

Documents in support of the Hon. William McKnight's testimony

The Hon. William McKnight

INDEX

TAB	Document
1.	December 6, 1988 memorandum from R.D. Gillespie
2.	May 9, 1989 letter from Frank Moores to Bill McKnight
3.	June 14, 1989 memo from D.S. McPhail to Elmer MacKay
4.	July 19, 1989 letter from Juergen Massmann to Bill McKnight
5.	September 21, 1989 letter from Bill McKnight to Juergen Massmann
6.	January 25, 1990 letter from Bill McKnight to Karlheinz Schreiber
7.	February 15, 1990 letter from Karlheinz Schreiber to Bill McKnight
8.	March 22, 1990 letter from Bill McKnight to Stanley Hartt
9.	October 10, 1990 letter from Karlheinz Schreiber to Bill McKnight
10.	October 18, 1990 letter from Karlheinz Schreiber to Bill McKnight
11.	November 1990 Memorandum of Understanding
12.	September 30, 1999 RCMP interview transcript

MEMORANDUM

1450-2 (DDIR)

6 Dec 88

ADM(Mat)

FMC CORPORATION UNSOLICITED PROPOSAL

1. Enclosed is a briefing note in preparation for your meeting with FMC Corporation representatives on 7 Dec 88. For additional background the briefing note also covers the current situation with respect to DDGM and Bear Head Industries.

2. A copy of the FMC unsolicited proposal is also enclosed.

~~cc. C. E. R.
D. G. P. S.~~

R.D. Gillespie
CS
992-6523

Enclosures: 2

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BRIEFING NOTE FOR ADM(MAT)

SUBJECT: FMC Corporation Unsolicited Proposal

PURPOSE

1. To provide ADM(Mat) with background information on the FMC Corporation Unsolicited Proposal on light armoured vehicles (LAVs) for his meeting with Messrs Mercereau, Schwartz and Doyle representing FMC Corporation.

ISSUE

2. Three major armoured vehicle manufacturers, Diesel Division of General Motors (DDGM), Bear Head Industries (BHI), and FMC Corporation (FMC), have recently approached the Government with proposals for the manufacture of LAVs in Canada to meet future requirements of the Canadian Forces.

3. In view of the Minister's decision to support the DDGM proposal for the immediate Reserve requirement of 199 vehicles, the Department is currently in the process of staffing the requisite approval documents and Memorandum to Cabinet. It appears both FMC and BHI are aware of this.

FMC UNSOLICITED PROPOSAL BACKGROUND

4. FMC of Santa Clara, California, is the manufacturer of the M113 family of light armoured vehicles, which form the bulk of the present Canadian LAV fleet. In Jul 88, FMC responded to a P and A for 220 M113 APCs. In Sep 88, they submitted an Unsolicited Proposal to set up a design and manufacturing facility in Canada, including a Repair and Overhaul capability, to meet Canadian Forces requirements for all LAVs, in return for directed procurement of all DND LAV requirements. Further details are contained in Annex A.

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- 2 -

COMPETITIVE ENVIRONMENT

5. DND has in the near future several planned procurements for armoured vehicles: the Land Reserve Modernization Program (LRMP) (1991), the Light Armoured Vehicle (LAV) (1994-95), the Main Battle Tank (MBT) (1989-90), a smaller purchase in 1994-95 for light armoured utility vehicles (LAUV), and the anti-armour/light armoured vehicle (AA/LAV) (1996-97).

6. The purchase of military vehicles for the LRMP has become important to the industry because it is the most imminent DND planned procurement. See Annex B for update on DDGM and BHI.

7. The DND market for military vehicles tends to be difficult for producers because of the low production rates and/or short production runs with no assured continuing business. Given these conditions, exports are very important to the survival of the industry as it is difficult for companies in Canada to survive on the military vehicle business alone.

8. Of the existing producers in Canada, DDGM's military vehicle facility seems to have the best export potential but also appears to be at most risk in the near term.

CONCLUSION

9. The FMC proposal should be rejected as they are asking for a directed contract for all Canadian LAV

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- 3 -

requirements, present and future, in return for construction of a new facility in Canada. The timing they propose does not meet our planned funding and the proposal is contrary to our government policy of free and open competition. A letter to this effect was prepared for the Minister's signature in October. As of 30 November, it had not been signed.

Responsible Directorate: DDIR

Date prepared: 5 Dec 88

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ANNEX A

TO BRIEFING NOTE

DATED DECEMBER 1988

FMC UNSOLICITED PROPOSALBACKGROUND

1. In Aug 88, FMC advised the MND by a "Letter of Intent" that they would be sending an unsolicited proposal (UP) to address DND LAV needs. The UP was received at the end of September. A reply was prepared for the MND signature by PM AALAV. As of 30 Nov 88, the MND had not signed it.

PROPOSAL

2. FMC proposed a coordinated procurement strategy for several DND programs requiring light armoured vehicles, using existing off-the-shelf products (M113), as well as developing variants of its new line - "Wolverine". It proposed to satisfy the Land Reserve Modernization Program (LRMP) vehicle requirements, the Light Armoured Vehicle (LAV) requirements, and in addition, it would set up a Repair and Overhaul facility for M113 and Wolverine modernization, upgrade and logistic support.

FMC COMMITMENT

3. The proposal committed FMC to:
- a. establish a Canadian Design Centre and transfer technology to Canadian Industry;
 - b. establish a Canadian Strategic source production facility for Canadian and world markets. To be established in a mutually agreed Canadian location;
 - c. create 250-300 jobs;
 - d. involve Canadian industry in all repairs;
 - e. develop the Canadian variants;
 - f. provide total of Canadian Forces LAVs within

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- planned funding levels; and
- g. provide LRMP vehicles within planned budget levels (from U.S. plant).

PROPOSED GOVERNMENT COMMITMENT

4. In return, FMC expected a long term DND commitment for production, maintenance and configuration management of the LAV (Wolverine) and its variants. In effect, privatization of DND's Repair and Overhaul.

PROGRAM PLAN

5. Their plan called for provision of:
- a. LRMP - 213 vehicles (M113A2);
 - b. Fleet support upgrade - 1,200 M113 and provide future repair and overhaul;
 - c. LAV - 1,700 M113. FMC would fund development for a firm commitment to purchase.

COSTING

LRMP - U.S. \$61,251,000 - production
LAV - U.S. \$1,400,800,000 1989 - 2009.

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ANNEX B
TO BRIEFING NOTE
DATED DECEMBER 1988

ANNEX B TO BRIEFING NOTE ON FMC UNSOLICITED PROPOSALDDGM

1. DDGM, located in London Ontario, is a wholly owned subsidiary of General Motors of Canada Limited. DDGM Defence Operations was established in 1976 to produce military vehicles for the Canadian Forces. Revenues from Defence Operations were \$115 million in 1987, out of total revenues of \$385 million for DDGM. Employment is down to 270 from a peak of 800, and still decreasing.

2. DDGM has had few contracts with DND since its inception; a major production contract included the general purpose armoured vehicle (\$350 million, 1976) with a few, smaller engineering or R&D contracts totalling about \$5 million. Despite a strong export marketing effort, DDGM has thus far achieved export sales only in the U.S., having produced 759 LAV for the U.S. Marines but with 12 U.S. electronic warfare vehicles being the only production currently taking place in the plant.

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3. Future export prospects for DDGM appear to be very good. The General Motors Corporation (GMC) military vehicle design has been selected by the U.S. Marines, U.S. Air Force and Saudi Arabia, but will not go into production until the period 1991 to 1996. The potential contract value is over \$100 million (Cdn). Further U.S. requirements for which the GMC vehicle would be very competitive, represent contract

values of over \$1 billion (Cdn).

4. In the period 1989 to 1991, however, DDGM has been unable to identify any significant production orders, and all efforts to bring forward non-domestic orders into this period have failed. Without orders, DDGM predicted that the Defence Operations facility would cease to be considered viable by GMC and could cease to exist in Canada. Under these conditions, it is possible that GMC could decide to supply the future, large U.S. contracts from a new U.S. facility rather than from the Canadian facility.

5. DDGM has come forward with a proposal to supply the vehicle for the LRMP from its Canadian facility. The key elements in the proposal are that the vehicles for LRMP be sole-sourced to DDGM, and that the procurement be brought forward from 1991 to 1989. This would then maintain their viability in Canada to compete for the 1995 Canadian light armoured vehicle project and U.S. planned procurements in the 1990s.

6. To buy the DDGM vehicle will cost \$25 million more than the department had originally estimated for the vehicles portion of the LRMP. The Minister of State, Finance supported the GM proposal and undertook to seek an increase to the DND envelope to cover the \$25 million. On 20 Oct 88, the MND advised the President of DDGM that he would seek concurrence of his Cabinet colleagues to support the procurement of 200 LAVs for a maximum of \$175 million. It now appears that the Army can accommodate the entire project cost within its current envelope. In addition, the Project has been allocated \$40 million from slip in this year's budget.

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7. In view of the Minister's decision to support the DDGM proposal, the Department is currently in the process of

staffing the requisite approval documents and Memorandum to Cabinet. It appears both FMC Corporation and BHI are aware of this.

BHI

8. BHI has been established by Thyssen Industries AG as a Canadian subsidiary company to permit the transfer of investment and technology to Canada to supply the North American commercial and defence markets from its proposed modern manufacturing facility in Cape Breton, Nova Scotia.

9. Thyssen Industries AG, based in the Federal Republic of Germany, is one of the world's largest manufacturing companies with annual sales exceeding \$30 billion, and 130,000 employees world wide. Of Thyssen's annual sales, less than five per cent are in the defence sector.

10. In Canada, Thyssen's holdings include: Budd Canada Inc., Kitchener (automobile parts); Northern Elevator Holdings Ltd., Toronto (elevators); Greening Donald Co. Ltd., Hamilton (metal fabrication); Thyssen Marathon Canada Ltd., Mississauga (steel importers); and Thyssen Canada Ltd., Rexdale (steel importers). In all, Thyssen employs some 3,000 Canadians.

11. In the U.S., the company has recently reached an agreement with General Dynamics concerning technology sharing in a joint bid to produce light armoured vehicles for the U.S. military, further increasing Thyssen's existing North American commitment. In 1985, the then DRIE Minister during a visit to Germany, requested that Thyssen submit a proposal to establish a manufacturing facility in Cape Breton. In March 1988, Thyssen submitted a proposal to the Government, through Atlantic Canada Opportunities Agency (ACOA), to

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establish an \$85 million heavy-industry manufacturing facility at Bear Head, Cape Breton.

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

13. Thyssen proposed to establish the Bear Head facility in two phases:

- a. Phase I, the production of military vehicles for the North American defence market; and
- b. Phase II, diversification, within 12 months, into civilian production.

14. In Aug/Sep 88, many discussions were held with Bear Head Industry officials, the Minister responsible for ACOA, and the Minister of Regional Industrial Expansion. As a result of these negotiations, an "Understanding in Principle" (UIP) was signed by all concerned. This UIP requires the company to:

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- a. start construction of a plant requiring an initial capital investment of \$58 million;
- b. apply for assistance under the Cape Breton

Investment Tax Credit; and

- c. provide necessary information for qualification under the Defence Industries Productivity Program (DIPP).

15. The UIP requires the Government to consider assistance to the company for up to 50 per cent of eligible costs (DIPP Funds). The establishment of this manufacturing capability will place Thyssen/Bear Head in a position to compete for Government/DND future requirements for Light Armoured Vehicles (early to mid 1990s). Due to a projected construction completion in 1992, they would not be able to meet the LAV requirement for the Reserves regardless. No DND commitment has been made beyond the recognition that Thyssen/Bear Head would be able to compete for DND LAVs.

16. Bear Head Industries has made public announcements of its intention to construct the plant stressing the civilian industrial programmes.

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K. ARNEY
- DMSL

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Minister of National Defence



Ministre de la Défense nationale

Mr. Robert N. Burt
Vice President
FMC Corporation
881 Martin Avenue
Box 58123
Santa Clara, California 95052
USA

Dear Mr. Burt:

Thank you for your letters of August 5 and September 14, 1988 detailing your proposal to establish a facility in Canada for armoured vehicle design, production and upgrade related to the light armoured vehicle portion of the Land Reserve Modernization Project, the requirement for new vehicles to enlarge and modernize our fleet and, thirdly the requirement for selective upgrading of a portion of our existing M113 fleet.

While your proposed sourcing strategy is of interest, there are a number of points that I must bring to your attention. As currently established, each of the above programs is a separate project although, obviously, they are closely related. None of these projects are currently scheduled for implementation until at least the early to mid-1990s and, at this time, none of them have received approval-in-principle from the Government. Furthermore, it would appear that funding constraints will require that we consider each portion separately on its own merits.

As you point out, there are possible advantages to be gained through a proposal such as yours in terms of equipment commonality that might result in increased efficiencies in terms of operations, repair, overhaul and maintenance. However, such advantages must be balanced against other considerations. While elements such as price, sustainability, operating costs, etc., are factors which are taken into consideration, it is not only the technical and operational requirements and specifications that must

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Ottawa, Canada K1A 0K2

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be satisfied. The proposal must also meet the Government's industrial and regional development objectives and requirements as well as defence industrial base considerations. These latter factors could be a prime consideration in a decision not only to keep the three programs as separate contracts but also in dictating the type of procurement strategy the Government would wish to pursue for these acquisitions.

I believe the foregoing is particularly important and something that you will wish to consider carefully in responding to any of our acquisition initiatives. Should the necessary approvals be given in due course, the Government would, at that time, be able to identify for industry the specific type of procurement strategy it wished to pursue relative to meeting our requirements in these three light armoured vehicle projects. This would then enable you to assess your proposal within specific contexts of technical/operational specifications, cost, timing, number of vehicles and industrial/regional development objectives.

In the meantime, as you had informed a number of my colleagues of your intention to submit this proposal, I have taken the liberty of passing a copy of your proposal, together with my reply, to my colleagues, the Ministers of Regional Industrial Expansion and Supply and Services. They will serve as appropriate points of contact for you with respect to facility location, regional/industrial development policy and procurement policy.

Again, thank you for your continued interest in Canadian defence requirements.

Sincerely,

ORIGINAL SIGNED BY
ORIGINAL SIGNÉ PAR
HON. PERRIN BEATTY

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cc: ✓ DND Inq
PD LAV

Perrin Beatty

The Honourable Robert R. de Cotret, P.C., M.P.
Minister of Regional Industrial Expansion and
Minister of State for Science and Technology
The Honourable Otto Jelinek, P.C., M.P.
Minister of Supply and Services
The Honourable Bill McKnight, P.C., M.P.
Minister of Indian Affairs and Northern Development
and Minister of Western Economic Diversification
Senator the Honourable Lowell Murray, P.C.
Leader of the Government in the Senate and
Minister of State (Federal-Provincial Relations)

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22-9-88

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D: 28-9-88

Frank D. Moores



SUITE 1300, 56 O'CONNOR STREET,
OTTAWA, CANADA K1P 6L2
PHONE: (613) 216-7001 TELE: (613) 298-
FAX: (613) 216-3061

May 9, 1989

The Honourable Wm. McKnight
Minister of National Defence
Room 401, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Bill:

I am including with this note a short summary of some thoughts on the Bear Head project as well as a diagram outlining what it means to Canada.

As always, the project needs a 250 light armoured vehicle order to kickstart the project.

