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Chair

Mr. Stephen Fuhr

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• (1100)

[English]

The Chair (Mr. Stephen Fuhr (Kelowna—Lake Country, Lib.)): We are continuing our study on the Royal Canadian Navy and naval readiness as it relates to the defence of North America.

We have Patrick Finn, assistant deputy minister of materiel, and Lisa Campbell, assistant deputy minister, marine and defence procurement.

You have been here before. Thank you for coming.

I have to let you know that we'll probably be hearing a bell ring in 15 minutes or so. This might be a disruptive session, but we're going to do the best we can with the time we have available.

I will give the floor to Mr. Finn for his opening remarks.

Rear-Admiral (Retired) Patrick Finn (Assistant Deputy Minister, Materiel, Department of National Defence): Thank you, Mr. Chair.

If you think it's only going to be 15 minutes, I'm happy to pass out my remarks and move straight to questions if you would prefer, sir.

The Chair: Let's start with your opening remarks and see how we go.

RAdm Patrick Finn: Mr. Chair, distinguished members of the committee, I would like to thank you for the invitation to appear before you to answer questions relating to your study of the Royal Canadian Navy.

[Translation]

As Assistant Deputy Minister, Materiel, for the Department of National Defence, I am responsible for the acquisition and life cycle support of all military equipment. This includes all ships, submarines, minor war vessels, auxiliaries, weapon systems and platform systems that are operated by the Royal Canadian Navy. I ensure that all naval assets are properly procured, supported through life, materially certified and technically ready for the various operations they may be assigned in support of government priorities.

[English]

Acquiring the new naval fleet and sustaining the existing one are very complex activities. At DND this involves an annual budget of approximately \$1.5 billion, almost 1,000 people, and over 4,000 separate contracts under management with my colleagues at Public Services and Procurement Canada. By far, the majority of these contracts deliver as expected on an ongoing basis. A few of these

contracts are, however, particularly notable for their importance in defining our future naval capabilities and materiel readiness for years to come and, of course, for their complexity.

[Translation]

Currently, the Royal Canadian Navy is in the midst of its most intensive and comprehensive period of recapitalization in its peacetime history, touching upon all elements of the fleet. The largest components of this recapitalization effort include:

[English]

First, the Halifax-class modernization, which delivers modernized and sophisticated systems, will ensure that the Halifax-class frigates continue to meet all operational requirements of the Royal Canadian Navy until they are replaced by the Canadian surface combatants. The modernized Halifax-class frigates have achieved noteworthy operating results, and the 12th and final mid-life refit is nearing completion. The program remains on schedule and on budget.

Second, the Arctic offshore patrol ships will conduct armed seaborne surveillance in Canada's waters, including in the Arctic. They will enhance the government's ability to assert Canadian sovereignty and provide surveillance and support to other government departments. The construction of the first two ships is well under way, and delivery of the first ship is scheduled for 2018.

[Translation]

Third, the joint support ships will increase the range and endurance of naval task groups, permitting them to remain at sea for significant periods of time without returning to port for replenishment. The construction contract is on track to be awarded in 2018.

[English]

Fourth, the interim auxiliary oil replenishment capability will provide at-sea replenishment services to the Royal Canadian Navy in non-threat environments by fall 2017. The initial period of service delivery will be for five years, with options to extend that period by up to five additional one-year terms until the second joint support ship joins the Royal Canadian Navy.

Finally, the Canadian surface combatant will be capable of meeting multiple threats in both open oceans and complex coastal environments, ensuring that Canada continues to monitor and defend its waters, contributes to the collective defence of the nation, and promotes international peace and stability abroad. Twelve companies have been pre-qualified to submit bids under the current procurement process. The build contract is anticipated to be awarded in 2019.

[Translation]

Numerous in-service support contracts further ensure that the Royal Canadian Navy remains relevant and delivers operational excellence. These include a new sonar system for our Victoria-class submarines, naval remote weapon stations for our Halifax-class frigates and joint support ships, and high-speed data connectivity for the Kingston-class vessels.

