

Documents in support of Mr. Harry Swain's testimony

HARRY SWAIN

INDEX

Tab	Document
1.	Undated. Memorandum for the Prime Minister from Paul M. Tellier. Subject: "Thyssen proposal for Cape Breton facility." (Unsigned)
2.	February 5, 1986. Memorandum for Mr. Tellier from R.R.F. Subject: "Thyssen A.G. Proposal." Cc: Mr. Swain, Mr. Shortliffe.
3.	February 14, 1986. Memorandum for the Prime Minister from Paul M. Tellier. "Possible Question in the House: Proposed Thyssen Plant in Cape Breton." Cc: The Honourable Erik Nielsen.
4.	February 14, 1986. Memorandum to Mr. Tellier from Robert R. Fowler. Subject: "Further Foreign Policy Aspects of the Thyssen A.G. Proposal." Cc: Mr. Shortliffe, Mr. Clark, Mr. Swain, Mr. Broadbent, Mr. Seaborn, and Mr. Protti.
5.	September 17, 1987. Memorandum for the Prime Minister from Paul M. Tellier. Subject: "Thyssen Proposal for Cape Breton Facility"
6.	December 7, 1990. Letter from Robert Fowler to Peter B. Lesaux (includes attachments).
7.	January 9, 1991. Letter from Peter Smith to William Rowat.
8.	April 17, 1991. Memorandum for Mr. Paul M. Tellier from William A. Rowat. Subject: "Analysis of the New Thyssen Proposal."
9.	December 4, 1992. Memorandum from Harry Swain to The Honourable Michael H. Wilson. Cc: The Honourable Tom Hockin and The Honourable William C. Winegard (ACG00207)
10.	July 27, 1993. Email from Joanne Lafrance to Bruce Deacon. Cc: to several individuals. Subject: Thyssen. Also included is a memorandum from Harry Swain to The Honourable Jean J. Charest. Cc: The Honourable Robert Nicholson. Subject: "For your meeting with Minister Corbeil Thursday, July 29, 1993 , on the subject of Bear Head Industries Ltd, (A subsidiary of Thyssen Industrie AG)"(AGC00122)
11.	Undated. Memorandum from Harry Swain to The Honourable Jean J. Charest. Cc: The Honourable Robert Nicholson. Subject: "For your meeting with Thyssen Thursday, August 26, 1993 , on the subject of Bear Head Industries Ltd." (Unsigned) (AGC00176)
12.	December 15, 1993. Memorandum from Harry Swain to The Honourable John Manley. Cc: The Honourable Jon M. Gerrard. Subject: "Your meeting with Thyssen BearHead Industries (BHI), Friday December 17, 1993." (AGC00048)
13.	December 18, 1993. Email from John Banigan to Harry Swain. Cc: to several individuals. Subject: "Thyssen meeting with Minister." (AGC00945)

14.	December 24, 1993. Email from Harry Swain to John Banigan and Kevin G. Lynch. Subject: "Thyssen." (AGC00946)
15.	September 21, 1994. Email from Bruce L. Deacon to Dick Krajewski. Cc: Joanne Madore. Subject: "FW: Thyssen- Ouellet." (AGC00820)
16.	November 17, 1994. Letter from Harry Swain to Robert Fowler. (AGC01003)
17.	February 3, 1995. Memorandum from Greg Alford to Marc Lalonde. Subject: "Association House Proposal."



SECRET

MEMORANDUM FOR THE PRIME MINISTER

Thyssen proposal for Cape Breton facility

The proposal by Thyssen to build a facility on Cape Breton Island is still active. Senator Murray and officials from the Atlantic Canada Opportunities Agency have met recently with Thyssen officials to discuss the specifics of their proposal. One of Thyssen's conditions is that it be chosen as sole-source contractor for one-third of DND's requirements for light armoured vehicles. Thyssen expects to export to the United States as well.

The Thyssen proposal raises some concerns. The domestic market for light armoured vehicles is already fragmented and Thyssen's share of this market would likely not be sufficient to guarantee profitability. The potential for exports to the U.S. is not confirmed and the U.S. market is well-supplied. Other likely export markets for Thyssen products would require export permits. Mr. Clark has already voiced his opposition to the issuance of export permits for Thyssen products to Middle East countries.

I will keep you informed of any developments on this issue.

Paul M. Tellier

Swan/Swain/jt

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PRIVY COUNCIL
OFFICE

FEB 5 3 25 PM '86

MEMORANDUM FOR MR. PELLIER

BUREAU DU
CONSEIL PRIVE

Thyssen A.G. Proposal

SECRET

February 5, 1986

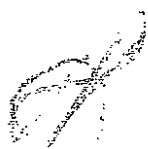
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Original

We are forwarding the attached memorandum to the Prime Minister for your signature and onward transmission to him.

The memorandum expresses our concern, which derives from the very highly sensitive nature of the Thyssen proposal. As you are aware, the proposal calls for construction of a plant in Cape Breton by a major German manufacturing concern to produce military vehicles (including light tanks) for sale in the Middle East and, perhaps, elsewhere.

As you will see, we have somewhat unusually and rather forcefully stated our (your) strong reservations about the Thyssen proposal; this in the full knowledge that senior ministers (NB Stevens) and, indeed, the Prime Minister - strongly encouraged by both Messrs Doucet and McMillan - appear to favour it. Stated succinctly, Harry Swain thinks the economic risks outweigh any possible advantages; for my part, I believe approval of the proposal would be the type of "political accident" à la Jerusalem Embassy (both domestically and internationally) the Prime Minister is judiciously trying to avoid.



R.R.F.

c.c. Mr. Swain
Mr. Shortliffe



SECRET

MEMORANDUM FOR THE PRIME MINISTER

Thyssen A.G. Proposal

The purpose of this memorandum is to provide you with an update on the Thyssen proposal to establish a manufacturing facility at Bear Head, Cape Breton Island.

The salient points on this issue are:

- the Memorandum to Cabinet from Mr. Clark has been circulated and is being brought to the Committee on Foreign and Defence Policy today (February 5th);
- it will be considered following further discussion of revisions to the policy with respect to arms exports;
- you should be aware that initial consideration of the revised Export Controls Policy by the F&DP Committee on January 22 resulted in a fairly even split among Ministers as to whether the policy should be made more liberal or more restrictive;
- Mr. Clark and Mr. Stevens have not been able to resolve their fundamental differences on the policy bilaterally prior to the F&DP Committee meeting today.

- it is expected that an even stronger divergence of views will obtain when the Thyssen proposal is considered. Some Ministers will support the proposal because of the promise of economic and job creation benefits the manufacturing facility proposes to bring to Cape Breton. Others will be opposed because of the potentially serious implications for our foreign policy in the Middle East (in particular for our relations with Israel) because of Thyssen's insistence on guaranteed export licences for their military vehicles (including tanks) to a number of Arab countries.

- You should be aware that a few years ago, Krauss-Maffei (a German firm which built the Leopard tanks now used by the Canadian Forces), attempted to sell an updated version of that tank to Saudi Arabia. The German Government intervened and stopped the sale, arguing that they did not want to be perceived as descendants of the Nazi regime selling arms to a country in dispute with Israel. The analogy with the Thyssen proposal is compelling, the perception in this case being a German firm attempting to "end run" German government policy and, in effect, "laundering" its sale of military equipment through Canada. (See attached references to the Nazi background of Thyssen's founder whose autobiography is entitled "I Paid Hitler".)

- Economically the Federal Government's investment would be \$19 million in start-up infrastructure costs plus \$35 million in investment tax credits. This would represent a direct cost per job of \$42,000 and an overall cost (factoring in the tax credit) of \$119,000 per job created, which would probably be viewed as very excessive.

- Additionally, many aspects of the proposal (technology transfer, spin-offs, Canadian content) have not been spelled out.

- A more compelling argument against acceptance of the Thyssen proposal is the bleak prospect for entry into the American market, a market which is assessed as prerequisite to the success of the Thyssen venture.
- The Defence department does not support the proposal as the Canadian Forces have no need for the equipment to be produced by Thyssen, yet fear that once production commenced, there would be extreme pressure in favour of a major DND purchase in order to maintain and expand the production lines between anticipated sales.
- Finally, if the Thyssen proposal were accepted; they would be entering into direct competition with General Motors Diesel Division of London, Ontario who are already producing similar pattern vehicles.

Having reviewed and analyzed the Thyssen proposal, both from an economic and regional development and foreign policy perspective, and in view of significant foreign policy considerations, we would recommend against Government approval of the Thyssen proposal. In our view, the potential damage to our bilateral relations with Israel (and the attendant domestic fallout from the Canadian Jewish community), coupled with an assessment that the forecast economic benefits are based on what we believe to be tenuous market assumptions, militate against approval of the Thyssen proposal.

The attached list of excerpts from a recent telex sent by Ambassador Bartleman in Tel Aviv serve to reinforce our foreign policy concerns vis-à-vis Israel.

Paul M. Tellier

Sutherland/Fowler

c.c. Bernard Roy

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2930-3
2253-1
2458-4.3

S.O. 14-2-86
11:25 a.m.

CLERK OF THE PRIVY COUNCIL AND
SECRETARY TO THE CABINET



GREFFIER DU CONSEIL PRIVÉ ET
SECRETÉAIRE DU CABINET

SECRET

file.
file.

February 14, 1986

MEMORANDUM FOR THE PRIME MINISTER

c.c. The Honourable Erik Nielsen

Possible Question in the House:
Proposed Thyssen Plant in Cape Breton

The attached speaking notes (Annex A) have been prepared in the event that questions are raised in the House or elsewhere regarding today's Globe and Mail article (Annex B) highlighting alleged differences in Cabinet between Mr. Stevens and Mr. Clark over the proposal by Thyssen (a West German Conglomerate) to build in Cape Breton a plant to manufacture military equipment for export.

The speaking notes do not seek to deny the article, which is essentially accurate, but:

- o indicate that Cabinet business is not conducted in public;
- o indicate that Thyssen has made inquiries about investment in Cape Breton; and
- o avoid commenting on the issue of Canada's export permit policy in relation to arms exports to the Middle East.

The attached "fact sheet" on Thyssen (Annex C) has been provided by the Department of Regional Industrial Expansion.

Although no comment should be offered on the detail of the Thyssen proposal, you should be aware that the proposal raises a number of fundamental issues, many of which are potentially divisive, which will have to be dealt with in Cabinet over the upcoming weeks. Some of these issues include:

- o the effect on other Canadian manufacturers, including the operation of General Motors at London, Ontario;
- o the nature and size of any financial contribution sought from the federal Government;
- o the effect on Canada's international relations;
- o Canada's export permit policy;
- o the employment which would be created in Cape Breton, economically one of our most depressed regions.

We have provided copies of the attached material to the offices of Mr. Clark, Mr. Stevens and Mr. Andre.



Paul M. Tellier

McNamara/Swain/bl

Attachment

ANNEX A

SECRET

Proposed Speaking Notes:
Thyssen Plant in Cape Breton

- o The Government does not conduct its Cabinet business in public
 - hence I do not propose to comment on media reports concerning issues which may or may not be before Cabinet.
- o I would point out, however, that the Government has introduced a generous tax assistance package for investment in Cape Breton and has received nearly 700 inquiries in response to that package
 - it has received an inquiry from Thyssen, a West German company, which has expressed interest in developing an industrial-based complex in Canada, and, as often occurs in such a situation, has made specific enquiries with respect to our export permit policy
 - that this Company already has a substantial presence in Canada, and is a major employer in Kitchener (1400 employees), and Winnipeg (about 200 employees).
- o The issues will be considered by the Government, and an announcement will be made after we have given due attention to Thyssen's inquiry.



Toronto Globe & Mail

P. A1

FEB 14 1986

Cabinet split on N.S. plant to arm Middle East

BY JEFFREY SIMPSON

The Globe and Mail

OTTAWA

The federal Cabinet is deeply split over a controversial proposal by Thyssen, a West German manufacturing conglomerate, to build a plant employing up to 400 workers in Cape Breton to export military equipment to Middle Eastern countries, including Saudi Arabia and Kuwait.

Thyssen wants to build a range of armored vehicle carriers and tanks at Bear Head Point at the northeastern entrance to the Strait of Canso.

The secret proposal has been debated twice by Cabinet and is supposed to be discussed again upon Prime Minister Brian Mulroney's return from his trip to France next week.

External Affairs Minister Joe Clark is among ministers fighting the project while Regional Industrial Expansion Minister Sinclair Stevens and Nova Scotia ministers are leading the camp in favor.

The Thyssen proposal pits Cape Breton's need for jobs against some of Canada's general policies barring arms exports. Approval of Thyssen's proposal would alarm many groups in Canada, including the Jewish communities whose counterparts in the United States have often lobbied against U.S. arms sales to Saudi Arabia.

Thyssen, which manufactures about 80 varieties of armored vehicles and tanks, cannot export any of these products to the Middle East from its West German base. A

special West German law forbids the issuing of export permits for military equipment to "regions of tension," which include Israel and Arab states bordering on Israel.

But the West German Government often quietly encourages companies to set up offshore in order to sell in Middle Eastern markets. Thyssen is seeking from the federal Government a five-year export permit to ship products manufactured in Cape Breton to

Saudi Arabia, Kuwait, Pakistan, Bahrain, Algeria and the United Arab Emirates.

Thyssen wants approval for the export permit in order to conduct marketing campaigns in these countries. If successful, it would invest more than \$100-million in Cape Breton, also taking advantage of the enriched investment tax credits for the area included in the last federal budget. Cape Breton's official unemployment rate is about 24 per cent, but the unofficial rate is substantially higher.

The island has recently suffered a series of economic blows, including the closing of its two heavy-water plants, a fire at a Glace Bay colliery, and a fire at a Glace Bay fish plant. The island's coal and steel industries are also in long-term decline.

The Thyssen application is complicated by a broadly similar request from General Motors' diesel operation in London, Ont. GM has been trying to market an armored personnel carrier in Saudi Arabia.

Although GM has not yet applied for an export licence, it has made preliminary soundings with the

Government, which it has found receptive. Government sources suggest GM will soon be applying for the export licence for vehicles manufactured in London.

Existing Canadian policy precludes granting export licences for military equipment to countries considered enemies of Canada, those condemned by the United Nations, those which abuse human rights where military equipment might be used as tools of further repression, and to Taiwan.

Another category includes those countries engaged in hostilities or in imminent danger of hostilities. In this category are Jordan, Syria, Libya, Iran, Iraq and Israel.

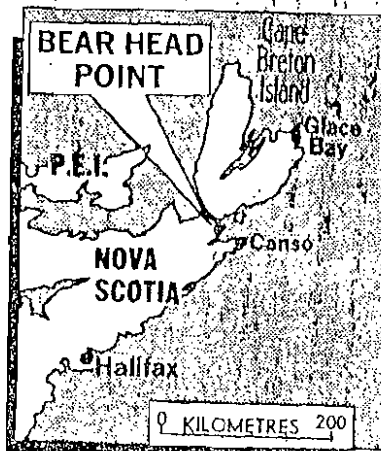
Among the countries to which Thyssen wants to export from Cape Breton, Saudi Arabia and Kuwait fall into grey areas. So might the UAE and Algeria.

Normally, Canada would issue a one-year export permit for military equipment. But Thyssen is asking for a five-year permit. Some Government officials fear that the five-year permit would bind the Canadian Government's hands.

Thyssen says it needs the five-year export permit to allow the company to search successfully for customers in the Middle East. The company, if successful in Cape Breton, would also hope to sell equipment later to the Canadian and U.S. armed forces.

