suffers severe short-comings in its armour protection. Although it has superior cross country mobility potential due to its tracks, it now has a power shortage caused by a small engine and a heavy load increased by the weight of supplemental armour, making it strain to climb hills. Many M113 variants, such as TOW Under Armour (TUA), or ADATS, are seriously underpowered. Though efforts have been made to upgrade armour there are still very serious injuries caused by land mines.

The **wheeled** vehicles of the Canadian Army include both 6 wheel and 8 wheel light armoured vehicles built in Canada under license from Mowag of Switzerland, by the Diesel Division of General Motors operating in London, Ontario. The 8 wheel version, known as the Bison has delivered good service when applied to appropriate situations. The Bison armour protection originally was only equivalent to M113 but has since been improved with supplemental armour. The Bison wheeled vehicle does not have as good off-road mobility as a tracked vehicle, but the tracked vehicles in the fleet can be deployed where off-road or soft ground movement is required. Such is the case today in Croatia and Bosnia.

Thyssen Approach

Thyssen, as a builder of both wheeled and tracked APC's appreciates the Canadian Army mix of wheeled and tracked vehicles because it exists for good and essential technical reasons. In that regard, Thyssen would also expect GM to continue to play a central role in supplying wheeled vehicles as and when required, and has therefore directed its efforts toward supplying tracked vehicles for the Canadian Army. It is quite reasonable that the Government will only support the establishment of additional armoured vehicle production capability in Canada if it is clearly complementary to that which already exists at GM. With that in mind, Thyssen is confident that the proposal based on the tracked TH495 will, on fair evaluation, gain the Government's full support.

This leads one to ask whether it is the intention of the Army to buy new tracked or new wheeled vehicles. Thyssen observes that in 1989 the Army acquired 200 Bison 8 wheeled vehicles, and then an additional 200+ LAV Recce 8 wheeled vehicles were ordered in 1992 with delivery now pending. This means that there will soon be over 400 new wheeled vehicles in the APC fleet and it would therefore seem logical to shift priority toward the acquisition of modern tracked vehicles so as to update that portion of the fleet, thereby providing the protection, mobility, vehicle growth potential and overall operational versatility, particularly important in peacekeeping missions.

Tracks vs Wheels in Peacekeeping

A recent press article, discussing NATO contingency plans for withdrawing UNPROFOR from Bosnia in the face of armed interference, points out the particular difficulties which would be faced by those elements which are roadbound and unable to avoid defiles, or by-pass road blocks, demolitions, etc. sited to impede their withdrawal. Unless adequate cross country mobility was available, especially under winter conditions, it was concluded that the operation might be too hazardous to attempt, as troops would require extraction by air and their wheeled equipment would have to be abandoned.

In his presentation to an international audience in London on 4 November 1994, on the subject of "Light Armour in UN Humanitarian and Peacekeeping Operations" BGen Hayes (Chief of Staff UNPROFOR April to October 1993) stated in part: "a wheeled vehicle will have far less off-route mobility than a tracked one, and it will also be less agile on the many poor routes that criss-cross the country. For this reason, I would support tracked over wheeled vehicles every time" and elsewhere "the other disadvantage of a wheeled vehicle is that your tires can be shot out and the vehicle disabled as a result. In Mostar in July 93, the Spanish lost 70 tires in 2 days when their movement into the city was not welcomed."

The attached article from Vanguard Magazine deals with this issue of APC requirements in some careful detail. The opinions offered are based on comments by the Canadian Forces peacekeepers on assignment in Croatia and Bosnia. Please note the section of the article subtitled "Hard Skinned Vehicles" pages 24 - 26 which ends with the statement: "the army needs a well-armoured, fast tracked vehicle with reasonable fire support - even for peacekeeping".

Canada / Thyssen Partnership

Thyssen has concentrated major effort on the development of a new generation tracked APC known as the TH495, targeted as a replacement to the old M113 which in its prime during the 1960's and 70's achieved the status of the largest unit production of any tracked APC in the world, selling more than 80,000 units. It is the M113 replacement market at which the TH495 is targeted in Canada and internationally.

In supplying that market Thyssen, if selected for all, or part, of the Canadian APC project will place the world product mandate for TH495 at a Canadian production facility. Aside from the obvious Canadian industrial benefit associated with the Canadian Army order, Thyssen projects a world market over the next 15 years approaching \$10 Billion in Canadian value added.

Is M113 Upgrade Cost Effective ?

The critics of the Thyssen TH 495 option, when comparing it to an upgrade of the old M113 will say it is more costly, but that is not necessarily the case since there is a significant cost of upgrading the M113 which can approach that of a new vehicle. Also to be considered are the limitations in armour protection and service life expectancy associated with rebuilding a chassis which is already 30+ years old and the virtual absence of growth potential in the final vehicle.

Technical equipment arguments aside, there is only limited industrial benefit associated with the domestic market for M113 upgrades and no meaningful export potential.

Thyssen Proposal, a Net Gain to Canada

In comparing ^(of) the Thyssen offer to GM's capability, the question immediately comes to mind that perhaps GM can build tracked vehicles too. Technically, GM could probably build tracks but that would represent a totally new product and business for them. First, they would need another plant since their existing wheeled facility is understood to have full order books past the year 2000. Then GM would need to acquire a license for a suitable design which is price competitive, off-the-shelf and complying with all the technical requirements. One must then ask what international market rights would be available for such a technology, assuming the original designer intended to serve the world market? The potential for GM to also become a tracked vehicle builder is likely to be difficult and at best, less export potential than is offered by Thyssen. Moreover, Thyssen will source major components and subsystems from GM as well as from other Canadian producers.

(will contain

Conclusion

The Thyssen offer addresses the technical equipment requirement of the Army with protection, all terrain mobility and growth potential in a new generation tracked APC which is "off-the-shelf" equipment that will protect and serve CF troops in every aspect of their peacekeeping role. Furthermore, it offers extremely high industrial benefits to Canada through its export potential. It will provide jobs and exports and will do so at no loss to GM's already established export activity for wheeled armoured vehicles. The tracked TH495 APC, built in Canada will be a net gain to Canada's international defence capabilities and exports in defence products.

no figures in v plan for dividing v market ?

JÜRGEN MASSMANN
PRESIDENT
THYSSEN BHI

SUITE 808
350 SPARKS STREET
OTTAWA, ONT., CANADA
K1R 7S8
PHONE (613) 563-3321
TELEFAX (613) 563-7648

Hon. David Collenette
Minister of National Defence
Mgen George Pearkes Building
Ottawa, Ontario
K1A 0K 2

March 8th, 1995

Dear Minister,

Further to our letters of December 2 and 14, I write with respect to the Canadian APC Requirement as announced in the White Paper on Defence, December 1, 1994.

In regard to the procurement strategy for the APC project, we naturally assume that the first priority of the Government will be to acquire a vehicle which best meets the needs of the Canadian Army for a well protected and highly mobile replacement for the inservice M 113. Secondly, we assume that given the significant capital spending associated with such a program, there will be interest on the part of the Government to acquire a product which will prove adaptable and economic in its operation over the long term, and also offer strong industrial benefits for Canada.

Thyssen Proposal

With the confirmation of the Canadian Forces APC project in the White Paper, Thyssen intends to offer the tracked TH 495 to meet this requirement. On selection of the TH 495 for the Canadian Forces APC project, Thyssen will commit to produce in Canada for both the domestic and export market, thereby placing the World Product Mandate for the TH 495 in Canada.

As you are aware, Thyssen has formally withdrawn an earlier request for R&D funding and capital assistance which had been under discussion with Industry Canada (Reference: letter to Hon. John Manley, dec. 22, 1994, copied to Hon. David Collenette and Hon. Andre Ouellet).

Thyssen, as a builder of both tracked and wheeled APCs appreciates that the Canadian Army's mixed APC fleet exists for established operational reasons. We also note that the wheeled portion of the APC Fleet includes 199 GM Bison ordered in 1989, as well as an additional 229 GM LAV Recce ordered in 1992 (delivery pending), making some 428 modern wheeled systems in the fleet. Therefore our offer of the TH 495 addresses the need to acquire a modern, highly protected, highly mobile *tracked* APC which we believe now to be the Army's most urgent priority.

page 2.

There is also the possibility that the Government may see fit to split the APC requirement in such a way that both tracked TH 495 and the GM wheeled LAV would be procured. From the Thyssen perspective we understand that some 650 units are planned for the APC Replacement program, and confirm that half of that quantity would be a sufficient initial order to secure the Thyssen commitment to transfer the World Product Mandate for TH 495 to Canada, and to commence production for domestic and export requirements, delivery starting 1997.

Thyssen's willingness to cooperate with interested Canadian partners includes a number of highly qualified systems and component manufacturers in all regions of Canada. Among the potential partners are: Oerlikon Aerospace, St. Jean; GM Diesel Division, London, Computing Devices Canada, Ottawa; Deimaca, Kitchener; and Temro, Winnipeg.

Thyssen has not committed to a specific site or region for production of TH 495 in Canada, though we have carried out internal studies to conclude that there are a variety of potential sites in the established industrial regions that can support efficient and competitive operations. The Company's planning and estimating has been based on direct experience of Thyssen Group companies in Canada and additionally on commercial information gathered from a variety of industrial locations which offer an appropriate set of conditions for operations, ie:

- established labour skills
- necessary transportation networks
- existing suitable and competitively valued production facilities that can be acquired and activated in the necessary timeframe.

TH 495 „Off the Shelf“ and Ready for 1997

Thyssen development of TH 495 has reached a stage much more advanced than achievable by older product development methods. In fact, our utilization of modern design technology has already allowed us to progress to the stage of pre-series production on the vehicle. The first TH 495 was rolled out as a prototype in September 1992, and this then served as our system test platform for extensive in-Company trials, and demonstrations with potential users. The basic design was confirmed and any necessary changes were implemented for the second vehicle which was built in 1993 as the „pre-series production vehicle“. The fundamentals of modular design, and the use of modern but proven components, has allowed this highly efficient rate of development required in a privately funded project. The proof of the readiness of the TH 495 is in the fact that after further tests of several thousand kilometres Company trials on the pre-series production vehicle, we then handed it over to the Malaysian Army for a sixty day intensive user test which just concluded last month. The TH 495 completed the entire test with no systems failure and achieved the highest performance approval rating from the Malaysians.

To focus on the readiness of the TH 495 for production, we estimate the necessary time from concluding an order to first unit production at 12 to 18 months. In the context of the DND requirement, delivery of the TH 495 from Canadian production is quite feasible in 1997, were a contract concluded by end of 1995.

Export Potential

With respect to the exports for TH 495, an independent market study on the export market potential was conducted in 1994 by a Government committee led by Industry Canada, with participants from Foreign Affairs and International Trade and DND. Key conclusions of that study, briefed by the committee to Thyssen are:

- . At the start of the study, the Government committee was doubtful of the market defined by Thyssen for the TH 495. However, the Government's study concluded that a specific tracked light armoured vehicle market does exist in the TH 495 category, in approximately the same scale and time frame as described by the Company's projection.
- . The TH 495 as a tracked vehicle, will penetrate a distinctly different market from that which can be entered by the wheeled GM LAV. As such, any market share projected for the TH 495 represents a net increase in Canada's exports.
- . The Government market analysis, assuming no Canadian sale, projects the TH 495 will achieve an export market of some 2,000 units over a period reaching out some 20 years. Furthermore, the Government committee agreed that if sale of the TH 495 to Canada were to occur, early in the market cycle, the projected market share probably would increase significantly for each export market projected. A reasonable increase to the Government's 2,000 units scenario would be to increase to 4,000 units as a most likely scenario.
- . Thyssen projections indicate there is a reasonable market share potential for as much as an 8,000 unit market share, but for purposes of discussion in Canada, we are prepared to base our plants viability assessment on the Government scenarios. The Company confirms that a plant is viable even at the lowest market share projected by the Government of 2,000 units.

Status of Thyssen - DND Discussions

From a technical assessment, we have been informed by your Senior ADM Materiel that the TH 495 meets all of the technical requirements of the Canadian Forces APC program. We certainly welcome that assurance, but we are now very interested to engage in the more detailed technical discussions and vehicle demonstrations which logically would be a necessary part of the Canadian Forces' further consideration of their procurement decision. To date, we have experienced only the most limited discussion with requirements staff, and most recently raised this concern with Mr. Lagueux your ADM Supply, with a request that he consider allowing a more substantial opportunity for DND officials to assess TH 495 in open technical discussions along with vehicle demonstrations.

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In summary, Minister, I believe that the Thyssen proposal offers the best vehicle to meet the Canadian Forces APC requirement and at the same time offers a very high industrial benefit to Canada through additional new exports in tracked APCs which, as you know, is a product area in which Canada does not presently have a producer to address this significant export market niche.

I would welcome the opportunity to expand on any area contained in this letter at the convenience of you and your officials and can best be reached through our office in Ottawa at 563.3321.

Sincerely

A handwritten signature in cursive script, appearing to read "Roger Sturme", followed by a horizontal line.

CC
Hon. Andre Ouellet
Hon. John Manley
Hon. Roy MacLaren

JÜRGEN MASSMANN
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SUITE 908
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Sincerely

A handwritten signature in black ink, appearing to read "Wayne Sturt", followed by a horizontal line.

CC
Hon. Andre Ouellet
Hon. John Manley
Hon. Roy MacLaren



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: Karlheinz Schreiber, Kaufering
Marc Lalonde, Stikeman, Elliott
Jamie Deacey, Association House
Daniel Despins, Association House
Jack Vance, Tweed

FAX NO:

FROM: Greg Alford

PAGES: 7
(including cover page)

DATE: 8 March 95

MESSAGE:

Please find attached reports of the meetings with
Minister Ouellet (28.02.95) and
Mr. Lagueux, ADM Supply, DND (27.02.95)

REPORT OF MEETING

February 28, 1995

Minister of Foreign Affairs

Participants: Hon. André Ouellet, Minister of Foreign Affairs
Patrick Tobin, Policy Advisor

and: Jürgen Massmann, Thyssen BHI
Greg Alford, Thyssen BHI

Meeting took place at Minister Ouellet's Parliament Hill office in Ottawa.

Originally scheduled for 30 minutes, the meeting lasted over 1 hour. In advance of the meeting, Mr. Tobin explained that any initiative by the Defence Department to push through a sole-source order to GM has been blocked by Minister Ouellet at Cabinet level. Further, Minister Ouellet's interest in the Thyssen proposal is very high, hence the agreement to meet.

Minister Ouellet made a warm welcome, indicated his familiarity with the Company's proposal and after a few minutes of background discussion, raised a number of points to which Mr. Massmann replied.

The Minister:

1. Is the Company asking for financial assistance from Industry Canada?

J.M.: No. At first this was the case based on the Government offer to give an R&D contribution in the absence of any order from the DND, but now that the Army requirement for Armoured Personnel Carriers (APCs) has been confirmed by the White Paper on Defence, the Company has withdrawn the request for grants and offered to bring the manufacture of TH 495 to Canada for export if TH 495 is selected for the Canadian APC requirement.

The Minister:

2. What about tracks vs. wheels?

J.M.: Our understanding is that the Army has indicated they would accept either a wheeled or a tracked solution, but their view of their best solution would be a new

tracked vehicle.

TH 495 was designed to meet the requirements which the Canadian Army described over the past years, first for the MRCV program, and subsequently for the MNAV (NATO) program. Thyssen did not receive any official written notice of requirements, but based the understanding on numerous discussions of mission requirements and operational issues which the Canadian Army discussed with the Company as the TH 495 development took place.

The Commander of the Army visited Thyssen Henschel in Germany during 1993, when he test drove the TH 495 and he acknowledged our vehicle met all his expectations for a new APC, as it had been defined in the Army studies on vehicle requirements.

The Minister:

3. There is some concern that your vehicle is only a prototype and could not be produced in time to meet the Army requirement for 1997?

J.M.: TH 495 has been built as a prototype in 1992, and was then subjected to extensive company trials from which design modification were made. Naturally, as a first vehicle there were some changes necessary and these were identified over several thousand kilometres of Company tests.

The next vehicle, completed in mid 1993, incorporated all necessary changes and was produced as a pre-series production vehicle. That vehicle has undergone further company tests to prove the design and has just completed intensive performance trials with the Malaysian Armed Forces. At the end of these Malaysian trials which included over 2,000 km of intensive use, the Malaysians reported that the vehicle was completely successful, having no system or component failure, and proved to be the most effective system they have found in their APC search.

As for when could TH 495 be produced, we are only limited by long lead items such as engines which must be ordered in advance. For planning purpose, if an order were received today, the first production would take place between a minimum of 12 months and a maximum of 18 months.

The comparison of TH 495 is to GM's LAV, but as we understand GM is offering a significantly upgraded version of their original vehicle and that vehicle is not now produced in London and itself is only a prototype.

To suggest GM can deliver quickly is hard to believe, since they have received the most recent Canadian order for 200 GM LAV reconnaissance vehicles since 1992, and are understood only to commence that delivery in 96/97, completing in 1999, therefore it is hard to see how they might deliver APCs in 1997.

Minister:

4. Export Market?

J.M.: We have submitted a detailed export analysis to the Government Committee led by Industry Canada with participation from Foreign Affairs and Trade and Defence. This Committee has carried out an independent analysis of that market with support from the military attachés around the world. They have agreed that the market for TH 495 does exist, and as a minimum a market of 2,000 units would be won for TH 495 with no known first market. With a first market secure, then the increase to the market share could be very significant. If the first market is Canada, then TH 495 export market could be as high as 4,000 units.

Minister:

5. What Canadian Partners can you work with?

J.M.: Computing Devices Canada (CDC) are already suppliers for electronic systems, and we are prepared to expand our business with them.

GM We are prepared to work with GM and as an example, if the Government were to indicate a preference for the Delco turret, this would be an area for co-operation with GM since Delco is their sister company and they already do work on that turret.

Oerlikon We have already done engineering tests with Oerlikon to confirm the ability of their ADATS system to work with TH 495. Also we have received a recent contact opening discussions for other areas of cooperation as relates to the Canadian APC and we are open to this.

The Minister:

6. Location?

J.M.: We have examined a number of areas where we could carry on our business and confirmed potential exists for number of industrial regions in Canada. Quebec, and particularly Montreal, is certainly among the regions where we can operate efficiently. We seek an established industrial area, skilled workforce, good communications and transport links, and available site and plant facilities which can be acquired from a competitive real estate market. We have made no commitment to specific sites, as we want to keep flexibility in order to respond to Government priority.

The Minister:

7. Do you have friends in DND?

J.M.: We would have more friends in DND, if our name was GM. We believe our support in DND exists in the Army, if they are asked whether TH 495 is a good vehicle to meet their APC requirement. If that question is posed and they are

a good vehicle to meet their APC requirement. If that question is posed and they are free to answer without any DND Headquarters influences saying "buying exclusively from GM is Government policy", then the answer will be, TH 495 meets all the requirements of the APC requirement. It is a highly protected, highly mobile vehicle with growth potential to make it the best solution for the Army.

Closing Comments by Mr. Massmann:

The APC requirement is for some 600 vehicles starting in 1997. Thyssen can meet that date with TH 495 built in Canada. Furthermore, if it is the need of the Government to split that quantity to 300 units to Thyssen and 300 units to GM that still will be enough for the start-up of TH 495 in Canada, with a world product mandate for Canadian production for the large export market. The jobs created by the Thyssen project will be high value permanent jobs both for skilled workers and for engineers.

Lastly, comments about "Cadillac or Mercedes" solutions are not accurate for a military vehicle like TH 495. It is simply a modern vehicle designed to operate efficiently over a long life (30-40 years), delivering a high level of protection and defensive capability to multi-purpose Army such as Canada. As a modern tracked vehicle, it is lower in cost to a wheeled vehicle that would offer the same mission capabilities.

After the formal meeting

Mr. Tobin indicated that Oerlikon has asked for Min. Ouellets support and Oerlikon has been encouraged to find cooperation with Thyssen.

Also mentioned was GM's recent approach to Ouellet which apparently is unattractive politically, due to its lack of Quebec content.

MEETING REPORT

DATE: 27.02.1995

ATTENDING: DND - Pierre Lagueux
Asst. Deputy Minister, Supply

THYSSEN - J. Massmann
G. Alford

The meeting took place at Mr. Lagueux's office, DND Headquarters.

Duration of the meeting was approx. one hour.

Jürgen Massmann (J.M.) thanked Mr. Lagueux for the meeting and opened discussion on the pending Federal Budget asking Mr. Lagueux (P.L.), if it is DND intention that the APC project should be sole sourced instead of competed, explaining that all major DND programs observed by Thyssen have been sole-sourced.

P.L. No decision has yet been taken on the APC project. That it is still subject to final input from other departments and ultimately the Cabinet.

J.M. Is DND internally intending that the project should be wheeled only? If it is the Government intent to procure wheels only, sole-source from GM - then please tell us and we will accept this.

P.L. Each individual project is subject to consideration for sole sourcing or competition, but the APC procurement strategy is not yet decided. As for wheels, the Army has indicated preference for wheeled APCs based on the success of wheels in the current assignment to Bosnia.

J.M. The Company has been informed that the Army preference was not for wheels but in fact was open to a new generation of tracked vehicles capable of high protection and mobility, combined with high growth potential in order to serve the Army over the many years ahead.

The Army's willingness to accept wheels is understood to exist as a least preferred alternative to no new vehicles at all.

As to the suggestion that wheels are cheaper, it is proven by recent studies that if a wheeled vehicle and a tracked vehicle have identical mission capability - the tracked vehicle will have lower procurement cost.

Further, to compare life cycle costs, it is also proven by these same studies that life cycle costs to operate a new generation tracked vehicle will be lower than the costs to operate an old wheeled vehicle. In the Canadian context this would apply as the GM/Mowag vehicle, which is a 15 year old design and therefore will not have any operating cost advantage over a new generation tracked vehicle such as TH 495.

It is understood that in addition to acquiring an appropriate technical solution for the Army, the Government is equally concerned that the APC should be built in Canada, bringing direct industrial benefits in balance to the procurement investment, as well as for exports. There is a point of view which argues for limiting APC production in Canada to a single producer - GM. However, GM cannot offer a tracked solution for Canada and for export. In contrast, the Thyssen proposal offers an uncompromising technical solution for the Army, with industrial benefits from production for the domestic market and for the export market.

In closing, J.M. recalled that in June Mr. Lagueux made arrangements for the Army staff to visit the Thyssen exhibition at EuroSatory. Since that time, there has been only limited discussion with the requirement staff until a "freeze" on industry contact was imposed about September.

Most recently, a technical update presentation by Thyssen was accepted by the Project Management Office, but the restriction on officers to not discuss the APC program made the presentation a one way discussion. However, the Company assumes that before going ahead in such a large project as is the APC Replacement, there is some benefit to be gained by an exchange of views and open technical discussions that will allow the Company the opportunity to develop the best solution for the Canadian Forces.

J.M. asked Mr. Lagueux to arrange for a meeting between the Company and DND officials where such an exchange of information can take place. Mr. Lagueux eventually agreed that the Company could come back to him on that in 2 weeks (13 March).

STIKEMAN, ELLIOTT

BARRISTERS & SOLICITORS

TELEPHONE : (514) 397-3000

40TH FLOOR

TELECOPIER : (514) 397-3222

1155 RENÉ-LÉVESQUE BOULEVARD WEST

MONTREAL, CANADA H3B 3V2

TORONTO
OTTAWA
CALGARY
VANCOUVER
NEW YORK
WASHINGTON, D.C.
LONDON
PARIS
BUDAPEST
HONG KONG
TAIPEI

DIRECT DIAL :

397-3080

March 14, 1995

The Hon. David Collenette
Minister of National Defence
Mgen George Pearkes Building
Ottawa, Ontario
K1A 0K2

RE: THYSSEN TH 495 PROPOSAL

Dear Sir :

On the occasion of our meeting of February 10 last, I had the opportunity of leaving with you a short memorandum referring to the keen interest of Thyssen BHI to participate in the supply of APCs to the Canadian Army.

I indicated at the time that I would request the President of that company to forward to you a letter answering in a more formal way some of the questions you raised during our meeting and keeping you informed about the recent developments concerning the potential supply of armoured vehicles to the Canadian Army.

You will find enclosed copy of a letter that Mr. Massmann is sending to you by air mail and that you should receive in the next few days. We would be very grateful if you could find the time to give careful consideration to the proposal that it puts forward; we believe that it should be of significant interest to Canada not only in military, but also in economic terms. Because of the broad benefits that this project implies, we are taking the liberty, after you will have received the present letter, to transmit a copy to your colleagues, the ministers of Industry, Foreign Affairs and International Trade.

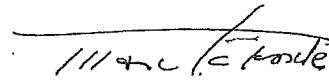
Mr. Massmann and/or myself remain at your disposal for any additional information you may wish to obtain concerning the Thyssen BHI proposal

and, as indicated in Mr. Massmann's letter, his company will be most happy to give your officials access to all relevant information. Mr. Massmann will be in Canada again on March 27 and will be happy to meet with you on that occasion, if need be.

Thanking you for the fair consideration that the Thyssen proposal will no doubt receive, we remain,

Yours truly,

STIKEMAN, ELLIOTT



Marc Lalonde, P.C., Q.C.