• (1105)

[English]

Considerable efforts are also under way to ensure that we are appropriately prepared to support the new fleets through their entire service life. These new ships will arrive with new technologies and global supply chains involving companies from around the world. We are looking closely at our support methodologies and consulting our allies and industry partners to consider new types of arrangements that provide capable, flexible, and cost-effective services to maintain our fleets.

Examples of some of the larger in-service support procurements that will utilize or already use these approaches include the Arctic offshore patrol ship and joint support ship in-service support contract, the Victoria-class in-service support contract, and the Halifax-class combat systems in-service support contract.

Knowledge management and best practices are also at the heart of our improvement effort within the procurement domain. As an example, when the Halifax-class modernization program entered implementation in 2009, it was considered one of the most complex naval procurements undertaken by the materiel group since the original Canadian patrol frigate program in the early 1990s. Innovation and governance, contracting, and management approaches were used not only to achieve success with the Halifax-class modernization program, but also to prepare the entire materiel management enterprise to meet the challenges that new build, modernization, and in-service support will bring across the entire Canadian Armed Forces.

Finally, we are also evolving the competencies and the organization to ensure that we are ready to maintain these new fleets to recognized standards. We are in contract with a classification society to provide greater insight into the materiel condition of our fleets. Significant efforts have also been dedicated to the development of business intelligence solutions to monitor and report the effectiveness of our maintenance programs. We are instilling the business acumen to work effectively with our industry partners to establish and maintain the types of support contracts that we need to keep our fleets capable, available, and cost-effective.

[Translation]

In closing, we are in an exciting time of naval fleet recapitalization. At the same time, the evolution and innovation of our

procurement and support approaches have continued soundly and will ensure we are well positioned to provide the necessary support for all assets for years to come.

We are very proud to be able to work closely with the Royal Canadian Navy in the defence of Canada and the projection of Canadian values abroad.

[English]

Thank you for allowing me to provide some opening comments. I'll turn it over to my colleague.

Ms. Lisa Campbell (Assistant Deputy Minister, Marine and Defence Procurement, Department of Public Works and Government Services): Good morning, Mr. Chair, and committee members. I appreciate this opportunity to appear before you today as part of the study on the readiness of the Royal Canadian Navy. At Public Services and Procurement Canada, we're working hard to ensure that the Royal Canadian Navy is able to maintain operational readiness and operate as a true blue-water maritime force. We're partners with the Department of National Defence in this endeavour, and both departments view procurement as a key enabler in achieving this important objective.

We're modernizing procurement policies and practices so that they are simpler and less administratively burdensome, deploy modern comptrollership, and include practices that support economic policy goals. The desire for deliberate policy making that leverages procurement is stronger than ever as the public budget is stretched around the world to achieve and support a number of socio-economic objectives.

We're currently working with other departments to develop proposals and approaches that will enable us to further leverage government procurement to bring about even greater social and economic benefits to Canadians. From a defence sector perspective, the use of industrial and technological benefits managed by Innovation, Science and Economic Development Canada in close collaboration with my department and the Department of National Defence represents an excellent example of how this can be achieved.

The success of procurement modernization rests in large part on our ability to engage and collaborate to achieve results. A number of elements within our procurement modernization agenda require the active involvement of other departments and industry, and in some cases, they need to be led by them.

Recognizing the importance of these relationships, we've established a senior level team that reports to the deputy minister of Public Services and Procurement Canada and to the secretary of the Treasury Board of Canada. The purpose of this team is to coordinate engagement with all stakeholders involved in government procurement, including suppliers in government departments like ours and the Department of National Defence, as well as to ensure all initiatives are meeting their goals through solid implementation plans with clear timelines and performance measures.

I'll just pause to explain. Our department does about 12% of the government's contracts, representing 80% of the money, but all the rest of the contracts, of higher volume and lower monetary value, are handled across government by departments themselves. In modernizing our practices, it is important that we employ a whole-of-government approach.