I would be less than honest with you if I did not confide that I have a deep sense of forboding that this project, supported by the Prime Minister, the Deputy Prime Minister, Elmer, Lowell, Lucien and ACOA, will go down the tubes unless action is forthcoming. A glance at the diagram will show you what a disaster of immeasurable proportions this will be for Canada.

If the budget exercise has taught us anything, it is that departments, including Defence, must learn to accept political direction; otherwise, the department risks losing the entire program. The political support for Bear Head has always existed; indeed; had it not been for the political support, Thyssen would long ago have established in the U.S. But it is getting more and more difficult to delay that day.

I firmly believe that if the Minister of National Defence were to instruct his

department to make this happen, then Bear Head would proceed swiftly with tangible economic (and political) results. Without that strong direction, I fear the worst.

I am given to understand that the department is presently prioritising the immediate future and I think that exercise will seal the fate of Thyssen in Canada one way or another. I strongly solicit your championship of this project.

I think it vitally important that in the next day or so, you agree to meet the following people:

1) Karlheinz Schreiber - Chairman of Bear Head Industries - he is in town from Germany and his knowledge of this file and the opportunities for our country are considerable.

2) General Ramsey Withers - he is in Germany at the moment but will be back in a few days. As the former Chief of Defence Staff, Ramsey would very much like to brief you on the state of your department and on the state of our armed forces. I consider Ramsey's insight without peer in this field.

May I proceed and make appointments with your secretary?

Yours sincerely,

Frank D. Moores

FDM/no'n
Enclosures

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17	Wickhamer BMVG LAR Programm	
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BEAR HEAD INDUSTRIES LIMITED

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R7S8

TELEPHONE(613)563-3321

TELEFAX (613) 563-7848

CONFIDENTIAL

19 July 1989

The Hon. Bill McKnight
Minister of Defence
Room 401
Confederation Building
Ottawa, Ont.
K1A 0A6

Dear Minister:

As you know, THYSSEN INDUSTRIE AG has been active for some time in establishing a major manufacturing capability in Cape Breton, Nova Scotia. This investment initiative is being taken in response to Federal regional development objectives.

BEAR HEAD INDUSTRIES LIMITED (BHI) will be the Canadian subsidiary, and the North American production base for a number of defence and commercial products, including light armoured vehicles. Our intentions in this regard are well known, and moreover specified in a joint understanding made with the Government on September 27th last year.

There has been some speculation that the LAV choice facing the Army is confined to two options in the immediate term:

a) proceed with a proposed \$100 Million wheeled vehicle order for the Reserves. The advantage is that this proposal is relatively low in capital outlay. The disadvantage is that it, in fact, seeks to purchase new vehicles reflecting what is in essence, old technology. The other disadvantage is that, alone, this proposal does not address the overriding regular force LAV requirement. Whatever role the future may hold for the Canadian army,

**BEAR HEAD INDUSTRIES LIMITED**

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we strongly submit that the first priority must be in favour of a vehicle capable of meeting all likely future requirements, ranging through the spectrum from peacekeeping to high intensity conflict. This vehicle will be produced by THYSSEN in Canada.

b) proceed with the ALAV program. As originally conceived, this program was estimated as costing anywhere from 2 to 4 billion.

Because we are aware that you are now establishing priorities in program funding, we feel it is important at this time to submit a new option for your consideration which we believe represents a logical and cost-effective alternative.

We appreciate the severe impact that reduced funding has made on programs and expectations within DND, but we also recognize that real equipment shortcomings remain in both the Regular and Reserve components of the Land Force. These include a lack of adequate protection and mobility in the light armoured vehicles deployed overseas, and a critical shortage of armoured training vehicles for the Militia.

In the light of this situation, THYSSEN is prepared to propose a more effective (but still financially modest) response to the Army's needs. Our proposal is to provide over 200 well protected and versatile tracked vehicles of the most modern design from Canadian production at BHI. We estimate the cost at approximately \$250 million CDN *.

We would recommend to DND that these vehicles replace the M113 in their most critical roles in deployed field units. Such partial re-equipment would significantly increase troop protection and combat capability in Canadian units overseas, and will additionally permit the release of in-service vehicles (M113 or AVGP) to the Reserve training role.

* Based on THYSSEN HENSCHEL costs calculated for 01.09.1989



BEAR HEAD INDUSTRIES LIMITED

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The advantages of our proposal are:

1. At a relatively small cost, it permits the forces to obtain modern technology with a new family of vehicles.
2. The THYSSEN vehicle offers essential protection and mobility for overseas employment, with good capability in Northern conditions, excellent off-road capability, satisfies the most critical needs of Nato-assigned mechanized units, provides a high-level of ballistic and chemical protection for Canadian troops, permits stretch potential including up-armouring - all characteristics not offered by the wheeled alternative.
3. Meets an essential portion of the Field Army's requirement at a fraction of the original ALAV L2065 project cost (less than 10% of original projection).
4. Permits cascading of in-service vehicles to meet Reserve training requirements.
5. Finally, acceptance of this proposal will permit early start-up of the Nova Scotia facility, allowing the establishment of a new Canadian heavy industry manufacturing plant, with advanced vehicle technology, creating more than a thousand jobs (direct and indirect combined), and superbly positioned to participate in the new U.S. vehicle programs.

We believe that the introduction of truly operational vehicles of advanced design would best meet the Army's present needs and future contingencies. BHI is prepared to manufacture such vehicles in Canada in response to your Department's requirements.

As you can see, Minister, we are quite far from the multi-billion dollar figure once envisaged. Our figure of \$250 million is offered to you in good faith as our best current estimate.

If you accept our proposal, we will immediately proceed with the \$95 million construction investment for a combined military and environmental products plant, as described in our project description on record with Atlantic Canada Opportunities Agency (ACOA). As you are already aware, the Minister responsible for ACOA, the Hon. Elmer MacKay and his department have been



BEAR HEAD INDUSTRIES LIMITED

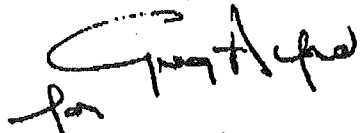
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consistently supportive of our investment plans and would be able to provide additional information on the positive economic impact that our project will bring to regional industrial development in the Atlantic region through the plant establishment, and in the West through the sourcing of parts and components.

We are prepared to bring flexibility in financing, including long-term payment scheduling, and submit that the cost of these vehicles can be compatible with DND's budget and cash-flow restraints.

We sincerely hope that you, your department, and the Armed Forces share our enthusiasm for this proposal. We are at your disposal for further information and discussion, and look forward to your reply.

Yours sincerely,
BEAR HEAD INDUSTRIES LTD.


for
Juergen Massmann
President

Minister of National Defence



Ministre de la Défense nationale

SEP 21 1989

Mr. Juergen Massmann
President
Bear Head Industries Ltd.
Suite 908
350 Sparks Street
Ottawa, Canada
K1R 7S8

Dear Mr. Massmann:

Thank you for your letter of July 19, 1989 regarding Bear Head Industries' interest in providing light armoured vehicles for National Defence.

As you are aware, the Government recently announced approval of a project to meet the requirement of the Land Reserves and awarded a contract for 199 wheeled vehicles to General Motors of Canada. As part of the same project, a contract for 22 tracked vehicles will be negotiated with FMC Corporation of California.

In relation to future requirements, it should be noted that a review of the defence program is now under way. Establishing funding priorities, which you refer to in your letter, is a key part of this review. Future requirements will, therefore, obviously depend on the outcome. It is unfortunate that we cannot be more precise at this time about our future programs, and I regret the difficulties that such uncertainty must be causing your company in the development of your business plan. However, I am sure you will understand our circumstances.

I appreciate your continuing interest in National Defence and its light armoured vehicle requirements and hope we will soon be in a position to look ahead with more confidence about the nature of our long term program.

Yours sincerely,

A handwritten signature in dark ink that reads 'Bill McKnight'.

Bill McKnight

Minister of National Defence



Ministre de la Défense nationale

January 25, 1990

Mr. Karlheinz Schreiber
Chairman, Bear Head Industries Ltd.
Suite 906, 350 Sparks Street
OTTAWA, Ontario
K1R 7S8

Dear Mr. Schreiber:

On September 27th, 1988, an Understanding in Principle was signed between the Government of Canada (represented by the Minister of National Defence, the Minister of Industry, Science & technology, and the Minister responsible for the Atlantic Canada Opportunities Agency) expressing the intent of the parties that Bear Head Industries establish a manufacturing facility on Cape Breton Island in the province of Nova Scotia.

In order to provide a basis for discussions leading to the formalization of plans to proceed with the realization of this project, I am pleased to confirm that, in the event that the Canadian Forces determine to acquire a Multi-Role Combat Vehicle, and subject to Bear Head Industries Limited satisfying in all respects the specifications and design requirements of the call for tenders and all contractual matters, Bear Head Industries Limited will be given an opportunity to participate in the tendering for the contract to supply such vehicles.

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Ottawa, Canada K1A 9T7

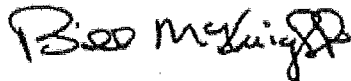
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Current evaluation of possible requirements for armoured vehicles indicates that variants on the TH-495 design currently available from the parent company of Bear Head Industries Limited might satisfy the characteristics and capabilities, as presently defined, of the type of armoured vehicle being contemplated. It must be understood, however, that the Canadian Forces are still in the process of developing their plans for future acquisition of material and equipment, that, in particular, no decision has yet been reached or approved by the Government, to proceed with such an acquisition, and that such decision will remain in the sole discretion of the Government.

This undertaking will remain valid for a period of five years from the date hereof, and may only be renewed by express stipulation in writing.

If the foregoing is acceptable as a basis for the commencement of discussions leading to the building of the subject facilities in the province of Nova Scotia, we would be prepared to participate in more detailed discussions at your convenience.

Yours sincerely,



Bill McKnight

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BEAR HEAD INDUSTRIES LIMITED

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K1R7S8

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15 February 1990

Hon. Bill McKnight
Minister of National Defence
Room 401, Confederation Building
Ottawa, Canada
K1A 0A6

Dear Minister,

Thank you very much for your letter of January 25, 1990.

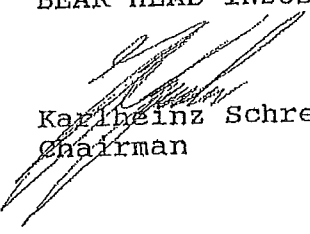
I would like to accept your suggestion to continue discussions on the topic of our plans to establish our North American manufacturing facilities in Nova Scotia.

My original plans to have returned to Germany by now were postponed until March due to personal illness. I now plan to travel to the United States next week, returning to Ottawa February 28th. If it is possible within your schedule, I would request a meeting with you at that time before my planned return to Germany in early March (tentative date: March 8).

Let me also take this opportunity to thank you for making possible the meeting on February 5th, chaired by your Deputy Minister and attended by senior officials in your Department who are interested in our capability as a vehicle producer, as well as officials from other interested departments of the Government. This meeting proved to be very enlightening, and we are corresponding directly with Mr. Fowler in a follow-up to points raised at that time.

Minister, thank you for your continuing interest and I look forward to meeting with you.

Sincerely,
BEAR HEAD INDUSTRIES LTD.


Karlheinz Schreiber
Chairman

Minister of National Defence

Ministre de la Défense nationale

22 MAR 1990

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Info
H. J. ...

Mr. Stanley H. Hartt
Chief of Staff
to the Prime Minister
Prime Minister's Office
Langevin Block
80 Wellington Street
Ottawa, Ontario
K1A 0A2

TRANSIT RECORD

File Reference		
Processed At	Number	Date

Dear Mr. Hartt,

As agreed to at our meeting of February 1, 1990, my Deputy Minister, Bob Fowler, convened a meeting of government officials and representatives from Thyssen and Bear Head Industries on February 5 to discuss Thyssen's proposal to build a manufacturing plant in Cape Breton. The group of officials included representatives of every relevant government department with an interest in the Thyssen/Bear Head issue. Also present were several senior army officers including General John de Chastelain, Chief of the Defence Staff.

There was a general feeling on both sides that, for the past few years, the Thyssen file had been characterized by misunderstanding and misinformation. Consequently, both sides expressed a clear desire for openness which contributed to a full and frank exchange of views during the meeting. You will clearly detect this candid spirit running through the enclosed summary record of discussion.

Mr. Fowler, supported by officials from other departments, made a number of points relating, on one hand, to the way the Government does business and, on the other hand, to the nature of the Canadian Forces' requirement for military vehicles.

[Handwritten notes and signatures]
.../2

(Name) (Title) (Date)

With regard to the former, my Deputy Minister made it clear to Thyssen/Bear Head officials that the federal government's procurement policy is founded on the principle of competitiveness driving efficient procurement. He stressed that the current trend toward declining defence budgets reinforced the need for my Department to maximize painstakingly, the military utility of each defence procurement expenditure. As a footnote, Mr. Fowler advised company representatives that it was regrettable and intolerable that this need for a disciplined departmental process to scrutinize future defence equipment requirements had been misconstrued in some circles as self-serving, military tribalism. He stressed that such allegations questioning the integrity of senior DND officials and military officers were unfounded, unproductive and unacceptable.

With regard to the need for military vehicles, you will note from the enclosed record of discussion that the company was given an overview of the Canadian Forces' future requirements. Officials stressed that the army, whatever its future structure and role, would need a range of armoured vehicles but that there are no plans to acquire any soon. Specifically, no decisions on future armoured vehicle procurement could be anticipated with the next three to four years and no production envisaged within the next five to six years. Further, government officials stressed that any potential Canadian military vehicle requirement - armoured or otherwise - would be small by international standards.

Mr. Fowler emphasized that the Canadian Government would welcome Thyssen investment in Canada. Officials acknowledged Thyssen's strong reputation as producer of an extensive range of excellent, albeit expensive, equipment product lines. At the same time, the group reminded company representatives that international competition among such equipment suppliers would become far more fierce in the future. Further, Thyssen representatives were told that officials believed that no Government would issue a carte blanche on export permits. Officials concluded that the Government would no doubt welcome a decision by Thyssen to set up a manufacturing plant in Canada on the basis of a full understanding of these realities.

.../3

Finally, I would like to clarify the issue of the General Motors Light Armoured Vehicle (LAV) performance with United States' troops in Panama. You will recall that at our February 1 meeting, Elmer Mackay suggested that Bear Head Industries representatives had indicated to you that the GM LAV had performed poorly in Panama. As we agreed, my officials sought clarification from the US Department of Defence, specifically during my Deputy Minister's visit to Washington on February 23. I am enclosing a report on the LAV's "sterling performance" in Panama which has been received from US Deputy Secretary of Defence, Don Atwood. This report refutes any accusation that the Americans were not pleased with the performance of the GM built LAV during their recent operations in Panama.

I had the opportunity to meet for 45 minutes with Mr. Schreiber and the Honourable Elmer MacKay in the lobby of the House of Commons on March 9. During our discussion, I repeated and re-emphasized the points which were brought out at his meeting with our officials on February 5.