Encl.

STIKEMAN, ELLIOTT

AVOCATS

40^E ÉTAGE

1155, BOULEVARD RENÉ-LÉVESQUE OUEST

MONTRÉAL, CANADA H3B 3V2

TÉLÉPHONE : (514) 397-3000

TÉLÉCOPIEUR : (514) 397-3222

VEUILLEZ TÉLÉPHONER :

397-3080

TORONTO
OTTAWA
CALGARY
VANCOUVER
NEW YORK
WASHINGTON, D.C.
LONDRES
PARIS
BUDAPEST
HONG KONG
TAIPEI

Le 14 mars 1995

M. Jean Pelletier
Chef de Cabinet
Bureau du Premier Ministre
Edifice du Parlement
Rue Wellington
Ottawa (Ontario)
K1A 0A6

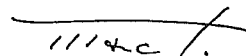
Re : Projet d'acquisition de véhicules armés par les Forces canadiennes

Mon cher Jean,

Pour ton information, je te transmets sous pli deux lettres que j'ai expédiées aujourd'hui au ministre de la Défense, référant à une proposition présentée par Thyssen BHI en rapport avec le projet d'acquisition de véhicules armés par les Forces canadiennes.

Je crois que cette proposition est d'un intérêt substantiel pour le gouvernement canadien et j'espère que tu pourras trouver le moment de lui accorder ta bienveillante considération.

Salutations amicales,



Marc Lalonde

P.J.

STIKEMAN, ELLIOTT

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HONG KONG
TAIPEI

VEUILLEZ TÉLÉPHONER: 397-3080

Le 14 mars 1995

L'hon. André Ouellet
Pièce 314
Édifice de l'ouest
Chambre des Communes
Ottawa, Ontario
K1A 0A6

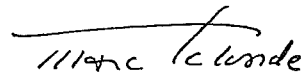
Re: **Projet d'acquisition de véhicules armés par les Forces canadiennes**

Monsieur le ministre,

Veillez trouver sous pli deux lettres transmises aujourd'hui au ministre de la Défense, référant à une proposition présentée par Thyssen BHI en rapport avec le projet d'acquisition de véhicules armés par les Forces canadiennes.

Étant donné l'intérêt que peut représenter cette proposition pour votre sphère de responsabilité, nous nous permettons de vous la transmettre, en espérant que vous voudrez bien lui accorder toute l'attention qu'elle mérite.

Veillez agréer, monsieur le ministre, l'expression de ma haute considération.



Marc Lalonde, C.P., C.R.

P.J.

STIKEMAN, ELLIOTT

BARRISTERS & SOLICITORS

40TH FLOOR

1155 RENÉ-LÉVESQUE BOULEVARD WEST

MONTREAL, CANADA H3B 3V2

TELEPHONE: (514) 397-3000

TELECOPIER: (514) 397-3222

DIRECT DIAL:

397-3080

TORONTO
OTTAWA
CALGARY
VANCOUVER
NEW YORK
WASHINGTON, D.C.
LONDON
PARIS
BUDAPEST
HONG KONG
TAIPEI

March 14, 1995

Hon. Roy MacLaren
Minister for International Trade
Lester B. Pearson
125 Sussex Drive
Tower B - 5th Floor
Ottawa, Ontario
K1A 0G2

Re : THYSSEN BHI TH 495 PROPOSAL

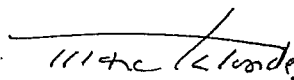
Dear Sir :

Please find enclosed copies of letters that I have sent today to the Minister of National Defence, concerning the planned procurement of armoured vehicles by that Department.

Taking into account the broad benefits that the proposal of Thyssen BHI entails for your own area of responsibility, we would be grateful if you could give this proposal the careful consideration that it deserves.

Yours truly,

STIKEMAN ELLIOTT



Marc Lalonde, P.C., Q.C.

Encl.

STIKEMAN, ELLIOTT

BARRISTERS & SOLICITORS

TELEPHONE : (514) 397-3000

TELECOPIER : (514) 397-3222

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WASHINGTON, D.C.
LONDON
PARIS
BUDAPEST
HONG KONG
TAIPEI

DIRECT DIAL :

397-3080

March 14, 1995

Hon. John Manley, P.C., M.P.
Minister of Industry
235 Queen Street
11th Floor east
Ottawa, Ontario
K1A 0H5

Re : THYSSEN BHI TH 495 PROPOSAL

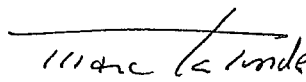
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STIKEMAN ELLIOTT



Marc Lalonde, P.C., Q.C.

Encl.



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: Marc Lalonde

FAX NO:

FROM: Greg Alford

PAGES: 4

(including cover page)

DATE: 17.3.95

MESSAGE:

Please find attached a note which I have prepared to summarize the themes of criticisms which we are picking up in DND contacts.

I plan to share this information with Patrick Tobin.

Regards,

Recent contacts with DND have revealed the following themes of criticism, directed at the Thyssen Proposal.

March 16, 1995

Thyssen is only hearing what they want to in their meetings and not accepting the "obvious messages", ie.

i) "The APC will be sole-sourced to GM and that decision is final , except for a Cabinet sign-off at Treasury Board".

Response: Thyssen has asked DND specifically - will purchase be a sole-sourced order to GM Diesel Division. The reply from the Assistant Deputy Minister Supply is that the APC project is not yet decided and subject to inter-departmental approval and then Cabinet approval.

Thyssen contacts at Cabinet level say emphatically - no decision has yet been taken for the APC project, and therefore Thyssen's offers and interest are welcome and encouraged.

ii) The Army prefers wheeled APCs.

Response: Thyssen has been given no indication from the user that the Army has established a preference for wheels, in fact, when we last discussed with the Army, their indication was a preference for a modern tracked vehicle which should be evaluated in comparison to a wheeled vehicle if a wheeled vehicle exists that could meet the anticipated mission requirements.

iii) GMDD, as an established armoured vehicle builder in Canada, must be the prime contractor by Government Policy.

Response: As to the suggestion that GMDD is the exclusive supplier to Canadian APC requirements, that has never been stated to Thyssen over the past 10 years. The Government has continually promoted our investment in Canada which has always been based on manufacture of APCs for both domestic and export markets.

iv) Current Government Policy is to decrease defence industry and defence exports; so the Thyssen proposal is in contradiction of that.

Response: If that is the specific policy of the current Government, then how can the Ministries of Industry, Foreign Affairs and International Trade and Defence not have dismissed the Thyssen proposal at its outset? In fact, the Thyssen proposal has been continually encouraged as a creator of jobs and exports. The Thyssen TH 495, as a vehicle targeted to the needs of Armies

engaged in peacekeeping is completely consistent with the Liberal "Red Book" statements on Defence industry, Defence procurement and Foreign Policy.

v) *Thyssen's TH 495 will compete with GM's vehicle in export markets, eg. Malaysia*

Response: The TH 495 is tracked, while the GM vehicle is wheeled. In most international markets users make a clear definition of requirement as either tracked or wheeled; or at minimum, set technical performance requirements achievable by only one type. Bidders decide whether to invest in pursuing each market based on an assessment of their equipment's capability to meet those requirements.

In the specific example of Malaysia, that customer has two clearly identified requirements. The TH 495 is presently being evaluated for the tracked requirement. There is also a wheeled requirement in Malaysia to which the TH 495 is not being offered, while it is understood the GM LAV/Mowag is being offered. The delineation tracked and wheeled export markets is quite clear.

vi) Thyssen has had plenty of opportunity to discuss requirements with "the user" (the Army) and present details on several occasions. DND has all of the information it needed to assess TH 495.

Response: True, Thyssen has spoken with the user on a number of occasions leading up to the APC requirement.

However, since the brief visit (2 hrs) of Army requirements staff to the static display of the TH 495 during the EuroSatory exhibition, June 1994, no substantial discussion with respect to the APC requirements has been possible. There was the suggestion that the Army Requirements Staff would visit Europe to drive vehicles of interest and have more detailed discussions during September. Unfortunately, when a visit to Europe occurred, it was limited only to the GM partner Mowag. As for discussions with the Requirements staff in September, Thyssen was told there was a "freeze" on industry contacts until "after the White Paper". Since the White Paper was released, responsibility for the APC project shifted to the Program Management Office for Light Armoured Vehicles (PMO LAV). On Feb. 16, 1995, officers of PMO LAV received a presentation from Thyssen, but were restricted from discussing the APC requirement.

Thyssen's concern is that there is an apparent restriction on discussions

with interested bidders. It is common for a purchaser to outline their requirements and then invite industry to make respond with the equipment which they have available, in Thyssen's case "off the shelf", to fulfil that requirement.

vii) The Thyssen vehicle is only a prototype, it is not in production.

Response: The TH 495 has finished its APC prototype work and has advanced to a pre-series production vehicle. If an order is signed by end of 1995, TH 495 can be in production in Canada in 12 to 18 month, thereby meeting the 1997 delivery requirement for the Canadian Forces.



THYSSEN BHI

To: Karlheinz Schreiber
Marc Lalonde

From: Greg Alford

Date: 27.03.95

Subject: Update on Thyssen Political Support

In a meeting today at Ottawa, Jamie Deacey and his colleague Daniel Despins reported the following information specific to our proposal and the support it has with Minister Ouellet:

Mr Deacey has an associate (who he did not wish to name) who has a 25 year friendship of a "mentor to student nature", with Minister Ouellet. That associate had a telephone discussion with Ouellet on the morning of 26 March, the results of which he relayed Mr Deacey in the afternoon. He asked: "What is the Minister's view of the Thyssen proposal and would it be worthwhile for the associate to get involved with Thyssen?"

The reply of Min. Ouellet was to cite all of the old arguments of Bob Fowler against Thyssen ie. the Army only want wheels, etc.

Important to note is that all of those arguments were discussed and responded to in detail during the Company's meeting with Min Ouellet on 28.02.95.

Min Ouellet is understood to have further advised that "the Thyssen proposal is not going anywhere, don't waste time on this. There may be pressure for some kind of a competition on this requirement instead of a sole source to GM but this will probably only serve to put pressure on the GM offer."

Comment:

Why did Min Ouellet show such interest in our offer during the meeting 28.02.95 ?

One possibility is that by supporting the Thyssen offer Min Ouellet creates a leverage over GM to press them into accepting Oerlikon Aerospace as their partner to do the turret integration on the Delco turret. If GM were to commit to Oerlikon for that work that would represent a large Quebec share on the APC.



THYSSEN BHI

Sulte 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: Marc Lalonde

FAX NO:

FROM: Greg Alford

PAGES: 4
(including cover page)

DATE: 28.3.95

MESSAGE:

Attached please find a draft report of the meeting between
Mr. Massmann, Mr. Vance and Gen Reay for your information.

DRAFT 1

REPORT OF DISCUSSIONS MARCH 27, 1995 AT OTTAWA BETWEEN
LGEN REAY, JURGEN MASSMANN AND LGEN JACK VANCE (REF'D)

The following is a review of the information gained from discussion with LGen Reay on March 27, 1995.

There had been a list of 9 contenders for the APC requirement, consisting of tracked and wheeled vehicles. The tracked systems included M 113 upgrade, CV 90, TH 495, ASCOD.

With the November cabinet recommendations preceding the Defence White Paper of December 1, 1994, a final list of four options was approved by Gen Reay. Those options were M 113 upgrade GM LAV improved, MOWAG variations on LAV and CV 90. All of these options were confirmed as "acceptable" to the Army for the APC requirement. With the exception of M 113, the other three options were all offered as built in GM London.

The main reason offered for TH 495 not being included is that it is not in production, and in DND opinion is a prototype and carries a high "risk" factor.

The CV 90 was the preferred tracked solution, but was dropped due to cost.

All DND Army staff work was conducted internally, based on very restricted contact with industry.

When pressed, Gen Reay acknowledged his preference is:

1. against increasing the number of vehicle types in his fleet, to preserve commonality. On that basis, a split buy of tracked and wheeled vehicles is not acceptable.
2. He would take tracks only if the budget is increased, but then his preference is for CV 90 and that is confirmed by his recommendations.
3. Money is very restricted and Reay emphasized this a number of times. Reay will not accept any solution which requires him to take fewer vehicles. In his current situation, he will get 600 - 650 new GM wheeled vehicles for \$1.99 Billion, and upgrade some 900 M113 for \$400 Million.

Sunder

*LAV
#2.4b*

On the new vehicles, he says, if he substitutes tracks (CV 90), he will get 1/3 fewer vehicles, and he will not accept any reduction in quantity. He also does not want to exchange the M 113 upgrade for fewer new tracked vehicles of a higher quality, but would prefer to protect the lesser upgrade of the whole 900 M 113. His intent is to preserve his plan for a combined program of purchase and upgrade of 1500 vehicles.

4. For the future program on the Armoured Combat Vehicle (ACV) which is scheduled for 2003 - 2005, and will be up to 500 units, Reay feels he can get a 105 mm gun on the GM LAV chasis. He refused to accept the possibility that the wheeled vehicle cannot perform adequately with this large a gun, he is convinced it will.
5. Gen Reay said that he can live with wheels and upgraded M 113 for his APC solution because in the future, the Army will have to "learn to say no" and to recognize that some assignments may present a risk that exceeds the capability of its equipment, in which case they will have to say "no" to participation.
6. Reay believes that the delay in announcing the APC project is in the fact that the Defence Minister is trying to create a package of DND procurement, including APC, helicopters, and possibly submarines, that will offer some industrial benefits to every region. The difficulty in putting together that package is the only cause of delay.

Gen Reay has observed no sign of political intervention that has been made to stop the GM sole-source or to give any new consideration to the Thyssen offer.

That observation fits with the Association House report by Jamie Deacey that indicated, there is a cabinet level interest to get regional industrial benefits for each region, and in the Quebec region, the Ouellet interest in Thyssen may only be intended to pressure GM into including Oerlikon Aerospace at St. Jean, Quebec for turret work.

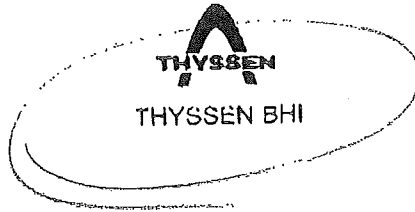
The Thyssen offer and the associated export benefit has not been mentioned in comments by Gen Reay, nor in any of the comments coming from Min. Ouellet.

Gen Reay's position described in this report is changed from the position he described to Jack Vance on March 9, 1995, when he said, the TH 495 is an excellent vehicle and he "would be pleased if it were selected."

Gen Vance provides the following concluding remarks:

In light of Reay's lack of support for TH 495 as evident from this meeting, I can at this stage see no alternatives in attaining Army endorsement of our initiative. Indeed, in quickly reviewing potential replacements should Reay be replaced as Army Commander, I would be doubtful that any would take a different course.

In summary, therefore the Army does not favour the TH 495 and is not likely to do so in the foreseeable future.



MEMO

TO: Marc Lalonde

FROM: Greg Alford

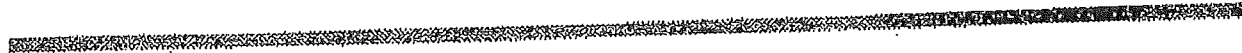
TEL: 613-563-3321

FAX: 613-563-7648

DATE: April 18, 1995

SUBJECT: Collette Letter

PAGES: 6 + 6



Attached you will find the final draft.

With regard to Malaysia, the additional reference which you suggested is accurate according to our internal lines of communications. However, until it becomes a more "official" status in Malaysia, Jürgen felt we should not risk upsetting our position there, since a Canadian inquiry for verification could attract the attention of competitors that are not yet aware of our position.

I have marked the margin to show the location of additions suggested by Karlheinz.

Please contact me with any changes or additions you may have.

Regards,

*à qui était adressée la lettre
de McNight.
KH & P.J*

18 AVR 1995

Final Draft, 18.04.95

April 18, 1995

Hon. David Collette
Minister of National Defence
MGen George Pearkes Building,
101 Col By Drive
Ottawa, Ontario
K1A 0K2

Dear Minister:

While I continue to look forward to your reply to our letters of December 2 and 14 1994 and January 24 and March 8, 1995, I write again with respect to the Canadian APC requirement as announced in the White Paper on Defence December 1, 1994.

Our Company has gone to great lengths to monitor the development of the APC requirement in order to respond to the expected Request for Proposal (RFP), but so far, we have been unable to ascertain any official position of the Government with respect to the procurement procedure which will be followed. We continue to encounter strong indications that the competitive procurement process will be bypassed in favour of a "sole-sourced" order to General Motors Diesel Division (GMDD). When we challenge this possibility, we are told: "no decision has been made on the APC project, yet". Furthermore, despite our verbal and written requests one month ago to Mr Lagueux, your ADM Supply, we have so far been unsuccessful in securing a meeting with DND officials where they will be free to discuss the technical elements of the APC requirement in a way which will allow us to make an effective response.

I respectfully request that you issue an RFP for the APC requirement with a clear definition of the technical requirements. Our Company is ready to make an offer against those requirements with a technically appropriate type of vehicle at a competitive price. Such an open and transparent procurement method can only be to the advantage of Canada.

The previous DND Deputy Minister, Mr Fowler, and the senior Materiel staff, on more than one occasion lectured our Company on the procurement method of DND, as one which must always be open and competitive in order to ensure fairness and best value. The document titled "Understanding in Principle", signed between the Company and the Government September 27, 1987 (copy attached), carried the signatures of the then Ministers of National Defence, Atlantic Canada Opportunities Agency, and Regional

Final Draft, 18.04.95

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Industrial Expansion, and among other things, promised that the Minister of Defence "will consider the participation of the Company in the Light Armoured Vehicle Procurement Program...". This was further reinforced by a letter dated January 25, 1990 (copy attached), from then Defence Minister, Hon Bill McKnight, which promised our Company the opportunity to "participate in the tendering for the contract to supply such vehicles", for a minimum of five years. With the announcement of the APC replacement program in your December 1994 Defence White Paper, we are looking forward to the opportunity to participate in that procurement process as it is clearly a part of that same requirement as was referred to in the aforementioned document and letter.

In late March this year, I learned from LGen Reay that the Canadian Forces intend to accept the acquisition of more wheeled Light Armoured Vehicles (LAV) from GMDD, to be acquired in response to the APC requirement.

I was very surprised at LGen Reay's conclusion, as at a previous meeting on September 20, 1994, LGen Fischer, Sr. ADM Materiel stated that the TH 495 fulfils all Canadian requirements. I can therefore only assume that our vehicle, which was understood to be among the potential solutions being considered, was subsequently eliminated for reasons which appear to me to be unfounded.

This development could have been avoided as, notwithstanding our efforts to enter into substantive discussions with requirements staff on the technical aspects of the APC requirement, we now find that they have apparently drawn conclusions from data that was not provided in response to specific physical and performance requirements. With the limited data so far provided, the most critical of DND assessments of our vehicle could not have been concluded.

There is the suggestion that TH 495 would be an expensive solution, but this is purely an assumption since we have not been given a chance to present a price against specified requirements. We have also encountered the opinion that a tracked solution for the APC will result in fewer vehicles for the Army, but in the absence of a firm price offer against an RFP, such a conclusion cannot be reached. In fact, current studies in NATO and the German Army have determined that the acquisition cost of a modern tracked vehicle such as our TH 495, will be cheaper than a wheeled vehicle having the same mission capabilities.

The TH 495 satisfies the White Paper objective of "off-the-shelf" technology, as it is at pre-series production stage and can be ready for delivery from Canadian production within 12 to 18 months from contract conclusion. As an example of the TH 495 readiness, the pre-series production vehicle has just concluded an intensive customer trial in Malaysia, qualifying highly in all aspects of its assessment.

One of the most appropriate technical definitions of a modern APC which we have used

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as a guideline for the Canadian APC requirement is the NATO definition for a new Multi - Purpose Base Armoured Vehicle (MBAV). The Canadian Forces were active participants in the MBAV study and, as the Commander of the Army stated publicly, Canada was very influential in the requirements defined for the MBAV based largely on the Canadian work on the Multi Role Combat Vehicle (MRCV) project. The Thyssen TH 495 was designed to comply with all of the technical requirements of the MRCV program and its APC component, as they were being briefed to industry in 1992. The TH 495 meets the full mission requirements of the APC as we know them, offering all around high armour protection, NBC protection, low IR and radar signature/superior off road mobility, C-130 air-portability, high growth potential, modular design permitting low cost maintenance and adjustment to changing mission requirements, and it is "off-the-shelf" as regards its development status. ✓

Air portability by the Hercules C-130 was an essential requirement previously identified in the Canadian outlines of the APC requirement when it was part of the MRCV program. From our assessment of the competing vehicles, we know that only the TH 495 is capable of fulfilling this in combination with all of the other previous stated performance requirements.

Among the tracked solutions considered, will be the re-armouring of the existing M113 fleet. In this option the addition of armour will result in an increase in overall vehicle weight, which then must be offset by a replacement of the engine, transmission, suspension and a variety of other adjustments necessary to regain its original power to weight ratio, which is already less than ideal. Such significant re-engineering of the M113, as is necessary to improve this very old design, will most certainly raise concerns of technical risk and hence potential cost growth. In our view, a new vehicle will offer much greater growth potential, lower operating costs, and a variety of technical advantages especially in the area of protection and mobility. As well, the industrial benefits which are secured through a new vehicle acquisition, offer much greater value to the Canadian economy in exports which would not be associated with upgrade work.

These issues can only be fully assessed through a formal evaluation of an offer against an RFP or similar procurement device which will set out DND requirements and allow a competitive response to be made. If the requirements of the Army are significantly changed from that which have been described earlier, we will make the most appropriate technical offer from our entire range of capabilities which of course includes vehicles of both tracked and wheeled designs. Both of these design groups offer modular design families of vehicles, capable of meeting every mission requirement in the light armour category.

Separate from the specific APC procurement discussion, we have also encountered situations where senior officials at DND, among them Mr. Fowler while he was Deputy Minister, suggested that there is only room for one armoured vehicle producer in Canada. This seems to be supported by the indications we have received that all of the

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new vehicle solutions for the APC requirement are those which were proposed for construction at GMDD. However, an exclusive position for GMDD has never been enunciated to our Company or publicly stated as Government policy, either in the present or the previous administration. Our Company has continually been encouraged to bring forward our proposal for manufacturing in Canada and to remain active in Canada to participate in the procurement process for the Canadian Forces' armoured vehicle requirements.

khS | From an international trade perspective, I can only conclude that our request for an opportunity to participate in the Canadian APC program is consistent with the fair treatment accorded to Canadian firms such as Canadair in their sales of Challenger jets and reconnaissance drones to the German Department of Defence .

On the point of the industrial benefits which will be associated with our offer against the APC requirement, we can understand that this aspect is not necessarily of equal priority to DND officials as it may be to the Government overall. We are quite certain that on fair evaluation it will be judged to offer a significant net increase of Canadian jobs and exports.

As we have described in previous correspondence, Industry Canada led a committee including officials from DND and International Trade and Foreign Affairs, in an independent study which assessed the export market for tracked armoured vehicles in the TH 495 category. They concluded that such a market does exist and even under the most restrictive assumptions, a market share of some 2,000 units will be won by the Thyssen TH 495 from Canadian production. That study was for export markets only and assumed no sale to Canadian DND. When asked to consider an export market scenario where an initial order was secured in Canada, it was agreed this would have a very positive affect on the export market "win probabilities", perhaps as much as doubling the export market share forecast. Therefore it is fair to conclude that TH 495 will not be dependent solely on the domestic market and that should allay DND concerns that Canada would be the only purchaser of the TH 495.

khS | Certainly TH 495 will gain a great advantage in international markets from a sale to the Canadian Forces, and that value will be recognized through the commitment of the world product mandate for TH 495 to Canada. This association would be most positive for a made-in-Canada TH 495 armoured vehicle since most markets presently give priority in their materiel decisions to equipment that is suitable for peacekeeping assignments. The economic return for Canada from exports of peacekeeping equipment such as the TH 495 will be very appropriate, given the constant leadership role of Canada since the very beginning U.N. peacekeeping missions.

In addition to the confirmation of the tracked vehicle export market projected for TH 495, it is important to recognize that this market represents substantial gain in industrial benefit for Canada through a new product, in a vehicle class not presently

(2)

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5

produced in Canada and therefore a net gain in exports, not a loss of market for an established producer. Moreover, it is unlikely that an established manufacturer would find it profitable to switch production to tracked vehicles at an existing facility. In this sense the Thyssen facility would be complimentary to existing facilities.

In conclusion, I would like to emphasize that Thyssen remains interested not only in DND's APC procurement, and in building on our already substantial presence in Canada. We see Canada not only as an important market for our products but also as a base for worldwide sales which we confidently predict will run in a range of \$10 Billion over the next fifteen to twenty years.

I look forward to speaking with you further on Thyssen's interest in the APC program and our desire to expand in Canada. In this regard, thank you for your consideration and look forward to participating in the upcoming APC competition.

form request

Sincerely,

9

Juergen Massmann
President

cc: Rt. Hon. Jean Chretien
Hon Andre Ouellet
Hon Roy McLaren
Hon John Manley

(6)

UNDERSTANDING IN PRINCIPLE

This document signed this 17 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 (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 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:

(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 \$58 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 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

(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.