Some Government officials worry, however, that if Thyssen were to run out of contracts in acceptable Middle Eastern countries, it might seek permission to sell to those on the Government's proscribed list, using the lever of shutting its Cape Breton operations if the Government resisted.

Mr. Clark is among those ministers who had serious doubts about the long-term economic viability of the proposed Thyssen plant.



SECRET

February 14, 1986

MEMORANDUM TO MR. TELLIER

FROM: Robert R. Fowler

Further Foreign Policy Aspects of the
Thyssen A.G. Proposal

In view of the importance of the decision concerning the Thyssen A.G. proposal, it may be useful to outline some additional aspects of this issue which we feel have been either ignored or underplayed in the discussion as it has developed thus far. Some of these expand on points raised in our previous thoughts on this subject (copy of the original of our Memorandum to the Prime Minister of February 5 is attached for your ease of reference); some relate to considerations which have been raised by others in their own representations.

1. It has been suggested that there is little, if any, difference between the venture Thyssen seeks to establish and the General Motors Diesel Division (GMDD) in London, Ontario. Both produce wheeled armoured personnel carriers; both seek to sell abroad, including in the Middle East. Yet there are differences which are far from insignificant.
 - (a) General Motors is not a German company. This has enormous significance for certain groups likely to be opposed to the Thyssen deal. (see Point 6 below);
 - (b) General Motors does not produce tanks. It is at least arguable that vehicles designed to protect troops are defensive in nature. This distinction - between offensive and defensive weapons - has been a cornerstone of Canadian arms export policy with regard to sensitive areas such as the Middle East. Thyssen insists it must be able to make and market tanks at its Cape Breton facility. Tanks are unambiguously offensive arms.

- (c) General Motors, at least hitherto, has not sold to the Middle East. Although it has attempted to do so, its only client thus far has been the USA Marine Corps, a contract assisted mightily by the nature of its parent company. Thyssen, on the other hand, says that it requires access to Middle East markets to survive. This may well be true, given that the USA market is unlikely to yield significant contracts. In this latter connection, it should be noted that the USA has never purchased a tank from abroad. Should Thyssen be somewhat more successful in the USA with its armoured personnel carriers, this would compete directly with GMDD's only developed market.
- (d) General Motors has not been given five-year export guarantees. This is precisely what Thyssen seeks in order to ensure its markets against a Government which may wish to change its mind in the future.
2. It would be unfortunate were the controversy over Thyssen to prejudice the prospects of GMDD in its attempt to expand its market beyond the USA. GMDD has sought approval in the past prior to efforts to sell its products to countries such as Egypt. Although no contracts have been secured thus far, the chances of success in the future would be dealt a blow by severe negative reaction to Thyssen. Although the products of GMDD are very different from Thyssen (i.e. not tanks), guilt by association cannot be ruled out. In this connection, it is worth noting that the potential contracts for GMDD involve more jobs, more money, and greater Canadian content than would be the case with Thyssen.
3. It has been speculated that GMDD may be selling its vehicles to the USA Marine Corps, with the latter selling or transferring their weapons to other states, including those in the Middle East. To the best of our knowledge, this has not happened. More importantly, were it to happen without Canadian permission, this would violate Canada's current arms export control policy.

4. Some have suggested that it is unfair to focus on the tank/armoured personnel carrier aspect of Thyssen's potential operation, insofar as the company intends to eventually establish a diversified production facility. While this may be factually correct, three points must be made. First, these 'other' products would not be introduced until the second phase of the project. In other words, at least initially, Thyssen would be, and would be seen to be, a tank factory. Second, there is no guarantee whatsoever that Thyssen would expand its facilities beyond those initially built for military production. And third, were such expansion to take place, it is unlikely that the manufacture, say, of submarine components will reduce the controversy over tank production.

5. Some have made a distinction between 'light' tanks of the sort Thyssen manufactures and 'heavy' tanks familiar to Canadians in the European Central Front context. This distinction is made in order to indicate that 'light' tanks are somehow less offensive in nature than 'heavy' tanks. It should be noted that the role of light tanks in modern warfare is well-established, and that they have been fully integrated into offensive tactics and strategies. In the Middle East, light tanks have proven particularly appropriate to the adverse terrain of the region (sand, rock, etc), providing an ideal combination of low weight and firepower. They are also appropriate to the terrain and climate of other regions, such as Central America.

6. The German context within which Thyssen operates is worth elaborating upon. As you are aware, Germany has imposed upon itself a very strict arms export policy, including a virtual ban on sales to the Middle East. This owes its origins to the Holocaust of World War II. While Israel always protests Western arms sales to the Middle East, it reserves particular venom for West German companies and sales.

During 1981, Chancellor Schmidt of West Germany considered allowing the sale of tanks and armoured personnel carriers by Krauss-Maffei to Saudi Arabia. From the outset, however, there was great opposition from all political parties in Germany,

as well as a visceral outcry from Israel. Foreign Minister Shamir - who is also Foreign Minister today, and soon to be Prime Minister, - said on May 2, 1981 that such a sale would help "finish off the job the Nazis started of exterminating the Jews". While one may disagree with the degree or rationality of the Israeli reaction, one cannot ignore its reality, nor the resonance it finds abroad amongst Jewish communities. As the Israeli Ambassador to Germany said in January 1984, "public opinion in Israel has a special reaction to German weapons". That sale did not go through; nor have any since.

The points here are obvious. First, Israeli and Jewish reaction is not likely to arise simply from the fact of yet another arms sale, but from the particular nature of the company in question. Second, it is not only the company which would be exposed to such criticism, but the Government which legitimized - and indirectly funded - activities which would not be allowed by the German government.


It should also be noted that a probable factor behind the Thyssen proposal is the possibility that the Social Democrats may win the next German election, expected in 1987. Johannes Rau, the SDP candidate for Chancellor, has made more restrictive arms exports a central plank in his party's platform. German arms manufacturers are planning for this eventuality by moving off-shore.

7. A prominent feature of the Thyssen discussion has been the question of the arms sales policies and practices of other Western states. It has been argued that the prodigious arms sales to the Middle East by, among others, France, Britain and the United States, call into question the rationale for our own restrictive policy. It cannot be denied that some states are free and easy in their approach to arms sales. This has always been the case.

Most of these countries have made the deliberate economic and political decision to adopt liberal arms sales policies, in many cases reflecting interests arising from the prior colonial status of some of the countries in the Middle East. In the American case, large sales of modern aircraft

and other sophisticated weapons have been seen as an instrument of USA foreign policy designed to maintain a military balance in the region and encourage a peaceful resolution of the conflict. Many have disputed the effectiveness of these policies, and domestic and international reaction to these sales has been far from supportive.

There are important points of policy at issue here. Canada made a principled decision long ago that it would not seek to profit from regional conflicts in its arms export policy. That decision was not designed to mirror the policies of other Western states; it was a decision reflecting a Canadian view of international propriety. Acceptance of the Thyssen proposal would be seen as a de facto alteration of this policy. To be sure, Canadian sales of tanks to the Middle East are not going to trigger a war in this region. Neither will a refusal to sell bring everlasting peace. At bottom this is a moral choice, a point of principle, a decision not to build a stall in the Middle East 'Arms Bazaar'. It has also been a policy strongly supported by the Canadian public over time.



R.R.F.

Hagen

c.c. Mr. Shortliffe
Mr. Clark
Mr. Swain
Mr. Broadbent
Mr. Seaborn
Mr. Protti



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SEP 17 1987

MEMORANDUM FOR THE PRIME MINISTER

Thyssen Proposal for Cape Breton Facility

It would appear that the proposal by Thyssen to build a facility on Cape Breton Island is still active. Senator Murray and officials from the Atlantic Canada Opportunities Agency have met recently with Thyssen officials to discuss the specifics of their proposal. Thyssen's proposal is geared towards the US market for armoured vehicles. They are asking for \$25 million as a start-up grant from the federal and Nova Scotia governments and a directed sole source contract from the Department of National Defence for 250 light armoured vehicles (valued at about \$425 million) to see them through the initial two years of its operations. It is argued that this would allow them to penetrate the US market.

In our view, this proposal is highly questionable from a variety of viewpoints. First, it is doubtful if this operation could ever become economically viable. The US defence equipment market is tremendously difficult to penetrate. Without a close relationship with one of the big US manufacturers, Thyssen's chances must be rated as very poor. (Thyssen's negotiations with General Motors Diesel Division for a cooperative venture have collapsed.)

Second, DND has no requirement for the sort of vehicles manufactured at present by Thyssen. Moreover, the department's acquisition plans are such that major and undesirable alterations in its program would be necessary in order to accommodate Thyssen's demands. In this connection, it is probable that Thyssen is hoping to secure the entire DND contract for armoured vehicles (about 2,000), realizing that its US market hopes are optimistic and that once an initial

Canadian procurement of its product is secured, it will become easier to ask for an extension. The Government might then be faced with prospects of closure of a regionally sensitive but economically unviable operation.

Third, Thyssen would be in direct competition with General Motors in London, Ontario for both the domestic and export markets. It is extremely unlikely that the market will be such as to sustain both operations.

Finally, it is possible that Thyssen, once established, will seek export permits for countries, including some in the Middle East, which would cause great difficulty for the Government in terms of its foreign and export control policies. This was a central feature of Thyssen's proposal of last year, one which was strongly resisted by Mr. Clark.

I will keep you informed of developments on this issue as they arise.



Paul M. Tellier

Swan/Hagen/Swain



2253-1

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SEP 17 1987

MEMORANDUM FOR THE PRIME MINISTER

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I will keep you informed of developments on this issue as they arise.



Paul M. Tellier

Swan/Hagen/Swain

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National Defence

Défense nationale

Deputy Minister

Sous-ministre SECRET

National Defence Headquarters
Ottawa, Canada
K1A 0K2

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

7 December 1990

Mr. Peter B. Lesaux
President
Atlantic Canada Opportunities Agency
4th Floor
60 Queen Street
Ottawa, Ontario
K1P 5Y7

Pete,
Dear Mr. Lesaux:

Attached please find the Department of National Defence's analysis of the unsolicited Thyssen proposal for a directed contract for 250 FOX vehicles. We have taken a serious and searching look at this proposal, what it would cost and what actions we would have to take to implement it.

Unfortunately, our analysis clearly shows that the FOX is not the right vehicle for our forces. It is not air-transportable in a C-130 Hercules aircraft; it would not provide us with the necessary fleet rationalization of a "family" of like vehicles; it would result in significantly fewer vehicles for the army; and would result in purchasing the infantry variant before it is required, instead of replacing other obsolete variants.
(See attachment paras 11-15)

At this point we can not really consider the TH 495 as an alternative to the FOX. The TH 495 is still on the drawing board and constitutes an untested and unproven design. (See attachment paras 16 and 17)

Based on the information about the proposal contained in the business plan, our analysis indicates that the net impact on the defence budget of acquiring 250 FOX would be over \$765 Million (90/91 dollars). This is net of the funds available for such vehicles in the current defence program. During the acquisition phase (1993/94 - 97/98),

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this buy would create a requirement for \$655 Million (90/91 dollars) in unforeseen capital cash flow in this period. (See attachment paras 24 - 27) We are simply not able to identify how such an amount could be diverted from the other elements of the Defence Services Program without causing costly and disruptive dislocation to existing plans, contracts and projects. Indeed, even were such an amount of money available from sources outside the Department of National Defence, we have, from our perception of defence priorities, much more pressing requirements on which that money should be spent. For example, projects such as TCCCS (the army radio program), NSA (the naval helicopter), and the Northern Terrain Vehicle are currently facing affordability problems.

I assure you that we have done our best to provide an objective analysis of the rather limited information available in the Thyssen proposal.

Yours sincerely,



Robert R. Fowler

Enclosure: 1

SECRET

2

National Defence

Défense nationale

Deputy Minister

Sous-ministre

National Defence Headquarters
Ottawa, Canada
K1A 0K2

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

PCO-	BCP-
Original:	8470-5
Copies:	
Ident:	1990

5 December

The Minister

**DND PORTION OF THE ACOA
COORDINATED PAPER ON THYSSEN PROPOSAL**

1. Enclosed please find a copy of the DND portion of the ACOA coordinated paper on the Thyssen proposal for a directed contract from DND for the FOX Infantry Combat Vehicle (ICV). This paper clearly depicts the costs and consequences of proceeding with the proposal.
2. Not until last Friday did ACOA provide the Thyssen proposal to us. Unfortunately, it is not really a proposal but merely some sketchy ideas about vehicle acquisition within a rather sparse business plan. Nevertheless, we have conducted our analysis as best we can. It has been reviewed extensively within the Department, and has DCDS and ADM(Mat) concurrence.
3. The main concerns that I have with the Thyssen proposal (which are expounded upon in the paper) include:
 - a. the timing is inappropriate as DND is in the midst of a policy review which will change the structure and the roles of our army;
 - b. since FOX does not fit our operational requirements, we would have to reverse priorities for replacement of army vehicles. This would result in further review and revision of army roles and structure, combat deficiencies, and unscheduled operations and maintenance costs;
 - c. once training, logistics support, infrastructure, etc are considered, a contract price of \$290M for 250 vehicles translates into a total Infantry Combat Vehicle project cost for 93/94 - 97/98 of \$725M, and an additional \$130M in operations and maintenance over the next decade;

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- 2 -

- d. when factored into the Defence Services Program, the amount of unavailable capital is \$655M in the 93/94 - 97/98 period. This money is not available in DND's existing reference levels without major dislocations of the Defence Services Program (ie, deferment, cancellation, or downsizing of such projects as TCCCS and/or Northern Terrain Vehicle;
- e. we would distort the desired mix of the three variants (infantry, combat and recce combat) of this vehicle family. In essence, we would acquire 44 more FOX ICVs than we need. In doing so, we would use 50% of the funds available (as opposed to our planned 14%) for the total family purchase to acquire only one of the three vehicle types in the family. We would be left with the option either to buy fewer of the remaining two vehicle types or to look elsewhere in the DSP for funding; and,
- f. exacerbation of existing overcapacity in the vehicle sector of the defence industrial base.

4. I understand the Minister for ACOA, Mr. Elmer Mackay, has arranged to have this topic placed on the agenda of the Operations Committee for Tuesday, December 11, 1990.

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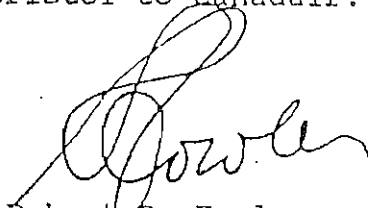
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5. As this issue is going ahead, with your concurrence we will provide our analysis to ACOA, so that as lead department they may prepare the requisite Cabinet documents. Our staff are standing by to work with ACOA on this.

6. I must advise you, however, that I believe that a decision to proceed with this directed contract to Thyssen would result in a more significant and far-reaching controversy than that which followed the decision to move the CF-18 maintenance contract from Bristol to Canadair.



Robert R. Fowler

Enclosure: 1

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DND ANALYSIS OF THE THYSSEN PROPOSAL

1. While inadequate for all but general planning purposes due to lack of detail and narrow scope, the unsolicited Thyssen proposal for a directed, sole-source contract as contained in the paper provided to ACOA has been used as the basis for this analysis. The Thyssen proposal is for a directed contract for 250 TpZ 1 FOX vehicles, at a cost of \$290M (1990 dollars), with delivery beginning in FY 93/94. Within one year of signing such a contract, DND may, after negotiations with the company, switch the order and purchase an unspecified quantity of TH 495 vehicles for an unspecified price (see para 16).