Yours sincerely,

Original Signed by
RON BILL McKNIGHT
a signed original

Bill McKnight

Enclosures: 2



BEAR HEAD INDUSTRIES LIMIT

Suite 908, 350 Sparks Street
Ottawa, Ont., Canada
K1R7S8

TELEPHONE(613)563-3321

TELEFAX (613) 563-7648

10 October 1990

The Hon. Bill McKnight
Minister of National Defence
Room 401
Confederation Building
Ottawa, Ont.
K1A 0A6

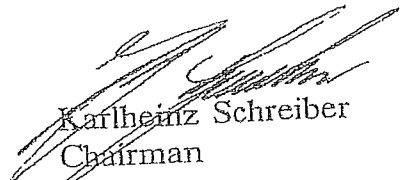
Dear Minister McKnight:

I refer to my letter to you of September 25, 1990, where I requested that the meeting recommended by the PMO with you and your colleague Minister MacKay be convened between October 9 and 13th. I write today to inform you that I will now extend my stay in Canada until October 17th and hope this extended time frame will be more acceptable to your schedule.

I would also like to inform you that Thyssen Henschel and MOD Bonn have so far been petitioned by the Governments of United States, the United Kingdom, Turkey, Saudi Arabia and most recently France, requesting provision of the Thyssen Henschel NBC Fox vehicle for urgent deployment to their respective Armed Forces in the Gulf Region. Deliveries to the US Forces have already commenced. Deployment will be to both troops stationed in defence of supporting bases, as well as to those troops stationed in the frontier zone. The vehicles requested are in both NBC reconnaissance and NBC protected troop and cargo transport configuration.

I will look forward to discussing these matters further when we meet.

With personal regards,


Karlheinz Schreiber
Chairman

Karlheinz Schreiber

Suite 908, 330 Sparks Street, Ottawa, Ontario
Telephone: (613) 563-3321 Fax: (613) 563-7648

**PRIVATE AND CONFIDENTIAL
FOR HIS EYES ONLY**

18 October 1990

The Hon. Bill McKnight
Minister of National Defence
Room 401
Confederation Building
Ottawa, Ont.
K1A 0A6

Dear Bill:

I have always regarded you as a friend who shares many common friends within the Conservative Party. Therefore, I take the opportunity to write this letter to express some concerns to you on a private basis.

Years ago, we worked hard to elect a Conservative Government in Canada and finally in 1984 and 1988 found success with back to back majority governments under Brian Mulroney. I am very proud that I was able to contribute to this cause. I did this having complete confidence in Brian Mulroney as the leader who would carry Canada into a better future.

As a member of the 1990 Atlantic Bridge Conference this past week in Ottawa, I was amazed how speakers such as Mr. John Godfrey, Dr. Sylvia Ostry, Mr. de Montigny Marchand, and Senator Roch Bolduc, were so frank in their comments on the frustrating situation Canadians are in. Your parliamentary colleague Felix Holtman MP and Senator Guy Charbonneau were also present, and they may have shared this with you already.

The German participants of this meeting find it hard to understand why a country so rich in natural resources can find itself in such a situation.

**PRIVATE AND CONFIDENTIAL
FOR HIS EYES ONLY**

The outcome of the Atlantic Bridge Conference was as follows:

1. The dramatic challenges in the world will be economic.
2. These problems cannot be handled by Governments. Governments' role will be only to support industry as the engine of recovery.
3. NATO will continue in a role of keeping the trans-Atlantic Family together and as the key player in UN peace-keeping.
4. Finally, the problems of the environment will also only be solved by private sector activities supported by Government.

What Canada needs is increased business in exports, exports, exports. Not only in natural resources but increasingly in finished products.

The Canada-US Free Trade Agreement secures an open door to the most important market in the world and gives Canada one of the greatest opportunities, so long as we can deliver what that market demands. History will prove the vision of the Mulroney Government in having secured a treaty to guarantee Canada's access to the US market.

Five years ago, the Thyssen Company was ready to extend its activity in North America. In response to solicitation from the Canadian Ambassador to Germany and statements by Federal Government Ministers that Canada was "open for business", it was decided to choose Canada instead of the U.S. as a base for this new activity in North America. The priority activity planned for this new facility was defence production and representatives of the Canadian Government readily argued that under the Canada-United States Defence Production Sharing Agreement a Canadian site would be considered equal to an American site from the perspective of trade in defence goods. Furthermore, Ministers of the Crown specifically cited the Prime Minister's priority to bring new jobs and industrial diversification into Atlantic Canada. This was the main reason that I committed myself to bring this investment to Canada.

As you know, Thyssen is a broadly diversified industrial company with some 136,000 employees worldwide, achieving 2 billion DM in profits last year and an equally strong outlook for this year. In the United States, Thyssen employs some 16,000 persons with two new plants under construction, while in Canada, there are some 2,000 employees, mainly in Ontario.

**PRIVATE AND CONFIDENTIAL
FOR HIS EYES ONLY**

I hope you understand that Thyssen does not need an order from DND to survive. What Thyssen does need is a reason to locate its plant for military vehicles and environmental protection technology in Canada. I expect that you may agree it is reasonable that the Americans would find it hard to understand why we want to produce in Canada vehicles for their procurement, when we have not yet received any order from the Canadian DND.

Thyssen does not need grants from the Government, nor does it want to be involved in another industrial tombstone erected at Canadian tax payers expense. What Thyssen needs is a start-up order for 250 Fox armoured personnel vehicles, an order that could be adjustable to the MRCV specifications. Both vehicles are especially well suited to peace-keeping missions due to protection against 7.62mm armour piercing ammunition and the nuclear, biological and chemical (NBC) threat.

I would like to inform you again that the Governments of the United States, United Kingdom, Saudi Arabia, Turkey and France have all petitioned the German Government for supply of the Fox vehicle on an urgent basis from German Army stocks. Delivery of the first thirty vehicles to the U.S. Forces in Saudi Arabia is complete and the result of their performance is very positive.

It surprises me that the Canadian DND has taken no similar action to protect Canadian military personnel stationed in the Gulf. It is also amazing to read today's press accounts that the Canadian Forces had to recover defensive weapons from a museum for deployment on the Naval vessels in the Gulf.

I for one would feel guilty having not done enough to change these problems in shortfalls of equipment capability. You may well imagine how I felt when, in February 1990, I learned from your officials that NBC protection was considered an unnecessary requirement in Canadian armoured vehicles.

Then in trying to help and bring the project forward and bring the necessary equipment to the Canadian Forces, I learned from LGen. David Huddleston:

I "will ruin the reputation of Thyssen within DND completely and end up with nothing".

Karlheinz Schreiber

4

PRIVATE AND CONFIDENTIAL
FOR HIS EYES ONLY

When I responded that I felt confused by such a remark, because we were invited by the Canadian Government he said:

"We are the Government".

I then said that Ministers soliciting investment for Canada abroad should explain to investors that Canada has two different Governments. LGen Huddleston's concluding remark was:

"We don't care what *#@^*# Ministers whisper in your ears and cannot deliver later on."

I will try to put this remarks aside as an unpleasant memory.

More recently, I learned from you that financing is the only problem that prevents you from equipping your soldiers with a modern vehicle. Thyssen is in a position to explore a variety of financing options which would assist in overcoming the obstacle of near term financial restrictions and I stand ready to help in finding the right solution for DND. In any event, we should do everything we can to give Canadian soldiers proper equipment and at least the same protection as our NATO allies seek for their soldiers.

Furthermore, activation of the Bear Head project will benefit the objectives of the Canadian economy through increased exports to the United States. I can see how, in meeting the primary equipment needs of the Forces, we also can multiply the effect by using the Forces needs to enhance our export position, a result that will help to address critical economic and employment problems all over Canada. Moreover, in exporting a system like this which requires ongoing maintenance, spare part supplies, and upgrading, we stand to create constant economic benefits for Canada of a significant and long term nature. For your interest, I enclose an article by Hyman Solomon which appeared in the Financial Post 10/17/1990, which argues strongly for the need of such linkage between Government and industry.

I stand ready to meet with you at the earliest opportunity to meet this challenge.

Kind personal regards,


Karlheinz Schreiber

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is an expression of intent, but it is a condition precedent to the requirement to perform hereunder, that the parties enter into a more detailed contract, more specifically outlining their terms of agreement. The parties agree to proceed forthwith to finalize such contracts.

This document signed this day of 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 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 Industrie AG 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 Atlantic Canada;

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 Province of Nova Scotia;

WHEREAS the Government of Canada recognizes that the proposed facility represents an important economic development and diversification of the industrial base of Nova Scotia; and

WHEREAS the Company and the Minister of the Atlantic Canada Opportunity Agency, and the Minister of National Defence, on September 27, 1988 signed the document known as an "Understanding in Principle", which stated in clause 6 that it would be replaced at a later date by this Memorandum of Understanding (hereinafter MOU);

1. In accordance with this MOU the Company shall establish a diversified heavy-industry manufacturing facility in the Province of Nova Scotia, which will:

a) create in Nova Scotia a new and diversified activity in the Canadian civilian and defence industrial base, with access to the

North American markets, under the Canada/United States Free Trade Agreement and the Defence Production Sharing Agreement;

b) transfer to the facility, all technology necessary for the establishment and development of this facility and its respective specialized products in both the civilian and defence sector;

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

d) 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 MOU, the Government of Canada, in order to facilitate the establishment of the Company's heavy-industry manufacturing activity in Nova Scotia, will:

a) enter into negotiations with the Province of Nova Scotia, to put in place financial arrangements for the co-funding of required physical infrastructure, up to a maximum value of \$15 million;

b) 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

c) 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 facility.

PHASE I

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

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a) the Company

(i) the Company will proceed forthwith with the construction of an initial plant, requiring an estimated initial capital investment of \$68 million, to manufacture defence products for the North American markets;

(ii) the Company will sub-contract manufacturing of major components for supply to the Thyssen Henschel - General Dynamics Land Systems joint venture which has recently been awarded contracts for the supply of TPZ Fox armoured vehicles to the United States Army.

b) the Government of Canada:

(i) The Minister of National Defence, will place a sole sourced order with the Company for 250 Fox (TPZ Fuchs) Armoured Personnel Carriers, from Canadian production at the Company's Nova Scotia facility.

[BHI estimates the cost for these 250 vehicles at approximately \$210 million Canadian, based on current and previous sales to the German and U.S. Armies. After DND specifications are established, final price will be determined using the principle of open audit of costs and agreed profit.]

provided the Company:

- a) manufactures in its Nova Scotia 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) provides acceptable regional and industrial benefits;
- d) agrees to announce and proceed immediately with construction of it's plant with the following schedule:

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Nov. 1990: Contract signed with Government of Canada
Jan. 1991: Engineering finalization and commencement of construction contracts.
Oct. 1992: Plant in operation and staffed.
Oct. 1993: - Commencement of delivery of vehicle
- Commencement of Phase II diversification.
May 1995: Completion of delivery of vehicles.

e) BHI agrees that DND may, until September 1991, cancel all or part of its order and replace it with an order of corresponding value for Multi Role Combat Vehicles (TH495 category).

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, for environmental protection technology; and

(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 a portion, to be determined in subsequent negotiations, of the infrastructure assistance provided under paragraph 2 (a) above, in the event that the employment level of 400 people for Phase I is not sustained for 5 years.

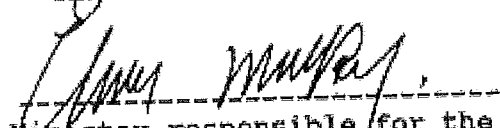
b) the Government of Canada:

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

6. In recognition of the very considerable financial, technical, and other capabilities realized by Bear Head Industries, as a wholly-owned subsidiary of Thyssen Industrie AG, and the importance of such capabilities to the Government of Canada, by copy of the enclosed agreement between Thyssen Industrie AG and Bear Head Industries, Bear Head Industries hereby discloses a commitment by its parent to retain its one hundred percent ownership in Bear Head Industries, for a period of at least five years in duration, commencing from the date of the award of the contract (noted in paragraph 4b (i) above) to Bear Head Industries.

Should Thyssen Industrie AG wish to divest, in whole or in part, its holdings of Bear Head Industries, prior to 5 years, Bear Head Industries will in advance seek written consent from ACOA, and will remit to the Government of Canada a sum equal to fifty percent of the aggregate value of the federal contribution to infrastructure (noted in paragraph 2a above).

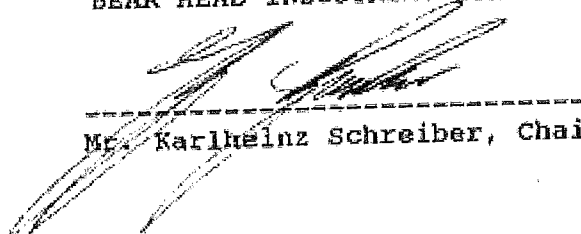
THE GOVERNMENT OF CANADA



Minister responsible for the
Atlantic Canada Opportunities Agency

Minister of National Defence

BEAR HEAD INDUSTRIES LIMITED



Mr. Karlheinz Schreiber, Chairman

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

**PRESENT: Mr. WILLIAM McKNIGHT
Insp. GRAHAM MUIR
Insp. PETER HENSCHEL**

5 G.MUIR: This is the uh interview of, of WILLIAM HUNTER McKNIGHT,
surname McKNIGHT, M - c - K - N - I - G - H - T, born 1940, July 12.
Hum Mr. McKNIGHT is a former Minister of National Defence from
January 30, 1989 until April 20, 1991. This interview uh, is being
conducted at the uh, RADISSON HOTEL, 405 20th Street East,
10 SASKATOON, SASKATCHEWAN. Hum, today's date is Thursday uh,
the 30th day of September and this interview is being conducted by
Inspector GRAHAM MUIR, M - U - I - R, and Inspector PETER
HENSCHEL, H - E - N - S - C - H - E - L. Before you came in to put
some preamble on saying that here we are and we're at the RADISSON
and PETER's here and I'm here and Mr. McKNIGHT's here. And hum,
15 and I wanted to make sure, there's a couple of things I didn't get, hum, and
the room number here is uh 1207 and the time of this right now is 14:24.
And hum, and for the record Mr. McKNIGHT what's your address at
home?

W.McKNIGHT: 1320 . .

20 G.MUIR: Yeah.

W.McKNIGHT: . . Elhart Street, E - L - L - I - G - T - T, S7N 0V8.

G.MUIR: Thank you very much. Hum, you know that we're, uh, we're engaged in
an investigation that covers hum, well it's known as the AIRBUS inquiry,
but I'm thinking, I'm sure that you know what it has to do with uh,
25 helicopters and light armoured vehicles as well. Hum, and you know we
just, we'll cut to the chase with you Mr. McKNIGHT we, we're here to
cover off a period of time that had to do uh, well a period of time on your
watch when you were the Minister of National Defence and I g-, that
would have been, my recollection serving January '89 till April '91, is it?

30 W.McKNIGHT: Mmm.

G.MUIR: Uh-huh, OK now now the TITUSSEN then, I I'm just gonna call it a
project because that's what, that's what it was. Uh that that predated you
by some time.

W.McKNIGHT: Yes.

35 G.MUIR: And it uh, by the time you'd arrive at the helm there had been an already a
considerable legacy that had developed over that uh, that particular
project.

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

W.McKNIGHT:

Yeah.

G.MUIR:

Hum, I guess right to to begin with, hum, we'd like to listen to you tell us what you recall about that and what your perspective of it was and and if the, you know if the players that come to mind immediately and, just, you give us your version of events as it relates to, the THYSSEN initiative from the point of view of the Minister of National Defence.