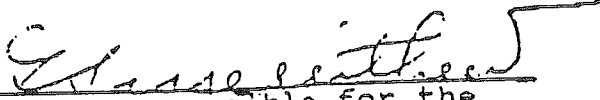
6. This Understanding in Principle may be complemented by future Memoranda of Understanding.

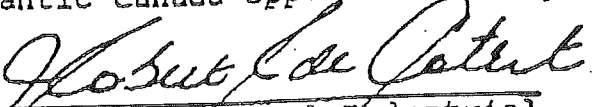
7. The understandings in principle set out in this Understanding in Principle do not create any enforceable, legal or equitable rights, nor obligations, but merely serve to document the:

- (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.

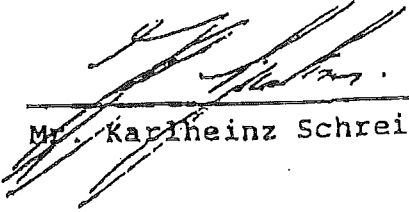
THE GOVERNMENT OF CANADA


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



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

April 20, 1995

Hon. Marc Lalonde
Stikeman, Elliott
1155 Dorchester Blvd.
Suite 3900
Montreal, Que.
H3B 3V2

Dear Marc:

Further to our telephone conversation last night, Minister Ouellet has now had his meeting with Minister Collenette and according to Patrick Tobin, "the matter is in the hands of the Defence Minister, who will make an announcement at the appropriate time."

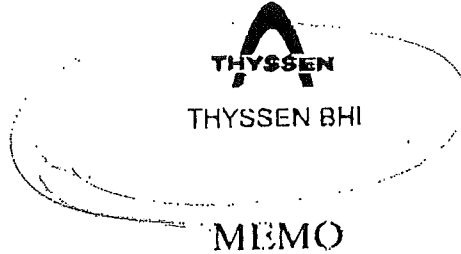
I have discussed this situation with Jürgen Massmann today, and we interpret this as negative and the indication that Minister Ouellet has given up.

However, we still do not have any direct comment on this from Min. Ouellet, so we would ask that you contact him on our behalf, so that we at least have a direct report from him on the situation and our prospects.

We would also like to get a similar assessment from the Defence Minister, as well as from the PMO.

Since the new letter for Minister Collenette will be ready Friday, perhaps you could make arrangements to personally pass this to Ministers Ouellet and Collenette and at the same time use that opportunity to find their current view on our offer.

Best regards,



TO: Marc Lalonde
cc: Jürgen Massmann
 Karlheinz Schreiber

FROM: Greg Alford

TEL: 613-563-3321
FAX: 613-563-7648

DATE: April 24, 1995

SUBJECT: Final DND Decision on APC Project

PAGES: 1

I understand from a good source - which has been confirmed by a secondary - that a final DND recommendation on the APC project will be tabled to Program Control Board (PCB) on 25 April. It is intended that it will be then forwarded to the Minister on May 1st for decision (and Cabinet referral if necessary?) In this action the APC project is twinned with one of the helicopter requirements.

I felt this will be important in regard to the timings for your contacts as discussed on Thursday, April 20.

Please note, however, that PCB discussion could be deferred depending on other agenda priorities.

24 AVR 1995

JÜRGEN MASSMANN
PRESIDENT
THYSSEN BHI

SUITE 308
360 SPARKS STREET
OTTAWA, ONT., CANADA
K1R 7S8
PHONE (613) 663-3321
TELEFAX (613) 668-7648

April 21, 1995

Hon. David Collette
Minister of National Defence
MGen George Pearkes Building
101 Col. By Drive
Ottawa, Ontario
K1A 0K2

Dear Minister:

While I continue to look forward to your reply to our letters of December 2 and 14, 1994 and January 24 and March 8, 1995, I write again with respect to the Canadian APC requirement as announced in the White Paper on Defence December 1, 1994.

Our Company has gone to great lengths to monitor the development of the APC requirement in order to respond to the expected Request for Proposal (RFP), but so far, we have been unable to ascertain any official position of the Government with respect to the procurement procedure which will be followed. We continue to encounter strong indications that the competitive procurement process will be bypassed in favour of a „sole-sourced“ order to General Motors Diesel Division (GMDD). When we challenge this possibility, we are told: „no decision has been made on the APC project, yet“. Furthermore, despite our verbal and written requests one month ago to Mr. Lagueux, your ADM Supply, we have so far been unsuccessful in securing a meeting with DND officials where they will be free to discuss the technical elements of the APC requirement in a way which will allow us to make an effective response.

I respectfully request that you issue an RFP for the APC requirement with a clear definition of the technical requirements. Our Company is ready to make an offer against those requirements with a technically appropriate type of vehicle at a competitive price. Such an open and transparent procurement method can only be to the advantage of Canada.

The previous DND Deputy Minister, Mr. Fowler, and the senior Materiel staff, on more than one occasion lectured our Company on the procurement method of DND, as one which must always be open and competitive in order to ensure fairness and best value. The document entitled „Understanding in Principle“, signed between the Company and the Government September 27, 1988, carried the signatures of the then Ministers of National Defence, Atlantic Canada Opportunities Agency, and Regional Industrial Expansion, and among other things, promised that the Minister of Defence „will consider the participation of the Company in the Light Armoured Vehicle Procurement Program ...“. Moreover, in a letter dated January 23, 1990, the then Defence Minister gave the undertaking that our Company would have the opportunity to „participate in the tendering for the contract to supply such vehicles“, for a

minimum of five years. With the announcement of the APC replacement program in your December 1994 Defence White Paper, we are looking forward to the opportunity to participate in that procurement process as it is clearly a part of that same requirement as was referred to in the aforementioned document and letter.

In late March this year, I learned from LGen Reay that the Canadian Forces intend to accept the acquisition of more wheeled Light Armoured Vehicles (LAV) from GMDD, to be acquired in response to the APC requirement.

I was very surprised at LGen Reay's conclusion, as at a previous meeting on September 20, 1994, LGen Fischer, Sr. ADM Materiel stated that the TH 495 fulfills all Canadian requirements. I can therefore only assume that our vehicle, which was understood to be among the potential solutions being considered, was subsequently eliminated for reasons which appear to me to be unfounded.

This development could have been avoided as, notwithstanding our efforts to enter into substantial discussions with requirements staff on the technical aspects of the APC requirement, we now find that they have apparently drawn conclusions from data that was not provided in response to specific physical and performance requirements. With the limited data so far provided, the most critical of DND assessments of our vehicle could not have been concluded.

There is the suggestion that TH 495 would be an expensive solution, but this is purely an assumption since we have not been given a chance to present a price against specified requirements. We have also encountered the opinion that a tracked solution for the APC will result in fewer vehicles for the Army, but in the absence of a firm price offer against an RFP, such a conclusion cannot be reached. In fact, current studies in NATO and the German Army have determined that the acquisition cost of a modern tracked vehicle such as our TH 495, will be cheaper than a wheeled vehicle having the same mission capabilities.

The TH 495 satisfies the White Paper objective of „off-the-shelf“ technology, as it is at pre-series production stage and can be ready for delivery from Canadian production within 12 to 18 months from contract conclusion. As an example of the TH 495 readiness, the pre-series production vehicle has just concluded an intensive customer trial in Malaysia, qualifying highly in all aspects of its assessment.

One of the most appropriate technical definitions of a modern APC which we have used as a guideline for the Canadian APC requirement is the NATO definition for a new Multi-Purpose Base Armoured Vehicle (MBAV). The Canadian Forces were active participants in the MBAV study and, as the Commander of the Army stated publicly, Canada was very influential in the requirements defined for the MBAV based largely on the Canadian work from the Multi Role Combat Vehicle (MRCV) project. The Thyssen TH 495 was designed to comply with all of the technical requirements of the MRCV program and its APC component, as they were being briefed to industry in 1992. The TH 495 meets the full mission requirements of the APC as we know them, offering all around high armour protection, NBC protection, low IR and radar signature, superior off-road mobility, C-130 air-portability, high growth potential, modular design permitting low cost maintenance and adjustment to changing mission requirements, and it is „off-the-shelf“ as regards its development status.

Air portability by the Hercules C-130 was an essential requirement previously identified in the Canadian outlines of the APC requirement when it was part of the MRCV program. From our

assessment of the competing vehicles, we know that only the TH 495 is capable of fulfilling this in combination with all of the other previous stated performance requirements.

Among the tracked solutions considered will be the up-armouring of the existing M113 fleet. In this option the addition of armour will result in an increase in overall vehicle weight, which then must be offset by a replacement of the engine, transmission, suspension and a variety of other adjustments necessary to regain its original power to weight ratio, which is already less than ideal. Such significant re-engineering of the M113, as is necessary to improve this very old design, will most certainly raise concerns of technical risk and hence potential cost growth. In our view, a new vehicle will offer much greater growth potential, lower operating costs, and a variety of technical advantages especially in the area of protection and mobility. As well, the industrial benefits which are secured through a new vehicle acquisition, offer much greater value to the Canadian economy in exports which would not be associated with upgrade work.

These issues can only be fully assessed through a formal evaluation of an offer against an RFP or similar procurement device which will set out DND requirements and allow a competitive response to be made. If the requirements of the Army are significantly changed from that which have been described earlier, we will make the most appropriate technical offer from our entire range of capabilities, which of course includes vehicles of both tracked and wheeled designs. Both of these design groups offer modular design families of vehicles, capable of meeting every mission requirement in the light armour category.

We have received indications that the new vehicle solutions for the APC requirement are exclusively those which were proposed for construction at GMDD. However, an exclusive position for GMDD has never been enunciated to our Company or publicly stated as Government policy, either in the present or the previous administration. Our Company has continually been encouraged to bring forward our proposal for manufacturing in Canada and to remain active in Canada to participate in the procurement process for the Canadian Forces' armoured vehicle requirements.

From an international trade perspective, I can only conclude that our request for an opportunity to participate in the Canadian APC program is consistent with the fair treatment accorded to Canadian firms such as Canadair in their sales of Challenger jets and reconnaissance drones to the German Department of Defence.

On the point of the industrial benefits which will be associated with our offer against the APC requirement, we can understand that this aspect is not necessarily of equal priority to DND officials as it may be to the Government overall. We are quite certain that on fair evaluation it will be judged to offer a significant net increase of Canadian jobs and exports.

As we have described in previous correspondence, Industry Canada led a committee including officials from DND and International Trade and Foreign Affairs, in an independent study which assessed the export market for tracked armoured vehicles in the TH 495 category. They concluded that such a market does exist and even under the most restrictive assumptions, a market share of some 2,000 units will be won by the Thyssen TH 495 from Canadian production. That study was for export markets only and assumed no sale to Canadian DND. When asked to consider an export market scenario where an initial order was secured in Canada, it was agreed this would have a very positive effect on the export market "win probabilities", perhaps as much as doubling the export market share forecast. Therefore it is fair to conclude that TH 495 will not be dependent solely on the domestic market and that should allay DND concerns that Canada would be the only purchaser of the TH 495.

04/21/1995 11:17 THYSSEN BHI

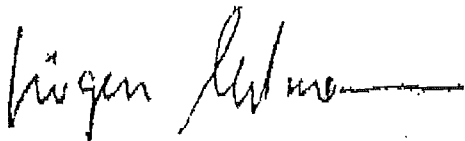
Certainly TH 495 will gain a great advantage in international markets from a sale to the Canadian Forces and that value will be recognised through the commitment of the world product mandate for TH 495 to Canada. This association would be most positive for a made in Canada TH 495 armoured vehicle since most markets presently give priority in their materiel decisions to equipment that is suitable for peacekeeping assignments. The economic return for Canada from exports of peacekeeping equipment such as the TH 495 will be very appropriate, given the constant leadership role of Canada since the very beginning of U.N. peacekeeping missions.

In addition to the confirmation of the tracked vehicle export market projected for TH 495, it is important to recognize that this market represents substantial gain in industrial benefit for Canada through a new product, in a vehicle class not presently produced in Canada and therefore a net gain in exports, not a loss of market for an established producer. Moreover, it is unlikely that an established manufacturer would find it profitable to switch production to tracked vehicles at an existing facility. In this sense the Thyssen facility would be complimentary to existing facilities.

In conclusion, I would like to emphasize that Thyssen remains interested not only in DND's APC procurement, and in building on our already substantial presence in Canada. We see Canada not only as an important market for our products but also as a base for worldwide sales which we confidently predict will run in a range of \$ 10 Billion over the next 15 to 20 years.

I look forward to speaking with you further on Thyssen's interest in the APC program and our desire to expand in Canada. In this regard, thank you for your consideration and I look forward to participating in the upcoming APC competition.

Sincerely,



Jürgen Massmann
President

cc: Rt. Hon. Jean Chretien
Hon David Dingwall
Hon John Manley
Hon Roy McLaren
Hon Andre Ouellet

Minister for International Trade



Ministre du Commerce International

Ottawa, Canada K1A 0G2

APR 28 1995

The Honourable Marc Lalonde, P.C., Q.C.
Stikeman, Elliott Barristers
and Solicitors
40th Floor
1155 René-Lévesque Boulevard West
Montréal, Québec
H3B 3V2

Dear Mr. Lalonde.

Thank you for your letter of March 14, 1995, enclosing copies of two letters to the Minister of National Defence, concerning the planned procurement of Armoured Personnel Carriers (APCs) by his Department. It is my understanding that my colleague, the Honourable André Ouellet will be responding to you with respect to those aspects of the letters which fall within his responsibilities.

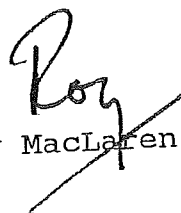
The government should acquire equipment which best meets the needs of the Canadian Forces and such procurement should ideally contribute to the economic and industrial well-being of the country. A strong economy and industrial capability and capacity both contribute to increasing the volume of exports of Canada's goods and services.

This Department has been involved in the interdepartmental team which conducted an international market study of Light Armoured Vehicles (LAVs). It is generally accepted that procurement of any major equipment by the Department of National Defence enhances the export potential of that equipment to qualified foreign ministries of defence.

Regarding the planned procurement of APCs by the Department of National Defence, I understand that the Minister of Foreign Affairs intends to discuss the matter further with the Minister of National Defence.

Thank you for providing me with the background information you included with your letter and for your interest in seeing the Government of Canada procure the most appropriate equipment.

Yours sincerely,


Roy MacLaren

cc: The Honourable André Ouellet, P.C., M.P.
The Honourable David Collenette, P.C., M.P.
The Honourable John Manley, P.C., M.P.

Minister of Foreign Affairs



Ministre des Affaires étrangères

Ottawa, Canada K1A 0G2

MAY - 2 1995
MAI - 2 1995

PROTÉGÉ

Josée Thyssen

L'honorable Marc Lalonde, c.p., c.r.
Stikeman, Elliott Avocats
40^e étage
1155, boulevard René-Lévesque ouest
Montréal (Québec)
H3B 3V2

Cher Marc
Monsieur,

J'ai bien reçu votre courrier du 14 mars 1995 dans lequel vous avez joint votre lettre et celle de M. Massmann adressées au ministre de la Défense nationale concernant le désir manifesté par Thyssen BHI de fournir à l'armée canadienne des véhicules de transport de troupes blindés (VTTB). Je crois savoir que mon collègue, l'honorable Roy MacLaren, vous répondra sous pli séparé, en particulier à propos des aspects de la lettre de M. Massmann qui concernent le commerce international.

Je comprends que, si le ministère de la Défense nationale passait un contrat avec Thyssen pour la fourniture de véhicules TH 495, cette société s'engagerait alors à les fabriquer au Canada pour le marché intérieur aussi bien qu'extérieur. Je constate d'ailleurs qu'elle a déjà envisagé la sous-traitance auprès de sociétés canadiennes dans plusieurs régions. S'agissant d'avantages économiques pour le Canada, le gouvernement est toujours prêt à favoriser l'augmentation de la capacité industrielle nationale dans certains secteurs, en raison des répercussions bénéfiques qu'aurait cette croissance, en particulier sur la situation de l'emploi.


.../2

3 - MAI 1995

PROTÉGÉ

Dès que possible, j'ai l'intention de discuter plus en détail de la stratégie d'achat des VTTB avec mon collègue, l'honorable David Collenette, ministre de la Défense nationale.

En vous remerciant de votre intérêt soutenu envers ce grand projet d'achat, je vous prie de croire à l'expression de mes meilleurs sentiments.


André Ouellet



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3321

TELEFAX (613) 563-7648

TELEFAX

TO: Marc Lalonde

FAX NO:

FROM: Corina Antonic

PAGES: 7
(including cover page)

DATE: 11/17/95

MESSAGE:

Attached updates follows.
Best regards
Corina



THYSSEN BHI

MEMO

TO: Jürgen Massmann
Karlheinz Schreiber
Marc Lalonde
Jamie Deacey
Jack Vance

FROM: Greg Alford

TEL: 613-563-3321
FAX: 613-563-7648

DATE: January 19, 1995

SUBJECT: General Up-Date

PAGES: 6 including attachments

The following will report recent activity by Government Department:

DND

All indications found in the Army Staff continue to support our earlier suspicion that DND is only considering GM LAV for their APC buy.

DND continues their freeze on discussion with industry. " Un-official" discussions available to Ian Reid all indicate a sole source solution is pending.

There is also rumour that GM may be offering 2 wheeled solutions:

1. the upgraded LAV 8x8, and
2. the MOWAG 10x10

The 10x10 is thought to be a recent addition as a "stalking horse" which can later be thrown out, but in the interim provide some guise to suggest DND is considering alternatives. If so this would explain what Mr. Fowler alluded to the German Ambassador when suggesting the possibility of competition being available from one source.

The APC project has officially been handed over to the Project Management Office (PMO) which is managing the 1992 contract purchasing 200 LAV Recce vehicles sole sourced from GM. New equipment purchases like the APC are normally passed to a dedicated PMO but if the intention is to buy from GM as sole source it will be more economical to use the existing PMO LAV. Nonetheless, BHI continues to try and present and sell to that office. (Letter to PMO attached)

A report on and 18.01.95 meeting with David Collins, Director General Industry and International Programs is attached.

External Affairs

Minister Ouellet's office continues to expect he will place a telephone call to Mr. Massmann, but he is awaiting more information from his cabinet colleagues. His office remains positive and helpful.

Industry Canada

Still no release of the market analysis despite constant written and telephone requests from BHI.

Most recently, Minister Manley's political staff have offered "to look into this with their officials", adding the comment "we have complete confidence in our officials". (A letter to Diana Durnford is attached.)

Attachments:

1. 18.01.95 Letter to PMO LAV , L Col Carruthers
2. Notes from meeting 18.1.1995 with David Collins, DGIIP
3. 19.01.95 Letter to Diana Durnford, Special Assistant to Minister of Industry



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

January 18, 1995

Lieutenant Colonel R.F. Carruthers, CD
Project Director PMO LAV
Third Floor, 110 O'Connor Street
Ottawa, Ontario

Dear 

In reference to our telephone conversation of 17 January, I am forwarding 2 copies of our latest video on TH495 together with some brochures. I know that you are personally familiar with the vehicle from your visit in the fall of 1993, however this represents an update, and should also be of interest to your staff.

At present the shorter (5 road-wheel) version is on trial in Malaysia and we have received very positive reports. In addition, the Bundeswehr is now interested in matching the vehicle to the tracked portion of their GTK requirement, and thereby satisfying a new rapid-reaction force requirement. MOD UK staff have also reported favourably on TH495, and this has resulted in formal discussions between the respective Ministries to determine the feasibility of a joint project. (This ties-back to the NATO MBAV study, and reflects the UK preference for tracked replacements both in TRACER and the FFLAV successor project.) On the commercial side, Thyssen Henschel is in continuing contact with Vickers Defence Systems (VDS), who have recently briefed the Master General of Ordnance (MGO) on a joint production concept.

In regard to the recent FRG/UK discussions I am aware that Brigadier General Lanz of MOD Bonn has invited DND to consider participation, and has received a deferred response pending the White Paper release. With the APC replacement now confirmed as a priority, Gen Lanz is anticipating a further reply.

Concurrently Thyssen has identified a sizeable future export market for light tracks, (of which Malaysia is an early example). This market has been confirmed by an independent government survey, and is now being aggressively pursued by the Company.

At the time of EuroSatory 94, Colonel Howie Marsh and Lieutenant Colonel B.J. Forsyth expressed their desire to visit Kassel for a demonstration of the TH495, but this,




THYSSEN BHI

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and other intended visits, were prevented by circumstance. Our invitation remains open for you or any other members of PMO LAV or matrix staff should the opportunity arise.

In addition to hosting a demonstration of TH495 at Kassel, we also ask for an early opportunity to provide a complete technical presentation of TH495 to PMO LAV. I will call on our design and engineering department in order that we can be responsive to all areas of technical interest that may arise. If you are in agreement I would like to discuss possible dates at your first convenience. Please do not hesitate to let me know if you need further information on the TH495 development.

Yours sincerely,



Ian Reid,
Director Defence Marketing

Enclosures: 2 videos
12 brochures

Notes from meeting with David Collins, Director General Industry and International Programs (DGIIP) on Jan. 18, 1995

- Minister of National Defence (MND) intends to return to Cabinet with his equipment procurement plan before he proceeds
- Collins suggests that full Cabinet may not consider the issue and it may only be necessary to find agreement among Treasury Board members
- Collins indicates that while he does not have direct responsibility for requirements, he understands that the Requirement Staff in Directorate of Land Requirement (DLR) seem to show a "growing" preference for wheels. (This had also been reported by Ian over the last few months).
Collins went on to add that he realizes this might not be consistent with the view held in Army HQ Montreal/St. Hubert (referring to Gen. Reay), but it is what he observes.
- All considered, Collins seems to suggest wheels are the preferred option described by the Requirements Staff (DLR). (I believe that is his way of saying that he thinks this is a final decision in favour of GM.)
- Collins thinks, the budget scheduled for end of February could cancel or reduce some "White Paper projects" - that may include the APC.
- On international projects Collins is the official administrative point for these discussions but indicates he has heard nothing of the German Army interests for UK/GE/Canada talks on TH 495. He went on to say that these issues come officially from Simonds to Gen Fischer and while Simonds is pressing a few issues of interest, a cooperative project for TH 495 is not mentioned yet.
- Collins says, he supports the idea of a cooperative project, so long as it meets the needs and timing of the Army.

G.A. Comment

There is a possibility Collins may be intentionally sticking to the official Simonds/Fischer channel of discussions so that he can overlook Gen. Lanz's invitation through the Army liaison staff at the Embassy in Bonn as "un-official".

Separately, I understand that Mr. Simonds and Gen Fischer will come together for a scheduled meeting of Ger/Can Armaments Directors about July 6.

Minister R  he will visit Canada September 11 - 15, 1995 (tentative).



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

January 19, 1995

Ms. Diana Durnford
Special Assistant, Policy
Industry Canada
235 Queen St.
Ottawa, Ont.
K1A 0H5

Dear Ms. Durnford,

Thank you for your continuing interest in our proposal to establish new export focused manufacturing in Canada. As per your request during our telephone conversation Wednesday, I send this note via fax to outline my present concern.

It is now more than a year since the Company provided to Industry Canada, a detailed export market projection which was then verified by a committee of Government Departments led by Industry Canada, and using the Government's independent sources of information.

By July 1994, officials shared the results of some of their findings with the Company. At that point it was evident that both Company and Government did agree that an export market exists for tracked vehicles in the category of the TH495. Also agreed was the view that TH495 could reasonably be expected to win a share of that market. My letter of December 22, 1994 to Minister Manley summarizes the discussions on market.

My concern is that although the Government market analysis is complete and officials have agreed last fall that they would confirm in writing to the Company the findings of the Government's market analysis, nothing has yet been received. The delay is explained with reference to other issues which the Government is concerned with.

The Company asks that acknowledgement of the Government market analysis be released now and if "other issues" arise, they can be addressed separately.

We would be most grateful if you can assist in some way to remedy this situation.

Sincerely,

Greg Alford
Sr. Vice President

(2)



THYSSEN BHI

Suite 808, 350 Sparks Street, Ottawa, Ontario, Canada K1H 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

To: Marc Lalonde, Stikeman Elliot

Juergen Massmann
Karlheinz Schreiber

From: Greg Alford

Date: 20.01.95

Further to the suggestion that the APC project may only need to be considered by the Treasury Board Committee of Cabinet, I provide the following list of membership to that committee:

		Constituency
Chair:	Hon Art Eggleton, Pres. of Treasury Board	Toronto, Ontario
vice chair :	Hon Paul Martin, Min of Finance	Montreal, Quebec
members:	Hon David Anderson, Min of Revenue	Victoria, British Columbia
	Hon David Dingwall, Min of Public Works and Gov't Ser vices	Sydney, NovaScotia
	Hon Ron Irwin, Min of indian and Northern Affairs	Sault Ste Marie, Ontario
	Hon Sergio Marchi, Min of Immigration	Toronto, Ontario



THYSSEN BHI

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R 7S8

TELEPHONE (613) 563-3324

TELEFAX (613) 563-7648

TELEFAX

TO: J. Massmann
K. Schreiber
M. Lalonde
J. Deacey, Association House

FAX NO:

FROM: Greg Alford

PAGES: 3
(including cover page)

DATE: 25, 1, 95

MESSAGE:

For your information



Minister of Foreign Affairs

Ministre des Affaires étrangères

Ottawa, Canada K1A 0G2

JAN 23 1995

Mr. Greg Alford
Senior Vice-President
Thyssen BHI
Suite 908
350 Sparks Street
Ottawa, Ontario
K1R 7S8

Dear Mr. Alford:

Thank you for your letter dated December 14, 1994, which I understand was also sent to my colleague, The Honourable Roy MacLaren. In your letter, you summarized the history of your company in Canada and sought my support for a competitive bidding process for the supply of Armoured Personnel Carriers (APCs) to the Department of National Defence.