2. In order to understand what would be required for DND to satisfy this request, it is important to understand the environment in which DND is currently operating.

THE DND ENVIRONMENT

3. The Department of National Defence (DND) is currently undergoing a "defence policy review". Due to the rapid and drastic changes in the security environment in the last several years, the policy set out in the 1987 White Paper requires change. The process for determining those changes is not yet complete.

4. Concurrent with the Defence Policy Review, we are also pursuing a major program review for determining the equipment requirements associated with the roles and missions defined by the new policy. The proposed Defence Policy and the associated capital program will not be considered by Cabinet until sometime in the new year.

5. In general terms, the new defence program, in reflecting more realistic future budget expectations, will reflect dramatic reductions in the capital program foreseen before the last two budgets. Even that reduced capital program is contingent upon government approval of major reductions in armed forces structure and supporting infrastructure. Otherwise the funding for capital will not be available and further capital program reductions will be necessary. Throughout the armed forces, there will be fewer equipments and significant rationalization of different types of similar equipments to yield the necessary savings in operations and maintenance costs.

6. This state of uncertainty affects all elements of our capital equipment program, including the equipment program for the Army. While the precise nature of DND's future army

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- 2 -

requirement is unknown pending finalization of the Defence Policy Review, DND planning is proceeding along the following lines:

- a. a shift towards a lighter, more mobile, more flexible army;
- b. a rationalization of army combat vehicles that will reduce the current inefficiencies inherent in a multi-type vehicle fleet; and
- c. fuller exploitation and integration of the Militia with the regular force.

7. These considerations have led to the formulation of the Multi-Role Combat Vehicle (MRCV) project. Over the next fifteen years, the future army will require seven to eight hundred Multi-Role Combat Vehicles (MRCV), in three primary variants, to replace, augment, and rationalize existing fleets only as their useful life expires. Thus, the requirement is to procure the variants in the following order: a Reconnaissance Combat Vehicle (RCV), the Armoured Combat Vehicle (ACV), and the Infantry Combat Vehicle (ICV). The department recently agreed in principle to such a project, so it could be inserted in the long term plan. No significant funding is available prior to the mid-1990s.

IMPACT ANALYSIS AND ACTIONS REQUIRED

8. The following sections outline as best as we can, given the imprecise nature of the information available, the impact of accepting the Thyssen proposal and what DND would have to do in order to proceed with the proposal. The remainder of this section is organized according to the primary areas of impact:

- a. operational requirements;
- b. defence budget;
- c. Defence Services Program;
- d. defence industrial base; and
- e. public relations.

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- 3 -

DND OPERATIONAL REQUIREMENTS

9. The next step is to define more clearly, over the next two years, the exact nature of the MRCV requirement. Not before then would the Minister of National Defence be in a position to demonstrate a fully-defined requirement and seek preliminary approval from Cabinet, including a procurement strategy.

10. At this time we do know that, in general terms:

- a. the MRCV must be highly mobile;
- b. the MRCV must provide a moderate level of protection;
- c. a family of vehicles is the preferred concept (ie, variants with a high degree of commonality, such as the chassis, spares, communications, etc.):
 - (1) Reconnaissance Combat Vehicle (RCV) to gather intelligence and to deny information to the enemy through direct fire,
 - (2) Armoured Combat Vehicle (ACV) to provide heavy direct fire support and to be part of the anti-armour capability,
 - (3) Infantry Combat Vehicle (ICV) to provide protected transport for infantry; and
- d. the vehicle must be transportable in C-130 Hercules aircraft (weight limit of 17.97 metric tonnes and a useable width of 2.87m).

11. The FOX probably would meet mobility requirements as it is a six wheeled vehicle of proven design offering good road and track mobility with reasonable off-road movement. In addition, the FOX appears to offer a reasonable degree of protection.

12. With regard to the family of vehicles requirement, although the FOX has a number of variants, these variants do not match our other requirements:

- a. while advertised as a nuclear, biological, chemical (NBC) reconnaissance vehicle, the FOX is not a normal reccé vehicle. It is configured to

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- 4 -

hold equipment which could determine the extent of contaminated ground through ground reconnaissance and air monitoring. It would not fulfil our conventional RCV requirement, which entails penetration of enemy lines, and possibly denial by direct fire of friendly information to the enemy;

- b. Thyssen itself acknowledges that the LUCHS is its conventional recce vehicle;
- c. some modifications to other FOX variants might make it a candidate for the Armoured Combat Vehicle variant DND requires; and
- d. the FOX itself is an infantry combat vehicle, and as it currently exists, would be appropriate only for the Infantry Combat Vehicle (ICV) requirement.

Thus, the FOX is not suitable for the family of vehicles concept based on a single chassis with the particular variants DND has identified to meet the army's future needs. Several European and US manufacturers currently produce families of vehicles which do have our required variants, such as the Vickers Valkyr (UK), the Kraus-Maffei Puma (GER), and the Alvis Stormer (UK).

13. On the air-transportable requirement, the FOX weighs 17 metric tonnes, but with a width of 2.98m it is incapable of transport by the C-130 and therefore unsuitable for the new roles foreseen for the army. If the FOX were to be given a turret and cannon/gun to make it fit the ACV or RCV role, it would likely exceed the weight limitation of 17.97 metric tonnes. The LUCHS, the Thyssen recce vehicle, weighs 19.5 tonnes, making it too heavy to carry in a C-130.

14. To buy the FOX as the ICV first would mean that the necessary acquisition order of Recce Combat Vehicle, Armoured Combat Vehicle, and finally Infantry Combat Vehicle would be reversed. This would mean that we would be postponing replacement of those types of armoured vehicles which are nearing the end of their operationally useful and economic life (ie, the current recce and direct fire vehicles), and supplementing the existing infantry combat vehicle fleet before necessary. The vehicle requirement is based on projected future force structure; therefore, it would be difficult to absorb the FOX with existing force structures. This difficulty would be exacerbated by delivery

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- 5 -

of variants in the reverse order. The consequences of this action would be:

- a. need for increased operations and maintenance provisions (see para 22 below);
- b. need for trained personnel to operate and maintain the vehicles; and
- c. if we do not proceed with the purchase of a Recce Combat Vehicle as scheduled, we would be creating a combat deficiency as our current recce vehicle, the Lynx, will be operationally deficient after 1996.

15. The army would end up with fewer vehicles than they need and could otherwise afford. They would also end up with the wrong mix of the three variants (infantry, combat, and recce combat vehicles). Thyssen proposes to provide 250 FOX infantry combat vehicles (ICV), whereas the army requirement is only 206 such vehicles. Because of the additional costs of the Thyssen proposal (see below para 24), the ICV portion would consume over 50% of the funds available for the MRCV (rather than about 14% as is now projected). Since this purchase would satisfy only the requirement for the relatively less expensive ICV, the army would only be able to afford a maximum of 550 vehicles rather than the currently planned 735. This assumes a competitive, off-the-shelf buy of an existing vehicle which would meet our requirements but would be less capable and less expensive than an improved FOX variant or fully developed TH 495. The new mix would be 250 ICVs plus 300 armoured and recce combat vehicles, rather than the 206 ICVs with 529 ACVs and RCVs.

16. TH 495. The TH 495, suggested by Thyssen as an option suitable for discussion once the directed contract is let, is a conceptual vehicle existing on paper only. It eventually might promise to satisfy all the MRCV requirements. Intended as a tracked vehicle, it would offer reasonable mobility over all terrain. Its proposed dimensions and basic weight would indicate a suitability for the C-130 Hercules aircraft. The suggested family of variants would meet the MRCV principal requirements for a reconnaissance vehicle, a direct fire armoured vehicle, and/or infantry carrier. Furthermore, it has been suggested that the TH 495 would meet current anticipated protection requirements. Given the advertised characteristics of the TH 495, it is judged that the Thyssen vehicle could enter with good prospects, subject to price,

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- 6 -

the open competition in the period of 1994-95 to satisfy the Canadian MRCV requirements.

17. The Thyssen proposal, however, would have us begin planning to acquire the FOX, and then switch plans to accommodate the TH 495. The TH 495 is still on the drawing board and the development timeline for the TH 495 is optimistic in our view. Given that quantity, price, and specifications would be subject to negotiation, such a proposal makes little sense. It would double the disruption in the MRCV project and would require that we agree to purchase an unknown quantity of unproven vehicles for an unspecified price. Clearly, we are unable to calculate costs of this part of the proposal.

Actions required to proceed with the Thyssen proposal

18. If DND were directed to purchase the FOX vehicle according to the Thyssen proposal, we would have to take the following steps with regard to operational requirements:

- a. stop the process of defining the operational requirement for the ICV portion of the MRCV project and direct the army to use the Thyssen vehicle;
- b. reverse the priorities for replacement of army combat vehicles;
- c. reconfigure existing forces to take the vehicles and examine in particular the maintenance problems associated with early delivery;
- d. review and revise the roles for the army foreseen in the current policy review to make them consistent with the limited transportability of the Thyssen vehicle; and
- e. determine the feasibility and costs of meeting the Armoured Combat Vehicle and Recce Combat Vehicle requirements from the Thyssen product line OR plan for additional costs due to inefficiencies arising from a mixed fleet of vehicles (see below).

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- 7 -

BUDGET CONSIDERATIONS

Note: all dollar figures are 90/91 CY \$

Capital

19. Budgeted Defence Services Program project costs for the Infantry Combat Vehicle (ICV) portion of the MRCV project are currently estimated as follows:

- a. 206 vehicles at \$565K each = \$116M;
- b. \$116M times project factor of 2.5 = \$290M.

The project factor of 2.5 provides the total project cost, including the costs for the vehicle itself, project management, and integrated logistic support (initial provisioning for spares, training, technical data packages, etc.) Project factors are based on the complexity of individual projects and 2.5 is what has been estimated for the MRCV project.

20. The Thyssen FOX is an expensive vehicle compared to most other potential ICV contenders. Based on confirmation from ACOA officials, the Thyssen proposal for FOX is:

- a. 250 basic vehicles (not including normal project support costs - see para 19) at \$1.16M each = \$290M;
- b. \$290M times project factor of 2.5 = \$725M.

Not only is the Thyssen unit price almost twice as much, but Thyssen is proposing to supply 44 vehicles more than our requirement of 206 ICVs.

21. The increase in the total Infantry Combat Vehicle project cost that would be created by a directed buy of FOX is quite significant as detailed hereunder:

- Thyssen proposal:	\$725M
- Budgeted costs for competed ICV portion of MRCV	<u>\$290M</u>
Increase	\$435M

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- 8 -

Operations and Maintenance

22. Since these vehicles would be introduced to the current fleet nine years earlier than currently planned, and there is no corresponding retirement or reduction of other vehicles scheduled, some provision must be made to cover the unforecasted operating and maintenance costs. The least disruptive option for army operations is additional money. Based on a comparable project, we estimate that this buy would add another \$14.5M a year for 9 years or \$130M, before inflation, to the Operations and Maintenance (O & M) budget. An alternative would be to place the newly purchased FOX in storage. Another possibility would be to put other vehicles, such as trucks or the current M 113 fleet into storage. Both would be disruptive of ongoing army activity.

Inefficiencies

23. Financial expenses from the lost opportunity for economies of scale when several hundred vehicles are purchased in two or more separate buys (by increased per unit costs, inefficiencies in the purchase of spares, in stocking, storage, contracting and other such areas) could run to at least 10% of the MRCV project's cost (current estimate \$2,100 million) or an additional \$200M.

Summary of Costs

24. In summary, the additional costs of the Thyssen proposal, over and above those already budgeted for the ICV portion of the MRCV project, would include:

- a. \$435M in capital for the Infantry Combat Vehicle project;
- b. \$130M in unforecasted O & M for the additional vehicles; and
- c. \$200M for inefficiencies and lack of fleet rationalization;
- d. for a total of \$765M.

With the already scheduled \$290M for the ICV portion, the new total ICV cost under the Thyssen proposal would be \$1.1B.

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- 9 -

Actions required to proceed with the Thyssen proposal

25. In order to proceed with the Thyssen proposal, all of the required funding has to be included in the defence budget in the appropriate years. This involves:

- a. bringing forward the originally scheduled costs of the ICV portion of the MRCV project of \$290M from 2001/02 - 2005/06 to the 1993/94 - 1997/98 period;
- b. finding a source for the additional \$435M in capital for project costs over the period 1993/94 to 1997/98 (para 21 above);
- c. finding a source for the additional \$135M in operations and maintenance funding over the period 1994/95 to 2003/04 (para 22 above); and
- d. absorbing the \$200M in inefficiencies over the life of the project (para 23 above).

26. Over the proposed Thyssen delivery period of 1993/94 to 1995/96, the Defence Services Program (DSP) contains only \$70M in funding for the entire MRCV program. Acceptance of the Thyssen proposal would thus require an additional \$480M in capital over this time frame, together with an additional \$175M over the subsequent two years to cover the remaining costs for integrated logistics support. This is a total of \$655M (the total ICV project cost under the Thyssen proposal of \$725M as described in para 20, minus the \$70M already allocated for the MRCV project).

27. In the absence of new funding, the impact on the capital program of having to absorb an additional \$480M over the delivery period (93/94 - 95/96) would be enormous. This is particularly true since these are years in which DND already has severe cash flow problems. The entire army capital program for this period totals \$1.4B for 51 projects addressing the replacement of obsolete equipments. The additional funds required equate to more than one-third of programmed funds, and for only one part of one project.

IMPACT ON THE DEFENCE SERVICES PROGRAM (DSP)

28. The Thyssen proposal to begin delivery by FY 93/94 would call for cash which is not available from within the current Capital Program plan. If the additional \$655M were not to be provided to DND, there would have to be

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- 10 -

massive displacement of well developed and higher priority programs.

29. Large army projects in this period are the Tactical Command and Control Communication Systems (TCCCS), the Northern Terrain Vehicle (NTV), the Utility Tactical Transport Helicopters, the Light Support Vehicle Wheeled, and plans to increase Reserve equipment and infrastructure.

30. TCCCS addresses the highest current army priority - new radios and communications. The winning proposal was recently approved by Cabinet but is unaffordable within the DND capital funding allocation for this project. We are currently reviewing the size of the requirement, negotiating with the contractor, and trying to find other projects which can be reduced to make TCCCS affordable.

31. Northern Terrain Vehicles are in the definition stage, and affordability will be addressed in early 1991 when this stage is completed.

32. It is, therefore, impossible to absorb the cost of the Thyssen proposal without creating capability gaps or deleting combat functions vital to general purpose land forces. Without outright cancellation of TCCCS as now defined, or NTV, plus deferrals/cancellations of other projects, DND could not proceed with the Thyssen proposal within funds currently budgeted for army equipment. Furthermore, projects in advanced stages in other environments--such as the Naval Reserve vessels, the New Shipborne Aircraft (NSA); new Search and Rescue Helicopters, support to the RCMP--would have to be adjusted as well. At the very least, some of these projects would have to be delayed, creating more combat deficiencies.

33. As many of the advanced projects are replacements for aging equipment, delaying implementation involves additional costs associated with life extension until such time as the equipment can be replaced. The continuation and expansion of O & M expenditure required for the maintenance of obsolete equipment cannot be estimated accurately, but could be on the order of hundreds of millions of dollars. For example, the relatively inexpensive 5/4 tonne truck (LSVW, Light Support Vehicle Wheeled) is currently being operated seven years past the end of its scheduled life; the O & M is in excess of \$30M per year. These additional expenditures would then create a ripple effect, displacing other projects further down the line.