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W.McKNIGHT:

There were two initiatives. The first time I heard of THYSSEN or BEAR

G.MUIR:

Mmm.

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W.McKNIGHT:

.. uh was to do with a bicycle factory in CAPE BRETON.

G.MUIR:

THYSSEN and uh, OK.

W.McKNIGHT:

It came up around the Cabinet table, uh, the Minister of Economic Development was or DRIE at that time was SINC STEVENS and uh, there was discussion that that would be a beachhead for uh this GERMAN . .

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G.MUIR:

Yeah.

W.McKNIGHT:

.. industry to come into CANADA. Then the next time I became aware of was when I was Minister of Western Economic Diversification which was from '87 . .

G.MUIR:

Mmm.

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W.McKNIGHT:

.. till the, '89 I think, it doesn't matter.

G.MUIR:

Mmm.

W.McKNIGHT:

And uh, I was aware of the project in ATLANTIC CANADA that was being promoted. We had tried to get uh, some heavy truck manufacturing moved into WESTERN CANADA through DND, Supply and Services/DND and uh, so I was aware of this manufacturing opportunity that was being promoted by THYSSEN, by KARLHEINZ uh, ELMER, most of the, the ATLANTIC caucus. Uh, not the MARITIME caucus, the ATLANTIC caucus. And uh, then as I wanted, became Minister of Defence and uh it became an active file, uh we were looking at dollars. We were also looking at Canadian content. There were two opportunities, the THYSSEN opportunity was presented, represented to uh, to DND and of course the GM Diesel uh, program that they were promoting was also being presented at the same time. I met with uh, I'm trying to remember, I met with KARLHEINZ SCHREIBER and someone from MOORES' shop, it wasn't FRANK, I'm trying to remember who it was. On one occasion where they promoted it uh, KARLHEINZ continually lobbied when you saw him at any event which he attended fairly regularly.

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INTERVIEW OF MR. WILLIAM McKNIGHT

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DATE: 99-09-30

G.MUIR:

Mm.

W.McKNIGHT:

And uh, then at DND as the project was moving all the recommendations that came up through the ADM p-, ADM Materiel, it started with HEALEY, I believe Admiral HEALEY, GILLESPIE, STURGEON, I don't think I missed anybody there. And all the recommendations were uh, were that although it may be a good vehicle, it may be a vehicle that would be able to serve CANADA and the men and women that it uh, from a cost point of view and from a Canadian content or a content that would bring industrial benefit uh to CANADA, that GM was uh, a better choice also in personnel carriers, armoured personnel carriers that we had at the time were more compatible to GM from spares. And uh, there was an intense lobby. I think it was shut down at least to the Ministers knowledge it was shut down by a meeting that we had with uh, SCHREIBER and I don't remember who else from the, from the promoters side. But General GORDIE REAY was there, Head of Land Force, deCHASTLAIN the CDS, FOWLER the Deputy, I don't know whether it was GILLESPIE who was at ADM Materiel then or whether it was STURGEON. The presentation was made, we uh listened, went back uh reviewed the presentation, the officials presented their findings. And it uh, still didn't fly, a memorandum I think was written to that extent. Probably passed on up to PCO, but I'm not sure.

G.MUIR:

Mmm.

W.McKNIGHT:

And uh, it wasn't any different I don't think from the recommendations that had been given to the three or two previous Ministers in my p-, in uh DND. That was about it.

G.MUIR:

Some of the uh, some of the events that you allude to and believe me, I mean we we understand we, sit down and have a conversation like this that you know from a professional point we're preoccupied with the details and it's best that

W.McKNIGHT:

Oh sure and I don't mind being asked.

G.MUIR:

Yeah.

W.McKNIGHT:

That way I can, I can answer.

G.MUIR:

Well we also understand to that we're asking you . .

W.McKNIGHT:

..... (laughs).

G.MUIR:

. . yeah we're asking you to retract just a mere decade of your life and, so that's that's that's good. Hum, I'm gonna, I'm gonna address some some not many, but a few documents in this . .

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

W.McKNIGHT: Mmm.

G.MUIR:

... come here mercifully you don't have to s-, do that from cover to cover. Hum, in a nutshell really you can, you've captured that, the the play and really the what we're concerned about. So I have some specific questions about that.

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W.McKNIGHT: Sure.

G.MUIR:

But before I do, hum, just before you came on, you showed up in January of 1990 . .

W.McKNIGHT: Mmm.

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G.MUIR:

... one of the things that just predated you by weeks, months, I mean September of '88, 27th day of September of 1988 there was, there was a document that was colloquially referred to as the UIP or the Understanding in Principle. And this, this was a kind of a different document, but it was, it was . .

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W.McKNIGHT: yeah.

G.MUIR: Yeah.

W.McKNIGHT: Yeah.

G.MUIR: On uh . .

W.McKNIGHT: Yeah.

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G.MUIR:

It was referred to as a lot of things from comfort letters and so forth, but but really what what that did is it uh, it captured the signatures of the Ministers of the day including your your predecessor hum, Mr. BEATTY on behalf of Defence, hum, MERRITHEW on behalf of uh . .

W.McKNIGHT: ACCO.

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G.MUIR:

Yeah, now the DRIE Minister was hum Mr. deCOTRET.

W.McKNIGHT: ...

G.MUIR:

Yeah and signing on behalf of the company in this case hum, BEAR HEAD INDUSTRIES or THYSSEN was Mr. SCHREIBER. Now I I wanna just dwell on this just for a moment because it really would help us sort of focus our, so you understand where we're coming from and to maybe focus your mind on where we're going. Hum, that Understanding in Principle pe-, predating your time, did hum, did s-, it it became material a testament to you know some vague intent on the part of the Government of Canada to hum, to entertain at some point in the future, hum, uh, the potential however vague of doing business with THYSSEN as it related to light armoured vehicles. OK. Now that in and of itself hum, is one thing and we've come to know much about the minut(a asso-, associated with

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INTERVIEW OF MR. WILLIAM McKNIGHT

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DATE: 99-09-30

where that thing came from. And I might have mentioned this to you on the phone when I first called you, I'm not sure, I think I did, hum, that that particular document uh, and along with our our uh, our interest in Mr. SCHREIBER has had consequence to the extent that it became a document that leveraged uh the payment of commissions, significant money, hum, to Mr. SCHREIBER from the company. Now hum, that's become the stuff of headlines as of late and hum I'm sure if you know following the press you'll know that Mr. SCHREIBER's come into some degree of difficulty in recent days as it relates to an arrest and potential extradition and so forth. Now uh, Mr. SCHREIBER doesn't dispute that he came into possession of that money. And eeh-, and indeed uh, it just seems to be a statement of fact that uh, that that money found its way from the company to the benefit of Mr. SCHREIBER at least, and the corollary is that uh Canadian officials elected or appointed might have benefited materially or financially as a result of that. Any comment you want to make on that before we go any further?

W.McKNIGHT:

None.

G.MUIR:

OK.

W.McKNIGHT:

I'm aware of the document.

G.MUIR:

Yeah.

W.McKNIGHT:

And as you said it preceded me, the other thing that is important that you recall the actions that I took as Minister in the budget.

G.MUIR:

Mmm.

W.McKNIGHT:

That followed my taking over the responsibility of the Minister.

G.MUIR:

Mmm.

W.McKNIGHT:

And in my mind that was one piece of government procurement that uh, along with submarines uh, helicopters uh, war personnel, ... rays, sensors, I can't remember everything else.

G.MUIR:

Mmm, mmm.

W.McKNIGHT:

That I eliminated as the Minister responsible in the budget ... so that document or that comfort letter or that letter of intent to . .

G.MUIR:

Mmm.

W.McKNIGHT:

. . discuss or pursue hum, didn't have any weight after the decisions were made as to what we would be expending to replace capital, uh equipment capital in the department. We started from ground zero when we were making our commitments and our assigning our source funds replacing capital equipment.

INTERVIEW OF MR. WILLIAM McKNIGHT

6

DATE: 99-09-30

G.MUIR: OK.

W.McKNIGHT: So I mean I I . .

G.MUIR: Yeah.

W.McKNIGHT: . . I'm aware of it.

5 G.MUIR: OK I I'm not gonna belabour the point specifically because you weren't the man at the helm at the time, that wasn't your watch. Hum, but let me just, just so you understand why it is that we hum, we're we're more than a tad curious about that and I'll, I'll tell you why in a nutshell. Hum, the gentlemen that had to put their signature to that document hum, regardless of the extent to which people would argue it was binding or not, hum, to a man, did so hum, against uh, the best judgment and advice and fairly thorough documented, documented uh positions of their senior officials. And yet, those signatures found their way there. Now hum, that's that's one thing, uh, but that, to be able to pick that document up and uh, and to walk it back to a company like THYSSEN for example and say, "all right we needed land I got land, we needed uh, a letter of intent however vaguely framed uh and a commitment from the the Government of Canada however loosely contrived, I got that" and that triggers the flow of funds. What what do you think about that?

20 W.McKNIGHT: That's just putting myself in in uh, where I am in private business today. I understand that. You know that is what would happen if I had a contract with a company.

G.MUIR: Mmm.

W.McKNIGHT: I'd fulfil certain obligations, meet the requirements of the company.

25 G.MUIR: Mmm.

W.McKNIGHT: And say now, I've fulfilled my bargain give me my commission.

G.MUIR: OK.

W.McKNIGHT: Because I don't follow where you are going when you ask what do I think about it.

30 G.MUIR: Well where we're going uh it's uh, yeah jeez that's uh, from our point of view it's pretty clear, hum this this fellow by the name of Mr. SCHREIBER has done exceptionally well for himself as an entrepreneur. He's advanced the interests of corporations the world over and he's made a handsome profit doing that. And hats off to him, there's no-, there's no offence committed anywhere in this world making money being good at what you're doing.

35 W.McKNIGHT: Yeah.

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

G.MUIR: As long as it falls broadly within the parameters of the law, the law and whatever country you happens to be dealing in. Hum, but it depends on, dep-, now that's where we, where we do take hum hum, an interest. Because clearly if the money, if the money that's generated by by those kinds of commissions come into the, come into the possession or benefit public officials in this country or other country where ever he happens to be doing business, that's clearly an offence against the laws of the land.

W.McKNIGHT:

Oh . .

G.MUIR:

So that's where I'm going.

10

W.McKNIGHT:

OK, well that, I I agree it is an offence.

G.MUIR:

Yeah.

W.McKNIGHT:

And uh it should be pursued.

G.MUIR:

Yeah.

W.McKNIGHT:

To my knowledge and this is the first time that anyone in my authority . .

15

G.MUIR:

Mmm.

W.McKNIGHT:

. . has asked me did I know of or was I cognizant of that there may have been an offence such as that committed by other public officials and/or elected officials.

G.MUIR:

Mmm.

20

W.McKNIGHT:

And my answer is this is the first that I've heard of that and I have no reason to look back and try and think of anything that would show me that something like that had taken place.

G.MUIR:

OK, that was fair. Now I've mentioned that on the phone there that I wanted to ask you a couple of questions and I was gonna bring a few pieces of paper along walk, just to walk us through the process. And that's b-, essentially allowing for the fact that uh, we don't expect your recollection to be uh, a good after a mere decade, hum, and and if we can just take, I don't think it'll take more than twenty minutes or half an hour to walk through this, but I'd like to go through a couple of bits and listen to what you have to say. And you'll probably find it all sort of frames nicely from, uh, frames fairly well di-, the the, the information you gave us at the front end. I'm gonna show you a document, I've got these all well tabbed and numbered because I've been through them a thousand and one time. This hum, I've refer to this the Understanding in Principle . .

25

30

35

W.McKNIGHT:

Mmm.

G.MUIR:

. . I'm just gonna show it to you, just because uh . .

W.McKNIGHT:

Mmm.

INTERVIEW OF MR. WILLIAM McKNIGHT

8

DATE: 99-09-30

G.MUIR: . . . it really is quite uh, if you wanted to look at all the chapters in an never ending saga, this is one that we find a little intriguing. This, this is that Understanding in Principle.

W.McKNIGHT: Yeah.

3 G.MUIR: And it, and it's, it's just that, it's uh, it allows for the government of the day to say at some point in the future yeah yeah . . .

W.McKNIGHT: We might.

G.MUIR: . . . yeah we might. And hum . . .

W.McKNIGHT: No I've read it.

10 G.MUIR: You've read it?

W.McKNIGHT: Yeah.

G.MUIR: And it's, you mean, I immediately, you know in principle set out in this . . . does not create any enforceably legal equitable rights nor obligation, signed by, and there we have, those that's the parade of stars that have been in advance of your arrival.

15 W.McKNIGHT: Right, right.

G.MUIR: OK. Now uh, my document 106a and, but, some of this by the way, a lot of this correspondence is stuff that you/where documentation would have come from your Ministry. Some of it's hum, from ACOA and the G's, maybe the odd bit from Industry Canada as well. Hum . . .

20 W.McKNIGHT: And from WD hey?

G.MUIR: Mmm. Now, hum, let me just make sure I've got the uh, uh OK we have here a memorandum from uh, DON McPHAIL and of course he was the President of ACOA of the day and he's hum, in correspondence with Mr. ELMER MacKAY. And and I just wanted to, to run this by you only only to sort of get a sense of, at this particular time and that's, coming through uh, the latter part of well in June of '89, but nevertheless, eh-, uh correspondence about a GM contract and implications for BEAR HEAD INDUSTRIES. And this is essentially to provide uh, the the Minister, in this case Mr. MacKAY, uh, with with an understanding that there's uh, a sole-source arrangement essentially in place for military vehicles with General Motors. And th-, your name is mentioned here only to the extent that there's an acknowledgement that this sole-source contract is likely to be in place to be honored and that there is this thing called THYSSEN and

35 W.McKNIGHT: Mmm, mmm.

G.MUIR: . . . is the background. Hum, not to suggest that Mr. McKNIGHT or

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

indeed other Ministers would gladly forego awarding the contract to GM and award it instead to THYSSEN. Now we know how all this played out in the final analysis so there's no, there's no major mystery here. Hum, it does make reference here, hum, on page two and in the third paragraph to a meeting that you would have had with SCHREIBER.

5 W.McKNIGHT: Mmm.

G.MUIR: Now I'm just thinking maybe that that would have, might have been something that you're ref-, when you referred to having met with SCHREIBER, hum, the status, as far as the status at BEAR HEAD goes we understand that senior representatives of the company SCHREIBER visited Mr. McKNIGHT on May 17, '89, that can't be '89.

10 W.McKNIGHT: It has to be '89.

P.HENSCHEL: Yeah.

G.MUIR: Yeah '89 sorry, yeah, hum, on an informal basis to review the file. The meeting was constructive, Mr. McKNIGHT appeared generally receptive to the company's plan for NOVA SCOTIA. Now it also makes it fairly obvious that THYSSEN is realizing that the LAV project may be delayed permanently.

20 W.McKNIGHT: Mmm.

G.MUIR: One of the questions I guess if I had any questions about this at all, we look at this and s-, and see essentially an agreement in place or a long standing relationship between the Government of Canada, National Defence and GM Diesel to produce armoured vehicles.

25 W.McKNIGHT: Mmm. Mmm.

G.MUIR: Hum, and and THYSSEN was we-, was well apprised of that that relationship.

W.McKNIGHT: I would assume. And they were told of the relationship when they met.

G.MUIR: OK.