I am aware of Thyssen's international reputation as one of the world's largest industrial manufacturing companies, its holdings in Canada and the company's contributions to Canada's economy. I am also aware of your past proposals for the expansion of this investment in Canada by establishing a manufacturing facility for tracked Light Armoured Vehicles (LAVs).

Your proposal, submitted to the government in September, 1993, focussed on the international market for tracked armoured vehicles in general and potential sales of the TH 495 in particular. I understand that the results of a review of your market study by an interdepartmental group is virtually complete and that you will be advised of the outcome shortly.

.../2

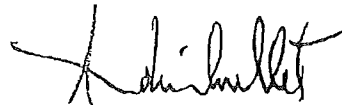
- 2 -

The recent White Paper on defence includes the requirement to acquire new APCs. I have been advised that DND has completed initial studies concerning the operational requirements for APCs, including a survey of the capabilities of a number of tracked and wheeled vehicles. The TH 495 was one of the vehicles considered in the survey.

DND's approach to this procurement will address the need to stringently control the costs and technical risks associated with major acquisition projects. Therefore, wherever possible, the selection process will favour equipment which has already been technically proven. I expect that the government will soon decide its procurement strategy for APCs for the Department of National Defence.

Thank you for your continuing interest in competing for the requirements of the Canadian Forces and I wish you success in your future endeavours.

Yours sincerely,



André Ouellet

cc: The Honourable Roy MacLaren, P.C., M.P.
The Honourable David Collenette, P.C., M.P.
The Honourable John Manley, P.C., M.P.
The Honourable David Dingwall, P.C., M.P.



THYSSEN BHI

To: J. Massmann
K. Schreiber

cc: Marc Lalonde
Jamie Deacey and Associates
Jack Vance

Stikeman, Elliott
Association House
J Vance and Assoc.

From: G. Alford

Date: 24.01.95

Meeting Report: 24.01 95 Greg Alford meeting with Randy McCally Sr. Policy Advisor to the Minister of National Defence

Meeting was arranged by Daniel Despina of Association House.

Meeting opened awkwardly with McCally indicating he would not debate any technical issues, nor would he comment on the APC situation; but he was interested in hearing any points of concern that the Company has.

I began with the request that he comment on the APC project, its status and whether there is potential for BHI to be invited to bid. McCally replied that the precise status of the project is an issue before cabinet and he is not permitted, nor would it be legal for him to comment on this.

I then referred to our letters to the Minister of Defence, adding that we are very interested in offering to the APC requirement and asked when we can expect a reply. He did not give any indication of the date of a reply but said it would be dealt with as soon as the Government reached a conclusion on how to proceed with the APC project.

Returning to the topic of Cabinet I asked if the matter would be brought for consideration by full Cabinet or just Treasury Board and he was unable or unwilling to say. (Therefore we must consider both as a possibility).

McCally asked me to address the issue of our proposal history having started in Atlantic Canada up to the present, which I did, finishing with an update to the most recent discussions with Industry Canada and the agreement on market.

Turning back to discuss the APC requirement, I presented the brochures and a video and McCally then mentioned that he understands the Army has a preference for wheeled vehicles for the new APC, and that technical preference is based on satisfactory performance of wheels and the desire to maintain maximum common logistics between

the current and future fleet, and with that the benefit of common operating knowledge etc. I raised arguments on protection, mobility or growth potential, but McCally did not want to reply to these saying that he did not have a technical background.

McCally asked specifically about cost, and I replied that we had not received any formal opportunity to address cost against specified requirements but that we had only been asked to offer a budgetary estimate and we had said DM 1.5 million FOB Kassel. He made note of that then commented that we are not the most expensive offer. No further elaboration on cost was available.

He asked me to comment on the possibility that TH 495 is developmental and therefore not "off-the-shelf", I referenced the fact that the two prototypes have each completed extensive company tests, with the 5 roadwheel version in Malaysia for customer trials. Furthermore, TH495 is developed using proven components and systems thereby reducing risk. Lastly I compared TH495 to the improved LAV which GM is said to be offering and indicated that the improved LAV, in the form contemplated for the Canadian Army, is also a prototype with many unknown characteristics and given that it represents an extensive stretching of the known capabilities of the LAV could hold more risk than TH495.

McCally referred to the visit of German Defence Minister, Ruhe last summer when the Thyssen interest in the Canadian APC was mentioned and reminded me that minister Collenette replied by saying that GM is already established in Canada and it would be the Government's expectation that GM would participate in the APC project.

McCally shows considerable knowledge of and interest in GM. Therefore I mentioned that if TH 495 is selected we would be prepared to involve GM in some way and suggested that it should be recognized that our proposal offers a significant new Canadian capability that GM cannot and it will not hurt GM but may in fact give them new business opportunities

At the close of the meeting I extended invitation to McCally to visit Kassel

BHI Comment:

This meeting does not provide any encouragement that there is yet an intent to do business with Thyssen. If there was, Mr McCally would have been more forthcoming with information and indepth with his enquiries. I get the feeling that while Mr McCally may have been sincerely interested in our proposal, the meeting he granted was largely in response to the political pressure created by Marc Lalonde via the PM's office and then the follow up requests of Daniel Despins of Association House.

Nonetheless we need to continue to pursue support from Mr McCally and hope that he and his Minister will become more supportive in the event that other political interests come to influence this issue



THYSSEN BHI

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
 Telephone: (613) 563-3321 Telefax: (613) 563-7648

January 31, 1995

Marc Lalonde
 Stikeman, Elliott
 Montreal

Dear Marc:

Attached is a recent pair of articles appearing in Vanguard magazine, a new publication covering defence issues.

The tone of the 1st article (pp. 16-19) suggests a competitive acquisition process for the APC project.

The second article (pp. 22-27) is very well written and argues for good equipment, specifically "a well armoured fast tracked vehicle" (p. 26) for the new APC.

Best Regards,

[Handwritten signature]

ARTICLE

Companies Line Up for APC Competition

By Laurie Watson

November's Defence White Paper paves the way for the army to get new armoured personnel carriers (APCs).

But the competition to supply the new battle taxis for the infantry has been underway unofficially for months.

According to the Paper, Canada needs to modernize its APC fleet to operate effectively in the combat conditions encountered in today's UN and other multilateral missions. It sets out a two-part program that would involve upgrading some of the existing APCs and adding new ones, with delivery starting in 1997.

The 199 relatively new eight-wheeled Bisons, built by General Motors (GM) and delivered in 1991 and 1992, are to be kept in service. These include 149 of the APC variant which are being used for militia training.

The purchase of new APCs is long overdue for the Canadian military. Canada's existing APCs, the tracked M113A2 and the wheeled Grizzly, are first generation systems and inadequate in terms of firepower and protection.

More than 10 years ago, Canada's allies and former adversaries began developing third-generation armoured personnel carriers—called infantry fighting vehicles—such as the Bradley (U.S.), the Warrior (U.K.) and the BMP3

(former Soviet Union). Development of fourth generation vehicles has been underway for several years.

There is considerable Canadian public support for the APC project. One industry observer told VANGUARD it was the first time in his experience that the public has fully supported such a defence procurement program.

Part of the public's attitude can be attributed to the incidents earlier this year in Somalia and the former Yugoslavia in which Canadian soldiers in M113s and Grizzlies were killed or injured by mines and anti-tank weapons. These incidents clearly underscored the need for more heavily armoured vehicles.

According to the Department of National Defence (DND), the APC project office was established in January, 1994. Defence planners have already completed a preliminary review of all major APC manufacturers in the world, including those located in Canada, Sweden, France, Germany and the United States.

Unlike the Canadian Navy's frigate program, however, DND has restricted its search to something off-the-shelf, rather than creating a new vehicle.

"We want to buy a vehicle that already exists," said a DND spokesperson. "We don't want to buy a turret from one vehicle and put it over the hull of another." DND also is considering

whether to equip the APCs with 19 mm or 14 mm guns.

Sources told VANGUARD that the army has already specified an "infantry taxi", capable of transporting a seven or eight man infantry section around the battlefield. When the taxi arrives at its destination, the crew dismounts, leaving behind the driver and gunner.

The crew commander, who will ride in the rear section with the troops, will either exit or remain behind in the turret. Other sources say the army really wants a minimum of a 25 mm gun.

Manufacturers who have expressed an interest in the APC program include DEW Engineering (Mobile Vehicle Tactical Light); Hagglunds Vehicle AB of Sweden (CV90 series Infantry Fighting Vehicle); GM of Canada (Light Armoured Vehicle); and Thyssen Henschel GmbH of Germany (TH495). Steyr-Daimler-Puch/Santa Barbara is also said to be interested in the competition and may submit a proposal for the ASCOD infantry fighting vehicle.

Already, a debate is mounting over what constitutes "off-the-shelf".

In a recent address to members of the Canadian Defence Preparedness Association, Lt. Gen. Robert Fischer, senior Assistant Deputy Minister of Materiel, said that "off-the-shelf" should not be restricted to "off the production line" or "in the warehouse", but could include prototypes.

Selection of a prototype, however, might leave the government open to criticism for purchasing a vehicle that is not yet proven.

Wheeled vehicles, of course, are faster, can keep pace with convoys, and demand less maintenance. Although tracked vehicles are more costly to maintain, they travel through mud, sand and snow without bogging down as often as wheeled vehicles. Also, tracked vehicles can generally support heavier armour.

While there is a trade-off, clearly, a modern and well-equipped army needs both.

Since the oldest APCs in the army's fleet are the tracked M113A2s built by FMC Corporation - many deliv-

ered more than 20 years ago - newer tracked vehicles would seem logical. But that choice would rule out an upgraded version of the wheeled Light Armoured Vehicle manufactured by GM.

The final decision will depend on the perceived environment the forces are most likely to encounter internationally. For instance, soldiers serving in Bosnia have been unable to access some of their more remote Observation Posts because wheeled APCs couldn't get over the ground, even when they were equipped with chains.

501

There are other important performance considerations, too.

The APC must fit the forces' multi-purpose combat capability. It needs sufficient firepower and armour to protect forces engaged in the Bosnia-type peacemaking and in general combat operations, such as the Gulf War.

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A low profile also is important, so that the troops aren't an obvious target, as is a low centre of gravity, in order to maintain stability.

Finally, in an era where international commitments involve many nations working together, inter-operability of equipment is important. Canada's new APC should be in use in other NATO countries.

Some bidders are concerned that the government has already decided what to buy, and the decision may not have the army's best interests at heart. For instance, DND has already decided to purchase APCs rather than full-bore infantry fighting vehicles which would offer the same mobility as tanks, superior fire power and better protection than most APC configurations.

The main reason for the decision to buy minimalist APCs is cost. With a super-stringent budget due in February, there is little public support for the extra expense of a more heavily armoured vehicle. "It's the very least I can get away with," grumbled one analyst. "DND will buy new wheeled

APCs, and update the old tracked ones."

According to the analyst, wheeled vehicles have definite limitations, although they are more suitable for training the militia in Canada. And, in traditional peacekeeping operations, they are more economical to operate.

"But for combat operations, you need tracked vehicles because they can carry better armour and their cross-country capability is far superior."

Another source close to DND says "a lot of minds have been made up for a long time. There's a real blitz to pick up 200 LAVs from GM and go with the easiest rebuild of the M113a."

The source said also there's also a concern over DND's "behind-the-scenes" policy regarding off-the-shelf vehicles. "When you come right down to it, off-the-shelf in Canada gets the nod over off-the-shelf offshore," he said.

M113s, the cost of such a plan would be 60 per cent of buying new Mobile Vehicle Tactical Light units. (DEW's proposal also includes buying new MTVs.)

Sources said that in a recent competition Haggiund's CV90 was aggressively priced at \$1.6 million U.S. each, while the 200 LAV "recce" vehicles being supplied to the Canadian Forces carry a total price tag of \$800 million.

The following manufacturers have expressed an interest in the APC program:

Light Armoured Vehicle (LAV)

Manufacturer: General Motors of Canada

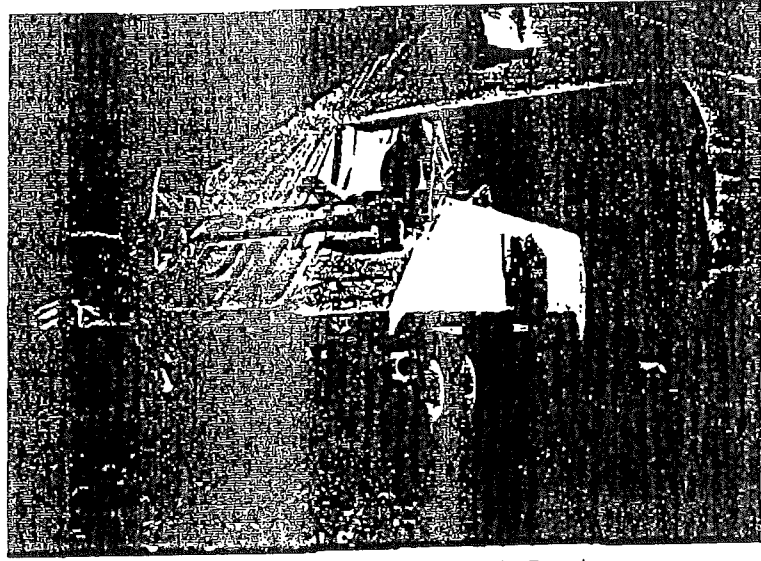
GM is having a highly successful run with its LAV program. The original armoured vehicle was designed and developed by the Swiss company MOWAG. Between 1979 and 1981, it supplied the Canadian Forces with 491 vehicles based on the MOWAG design.

In the early 1980s, it developed an eight-wheel light assault version, called the LAV-25, for the U.S. Marine Corps. This version later formed the basis for the Bison armoured personnel carrier.

The Bison's turret is replaced with a raised commander's cupola with five M17 periscopes. An externally-mounted 7.62 mm machine gun is fitted to the immediate rear of the driver's station at the front left side of the hull.

The hull seats a driver, commander and nine passengers facing inwards, while the troop compartment contains a cargo hatch and two smaller hatches. The rear ramp incorporates a door. Cost of the 199 armoured vehicles, which completed delivery in 1992, was \$100 million.

Next year, our Forces will begin taking delivery of a reconnaissance version of the LAV-25 to replace the



M-113 getting add-on armour in Bosnia

The LAVs are serious weapons. For example, the U.S. Marine Corps purchased 800 of these vehicles and used them in Somalia with good results. The reconnaissance variant is available with a chain gun and an extendable observation mast that includes low-light television, and a thermal imager.

According to DEW Engineering, which has proposed refurbishing the

It will be equipped with an intelligence suite and will function in both a reconnaissance and a surveillance role.

Bill Pettipas, Director of Programs and Marketing for GM Canada, says DND has asked GM about the possibility of it meeting the requirements.

"The LAVs are 1994 editions," he says. "We just keep inserting the latest technology. Most of it is gadgetry. The chassis is the least expensive part of the product."

Since the LAV was first developed, Pettipas adds, GM has built over 20 different variants of the chassis. "It keeps changing and improving. You add armour protection, try to get more fuel efficient operations, and add better tires."

For the new APCs, GM would likely collaborate with another company to design the armour, but they would install it themselves. "Essentially, additional protection is a matter of adding steel armour, or ceramic-type armour. You get into the issue of affordability and weight of the chassis. Do you have to boost the horsepower to maintain mobility. If you demand absolute armour protection, you have to get a tank," he says.

Mobile Vehicle Tactical Light (MTVL)

Manufacturer: DEW Engineering and Development Limited of Ottawa and U.S.-based United Defense LP

The two partners are proposing a two-part program that would convert the existing M113 family to Mobile Vehicle Tactical Light (MTVL) units and provide new MTVLs.

M113s, of which there are 1,000 in Canada, were first procured in 1960. They are powered by a 200 hp Detroit Diesel 6V-53 engine.

considered too light for today's advances in add-on armour and weapons packages.

DEW sees its proposal as a way to extend the life of the M113s well into the 21st century. DEW would set up a facility in Chatham, New Brunswick, to convert existing M113s into MTVLs. The M113s would be inspected, disas-



MTVL Proposed by DEW Engineering

sembled and fitted with a new six road-wheel hull section that would add 870 mm to the vehicle's overall length. The power train would be beefed up with a 350 engine and transmission. The new MTVLs would also be assembled at Chatham.

DEW claims the measures would improve cross-country mobility by 50 per cent and volume and payload capacity by 30 per cent over the existing M113. The hull with add-on armour kit will greatly exceed the requirement of armour protection against a 14.5 mm AP round at 500 metres throughout 360 degrees and shield the effects of CE weapons. Armour over the front arc would provide protection against penetration from 30 mm projectiles.

The M113s would carry eight combat-equipped soldiers plus a crew of three. DEW has proposed fitting them with a Sharpshoot one-man turret system that allows the gunner to fire while the crew commander independently commands and controls. However, a

selection of one and two man turrets is available.

The refurbished M113 would be C130 air transportable.

With a power-to-weight ratio of 24.1 hp/ton compared to the 16.7 hp/ton of the M113A2, the refurbished M113s would have a rapid acceleration of 0 to 48 km/h in 12.4 seconds, compared to 28.2 seconds for the existing M113s. Its top speed would be 71 km/h, compared to 66 km/h for the existing M113s.

The MTVL is the only aluminum-hull configuration being put forward by defence manufacturers. But Howie Byer, senior program manager for DEW Engineering, says the refurbishment would extend the life of the M113 "indefinitely. It could be a 30-year old hull, but it would be as good as a brand new hull. Plus you're adding fully refurbished or new components to the hull so the vehicle coming off the line

is as good as a brand new vehicle at a fraction of the cost." Byer says it's a myth that the M113 has reached the end of its useful service life.

A 1993 NATO Industrial Advisory Group recommended hulls of the new generation of multi-purpose armoured vehicles be constructed of aluminum, with a contact spall lining and add-on armour.

Byer sees the MTVL as an affordable, cost effective sensible solution to the CAF's requirement for modern

Hagglunds CV90 series Infantry Fighting Vehicle

Manufacturer: Hagglunds Vehicle AB, Sweden

Hagglund's CV90 infantry fighting vehicle is part of the CV90 series, which was developed during the mid-1980s by Hagglund for use by the Swedish Army in its northern opera-

tions. All three versions carry a crew of three, with up to 8 soldiers in the rear compartment.

The Norwegian Army announced the first export order for the CV90 family earlier this year to replace its M113A1 APC with the CV9030. Norwegian trials involved the CV9030, the ASCOD from Steyr-Daimler-Puch/Santa Barbara and United Defense's M2A2 Bradley. Norway had earlier rejected the German Thyssen Henschel TH496IF and the British-made Warrior.

Each of the three infantry fighting vehicles in the CV90 family features all-welded steel construction on the hull, with a Bofors' power-operated, two-man turret. Weapons range from a 2 mm McDonnell Douglas Bushmaster or Mauser MK 25 mm Model E canon on the CV9025 to a 40 mm Bofors L/70 canon on the CV9040.

The combat vehicle is powered by a Scania DS14 606-hp diesel engine coupled with a Perkins X300-5 fully automatic transmission. With a power-to-weight ratio of 18.9 hp/ton, the vehicles accelerate from 0 to 30 km/h in 7 seconds. It has a maximum forward speed of 70 km/h. The steel hull protects against up to 30 mm projectiles, but protection can be enhanced with add-ons or composite armour.

According to the company, the vehicle also has a low signature radar, low noise level, day and night sight engagers, a laser rangefinder and a thermal imager.

Svante Andersson, Haggglund's liaison officer in Canada, says the company is very involved with the APC project. "We have a very competitive product with the CV90. We've been working a bit with DND in answering questions on the CV90 and are also discussing the project with Canadian industry." Andersson

say the CV90 would likely be built in Canada under license.

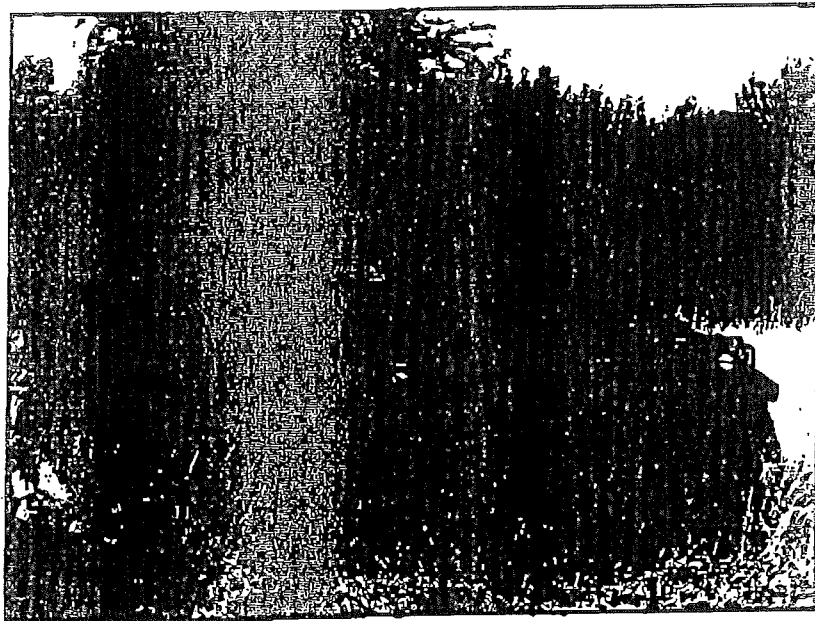
■ TH495 Infantry Combat Vehicle

Manufacturer: Thyssen Henschel GmbH, Kassel, Germany

The TH495 is a full-tracked vehicle developed by Thyssen Henschel and introduced in first prototype in 1992. Greg Alford of Thyssen BHI in Ottawa states that the TH495 is a market-driven design that meets the

the driver is provided by three periscopes, with the middle one being replaced by an image intensifier for night driving. In addition, hull-mounted video cameras enable the soldiers to monitor the battlefield from inside the crew compartment while the hatches are closed.

The TH495 ICV has a combat weight of 21.6 tonnes and a power-to-weight ratio of 24.3 hp/tonne. It has a five-road wheel configuration and an overall length of 235 in. Thyssen Henschel has also produced a slightly longer six-road wheel prototype with



TH 495 Infantry Combat Vehicle (ICV)

needs of NATO and other nations that wish to maintain general purpose armed forces, with multi-purpose combat capabilities. The baseline vehicle has been designed for adaptation to a variety of light armour roles and for future growth potential. The vehicle has a modular design top plate which permits adaptation for a variety of turrets.

Thyssen conducted a comprehensive market survey before proceeding with a tracked design intended to offer high protection and payload with no compromise on mobility.

The TH495 ICV (Infantry Combat Vehicle) variant has space for two crew - commander and driver - and up to eight infantry in the rear. Vision for

additional internal capacity and a 30-mm cannon turreted configuration.

The basic vehicle hull is all-welded steel armour construction. In addition, a layer of modular spaced steel and composite armour panels are fitted to the hull with quick-fit bolts. These modules can be dismantled for C130 transport (reducing the vehicle weight to 17.5 tonnes) or can be adjusted in the field for increased security. Thyssen advises that this concept was developed to enable the customer to update

protection with the latest technology without the need for workshop refit, or to replace battle-damaged segments. Spaced armour has also been fitted to the top of the hull to protect against vertical attack.

Alford states that another significant feature is the 495's digital electronic bus system. This allows electronic components to be introduced, or replaced, by plugging-in to the bus, rather than rewiring the entire vehicle system.

The TH495 is a very recent development and has not as yet received purchase orders. The Company advises that it has furnished an ICV prototype to Malaysia for extensive trials with the Malaysian army. ★

ARTICLE

Bosnia: How Our Troops View Their Equipment

By George Koch

During a two-week visit to Canada's peacekeeping battalions in Croatia and Bosnia last September, VANGUARD contributor George Koch of Calgary spoke to dozens of Canadian peacekeepers of various ranks about the amount, range and quality of their equipment. Many offered candid opinions in return for not using their names.

What follows is his personal synthesis of the troops' view of their own equipment:

With the end of the Cold War ironically also ending the era of "classical" peacekeeping, the equipment shortages and gaps facing Canada's army in the new era of muscular peacemaking and humanitarian-relief-under-fire are more acute than ever. Bosnia is a prime example.

Lest anyone harbour lingering doubts, the former Yugoslavia is one of the most militarized regions on earth. The late Josip Broz Tito built up a society in which virtually every man was trained as a soldier.