To make procurement simpler and less administratively burdensome, much of our emphasis to date has been on how and with whom we do business, and on providing better client services to departments. In particular, we're in the process of acquiring and implementing a new web-based commercial procurement solution to standardize procurement processes. Much of what we do is still paper-based. We can't afford to keep doing business that way.

This solution will allow the Government of Canada to simplify and improve the procurement process, as well as give us better analytics about the federal buy. We hope it will also make it easier for suppliers to do business with the federal government, especially small and medium-sized businesses. As a result of this, clients will have access to streamlined service delivery and a reduced process burden to support easier and faster procurement.

In addition, we're looking at our contracts and related terms and conditions to see how they can be streamlined and simplified where appropriate. At the moment, we have about 800 standard contract terms and conditions. We think we can make do with less than that, so we're looking to our counterparts around the world for examples of best practices that we can import to Canada, and we're already implementing many of those.

We also intend to assess current government contracts and related practices against these other jurisdictions to make sure that we're incentivizing the right kind of business behaviour. Instead of always punishing bad behaviour, we want to incentivize business to find efficiencies that we can share in with them.

Another key element of our procurement modernization agenda involves enhancing our ability to assess supplier performance, in other words, to rate industry on how they're doing continuously throughout the life of a contract. This will ensure that suppliers, including those in the defence sector, are evaluated on their performance, which will be used to help recognize and incent good supplier performance and positively influence the behaviour of suppliers by holding them accountable for their performance throughout the life of a contract.

Although all of the initiatives under procurement modernization will ultimately affect defence procurement as well as all of our other procurement, I'd like to bring to your attention two initiatives that are

of particular interest to defence, the first being the sustainment initiative.

We're working with the Department of National Defence, with Innovation, Science, and Economic Development Canada, and with the defence industry to find more efficient ways to maintain the equipment we procure. As you all know, a large portion of the expense is actually in-service support and maintenance. We focus a lot on the acquisitions, but the real money and work comes after that.

● (1110)

This initiative provides the basis for more planning, earlier engagement, and rigorous option analysis up front in the procurement process. It's also more flexible, allowing us to go back to the market when we see that there are innovations we may want to take advantage of. It introduces, in our view, more competition, which we think is healthy for business and gives Canada more choice and flexibility.

The sustainment initiative is based on four principles: performance, value for money, flexibility, and economic benefits. These principles also guide how we are governing defence procurement and the decision-making process for new and existing military maintenance and repair procurements. By working towards generating tailored solutions and using a rigorous analysis tool, we are expecting to strike the right balance among these four principles to achieve better performance and strong business partnerships with industry.

The second initiative I'd like to highlight is flexible bid evaluation, which allows bidders to demonstrate, in two phases, that they meet our mandatory requirements within a specified time after bid closing. In other words, what we're doing is making sure that bids aren't rejected for relatively minor reasons. After a first bid submission, we go back to suppliers and give them an early assessment, giving them a chance to submit more information if needed.

We have found in the time that we've been using this that it maximizes competition. It maximizes the number of compliant bids, as well as innovation, and ultimately helps to achieve overall best value candidates. The positive impact of this process was evidenced by a recent defence procurement where four additional bids were found to be compliant after the process was applied. The winning bid was selected on the basis of best overall value, considering price, technical merit, and socio-economic benefits.

The process not only led to greater competition, it was also faster. I wish these stories would make the news more often, but it does happen, as Mr. Finn and I know, and I'm here to give you an example of it.

The process will also be applied to the procurement of the Canadian surface combatant project, which represents, as Mr. Finn said, the largest defence procurement in Canadian history.

Here in Canada we've seen how sustained funding and support for innovation can be transformative for Canadian companies, particularly those in the defence sector. With government contracts, they are able to contribute to Canada's safety and security, develop skilled workforces, seek export markets, and participate in the global supply chain, as well as reap benefits from their investment in research and development.