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- 11 -

Actions Required to Proceed with the Thyssen Proposal

34. To implement the Thyssen proposal would require the following actions with regard to the Defence Services Program:

- a. cancel, downsize, or defer TCCCS (as currently planned), NTV, as well as other army projects;
- b. cancel, downsize, or defer projects in other environments, including the New Shipborne Aircraft, the Naval Reserve vessels and the Search and Rescue Helicopters;
- c. chart out second and third order effects and make additional adjustments in the O & M and capital programs; and
- d. revise roles and missions to take account of the combat deficiencies created by the DSP dislocations.

DEFENCE INDUSTRIAL BASE

35. A new military vehicle facility would exacerbate the existing, widely documented overcapacity in the sector, leading to any of the following impacts strictly from a DND point of view:

- a. increased demands on government from other suppliers for similar directed contracts and/or subsidies in the wake of lack of work; this could further distort our planned acquisitions;
- b. chronic layoffs and dislocation of sector personnel, leading to increased demands for government assistance; and
- c. relocation out of the country of existing and proven facilities, potentially disrupting our supply lines for existing vehicles and spares; and
- d. intensive competition which could lead to deliberate underbidding, with resultant contract difficulties and cost overruns and demands for government assistance.

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- 12 -

36. Defence industry would also be impacted in other sectors as the cancellations, downsizing, and deferrals of other projects occurred to make room for the additional costs and earlier funding of army combat vehicles. Many companies anticipating new contracts, after much definition work and expense, would be impacted in the electronics, aircraft, and shipbuilding sectors.

Actions required to proceed with the Thyssen proposal

37. To adjust to the effect of proceeding with the Thyssen proposal on the defence industrial base, we would have to:

- a. cancel or defer plans for affected projects;
- b. develop a sector rationalization policy and plan with Industry, Science, and Technology Canada, Department of Supply and Services, Atlantic Opportunities Canada Agency, and Western Diversification, including associated money to handle the various industry demands and needs;
- c. continue to monitor and adjust the DSP for follow-on disruptions.

IMPLICATIONS FOR PUBLIC RELATIONS VIS-A-VIS DND

38. Recent events such as the situation at Oka and the crisis in the Persian Gulf have created a reasonably positive environment for DND and the Forces. Maintaining it in light of major defence reductions which will be embodied in the new policy review will be a challenge. This directed procurement would create a strong negative public reaction based on:

- a. distorting the army program against a background of significant reductions in army structure in the new policy;
- b. increased costs of this project against a background of financial restraint;
- c. the impact on industrial overcapacity in the military vehicles sector; and
- d. the departure from the normal competitive process.

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Action Required to Proceed with the Thyssen Proposal

39. In order to counter the negative publicity, we would have to develop a defensive communications plan.

SUMMARY

40. In general, based on our knowledge to date, if DND were to be instructed to proceed with this proposal, the Department and the army would face a daunting task to fit the FOX into the MRCV project. DND's budget does not allow the increased costs to be taken from existing reference levels. In short, our points are as follows:

- a. the timing is inappropriate as DND is in the midst of a policy review which will change the structure and the roles of our army;
- b. DND would only be able to afford 550 of the 735 vehicles required, and with the wrong mix among the infantry, combat, and recce variants;
- c. since FOX does not fit our operational requirements, we would have to reverse priorities for replacement of army vehicles resulting in further review and revision of army roles and structure, combat deficiencies, and unscheduled operations and maintenance costs;
- d. once integrated logistics support, training, infrastructure, etc are considered, a contract price of \$290M translates into a project cost of \$725M, with an additional \$130M in operations and maintenance;
- e. once factored into the Defence Services Program, the amount of unavailable capital is \$655M in the 93/94 - 97/98 period, with an additional \$130M in O & M over the next decade;
- f. this money is not available in DND's existing reference levels without major dislocations of the Defence Services Program (ie, deferment, cancellation, or downsizing of such projects as TCCCS and/or Northern Terrain Vehicle; and
- g. exacerbation of existing overcapacity in the defence industrial base.

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cc RB
J.B.
AG
A Mac G

Ottawa Office
4th Floor
60 Queen Street
P.O. Box 1667
Postal Station "B"
Ottawa, Ontario
K1P 5R5

Bureau d'Ottawa
4^e étage
60, rue Queen
Casier postal 1667
Succursale "B"
Ottawa (Ontario)
K1P 5R5

January 9, 1991

Mr. William Rowat
Assistant Secretary to the Cabinet
(Economic Policy Committee)
85 Sparks Street
Room 506, Blackburn Building
Ottawa, Ontario
K1A 0A3

Dear Mr. Rowat:

I am writing to express concern on the Thyssen/
Bear Head Industries issue, regarding the January 9, 1991,
version of the aide mémoire, and in particular, DND's
assessment of the costs associated with the company's next
generation TH 495 vehicle.

While not wishing to challenge the expert advice
being submitted to the Government by DND officials, I
believe it important to draw attention to an apparent
internal inconsistency in the DND analysis, which could
result in a significant overestimate of the financial
costs to the Government of effecting the directed contract
sought by Thyssen.

As you may recall, it has consistently been the
position of Thyssen that the new generation TH 495 vehicle
-- under development -- would be designed and built in
close collaboration with DND military experts, in order to
ensure that DND's operational requirements are achieved.

The DND analysis (para 16) notes the advertised
characteristics of the TH 495 vehicle could satisfy the
potential operational requirements of the various groups
of armoured vehicles proposed to be acquired by DND under
the Multirole Combat Vehicle (MRCV) project.

However, when the TH 495 directed contract is
costed by DND, the costing methodology assumes (paras 25-
29, and 45c) that the vehicle (like the older Thyssen Fox
vehicle) will only meet the infantry combat vehicle
variant, thereby requiring DND to expend considerable
additional funds (estimated by DND at \$115 million, and
\$200 million respectively, for increased O&M and

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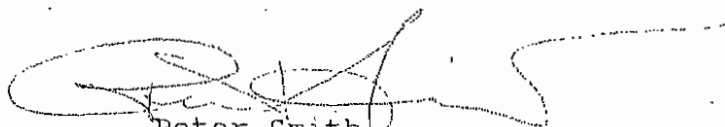
inefficiencies). Under this assumption, these potential costs would be incurred because the order of the vehicle purchases would have to be juggled by DND, and because the degree of fleet interoperabilities would suffer.

However, if the TH 495 vehicle potentially meets the operational requirements (known to date) of the entire range of vehicles to be purchased under MRCV project, then DND would not have to juggle its purchases, and the worries over fleet inoperability subside -- thereby reducing overall project costs, by DND's own estimates, by some \$300 million.

Accordingly, should our interpretation of this inconsistency prove correct, the TH 495 directed contract would indeed present a preferred option to the Government (over the Thyssen Fox directed contract), because it would in principle meet the needs of the military at a cost estimated by DND at approximately \$770 million, rather than the \$1,055 million estimated costs of acquiring the Thyssen Fox vehicle.

I trust that this letter will accompany the package of materials to be submitted by your staff to the Prime Minister's Office.

Yours sincerely,


Peter Smith
Vice-President

c.c. Rob Gillespie

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April 17, 1991

MEMORANDUM FOR MR. PAUL M. TELLIER

Analysis of the New Thyssen Proposal

On April 12, Mr. J.A. Doucet sent you a new proposal on behalf of Thyssen/Bearhead Industries. The purpose of this note is to give you an assessment of this new proposal.

Background

Thyssen is asking for a firm contract from DND for 250 light armoured vehicles and \$8 million in assistance from ACOA (plus \$4.2 million provincial) to establish a \$61 million manufacturing facility in Nova Scotia (believed to be in Pictou County).

The previous Thyssen proposal was for a \$290 million contract, either 207 of the new TH 495's or 250 of the less expensive existing Fox model. The latter are not well suited to DND's operational needs and the TH 495 exists in prototype form only, a source of concern to DND. Thyssen is now requesting a \$350 million contract for 250 of the TH 495 (Annex I compares the new proposal to the previous one.)

Using DND calculations, the new proposal would cost \$875 million, inclusive of operations and maintenance (O&M), using the DND O&M factor of 2.5 (\$350 million times 2.5 -- we have documentation on this factor which DND views as "conservative"). Thyssen calculations include only \$101 million for O&M over 10 years, an implicit factor of about 1.3, for total project costs of \$451 million.

DND also estimates further costs of \$330 million, representing unforecasted O&M and inefficiencies due to a lack of fleet rationalization, raising their estimated total costs of acquiring 250 TH 495's to \$1205 million relative to a budgeted amount of \$290 million, which funding is not sourced. Some of

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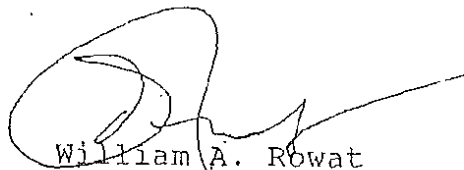
these extra costs come from Thyssen proposing to deliver the vehicles several years earlier than DND needs them. Thyssen has now indicated that it is prepared to be more flexible on the delivery date but has provided no specifics. With a firm DND contract, it would apparently go ahead with construction of the plant so as to fulfil a small U.S. contract it hopes to secure.

Comment

Nothing in the revised proposal alleviates any of our fundamental concerns about this project. It involves DND acquiring a product that has not been demonstrated to meet its requirements; in quantities larger than it requires; at a price higher than it can afford; in a time frame in advance of its needs, and for which a source of funds has not been identified.

One must also consider the regional balance question. Reductions in defence procurement are expected to be announced shortly, affecting Quebec, Ontario and the West. It would be difficult to explain moving forward on this project for Nova Scotia at the same time that plants in these other regions will have to close.

The U.S. is also reducing defence procurement, so the pressure to source its remaining procurements domestically will be heightened. We understand from our Washington Embassy that in this new environment Thyssen has a very low probability of winning many of the contracts it needs to make the Nova Scotia plant financially viable.



William A. Rowat

MacGillivray/lc

Summary of Thyssen Proposal

New
Thyssen
Proposal
(April 12)

Previous
Thyssen
Proposal

DND
Budget

	206	250 or FOX	207 TH495	250 TH495
Number of vehicles	206			250
Model	---			TH495
Unit Cost	\$555,000	\$1.16 M	\$1.4 M	\$1.4 M
Capital Cost	\$116.4 M	\$290 M	\$290 M	\$350 M
Capital + OM*				
Factor	2.5	2.5	2.5	1.289 (Thyssen estimate)
Costs	\$290 M	\$725 M	\$725 M	\$451 M (Thyssen estimate) \$675 M (DND estimate)
DND estimate of contingencies, early delivery, and inefficiencies	n.a.	\$330 M	\$330 M	\$330 M
TOTAL	\$290 M	\$1055 M	\$1055 M	\$781 M (Thyssen estimate) \$1205 M (DND estimate)
Delivery Date Start	97-98	93-94	93-94	Flexible(?)

* Operation and maintenance e.g. training, inventory & replacement parts, etc.



SUPERText

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

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

EXHIBIT INFORMATION

Date Seized: 2001-06-27

Seized By: S/Sgt. ALEXANDER

Exhibit No.: 95-27

Item No.: 222

Sub Location No.: 12

Location: Industry Canada, 236 Queen St., Ottawa

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

These documents are from a file labelled:

5063-B15^e Vol 02
Section 06
Companies, Corporations, Firms
Bear Head Industries Ltd.

James J. Slattery - 954-3296 Dec 4 / 92
ADM - CGSI (2)
DG - SMLDS (1)
Pending (1)

CONFIDENTIAL

M E M O R A N D U M

DATE:

TO: The Honourable Michael H. Wilson
 c.c. The Honourable Tom Hockin
 The Honourable William C. Winegard

FROM: Harry Swain

SUBJECT: BEAR HEAD INDUSTRIES (THYSSEN) PROPOSAL TO
 DEVELOP AND ESTABLISH A MANUFACTURING
 FACILITY FOR LIGHT ARMoured VEHICLES (LAV)
 IN MONTREAL, QUEBEC

ACTION REQUIRED

For your information.

BACKGROUND

Since the mid-1980's Thyssen Industrie AG of Germany, through its Canadian office, Bear Head Industries (BHI), has approached the Government of Canada for assistance (including a directed procurement from the Department of National Defence (DND)) to develop a light armoured vehicle (LAV) manufacturing facility in Canada. A chronology is attached.

The cancellation of DND's Multi-Role Combat Vehicle Project and the announcement of the directed procurement of Lynx replacement vehicles from General Motors Diesel Division (DDGM) has forced Thyssen/BHI to rethink their approach.

...2

011/850/005
22212119

03-12-6

In the Spring of this year, BHI presented a proposal to DND seeking assistance in the development of a new family of armoured vehicles, focused on peacekeeping missions. DND had no operational requirement and joined with ISTC in voicing concern that there were insufficient export markets to support the proposal. BHI was informed by DND and the Prime Minister's Office (PMO) that DND would not support the proposal. At this time, both DND and PMO told BHI that the proposal would be more appropriately addressed to you, as Minister of ISTC.

In the late Summer, the proposal resurfaced, addressed to the Minister responsible for the Federal Office of Regional Development for Quebec (FORDQ). This proposal is not significantly different than those which have been rejected previously.

The proposal has two phases. In phase one, four variant prototypes of the Thyssen TH495 Multi-Purpose Base Armoured Vehicle would be developed. Thyssen would provide \$13 million in cash and existing technology to be transferred from Germany, valued by them at \$40 million. The federal government would provide an interest-free forgivable loan of \$117 million. The provincial government would provide a development facility at no cost to the company.

Phase two, establishment of a manufacturing facility, would require a further interest-free forgivable loan from the federal government of \$56 million. The province would provide a production facility at no cost to the company, and the company would provide an additional \$12 million cash. DND has been asked to consider support through testing programs and assignment of engineering resources.

The company's proposal is vague on financial details so that it has not been possible to identify a potential program under which the project would be supported. Similarly, a source of funds has not yet been fully identified.

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017/800/005

22212170

While it might appear that ISTC is not a major player in this issue, we have strong concerns about potential detrimental effects to Canadian industry that would arise if the project were to be pursued. ISTC also does not believe the project, as we understand it, is a viable business proposition. The market projection put forward by the company is not credible. Consequently, we believe that the funding requirements identified above must be seen as a minimum. This facility would likely require on-going support from government, if it were to proceed as outlined in the present proposal.

As this proposal would lead to creation of a new armoured vehicle manufacturer in Canada, it is contrary to the ISTC strategy for development of the military vehicle sector. This strategy is to support Canada's one internationally competitive armoured vehicle manufacturer (DDGM in London, Ontario). Domestic business is insufficient to sustain DDGM, export markets are essential for survival. In spite of being in a sector which is experiencing world-wide excess capacity, DDGM has been very successful in international markets, selling wheeled armoured vehicles in Canada, the U.S., and Saudi Arabia. BHI would be in direct competition to DDGM domestically and in many international markets.

CURRENT STATUS

At the request of the Privy Council Office (PCO), FORDQ hosted a meeting on September 29, 1992, of representatives from ISTC, DND, External Affairs and International Trade Canada (EAITC), Department of Finance, Treasury Board Secretariat, and PCO, in order to put in place an interdepartmental task group to carry out analysis of the BHI proposal.