30 W.McKNIGHT: Both officials and this Minister, that is when I was Minister.

G.MUIR: OK, does that meeting, does that conjure up any recollection to you at all?

May, May of 1989 and . .

W.McKNIGHT: No I, I'm try-, I was trying to think whether it said on a, he met with me on an informal basis uh, that probably meant he met me on my, in my parliamentary office.

35 G.MUIR: Mmm.

W.McKNIGHT: Uh, I I met KARLHEINZ SCHREIBER and we talked about this and other things. Uh, but uh, I don't remember on this, you know whether it

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

was May 17 . .

G.MUIR: Mmm.

W.McKNIGHT: . . uh, someone accompanied him from government, whatever the hell FRANK's government policy, CIP.

5 G.MUIR: Government Consultants International.

W.McKNIGHT: OK.

G.MUIR: GCI.

W.McKNIGHT: GCI. And somebody was there and I can't remember who it was.

10 G.MUIR: If you just closed your eyes and thought back for a minute, if you had to ballpark the number of times you met with Mr. SCHREIBER, formal or informal, what would the count be?

W.McKNIGHT: Six.

G.MUIR: Mmm. OK and of those . .

W.McKNIGHT: Yeah.

15 G.MUIR: Yeah.

W.McKNIGHT: You know I, I don't imagine it's a secret, he was occasionally in the lobby.

G.MUIR: Mmm.

W.McKNIGHT: And you know so you bump in to him in the lobby.

G.MUIR: . . . yeah.

20 W.McKNIGHT: Or else I'd bump into him on a, in uh, in an airport, but probably half a dozen times. I didn't bump into him during the leadership campaign we were in different, different camps. Hum, but I was aware of his name, knew who he was.

G.MUIR: Mmm.

25 W.McKNIGHT: But uh . .

P.HENSCHEL: How many times have you met him, uh, such as this where he would come to your office or some more formal setting.

W.McKNIGHT: My recollection would be say three.

P.HENSCHEL: OK. So this would have been one of three times.

30 W.McKNIGHT: This would have been one of three times. The other time would have been at DND when we or I believe that I put together a meeting that was going to drive a stake in the heart of the continued lobbying to uh, present THYSEN pla-, uh position.

G.MUIR: Right, mmm.

35 W.McKNIGHT: Because you can only do that so long and then decisions have to be made. I wanted to get on with making a decision. Hum, or the other time would have been in all likelihood it was in my parliamentary office or yeah, I'm

INTERVIEW OF MR. WILLIAM McKNIGHT

11

DATE: 99-09-30

not even sure of the three, but I first thought . .

G.MUIR:

W.McKNIGHT: . . in the ballpark three times.

G.MUIR:

Does that, does this last paragraph here, does that give, THYSEN is gradually realizing that the LAV project may be delayed forever. Does does that give in your recollection with how SCHREIBER would have felt about all this?

W.McKNIGHT:

Uh I don't know how he would have felt. Uh, that was be, we were having difficulty with our funding. We were looking at GM Diesel, not just to uh supply what the Canadian Military may need, but there was also as I recall discussions with the U.S. Department of Defence . .

G.MUIR:

Mmm, mmm.

W.McKNIGHT:

. . the Marine core to take additional uh LAVs, uh, I don't think we were having discussions with SAUDI at that time it was shortly thereafter I think while I was still Minister we had discussions with SAUDI.

G.MUIR:

Mmm.

W.McKNIGHT:

Uh . .

G.MUIR:

Well he went on to sell, Mr. SCHREIBER, he sold a bunch to SAUDI.

W.McKNIGHT:

Well we sold too, so did GM Diesel.

G.MUIR:

Mmm.

W.McKNIGHT:

As I recall we had sales to SAUDI.

G.MUIR:

Mmm.

W.McKNIGHT:

One to the, one to the military and the other to the police, one prince runs one side the other prince runs the other, that's the way they keep stability.

25

Uh . .

(They laugh)

P.HENSCHER:

That's a very uh . .

W.McKNIGHT:

Foreign Affairs won't like that, but that's OK.

P.HENSCHER:

Well that's probably to put, to put an accurate uh . .

30 W.McKNIGHT:

But uh, whether whether SCHREIBER would have believed that it was being delayed and it may be cancelled uh, I I can't uh . .

G.MUIR:

OK.

W.McKNIGHT:

. . I can't say that, that, one of the reasons that, uh, it was important to have that meeting that I referred to . .

35 G.MUIR:

Yeah.

W.McKNIGHT:

. . with CDS and the Head of Land Force GORDIE REAY, was that we had to get on and I took the initiative to say look I'm not going to, you can

INTERVIEW OF MR. WILLIAM McKNIGHT

12

DATE: 99-09-30

ask my officials, I'm not going to select an armoured personnel carrier, it's not what Ministers do.

G.MUIR: Mm.

W.McKNIGHT: You have all the, you have all the information I expect the best recommendation and no matter whether it's diesel, no matter who it is, they knew how I operated, uh, but I said I will give THYSSEN one opportunity to sit with my officials, the people that are going to advise me and make a case. And then we're gonna get on with life.

P.HENSCHIEL: Would you have been present at this meeting or you're not sure?

W.McKNIGHT: Yeah yeah sure. I was at the one I called.

(They laugh)

P.HENSCHIEL: Do you remember, do you remember when that would have been?

W.McKNIGHT: No I don't remember.

P.HENSCHIEL: OK, not in, as far as in the chronolo-, chronology.

W.McKNIGHT: No.

P.HENSCHIEL: OK.

W.McKNIGHT: When I left the department or when it took place, I couldn't help you, no.

G.MUIR: Part of the same documentation, this, my document 106a, and this is just a backgrounder for you.

W.McKNIGHT: Yeah.

G.MUIR: This is uh, this is a letter from October of, of 1988 that Mr. BEATTY had sent off to uh, the President of uh, uh Gen- . . .

W.McKNIGHT: PEAPPLES.

G.MUIR: . . yeah Mr., how do you, how to you pronounce . . .

W.McKNIGHT: PEAPPLES.

G.MUIR: PEAPPLES OK that, of General Motors . . .

W.McKNIGHT: Yeah.

G.MUIR: . . hum of CANADA and essentially all he says here is that he's prepared to s-, you know there's this, uh, appending contract for two hundred wheeled hum vehicles . . .

W.McKNIGHT: Mmm.

G.MUIR: LAVs and you know cites the figure on it and I'm prepared to support the proposal and so on and so forth. Hum, my intention to recommend to my Cabinet colleagues that a contract would be made and this is essentially a sole-source contract.

W.McKNIGHT: Mmm.

G.MUIR: One of the things g-, kind of interesting just about that is innocuous as the

INTERVIEW OF MR. WILLIAM McKNIGHT

13

DATE: 99-09-30

document as it may be hum, that's a month after this, the Understanding in Principle was signed with THYSSEN. Hum, so I don't know if there's anything to that or not whether on the one hand you've got, you've got plan A or you know the the the Ministerial agenda and you've got these other gentlemen that are coming at you on the periphery in your, you wanna listen to the business proposal, but you also have business of your own to conduct. I'm not sure what to make of that.

5

W.McKNIGHT: What do you, what do you mean . .

G.MUIR: Well the i-, the idea of of uh, a commitment by way of a sole-source, source contract at General Motors . .

10

W.McKNIGHT: Oh.

G.MUIR: . . hum and yet you've got a, an Understanding in Principle that you might do business with THYSSEN at some point in the future.

W.McKNIGHT: I I wouldn't comment on it, I wasn't there.

15

G.MUIR: Mmm.

W.McKNIGHT: And uh you've have to ask Minister BEATTY or uh some of the other Ministers that signed the document. Uh all I can do is recollect where I was when I . .

G.MUIR: Mmm.

20

W.McKNIGHT: . . was put into DND, uh, you'll remember there was a White Paper.

G.MUIR: Yeah.

W.McKNIGHT: And the numbers of LAVs and the Land Force Reserve Buildup was all part of the White Paper.

G.MUIR: Yeah, yeah all part of the White Paper, dramatically.

25

W.McKNIGHT: And uh, as you recall in '89 I changed the White Paper dramatically.

G.MUIR: Mmm.

W.McKNIGHT: So, uh, I don't uh, I don't have any knowledge to help you.

G.MUIR: OK. Let's move right, this is my document 106b and this, now this is an ACOA document. Just, but it's an interesting insight. This was an executive to DON McPHAIL a young fellow by the name of JOHN McDOWELL, hum, giving giving McPHAIL some insight in terms of where things were going with the t-, with the the BEAR HEAD INDUSTRIES BHI you're aware that BEAR HEAD INDUSTRIES of course . .

30

W.McKNIGHT: Mmm.

G.MUIR: was the, sort of the Canadian end . .

35

W.McKNIGHT: Yeah.

INTERVIEW OF MR. WILLIAM McKNIGHT

14

DATE: 99-09-30

5 G.MUIR: ... all right. So here we are setting out the details and now Bill is aware as a result of the budget you're speaking of that the LAV purchases are at least on hold indefinitely. It talks about the fact that there's a, there's there's, it looks like hum, an upcoming contract for reserved vehicles, the same thing, hum Cabinet approval pending to award the contract to uh, Diesel Division GM.

W.McKNIGHT: Mmm.

10 G.MUIR: Hum, and it goes, and it, and here's something that will be of no surprise to you either and BEAR HEAD hoped to persuade DND to forego providing the reserve that the GM vehicle in favor of uh THYSSSEN LAVs.

W.McKNIGHT: Mmm.

G.MUIR: Now, is that the name that was associated with Mr. MOORES group, FRED DOUCET?

W.McKNIGHT: Yes. At one time.

15 G.MUIR: Uh-huh. Would that be the same fellow that would have been in to see you with KARLHEINZ?

W.McKNIGHT: It could have been FRED I know I did talk uh BEAR HEAD and THYSSSEN with FRED, but uh, I don't know I, it, I know it wasn't FRANK uh, so it could have been . . .

20 G.MUIR: Mmm.

W.McKNIGHT: . . . it could have been DOUCET, but uh, he wasn't the DOUCET that I was used to dealing with.

G.MUIR: OK. That would have been the other DOUCET then.

W.McKNIGHT: (Laughs)

25 G.MUIR: GERRY.

W.McKNIGHT: Yeah.

G.MUIR: OK. Hum, now we're, you made an interesting observation when you, when you started your conversation with us and you talked about the ATLANTIC CAUCUS.

30 W.McKNIGHT: Mmm.

G.MUIR: So what was the ATLANTIC CAUCUS?

W.McKNIGHT: Well the ATLANTIC CAUCUS is, is uh, the guys from NOVA, everybody but the ATLANTIC CAUCUS is everybody but NEWFOUNDLAND.

35 G.MUIR: Mmm.

W.McKNIGHT: And uh, it was led by, on the ministerial side, by ELMER.

G.MUIR: Mmm.

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

W.McKNIGHT: ... he was the Regional recognized I think by . .

G.MUIR: Mmm.

W.McKNIGHT: . . or accounted as the Regional leader, uh GERRY was there, uh, PEI he didn't have uh, there wasn't anybody from PRINCE EDWARD ISLAND, but it was between MERRITHIEW and and uh, and ELMER. Uh, in the Ministry, then you had guys that were always causing difficulties and uh starting things up which uh is most typical in an ATLANTIC CAUCUS and on some occasions WESTERN CAUCUS, but it was the members basically.

5

10

G.MUIR: OK, we'll come back to some of those meetings later on.

W.McKNIGHT: (Laughs - coughs). Excuse me.

G.MUIR: I'm going to hum, I'm gonna flip over to my document 106d as in Delta. Now, this is, there's a couple of documents here and this again this is uh, ACOA material from, and some of these I suspect one or two of these names may be familiar to you, did you PETER LESAUX the President of ACOA?

15

W.McKNIGHT: Yeah I I met PETER, yeah.

G.MUIR: Yeah, OK. Uh only again, I was, I just, I wanna get the groundwork covered here hum, this is a memorandum dated uh the 3rd of January of 1990 from the Vice president of ACOA which is NORM MOYER to his boss the President PETER LESAUX. Hum, attaching a memo to the Minister and a letter for the Minister to the Prime Minister regarding THYSSSEN. Uh, given the fact we're proposing a major shift away from the basic proposal as approved by Cabinet in 1988, now that's the basic proposal approved by Cabinet in '88, in ACOA parlance would be that thing that we call the UIP.

20

25

W.McKNIGHT: I I wo-, I would assume that it was, it was uh, in all likelihood uh, I would assume that it was a capital purchase plan proposal program rather than a letter of comfort that uh, you refer to this . .

30

G.MUIR: OK.

W.McKNIGHT: . . that was not to my recollection a Cabinet document.

G.MUIR: Uh-huh.

W.McKNIGHT: Not even a Cabinet Committee.

G.MUIR: Mmm.

35

W.McKNIGHT: That I'm aware of.

G.MUIR: Mmm. Sanctioned by Cabinet?

W.McKNIGHT: I would doubt that. Cabinet didn't sanction things that weren't recorded.

INTERVIEW OF MR. WILLIAM McKNIGHT

16

DATE: 99-09-30

G.MUIR: Mmm. OK, all right.

W.McKNIGHT: You'll also find this this strange, uh, and his advisers.

G.MUIR: Yeah. Let's see if we can pull the threads here.

W.McKNIGHT: OK.

5 G.MUIR: Uh, say my same document uh, but this is correspondence from PETER
LESAUX to his Minister ELMER MacKAY regarding the uh THYSSEN
attached letter to the Prime Minister hum, now, attaching for his signature
a letter to the Prime Minister. And by the way I'm not gonna, there's no
letter to the Prime Minister to show you here, but it's just thinking that
10 I'm, that I'm interested in here. Hum, seeking support to inform the
company of the government's wish that to have the industry facility
proposed for CAPE BRETON be oriented primarily towards
environmental rather than military markets. In September '88 the Cabinet
authorized the Minister for DRIB, DND and ACOA on behalf of the
15 government to enter into an Understanding in Principle.

W.McKNIGHT: Mmm.

G.MUIR: Cabinet authorized the Ministers.

W.McKNIGHT: That I do-, that I can't uh . .

G.MUIR: Yeah.

20 W.McKNIGHT: . . I have no recollection of a Cabinet discussion.

G.MUIR: Uh-huh, yeah. Maybe it's just their spin.

W.McKNIGHT: (Laughs)

G.MUIR: I don't know, uh anyway, Cabinet's decision also established the ACOA
25 Ministers to believe uh, business plan never being submitted. All right, it
seemed to me and the reason why this document is here is is just t-, at least
from the ACOA point of view and and really they had a a mandate to to
advance the interest of the regions so that's probably

W.McKNIGHT: To fully, fully understand the mandate.

30 G.MUIR: But there was a shift or j-, sort of uh, a change, a change of venue from uh,
you know the message is out, stop dogging the LAV thing and if you're
gonna make this thing go as a viable regional/industrial initiative you're
gonna have to shift to a civilian market essentially.

W.McKNIGHT: Mmm.

G.MUIR: Hum, does that, does that sound se-, familiar to you?

35 W.McKNIGHT: Yeah. I remember the discussions about environmental uh, focus . .

G.MUIR: Mmm.