All in all, these elements of procurement modernization and sustainment have a positive impact on the Royal Canadian Navy's operational readiness.

• (1115)

[Translation]

We are working to deliver on the enhancement to the national shipbuilding strategy announced by Minister Foote in May 2016 by strengthening governance, building internal capacity, improving cost estimates, monitoring progress and ensuring value for money, and increasing transparency and accountability.

I would also like to highlight that the release of the national shipbuilding strategy's first annual report to Parliament later this year will represent a major achievement for our commitment to increase transparency and accountability. The report will highlight the progress made over the last year, positive impacts on Canadian communities, and expected milestones for the coming years.

Mr. Chair, I would like to invite the committee to visit Irving Shipbuilding's and Seaspan's shipyards' facilities to see first-hand the hard work that is ongoing. If you are interested, my office will be happy to arrange a visit.

[English]

I would also like to bring to the committee's attention something which has been in the news recently and perhaps clarify some misconceptions in this regard.

On November 9, 2016, Irving Shipbuilding issued an amendment to the request for proposals for the Canadian surface combatant, to disclose to potential CSC bidders that it had teamed with BAE to bid on the AJISS request for proposals. AJISS is in-service support for the Arctic offshore patrol ships and joint supply ships.

Competition is an integral part of the national shipbuilding strategy. A competition was held in which shipyards competed to be the government's strategic source for large combat vessels and large non-combat vessel programs of work.

The construction of small ships is competed to shipyards other than the two that won the work to build large vessels. In-service support and maintenance of vessels is competed to all shipyards. This means that Irving Shipbuilding and Vancouver Shipyards may

legitimately bid on in-service support and maintenance, and they may partner with other companies in doing so.

Mergers and joint ventures are a normal feature of any industry, including the shipbuilding industry. They help maximize competition, innovation, and choice. BAE is one of the potential CSC bidders. Irving Shipbuilding has provided assurances that it has implemented measures to ensure that no information could create an unfair advantage for the Canadian surface combatant procurement process.

The government is aware of these measures and is satisfied that they protect the integrity of both procurement processes.

At Public Services and Procurement Canada, we are fully committed to the integrity of these two competitive procurement processes. We extensively engaged and consulted with industry prior to the release of the request for proposals for both the Canadian surface combatant project and AJISS. Although Irving Shipbuilding was responsible for issuing the request for proposals for the Canadian surface combatant, the government is involved, and will continue to be involved, in every step of this competitive procurement process, and will ultimately make the final call on the winning bidder.

Both the AJISS and CSC procurement processes are being overseen by independent fairness monitors who will observe the entire evaluation process. The fairness monitoring program provides client departments, government suppliers, Parliament, and Canadians with independent assurance that procurement processes are being run in a fair, open, and transparent way.

With respect to the request for proposals for the Canadian surface combatant, the government is responsible for key elements of the procurement, which will include determining the requirements and evaluation criteria, for approval of the evaluation plan. We also approve the request for proposals prior to its release. We also provide the fairness monitor. We will review the entire conduct of the evaluation process and final acceptance of the evaluation results. We also make the decision on the winning bidder.

As you can see, Mr. Chair, we're working to ensure the success of these important procurement processes. They're an integral part of the national shipbuilding strategy, which we hope will rejuvenate the marine industry, support Canadian technological innovation, and bring jobs and prosperity to many communities across the country. We're also working to deliver on the enhancements to the strategy by strengthening governance, building our internal capacity, improving cost estimates, monitoring progress, and ensuring value for money.

Thank you for your time. Again, I appreciate the opportunity to be here to speak with you.

The Chair: Thanks to both of you for your comments.

Before I turn the floor over to Mr. Spengemann for the first seven minutes of questions, I apologize in advance if we have bells, but we'll have to deal with them.

Having said that, Mr. Spengemann, you have the floor.

Mr. Sven Spengemann (Mississauga—Lakeshore, Lib.): Admiral Finn, Ms. Campbell, thank you very much for being here, for your service, for your important work.