It was agreed that a detailed business plan would be required from the company before full analysis could be undertaken but that it was possible to proceed with an evaluation of the market, based on data and projections provided by the company.

The interdepartmental working group submitted an assessment of the BHI market projections to FORDQ on November 13, 1992. FORDQ officials will be meeting with BHI in the near future to discuss the proposal.

...4

OTT/DC/CCS
22212121.

CONFIDENTIAL

The major concerns with the proposal are that:

- the domestic market for military vehicles is far too small to support a viable enterprise;
- the company's export market projections for military vehicles are excessively optimistic;
- there is no comprehensive business plan addressing diversification;
- financial details are sketchy and the figures which are provided must be viewed as a minimum, given the apparent absence of the basis for a continuing, viable, self-sustaining business.

Harry Swain

Attachment

James J. Slattery/JM

OTI/SDC/CCS
27212122

CONFIDENTIAL**BEAR HEAD INDUSTRIES
SUMMARY AND CHRONOLOGY****SUMMARY:**

Thyssen Industrie AG, based in Germany, is one of the world's largest industrial manufacturing companies. In Canada, Thyssen Industrie AG employs several hundreds of people at four operations all unrelated to the military vehicle industry.

Thyssen Industrie AG first declared interest in establishing a facility in Cape Breton in the mid-1980's and established Bear Head Industries (BHI) as its negotiating office. BHI is incorporated in Nova Scotia but is located in Ottawa with a small staff.

In 1988, an Understanding in Principle (UIP) was signed between BHI and the Government of Canada, as represented by the Ministers responsible for the Atlantic Canada Opportunities Agency (ACOA), the Department of National Defence (DND), and the Department of Regional Industrial Expansion (DRIE). This UIP established that the company would be considered for participation in upcoming military vehicle procurements and be considered for assistance under a number of funding mechanisms. The financial details were to be worked out in reference to a business plan for military vehicle and commercial projects, to be provided later.

While there have been a number of informal and formal proposals, all based on directed procurement by DND to BHI, of light armoured vehicles, none have been sufficiently developed or supported by DND or ISTC.

CHRONOLOGY:

- 1985-86 • Negotiations ongoing for UIP
- Feb 1987 • Thyssen backs away after unfavourable reading on requested "blanket" export permits and adverse publicity
- Jun 1988 • Cape Breton Investment Tax Credit application received
- Sep 1988 • UIP signed between BHI and the Government of Canada as represented by Ministers of National Defence, ACOA, DRIE

...2

011/SDC/CCS
22212123 .

- Dec 1988 • Business plan submitted found unacceptable
- Jul 1989 • Revised Business plan submitted still unacceptable to ISTC
- Fall 1990 • BHI sponsored by ACOA submits proposal for establishing a plant in Nova Scotia in return for directed procurement of 250 light armoured vehicles (LAVs)
- Jul 1991 • BHI informed proposal not supported
- Aug 1991 • BHI offers to move proposed plant to Trenton Works Lavalin or greenfield site in Pictou County, N.S.
 - Minister Wilson suggests to BHI that they deal directly with Trenton Works Lavalin (TWL)
- Apr 1992 • DND announces cancellation of Multi-Role Combat Vehicle Program
- May 1992 • BHI submits unsolicited Memorandum of Understanding (MOU) proposal to establish a facility in Montreal, Quebec to the Minister of DND
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- Sep 1992 • Proposal resurfaces, addressed to Province of Quebec and FORDQ

OTI/SDC/CCS
22212124..

James J. Slattery - 954-3296 Dec 4 / 92
ADM - CGSI (2)
DG - SMLBS (1) K
Pending (1)

M E M O R A N D U M

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ACTION REQUIRED

For your information.

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The cancellation of DND's Multi-Role Combat Vehicle Project and the announcement of the directed procurement of Lynx replacement vehicles from General Motors Diesel Division (DGDM) has forced Thyssen/BHI to rethink their approach.

...2

OTT/DC/CCS
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CONFIDENTIAL

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The proposal has two phases. In phase one, four variant prototypes of the Thyssen TH495 Multi-Purpose Base Armoured Vehicle would be developed. Thyssen would provide \$13 million in cash and existing technology to be transferred from Germany, valued by them at \$40 million. The federal government would provide an interest-free forgivable loan of \$117 million. The provincial government would provide a development facility at no cost to the company.

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OIT/SOC/CCS
22212126

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...4

OIT/SDC/CCS
22212127..

CONFIDENTIAL

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- the company's export market projections for military vehicles are excessively optimistic;
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Harry Swain

Attachment

James J. Slattery/JM

OTT/SBC/CCS
22212128

CONFIDENTIAL

**BEAR HEAD INDUSTRIES
SUMMARY AND CHRONOLOGY**

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...2

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- Sep 1992 • Proposal resurfaces, addressed to Province of Quebec and FORDQ

OTT/SCC/CCS
22212130

CONFIDENTIAL

ROUTING SLIP / FICHE D'ACHEMINEMENT

PURPOSE - BUT

- For / Pour: Signature Information Decision/Approval / Décision/Approbation
- Of / De: Minister / Ministre Wilson Deputy Minister / Sous-ministre Assoc. Deputy Minister / Sous-ministre délégué

Originator(s) - Initiateur(s)	Tel. No. - N° de tél.	Signature	Date
JAMES J. SLATTERY	954-3296		Nov. 30/12
E. LLEAN CLARK	954-3208		

Dir. or DG - Dir. ou DG	Signature	Date
BRUCE L. DEACON <i>H. Taylor</i>		2 Dec 12

ADM or EXD - SMA ou DEX	Signature	Date
J.M. BANIGAN		

Subject - Objet: BEAR HEAD INDUSTRIES (THYSSEN)

SECTORS CONSULTED - SECTEURS CONSULTÉS

- ADM, Policy / SMA, Politique
- Sr. ADM, Industry, Tech. and Regional Operations / SMA principal, Industrie, tech. et opérations régionales
- ADM, Tourism / SMA, Tourisme
- ADM, Capital Goods and Service Industries / SMA, Industries de biens d'équipement et de services
- ADM, Aboriginal Economic Programs / SMA, Prog. de développement écon. des autochtones
- ADM, Finance, Personnel and Administration / SMA, Finances, gestion du personnel et administration
- ADM, Science and Technology / SMA, Sciences et Technologie
- EXD / DEX
- DG, Communications
- General Counsel, Legal Services / Avocat général, Contentieux
- Corporate Secretary / Secrétaire général
- DG, Operations Audit / DG, Vérification des opérations
- Other (specify) / Autre (précisez)

Organizations Consulted/Concerned - Organismes consultés/concernés

- PCO / BCP
- TB / CT
- Other / Autre

PRIORITY - PRIORITÉ / If urgent, state reason/deadline - En cas d'urgence, donner la raison/date limite

OTT/SDC/CCS

22212131 -

Comments - Commentaires

Ref: CGSIADM. 3552 CGSIADM. 3736

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Industry, Science and Technology Canada / Industrie, Sciences et Technologie Canada
ROUTING SLIP / FICHE D'ACHEMINEMENT

Security Class - Cote de sécurité
CONFIDENTIAL

PURPOSE - BUT

- For / Pour: Signature Information Decision/Approval / Décision/Approbation
- Of / De: Minister / Ministre Wilson Deputy Minister / Sous-ministre Assoc. Deputy Minister / Sous-ministre délégué

Originator(s) - Initiateur(s) Tel. No. - No de tél. Signature Date
 E. LEAH CLARK 954-3208 *E. Leah Clark* Oct 28/92
 LLOYD J. BEVERLY 954-3148 *L. Beverly*

Dir. or DG - Dir. ou DG Signature Date
 BRUCE L. DEACON *as requested* *B. Deacon* 2/11/92

ADM or EXD - SMA ou DEX Signature Date
 J.M. BANIGAN

Subject - Objet
BEAR HEAD INDUSTRIES

SECTORS CONSULTED - SECTEURS CONSULTÉS

- ADM, Policy / SMA, Politique
- Sr. ADM, Industry, Tech. and Regional Operations / SMA principal, Industrie, tech. et opérations régionales
RO Montreal
- ADM, Tourism / SMA, Tourisme
- ADM, Capital Goods and Service Industries / SMA, Industries de biens d'équipement et de services
- ADM, Aboriginal Economic Programs / SMA, Prog. de développement écon. des autochtones
- ADM, Finance, Personnel and Administration / SMA, Finances, gestion du personnel et administration
- ADM, Science / SMA, Sciences
- EXD / DEX
- DG, Communications
- General Counsel, Legal Services / Avocat général, Contentieux
- Corporate Secretary / Secrétaire général
- DG, Operations Audit / DG, Vérification des opérations
- Other (specify) / Autre (précisez)
DND, EAITC, PCO

Organizations Consulted/Concerned - Organismes consultés/concernés

- PCO / BCP
- TR / CT
- Other / Autre

PRIORITY - PRIORITÉ
 If urgent, state reason/deadline / En cas d'urgence, donner la raison/date limite

*4/11/92
 memo not to go forward
 Decision to carry high*

OTT/SDC/CCS

Comments - Commentaires

22212132

CGS+ADM-3448

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Industry Science and Technology Canada / Industrie, Sciences et Technologie Canada

ROUTING SLIP / FICHE D'ACHEMINEMENT

Security Class - Cote de sécurité: CONFIDENTIAL

PURPOSE

For / Pour: Signature Information Decision/Approval / Décision/Approbation

Of / De: Minister / Ministre Deputy Minister / Sous-ministre Assoc. Deputy Minister / Sous-ministre délégué

Wilson

Originator(s) - Initiateur(s) Tel. No. - No de tél. Signature Date

E. LEAH CLARK 954-3208 *E. Leah Clark* Oct 28/92

LLOYD J. BEVERLY 954-3148 *L. Beverly* *10/28/92*

Dir. or DG - Dir. ou DG Signature Date

BRUCE L. DEACON *as requested* *B. Deacon* 2/11/92

ADM or EXD - SMA ou DEX Signature Date

J.M. BANIGAN

Subject - Objet

BEAR HEAD INDUSTRIES

SECTORS CONSULTED - SECTEURS CONSULTÉS

<input type="checkbox"/> ADM, Policy / SMA, Politique	<input type="checkbox"/> EXD / DEX
<input checked="" type="checkbox"/> Sr. ADM, Industry, Tech. and Regional Operations / SMA principal, Industrie, tech. et opérations régionales	<input type="checkbox"/> DG, Communications
<input type="checkbox"/> ADM, Tourism / SMA, Tourisme	<input type="checkbox"/> General Counsel, Legal Services / Avocat général, Contentieux
<input type="checkbox"/> ADM, Capital Goods and Service Industries / SMA, Industries de biens d'équipement et de services	<input type="checkbox"/> Corporate Secretary / Secrétaire général
<input type="checkbox"/> ADM, Aboriginal Economic Programs / SMA, Prog. de développement éco. des autochtones	<input type="checkbox"/> DG, Operations Audit / DG, Vérification des opérations
<input type="checkbox"/> ADM, Finance, Personnel and Administration / SMA, Finances, gestion du personnel et administration	<input checked="" type="checkbox"/> Other (specify) / Autre (précisez)
<input type="checkbox"/> ADM, Science / SMA, Sciences	DND, EAITC, PCO

RO Montreal

Organizations Consulted/Concerned - Organismes consultés/concernés

PCO / BCP TB / CT Other / Autre

PRIORITY - PRIORITÉ

4/11/92

memo not to go

provision

OTT/SBC/CCS

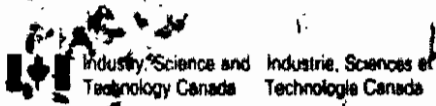
22212133

Comments - Commentaires

CGSI ADM 3448

Blue - Original Camery - Executive Records Centre Pink - Responsibility Centre ISIC 304 (8/91)

Bleu - Original Jaune - Centre des doc. de la haute direction Rose - Centre de responsabilité



Industry Science and Technology Canada / Industrie, Sciences et Technologie Canada

Security Class - Cote de sécurité
CONFIDENTIAL

ROUTING SLIP / FICHE D'ACHEMINEMENT

PURPOSE -

- For / Pour: Signature Information Decision/Approval / Décision/Approbation
- Of / De: Minister / Ministre Wilson Deputy Minister / Sous-ministre Assoc. Deputy Minister / Sous-ministre délégué

Originator(s) / Initiateur(s)	Tel. No. / No de tél.	Signature	Date
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LLOYD J. BEVERLY	954-3148		

Dir. or DG - Dir. ou DG	Signature	Date
BRUCE L. DEACON <i>as requested</i>	<i>[Signature]</i>	<i>[Date]</i>

ADM or EXD - SMA ou DEX	Signature	Date
J.M. BANIGAN		

Subject - Objet
BEAR HEAD INDUSTRIES

SECTORS CONSULTED - SECTEURS CONSULTÉS

- | | |
|--|--|
| <input type="checkbox"/> ADM, Policy / SMA, Politique | <input type="checkbox"/> EXD / DEX |
| <input type="checkbox"/> Sr. ADM, Industry, Tech. and Regional Operations / SMA principal, Industrie, tech. et opérations régionales | <input type="checkbox"/> DG, Communications |
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DND, EAITC, PCO |
| <input type="checkbox"/> ADM, Science / SMA, Sciences | |

Organizational Consulted/Concerned - Organismes consultés/concernés

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PRIORITY - PRIORITÉ
If urgent, state reason/deadline - En cas d'urgence, donner la raison/date limite

OTT/SDC/CCS

22212134

Comments - Commentaires

CGS/ADM. 3448

Blue - Original / Bleu - Original Green - Executive Record Centre / Vert - Centre des doc. de la haute direction Pink - Responsibility Centre / Rose - Centre de responsabilité **ISTC 304 (5/91)**



Industry, Science and Technology Canada / Industrie, Sciences et Technologie Canada

Ottawa, Canada
K1A 0H5

Your file / votre référence

CONFIDENTIAL

Our file / notre référence

M E M O R A N D U M

DATE:

TO: The Honourable Michael H. Wilson
c.c. The Honourable Tom Hockin
The Honourable William C. Winegard

FROM: J.M. Banigan
Assistant Deputy Minister
Capital Goods and Service Industries

SUBJECT: BEAR HEAD INDUSTRIES (THYSSEN) PROPOSAL TO
DEVELOP AND ESTABLISH A MANUFACTURING
FACILITY FOR LIGHT ARMoured VEHICLES (LAV)
IN MONTREAL, QUEBEC

ACTION REQUIRED

For your comments if any.

BACKGROUND

Since the mid-1980's Thyssen Industrie AG of Germany, through its Canadian office, Bear Head Industries (BHI), has approached the Government of Canada for assistance (including a directed procurement from the Department of National Defence (DND)) to develop a light armoured vehicle (LAV) manufacturing facility in Canada. A chronology is attached.

The cancellation of DND's Multi-Role Combat Vehicle Project and the announcement of the directed procurement of Lynx replacement vehicles from General Motors Diesel Division (DDGM) has forced Thyssen/BHI to rethink their approach.

...2

011/90/005

22212125

Canada

In the Spring of this year, BHI presented a proposal to DND seeking assistance in the development of a new family of armoured vehicles, focused on peacekeeping missions. DND had no operational requirement and joined with ISTC in voicing concern that there were insufficient export markets to support the proposal. BHI was informed by DND and the Prime Minister's Office (PMO) that DND would not support the proposal. At this time, both DND and PMO told BHI that the proposal would be more appropriately addressed to you, as Minister of ISTC.