Fearing a Soviet invasion and a reversion to partisan warfare, Tito oversaw dispersal of the Yugoslav military-industrial complex and the production of literally hundreds of caches throughout the country.

As many Canadian troops have noted, nobody has ever truly subdued the South Slavs—not the Turks,

not the Nazis and not the Soviets. It certainly won't be the UN.

These arms caches are now in the hands of the half-dozen factions at war in Croatia and Bosnia. The armies number some 375,000 men and women under arms, not counting the huge Yugoslav National Army watching from Serbia.

The various armies deploy every kind of heavy weapon imaginable, including many anti-vehicle systems, from heavy machine guns to rapid-fire cannons to tanks to attack helicopters to area-denial weapons like multiple-launch rocket systems containing cluster munitions.

In CanBat1's Area of Responsibility (AOR) alone the parties have sown 600,000 mines.

Indeed, CanBat2's camp at Visoko adjoins a Bosnian-Muslim factory fabricating multi-barrelled rocket launchers.

The 70,000-strong Bosnian Serb Army alone, for instance, deploys some 300 tanks and 700 artillery pieces. The 50,000-strong Croatian regular army is described by a senior UN intelligence officer as "close to Western standards." Last year, it was conducting brigade-level combined-arms exercises involving attack helicopters, parachutists, tanks and landing craft.

Equipment and Gear

And despite the UN embargo, more arms are flowing into this vast Balkan armoury, say UN officers, "by the ton."

Canadian peacekeepers are about as well-equipped as it's possible to be in the Canadian army. In many cases, though, the apparent plenty comes from the limited inventories in the Canadian army of everything from heavy machine guns to thermal imaging observation devices being scoured from units all over Canada and sent overseas.

When one peacekeeping battalion rotates out after its six-month deployment, it simply leaves all the equipment for the next contingent.

If Canada were to deploy a larger force on a multilateral peacemaking mission, as envisioned in the recent Defence White Paper, the troops would find themselves with severe shortages of everything from night-vision gear to anti-armour weapons to heavy machine guns.

To start with the good news, the infantry now has a sound family of small arms. Along with mobility and communications, small arms are of course the crucial aspect for peacekeeping.

The ancient, worn out, 9 mm Browning No. 2 Mk 1 officer's pistol, according to many I spoke to, is a joke. Some were used by Chiang Kai-shek's Nationalists in the 1940s and still bear some Chinese markings. But the key weapon to the infantry is the assault rifle, and in this regard, most troops in Bosnia and Croatia consider their C7 the best such weapon in the Balkans.

The late-80s Diemaco design and production has purged the bugs of the old U.S. M-16. The lightness and compactness of both weapon and ammunition are important assets in cramped Ilitis "Jeeps" and M113 Armoured Personnel Carriers, as well as for extended foot patrols in the various separation zones overseen by Canadian peacekeepers.

Soldiers I spoke with are particularly delighted with the rugged, three-power optical sight of the C7A1.

acquired only in 1993. Though it's sometimes laughed at by troops from some other countries, Canadian soldiers told me it's extended the accurate firing range from 300 to 500 metres, although the bullet's stopping power at that range is marginal.

They also like new metal 30-round clips; so much so that many soldiers I met had up to six magazines jammed into their flak jackets.

The 5.56 mm, Belgian-built Minimi C9 Light Machine Gun (the U.S. Army calls it the M249) is very popular too. Using the same ammunition and optical sight as the C7, the C9 gives each section two easily carried weapons that can be fired at full auto for sustained periods using the 200-round canister attached to the weapon's underside.

Surprisingly, the troops speak with particular warmth towards the old but extremely accurate and reliable 7.62 mm C6 General Purpose Machine Gun. "I can put a single bullet exactly where I want it out to 1800 metres," boasted one soldier.

The far older Browning .50-cal heavy Machine Gun, acquired in 1942, is also favoured, but with only 1,600 in the entire army, there are never enough of them for the numerous requirements of vehicles, Observation Posts (OPs) and training.

Almost as important for sustained deployments are mundane-sounding equipment items that help keep soldiers fit, alert and fully functional, items like flak jackets, kevlar helmets, Gore-tex raingear and new, light desert-type boots.

In this regard, there appeared to me to be shortages even for the limited number of troops deployed to Croatia and Bosnia.

I saw old steel helmets hung from pegs in the camps. And some kevlar helmets had been painted blue with a type of paint that softens the helmet's material.

Some flak jackets were fraying and coming apart at the fabric connections, allowing gaps in the jacket's coverage to appear.

Some front-line troops wear personally purchased civilian raingear

under their leaky old regulation gear. Canadians gawk enviously at the new Swedish camo pants made from a material that is water-repellant and resists both chemicals and fire.

OPs

For the crucial peacekeeping function of observation, the field-deployed troops are in reasonably good shape. The first priority, rapidly erecting some form of protection, has been solved by the unique, British-designed Hesco Bastion. This consists of hinged surfaces of heavy steel mesh which can be folded and stacked for easy transport, then unfolded and hooked together in minutes.

Once backed by fabric, it is then filled by front-end loader with whatever material is available—sand, dirt or rubble.

A basic OP for a section of troops can be thrown together in one day flat. Hesco Bastion units stacked two high and two deep can withstand almost all small arms, light cannon and RPG rounds, and all but direct hits from tanks or artillery. OPs are then completed with timber-and-sandbag observation and firing platforms and ringed with razor wire.

Night Vision

For observation, the assemblage of night-vision equipment is quite good.

Starlight goggles provide mobile, personal night vision, although the largest number I saw at any OP was two. If that is the regular issue, it seems impossible for an entire section to operate so equipped.

Similarly, most OPs also had one or two passive light-amplifying scopes for C7s and C9s.

For maximum night observation, most OPs had a single, tripod-mounted Night Observation Device, Long-Range (NODLR) thermal imaging observation and ranging device. The eight-power NODLR clearly identifies vehicles and humans at distances up to 2000 metres. Its only drawback is the noise from its cooling system, which makes silent observation and listening difficult.

The principal shortcoming in night vision is the lack of a mobile, vehicle-mounted thermal imager. CanBatI in Croatia was using its Tow Under Armour (TUA) vehicles to conduct roving night patrols in the demilitarized Zone of Separation that keeps the Croatian Army (HV) away from the Army of the Republic of Serb Krajina (ARSK) occupying the Serb-populated region of Croatia.

While highly effective at deterring and halting armed incursions by both sides, and at times even breaking up fire fights, the necessity of using the battalion's highest-value single asset, the TUA, mounted on its least-reliable platform, the M113, starkly demonstrates to me the equipment shortage.

Transport

In the '90s, it seems to many of our soldiers, there shouldn't be an armoured vehicle moving without a thermal imaging sight. Detachable ones for observation use by trucks and jeeps should also form part of the peacekeeping inventory.

Like observation equipment, the army's vehicle scene is a mixed bag, though a decidedly more frayed one. The army's decision to retain the 2,848 1976-model-year, civilian Chevrolet 5/4 pickup truck and replace the original jeep with the VW-designed Iltis 1/4-tonne 4X4 is a sore point with many troops I met.

Had the army bought the American Hummer, soldiers told me, it would have replaced two vehicles, eliminated gasoline from the army's supply train, save for tiny supplies for staff cars and portable electrical generators, and vastly enhanced tactical mobility.

The Hummer can carry an entire section and can be had in mortar, anti-tank and anti-aircraft versions.

The army had contracted Bombardier Inc. to build 1,900 and then an additional 600 Iltis vehicles, which carry only four troops and are powered by a rather anaemic 4 cylinder gasoline engine, for \$26,700 apiece.

While some troops like the M113's less and quickness for carrying and officers, many infantrymen see it as a stopgap that robs them of effectiveness. Some M113 vehicles, with just 60,000 km on the odometer, have reportedly had two and even three engine rebuilds.

Ironically—or maybe understandably—supply units are better-equipped in the vehicle department than the front-line troops.

Controversy continues to dog the Italian-designed, Western Star-built light truck, which, I gather, failed its initial tests and I was told repeatedly had standards lowered so it could pass re-trials.

As well, the ancient-looking ML trucks, built in the 1980s by Bombardier Inc., are viewed today as barely adequate—both marginally powered and relatively unreliable.

But the supply troops love their Steyr-designed HVLW trucks, built by UTDC in Kingston. With eight forward sprockets, all-wheel drive and an auto-torque converter allowing gearless starts and uphill hauling in higher gears, the "HL" proved a formidable beast on the muddy, winding roads of Bosnia.

Last winter, when one road was closed due to snows, the Canadians simply blasted through in the HL.

The 15-tonne Kenworth seems to have other challenges. With six enormous wheels and a huge engine, the big vehicle is fine for long hauls on wider North American roads. Its palletized self-loading system allows extremely rapid turn-arounds, with troops at each end taking all the time they need to load and unload cheap, easily replaceable sea containers.

But the Kenworth's vast turning radius has proved problematic in Bosnia, requiring repeated backing on hairpins, slowing convoys considerably.

Hard Skinned Vehicles

One of the most serious concerns, of course, is the army's armoured vehicles, and in this department, concerns raised in the mainstream news media are, if anything, I think under-

stated, judging from soldiers I met in Bosnia.

Worst off is the 29-year-old M113A2. The Forces have 1,000 of them.

In Bosnia, troops ride in constant fear; some infantrymen I met say they would rather be out in the open than in what they consider an aluminum coffin.

The "tracks" are notoriously underpowered, with their 215-hp rated diesel, which after numerous rebuilds puts out far less power in reality. The M113s, especially loaded down with sandbags on the topsides for protection from snipers and rock-throwing children, blast curtains on the floors for minimal protection against mines, extra ammunition, food and water, and light anti-tank weapons, are too slow to escort convoys.

They grind up steeper hills literally at a snail's pace. Fire support, with a manually traversed .50-cal HMG, now finally protected by a steel shield, is two generations out of date.

Breakdowns are frequent and maintenance is heavy. CanBat2 in Bosnia, a force of less than 800, had more than 100 personnel devoted to first- and second-line vehicle maintenance (plus more personnel doing heavier work). CanBat1's TUA Platoon, the battalion's most valuable single asset, had five of its eight tracked vehicles experience serious break-downs over a six-month deployment.

Every camp I saw in Croatia, in fact, had tracks sitting around in various states of disrepair.

Even the M113's Commander/HMG shield program, carried out on-site last year, I gather was not universally supported. The IPPCLI of CanBat1 apparently found the shields slowed down the HMG's traverse so much that they promptly removed them and took their chances with old plate shields. A crash up-armour program for the M113s was underway on-site at CanBat1's camp in Croatia in September and October (see sidebar).

The six-wheeled Cougar tank trainer, on the other hand, won new

respect in Bosnia from the very armoured troops who most held it in contempt back home in Canada as a patronizing substitute for real tanks. Fast, smooth and reliable, able to escort wheeled convoys and provide rapid tactical mobility to fire teams of infantrymen, the Cougar, used by CanBat2 only, proved quite an effective peacekeeping vehicle.

Its 76 mm gun—while obviously unusable in high-intensity conflict, and reduced in effectiveness by its obsolete optical sight and non-stabilized turret—was in fact a potent weapon in the local context, where all heavy weapons are viewed with respect. The 76's HESH round, in fact, is believed able to knock out any vehicle deployed by local armies out to about 2000 metres.

The Cougar was also due to receive add-on armour over this winter, which it should be able to handle without a great reduction in mobility, as it is easily able to accelerate to 80 km/h on pavement and has adequate hill-climbing power.

"At first, I thought I'd need more firepower," said one armoured officer. "But lots of places we've got OPs, I couldn't take a tank. The Cougars gave us what we needed - mobility and reasonable protection from fragments and good firepower."

The Cougar's experience in Bosnia, however, I think proves that wheeled vehicles are a complement to rather than a substitute for tracked vehicles. For example, in autumn tests during rainy periods, the Cougar was unable to reach the more remote OPs, bogging down in the slick Bosnian mud and sliding uncontrollably down the rutted tracks. Chains helped but did not eliminate this problem.

So, extractions under fire from remote OPs would have had to occur on foot or await evacuation by M113. While CanBat2 was eagerly awaiting arrival of the Grizzlies previously deployed to the reserves, with its MG turret that's electrically driven and equipped with a night sight, the Cougar's peacekeeping record—excellent for some applications, unusable for others—I think proves

the army needs a well-armoured, fast vehicle with reasonable fire even for peacekeeping.

Mines

For the combat engineers stationed with both battalions, the problem is more one of manpower than equipment.

Canada apparently is down to 500 combat engineers, at a time when demands for mine-clearing throughout the world are at an all-time high. Engineers were also constantly asked building OPs and constructing lift roads to bypass roads blocked by Serb forces.

In Croatia, engineers from 1 CER at Chilliwack worked 12-hour days for six months, clearing a total of 500 km of roads and lifting some 1200 mines. The cost: one dead, five wounded.

Cleared mines, deemed not to be weapons by the UN, had to be returned to the local factions. "It was a bitter pill to swallow," said one engineer. "We know they'll be used again."

Older, newer equipment would speed the current process, which they seemed to rely more on deducing where mines are likely to be, then probing manually.

In fact, many anti-vehicle mines are triple-stacked with a single detector containing less than a gram of metal up to two feet below the surface, hence all-but undetectable. The most promising new technologies, however, are dogs trained to smell the hydrocarbon molecules that all mines emit, and the new robotized mine detection vehicle.

Dubbed JINGOSS and currently being tested at Suffield, the six-wheeled, low-ground-pressure JINGOSS would detect mines and spray-paint a marking on the ground, thereby reducing both the acute danger and the stress level afflicting the engineers.

The state and availability of weapons is of equally great concern, although the efficacy of the heavy weapons to Croatia and Bosnia is hotly contested, even among defence hawks.

Heavy Weapons

Some say heavy weapons would be needlessly provocative and serve no useful function. On the other hand, the Nordic battalion's use - and firing - of its Leopard 1 tanks in Bosnia last year is well-known. Canada's own Leopard 1s, while considered obsolescent, are in fine shape and would be a formidable weapon in the Balkans, where older, Soviet-designed tanks like the T34, T55 and T64 far outnumber the newer Yugoslav M84 (a T72 knock-off).

Cleared mines, deemed not to be weapons by the UN, had to be returned to the local factions.

Less-publicized is the marked effect Canada's TUAs have had on locals. Both CanBats last summer conducted live firings against old tanks with local observers present. The effects - most targets demolished on first round at 2550 metres - were not lost on the locals. To the macho, bluster-y Serbs, who have grown accustomed to total superiority in heavy weapons and generally consider Westerners soft and weak, this was a form of sabre-rattling that won the Canadians new respect.

CanBat2 in Bosnia deployed several TUAs on the Visoko-Kiseljak road, which runs up a valley directly beneath Serb and Muslim positions and is known as "sniper alley." CanBat 2 kept the rest in reserve for emergencies.

CanBat1 in Croatia, however, made much more aggressive use of their eight TUAs, which are now equipped with the 71E missile, which can defeat even explosive reactive armour.

Two TUAs were constantly placed behind rubble revetments just outside

the battalion's main Camp Rastevic. Their launchers were pointed at the entrance to a UN-supervised Serb heavy weapons collection compound at Benkovac that contains some 60 tanks and 100 artillery pieces. The rest were stationed at a small camp near the Zone of Separation, where they were used to conduct nightly patrols.

Both battalions deployed mortars, but the heaviest is the C3 81 mm mortar. Neither CanBat has anything to match the locally used 120 mm heavy mortars, or their infantry anti-tank weapons.

Canada deploys the tiny, throw-away M72s plus the aging, 84 mm L14A1 Carl Gustav anti-tank tube. But at one OP between Visoko and Iljas, manned jointly by Canadians and Serbs, the Serbs had a lethal, modern, Soviet-designed 90 mm tank-busting tube propped casually against a wall. The Canadians will feel a good deal more secure once the Eryx short-range anti-tank rocket is acquired and deployed to the Balkans.

Because the war in Bosnia and Croatia is, for the UN peacekeepers, so much a war of nerves, with layer upon layer of bluff, threat and deterrence, the Canadians' biggest worry I heard is the government's refusal to provide truly heavy back-up should things go wrong.

Many troops think Canada should have deployed tanks in-theatre for even more visible and credible deterrence than the TUA's provide, not to mention as a last-resort for rapid, emergency mine-clearing.

Equally important, they say, would be stationing heavy artillery and CF-18 fighters to provide ultimate support should the entire UNPROFOR mission fall apart. As of last December, that eventuality had shifted from unlikely contingency to very real probability in the space of just six weeks.

If Canada's legendary goodwill proves insufficient to fulfil its mission and protect its troops, the country may have to rely ignominiously on the heavy weapons of other countries—and be dependent on their willingness

to use them - to get its troops out of harm's way.

In this less-than-lovely New World Order I think Canada either has to re-equip its army with modern armoured vehicles and a host of lesser items like

mine-clearing equipment - or clear out of the way and let countries willing to back their rhetoric with dollars and equipment do the work. Ten Canadians so far have been killed in Bosnia and Croatia. ★

SIDE BAR

APC Armour Program Offers Better Protection

In a jerry-rigged shelter in the middle of the rubble moonscape known as Camp Rastevic in Croatia, a 15-man team from DEW Engineering and Development Ltd. of Ottawa is bolting and gluing new armour to the outside and inside of a sanded-down M113 Armoured Personnel Carrier. It's a crash program designed to mitigate the horrible effects of mine blasts that the troops of IPPCLI have experienced while clearing mines in and patrolling parts of the Serb-held Krajina region of Croatia.

The exact specifications of the new, German-designed composite armour are secret. It is meant to provide ballistic protection well beyond the M113's aluminum wall's bare ability to withstand 7.62 mm rounds - definitely up to HMG rounds and possibly light cannon at longer ranges. The outer layers, roughly 1 inch thick, provide the main protection. It is designed to withstand blasts or, for larger munitions, shatter to dissipate energy. Damaged panels can be field-replaced.

The lighter, inner layer, is about 1/2 inch thick and contains some kevlar. It is meant to reduce the spall cone of rounds that do penetrate to an arc of 15 degrees, thus considerably reducing injury from single-round hits of light cannon fire or rocket-propelled grenade rounds to the troops inside. DEW also offers a mine kit for the M113's undersides.

The whole program adds about 800 kg in weight to the already marginally powered M113. Field trials detected only a marginal reduction in acceleration and hill-climbing ability. But this was reportedly using the battalion's best M113 containing none of the usual ad hoc field equipment. The engineer's M113s only manage 25 km/h and will barely be able to stand the extra weight.

In any case, the fact that DEW was not equipping CanBat1's high-value Tow Under Armour vehicles due to weight problems I think shows that even the modest weight of this program seems to hurt the M113's mobility.

The barely adequate protection the "enhanced" M113 will offer also demonstrates the crying need for either a new tracked infantry fighting vehicle or a complete rebuild of the M113 to the A3 specification as currently being done by the U.S. Army and offered for Canada by DEW.

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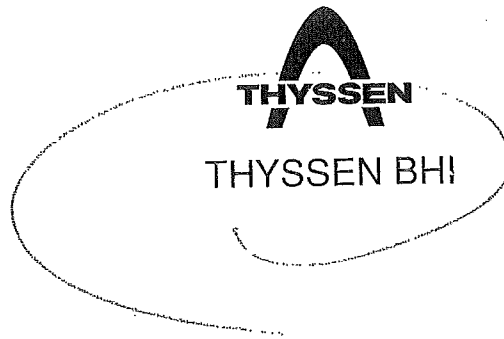
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Collège de Jonquière**
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Jonquière (Québec) G7X 7W2

tel: (418) 542-0352
fax: (418) 542-3536



Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

February 1, 1994

The Honourable Marc Lalonde
Stikeman, Elliott
Suite 3900
1155 Dorchester Blvd. West
Montreal, Quebec
H3B 3V2

Dear Marc:

Please find enclosed a copy of the complete market analysis which was presented to Industry Canada on the 14th of December 1993. While we have discussed much of the content of this document in our meetings to date, I provide this complete copy for your files.

According to the agreed process with Industry Canada, they will now verify our market forecasts through their own sources and those of Foreign Affairs and DND, and depending on the outcome of their enquiries, they will determine if they can offer R+D support to our project and if so, how much.

For our part, we have used very conservative forecasting methodology and are confident that Industry Canada's sources will find our market assessments to be reasonable.

In respect to timing, we are requesting meetings with Industry Canada by February 17, to discuss the areas of response which they will have received by then.

I will keep you informed as the situation develops further.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Alford".

Greg Alford

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Suite 4900, Commerce Court West,
Toronto, Ontario, Canada M5L 1J3
Tel: (416) 862-7525
Fax: (416) 862-7661

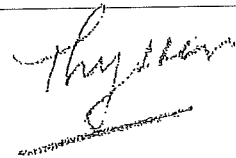
Ian Scott
Direct Line: (416) 862-4322
Secretary Line: (416) 862-4346
File: T3 784661

April 13, 1993

PERSONAL & CONFIDENTIAL

563
VIA FACSIMILE TO (613) 653-7648

Thyssen BHI
Suite 908
350 Sparks Street
Ottawa, Ontario
K1R 7S8



Attention: Greg Alford

Dear Sirs:

Re: Bear Head Industries

You have asked us for our opinion on whether the Government of Canada acted unlawfully in its dealings with Thyssen BHI in the circumstances set out below, and if so, what remedies Thyssen BHI may have.

In reaching our opinion, we have taken into account the facts which you have described to us, as well as various documents which you have provided us with. The documents are the following:

1. Proposed Memorandum of Understanding between DRIE and Thyssen, dated May, 1986.
2. Land Agreement between The Queen in Right of Nova Scotia and Bear Head Industries Ltd., dated October 30, 1987.

3. Understanding in Principle between Government of Canada and Bear Head Industries Ltd., dated September 27, 1988.
 4. Letter from Minister of National Defence to Bear Head Industries Ltd., dated January 25, 1990.
-
5. Policy Statement of Minister of National Defence regarding MRCV Program, dated September 17, 1991.
 6. News Release regarding "Sole Source" to GM of Reconnaissance Vehicles, dated April 4, 1992.
 7. Minutes of Proceedings of Standing Committee on National Defence and Veterans Affairs dated March 9, 1993.

Facts

Thyssen is a highly diversified German-based international manufacturer, *inter alia*, of military equipment including Light Armored Vehicles ("LAVs"): Bear Head Industries Ltd. is a Canadian subsidiary of Thyssen. (Hereinafter Thyssen and Bear Head Industries Ltd. will be collectively referred to as "Thyssen BHI".) One of Thyssen BHI's competitors in the LAV market is General Motors Diesel Division, based in London, Ontario.

The Canadian Armed Forces are currently in the process of re-equipping themselves with Light Armoured Vehicles. Those which are currently in use, including the "Lynx" reconnaissance vehicle, date from the 1960s and are basically obsolete. At the time of its White Paper on Defence in 1987, the Federal Government planned a replacement program for Light Armored Vehicles. The White Paper, which primarily saw Canada's military needs

in terms of the cold war, foresaw Light Armoured Vehicles being used in a support role with heavy tanks.

The White Paper was overtaken by events. After the collapse of communism in Eastern Europe and the end of the cold war, the Light Armoured Vehicle program as it then existed was cancelled in the April 1989 federal budget. The flexibility of armoured vehicles has since assumed great importance in today's military and strategic climate, which is geared more towards rapid deployment in crisis situations, peacekeeping, and meeting of domestic needs, rather than the threat of heavy tank warfare in Northern Europe. To meet these needs, the Armed Forces began to develop a program in 1989 to equip themselves with "Multi-Role Combat Vehicles" (MRCVs). These vehicles, based on a common design, will meet a variety of needs. They will come in three forms, Reconnaissance Combat Vehicles (RCVs), Infantry Combat Vehicles (ICVs), and Armoured Combat Vehicles (ACVs).

For some years, Thyssen has been seeking a means of entering the U.S. market for LAVs. In 1984-85, Thyssen was approached by the Canadian Embassy in Bonn, and Investment Canada, as a potential investor in Canada. For a variety of reasons including the D.P.S.I., a sectoral free trade agreement in arms between U.S. and Canada, Thyssen was receptive to this approach. Thyssen entered into discussions with various ministries of the federal government, as well as the Nova Scotia government, with a view to building a manufacturing plant in a specific region recommended by the government, that being Cape Breton Island at Bear Head Cove, Nova Scotia. In the earlier phases of these discussions, it was foreseen that Thyssen might manufacture LAVs under the program in existence at the time of the White Paper. After 1989, the emphasis shifted to MRCVs.

In 1986, the Department of Regional and Industrial Expansion (DRIE) forwarded a draft Memorandum of Understanding to Thyssen (Tab 1), setting out some proposed terms and conditions. No agreement was concluded at this time, although various proposals and

counter-proposals were discussed. Thyssen was opposed to the draft Memorandum because it required a large Thyssen investment combined with large government grants and tax incentive package, but lacking was any assurance of participation in the supply of the pending LAW requirement, which was seen by Thyssen as important to justify the selection of Canada over the United States as a base for North American operations. Thyssen continued to negotiate with a view to concluding an agreement based on a "start-up" order of approximately 250 vehicles, combined with various tax incentives. Thyssen preferred this approach to receiving direct subsidies or grants.