Admiral Finn, I want to echo your words that we are indeed in an exciting time of naval recapitalization. I'd like to start with a broad question on the economics of shipbuilding and naval recapitalization. As you know, the Government of Canada is currently engaged in an infrastructure investment and upgrade project of significant magnitude. It will create jobs with a multiplier somewhere south of five, which means that for every dollar invested, we would get somewhat less than \$5 in return.

• (1120)

The Chair: I'm sorry, Mr. Spengemann, but I'll have to interrupt you right there.

The red light is on, and the Internet is telling me it's going, so I will need unanimous consent from the committee to continue for perhaps 10 minutes.

Will that give us enough time to head back over for votes?

Mr. James Bezan (Selkirk—Interlake—Eastman, CPC): I would suggest that we let Mr. Spengemann finish his time before we break.

The Chair: Are we good with that?

An hon. member: We will be returning, correct?

The Chair: Yes.

Are we okay? Will we let Mr. Spengemann continue before we suspend?

Mr. James Bezan: Suspend after he's done.

The Chair: Okay.

Go ahead, Mr. Spengemann.

Mr. Sven Spengemann: Thank you, Mr. Chair. I'll step on the gas and go straight to the question.

Voices: Oh, oh!

Mr. Sven Spengemann: Could you tell us about the economics of the shipbuilding program? What kinds of jobs are created? How has shipbuilding changed in the last decades? Qualitatively as well as quantitatively, how much is at stake? How much economic potential is there? How will Canadian firms fare, in your perception, in the procurement process?

RAdm Patrick Finn: Thank you very much for the question.

Our colleagues at Innovation, Science and Economic Development Canada could probably give you some specific high level answers. In the broadest economic sense, I will certainly provide you

with some answers, from my perspective, on jobs and also on the readiness of Canada's navy.

I have spent 38 years at National Defence looking at maintenance of ships. The availability of industry in Canada, where our ships are understood and where we have the supply chain, is a huge enabler for us to be able to do work. For us, the epitome of this is probably the Canadian patrol frigate. It has provided, from a build in Canada perspective, long-term jobs and long-term work for Canadians and for Canadian companies. It also has provided export opportunities for Canadian companies that did their initial work in the frigates and have become world leaders on integrated platform management systems and other systems of that nature.

From the defence budget perspective and from the operational perspective, I would also say that having these capabilities in Canada ensures that we are actually able to maintain and upgrade these capabilities. It is a huge capability.

As for your question about shipbuilding, enabling that in-service support, although it's different from construction.... The construction and ongoing construction of ships, bringing their systems together and integrating them is really the engine that enables the marine industry in Canada. It is what provides us with that long-term capability. Having that capability in Canada is why I've always been a proponent of build in Canada, not only as a proud Canadian, but as somebody who has to support ships and submarines and other things. If I were to compare it to our efforts to support the Victoria-class submarines, fortunately, I view a capability that's much maligned. They are very capable submarines that we brought to Canada without a supply chain and without, really, the knowledge and expertise to support them. Frankly, it took us 10 years to get ourselves completely organized, and the capability and the reputation suffered the consequences.

For the navy, build in Canada provides a long-term operational benefit and economic benefit. It provides the huge capability that we've seen in many companies. I could name a number of companies that have leveraged the opportunity to help Canada's navy and to also find work abroad.

Ms. Lisa Campbell: I'll add that although it's an industrial story, it's also a people story. Combat ships are actually being built on the east coast. On the west coast, construction is under way for non-combat vessels for the Coast Guard. Across the country, there is all of the in-service support work, as Mr. Finn has said. Between 2012 and 2015, 492 suppliers have received \$1.3 billion in contracts, including indigenous suppliers and small and medium enterprises. There's a company in Newfoundland, started by a husband and wife, that specializes in 3D modelling. They have quadrupled in size, are now servicing Vancouver Shipyards, and are starting to win international contracts. It's those kinds of compelling stories.