W.McKNIGHT: That's from the

INTERVIEW OF MR. WILLIAM McKNIGHT

17

DATE: 99-09-30

G.MUIR: One of the things and this probably did come to your attention as the Minister the one thing that they never seemed to be able to get THYSSEN to do is submit a business plan.

W.McKNIGHT: Well you see that wasn't DND's responsibility.

5 G.MUIR: Well I'm painfully aware of that.

W.McKNIGHT: (Laughs) So uh, that was someone else in government.

P.HENSCHER: But uh at this, this uh, from this document here for example, the one I was talking of before, it says there, where at this time period obviously, your uh, your DM which was Mr. FOWLER he was obviously very much aware of this and uh, and obviously not in favor of of uh . . .

10

W.McKNIGHT: I didn't have any official either in uniform or not that recommended to me that the BEAR HEAD THYSSEN LAV proposal as we were aware of it, two different machinations.

G.MUIR: Mmm.

15

W.McKNIGHT: And as the officials were aware of it overall in a period of time than I was that recommended that that was in the best interest of CANADA.

P.HENSCHER: And so you would have supported your, basically supported your people on that position?

W.McKNIGHT: It's pretty hard for a Minister of Defence to decide what kind of armoured personnel carriers when you've been a dirt farmer and a businessman all your life.

30

P.HENSCHER: Yeah.

W.McKNIGHT: I can make political decisions and if it had have been a balance and the politics for the economic benefit, had it been heavily in favor of one or the other proposal and the equipment was the same then you can go with that economic benefit and I believe that's what I did. And we continued to look at uh, GM Diesel.

25

P.HENSCHER: Right, right, OK.

G.MUIR: Hum, my document 106e and this is again ACOA correspondence, memorandum, memorandum from, or from PETER LESAUX again the President of ACOA to ELMER MacKAY regarding hum, attached, attached letter to THYSSEN. This is a proposed letter that Mr. MacKAY would send to THYSSEN. It proposes that the company uh, to the company, the facility he based primarily, primarily on environmental production, hum, believing that in the current environment there are excellent prospects for the development with government support and so forth.

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INTERVIEW OF MR. WILLIAM McKNIGHT

18

DATE: 99-09-30

W.McKNIGHT: Mmm.

G.MUIR:

Environmental technologies. Hunt, we ACOA have been informed by the Deputy Minister of DND that would have been ROBERT FOW-, FOWLER at the time, that DND will not be proceeding with any LAV contract. You will recall no no satisfactory business plan received from THYSSEN. As a separate matter while the Cabinet decision direct-, directing the signing of the Understanding in Principle also established ACOA as the lead Minister nevertheless the letter to THYSSEN may very well be interpreted as a formal communication by the Government of Canada. You may wish to hum, you know involve the Prime Minister and so forth. Now, hum, ACOA was clearly of the view and the best, the best of our knowledge in talking with the gentlemen that were representing ACOA at the time, they had an obligation on the one had to to represent the interest of any company that would come forward to legitimately uh, champion the cause of regional, industrial uh diversification or expansion in the ATLANTIC region. On the other hand you know they had an obligation to be straight shooters to the extent that they could signal left or right to these, to these companies and in the particular case of THYSSEN to to tell them in no uncertain terms now look you know, the LAV initiative that you're wed to is going to have to either change your fact or or you're just not going to be doing business. Hum, that's certainly the way we take that and that's certainly the way it's been explained to us and it certainly seems that on the way up here that that the Ministry officials, especially the ADM although I think of guys like hum CLIFF MACKIE uh and uh DRIE at the time, and his counterpart being fellows like ELDON HEALY and these these gentlemen, your ADM Mat. for a period and others, they seem to be reasonably in-syne with uh, with what needed, the message that needed to get conveyed. Now between the ADM's and the DM's and the jigs and the riddles, were the Ministers on the same wave length on this?

W.McKNIGHT:

No I think there's a difference between how officials have to act and how the Ministers act. Ministers have the political power.

G.MUIR:

Mmm.

W.McKNIGHT:

To direct. If you wish to use that as a Minister . . .

G.MUIR:

Mmm.

W.McKNIGHT:

. . . you can, provided it's acceptable to the Cabinet colleagues that you sit with.

INTERVIEW OF MR. WILLIAM McKNIGHT

19

DATE: 99-09-30

G.MUIR: Mmm.

W.McKNIGHT: And provided that it's within the House of Commons and Senate act.

G.MUIR: Mmm.

5 W.McKNIGHT: That's what people knock doors for to get elected so that they can do those things and I fully understand why somebody from ATLANTIC CANADA would would not quickly succumb to the advice that was given by officials. The same as somebody when I was Minister of WD out here.

G.MUIR: Yeah western diversification, yeah.

10 W.McKNIGHT: And why ADM's and Deputy who are old hands and they, we set criteria, we had four criteria.

G.MUIR: Mmm.

W.McKNIGHT: A little different than ACOA. Ours was import replacement, substitution, new technology.

G.MUIR: Mmm.

15 W.McKNIGHT: Fifteen years ago I forget what in the hell the fourth one was, anyhow that's what we did.

G.MUIR: Mmm.

20 W.McKNIGHT: And as Minister I waged a very difficult battle with DND and Supply and Services to try and get trucks, heavy trucks, manufactured in Western CANADA. To the point that my Cabinet colleagues weren't happy. We delayed it and said the industrial benefits that were offered by alternate proposal.

G.MUIR: Mmm.

25 W.McKNIGHT: Was of more benefit to CANADA than the one that was being accepted and recommended by DND.

G.MUIR: Mmm.

W.McKNIGHT: And that's what Ministers do.

30 G.MUIR: That's fair, that's fair. OK we're into 1990 now and there's a clear and evident commitment between defen-, defence, National Defence and GM Diesel. That seems to be clear on the face of it.

W.McKNIGHT: Mmm.

G.MUIR: There's enough signals between the government hon, both DRIE, ACOA and DN . .

(END OF TAPE 1 - SIDE A)

35 (START OF TAPE 1 - SIDE B)

G.MUIR: . . something besides position themselves to build light armoured vehicles in ATLANTIC CANADA. OK I, I wanna talk a little bit about my

INTERVIEW OF MR. WILLIAM McKNIGHT

20

DATE: 99-09-30

document 107 and uh, I think this will look familiar to you. Uh the doc-, there's a, there's a lead in piece of correspondence to PETER LESAUX from from uh, BOB FOWLER and it's dated uh the 20th of February 1990 and it references in some detail and indeed it attaches the minutes of a meeting that took place hum on on February the 5th of 1990. Now here we have Mr. L., uh Mr. FOWLER say I convened a meeting of government officials and representatives from THYSSEN and BEAR HEAD INDUSTRY to discuss THYSSEN's proposal to build a manufacturing plant, OK now, hum, let me just leave the letter itself aside because essentially what Mr. FOWLER is conveying to Mr. LESAUX here "look we've we've got the record straight".

W.McKNIGHT:

Mmm.

G.MUIR:

We brought all and sundry and stakeholders together in one place to make sure that the message was unequivocally delivered. Now hum, I'm making reference to a summary of record of discussion, minutes of a meeting essentially. Uh now, the the minutes, it's dated 8, 8 February 1990, but the meeting took place on the 5th, the 5th of February 1990 at DND Headquarters. And this is the, this is the you know the list of persons that attended that meeting. Hum, let's just first and if you look at the face page here, is that the meeting that you were alluding to earlier on? Now we've got THYSSEN being represented by SCHREIBER . .

W.McKNIGHT:

Yeah.

G.MUIR:

. . MASSMAN, ALFORD, J-, JACK VANCE is the Consultant for SCHREIBER at the time.

W.McKNIGHT:

Mmm.

G.MUIR:

DND represented by FOWLER, DeCHASTLAIN and then we've got others including HEALEY, SHARP, REAY, STURGEON, they're all there. And we have Privy Council people as well, we have Industry Trade and Sci., Science and Technology CLIFF MACKIE, you know hum, ACCO represented by NORM MOYER, I don't wanna bore you with the details of this set of minutes, but they're they're quite unequivocal and the minutes simply say we're gathered here today all in sundry . .

W.McKNIGHT:

To fix.

G.MUIR:

. . yeah at the specific request of the Minister, Mr. McKNIGHT and we're gonna get this done.

W.McKNIGHT:

It doesn't say that I . .

G.MUIR:

Well it doesn't say that you were . .

INTERVIEW OF MR. WILLIAM McKNIGHT

21

DATE: 99-09-30

W.McKNIGHT: ... are-, created or opened, there's opening remarks.
G.MUIR: Well Mr. FOWLER apparently opened the meeting.

W.McKNIGHT: Could be.

P.HENSCHHEL: And if we look at the . .

5 W.McKNIGHT: Yeah.

P.HENSCHHEL: . . if we look at the covering letter I believe it says that he, does it not say something in there that he called this as . .

W.McKNIGHT: He called it, I convened.

G.MUIR: Yeah.

10 P.HENSCHHEL: Yes.

W.McKNIGHT: Yeah.

P.HENSCHHEL: And that it was as a result of the Ministers or the Ministers were aware of it or h- . .

G.MUIR: Oh yeah it's, yeah clearly.

15 P.HENSCHHEL: Yeah.

G.MUIR: And it indirectly, indirectly par talks about uh, the minutes are are frequently not not completed as you know.

W.McKNIGHT: It it could be uh, I I know I've lent my presence either by being you know saying nice to see you guys yo-, you're gonna have to fix this and then left, but I want, it was a meeting that I talked about.

20 G.MUIR: Yeah.

W.McKNIGHT: I think that's the only one that took place.

P.HENSCHHEL: OK so, so as far as you know this is the one . .

W.McKNIGHT: Uh that's, as far as I know when you look at the attendees list and, and uh

25 ..

G.MUIR: OK, so Mr. FOWLER states that the meeting is being held at the request of the Minister of National Defence, Public Works, ATLANTIC CANADA OPPORTUNITIES AGENCY as well with Mr. HART the Chief of Staff of the Prime Minister. He added that all these officials were aware about what was about to be said and the position that would be represented on the part of CANADA. Now if Mr. FOWLER goes on to make some fairly unequivocal observations about what all this, what's going to happen or what's not going to happen. Hum, and specifically that there's no, there is no prospects in the future for a LAV contract, uh, there is no such thing as a sole-source contract coming the way of THYSSEN talks all about co-, competition and competitive bidding processes and so

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INTERVIEW OF MR. WILLIAM McKNIGHT

22

DATE: 99-09-30

forth. Hum, in this vein, top of page uh four of the minutes, in this vein, the DM pointed out that it would be futile for THYSSEN to anticipate unrealistic undertakings from any Canadian government on the issue. This is export permits related.

5 W.McKNIGHT:

Mmm, mmm.

G.MUIR:

Uh now Mr. SCHREIBER had a chance to respond to that and he was as typically the case with Mr. SCHREIBER he was ever so upbeat and optimistic, hum, what I hear you saying is you know, hum, but that really was a watershed meeting you know Mr. McKNIGHT, that, that was I think as your choice of words was like to drive a stake through the heart of this thing. But you know and it's just a cute little anecdote, but other people have described this particular THYSSEN project as you know as when kids were growing up they used to have those big plastic beanbag dolls with the sand in the bottom and you could knock the son of a gun down, but she'd pop up every time you hit it. So in any event . .

10

15

W.McKNIGHT:

There was no doubt it was an intense . . .

G.MUIR:

Oh yes.

W.McKNIGHT:

. . period uh . .

G.MUIR:

Yeah.

20

W.McKNIGHT:

. . with presentations being made . .

G.MUIR:

Oh yes.

W.McKNIGHT:

. . for those that were involved throughout government. I mean that, and that's, you know that's not uh, not the only time you'd experience it.

G.MUIR:

Yeah, well we know in the fullness of time though that I I have no doubt, but on the 5th day of February 1990 when everybody walked out of that room, JOHN DeCHASTLAIN included, must have thought there and that'll be the end of that. Certainly the, the way that the dialogue was carried was sufficiently strong to give a reasonable man to believe that THYSSEN would have come away with a fairly clear message.

25

30 W.McKNIGHT:

I I think that's true, they they would have come away with a fairly clear message uh, but that message never lasted.

G.MUIR:

Mm.

W.McKNIGHT:

I mean it it truly didn't. There was always the, the ongoing presentation to officials or the, expressing the views to officials that you know Canadian men and women will not be safe in the vehicles that are . .

35

G.MUIR:

Yes.

W.McKNIGHT:

. . being selected, the armour was not thick enough and I recall seeing an

INTERVIEW OF MR. WILLIAM McKNIGHT

23

DATE: 99-09-30

armoured plate for THYSSSEN and . .

G.MUIR: This is something you . .

W.McKNIGHT: . . G.M.

G.MUIR: . . drag around in a briefcase

5 W.McKNIGHT: (Laughs) That's right.

G.MUIR: Yeah.

W.McKNIGHT: And it it never went away.

G.MUIR: Do you know who was telling us that same story the other night when we arrested him.

10 W.McKNIGHT: (Laughs) Well that's got a hole in it.

G.MUIR: Well no . .

(ALL TALK AT ONCE)

G.MUIR: No he looked me right in the eye and he said you know you can't in conscience put young Canadian soldiers, men and women in vehicles armed like that, it's not th-, not the responsible thing to do. But I, but I do think hum, you know on the weight of not just the correspondence and the do-, the paper leaves the legacy of how it h-, h-, however imperfect it does leave a legacy of the thoughts of the people at the time or positions of institutions.

20 W.McKNIGHT: Yeah yeah, no doubt. What happened after that meeting?

G.MUIR: Well hum, we're gonna talk about a little bit . .

W.McKNIGHT: OK.

G.MUIR: . . about that because the first thing that happened is they they they were hardback at it again with uh, with uh, a quote unquote a non-solicited proposal. Hum, but let me hum, I wanna, I wanna show you a document here and this is my document uh 1086.

25

(HAMMERING)

G.MUIR: That's not a

W.McKNIGHT: It's a small hammer for a small spy hole.

30

P.HENSCHER: (Laughs).

W.McKNIGHT: I know things . .

G.MUIR: I gotta tell you . .

W.McKNIGHT: . . are right.

(They laugh)

35

W.McKNIGHT:

G.MUIR: No no I gotta tell you, we were, we were doing an interview in another city and another province and this distinguished gentleman much like

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

yourself was carrying a conversation much like we are, there's this huge big window and this guy drops out of the sky on one of these uh, one of these window washer guys and this fellow looks at me and goes "you can do better than that".

5 (They laugh)

G.MUIR: Is he one of your guys?

(They laugh)

W.McKNIGHT: Yes.

10 G.MUIR: In any event. OK, so we, this February uh 5th meeting of n-, 1990 was that that was a poignant event. Now I wanna show you, this is a letter that was written j-, just in advance of that meeting. Now th-, this is a letter that you wrote to Mr. SCHREIBER. Hum, uh dated the 25th of January, 1990. Hum, I'll just let you have a look at that, but now, the letter starts off to Mr. SCHREIBER and it acknowledges like i-, this is the UIP, September 15 27th, 1980, an Understanding in Principle was signed. Hum, it goes on to say I'm, y-, you go on to write . .

W.McKNIGHT: In the event . .

15 G.MUIR: . . I'm please to confirm that in the event that the Canadian Forces determine to acquire a multi-role vehicle, combat vehicle and subject to BEAR HEAD INDUSTRIES LIMITED satisfying re-, respects and specifications, all contractual matters, BEAR HEAD INDUSTRIES LIMITED will be given an opportunity to participate in the tendering for a contract to supply these vehicles.