In the late Summer, the proposal resurfaced, addressed to the Minister responsible for the Federal Office of Regional Development for Quebec (FORDQ). This proposal is not significantly different than those which have been rejected previously.

The proposal has two phases. In phase one, four variant prototypes would be developed. Thyssen would provide \$53 million, of which \$40 million would be technology transferred from Germany. Governments would pick up \$117 million. Phase two, establishment of a manufacturing facility would require a further government investment of \$56 million. BHI will invest \$12 million. DND has been asked to consider support through testing programs and assignment of engineering resources.

The prototype vehicles would be part of the TH495 Multi-Purpose Base Armoured Vehicle family currently under development in Germany by Thyssen Industrie AG. The TH495 is a tracked vehicle with the ability to accept various weapon systems and turrets.

While it might appear that ISTC is not a major player in this issue, we have strong concerns about potential detrimental effects to Canadian industry that would arise if the project were to be pursued. ISTC also does not believe the project, as we understand it, is a viable business proposition. The market projection put forward by the company is not credible.

As this proposal would lead to creation of a new armoured vehicle manufacturer in Canada, it is contrary to the ISTC strategy for development of the military vehicle sector. We already have a strong internationally competitive player in this sector which is currently facing

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CONFIDENTIAL

worldwide overcapacity. BHI would be in competition with General Motors Diesel Division (DDGM), which produces wheeled LAVs in London, Ontario, for Canada, the U.S., Saudi Arabia, and other countries.

CURRENT STATUS

At the request of the Privy Council Office (PCO) on September 29, 1992, FORDQ hosted a meeting on September 29, 1992, of representatives from ISTC, DND, External Affairs and International Trade Canada (EAITC), Department of Finance, Treasury Board Secretariat, and PCO, in order to put in place an interdepartmental task group to carry out analysis of the BHI proposal. It was agreed that a detailed business plan is required from the company before full analysis can be undertaken. However, as a first step, it was believed useful to proceed with an evaluation of the market, based on data and projections provided by the company. This is being finalized by a working group including ISTC, DND, and EAITC. The working group has met on several occasions and a report should be ready by November 13, 1992. The report will be provided to FORDQ which will decide what further action, if any, is required.

RECOMMENDATION

We are proceeding with the course of action initiated by the interdepartmental task group. However, we would appreciate receiving any comments you may have concerning this issue.

J.M. Banigan
Assistant Deputy Minister
Capital Goods and Service
Industries

Attachment

c.c. Harry Swain
Deputy Minister

Leah Clark/JM

OTT/SDC/CCS
22212137.

CONFIDENTIAL**BEAR HEAD INDUSTRIES
SUMMARY AND CHRONOLOGY****SUMMARY:**

Thyssen Industrie AG, based in Germany, is one of the world's largest industrial manufacturing companies. In Canada, Thyssen Industrie AG employs several hundreds of people at four operations all unrelated to the military vehicle industry.

Thyssen Industrie AG first declared interest in establishing a facility in Cape Breton in the mid-1980's and established Bear Head Industries (BHI) as its negotiating office. BHI is incorporated in Nova Scotia but is located in Ottawa with a small staff.

In 1988, an Understanding in Principle (UIP) was signed between BHI and the Government of Canada, as represented by the Ministers responsible for the Atlantic Canada Opportunities Agency (ACOA), the Department of National Defence (DND), and the Department of Regional Industrial Expansion (DRIE). This UIP established that the company would be considered for participation in upcoming military vehicle procurements and be considered for assistance under a number of funding mechanisms. The financial details were to be worked out in reference to a business plan for military vehicle and commercial projects, to be provided later.

While there have been a number of informal and formal proposals, all based on directed procurement by DND to BHI, of light armoured vehicles, none have been sufficiently developed or supported by DND or ISTC.

CHRONOLOGY:

- 1985-86 • Negotiations ongoing for UIP
- Feb 1987 • Thyssen backs away after unfavourable reading on requested "blanket" export permits and adverse publicity
- Jun 1988 • Cape Breton Investment Tax Credit application received
- Sep 1988 • UIP signed between BHI and the Government of Canada as represented by Ministers of National Defence, ACOA, DRIE

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- Dec 1988 • Business plan submitted found unacceptable
- Jul 1989 • Revised Business plan submitted still unacceptable to ISTC
- Fall 1990 • BHI sponsored by ACOA submits proposal for establishing a plant in Nova Scotia in return for directed procurement of 250 light armoured vehicles (LAVs)
- Jul 1991 • BHI informed proposal not supported
- Aug 1991 • BHI offers to move proposed plant to Trenton Works Lavalin or greenfield site in Pictou County, N.S.
- Minister Wilson suggests to BHI that they deal directly with Trenton Works Lavalin (TWL)
- Apr 1992 • DND announces cancellation of Multi-Role Combat Vehicle Program
- May 1992 • BHI submits unsolicited Memorandum of Understanding (MOU) proposal to establish a facility in Montreal, Quebec to the Minister of DND
- Jul 1992 • The Prime Minister's Office (PMO) and DND inform BHI that the MOU proposal better suited to Minister Wilson's portfolios
- Sep 1992 • Proposal resurfaces, addressed to Province of Quebec and FORDQ

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CONFIDENTIAL

M E M O R A N D U M

5063-B15

DATE:

TO: The Honourable Michael H. Wilson
c.c. The Honourable Tom Hockin
The Honourable William C. Winegard

FROM: Harry Swain

SUBJECT: BEAR HEAD INDUSTRIES (THYSSEN) PROPOSAL TO
DEVELOP AND ESTABLISH A MANUFACTURING
FACILITY FOR LIGHT ARMoured VEHICLES (LAV)
IN MONTREAL, QUEBEC

ACTION REQUIRED

For your information.

BACKGROUND

Since the mid-1980's Thyssen Industrie AG of Germany, through its Canadian office, Bear Head Industries (BHI), has approached the Government of Canada for assistance (including a directed procurement from the Department of National Defence (DND)) to develop a light armoured vehicle (LAV) manufacturing facility in Canada. A chronology is attached.

The cancellation of DND's Multi-Role Combat Vehicle Project and the announcement of the directed procurement of Lynx replacement vehicles from General Motors Diesel Division (DDGM) has forced Thyssen/BHI to rethink their approach.

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In the Spring of this year, BHI presented a proposal to DND seeking assistance in the development of a new family of armoured vehicles, focused on peacekeeping missions. DND had no operational requirement and joined with ISTC in voicing concern that there were **insufficient export markets to support the proposal**. BHI was informed by DND and the Prime Minister's Office (PMO) that DND would not support the proposal. At this time, both DND and PMO told BHI that the proposal would be more appropriately addressed to you, as Minister of ISTC.

In the late Summer, the proposal resurfaced, addressed to the Minister responsible for the Federal Office of Regional Development for Quebec (FORDQ). This proposal is not significantly different than those which have been rejected previously.

The proposal has two phases. In phase one, four variant prototypes of the Thyssen TH495 Multi-Purpose Base Armoured Vehicle would be developed. Thyssen would provide **\$13 million in cash** and existing technology to be transferred from Germany, valued by them at \$40 million. **The federal government would provide an interest-free forgivable loan of \$117 million**. The provincial government would provide a development facility at no cost to the company.

Phase two, establishment of a manufacturing facility, would require a further **interest-free forgivable loan from the federal government of \$56 million**. The province would provide a production facility at no cost to the company, and the company would provide an **additional \$12 million cash**. DND has been asked to consider support through testing programs and assignment of engineering resources.

The company's proposal is vague on financial details so that it has not been possible to identify a potential program under which the project would be supported. Similarly, a source of funds has not yet been fully identified.

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While it might appear that ISTC is not a major player in this issue, we have strong concerns about potential detrimental effects to Canadian industry that would arise if the project were to be pursued. ISTC also does not believe the project, as we understand it, is a viable business proposition. The market projection put forward by the company is not credible. Consequently, we believe that the funding requirements identified above must be seen as a minimum. This facility would likely require on-going support from government, if it were to proceed as outlined in the present proposal.

As this proposal would lead to creation of a new armoured vehicle manufacturer in Canada, it is contrary to the ISTC strategy for development of the military vehicle sector. This strategy is to support Canada's one internationally competitive armoured vehicle manufacturer (DDGM in London, Ontario). Domestic business is insufficient to sustain DDGM, export markets are essential for survival. In spite of being in a sector which is experiencing world-wide excess capacity, DDGM has been very successful in international markets, selling wheeled armoured vehicles in Canada, the U.S., and Saudi Arabia. BHI would be in direct competition to DDGM domestically and in many international markets.

CURRENT STATUS

At the request of the Privy Council Office (PCO), FORDQ hosted a meeting on September 29, 1992, of representatives from ISTC, DND, External Affairs and International Trade Canada (EAITC), Department of Finance, Treasury Board Secretariat, and PCO, in order to put in place an interdepartmental task group to carry out analysis of the BHI proposal.

It was agreed that a detailed business plan would be required from the company before full analysis could be undertaken but that it was possible to proceed with an evaluation of the market, based on data and projections provided by the company.

The interdepartmental working group submitted an assessment of the BHI market projections to FORDQ on November 13, 1992. FORDQ officials will be meeting with BHI in the near future to discuss the proposal.

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The major concerns with the proposal are that:

- the domestic market for military vehicles is far too small to support a viable enterprise;
- the company's export market projections for military vehicles are excessively optimistic;
- there is no comprehensive business plan addressing diversification;
- financial details are sketchy and the figures which are provided must be viewed as a minimum, given the apparent absence of the basis for a continuing, viable, self-sustaining business.

Harry Swain

Attachment

James J. Slattery/JM

OTT/SBC/CCS
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**BEAR HEAD INDUSTRIES
SUMMARY AND CHRONOLOGY**

SUMMARY:

Thyssen Industrie AG, based in Germany, is one of the world's largest industrial manufacturing companies. In Canada, Thyssen Industrie AG employs several hundreds of people at four operations all unrelated to the military vehicle industry.

Thyssen Industrie AG first declared interest in establishing a facility in Cape Breton in the mid-1980's and established Bear Head Industries (BHI) as its negotiating office. BHI is incorporated in Nova Scotia but is located in Ottawa with a small staff.

In 1988, an Understanding in Principle (UIP) was signed between BHI and the Government of Canada, as represented by the Ministers responsible for the Atlantic Canada Opportunities Agency (ACOA), the Department of National Defence (DND), and the Department of Regional Industrial Expansion (DRIE). This UIP established that the company would be considered for participation in upcoming military vehicle procurements and be considered for assistance under a number of funding mechanisms. The financial details were to be worked out in reference to a business plan for military vehicle and commercial projects, to be provided later.

While there have been a number of informal and formal proposals, all based on directed procurement by DND to BHI, of light armoured vehicles, none have been sufficiently developed or supported by DND or ISTC.

CHRONOLOGY:

- 1985-86 • Negotiations ongoing for UIP
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- Jul 1992 • The Prime Minister's Office (PMO) and DND inform BHI that the MOU proposal better suited to Minister Wilson's portfolios
- Sep 1992 • Proposal resurfaces, addressed to Province of Quebec and FORDQ

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SUPERText

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

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

EXHIBIT INFORMATION

Date Seized: 2001-06-27

Seized By: S/Sgt. ALEXANDER

Exhibit No.: 95-27

Item No.: 222

Sub Location No.: 7

Location: Industry Canada, 236 Queen St., Ottawa

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

These documents are from a file labelled: 5063-B15 Vol 15
Section 06
Companies, Corporations, Firms
Bear Head Industries Ltd.

FROM: Lafrance, Joanne

TO: ACON, BRUCE

CC: Aube, Joanne
CARDINAL, LOUISE
COSSETTE, SYLVIE
Ellis, Karen
Lafrance, Joanne
LAROCHE, JEAN
MacKillop John

CGSI

Out/Reinact

DATE: 07-27-93
TIME: 10:45

5063-B, 15.

CGSI
CGSI

Additional info.

ITRO

*Due in D6's office
at 4:00PM.*

SUBJECT: Thyssen
PRIORITY: R
ATTACHMENTS:

Louise

REQUEST FOR BRIEFING

MINISTER: Minister Charest

REQUIREMENT: Minister Charest will be meeting with Minister Corbeil on Thursday, July 29, 1993. Minister Charest has requested a briefing note on Thyssen. In this briefing note, he would like to have information on the company, i.e. what they manufacture, who owns them, etc. Also, on the two areas: 1) Grande-Anse (Saguenay) and 2) Gros Cacouna. Also in the briefing note you should inform him that Thyssen had applied for DIPP assistance but they were refused (I believe FORD-Q was also involved). Please prepare the briefing note for the Deputy Minister's signature. Background should be attached as an annex only if considered necessary.

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NOTE: In the preparation of the briefing note, please consult with other sector(s), if required, and identify the sector(s) consulted on the routing slip. Please ensure that the briefing note does not exceed two pages.

DEADLINE: Please forward the original on white bond paper, the diskette and 7 copies of the background to the undersigned, Office of the Corporate Secretary, by NOON, July 28, 1993.

Joanne Lafrance
943-7042, room 1150-A

BRF 9307. D 27

** HAS NEVER OFFICIALLY
APPLIED FOR DIPP!*

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RUBY

175 IN 5: (MUDS) FIRMS | THY SSEN

BB-1-9

M E M O R A N D U M

DATE:

TO: The Honourable Jean J. Charest
c.c. The Honourable Robert Nicholson

FROM: Harry Swain

SUBJECT: FOR YOUR MEETING WITH MINISTER CORBEIL
THURSDAY, JULY 29, 1993, ON THE SUBJECT OF
BEAR HEAD INDUSTRIES LTD, (A SUBSIDIARY OF
THYSSEN INDUSTRIE AG)

ACTION REQUIRED

For your information.

BACKGROUND

Since the mid-1980's Thyssen Industrie AG of Germany, through its Canadian office, Bear Head Industries (BHI), has on several occasions approached the Government of Canada for assistance (including a proposed directed vehicle procurement from the Department of National Defence) to develop a light armoured vehicle manufacturing facility in Canada.

Thyssen Industrie AG, based in Germany, is one of the world's largest industrial manufacturing companies, including a line of military vehicles for the German armed forces. In Canada, Thyssen Industrie AG employs approximately 2,500 and its holdings include Budd Canada Inc.; Northern Elevator Holdings Ltd; Greening Donald Co. Ltd.; Thyssen Marathon Canada Ltd.; and Thyssen Canada Ltd., all situated in the greater Toronto area. None of the above noted subsidiaries manufactures military vehicles.

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Thyssen Industrie AG first proposed to establish a manufacturing facility in Cape Breton in the mid 1980's and for that purpose formed Bear Head Industries (BHI). BHI is incorporated in Nova Scotia and the office is situated in Ottawa with a staff of two. Again, in the summer of 1992 the company proposed (to FORD-Q and to the Quebec provincial government) to locate in Montreal East a facility dedicated to the manufacture of military tracked vehicles for export markets. The proposal included a potential federal-provincial package of assistance totalling up to \$60 million. The company did not apply for Defence Industry Productivity Program (DIPP) assistance.