Mr. Chair, when we saw each other out in Vancouver, I actually had a chance to visit the British Columbia Institute of Technology to speak to students there and to tell them we need them. I met a young woman there who has trained for four years to be a ship fitter. Half of her time was spent in school, and the other half was spent in the yard. There are some compelling stories of growth, but it is, in many respects, like a start-up with all of the growing pains that you can see.

• (1125)

Mr. Sven Spengemann: Thanks very much for that.

I wonder if I could follow up on the Halifax refurbishment and life extension program. In fact, I'd like to particularly follow up on the fact that New Zealand has indicated interest and has engaged with us in having their frigates upgraded.

Where do you see the potential of this project? What can the government do to amplify it to reach out to other potential partners and clients around the world?

Adm Patrick Finn: In shipbuilding particularly, probably like any manufacturing but being more aware of shipbuilding, what we would call the order book in the economies of scale, in other words, the more you build the same ship, the more you're building ships, the better you get at it, the more you drive down costs, when we built the Canadian patrol frigates, the ninth ship was about half the cost of the first ship.

What happens with New Zealand is perfect timing for them to say our having modernized 12 of our ships, they de facto would like to be shipped 13 and 14. It speaks to the opportunity. We often have this discussion with many people about going offshore and why other jurisdictions are better at building ships. They've just been building more ships recently. I think what's happened with Lockheed Martin, in this case Vancouver Shipyards, is that New Zealand and the two ships they're upgrading are identical to ships that were built in Australia. The Australians I believe had eight of them. They've upgraded them as well.

That they came to Canada and not Australia I think speaks to Canadian industry: the complexity, the achievement, what's occurred. They're going to install pretty much the same combat management system. They are retaining some difference in sensors, so some change is required there. I think the way my colleague put it, it speaks to the kind of start-up.

As we get going, in each of these classes of ships, there is the potential, and we do hear from other allies saying that we've paid for the non-recurring engineering, paid for the design, and they would be interested in coming in at the end of it and picking things up. I think the New Zealand work is perfect for that. I think our minister has spoken to his colleague in New Zealand.

We at National Defence will provide some expertise around quality assurance. That's fairly typical with close allies, that we work in each other's country. We are reaching out government to government and navy to navy. Admiral Lloyd has recently visited New Zealand to try to make sure it's clear that we want them to be successful on behalf of Canada and our industry.

The Chair: We're going to have to go. I would ask you to stick around and enjoy a coffee. We'd really appreciate it as we're not going to get you back.

Thank you very much.

We'll suspend.

• (1125)

_____ (Pause) _____

• (1205)

The Chair: Welcome back, everybody.

I'd now like to turn the floor over to Mr. Bezan for questioning.

Mr. James Bezan: Mr. Chair, it's unfortunate that we had to have the committee interrupted today because of the limitation of debate and of speaking in the House with the vote that was forced by the Liberals. It was unfortunate, to say the least, but I'm glad that both Admiral Finn and Ms. Campbell are back in front of us again.

I want to talk a bit about a couple of things on the current contracts that have caused some concern in the media.

One is the gag order, the clause that is put in the surface combatant contract, with Irving ultimately having the final say on whether or not the people tendering, the contractors or subcontractors, are allowed to speak to the media or to academics. Even though there was a clarification that was published by the government, Dave Perry said:

I don't understand how [anything] can be misconstrued. "You shall not speak in public". It's an attempt to keep the competition out of the headlines.

If there is that type of gag order in place on the tender for the design of the future surface combatants for the Royal Canadian Navy, how are we going to be able to know that the navy is getting the best ship? How are we going to know that the taxpayer is getting best bang for their buck? When there's a gag order in place, how are academics, defence experts, and the public going to know whether or not the competition has been fair, open, and transparent?