20 W.McKNIGHT: Mmm.

25 G.MUIR: Hum, th-, the routing is uh, from that point forward not uh, not all that much of consequence. The question I guess that we have of you is why in the one hand hum, arrange to deliver such an unequivocal message to Mr. SCHREIBER and THYSEN and other folks and, and then, why that? Why why . .

30 W.McKNIGHT: I don't know, it's a simple political posturing.

G.MUIR: Mm.

W.McKNIGHT: You do those things to make sure that your Cabinet colleagues or your political interests.

G.MUIR: Mmm.

35 W.McKNIGHT: Are not totally dismissed.

G.MUIR: Mmm.

W.McKNIGHT: It's uh, it's uh fluff letter and I think you'll find several of them in every

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

Ministers file.

G.MUIR: Mmm. Would that be the kind of a letter, now how, first of all do you remember that letter?

W.McKNIGHT: No.

5 G.MUIR: No.

W.McKNIGHT: (Laughs) I don't remember that, I didn't even sign it.

G.MUIR: You didn't sign it.

W.McKNIGHT: No ... signature ...

G.MUIR: Is that one of those, the arms?

10 W.McKNIGHT: (Laughs)

G.MUIR: Did you have one of those arms - yeah.

W.McKNIGHT: Sure.

G.MUIR: Yeah, OK.

15 W.McKNIGHT: You can tell how old the arm gets by how shaky it is when it uh, comes through, but anyhow . .

G.MUIR: You were a much bigger man.

W.McKNIGHT: That that that regardless . .

G.MUIR: Yeah.

W.McKNIGHT: . . uh, I meant that is my signature.

20 G.MUIR: Yeah.

W.McKNIGHT: Hum, and all my, all my correspondence was first reviewed by my Chief of Staff and uh, if it was to someone uh, that it was important to such as a Cabinet colleague or a colleague in the House of Commons . .

G.MUIR: Mmm.

25 W.McKNIGHT: . . from either side, I sign the first one.

G.MUIR: Mmm.

W.McKNIGHT: This wasn't signed the first one.

G.MUIR: OK.

30 P.HENSCHER: Would it be something that to it uh, that you would have discussed though with your uh, executives?

W.McKNIGHT: With my Chief of Staff?

P.HENSCHER: Your Chief of Staff.

W.McKNIGHT: Sure.

P.HENSCHER: OK.

35 W.McKNIGHT: Sure, whatever, I think GREG was my Chief of Staff at that time right, '90, maybe ... to check, I can't remember, because he left the bureaucracy while I was at DND, but uh, anyhow that was the system that was in my

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

office.

P.HENSCHHEL: OK. But you, do you have any recollection of even discussing it even if you haven't seen the letter per se, do you have a recollection?

W.McKNIGHT: No I have no recollection of discussing it, but I, I can read the letter and it's got all the appropriate weasel words in it and uh, I assume it was a letter that was written to uh, salve and not shoot down uh political colleagues.

G.MUIR: Who would have been the key political colleague here that would have needed solving?

W.McKNIGHT: Oh I don't think, I don't, I don't want to think there an in-, individual I mean that, there wasn't any uh, in my mind, there wasn't any resistance from Cabinet colleagues or caucus if there was not as long as it was not government uh, from ATLANTIC CANADA. As long as it was not government subsidization of the project which is being proposed.

G.MUIR: Mmm. Mmm.

W.McKNIGHT: Everybody supported it.

G.MUIR: Mmm.

W.McKNIGHT: And this was a government decision. Any Ministry who makes a government decision uh, you don't want your government to be viewed by people who are looking for jobs in any part of CANADA.

G.MUIR: Mmm.

W.McKNIGHT: So that's why it was written I'm sure.

G.MUIR: Were you aware that him Mr. SCHREIBER before that meeting on February the 5th the one that we just alluded to here convened by BOB FOWLER, were you aware that him, Mr. SCHREIBER was waltzed into FOWLER's office just in advance of that meeting? When I say waltzed into the office . .

W.McKNIGHT: No.

G.MUIR: . . that there was an arrangement made in deference to Mr. SCHREIBER to bring him forward to the dir-, the Deputy Minister's office to sit him down and to explain to him in spades where that meeting was just about to go.

W.McKNIGHT: Uh, I'm not sure I was aware uh, I I may or may not have been aware of it, but I'm not at all surprised . .

G.MUIR: Mmm.

W.McKNIGHT: . . that that took place. And I'm sure you've met BOB.

G.MUIR: Well one of the things uh, one of the things you know on the face of it that

INTERVIEW OF MR. WILLIAM McKNIGHT

27

DATE: 99-09-30

would, that would uh muddy the waters a bit is that a fellow like SCHREIBER would have been walking into FOWLER's office on the 5th day of February in advance of that meeting, with that letter in his back pocket.

5 W.McKNIGHT: Could be.

G.MUIR: So, but would that be one of the reasons why Mr. SCHREIBER wouldn't go away?

W.McKNIGHT: I don't know, I don't know. Obviously not, the letter has no meaning and no basis. I mean it it says exactly what it says.

10 G.MUIR: Let me show you him, this is the same letter. It's my document 108q I believe, hang on a second here. Now that's, that's that's the letter we just talked about.

W.McKNIGHT: Mmm.

13 G.MUIR: This is, this is the letter, this is another file copy of the letter. Now there's marginal notes on this letter. "Mr. WILLIAMS have you ever seen this one? Not in our files, no reference to it ever, CINDY."

W.McKNIGHT: Who's Mr. WILLIAMS?

20 G.MUIR: Oh he was, he was an official in the Department of National Defence. Hum, written by the Minister of National Defence Staff under pressure from ELMER MacKAY and the Prime Minister exclamation mark. Now I'm not, I'm not satisfied in my mind that we need to to deal in detail about penmanship and who's who in the letter, but I wanna point out the obvious here.

W.McKNIGHT: Mmm.

25 G.MUIR: Hum, we're trying to get a sense on the substance of the letter and the timing of the letter and I'm not so sure, but you haven't answered the question in part already, but is that an accurate reflection of why the letter was written?

30 W.McKNIGHT: It would be strange that uh, my staff would write a letter that would not have input from the department.

G.MUIR: Mmm.

W.McKNIGHT: That would be strange. This I believe is a Correspondence Unit person.

G.MUIR: Mmm.

35 W.McKNIGHT: That's KATHY BROWN. I don't know when it would, the question would be. Obviously after I left the department.

G.MUIR: KDB is KATHY BROWN?

W.McKNIGHT: Mmm.

INTERVIEW OF MR. WILLIAM McKNIGHT

28

DATE: 99-09-30

G.MUIR: Well it, in fact yeah yeah you're right that is KATHY BROWN.

W.McKNIGHT: Mmm.

G.MUIR: Hum ..

5 W.McKNIGHT: And she's being asked the question was this when you were in McKNIGHT's office.

G.MUIR: Yeah and do you know anything about this?

W.McKNIGHT: And she left my office when I left the Ministry.

10 G.MUIR: Uh-huh, that's right, yeah. That's the result of the inquiry, the questions posed, marginal notes and the answer to the inquiry written by the Minister of National Defence Staff under pressure from ELMER MacKAY and the Prime Minister and no, and PM, that's not, because that could be an-, any number of things.

W.McKNIGHT: And before you draw too many conclusions.

G.MUIR: Mmm.

15 W.McKNIGHT: Uh I don't know who asked the question, CINDY asked the question of Mr. WILLIAMS and this is CINDY's ..

G.MUIR: Mmm.

W.McKNIGHT: .. this is CINDY's reply.

G.MUIR: I'm quite prepared just to leave this thing go.

20 W.McKNIGHT:

G.MUIR: If it's OK with you for now. Hum, we have th-, we have your correspondence of January a m-, a meeting with, by, convened by BOB FOWLER in February. Passage of time by some months and hum, I'm going to read, hang on a second here, I'll make sure I have the right document here. I was gonna refer to 108a, but it's 108h, h as in hotel, hum, this is a Briefing Note, a DND Briefing Note. DND uh, OK, Briefing Note to the Chief Staff, THYSSEN INDUSTRIES Chronology of significant events, and at page 2 of 4 it talks about a meeting on November 1, 1990, "MND, the Minister of National Defence, Minister MacKAY ACCOA, and senior officials met with Mr. SPECTOR of the PMO to discuss the proposal." OK before we uh, I think we've covered this off pretty quick.

25

30

W.McKNIGHT: Mmm. Who's it to? This notes was written for ..

G.MUIR: Yeah well it, I think to th-, ..

35 W.McKNIGHT: OK that's ..

G.MUIR: .. to this, to th-, ..

W.McKNIGHT: .. to my Chief of Staff, yeah.

INTERVIEW OF MR. WILLIAM McKNIGHT

29

DATE: 99-09-30

G.MUIR: Yeah, that . .

W.McKNIGHT: Yeah.

G.MUIR: Now was that, is that deCHASTLAIN or your Chief?

W.McKNIGHT: No no no that would be my Chief, that's not, that's my Chief of Staff. "To
5 the Chief of Staff MND."

G.MUIR: MND. All right. And was that . .

W.McKNIGHT: That would be FYFE at that time.

G.MUIR: GREG FYFE, OK.

W.McKNIGHT: I think.

10 G.MUIR: OK. Tell me about that occasion when NORM SPECTOR on behalf of
the Prime Minister's office or representing the Prime Minister's office,
back and forth the Minister of National Defence, Mr. McKNIGHT,
ELMER MacKAY had a talk with you and what happened about that?

W.McKNIGHT: I have no recollection, uh, I don't even recall the meeting taking place.

15 G.MUIR: No, hey.

W.McKNIGHT: Uh, I can make assumptions, but I have no uh, uh, . .

G.MUIR: It doesn't stand out in your mind though?

W.McKNIGHT: No. No, I mean there are times I can assume that the Chief of Staff or the
Prime Minister brings Ministers together as they have on other occasions.

20 G.MUIR: Uh-huh.

W.McKNIGHT: To resolve differences between Ministers.

G.MUIR: Mmm.

W.McKNIGHT: I mean that's what the Chief of Staff does, you don't leave that to other
people and it certainly isn't done by the Prime Minister. So uh I can
assume that's what it was, but uh, no I don't recall.

25 G.MUIR: In the wake of that February meeting of 1990, hum, it didn't drive a stake
through the THYSSEN initiative, they were back with an unsolicited
proposal.

W.McKNIGHT: Yes.

30 G.MUIR: For 250 . .

W.McKNIGHT: I recall that I guess now.

G.MUIR: Mmm.

W.McKNIGHT: There were gonna finance it.

G.MUIR: Mmm.

35 W.McKNIGHT: And they were going to assist the department in financing it.

G.MUIR: Mmm.

W.McKNIGHT: Or so that the department could their scarce funds on capital

INTERVIEW OF MR. WILLIAM McKNIGHT

30

DATE: 99-09-30

equipment. Uh, but again in reality I don't think it was given a lot of credibility, uh, by the officials or by the Minister. You have an obligation to look at the proposals that are submitted. And I think that's probably what was done.

5 G.MUIR: The one uh, the one legacy that Mr. SCHREIBER seemed to have left was playing both ends against the middle. He talked to politicians and explained that that the official side of things were going sideways. He talked to senior military people and sewered the politicians. Uh, depending on the audience he was pitching to he had a tendency to, if not, if not get it right at least he got people's attention.

10 W.McKNIGHT: I think that's uh, although I can't you know, I can't point to any specifics that Mr. SCHREIBER used, but it's not uh, it is not unusual to see it happen.

G.MUIR: Mmm.

15 W.McKNIGHT: If someone has access, you see it's very easy with elected politicians to cause some politicians to have doubt, that their officials are doing what they are, have been asked to do.

G.MUIR: Mmm. Yeah.

W.McKNIGHT: (Laughs) And a good lobbyist knows how to use that.

20 G.MUIR: I'm gonna show you a document and this is our document 108v VICTOR. Now we've already talked about the Understanding in Principle of September 1988. This was a Memorandum of Understanding of 1990, presumably November of 1990 and uh there's a link here. I just allude to this because it's uh, I wanna, I wanna make the link, I think it's important for the purpose of the discussion. Uh it talks about the Government of Canada's represented by ACCA, Department of National Defence and BEAR HEAD INDUSTRIES is the company.

W.McKNIGHT: Mmm.

30 G.MUIR: OK, whereas the company and the Minister of ATLANTIC CANADA OPPORTUNITIES AGENCY and the Minister of National Defence on September the 27th, 1988 signed the document known as an Understanding in Principle which stated in clause 6 that it would be replaced at a later date by this Memorandum of Understanding, here and after called the MOU. OK.

35 W.McKNIGHT: Mmm.

G.MUIR: That it would be replaced at a later date. All right, just, and this is just to mark for the record.

INTERVIEW OF MR. WILLIAM McKNIGHT

31

DATE: 99-09-30

W.McKNIGHT: 'Cause I was gonna ask you to do that.

G.MUIR: Yeah. Hum it refers to clause 6 and clause 6 says quite simply, where are you clause 6, this Understanding in Principle may be complemented by future Memorandum of Understanding.

5 W.McKNIGHT: Mmm.

G.MUIR: It could be c-, ~~sorte-~~, OK, in some point in the future it could be complemented. Hum, not replaced, complemented.

W.McKNIGHT: Well complemented would have been in my view they were hoping to have something more concrete than that ...

10 G.MUIR: Exactly, yeah. So now we have a Memorandum of Understanding. Now this Memorandum of Understanding and I, again the details are not that much of consequence it's a two phased proposition and the f-, the first phase would have seen the Government of Canada and the company agree hum, to uh, build, build uh LAV's essentially. Sub-contract
15 manufacturing of major components to supply, for supply to THYSSEN-HENSCHEL and GENERAL DYNAMICS LAN SYSTEMS in a joint venture, supply Fox armoured vehicles.

W.McKNIGHT: Mmm.

G.MUIR: This is to the UNITED STATES army.

20 W.McKNIGHT: Mmm.

G.MUIR: Uh the Government of Canada, the Minister of National Defence will place a sole-sourced order with the company for 250 Fox armoured personnel vehicles.

W.McKNIGHT: Mmm.

25 G.MUIR: For a production at the company's NOVA SCOTIA facility. That's phase 1, they're gonna build LAVs. You were gonna order a bunch.

W.McKNIGHT: Mmm. Fox wasn't a LAV though, LAV was a . . .

G.MUIR: LAV was a multi-role combat vehicle, MRCV.

W.McKNIGHT: Yeah.

30 G.MUIR: Hum, that's phase 1 and of course phase, phase 2 would essentially, and then we're gonna get really civilian and we'll find some other ways of building other . . .

W.McKNIGHT: Mmm.

G.MUIR: . . . product that will satisfy the interest of, you know divert, . . .

35 W.McKNIGHT:

G.MUIR: All right, now, and it actually breaks out a n schedule, contract signed November '90, January '91 we have things happening and they're, that's

INTERVIEW OF MR. WILLIAM McKNIGHT

32

DATE: 99-09-30

not all that relevant. Completion by '95. Now, this MOU hum, had a signature, signature block for three players, Government of Canada, MacKAY for ACOA.

W.McKNIGHT: Mmm.