In 1987, Bear Head signed a Land Option Agreement (Tab 2) with Nova Scotia, giving Bear Head the option to buy land required for the manufacturing facility. This was followed by an Understanding in Principle in 1988 (Tab 3), between Bear Head and various federal ministries, under which the Defence Minister promised to "consider the participation of" Bear Head in the Light Armoured Vehicle Procurement Program. Article 7 of this Understanding specifically provides that it does not create any enforceable legal or equitable rights.

As noted, the LAV Procurement Program was cancelled in the April, 1989 budget. However, discussions continued between the government and Thyssen BHI. Thyssen BHI was reassured that its possible participation in re-equipping the Armed Forces was still being considered, but with the focus shifting to the need for MRCVs rather than tank-supporting LAVs. In 1990, the Defence Minister (Bill McKnight) wrote to Bear Head (Tab 4), and explicitly undertook to give Bear Head an opportunity to participate in the tendering for the contract to supply MRCVs. This undertaking, while subject to the proviso that whether or not the MRCV program was proceeded with was in the government's "sole discretion", was to remain valid for five years. This letter mentioned that Thyssen's TH495 (which you inform us was developed in part with Canada's MRCV needs in mind) might satisfy Canada's requirements as then defined. In September, 1991, the new Defence Minister,

Marcel Masse, gave a speech confirming the Defence Department's intention to equip the army with MRCVs.

In April, 1992, the federal government announced that it had cancelled the MRCV program, and would order 229 LAVs from GM at a cost of some \$800 million (Tab 6). The reason given for the cancellation of the MRCV program was that at its projected cost of \$2.8 billion, and in light of efforts to reduce the deficit, it was no longer affordable. This document and the Minutes of the Veterans and National Defence Committee make it clear that the GM LAV contract is basically the same as the RCV component of the MRCV program.

Operationally, you have advised us that the Thyssen TH495 vehicle design is clearly technically superior to the GM LAVs. While the MRCV program was being developed, the Department of National Defence produced a draft Statement of Requirements ("SOR"), which was never formally released to industry. Nonetheless the key elements would have formed the basis of the MRCV Project Management Office (PMO) briefings to industry, of which Thyssen BHI was a recipient during October, 1991. While the PMO prefaced their remarks that they were unofficial, it was known that the key elements of the MRCV requirement described were serious because they were the product of the PMO's considerable efforts over their two years of existence and that the MRCV project had been specifically cited in the Minister of National Defence's Policy Statement of September 17, 1992. Further, the Canadian Ambassador to Germany wrote to the German Staatssekretär des Bundesministerium der Verteidigung on February 10, 1992, stating that Canada would proceed with the MRCV project and describing the same essential requirements as had been outlined by the MRCV PMO.

With respect to the armour protection requirements from the three MRCV variants, they were stated as follows:

RCV (Reconnaissance Combat Vehicle)

"it must be equipped with armour resistant against 30mm armour piercing ammunition..."

ACV (Armoured Combat Vehicle)

"it should have the normal protection against 30mm rounds and should offer the possibility of add-on armour".

ICV (Infantry Combat Vehicle)

"The requirement for protection against 14.5mm is considered essential given the prevalence of that calibre around the world".

In addition to providing these high levels of armour protection, it was also expected that these vehicles, especially the RCV and ICV would be of a weight and external dimension to permit air transportation via C-130 Hercules. The GM vehicles do not meet these requirements as has been confirmed in testimony by DND officials before the House of Commons Standing Committee on National Defence and Veterans Affairs, March 9, 1993, (Issue 37, pp.21, 22). In general, the GM vehicles offer much less protection than the Thyssen TH495.

From the circumstances of the GM announcement, you infer that the LAVs were sole-sourced for political reasons, as a price to obtain political support from Ontario MPs for the simultaneous sole-source awarding of a contract to Bell Helicopter of Mirabel, Quebec, in Marcel Masse's area of political interest as a Quebec Minister. It is assumed that the Ontario MPs would have defended the interest of the Ontario helicopter company, Eurocopter of Fort Erie, to have them included as bidders in a competition for the

Legal Claims

From the above, it appears that the federal government may have breached its undertaking to Thyssen BHI. If it has, the question arises as to what recourse Thyssen BHI might have. In our opinion, there are various possibilities for legal claims by Thyssen BHI against the government. These are the following:

1. **Breach of contractual undertaking.** If Tab 4 (the Minister's letter dated January 25, 1990) is regarded as a contractual undertaking by the Minister, which was subsequently breached, then Thyssen BHI may sue for damages which it incurred as a result of the breach. Since its loss was not the loss of an actual contract, but rather the loss of the opportunity to compete for the contract, this comes under the doctrine of "loss of chance" under which Thyssen BHI may recover some portion of the profits it might have made.
2. **Tort of Misfeasance in Public Office.** If Thyssen BHI can show that the Minister acted for a purpose which he knew to be unlawful in breaching the undertaking, Thyssen BHI may recover "loss of chance" damages.
3. **Tort of Misrepresentation (intentional or negligent).** The Minister's misrepresentation that Thyssen BHI would be allowed to tender may be regarded as an intentional or negligent misrepresentation. If this is shown, Thyssen BHI could recover for out-of-pocket expenses. This, obviously, is a much smaller claim than those above.
4. **Restitutionary claim for expenditures in anticipation of contract.** To the extent that Thyssen BHI can show that it was led on by the Government's promises, it may recover for out-of-pocket expenditures.

5. **Improper exercise of statutory authority in sole-sourcing contract.** If Thyssen BHI can show on the evidence that the Government's decision to sole-source was not within the statutory requirement that this be done only when "the nature of the work is such that it would not be in the public interest to solicit bids" or "only one person is capable of performing the contract" (Government Contracts Regulations, S.O.R. 87-402, s.6), the sole-sourcing decision may be declared to have been unlawful, which would likely result in a reopening of the tender.

We will discuss each of these legal claims in turn.

1. Breach of Contractual Undertaking

Thyssen BHI obviously never got to the stage of executing a formal contract with the government of Canada. Nevertheless, there would appear to be the basis of a contractual relationship between Thyssen BHI and the federal government. In particular, Defence Minister McKnight's undertaking to Thyssen BHI to allow it to participate in the tender process for the MRCV for a period of five years can be seen as the basis of a contract. All of the ingredients of a contract are present. The Defence Minister made a promise to allow Thyssen BHI to participate in the tender process. In return, Thyssen BHI entered into discussions and expended funds with a view to bidding for the contract which was foreseen by both parties. Thyssen BHI's actions in response to the undertaking may be seen as both its acceptance of the contract and the consideration flowing from Thyssen BHI which is necessary to make the undertaking binding. As set out on page 2 of Tab 4, Thyssen BHI was to participate in more detailed discussions "if the foregoing [the undertaking] is acceptable as a basis for the commencement of discussions".

It appears equally clear that the Minister had the capacity to make a contractual undertaking of this kind. While certain formal requirements must be met in order for an actual contract

for goods or services to be binding on the Crown, including the fact that the contract was made by an authorized agent of the Crown, case law has held that a Minister may bind the Crown even if not expressly authorized to conclude a contract: J.E. Verreault et Fils Ltee. v. A.G. Quebec [1977] 1 S.C.R. 41. Moreover, it would appear that the Minister was acting within the normal scope of his duties to do so.

More difficult issues arise as to whether there was an intent to enter into contractual relations on behalf of the Crown, what the terms of the contract may be, and whether the contract has been breached. The federal government would undoubtedly argue that the promise made by the Minister was not in the nature of a contractually binding promise, but was rather a purely political commitment. In its support, the government could point to the understanding in principle, which is drafted in very similar terms to the Minister's undertaking, and which contains an express term that it is not intended to create legally or equitably enforceable obligations. There have been cases in which recipients of promises made by Ministers have sought to enforce these promises in the courts, but the courts have held that they are non-justiciable matters for which the only remedy is the political process: see for example the various commonwealth authorities on the subject reviewed by Hogg, in Liability of the Crown (1989) 2nd ed. at 162-63.

Our counter-argument would be that unlike vague assertions made in political contexts, the undertaking given by the Minister is framed in terms which make it appear contractual. For example, a specific time limit of five years is given. Furthermore, reference is made as to whether this is "acceptable" to Thyssen BHI, and, if so, what actions are to follow (the further detailed discussions). Moreover, the comparison to the understanding in principle would in fact be an argument in Thyssen BHI's favour. Unlike the understanding in principle, in Minister McKnight's letter the legal effect of the undertaking is not ruled out. Had the Minister wished to specify that his undertaking had no legal significance he had the opportunity to do so, but chose not to. A court reviewing this would likely infer from this

omission an intent to create legal obligations. In our opinion, the arguments in favour of Thyssen BHI's interpretation are the stronger ones.

The next question is, if the undertaking was contractual in nature, what the terms of the contract may be. This is primarily a matter of interpretation of the letter itself. There is no uncertainty as to the time length of the commitment, which specified as being five years. There is also little uncertainty regarding the extent of the federal government's obligation under the undertaking. It has not committed to give Thyssen BHI the contract. Rather, it has simply committed to give Thyssen BHI an opportunity to tender in the event that the MRCV project goes ahead. The qualification "subject to Bear Head Industries Ltd. satisfying in all respects the specification and design requirements of the call for tenders and all contractual matters" may be surplusage, in that this would normally be part of the tender process itself and the undertaking is only to allow Bear Head to participate in the tender process. By implication, however, there is a promise that a tendering process will be held in the event that the project goes ahead. Finally, the letter specifies that no decision has yet been reached on the project and that the decision on whether or not to proceed with the project "will remain in the sole discretion of the government". In short, in our opinion the Government has committed to Thyssen BHI to allow it to participate in the tendering process (and by implication, the government has committed to put to the contract to tender) in the event that the MRCV project is proceeded with within five years of the date of the undertaking.

This analysis would be supported by a fairly substantial body of case law finding implied contracts in tender situations. These cases begin with the Supreme Court of Canada's decision in Ron Engineering & Construction (Eastern) Ltd. v. Ontario, [1981] 1 S.C.R. 111. In that case, a tender was submitted with a deposit to the Government of Ontario. The tender price had been miscalculated, and the tenderer purported to withdraw the bid prior to its acceptance, and attempted to reclaim the deposit. The tenderer argued that since no

formal contract had been entered into, the government had no right to retain the deposit. The Supreme Court disagreed. In its analysis, the Court found that an implied contract regarding the conduct of the tender came into being with the submission of the bid, which was separate from any contract that might be entered into at the conclusion of the tender process. Under this implied contract the government had certain obligations, including ~~running the competition in accordance with the tender documents, and the tenderer had~~ certain obligations, including the obligation to forfeit its deposit if the bid were withdrawn.

That case has been followed in many cases since, and has specifically been used to hold government bodies to their obligations in the tender process. The existence of such a cause of action against the federal government was recognized in Best Cleaners v. Canada (1985) 58 N.R. 295 (F.C.A.). More recently, there appears to be a trend in at least some courts to hold that such an implied contract is a significant constraint on government discretion in awarding contracts in tender situations. For example, in Chinook Aggregates Ltd. v. Abbotsford (1989) 40 B.C.L.R. (2d) 345 (C.A.), a municipality passed over the lowest bid in favour of a local contractor's bid that was within 10% of the lowest bid, pursuant to an internal policy of favouring local bids if they were within 10%. This policy never formed part of the tender documents (and were therefore not part of the implied contract), though these did contain a clause reserving to the municipality the privilege of not accepting the lowest tender. The Court found an implied obligation to treat all bidders fairly (based in part on industry custom), and awarded the lowest bidder compensation for its wasted expenses in submitting a bid. To similar effect is Kencor Holdings Ltd. v. Saskatchewan, [1991] 6 W.W.R. 717 (Sask.Q.B.), in which the out-of-province plaintiff submitted the lowest bid for construction of a bridge, but did not win the contract. Again, the lowest bidder was successful (based in part on evidence of industry custom), despite a clause in the tender documents allowing the minister to refuse to accept any tender or to accept any tender which he considered to be in the best interests of the province. Similar recent Ontario decisions reach opposite results on the issue of whether the lowest bidder must win: see

Acme Building & Construction Ltd. v. Newcastle (1990) 38 C.L.R. 56 (Ont. Dist. Ct.) and Megatech Contracting Ltd. v. Carleton (1989) 34 C.L.R. 35 (Ont. H.C.). However, Ron Engineering is still the leading case and it would seem to be only a small extension to apply the analysis of Ron Engineering to the Minister's undertaking.

To prove a breach of the undertaking, Thyssen BHI will have to show that the government did proceed with the MRCV project. Here the government is likely to argue that no such decision was made, that the decision was in the sole discretion of the government and the government simply decided for budgetary reasons that the MRCV program would not be proceeded with. On the surface, the government appears to have done exactly this.

Generally, however, in interpretation of contracts, courts will look at the substance of the transaction rather than mere form. If, on a fair review of the evidence, a court is satisfied that the government did in fact proceed with the MRCV project and that the re-naming of the acquisition at the time of the announcement that it would be sole sourced to GM was merely a sham, then the court will find in Thyssen BHI's favour. From the material which we have available, it appears to us that the evidence does indeed lead to such a conclusion. As set out in the DND's background documentation, the cancellation of the MRCV was explained as follows:

"The Multi Role Combat Vehicle (MRCV) Project envisioned procurement of three types of vehicles for the Canadian Forces: reconnaissance vehicles, direct fire support vehicles and infantry carriers. At a projected cost of \$2.8 billion, the entire package is no longer feasible, and the project has been cancelled.

In place of the MRCV Project, the Department of National Defence will use equipment which is being returned from Europe and will purchase a new reconnaissance vehicle now."

The accompanying news release states that the projected cost of the LAVs will be \$800 million.

In our opinion, the explanation offered by the DND is not convincing. The new release and backgrounder are extremely sketchy on the remaining two thirds of the MRCV program, saying only that the return of equipment from Europe was planned in its place. Moreover, the attempt to contrast the \$800 million cost of the LAVs with the \$2.8 billion cost of the MRCV program, when it is clear that the LAV component is only a portion of the total MRCV program, is a rather transparent game of numbers. Finally, in the excerpt from Hansard there is an admission that the LAV order is the same as the reconnaissance component (RCV) of the MRCV and that it has simply been "broken out".

The argument may be made that even if it is established that the LAVs are identical to the RCV component of the MRCV, the government was still acting within its discretion in cancelling the MRCV project. The government line would be that the essence of the MRCV program was to use the same vehicle for all three roles. Once it has been decided for technical, budgetary, or other reasons that the same vehicle will not be used, then there is in fact no MRCV program, regardless of the fact that the GM LAVs fulfill the same role as the RCV component of the MRCV project would have.

This argument cannot be dismissed lightly. However, it would appear to us to depend in part on the government being able to make some showing that valid technical and budgetary reasons did exist for abandoning the single vehicle concept. None of the materials with which we have been provided give any details on what those considerations might have been. Assuming that such a showing cannot be made, we think it likely that a court could regard the decision as purely arbitrary, and not be swayed by the change in terminology. In other words, absent a showing by the government that valid technical or operational considerations supported abandoning the single vehicle concept, there would be a strong inference that the

reason for the change was simply to escape contractual or equitable obligations owed to Thyssen BHI. In these circumstances, a breach will be made out by Thyssen BHI.

One further matter which is relevant to whether Thyssen BHI has a cause of action based on breach of contract is the existence of an old and much-criticized doctrine of "executive necessity". Under that doctrine, despite its contractual obligations, the Crown may unilaterally breach a contract if it is in the public interest to do so. In the leading case, The Amphitrite [1921] 3 K.B. 500, the British Crown gave an undertaking to a foreign shipowner during the First World War that if he delivered a particular cargo to Britain, his ship would not be seized. The government subsequently seized the ship in breach of the undertaking, and the Court upheld its right to do so. While the case has not been directly followed in Canada, a related line of cases holds that statutory powers may not be fettered by a contract: see The King v. Dominion of Canada Postage Stamp Co., [1930] S.C.R. 500, where a license to a company selling stamps that was renewable in perpetuity was held to be inconsistent with the powers of the Postmaster General to award the contract to another party if the public interest so required. Here, the government could argue that the undertaking to Thyssen BHI was ineffective to fetter the discretion of the minister to award the contract without tender under the Government Contract Regulations. However, many regard these older cases as somewhat anachronistic, and they may be of dubious authority: see e.g. Hogg, Liability of the Crown (2d ed., 1989) at 169-72; Law Reform Commission of Ontario, Report on the Liability of the Crown (1989) at 42-44.

Assuming that a breach is found, a court would have to decide what damages, if any, were suffered by Thyssen BHI as a result. This is where the doctrine of "loss of chance" becomes relevant. Having lost its promised opportunity to tender, Thyssen BHI lost a chance of making profits under the contract. It cannot claim that these profits were a certainty, because it is not in a position to claim that it would inevitably have been awarded the contract. However, a court will award damages where the chance of being awarded the

contract in such circumstances is more than merely speculative. The court's approach would be to estimate Thyssen BHI's chances of having secured the contract, and used this as a guideline in assessing the damages. For example, if the court believes that Thyssen BHI would have had a 50% chance if given the opportunity to tender, it may award 50% of Thyssen BHI's lost profits. There is no doubt from what you have told us that Thyssen BHI's chance of being awarded the contract was very good, and that damages would be calculated on that basis.

There is much case law on this subject, including tendering cases. The leading case, Chaplin v. Hicks [1911] 2 K.B. 786 (C.A.) involved a beauty contest in which the twelve contest winners would be given three years worth of theatrical engagements. The plaintiff was selected to be among the fifty finalists from whom the twelve successful applicants would be chosen, but was wrongfully denied the opportunity to compete in the final selection. The court awarded damages on the basis that the plaintiff had established that she had a one in four chance of winning the prize. This case was applied to a loss of opportunity to compete for contracts in Stan's Power Tong Service Ltd. v. Argus Machine Co. Ltd. (1988) 64 Alta. L.R. (2d) 150 (C.A.). The principle has also been fairly widely recognized in other contexts: see for example Multi-Malls v. Tex-Mall Properties, (1976) 14 O.R. (2d) 49 (C.A.); Graybriar Industries Ltd. v. Davis & Company (1990) 46 B.C.L.R. (2d) 164 (S.C.); Webb & Knapp (Canada) Ltd. v. Edmonton [1970] S.C.R. 588.

On this issue it would appear that Thyssen BHI's evidence would be quite persuasive. If Thyssen BHI can show that, had the contract been put to tender it would likely have been successful based on its technical superiority in accordance with the government's own draft statement of requirements, as outlined above, then its measure of damages may be quite substantial. Proving technical superiority would not be sufficient to show that it would have received the contract, but it would put the government in the anomalous position of having to argue that it likely would have violated its own requirements for the tendering process in

order to make the case that Thyssen BHI would not or might not have been awarded the contract. In these circumstances, Thyssen BHI would likely be awarded a substantial portion of its lost profits.

2. Misfeasance in Public Office

As set out above, the inference may be drawn from the circumstances surrounding the decision to sole source to GM that the decision was made for political rather than operational reasons. On the purely documentary evidence which is available at this stage, it is difficult to say whether Thyssen BHI has enough to be able to convince a court of this. However, evidence in respect of claims such as this is often not available until the government is forced to produce it as part of the litigation process. A trial or discovery process may well turn up relevant information in support of this contention. Assuming that such a case can be made out, Thyssen BHI would have a cause of action based on the tort of misfeasance in public office.

Under this tort, a right of action lies in damages where a public official has exercised his or her authority for an improper purpose. The leading Canadian case is Roncarelli v. Duplessis [1959] S.C.R. 121. In that case damages were awarded against the Premier of Quebec for arbitrarily cancelling the liquor license of a Jehovah's Witness in Quebec, out of animosity towards the plaintiff's religion. Not surprisingly, this was held by the court to be outside of the proper scope of the Premier's powers, even though the Premier's discretion was not specifically limited by statute. A more recent example occurred in Gershman v. Manitoba Vegetable Producers Marketing Board [1976] 4 W.W.R. 406 (Man.C.A.), where the defendant Board blacklisted the plaintiff, forcing him out of the vegetable wholesaling business, in retaliation for various acts, including his challenge to the Board's constitutional validity.

Thyssen BHI's argument would be that by sole sourcing the order to GM for the purpose of obtaining the political support of Ontario MPs, the federal government was acting in an equally improper manner. While there is not true malice towards Thyssen BHI in such a decision, in the sense that Premier Duplessis acted with malice towards Mr. Roncarelli, recent case law suggests that the mental element of this tort is made out if it can be shown that the defendant knew that his purpose was unlawful: Burgoin S.A. v. Minister of Agriculture, Fisheries and Food [1986] Q.B. 716 (C.A.). There may be some issue as to whether the awarding of a contract for political as opposed to technical or financial reasons would be held by the courts to be an improper purpose in this sense. While such behaviour may be widely regarded as unethical, the courts may fear a "floodgates" situation if such a claim were allowed to succeed. However, there is at least some authority for the proposition that a decision made for purely political reasons is an improper exercise of authority in the legal sense. Arrowsmith, in her text Government Procurement and Judicial Review (1989) suggests that the question is an open one in Canadian law: see pages 197 to 205. And in the case of Wilfred Nadeau Inc. v. The Queen [1980] 1 F.C. 808 (F.C.A.), allegations were made that a contracting decision was made on the basis of political influences. In dismissing these allegations on the evidence before him, the trial judge noted as follows:

"The situation might be different if it had been proved that the recommendation was made in the present case because of the improper motives involving political influences or patronage rather than solely on the basis of comparing the financial and technical capacity, and experience of the two lowest bidders and the unit prices submitted by them, but the plaintiff was unable to make any such proof." [1977] 1 F.C. 541 at 557

If liability is found on this basis, then the analysis in terms of damages will be similar to the one above. Thyssen BHI will be entitled to put in the same position as if the improper decision had not been made. Therefore, if it can show that but for the sole sourcing decision it would have had a good chance of obtaining the contract, it may recover damages on the principle established Chaplin v. Hicks, as described above.

3. Tortious Misrepresentation

Thyssen BHI may also have a cause of action based on the fact that the Defence Minister's representation that it would be allowed to bid for the contract was untrue. To be actionable, this misrepresentation must have been made either with knowledge of its falsity (fraudulent misrepresentation), or alternatively in circumstances where he ought to have known that it was false (negligent misrepresentation). Thyssen BHI must also show that it relied on such misrepresentations.

Making this case will turn on very similar considerations to those set out above under the heading "Breach of Contractual Undertakings" above. The government would argue that it fully disclosed the risk that the MRCV project would not go ahead, and Thyssen BHI would counter that the decision not to go ahead was not bona fide. One further consideration will be that either fraudulent or negligent misrepresentation must be based on the state of affairs as it then existed, at the time the misrepresentation was made. There is even some suggestion in the case law that a representation about how the tendering process is to be conducted is not a misrepresentation of fact which is capable of founding a tort claim: Canamerican Auto Lease & Rental Ltd. v. Canada (1978) 20 N.R. 438 (F.C.A). However, in principle there is no reason why a representation as to how the tender process will work cannot be a factual misrepresentation for these purposes, as long as it was untrue at the time it was made. In other words, Thyssen BHI would have to show that the decision not to put the contract to tender had already been made at the time of the Defence Minister's undertaking, and the Defence Minister either negligently or fraudulently neglected to convey this information to Thyssen BHI. If the government simply changed its mind after giving the undertaking, then breach of contractual undertaking is the more appropriate cause of action.

For this cause of action, the measure of damages will not be the profits which Thyssen BHI would or might have made, but rather then money that it spent after receiving the

undertaking. This is because it should be put in the position it would have been in had the misrepresentations not occurred, i.e., had the government properly disclosed its intention to sole source all along. If this had been the case, Thyssen BHI would still not have got the contract, but it would have been spared the expenses that it undertook in the hopes of getting the contract.

4. Restitution

Thyssen BHI may also have a similar claim for refund of monies spent on the equitable principle of unjust enrichment. Even if a court were to find no contractual undertaking, and no fraudulent or negligent misrepresentation, it may still award restitution for wasted expenditure under this principle.

To establish a claim on this basis, Thyssen BHI must show that it would be unjust for the federal government to retain the "benefit" of its work. It does not matter that the government derives no actual benefit from the money that Thyssen BHI spent, because benefit will be presumed where the money was spent on the government's request. The issue, rather, will be whether Thyssen BHI would have spent the money anyway. If it would have, then the enrichment is not unjust.

In a standard tender situation, bidders expect to spend a certain amount of money preparing a bid, and clearly take the risk that this money will be thrown away if their bid is unsuccessful. In this situation, the bidding party is normally without a remedy: see William Lacey (Hounslow) Ltd. v. Davis [1957] 1 W.L.R. 932 (Q.B.).

However, in this case it could be argued that unjust enrichment has occurred because Thyssen BHI, having spent money in anticipation of a contract, was denied even the opportunity to compete for it. If a court is of the view that the government's decision to

sole source was somewhat arbitrary, then it may be prepared to order relief on this ground. As similar case arose in Lachance v. Wilson [1908] 7 W.L.R. 647 (Sask. Q.B.), where an architect prepared preliminary plans for a hotel on the understanding that he would be given a contract if they were satisfactory, but the owner subsequently failed to proceed with the project. In that case, the court held that the architect was entitled to rely on his expectation that the contract would proceed if his work was satisfactory. Similarly, Thyssen BHI could argue that it was entitled to rely on the expectation that any decision not proceed with the MRCV project would be bona fide, and not based on political considerations.