In the autumn of 1992, ISTC led an interdepartmental working group which was charged by PCO to provide an assessment of BHI's market projections. The findings of this study did not support the Thyssen projections. The result of the interdepartmental analysis was provided to FORD-Q in October 1992. In March 1993, officials of the Province of Quebec met with Thyssen in Germany. ISTC officials did not participate on the basis that nothing had changed since the 1992 interdepartmental market assessment and that global overcapacity in the production of military vehicles continues. Furthermore, the establishment of a vehicle plant would be in competition with the Diesel Division of General Motors (DDGM), in London, Ontario, who build the LAV25 vehicle for export markets.

However, subsequent to the Quebec provincial officials visit in March 1993, the interdepartmental committee was asked to revisit the issue. As a result, a comprehensive set of questions were prepared and FORD-Q was asked to obtain additional and substantive information from Thyssen on the market place for the Thyssen vehicle; Canadian in-vehicle content; and, on other pertinent company plans. To date, FORD-Q has not received a response from Thyssen.

RECOMMENDATION

None. For information only.

Harry Swain

Helmut Zankl, 954-3789

OTT/SBC/CCS

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SUPERText

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

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

EXHIBIT INFORMATION

Date Seized: 2001-06-27

Seized By: S/Sgt. ALEXANDER

Exhibit No.: 95-27

Item No.: 222

Sub Location No.: 12

Location: Industry Canada, 236 Queen St., Ottawa

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

These documents are from a file labelled: 5063-B15^e Vol 02
Section 06
Companies, Corporations, Firms
Bear Head Industries Ltd.

~~CONFIDENTIAL~~

5063-815 []

MEMORANDUM

DATE:

TO: The Honourable Jean J. Charest
c.c. The Honourable Robert Nicholson

FROM: Harry Swain

SUBJECT: FOR YOUR MEETING WITH THYSSEN THURSDAY,
AUGUST 26, 1993, ON THE SUBJECT OF BEAR
HEAD INDUSTRIES LTD, A SUBSIDIARY OF
THYSSEN INDUSTRIE AG, GERMANY.

ACTION REQUIRED

For your information.

BACKGROUND

Since the mid-1980s Thyssen Industrie AG of Germany, through its Canadian office, Bear Head Industries has, on several occasions, approached the Government of Canada for assistance (including a proposed directed vehicle procurement from the Department of National Defence) to develop a light armoured vehicle manufacturing facility in Canada.

Thyssen Industrie AG, based in Germany, is one of the world's largest industrial manufacturing companies, including a line of military vehicles for the German armed forces. In Canada, Thyssen Industrie AG employs approximately 2,500 and its holdings include Budd Canada Inc.; Northern Elevator Holdings Ltd; Greening Donald Co. Ltd.; Thyssen Marathon Canada Ltd.; and Thyssen Canada Ltd., all situated in the greater Toronto area. None of the above noted subsidiaries manufacture military vehicles.

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Thyssen Industrie AG first proposed to establish a manufacturing facility in Cape Breton in the mid 1980s and for that purpose formed Bear Head Industries (BHI). BHI is incorporated in Nova Scotia and the office is situated in Ottawa with a staff of two. Again, in the summer of 1992 the company proposed (to FORD-Q and to the Quebec provincial government) to locate in Montreal East a facility dedicated to the manufacture of military tracked vehicles for export markets. The proposal included a potential federal-provincial package of assistance totalling up to \$60 million. The company did not apply for Defence Industry Productivity Program (DIPP) assistance.

In the autumn of 1992, the former ISTC led an interdepartmental working group which was charged by PCO to provide an assessment of BHI's market projections. The findings of this study did not support the Thyssen projections. The result of the interdepartmental analysis was provided to FORD-Q in October 1992. In March 1993, officials of the Province of Quebec met with Thyssen in Germany. ISTC officials did not participate on the basis that nothing had changed since the 1992 interdepartmental market assessment and global overcapacity in the production of military vehicles continues. Furthermore, the establishment of a vehicle plant would be in competition with the Diesel Division of General Motors (DDGM), in London, Ontario, which builds LAV 25 vehicles for export markets.

However, subsequent to the Quebec provincial officials' visit in March 1993, the interdepartmental committee was asked to revisit the issue. As a result, a comprehensive set of questions was prepared and FORD-Q was asked to obtain additional and substantive information from Thyssen on the market place for the Thyssen vehicle; Canadian in-vehicle content; and other pertinent company plans. To date, FORD-Q has advised it has not received a response from Thyssen.

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RECOMMENDATION

I recommend that you listen and encourage your visitor(s) to continue to work with ISC officials in identifying initiatives which are not related to the manufacture of military vehicles and hence minimize disruption in the industry.

Harry Swain

Helmut Zankl, 954-3789/VJ

ATTACHMENT

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CONFIDENTIAL

TALKING POINTS

Recognise Thyssen's expertise and presence in Canada.
Positive contribution to Canada's automotive sector.
(Reference only, mainly concentrated in Ontario).

Applaud the company's efforts in establishing
additional manufacturing capacity in Canada.

Discourage the company's efforts of establishing a
facility dedicated to the production of military
vehicles.

Encourage the company to actively look at other
opportunities not related to the manufacture of
military vehicles.

Welcome positive new developments and proposals from
the company in the areas of manufacturing environmental
equipment and processes.

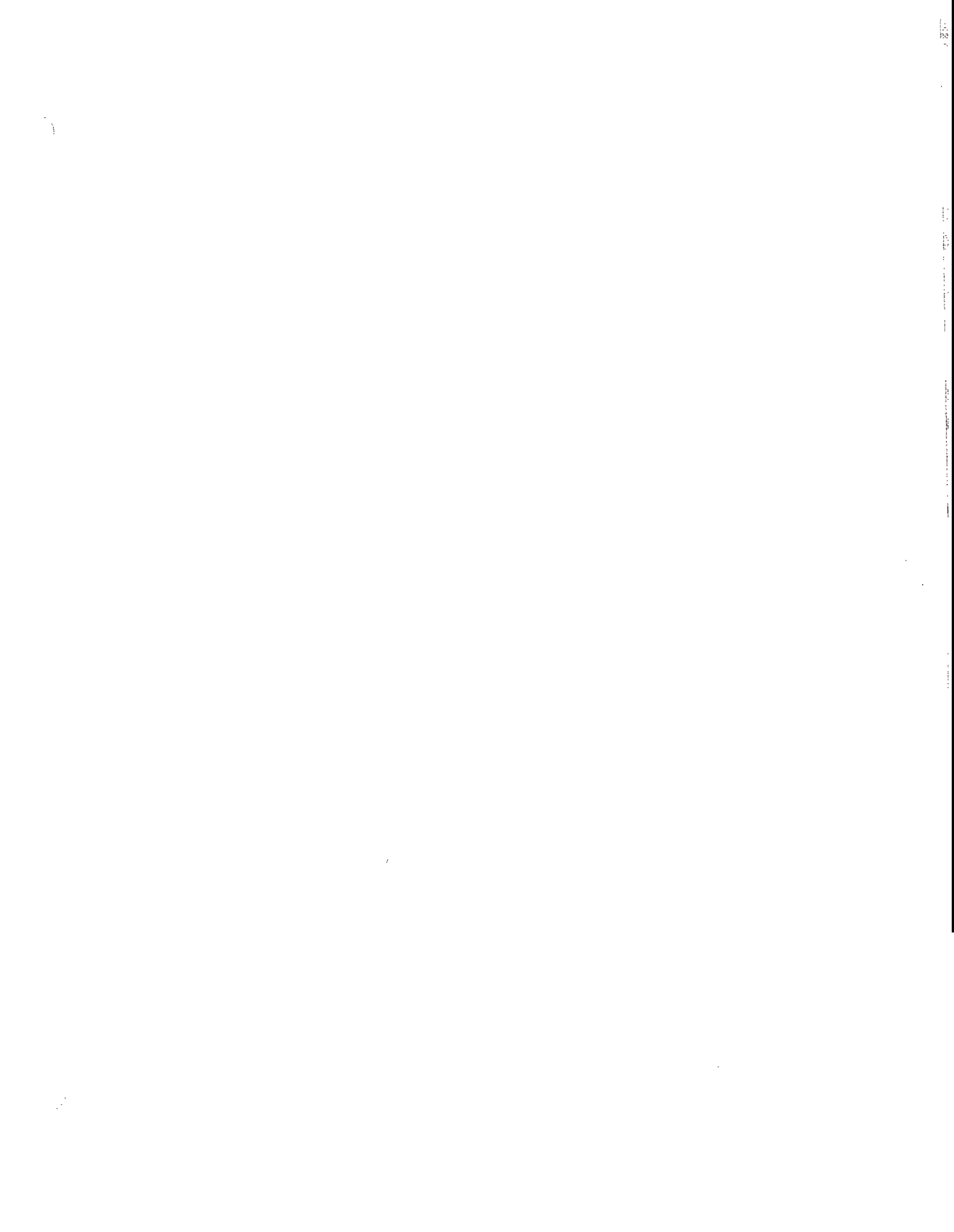
Welcome proposals which would examine other areas and
invite further consideration by all parties involved.

Note some of the options the company may wish to
pursue. We suggest joint ventures with Canadian
industrialists, other options, etc.

Invite company officials to continue a meaningful
dialogue with ISC officials on all new proposals.

Express interest in seeing a company business plan for
Canada/Thyssen cooperation in the future.

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SUPERText

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

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

EXHIBIT INFORMATION

Date Seized: 2001-06-27

Seized By: S/Sgt. ALEXANDER

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Location: Industry Canada, 236 Queen St., Ottawa

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These documents are from a file labelled:

5063-B15⁶ Vol 02
Section 06
Companies, Corporations, Firms
Bear Head Industries Ltd.



Industry Canada Industrie Canada

Deputy Minister Sous-ministre

Ottawa, Canada
K1A 0H5

CONFIDENTIAL

5063-815 [E]

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MEMORANDUM

DATE: DEC. 15 1993
TO: The Honourable John Manley
c.c. The Honourable Jon M. Gerrard
FROM: Harry Swain
SUBJECT: YOUR MEETING WITH THYSSEN BEARHEAD
INDUSTRIES (BHI), FRIDAY DECEMBER 17, 1993

ACTION REQUIRED

For your information.

REASON FOR MEETING

Thyssen officials wish to establish personal contact with you to provide information on their interest in establishing a light armoured vehicle manufacturing facility in Canada, and to obtain insights into the new government's attitude toward the defence industry.

Thyssen BHI officials have also requested meetings with your colleagues, the Honourable Paul Martin and the Honourable David Collenette. Confirmation of the meetings has not yet been received.

We have discussed this briefing with the Department of National Defence (DND) and the Federal Office for Regional Development in Quebec (FORD-Q).

Mr. John Banigan, Assistant Deputy Minister, Manufacturing and Processing Industries, is available to attend your meeting.

Canada

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CONFIDENTIAL

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BACKGROUND

Thyssen Industrie AG, based in Germany, is one of the world's largest industrial manufacturing companies, including a line of military vehicles for the German armed forces. In Canada, Thyssen Industrie AG employs approximately 2,500 and its holdings include Budd Canada Inc.; Northern Elevator Holdings Ltd.; Greening Donald Co. Ltd.; Thyssen Marathon Canada Ltd.; and Thyssen Canada Ltd., all situated in the greater Toronto area. The above noted subsidiaries do not manufacture defence products.

Thyssen Industrie AG first proposed to establish a facility for export of military vehicles, at the Bearhead, Straight of Canso, Cape Breton, Nova Scotia in 1986. Although Thyssen BHI was incorporated in Nova Scotia, it has no facilities there and instead operates a small office in Ottawa with a staff of three. Because the company could not obtain a multi-year export license, it withdrew its proposal.

Thyssen BHI then asked the former Department of Industry, Science and Technology (ISTC) to broker a Thyssen/Diesel Division, General Motors (DDGM) joint venture in Canada with spin-offs such as manufacture and assembly in Cape Breton. It was a 50/50 undertaking for both wheeled and tracked armoured vehicles for global markets. Not long after the agreement had been reached, DDGM reported that Thyssen had attempted to circumvent their joint venture agreement by pursuing unilateral direct sales of Thyssen's tracked vehicles to DND. DDGM reacted by terminating the agreement.

Subsequently, in 1988, the company initiated discussions with the Atlantic Canada Opportunities Agency (ACOA) which lead to an Understanding in Principle (UIP) between BHI and the Government of Canada, (ACOA, DND, and the Department of Regional Industrial Expansion (DRIE)). Principally, the UIP was established so that the company would be considered for participation in upcoming Canadian military vehicle procurement and for assistance under a number of government programs. No opportunity presented itself and the UIP was not consummated.

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Since then, there have been several company initiated proposals, all based on directed procurement by DND of light armoured vehicles. None of the proposals have been sufficiently developed or supported by the various Government departments involved.

In September 1992, the company proposed to FORD-Q and the Province of Quebec, to locate a facility dedicated to the manufacture of military tracked vehicles in Quebec.

An Interdepartmental Committee consisting of Industry, Science and Technology Canada (ISTC), FORD-Q, DFAIT and DND, undertook a market analysis and concluded that: (a) Thyssen BHI had not substantiated that there was a market; (b) Canada already had a manufacturer of military vehicles, DDGM and proceeding would have an adverse effect on DDGM's domestic and global markets.

DDGM is situated in London, Ontario, and is a wholly owned subsidiary of General Motors of Canada Ltd., Oshawa, Ontario. The company is active in two major business areas, Locomotives and Defence Operations. The Defence Operations produce a family of (8X8 wheeled) light armoured vehicles for the domestic and export markets. The company employs 1,050 persons with sales in 1993 exceeding \$300 million and deliveries to the U.S., Australia, Saudi Arabia, and Canada.

CURRENT COMPANY PROPOSAL

In August and September 1993, the company once again approached the government with a proposal to establish a facility to manufacture tracked light military vehicles in East Montreal, or at some other location in Canada, acceptable to the government. Proposal elements are:

- (a) that DND tests and evaluates two existing TH 495 tracked vehicle prototypes in Canada;
- (b) to design, develop and build a prototype (one variant, of a family of 8 models) in an existing facility in Canada;
- (c) if government(s') assistance is provided and markets are encouraging, to commence production of the family of TH 495 vehicles in Canada for export markets.

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In early September 1993, government officials were instructed to re-open the file on the following basis:

- (1) DND officials would commence negotiations of a potential service contract with the company for a test and evaluation program for two prototype vehicles, provided that it was on a full cost recovery basis.

Discussions were initiated but subsequently suspended pending direction from the new government.

- (2) Industry Canada would lead an interdepartmental team (DND, FORDQ, and DFAIT) to examine the company's most recent proposal with an initial focus on market aspects.

Drafts of the company's market projections as well as the underlying assumptions and supporting data have since been received by Industry Canada. Initial indications (yet to be verified) are that future international markets for the TH 495 family of vehicles may exist. However, the magnitude and timing of the market demand, its exploitability by a new Canadian manufacturer, whether the company will receive export permits, and whether the proposed project can be crafted to be of net benefit to Canada remain to be determined. In our analysis, we will again explore whether a Thyssen/DDGM joint venture is either possible or desirable.

DDGM officials, who are aware that the government is talking with Thyssen, are adamant that the light armoured vehicle industry has global overcapacity and there is no room for two manufacturers in Canada. DDGM believes that the emergence of a Canadian competitor would weaken the company's position in domestic and global markets. DDGM also believes that there will be a worldwide shake out of light armoured vehicle manufacturers and only the financially strong and competitive producers will survive, including DDGM.