• (1210)

Ms. Lisa Campbell: The communications notification clause, which is what was being referred to, has been amended so that the only restriction that applies will be to not make public statements regarding the outcome of the request for proposals process until Canada makes an official announcement. I should say that the clause that caused some concern on the part of industry was actually to ensure that the suppliers who were bidding on this do deal directly with Canada and the prime contractor. It was not ever intended to affect freedom of speech or the right to advertise. We support that. We know it's an important part of business.

What we're really trying to do is protect the integrity of the procurement process and make sure that it isn't tainted as we're in the middle of bid evaluation. Canada and Irving are committed to a fair, open, transparent process and open communication with bidders. In fact, we often do one-on-one communications with the entire supply chain. We've consulted with industry and with industry associations and are satisfied that everybody is content with the current arrangement.

Mr. James Bezan: On the issue of the tenders that are going out right now, the request for proposals for the in-service support for the Arctic offshore patrol vessels and the joint support ships, you alluded to it, Ms. Campbell, in your testimony about the optical problems that are created with the Irving-BAE tender and the joint venture that they are bringing forward.

How can you ensure not just taxpayers but us as parliamentarians that BAE isn't on a special track when it comes to their tender for the design of the surface combatant?

Ms. Lisa Campbell: Mr. Chair, as I said in my remarks, Irving disclosed this to Canada early. It also disclosed it to all the bidders. There are separate bid teams. We have fairness monitors in both of the procurement processes.

As I also said, our goal is to maximize competition and innovation. It's a fairly small base of suppliers and, quite frankly, when you look at any industry like this, you will see relationships among suppliers. It's quite common. We're used to dealing with it in the defence context, but also in other contexts where you have large companies which often will either acquire one another or develop alliances. It's a regular feature for procurement processes. We're used to dealing with it, and we do monitor it very carefully so that it doesn't affect procurement outcomes.

The other piece of this is that Canada is very heavily involved. We are, in a sense, co-leading all of the aspects of the evaluation here, and we ultimately make the final decision on who will win the outcome of this process.

Mr. James Bezan: One of the reasons behind the national shipbuilding strategy was that we had a chance to rejuvenate our shipbuilding industry and create jobs right across the country. One thing that Irving and Seaspan have is the benefit of being right in the harbours beside our bases. How can you ensure that other companies aren't disadvantaged, such as the St. Catharines company or Davie?

Ms. Lisa Campbell: As I mentioned in my remarks, competition is an integral part of the shipbuilding strategy, and it continues throughout the process. The two prime yards undergoing construction continuously let contracts. The default is competition across Canada. We monitor that to ensure that they are fair, open, and transparent. We also have found that there's a demand across the country. We're seeing and tracking contracts cropping up in the middle of the country, and literally contracts being let to companies on the east coast for work on the west coast. There is such a strong demand being generated that we're finding they're really a pull for companies across the country.

I should also mention that as part of our industry outreach we regularly talk to the supply chain directly at our regional offices located across the country. I hold defence round tables, and I ask companies, "How are you doing? Are you getting work? Is it easy to

get work? What obstacles are you running into?" We make sure to take their direct feedback and not just deal with the prime yards.

Is there anything you wanted to add?

RAdm Patrick Finn: If I could add just briefly, when we set up the national shipbuilding strategy, you'll recall it included a number of areas of work, so, yes, there was competition for the two large areas of work. For the smaller vessels, of course, the two yards that have been selected are precluded from bidding on that, as are their affiliated yards. As well, the in-service support goes to all of the marine industry to see who could bid on it. It's unusual for them to.... When did the initial competition, it was understood by the winners that there were areas of work that they would either be precluded from doing or have to compete for.

• (1215)

The Chair: You have 15 seconds.

Mr. James Bezan: I have one quick one.

The Chair: Sure.

Mr. James Bezan: We had some witnesses come before our committee who said that maybe we shouldn't be doing the surface combatants all in one block because of technology changes, especially given the time it takes to build these ships. Has there been any thought that maybe we don't go necessarily with one hull, and that we look at modularity as much as possible to ensure that our Royal Canadian Navy has the equipment and kit on deck that they need to do the job that we have tasked them with?