5. Judicial Review Based on Statutory Breach

Still another possibility is that Thyssen BHI could apply to court for judicial review of the decision not to put the contract to tender. Unlike the causes of action mentioned above, this would not depend on a finding that the promise made to Thyssen BHI was breached. Rather, the court would simply decide whether the decision was made in conformity to the standards set down in the Government Contracting Regulations. Moreover, the relief sought would not be monetary compensation, but rather a declaration that the decision was wrong, and/or an injunction preventing the GM contract from going ahead. The idea would be to force the federal government to open the contract up to tender.

It would appear that the Federal Court of Canada, Trial Division, would have jurisdiction to hear such a claim. Under recent amendments to the Federal Court Act, the decision of a "federal board, commission or tribunal" may be reviewed. "Board, commission or tribunal" are now defined as including "anybody or any person or persons having, exercising or purporting to exercise jurisdiction or powers conferred by or under an act of Parliament or by or under an order made pursuant to prerogative of the Crown". The previous definition, excluding the reference to prerogative powers, has been held to apply to Ministers acting pursuant to statutory powers. A further amendment to the definition excludes "the Senate,

House of Commons or any committee or member of either House", which might be read as excluding Ministers, though judicial review of ministerial acts is so entrenched that this would seem unlikely. If Ministers are excluded, then the Ontario Court (General Division) will have powers of review.

The basis for review would simply be that the Minister (whom we assume was responsible for deciding to sole source) erred in law in determining that the criteria set out in s.6 of the Government Contracts Regulations had been met. In practical terms, this would force the Minister to justify the decision and state the reasons for failing to tender. Section 6 sets out clear standards, and there is no reason in principle why a court should not look into the merits of whether the standards have been met.

There does not appear to be a great deal of case law on whether judicial review can be sought of a decision of this nature, though we see no reason in principle why it should not. There is one case, Quasar Helicopters Ltd. v. The Queen, [1983] 1 F.C. 536 (T.D.) in which the Court held that an action seeking a declaration that a contract decision was void because of errors in process was in the nature of judicial review under s.18 of the Federal Court Act. In that case, the plaintiff had submitted the lowest bid for a contract prior to the deadline, as evidenced by a Canada Post meter imprint. The tender rules specified that a meter imprint was unacceptable, but the Ministry's practice (known to the industry) was to accept such evidence. The Ministry enquired of Canada Post as to whether the meter was a Canada Post meter, and was erroneously told that it was not. By the time the mistake was discovered, the contract had been awarded to the next lowest bidder. The Court found that the procedure followed was fair, and declined to give the relief requested.

The lack of case law in this area may be due to the fact that, traditionally, courts have held that procurement decisions are not amenable to judicial review. Conversely, however, we are not aware of any authority which would preclude judicial review in the circumstances of

your case. (One case holding that judicial review of a procurement decision was not available, Re Midnorthern Appliances and Ontario Housing Corp., (1977) 17 O.R. (2d) 290 (Div.Ct.), in which the respondent decided not to consider a tender submitted by a former supplier that was threatening legal action, turned on the specific point that the respondent was not exercising a "statutory power of decision" as required by the Ontario Judicial Review Procedure Act.) Moreover, the assumption that procurement decisions are not reviewable may be based on administrative law concepts that are now out of date, such as the view that the exercise of an administrative power is not reviewable by the courts. The Supreme Court of Canada, however, has greatly eroded the distinction between judicial and administrative functions: see for example Martineau v. Matsqui Institution Disciplinary Board [1980] 1 S.C.R. 602. The courts are likely to be quite deferential towards the Minister in interpreting s.6, but if, on the evidence, it appears that the standards were not met, then Thyssen BHI may well be entitled to relief. In a different context, the Supreme Court of Canada in an old case held that a contract entered into without tender, when tender was required by statute, was invalid: see The Queen v. Woodburn [1899] 29 S.C.R. 113.

Thyssen BHI's case that the sole-sourcing decision was not in conformity with the government contracting regulations would be bolstered by reference to the Treasury Board's own Contracting Manual, excerpts from which are appended to this opinion. For example, Article 9.1.1 states that "the objective of government procurement contracting is to acquire goods and services and to carry out construction and leasing in a manner that results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people". Similarly, Article 10.7.1 provides that "in accordance with the policy statement to reflect fairness in spending public funds, the method of procurement used for a particular acquisition must, within the limits of practicality, give all qualified firms an equal opportunity for access to government business". These passages clearly indicate that the government considers itself bound to conduct the procurement process in a fair and equitable way, and may not arbitrarily dispense with a tendering process. Specifically on the

issue of sole sourcing, the Manual provides in Article 10.7.18 that when a contracting authority sets aside the competitive requirement and awards a contract on a directed source basis, "this decision should be recorded, together with the justification". The justifications themselves are commented on, including explanations of the exceptions that the government would be likely to rely on. In Article 10.2.4, it stated that the "public interest" exception should normally be reserved for dealing with security considerations or to alleviate some significant socio-economic disparity. Article 10.2.5 explains that the "one person or firm" exception "is quite definitive and should be invoked only where patent or copyright requirements, or technical compatibility factors and technological expertise suggest that only one contractor exists". Reference to this Manual, although it is not necessarily legally binding, may put the government on the defensive and force it to go some distance in attempting to justify the sole sourcing decision.

If judicial review is sought, then timeliness of the application could be an issue counting against Thyssen BHI. Assuming that an application would be brought in the Federal Court, such application must generally be made within 30 days after the time the decision is first communicated, which in this case would be from April, 1992. However, the court does have a discretion to extend this time limit in an appropriate case.

One further avenue which might be possible is an application to the Federal Government's Procurement Review Board, which is a tribunal set up under the Free Trade Agreement. We are in the process of determining whether this Board would have jurisdiction over your claim, but it appears from the Free Trade Agreement itself that it does not. Under the FTA procurement of certain items by the Department of National Defence, including "tracked combat, assault and tactical vehicles", is specifically excluded. Assuming the vehicles at issue have tracks and not wheels, the PRB would not have any jurisdiction in your case. In any event, it does not appear that the existence of this Board, even if it does have jurisdiction, has any effect on your other legal remedies.

Conclusion

As set out in the preceding paragraphs, there are several grounds on which Thyssen BHI may choose to pursue its legal remedies against the federal government. While it is impossible for us at this stage to estimate with any degree of precision what Thyssen BHI's chances of success would be on some or all of these claims, it is clear that Thyssen BHI has an arguable case for each of the causes of action listed above. To review the various causes of action outlined, it is our opinion that the action based on a breach of contractual undertaking is probably the best chance, and would have a reasonable prospect of success. Furthermore, this action would potentially allow you to recover a portion of lost profits which may be seen as the most desirable remedy. The next best alternative, in our view, would be judicial review of the sole sourcing decision. While such an action may be somewhat untested, we are of the view that it would be allowed to proceed through the courts, and it would have the advantage of forcing the government to set out the reasons for its decision on the merits. This option also provides a useful remedy, in that a declaration by the court that the sole sourcing decision was unlawful would force the government to re-open the contract. Furthermore, this kind of proceeding does not depend on a finding that the Defence Minister's undertaking formed a valid and binding contract. It exists independent of that undertaking. As for the remaining possibilities, we are of the opinion that the restitution claim is potentially a good one, but we recognize that the remedies available under this claim are of more limited use to you. Based on the evidence which is currently available to us, actions based on misfeasance in public office or negligent or fraudulent misrepresentation would appear to be significantly less likely to succeed.

If Thyssen BHI elects to proceed to litigation, it would likely do so on the basis of most or all of the above claims, despite the fact that some may be more likely to succeed than others. It may also be possible to combine them in a single action in the Federal Court, Trial Division. We have not addressed this in any detail at this stage, but if you should decide to proceed with litigation then we will give further thought to these procedural aspects of the case.

We hope the above is of some assistance to you. Please do not hesitate to contact us if you have any questions.

Yours very truly,

GOWLING, STRATHY & HENDERSON



Ian Scott

IGS/sb

KARLHEINZ SCHREIBER

86918 KAUFERING · RAIFFEISENSTRASSE 27 · TELEFON (08191) 78 84 · TELEFAX (08191) 78 89

Date: June 13, 1995
Datum:

Telefax No.: 001-514-397-3222

To: Mr. Marc Lalonde
An:

From: Karlheinz Schreiber
Von:

Total number of pages incl. cover page: -4-
Gesamtseitenzahl, einschl. Deckblatt:

Comments:
Bemerkungen:

On behalf of Mr. Schreiber we send you copy of Mr. Schreiber's letter to the Hon. Allan MacEachen of today's date.

JUN 1995

If you have any problems with transmission, pls call: 0 81 91 / 78 84.
Bei Übermittlungsproblemen bitte anrufen: 0 81 91 / 78 84

KARLHEINZ SCHREIBER

86916 KAUFERING · RAIFFEISENSTRASSE 27 · TELEFON (08191) 78 84 · TELEFAX (08191) 78 88

The Hon. Allan MacEachen P.C.
381 S Centre Block
The Senate of Canada
Ottawa, Ont.
K1A 0A4

By Facsimile 001-613-992-7073

June 13, 1995

Dear Allan:

I am disappointed that I haven't heard from you regarding my letter of December 28, 1994. I would like to inform you that I am concerned that once again Thyssen won't be permitted to participate in the up-coming procurement of armoured vehicles. I fear that the procurement strategy will be for a sole sourced order placed with GM. Moreover, I understand there is also the intention to upgrade the 20 to 30 year old M 113 tracked vehicles at the Government's own workshops in Montreal.

In my opinion, this procurement strategy for the Army's APC requirement is completely misguided. In the course of sole sourcing the new APCs to GM, it would seem that an industrial policy which is designed to protect GM, has overridden the specific military requirements to the extent that the Army has been required to reduce their technical requirements for protection, growth potential, mobility and a number of other critical technical capabilities that last year were described as essential. Internal politics at DND seem to have created an environment where it is believed that only a GM order will be accepted by the Government and therefore the Army feels they must lower their requirements to meet the capabilities of GM's offer or risk ending up with nothing. In this situation where no open, transparent competition will take place, the Army loses because they never get the chance to measure the best technical performance of competitive systems. Canadian taxpayers and the Army both lose the chance to get the best value of the procurement dollar.

.../2

-2-

In the second portion of the APC program, the intention to upgrade the 20 to 30 year old M 113's appears uneconomical and unwise. In this situation you start with a very old chassis originally designed in 1958. The upgrades will improve the basic vehicle somewhat, but the useful life is rather limited, which leads one to question why make such a large investment in extending this aged fleet, when the same money might be used to acquire new modern vehicles with full mission capabilities and growth potential? From the economic perspective, there is no chance for an export market in upgrades on M 113's. I understand that it is intended to place this work at the military workshops in Montreal rather than soliciting competitive tender.

The German Canadian cooperation of the Thyssen project as I described it to you, offers very significant export based industrial benefits. This was confirmed through a detailed market analysis which was verified by a joint committee of Industry Canada, DND and Foreign Affairs officials.

In the past, the German Defence Ministry placed orders with Canadian companies, for such major purchases as the Challenger aircraft and the reconnaissance drones. I was recently informed that the German Defence Ministry again has the intention to buy more Challenger aircraft. I doubt whether a German Government under Chancellor Helmut Kohl would agree to such a procurement, when at the same time, ignoring all agreements, Thyssen is excluded from competition in Canada. Especially when the TH 495 vehicle was essentially developed according to technical requirements described by the Canadian Forces and meeting all requirements described for the NATO Multi Purpose Base Armoured Vehicle (MBAV).

I enclose two newspaper clippings which you may not have seen. The Ottawa Citizen article of May 14, 1995 will remind you of our last meeting, during which I showed you the armour plates pierced by a modern small arms round. That same inadequate armour protection exists on Canadian vehicles used in peace keeping missions today.

.../3

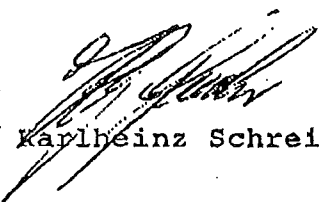
-3-

I would like to ask you again to use all your influence to ensure that:

- Canadian peace keeping forces will receive significantly better protected modern armoured vehicles, not just "more of the same";
- the full economic benefit of exports for such vehicles will be fully exploited by Canada; and
- Thyssen will be given a fair chance to participate in a competition for the supply of the Canadian Forces APCs.

I look forward to hearing from you and remain,

Yours sincerely,



Karlheinz Schreiber

(514) 397-3080

Le 13 juillet 1995

Le très honorable Jean Chrétien
Premier Ministre du Canada
Édifice du Parlement
Ottawa
Canada

CONFIDENTIEL

Monsieur le Premier Ministre,

Depuis quelques années, j'agis comme conseiller juridique de Thyssen BHI, une importante entreprise de l'industrie lourde allemande, en ce qui concerne certains de ses intérêts au Canada.

A cet égard, j'aimerais porter à votre urgente attention certains faits se rapportant au projet d'acquisition par les forces armées canadiennes d'un véhicule blindé léger.

Il s'agit d'un projet auquel Thyssen s'est beaucoup intéressé au cours des dernières années. En fait, Thyssen a développé un prototype tout à fait conforme aux spécifications les plus récentes des forces de l'OTAN; à la préparation desquelles les représentants du ministère de la Défense du Canada avaient contribué d'une façon majeure.

De plus, de nombreuses démarches ont été faites auprès de ce ministère durant les dernières années afin de s'assurer que Thyssen serait en mesure de présenter une offre concurrentielle, lorsque le Canada déciderait de renouveler son équipement. Une étude avait en outre été entreprise conjointement avec le ministère de l'Industrie, étude qui avait démontré un potentiel d'exportation de plusieurs milliards de dollars pour le Canada.

Or, nous apprenons que le ministère de la Défense soumettrait dès cette semaine au Cabinet une proposition visant à l'acquisition d'un véhicule auprès de GM,

sans même recourir à un processus de soumission publique. Le ministère recommanderait un véhicule sur roues alors que le produit de Thyssen est un véhicule sur chenilles et divers autres arguments seraient invoqués contre le produit de Thyssen.

L'opinion des experts est à l'effet qu'une armée moderne a besoin à la fois de véhicules sur roues et de véhicules à chenilles. Le ministère de la Défense reflète d'ailleurs ce point de vue en proposant de moderniser ses vieux véhicules sur chenilles M-113, en même temps qu'il achèterait des véhicules sur roues.

Une alternative plus intéressante pour le Canada semblerait être plutôt d'acheter une quantité plus petite de véhicules sur chenilles neufs et beaucoup plus efficaces du type de ceux produits par Thyssen. En plus d'améliorer la capacité opérationnelle des forces armées, cette alternative aurait l'avantage d'ouvrir la porte à un potentiel d'exportation considérable pour le Canada. Je comprends que cette dernière dimension ne constitue pas une priorité pour le ministère de la Défense, mais elle est sûrement d'une très grande importance pour le gouvernement dans son ensemble. Une simple modernisation du M-113 n'offre aucun tel avantage.

Quoiqu'il en soit, l'objet de cette lettre n'est pas d'entrer en détails dans la substance des arguments mais de porter à votre attention l'impossibilité dans laquelle Thyssen et d'autres concurrents potentiels de GM se sont trouvés, durant tout le processus décisionnel du ministère de la Défense, d'obtenir les spécifications leur permettant de présenter une soumission en bonne et due forme.

Je sais combien votre gouvernement manifeste un grand souci de transparence et d'intégrité dans ces décisions. Je dois dire que, dans un tel contexte, le processus suivi par le ministère de la Défense en est un qui dépasse mon entendement. Je sais d'ailleurs que les autorités supérieures du gouvernement de l'Allemagne ont été alertées de cette situation et qu'elles sont fort préoccupées par la façon dont les forces armées canadiennes semblent procéder dans le cas présent. Je n'ai pas à vous rappeler que le ministère de la Défense allemand a déjà fait l'acquisition au Canada de certains équipements (auprès de Canadair en particulier) et qu'il considère présentement l'acquisition d'équipement additionnel; on me dit que le gouvernement de ce pays comprend assez mal la façon dont on semble traiter Thyssen en l'occurrence.

Thyssen ne prétend pas que le Canada doit acheter son produit. Tout ce qu'elle demande, c'est qu'un processus ouvert, public et connu soit suivi en regard de l'acquisition d'un véhicule blindé léger par les forces armées canadiennes. Ce processus devrait permettre non seulement à Thyssen, mais à tous les autres concurrents possibles de GM de présenter une soumission, ce qui a été impossible jusqu'à maintenant.

Thyssen a encouru des dépenses de plusieurs dizaines de millions de dollars dans le développement d'un nouveau véhicule, se basant en particulier sur des assurances écrites fournies par le gouvernement conservateur qui a précédé le vôtre, à l'effet que Thyssen se verrait donner l'opportunité de soumissionner sur le projet d'acquisition du véhicule en cause. Thyssen a en main une opinion de Me Ian Scott, récemment reconfirmée par son étude, à l'effet que Thyssen aurait droit d'exiger des compensations substantielles de la part du gouvernement canadien, si un processus d'appel d'offres en bonne et due forme n'était pas suivi.

Dans les circonstances, je me suis permis de porter cette situation à votre attention personnelle. Je crois qu'il y a là un risque sérieux d'erreur politique et financière coûteuse, alors que tout ce qui serait exigé serait de suivre un processus d'appel d'offres bien établi et respecté par votre gouvernement dans tous les domaines.

Je demeure à votre disposition pour toute information supplémentaire. Il en est de même pour le président de Thyssen BHI, M. Jürgen Massmann, qui se fera un plaisir de vous rencontrer ou de rencontrer un de vos représentants, à votre convenance, à ce sujet.

Veillez agréer, monsieur le Premier Ministre, l'expression de ma haute considération.

ORIGINAL SIGNED BY
ORIGINAL SIGNÉ PAR
MARC LALONDE

Marc Lalonde



PRIME MINISTER · PREMIER MINISTRE

OTTAWA, K1A 0A2

Le 1 septembre 1995

Marc
Monsieur,

Je vous remercie de votre lettre du 13 juillet dernier au sujet de Thyssen BHI et de son désir de présenter une soumission pour un contrat visant à fournir des transports de troupes blindés aux Forces canadiennes.

Comme vous le savez sûrement, le gouvernement a annoncé récemment l'acquisition de 240 nouveaux transports de troupes blindés de la division diesel de General Motors, sous réserve de négociations contractuelles fructueuses, avec possibilité d'acquérir des véhicules supplémentaires à une date ultérieure. Il a été pris bonne note de l'intérêt de Thyssen BHI pour ce projet d'acquisition. Toutefois, conformément aux politiques d'achat et de défense du gouvernement fédéral, notre stratégie d'achat a été guidée principalement par des considérations d'ordre opérationnel et par le facteur coût.

Je suis toujours heureux de recevoir de vos nouvelles et souhaite à Thyssen BHI de réussir dans ses projets d'avenir. J'envoie copie de notre correspondance au ministre de la Défense nationale à titre d'information.

Je vous prie d'agréer, Monsieur, l'expression de mes sentiments les meilleurs.

Monsieur Marc Lalonde
Stikeman, Elliott
40^B Étage
1155, Boulevard René-Lévesque Ouest
Montréal (Québec)
H3B 3V2

STIKEMAN, ELLIOTT
Barristers & Solicitors
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Cable address "Taxmont" Telecopier (514)397-3222

Fax Cover Sheet

DATE: August 17, 1995

FILE NO.: 17780-003

TO:

NAME: Greg Alford
FIRM: THYSSEN BHI
CITY: Ottawa
FAX NO.: (613) 563-7648

FROM:

NAME: Marc Lalonde

NOTES:

Here is a little propaganda sheet on the APC's which I received yesterday from the PMO. I draw your attention to the reference to the optimization of the use of taxpayers' money and of regional and industrial benefits. If there is a statement from us, we should demonstrate that our offer would have been better for Canada in both respects. M.L.

CONFIDENTIALITY CAUTION

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Fax Cover Sheet

DATE: September 27, 1995 **FILE NO.:** 17780-003

TO:

NAME: Gudrun Cloutier

FIRM: THYSSEN BHI

CITY: Ottawa

FAX NO.: 613-563-7648

FROM:

NAME: Charlotte Lortie-Thibaudeau, secretary to Marc Lalonde

NOTES:

Could you please direct copies of the enclosed correspondence to Messrs. Massmann, Schreiber and Alford. Thank you very much.

MESSAGE CONFIRMATION

09/27/95 12:16

DATE	TIME	S.R.-TIME	DISTANT	STATION ID	MODE	PAGES	RESULT
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DIRECT DIAL :

(514) 397-3080

September 26, 1995

Mr. Jürgen Massmann
THYSSEN BHI
Suite 908, 350 Sparks Street
Ottawa, Ontario
K1R 7S8

Dear Jürgen :

Please find enclosed copies of the originals and translations of a letter exchange between the Prime Minister and myself concerning our favourite subject. This will not change the decision already taken but I could not let him get away with the perfunctory answer drafted by his officials.

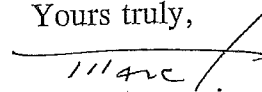
I will send you copy of any answer I will receive, if any.

I am afraid that we are unlikely to meet as frequently as we did in the last couple of years and I regret that the result of all our efforts was not more positive, but it was not because of lack of trying.

It was indeed a great pleasure to work with you and I hope that life will make our paths cross again in the future. In the meantime, I wish you all the best and, if your travels take you again to Canada, I hope that you will let me know. I will be most happy to host you in Montreal, or anywhere else.

Best personal regards.

Yours truly,



Marc Lalonde

cc: K.H. Schreiber
G. Alford

STIKEMAN, ELLIOTT

AVOCATS

40^e ÉTAGE

1155, BOULEVARD RENÉ-LÉVESQUE OUEST

MONTREAL, CANADA H3B 3V2

--

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VEUILLEZ TÉLÉPHONER :

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Le 26 septembre 1995

Le très honorable Jean Chrétien
Premier Ministre du Canada
Édifice du Parlement
Ottawa
Canada

Monsieur le Premier ministre,

Je vous remercie de votre lettre du 1er septembre dernier concernant Thyssen BHI et la décision de votre gouvernement de se procurer des transports de troupes blindés auprès de General Motors.

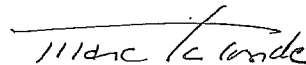
Je ne désire pas vous ennuyer avec de longs échanges de correspondance à ce sujet mais votre lettre soulève quelques questions que je me dois de relever. Vous désirerez peut-être demander à vos fonctionnaires de communiquer directement avec moi à ce sujet, si vous préférez.

Votre lettre fait référence «aux politiques d'achat et défense du gouvernement fédéral». J'ai toujours cru que ces politiques étaient basées sur le principe de l'appel d'offres public, de façon à assurer non seulement la transparence dans les contrats gouvernementaux mais aussi que le gouvernement obtiendrait la meilleure valeur pour son argent. Vous vous rappellerez sans doute que nous avons l'un et l'autre participé, il y a plusieurs années, au processus élaboré qui avait mené à l'acquisition des chasseurs F-18 et des frégates canadiennes; dans les deux cas, des appels d'offres ont eu lieu et les citoyens pouvaient avoir l'assurance que l'intérêt public était protégé. Je sais que, sous le régime conservateur, ce processus a été ignoré en plusieurs occasions mais je n'ai jamais pensé que le public canadien avait élu votre gouvernement pour poursuivre cette politique du gouvernement précédent. Je vous serais donc reconnaissant si vos fonctionnaires pouvaient me faire parvenir le texte des plus récentes politiques gouvernementales qui sembleraient favoriser le recours aux contrats dirigés plutôt qu'à l'appel d'offres.

Votre lettre indique en outre que la stratégie gouvernementale d'achat «a été guidée principalement par des considérations d'ordre opérationnel et par le facteur coût». J'apprécierais connaître de la part de vos fonctionnaires quels autres facteurs ont pu intervenir dans cette stratégie. En outre, j'aimerais savoir comment le gouvernement pouvait en arriver à la meilleure décision au plan coût et opérations quand Thyssen BHI (et d'autres) se sont vus empêchés d'obtenir les spécifications détaillées du ministère de la Défense ainsi que de soumettre une offre formelle en rapport avec le projet en cause.

Je vous prie d'agréer, monsieur le Premier ministre, l'expression de ma haute considération.

STIKEMAN, ELLIOTT



L'hon. Marc Lalonde, c.p., o.c., c.r.

Minister
of National Defence



Ministre
de la Défense nationale

Ottawa, Canada K1A 0K2

26/9/95

Mr. Marc Lalonde, P.C., Q.C.
Stikeman, Elliott
Barristers & Solicitors
40th Floor
1155 René-Lévesque Boulevard West
Montréal, Québec
H3B 3V2

Dear Mr. Lalonde:

Marc

Thank you for your letter of March 14th, 1995, concerning the keen interest of Thyssen BHI to participate in the supply of armoured personnel carriers to the Canadian Forces. I am also in receipt of your letter to the Prime Minister which was forwarded September 1st, 1995.