5 G.MUIR: And he signed and SCHREIBER for the company, uh BEAR HEAD and he signed and a signature block for the Minister of National Defence that would be you.

W.McKNIGHT: Mmm.

G.MUIR: Tell us what you know about that.

10 W.McKNIGHT: I know it was presented to me, uh, it did not come from the people in charge of the program. Hum, I do recall there being some inquiry from PCC as to the uh place that this may go. But it was never uh, I don't think it was ever brought into my department or uh, or or put into play in my department.

15 G.MUIR: Mmm.

W.McKNIGHT: I don't think it was stamped received uh or anything that would uh indicate that it came to my department ...

G.MUIR: Mmm.

20 W.McKNIGHT: And it, I recall seeing the document or having it discussed and uh, it could have been in a very informal manner because I don't recall it being in any official way or being presented to me in any official . .

G.MUIR: Who brought you the document?

W.McKNIGHT: I can't recall, I can't even recall whether it was brought to me.

G.MUIR: Did you sign a version of that document?

25 W.McKNIGHT: I couldn't tell you, but I don't believe I ever did. I don't believe that that document uh, it doesn't make, that's why I asked about the Fox because I do recall something about a Fox later on or then coming back. It was a uh, a vehicle to go into a gas dispersed area, contaminated area.

G.MUIR: Mmm, mmm.

30 W.McKNIGHT: Is that what the Fox was?

P.HENSCHER: I believe so.

W.McKNIGHT: Yeah. I do remember discussions about that being something that was not being produced in CANADA and not being produced by GM.

G.MUIR: Mmm.

35 W.McKNIGHT: But I can't uh, I can't tell you, I don't uh, I just don't recall. I do recall a discussion regarding the Fox vehicles in some way or another. Whether it was in a formal or informal . .

INTERVIEW OF MR. WILLIAM McKNIGHT

33

DATE: 99-09-30

P.HENSCHEL: Normally something like this would have come through your department?
Or should have come through your department.

W.McKNIGHT: Either through my department or into my system which would be as a
member of parliament uh, where mail has come in, but it, and it's
5 segregated into mail that's political for a member of parliament you know
it's departmental or Cabinet and uh, anything that was brought uh would
have been presented in a Briefing book with uh, with, by my
department or by my office and I don't recall it. Uh, being brought
forward that way.

P.HENSCHEL: Do you recall what the discussion was at the time in, when you say recall
10 as being brought up in discussing do you recall what the discussion was or
what your, your . .

W.McKNIGHT: I recall a discussion on the Fox vehicle, uh, a vehicle that would allow
15 people to function in a contaminated zone, uh and that that was something
that we, we didn't have at the, at that time and it was not something that
GM was producing and that it may be something that would give
THYSSEN or THYSSEN uh, an opportunity to make a beachhead into the
department by producing or by buying these vehicles directly from
GERMANY. Uh, that's all I recall about it.

G.MUIR: Does the name GREG ALFORD mean anything to you?

W.McKNIGHT: GREG's a, used to be a member of the party probably hopes, hope he still
20 is. Uh he was a lobbyist, before that I think he was an aid to the Minister,
I can't recall if GREG was around.

G.MUIR: I think you know how that document got to you.

W.McKNIGHT: How?

G.MUIR: That's what I'm asking you, to tell us how that MOU came to you.

W.McKNIGHT: No I can't, I don't recall it.

G.MUIR: OK.

W.McKNIGHT: I recall discussions on regarding the Fox vehicle, but I don't uh . .

P.HENSCHEL: 30 you said uh, there was uh, an inquiry from PCO as to where it might
go with, can you expound on that.

W.McKNIGHT: Well there is uh, from someone I, whether it was PCO or where it was, but
there was an inquiry uh, when you get an inquiry I can tell you the one
inquiry that I had regarding this whole project came from the Prime
35 Minister's office and you have to remember that there are a lot of people
around the Prime Minister that purport to express his desire and view uh,
my response when it was expressed that I should be more open because

INTERVIEW OF MR. WILLIAM McKNIGHT

34

DATE: 99-09-30

they felt my officials were not giving me the right information to make a decision and that this would be very pleasing to my Prime Minister, my response was as it had been in one other occasion, I'll do whatever my Prime Minister wants, have him phone me. And the phone call never came.

5

P.HENSCHHEL: Just uh, like seeing this document now does it not, with the time and everything else, seem strange to you that after the original UTP which was quite a unique document, then after after what this meeting where, put the stake through this, through the heart of this thing and all of that

10 W.McKNIGHT:

..... (laughs).

P.HENSCHHEL: It's, it's ..

W.McKNIGHT: I misch-, mis-chose the words. (Laughs).

P.HENSCHHEL: Well that's,

W.McKNIGHT: (Laughs)

15 G.MUIR:

You're not the only one that chose those words.

P.HENSCHHEL: But does not this . .

W.McKNIGHT: It's wishful thinking.

P.HENSCHHEL: Does this, does it not seem strange that somebody would keep on pushing, with a document such as this after all its previous history like we, could, would that not uh, you were seeing this document after all this, I mean would that not uh ..

20

W.McKNIGHT: Yes it is strange, but it, the whole, the reason we're sitting in this room is that the whole thing appears to some people to be strange. And uh, that's not uh, not a secret and uh I think what you see is a very energetic, a very concentrated and a very focused desire to establish an industrial plant and get some sales, make some money. That's what you see. I don't know how long it carried on after I left, but uh, I'll bet it didn't stop.

25

G.MUIR: Ten days before you finished as the Minister, Mr. SCHREIBER and the Prime Minister sat down with Mr. TELLIER, the PCO to have a talk about all of this, were you aware of that?

30

W.McKNIGHT: No.

G.MUIR: And I would suggest to you that one of the reasons why those gentlemen took that point in that particular point in time to sit and talk about that, was because all of this was very strange.

35

W.McKNIGHT: Well that, that could well be.

G.MUIR: Mmm.

W.McKNIGHT: That could well be.

INTERVIEW OF MR. WILLIAM McKNIGHT

DATE: 99-09-30

G.MUIR: To repeat your words and describing that January letter you sent to SCHREIBER, the letter is meaningless and without basis.

W.McKNIGHT: Mmm.

G.MUIR: All right, the same might be said of the UIP, meaningless without basis. The letter might be meaningless and so might the MOU, but the defining characteristic of those documents is that and a-, again to use your words, they generated money.

W.McKNIGHT: I didn't say they generated money.

G.MUIR: No, so you didn't say they generated money. But that, that in uh, that in essence is the concern that we have with with how these, how these things played out over this period of time.

W.McKNIGHT: The uh, now I I don't uh, I don't know uh, how they generated money, I just observed from newscasts that they

G.MUIR: Mm.

W.McKNIGHT: ... had written, uh, newspaper articles that they generated money and as I said earlier uh, I understand that.

G.MUIR: Mmm.

W.McKNIGHT: From what I'm involved in in the private practice. If we take on a contract for a company, quite often it's on success and uh, if you're able to show a success you get paid.

G.MUIR: Mmm. Well i-, in this particular case the ob-, the observation can be made that Mr. SCHREIBER is the gentleman who was able to demonstrate that things got done and that he was paid.

W.McKNIGHT: Mmm.

G.MUIR: Hum, Mr. SCHREIBER is not shy about acknowledging that. Hum and our concern is not with Mr. SCHREIBER having made money essentially advancing the interest of other companies as an entrepreneur, a lobbyist, an agent, call it what you will. Our concern to the point is that other persons within his realm of influence benefited personally, financially or materially by that d-, by that money or derivative, derivative of that money.

W.McKNIGHT: Well I understand that uh, but as I said to you of the onset that's the first indication that I've had from anyone either through rumor while I was a Minister or since I left the Ministries that anyone other than Mr. SCHREIBER had benefited from the THYSSEN program.

G.MUIR: Mmm. Mr. McKNIGHT did you receive any financial or any material benefit from Mr. SCHREIBER as a result of THYSSEN, in that project.

INTERVIEW OF MR. WILLIAM McKNIGHT

36

DATE: 99-09-30

W.McKNIGHT: None whatsoever.

G.MUIR: OK. Do you know any of your colleagues elected or appointed that that benefited materially or financially?

W.McKNIGHT: None to my knowledge.

5 G.MUIR: OK. PETER.

P.HENSCHEL: Do you, I think GRAHAM before brought up uh, a possible meeting that uh, you would have had with uh, NORM SPECTOR.

W.McKNIGHT: Mmm.

P.HENSCHEL: ... you didn't, you couldn't recall that.

10 W.McKNIGHT: I don't recall

P.HENSCHEL: Do you, do you recall at any time uh, there being discussions as to what this proposal was gonna cost, that the bottom line was gonna be in terms of tax payers money and and have an agreement with with for example, agreeing to a figure with with ACOA, with ELMER MacKAY for example and what the cost would be, do you remember that

15 W.McKNIGHT: I don't remember I would have, I would have, I'd be surprised if I as the Minister uh, would have developed the numbers.

P.HENSCHEL: No no not that you would have developed the numbers, but that you would have been tasked with with uh, at one point by NORM SPECTOR, you and ELMER MacKAY would have been tasked with, let's get the, get the uh ..

20 W.McKNIGHT: That could be, but I I don't, I don't recall it, but that would you know again if the Prime Minister uh, has a Chief of Staff who's doing their job and there's a difficulty between Ministers you try and bring them together.

25 P.HENSCHEL: OK. But it's not anything that you were ..

W.McKNIGHT: Nothing that I recall uh, because regardless I think, I'm sure you have it but regardless of the cost of the project the officials who, on whose recommendation I would rely and the rest of the government should, uh, were not impressed with the THYSSEN vehicle. Because it was that much superior over what they were contemplating purchasing from General Motors.

30 P.HENSCHEL: Was there any at any time any indication given to you that the uh, that the Prime Minister had an interest in how the program or that this particular proposal was ..

35 W.McKNIGHT: Sure.

P.HENSCHEL: .. progressing.

W.McKNIGHT: Sure.

INTERVIEW OF MR. WILLIAM McKNIGHT

37

DATE: 99-09-30

P.HENSCHER: OK and what would your recollection be of that?

W.McKNIGHT: I don't recollect exactly who it came from uh, but I used the words that I used when I was told that the Prime Minister . .

P.HENSCHER: OK, that's referring . .

5 W.McKNIGHT: . . would like to see it go ahead . . .

P.HENSCHER: . . that's referring to . .

W.McKNIGHT: And it was never "do it, we would like to see it go ahead, it would be beneficial to the region, beneficial to CANADA". And uh my response was "I'll do whatever my Prime Minister wishes me to do, just have him talk to me." Because you don't rely on officials.

10

P.HENSCHER: OK. So, but that that's your only recollection or that's the only time that you were aware of . .

W.McKNIGHT: That's always, I mean ELMER and uh GERRY any proponent said you know that this would be important to the Prime Minister. I've said it myself talking to Cabinet colleagues I mean you know that's, I wasn't specific in any ways yeah, so no that was the only, that was the only response, intimidation, that it was important to my Prime Minister.

15

P.HENSCHER: OK, hum, do you recall when it was the first time that you became the, the first uh THYSSEN initiative which would have been apparently this bicycle factory, do you remember when that would have been?

20

W.McKNIGHT: Uh SINC STEVENS was the Minister of DRIE. BARBARA McDOUGALL who uh, said it could be looked upon as war vehicles and uh I just remember the discussion around the economic uh . .

P.HENSCHER: OK.

25

W.McKNIGHT: . . Committee and Cabinet, but that's uh, so that would be early on when . . when SINC was with DRIE.

P.HENSCHER: OK.

W.McKNIGHT: Or did we call it DRIE.

P.HENSCHER: DRIE I think.

30

G.MUIR: DRIE, DRIE all different ways. You've mentioned GERRY several times that's, presumably that's GERRY DOUCET you're talking about.

W.McKNIGHT: No MERRITHEW.

G.MUIR: GERRY MERRITHEW. It's a good thing I asked.

(They laugh).

35

W.McKNIGHT: You see GERRY GERRY DOUCET uh, I don't recall him carrying this file to me, uh, I mean I recall because I know GERRY and uh, uh, but I don't recall him being involved in this uh, in this file, uh, with me then I

INTERVIEW OF MR. WILLIAM McKNIGHT

3#

DATE: 99-09-30

found it strange that FRED's name was uh, surfaced with SCHREIBER meeting with me because I don't recall that.

P.HENSCHEL:

But uh, you said that somebody though, and you couldn't recall whom uh, who was the, that came with uh, SCHREIBER to see you, uh, but you're not sure and you didn't think it was FRED DOUCET is that it?

5

W.McKNIGHT:
(END OF TAPE)

I didn't think it was . .

TAB 13
THE HON. WILLIAM MCKNIGHT



Government of Canada
Privy Council Office

Gouvernement du Canada
Bureau du Conseil privé

To
Pour: Bob Grauer

Date Jan. 25/90

Subject:
Objet: Bear Head Industries

From: Ronald Bilodeau
De:

Via:

Your Signature
Votre Signature
 For Comments
Observations

Information
 Material for the P.M.
Documents pour le P.M.

Remarks:
Remarques:

I talked to Ward Elcock on the Thyssen letter. A few minor suggestions in paragraphs 2 and 3. Para. 4 should probably be deleted since we are not really undertaking anything beyond our regular government practice. A time limitation is therefore not very relevant.

c.c

Drafting officer
Rédacteur

PCO-BCP-29

8470-5 Vol 1

TAB 14
THE HON. WILLIAM MCKNIGHT

DRAFT

KARL - HEINZ SCHREIBER
BEAR HEAD INDUSTRIES LTD.

On September 27, 1988, an Understanding in Principle was signed between Bear Head Industries Limited and the Government of Canada (represented by the Minister of National Defence, the Minister of Industry, Science and Technology and the Minister responsible for the Atlantic Canada Opportunities Agency) expressing the intent of the parties that Bear Head Industries establish a manufacturing facility on Cape Breton Island in the province of Nova Scotia.

In order to provide a basis for discussions leading to the formalization of plans to proceed with the realization of this project, I am pleased to confirm that, in the event that the Canadian Forces determine to acquire a Multi-Role Combat Vehicle, and subject to Bear Head Industries Limited satisfying in all respects the specifications and design requirements of the call for tenders and all contractual matters, Bear Head Industries Limited will be given an opportunity to ~~participate~~ *participate in the tendering* for the contract to supply such vehicles.

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It must be understood ^{however} that the Canadian Forces are still in the process of developing their plans for future acquisition of material and equipment, that, in particular, no decision has yet been reached or approved by the Government, to proceed with such an acquisition, and that such decision will remain in the sole discretion of the Government. Nevertheless, ^{PC} current evaluation of possible requirements for armoured vehicles indicates that variants on the TH-495 design currently available from the parent company of Bear Head Industries Limited could satisfy the characteristics and capabilities, as presently defined, of the type of armoured vehicle being contemplated.

reverse order
of sentences
as noted.

delete
if poss.

This undertaking will remain valid for a period of five years from the date hereof, and may only be renewed by express stipulation in writing.

8470-5 Vol 1

If the foregoing is acceptable as a basis for the commencement of discussions leading to the building of the subject facility in the province of Nova Scotia, we would be prepared to participate in more detailed discussions at your convenience.

Yours truly,

William McKnight
Minister of National Defence

8470-5 Vol, 1