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CONFIDENTIAL

- 5 -

PROPOSED POSITION

We recommend that you be non-committal. You might wish to indicate that:

- In general, the policy of the government is not to use public funds to establish a competitor to an existing Canadian capability;
- However, if the market can sustain more than one facility over the long term without adverse impacts on the existing Canadian industry, we will examine the proposal;
- Thyssen should be encouraged to examine prospects for cooperation with DDGM.



Harry Swain

Thyssen's persistence in this folly has been encouraged by far too many Ministers, each of whom was willing to subsidize production in some desperate place at the expense of London.

The Forces do not need their hardware, and Canada hardly needs a second exporter.

HS

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SUPERText

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

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

EXHIBIT INFORMATION

Date Seized: 2001-06-27

Seized By: S/Sgt. ALEXANDER

Exhibit No.: 95-27

Item No.: 222

Sub Location No.: 8

Location: Industry Canada, 236 Queen St., Ottawa

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

These documents are from a file labelled: 5063-B15 Vol 1/6
Section 06
Companies, Corporations, Firms
Bear Head Industries Ltd.

OM: Banigan, John

TO: SWAIN, HARRY OCS

CC: Banigan, John
DEACON, BRUCE OCSI
DURNFORD, DIANA J. * OCS
KRAJEWSKI, DICK OCSI
LYNCH, KEVIN OCS
Street, Margo

SUBJECT: Thyssen meeting with Minister

PRIORITY:

ATTACHMENTS:

Voluntary
DEC 20
5063 B15
DATE: 12-18-93
TIME: 11:21

21's nice to know? that
DND is keeping me
informed, isn't it?

Karlheinz Schreiber and Greg Alford of Thyssen together with Hon. Marc Lalonde briefed Minister Dec 17 on their proposal to manufacture armoured personnel carriers in Canada. Minister Collenette was briefed by company earlier in the week. Two page summary of market analysis was given to Minister consistent with longer document provided to officials.

Company explained attempts to strike alliance with DDGM failed because of insistence of both parties to maintain control. Thyssen has abandoned talks with DDGM and has returned to proposal of greenfield plant which could be located where ever government wishes, again appealing to regional development theme. Motivation is Canadian endorsement by way of DND testing and IC funding to help in export markets as "maple leaf sells better than iron cross".

Minister listened to presentation and offered little encouragement other than application for DIPP was noted and will be studied by officials.

DICK

** WAS AT THE MEETING DEC 17TH.*
*** ONLY MARC LALONDE MET WITH MINISTER*
**** COMPANY OF THE OPINION BUSINESS*
AS USUAL AND WILL PROCEED WITH
MARKETING ANALYSIS

COLLENETTE, DOIR DID NOT
PREPARE BRIEFING!

OTT/SDC/CCS
22708050-

3B-8-11

FROM: wain, Harry

: BANIGAN, JOHN
Lynch, G. Kevin

CGSI

DATE: 93-12-24
TIME: 15:31

CC:
SUBJECT: Thyssen
PRIORITY:
ATTACHMENTS:

5063 B15

① FYI Dick K. ② Helmut Zankl Jan 7

FORWARDED FROM: Swain, Harry
FROM: Manley, John

TO: BANIGAN, JOHN
CC: Macerollo, Tony
Swain, Harry

CGSI

DATE: 12-24-93
TIME: 11:33

SUBJECT: Thyssen
PRIORITY:
ATTACHMENTS:

Marc Lalonde's visit was mentioned to me by Minister Ouellet in a telephone call yesterday. I assured him that any formal ~~proposal~~ would be considered in light of available funds, and that we would inform him of any developments in light of his interest.

Microsoft Mail v3.0 IPM.Microsoft Mail.Note
From: Deacon, Bruce L.: SMD
To: Krajewski, Dick: SMD
Cc: Madore, Joanne: SMD
Subject: FW: Thyssen - Ouellet
Date: 1994-09-21 09:23
Priority:
Message ID: 2E5EC469
Conversation ID: 2E5EC469

Dick:

I think you should read this ASAP. It might explain why Bruce asked for a business case analysis???

Louise

From: Durnford, Diana J.: OCS
To: Deacon, Bruce L.: SMD
Cc: Swain, Harry: OCS; Macerollo, Tony: OCS; Banigan, John: MPI
Subject: Thyssen - Ouellet
Date: Tuesday, September 20, 1994 5:24PM

Min Ouellet still plans to support going ahead with the Thyssen project.
His support is based on the projected 500 jobs to be created in the Montreal area, and is premised on export market sales potential (he recognises low domestic sales potential).

He will probably sign a revised version of the letter tonight.

222/15/08

0-4

Industry Canada Industrie Canada
Deputy Minister. Sous-ministre
Ottawa, Canada
K1A 0H5

Jack: Please make copy
for Annie
Nov 21/94

NOV 17 1994

Mr. Robert Fowler
Deputy Minister of National Defence
MGen G.R. Pearkes Building
101 Colonel By Drive
Ottawa, Ontario
K1A 0K2

Dear Mr. *RF* Fowler:

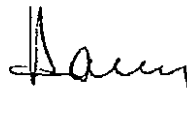
Recently, John Banigan and Bob Fischer met to review the long list of issues of mutual interest to our departments and ministers. I think it is excellent that they have decided to meet regularly, along with Art Silverman from Public Works and Government Services Canada, to review issues and provide direction on joint staff work.

In this regard, it is important that Industry Canada become more involved in the major procurements which your people are now working on: the Armoured Personnel Carrier, the helicopter replacement, the military space project and the possible submarine replacement program. In all cases there are issues of mutual interest and political sensitivity.

Furthermore, we would welcome an early opportunity to assess the work nearing completion on the Defence Policy Review in order to be in a position to provide feedback and to advise Minister Manley. The future direction of the defence sector will have a significant impact on economic growth through enabling and dual-use technologies and, therefore, is of great interest to us.

If you agree, I suggest this be pursued by John Banigan and General Fischer.

Sincerely yours,



Harry Swain

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MEMO

TO: Marc Lalonde**FROM: Greg Alford****TEL: 613-563-3321****FAX: 613-563-7648****DATE: February 3, 1995****SUBJECT: Association House Proposal****PAGES: 4**

Dear Marc:

Please find attached the report prepared by Jamie Deacey and his colleagues at Association House. I have also forwarded this to Karlheinz Schreiber and Jürgen Massmann.

Separate from the report is his cover memo mentioning his discussion with Harry Swain. It seems peculiar that Swain would have good knowledge of the market study, but not be aware of our continuing battle to get his department to release the information on the market analysis to the company.

My own update on the market information as of today is that they still won't release the information on markets without addressing the "other issues" at the same time. Since the "other issues" require the Minister's decision, we continue to be delayed.

We requested a meeting for 10th February with the Director General for our file Bruce Deacon, but he will not be in town that day.

Do you think we should escalate to the ADM - John Banigan or the DM, or the Minister to ask for a meeting on the 10th, or would that be over-emphasizing the Industry Department?

Regards,

A handwritten signature, possibly 'G. Alford', in blue ink.

Association House

300 - 55 Metcalfe Street, Ottawa, Ontario, K1P 6L3, (613) 567-3030 FAX 282-7148

MEMO FAX

To: Greg Alford
From: Jamie Deacey
Date: February 1, 1995
Total Pages: 1
Subject: Initial Report

Attached please find a copy of our initial report to you. As we discussed we will present a more complete report to you next week which will include specific action plans to accomplish the recommendations we have made.

Subsequent to our conversations I have met with Dr. Harry Swain, the Deputy Minister of Industry and raised the Thyssen issues with him. Swain was moderately aware and informed about the file, for example he knew that GM's order book was full until the end of 1999, and he was surprised that IC's assessment of Thyssen's market review hadn't been released to you yet. He undertook to check on that. Further, he noted the letter Manley had sent to other Ministers had suggested that the Thyssen market assessment was optimistic but that a significant market did exist and Thyssen could reasonably expect to be successful in it. Swain's general demeanour on this file was favourable and, when pressed, he said he would meet with senior Thyssen officials when it was appropriate and necessary. Finally, he agreed that given the speed that events were moving on procurements that Thyssen's best bet was to find a Québec champion.

One other interesting notion which came out of discussion was the possibility of having Premier Bob Rae of Ontario pressure the federal government into considering a site in Ontario. While this is possible the idea needs to be discussed in detail at our next meeting.

Overall the meeting was positive and there is some support in IC for the project.

THYSSEN BHI REPORT - JANUARY 30, 1995

1. Introduction

Thysen BHI has engaged ASSOCIATION HOUSE to review the current political and bureaucratic situation regarding the federal government's declared intention to purchase Armoured Personnel Carriers (APC). As requested this Report will be short and to the point. In the following sections we will review our understanding of the existing situation, how it is likely to proceed, what the government's view is of Thyssen and its competitors, and what Thyssen can do in the short and long term to attempt to effect a better outcome for itself.

This Report has been prepared by Jamie Deacey, Daniel Despins, and Brian Metcalfe following a wide range of interviews and conversations with senior military, bureaucratic, and political officials. Given the short time period ASSOCIATION HOUSE has to complete this task we are confident it is an accurate reflection of the current state of affairs.

THYSSEN BHI REPORT - JANUARY 30, 1995

2. Current Situation

Presently the situation is not beneficial to Thyssen BHI. Specifically, a number of historic actions by the company, the change of government, a new minister, the legacy of the previous Defence DM, the finances of the government, and current public attitudes to things military all conspire, separately and together, to place formidable obstacles before a successful Thyssen bid for the APCs. This is not to say that it is impossible but it will be very difficult and involve hard choices and bold actions. However, given how much time and effort Thyssen has already invested in this project in Canada, these recommendations are worth considering.

As to the military it would appear that the previous DM, Fowler, has left a situation wherein the military are reluctant, if not downright afraid, to express their actual preference and needs for APCs to the powers that be. Collette did receive approval last fall for budget items to cover the helicopter and APC purchases. It appears that the MND doesn't require further Cabinet approval (but will require Treasury Board approval) to undertake the processes to make these purchases unless he deviates from the recommendations and amount of money that he put forward at that time. We believe, as do you, that it is his intention to attempt to go forward with a single source purchase from GM Diesel. The timing of any announcement on this is likely to come after the Budget at the end of February, but not much later.

THYSSEN BHI REPORT - JANUARY 30, 1995

At Industry Canada officials seem to have willingly bought into Fowler's arguments for supporting GM Diesel. Their prime reason being that IC doesn't believe there is a export market for the tracked vehicles which Thyssen would produce in Canada. IC is dragging its heels on giving its response to the Thyssen marketing report as a way of not having to join the fray until it is absolutely necessary. There is some concern at IC that the military hasn't made itself known on whether it really prefers tracks, wheels, and/or a mix. This concern doesn't appear sufficient to stop them being passive allies in Defence's rush to judgement on this purchase.

Politics is where the ground is the muddiest. Little is known of Thyssen by the new Liberals except for the rumour and innuendo which clings to the company from the previous Tory regime. As well, this is fed by several bureaucrats who feel that in the past Thyssen was privileged and never proved it was committed to building a plant in Canada when it had the chance. Ministerial assistants in this administration are very young and inexperienced. They take their cues from their betters or by word-of-mouth. This doesn't serve Thyssen well as all the oral history ministers and their staffs are hearing is negative. While this is unfair to Thyssen there is little that can be done quickly to rehabilitate the Thyssen image in time to help with this sale. In summary, Thyssen has few friends at court, your history and reputation on this file precede you, and your promises are discounted.

THYSSEN BHI REPORT - JANUARY 30, 1995

3. Conclusions

The picture we have just painted for Thyssen is not pretty. Presently, most traditional avenues to acquire fair treatment and a level playing field on this file have been attempted by Thyssen. To date these strategies have not been successful. It remains for Thyssen to reflect upon what strategies could be available to it given the relatively short time frame prior to Collette starting the process for selection for APCs.

If Thyssen continues upon its present course of playing within the lines it is likely that bureaucratic baffle and procrastination will be the rule of the day. This would mean that Thyssen would still be sending queries to Industry Canada while GM was signing the order.

It appears to us that as matters stand there is little to no benefit for Thyssen to continue to observe the niceties of a bidding process that you aren't being allowed to participate in. It is apparent that for Thyssen to be successful you will need to move outside the lines and create a champion and some interest in Cabinet for the Thyssen proposal.

Thyssen will need to be comfortable with the Recommendations in the following section for carrying them out will require discipline and a focussed approach. However, we believe that Thyssen can be successful if it accepts the fact that it can't win the bid the way the deck is currently stacked against you. Thyssen can only win by starting a new game with your cards.

THYSSEN BHI REPORT - JANUARY 30, 1995

4. Recommendations

What we propose as the approach for Thyssen in the future on this bid is to undertake a three pronged strategy which would see Thyssen finding a Cabinet champion, causing the current situation to be publicized, and maintaining ongoing contact, in a more aggressive, fashion with all the markets which are presently being dealt with.

It is our strong suggestion that only by creating an internal champion in Cabinet for the Thyssen bid can you hope to be successful. Given the history on this file and the current state of the Canadian Confederation we recommend to you that you consider Ministers Ouellet and Gagliano as your potential champions. Both of these gentlemen are sharing the Québec file responsibility on Brome and the referendum. Through some of our other clients we are aware of their deep interest in announcing economic development initiatives in Québec in the very near future ... before the referendum. Further, if you want to pursue this course of action we recommend that you look to the Honourable Jean Lapierre as your guide in Montreal. I am sure you are aware of Jean's background and now because of his broadcasting career he has a unique multi-partisan role in Québec.

While the preceding aspect of the strategy was going on a very active campaign in the media would begin. The purposes of this campaign would be to reveal the unfair treatment that Thyssen and other APC bidders are receiving, the favouritism being given to the multinational GM, the legacy of Fowler, the real equipment requirements of our peacekeepers, and the economic benefits which would be available under a more public, competitive, and fair system.

THYSSEN BHI REPORT - JANUARY 30, 1995

This campaign would be devised and executed by Daniel Despins along with other regionally based media consultants, as required. As much as possible this campaign would not have Thyssen's name attached to it but it will be difficult to completely avoid it.

Finally, we suggest that all the contacts which Thyssen and its various consultants are having continue but with a more aggressive tone to those discussions. This will begin to partially occur as the other parts of this strategy kick in. Essentially, we believe that demands for meetings and real answers should be very correct but very blunt and plain spoken. For example ADM Finance McLure, currently the Acting Deputy at DND, is a favourite of Collette's and a meeting should be sought with him as quickly as possible. Collette is known to be fond of him and he will likely recommend him for the DM's job. We are not suggesting that McLure will get the job but so long as he is there he should be cultivated.

Undoubtedly, our recommendations are unlike those you would normally see put forward by a government relations consultant but we feel your situation is unique and at a critical juncture. Our analysis and recommendations are based upon the fact that you are likely to lose if you only continue your current actions. We believe you must add to these endeavours by having an inside man in Cabinet and by causing the set-up for GM to be exposed. Usually our recommendations would counsel patience and playing the game but you have been patient and this game is about to end unless you become more active.

THYSSEN BHI REPORT - JANUARY 30, 1995

5. Afterword

This Report has been presented to you in a compact and brief fashion. We didn't feel the need, nor did you want us, to rehash the ground as we both have come to know it. It was our view from the outset that Thyssen was in a critical situation with the APC bid to start with and everything we have learned has confirmed that view.

Our recommendations have been offered here in a condensed fashion. Should you wish to pursue these options as we've put them forward we will flesh them out to your specifications but we believe that at this stage it was appropriate to come back to Thyssen and see if you shared our views on where you may wish to go next.