The process leading up to the Department of National Defence decision to acquire these vehicles from Diesel Division General Motors was long and complex. However, one of the underlying factors was the preference for a wheeled vehicle. Unfortunately, the offer by Thyssen BHI to provide a tracked vehicle was inconsistent with this preference.

Once again, thank you for your letter and for bringing this matter to my attention.

Yours sincerely;

Hon. D.M. Collenette

*if you need to follow up
please drop by & see me.*

Canada

29 SEP 1995

442

THE HONOURABLE MARC LALONDE, P.C., O.C., Q.C.

1155 René Lévesque Blvd West, 33rd Floor, Montréal QC H3B 3V2 CANADA
T: 1-514-397-3080 F: 1-514-397-3428 Email: m_lalonde@rbs.rogers.com

BY COURIER

December 12, 2007

CONFIDENTIAL AND PRIVILEGED

Mr. Michael Nelson
REGISTRAR OF LOBBYISTS
255 Albert Street
Ottawa, ON K1A 0R5

Dear Sir:

Re: Thyssen / Bear Head Industries Limited

Through the media, I have been informed that I may not have registered under the Lobbyist Registration Act ("LRA") when I carried out certain lobbying activities some time in the first half of the 1990's on behalf of Thyssen BHI/Bear Head Industries. I am extremely surprised to learn of this as I was - and I am still - convinced I had done so.

Since the enactment of the LRA, it has been my practice to scrupulously comply with the registration requirements whenever there was any possibility I might engage in activities covered by the LRA. My multiple, detailed registrations over the years attest to my record of compliance. In fact, if anything, I tended to over-register even when it did not seem required by the law.

My mandate in the case Thyssen BHI/Bear Head Industries was no secret. Its objective was to try and convince the federal government to call a public tender for the supply of light armored vehicles to the Department of Defence, rather than resorting to sole sourcing as had been done by the previous government in a similar situation.

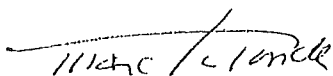
As early as July 16, 1997, in a letter to the Access to Information Agency, I agreed to the public release of all the information which may have originated from me in this matter. In fact, my letters of July and September 1993 to the Prime Minister in that regard have been released and made part of the public record for several years (copies enclosed).

My registrations have always been completed by my assistant, upon my instructions and under my signature, either through paper or, when they became more prevalent, electronic means. As I was chairing a major arbitration case in Vancouver between November 29 and December 10 last, I was unable to access my files of the early 90's. Upon my return, I have immediately proceeded to review the records of the registry of lobbyists for the period 1991-1995, I have indeed been unable to find a particular registration under Thyssen BHI or Bear Head Industries, although a significant number of other registrations appear under my name during that period.

However, a review of my own files indicates that I would have so registered on November 23, 1993. You will find enclosed copy of an entry in that respect in my personal agenda as well as in the time sheet kept by firm for the purpose of billing the client. You will equally find another entry into my personal agenda of the same day for the registration of Abbott, a pharmaceutical company. Strangely enough, I cannot find either in your registry an entry under the name of that company at that time. That same night, I flew to Iran on a two-week mission for the World Bank.

I obviously cannot confirm whether my assistant at the time (she left me in 1995) actually sent the registration forms or neglected to do it, any more than I can affirm that an official at the LRA would have neglected to enter my registration forms at the time. But I can say that after verification of my files, my previous conviction about my registration has been so reinforced that I would have no difficulty delivering an affidavit declaring that, to the best knowledge and in all good conscience, I took all reasonable steps to comply with the LRA in connection with the Thyssen BHI/Bear Head Industries file, as well as in the case of Abbott.

Yours truly,



The Hon. Marc Lalonde, P.C., O.C., Q.C.

Enclosures

NO.	DATE	DESCRIPTION OF SERVICE	TIME	STATUS
8				
9		Professional Privilege	11:00 - 12:00	
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11		Professional Privilege	11:00 - 12:00	
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PRINTED IN USA

Court File No.

**ONTARIO COURT OF JUSTICE
(GENERAL DIVISION)**

BETWEEN:

**BEAR HEAD INDUSTRIES LTD. and
THYSSEN INDUSTRIE HENSCHEL AG**

Plaintiffs

- and -

**HER MAJESTY THE QUEEN IN RIGHT OF CANADA,
THE ATTORNEY GENERAL OF CANADA,
WILLIAM McKNIGHT and MARCEL MASSE**

Defendants

STATEMENT OF CLAIM

TO THE DEFENDANTS

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the Plaintiff.

The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the Plaintiff's lawyers or, where the Plaintiff does not have a lawyer, serve it on the Plaintiff, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this Statement of Claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

IF YOU PAY THE PLAINTIFF(S) CLAIM, and \$1,000.00 for costs, within the time for serving and filing your Statement of Defence, you may move to have this proceeding dismissed by the Court. If you believe the amount claimed for costs is excessive, you may pay the Plaintiff(s) claim and \$100.00 for costs and have the costs assessed by the Court.

Date:

Issued by:

Local Registrar

Address of Court Office:

145 Queen Street West
Toronto, Ontario
M5H 2N7

TO:

CLAIM

1. The Plaintiffs claim:

- (a) damages in the amount of \$100,000,000.00;
- (b) a declaration that the decision of the Defendant Marcel Masse that a contract (the "Contract") to produce up to 229 Light Armored Vehicles ("LAV"s) be awarded to Diesel Division of General Motors ("DDGM") without tender is null and void and in violation of the Undertaking referred to herein;
- (c) its costs of this action; and
- (d) such further and other relief as to this Honourable Court seems just.

2. The Plaintiff Bear Head Industries Ltd. ("BHI") is a company incorporated under the laws of Nova Scotia, formed to engage in the business of the design, manufacture and servicing of military equipment in Canada. The Plaintiff BHI is a wholly-owned subsidiary of Thyssen Industrie AG ("Thyssen Industrie"), a German-based diversified international manufacturer, and carries on business in Ontario.

3. The Plaintiff, Thyssen Industrie AG Henschel ("Thyssen Henschel") is a German-based wholly-owned subsidiary of Thyssen Industrie, engaged in the business of the design, manufacture and servicing of military equipment.

4. The Defendant William McKnight ("McKnight") was Minister of National Defence between January, 1989 and April, 1991.
5. The Defendant Marcel Masse ("Masse") was Minister of National Defence between April, 1991 and January, 1993.
6. In or about 1984, Thyssen Industrie was approached by representatives of the Canadian government, as a potential investor in Canada. Between 1984 and 1988, Thyssen Industrie entered into negotiations with the governments of Canada and Nova Scotia, with a view to building a manufacturing plant at Bear Head Cove, Nova Scotia, and incorporated BHI in 1985. It was foreseen in these negotiations that BHI would manufacture LAVs for the Canadian military.
7. In or about 1987, the government of Canada, through its White Paper on Defence (the "White Paper"), announced its intention to procure new LAVs. This became known as the "LAV Procurement Program".
8. On or about September 27, 1988 the Plaintiff BHI entered into an Understanding in Principle (the "Understanding in Principle") with the Crown in Right of Canada (the "Federal Government"), as represented by the Minister of National Defence (Perrin Beatty), the Minister of Regional Industrial Expansion (Robert De Cotret) and the

Minister responsible for the Atlantic Canada Opportunities Agency (Gerald Merrithew).

9. It was a term of the Understanding in Principle that the Minister of National Defence would consider the participation of BHI in the LAV Procurement Program established pursuant to the White Paper. In addition to the Understanding in Principle, in discussions held in or about 1987 and 1988 it was represented orally to BHI by various Ministers and agents of the Federal Government that BHI would have the opportunity to compete for the planned LAV Procurement Program (the "LAV Representations"). These representations constituted a promise on behalf of Her Majesty The Queen in Right of Canada to BHI that was relied upon by BHI to its detriment, as set out below.
10. In or about April, 1989 the Federal Government cancelled the LAV Procurement Program. As a result of perceived changes in Canada's defence needs, the Federal Government began to consider instead a multi-purpose vehicle which would both replace the obsolete LAVs and fulfill other military functions.
11. This multi-purpose vehicle, known as the Multi-Role Combat Vehicle ("MRCV"), would come in three forms based on a common design: the Reconnaissance Combat Vehicle ("RCV"), the Infantry Combat Vehicle ("ICV"), and the Armoured Combat

Vehicle ("ACV"). It was foreseen that the MRCV would be acquired by the Department of National Defence in three phases, commencing with the RCV.

12. In or about 1989 to 1991, negotiations continued between the Federal Government and BHI, but with the focus shifting to manufacture of MRCVs by BHI. During this period the Department of National Defence released information regarding the Department's pending technical requirements to BHI and others in the industry. Based on this technical information, Thyssen Henschel developed a new model of armoured vehicle known as the TH-495.
13. On or about January 25, 1990 the Defendant McKnight expressly gave his undertaking in writing to BHI, on behalf of the Federal Government, that in the event the Canadian military decided to acquire MRCVs, BHI would be given an opportunity to participate in the tender for the contract to supply such vehicles (the "Undertaking"). The Undertaking was to remain valid for a period of five years. The Undertaking was both a legally binding contract between Her Majesty the Queen in Right of Canada and BHI, and a promise on behalf of Her Majesty the Queen in Right of Canada to BHI that was relied upon by BHI to its detriment, as set out below.
14. The Undertaking was based in part upon the Department of National Defence's assessment of the experience and technical competence of Thyssen Henschel as an

armoured vehicle developer and producer, and in part upon the design concept of the new TH-495 vehicle intended to satisfy the Department of National Defence's requirements as advised to industry.

15. It was an implied term of the Undertaking that the tender process would be conducted fairly and in good faith, and that subject to BHI satisfying the relevant specifications and design requirements, if BHI quoted the lowest contract price BHI would be awarded the contract.
16. It was also an implied term of the Undertaking that the Minister of National Defence would comply with the Federal Government's own Contracting Manual, a publicly-available manual produced and distributed by Treasury Board to guide those who have authority to enter into contracts on behalf of the Crown. In particular, articles 9.1.1 and 10.7.1 of the Contracting Manual provide as follows:

9.1.1 The objective of government procurement contracting is to acquire goods and services and to carry out constructing and leasing in a manner that results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and Canadian people.

10.7.1 In accordance with the policy statement to reflect fairness in spending public funds, the method of procurement used for a particular acquisition must, within the limits of practicality, give all qualified firms an equal opportunity for access to government business.

17. In return for and in reliance on the Undertaking and the LAV Representations, the Plaintiffs continued with discussions with a view to building manufacturing facilities at Bear Head, Nova Scotia. The Plaintiffs also incurred expenses, particulars of which will be given before trial. These expenses included costs associated with the development of the various configurations of the TH-495, and also costs associated with the administration and management of BHI.

18. Subsequent to the Undertaking, the Defendant Masse succeeded McKnight as Minister of National Defence. On or about September 17, 1991, Masse, in a policy statement on defence, publicly repeated the Department of National Defence's commitment to the MRCV program. Furthermore, on or about February 10, 1992 the Canadian Ambassador to Germany wrote to the German Staatssekretar des Bundesministerium der Verteidigung (Deputy Minister of Defence) reiterating that Canada would proceed with the MRCV program.
19. In or about March or April, 1992, Masse decided that Bell Helicopter Canada Ltd., of Mirabel, Quebec would be selected to provide up to 100 helicopters to the Department of National Defence (the "Bell Helicopter Contract"). This decision was made without calling for tenders.
20. In or about March or April, 1992, Masse decided further that the MRCV acquisition would be cancelled, and that the RCV phase would be replaced by the acquisition

of up to 229 reconnaissance-enhanced LAVs from DDGM. The selection of DDGM was also made without calling for tenders.

21. On or about April 7, 1992, on the same day as Masse announced the Bell Helicopter Contract, it was announced that DDGM had been selected to provide the reconnaissance-enhanced LAVs at an approximate cost of \$800 million for 229 vehicles.
22. The reconnaissance-enhanced LAVs are in substance equivalent to the RCV phase of the MRCV program, and the Defendant Masse breached the Undertaking in failing to provide the Plaintiff the opportunity to participate in a tender before selecting DDGM. Moreover, the cancellation of the MRCV program was a sham, for which the sole purpose was to avoid or circumvent the Undertaking.
23. In giving the Undertaking in return for the Plaintiff's continued participation in negotiations to build a manufacturing facility in Nova Scotia, and in return for the Plaintiffs' incurring expenses in contemplation of building such a facility and in contemplation of participating in the tender process, the Defendant, McKnight, contracted on behalf of Her Majesty the Queen in Right of Canada to be bound by the terms of the Undertaking. The Defendant, Her Majesty the Queen in Right of Canada, is therefore in breach of contract for failing to honour the terms of the Undertaking.

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24. In addition and in the alternative, the Undertaking and the earlier LAV Representations were intended to be relied upon, and were actually relied upon by the Plaintiffs to their detriment. The defendant, Her Majesty the Queen in Right of Canada is therefore estopped from breaching the terms of the Undertaking and the LAV Representations.

25. In the further alternative, the Defendant, Her Majesty the Queen in Right of Canada has been unjustly enriched by the expenses incurred by the Plaintiffs in reliance upon the Undertaking and the LAV Representations of Beatty, and the Plaintiffs claim restitution of these expenses.

26. Furthermore, the decision to award the Contract to DDGM without calling for tenders was based on improper considerations and was not in compliance with the *Government Contract Regulations*, SOR 87-402, s.6, nor the provisions of the *Contracting Manual*. In particular, the decision was made for the purpose of obtaining the political support of elected representatives from Ontario for the Bell Helicopter Contract, in light of the fact that one of Bell Helicopter's competitors, Eurocopter, was based in Fort Erie, Ontario.

27. In deciding to award the LAV Contract to DDGM, Masse therefore erred in law, exceeded his jurisdiction, and exercised his statutory authority in an improper manner.
28. In the alternative, the LAV Representations and McKnight's subsequent Undertaking that BHI would be permitted to participate in the tender process for the MRCV program were representations that the Defendants knew or ought to have known were false.
29. The Defendants had a duty to the Plaintiffs to exercise due care to ensure that their representations were accurate, and the Defendants breached this duty.
30. At all material times the Defendants McKnight and Masse were acting as Ministers and/or agents of the Crown, and the Defendant Her Majesty the Queen in Right of Canada is in law responsible for their actions.
31. In the alternative, the Defendants McKnight and Masse were acting outside the scope of their Ministerial authority and so are personally liable to the Plaintiffs for their actions.
32. At all material times, BHI was better able to meet the design and technical specifications set by the Department of National Defence than DDGM. Had BHI

been able to participate in a tender process for the Contract, BHI would likely have been awarded the Contract.

33. In particular, in the context of the RCV phase of the MRCV, the Department of National Defence required that RCVs be equipped with armour resistant against 14.5mm armour piercing ammunition and desired that they be equipped with armour resistant against 30mm armour piercing ammunition. This was regarded as essential by the Department of National Defence for the protection of Canadian troops in a combat situation. The TH-495 meets this requirement, while the LAVs manufactured by DDGM do not.
34. In addition, the Department of National Defence required that RCVs be transportable by Hercules aircraft. This was regarded as essential to the Canadian Forces' ability to transport and deploy its LAVs quickly and effectively in a situation calling for a rapid military response. Despite the much higher ballistic protection level of the TH-495 as compared to the DDGM LAVs, the TH-495 remains transportable by Hercules aircraft.
35. In addition, the unit price per vehicle under the Contract with DDGM is inflated and excessive, and the Plaintiff would in all likelihood have been able to submit a lower bid had there been a tender process. At an approximate cost of \$800 million for 229 vehicles, the unit price per vehicle is some \$3.5 million.

36. As a result of the actions of the Defendants, the Plaintiffs have suffered losses, which losses include expenses incurred in reliance on the actions and representations of the Defendants in the total amount of \$40 million and the profits BHI could reasonably have expected to realize had BHI been given the opportunity to participate in a tender for the Contract, in the total amount of \$60 million.
-
37. The Plaintiffs plead and rely on the provisions of the *Financial Administration Act*, R.S.C. 1985 c. F-11, and the *Government Contract Regulations*, SOR 87-402.
38. The Plaintiffs propose that this action be tried in Toronto.

August 20, 1993

GOWLING, STRATHY & HENDERSON
Suite 4900, Commerce Court West
Toronto, Ontario
M5L 1J3

Ian G. Scott
Christopher M. Dassios
Andrew K. Lokan

(416) 862-7525

Solicitors for the Plaintiff

BEAR HEAD INDUSTRIES LTD. - and - HER MAJESTY THE QUEEN IN RIGHT OF CANADA, ET AL. Court File No.

ONTARIO COURT OF JUSTICE
(General Division)

Proceedings Commenced at TORONTO

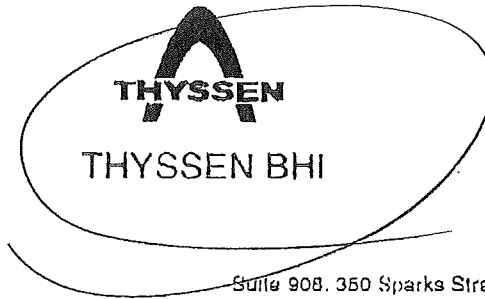
STATEMENT OF CLAIM

GOWLING, STRATHY & HENDERSON
Barristers and Solicitors
Suite 4900, Commerce Court West
Toronto, Ontario
M5L 1J3

Ian G. Scott
Christopher M. Dassios
Andrew K. Lohsan

(416) 862-7525

Solicitors for the Plaintiff



Beachhead file

Suite 908, 350 Sparks Street, Ottawa, Ontario, Canada K1R 7S8
Telephone: (613) 563-3321 Telefax: (613) 563-7648

September 26, 1994

Mr. Marc Lalonde
Stikeman, Elliott
1155 Dorchester Blvd. West
Suite 3900
Montreal, P.Q.
H3B 3V2

M.P. 01

Dear Marc:

The enclosed notes of our meetings of Sept. 20, 94, replace those which were provided to you in draft last week. There are a few additional points in this final form which were part of our discussions with you but had been overlooked in my first draft.

Thanks.

Regards,

Greg Alford
Greg Alford

P.S. At your request, Mr. Patrick Tobin from Minister Ouellet's office has called and asked that I send a copy of the attached notes via fax today.

Thanks.

Lunch Meeting with Industry Canada**September 20, 1994****Participants: Bruce Deacon, Industry Canada
Dick Krajewski, Industry Canada****Jürgen Massmann, TH
Greg Alford, BHI
Jack Vance, BHI**

Mr. Massmann opened business discussions mentioning it was June 3, 1994, since the last discussions of the project with Industry Canada.

Mr. Deacon explained the delay by pointing out that Industry Canada has shared their conclusion of the TH 495 market analysis with all interested departments and urged them to acknowledge the existence of the export market, their clear understanding that it is distinctly different from the market for GM LAV and the likelihood of TH 495 penetrating that market. (The Government forecast export market penetration for TH 495 is some 2,000 units over 15 years. This is in contrast to the Company's forecast of 8,000 units, and it is agreed that the actual market win will be in the range between 2,000 and 8,000.)

The lack of a conclusive response from all interested departments to the market analysis has delayed Industry Canada in getting back to the Company.

Mr. Massmann expressed appreciation for the update, but then asked if Mr. Deacon could shed some light on concerns brought to the Company's attention recently. The Company has been told on three different occasions that within the Government's consideration there is a detailed negative summary of the BHI proposal by Industry Canada, to which Industry Canada has invited agreement from other departments for the closing of this file. The three points of criticism of the BHI proposal, attributed to Industry Canada are:

1. The Government should not support establishment of a new armoured vehicle producer when Canada already has a successful manufacturer in this sector, in GM Diesel Division, (suggesting that there is no product and market differentiation between GM's wheeled vehicle and the tracked TH 495).
2. There is international over-supply in the armoured vehicle market leading to uncertainty for any export market success for TH 495.

3. There is no Canadian DND requirement to which TH 495 could be a potential supplier.

Mr. Deacon expressed no knowledge of such a position being taken by Industry Canada, though he did say that it is possible for a negative position to have been taken toward the Thyssen proposal at another level (assumed to be political level). Furthermore, he indicated that the three criticisms more reflect the position of Industry Canada at the beginning of the discussions one year ago. Mr. Deacon acknowledged that at that time ~~Industry Canada was doubtful that any market existed at all, however, after a year of investigation and analysis, the Industry Canada view is that a market does in fact exist and the Government's own analysis has now concluded that the Thyssen TH 495 is a vehicle well designed to compete in that market and should achieve an absolute~~ minimum export market of 2,000 + units. That forecast is based on conservative assumptions considering each market surveyed as if it would be a "first sale" for TH 495.

Further discussions reviewed and found agreement on these additional points:

- The Government forecast method assumed every market surveyed would be a "first sale" for TH 495, while this supports the conservative forecast methodology, it was agreed that after a first sale of TH 495 is achieved in one market, the probability to win additional markets will increase significantly.
- TH 495 is a new and distinct product addressing the replacement market for M 113 and like vehicles and the new requirements for Peacekeeping/Rapid Reaction Forces. As such, it is a market characterized by a need for new designs to meet newly established requirements. This market is not subject to the problems of "oversupply", rather it is one in which only a very few products exist and TH 495 is recognized to have an early lead as a new product. In no way should this new market be confused with the broad market categories of Main Battle Tanks and general armoured vehicles where the suggestion of over-capacity and competitor crowding could apply.
- There is a clear understanding that TH 495 as a tracked vehicle is a distinctly different product from the GM LAV wheeled vehicles and not a direct competitor in the export market forecast.
- On the estimate of the gross market for TH 495, the Government forecast is 30,000 units. If one applies an average price of \$2M per unit, this leads to a total export market volume of \$60 Billion. Out of that market, if one uses the Government net market of 2,000 units as a low and the Company forecast net market of 8,000 units as a high, this leads to a range of \$4 Billion to \$16 Billion export sales over approximately 15 years.

- Since the forecast deals exclusively with export markets, the significant economic activity associated with the project serves the Government's interest in increasing export based jobs.

Mr. Deacon expressed concern that if a negative position on the BHI file exists in the Government, it has been formed without benefit of the most current Government market analysis. In effort to correct any misunderstandings, he undertook to look into the situation described by Mr. Massmann and reply back through Greg Alford.

Mr. Deacon also mentioned that it would be premature for any assessment, either positive or negative, of the project's precise contribution to Canada, since there has not yet been a formalized business plan presented. It was agreed between the Company and the Government that before developing the business plan there must first be agreement on the market forecast as this is the basic input around which the plan must be built.

Mr. Massmann noted that the Company's assessment based on production experience in Germany is that the numbers being contemplated as a minimum export market will support a very substantial manufacturing activity, citing the fact that Thyssen Henschel, having sales in the range of DM 500 M (\$430 M) supports a workforce of some 2,000 persons.

In closing, Mr. Deacon agreed to provide to the company a written acknowledgment of the elements in the market analysis as agreed so far:

1. *Industry Canada, along with input from National Defence and Foreign Affairs have examined the export market prospects for TH 495 over the past year, to conclude that there is a total export market of approximately 30,000 units.*
2. *Of that export market, the Government by independent analysis, estimated that TH 495 can penetrate and win a market share of at least a minimum of 2,000 units. This can be contrasted with the company forecast of 8,000 units to establish the range of market penetration expected.*
3. *The Government forecast is a conservative outlook, given that the Government forecast assumes:*
 - *no Canadian market sale*
 - *every market forecast is on the basis that it would be a "first order" for TH495*
 - *once a first sale occurs, the probability for winning other markets increases by a significant factor. The Government's forecast method has made no allowance for increased win probability due to the conservative methodology of its forecast.*

It was understood that such a letter would also be copied to all interested departments.

On the topic of potential Government funding sources to support Thyssen establishment in Canada to produce for the export market, Mr. Deacon explained that his contact to the federal regional development agencies has found that the Atlantic and Western regional development agencies are unable to support the project due to lack of funds, Ontario has no regional development fund, so that leaves Quebec as the only potential source of financial support.

Asked about the Defence Industrial Productivity Program (DIPP) which had been original source of funding proposed by Industry Canada, Mr. Deacon indicated this fund presently has a very limited capacity.

Conclusion:

This meeting was very positive in that it brought to the attention of Mr. Deacon and Mr. Krajewski, the information that there may be a view formed at some level of Industry Canada which has not had the benefit of the Industry Canada led market analysis and most current conclusions. The actions proposed by Mr. Deacon should bring remedy to the issues and concerns which had been brought to the Company's attention suggesting an Industry Canada opposition to the Thyssen/BHI proposal.

The Company is now waiting for a letter from Industry Canada which will confirm their view of what is the absolute minimum export market which TH 495 will achieve. After release of that letter, a meeting between Mr. Deacon and Mr. Massmann will be established as soon as possible to agree on next appropriate actions.

Lastly, it is also understood that Mr. Deacon will seek a reading from the political level on the willingness to accept new export oriented job creation when it means an increase in Canada's capacity for armoured vehicles into a new market sector which GM LAV does not reach.