RAdm Patrick Finn: We are in discussions with the navy and with our colleagues at Public Services and Procurement Canada to look at a batching strategy, we would call it. In the history of Canada's navy, we have never bought.... Even with the Canadian patrol frigates, there were two contracts for six ships each, and they had to be let in time to take advantage of the first ones. It is the kind of work we're doing in the next phase of definition. What's the right approach? What's the right number? It tends to be that all of our allies do it in the same way, with the British in their Type 26 ships and the Americans in their ships. The idea is the same, and that's to have a sufficient batch to bring some economies of scale, but as you're indicating, understanding that with time, and that's really what we're trying to do in the strategy. We're trying to build to 2040 and beyond. The real success is not that we've identified every ship we're going to build; it's that we have a vision of continuously building ships throughout that whole period, sir.

The Chair: Thank you.

Mr. Garrison, you have the floor.

Mr. Randall Garrison (Esquimalt—Saanich—Sooke, NDP): I thank the witnesses for their patience with us today.

The members of the committee will know that I've been talking about some of my concerns about support for the shipbuilding strategy and what that means. What I think we've seen is a shift in what the strategy is, first of all, from a floor, where what we were looking at was the minimum number of ships needed to fill capability gaps, and to becoming a kind of ceiling. Now we're only talking about this as the maximum that will be done. Second, I think we've seen it shift from a number of ships with certain capabilities to a number of dollars and what we can buy for the dollars. The third thing is that we've seen the initial timelines shift from those that were based on the capability gaps to those that are based on when money is available.

Those are my general concerns, and I'd like to know which shipbuilding strategy you're working on.

Ms. Lisa Campbell: I'll start, if I may.

The government has reaffirmed its commitment to the national shipbuilding strategy, and we are continuing with the original precepts. We are implementing enhancements, however. We're strengthening governance. We are improving cost estimates, because some of the early cost estimates were done in the absence of data and ships hadn't been built. You learn a lot from the first blocks of ships that are constructed. You learn how long it's going to take, what the issues are with design, and what the efficiencies are that can be found. We now have a lot more data that will help improve costing in the yards.

We also have, thanks to third parties who we've engaged, a lot of good evidence about the yard's productivity, and that they've reached the industrial capacity to produce these ships. The number of ships has not changed at all. Those capabilities are still required. If anything, what we're finding is new needs arising and how to deal with those—

Mr. Randall Garrison: The strategy is the number of ships.

Ms. Lisa Campbell: It continues to be those original requests for those same number of ships that still need to be built. We're finding, however, that there are new needs arising and we're trying to address those in a way that ensures continuous build. That is our focus at all times. When we govern these projects, we're trying to ensure continuous work in the yards so that we avoid a boom and bust cycle, and we plan years in advance. That is our focus on overseeing this.

RAdm Patrick Finn: If I could just add that the strategy we are working on is to recapitalize the navy and the Coast Guard.

Yes, there are a number of ships right now. There are ships in contract. What will come after that continues to be an open dialogue—what's the future threat environment, and what will we need to do?

We say build when money is available. In a vote 5 capital sense, we actually profile the money for when we need it. We are re-profiling in some areas because we're not moving as fast as we

would like to. That's absolutely the case. If we could speed some things up, that's what we're working at.

As I said earlier about the flights of ships, even when we talk to the Canadian surface combatant, the real question—and even when we started working on the strategy in 2008—is not just what work we're going to do between now and 2040, but what will happen thereafter. That's what we're hoping to achieve, a real capability in Canada and appropriate capacity to continue to support the navy and the Coast Guard for decades to come.

• (1220)

Mr. Randall Garrison: Thank you. Those are reassuring answers.

There are two questions I've asked elsewhere, and I was referred to you two both times. One was in the industry committee, and that was about the ability of smaller shipyards to participate in the big contracts. I know you've been very clear the other way around, but if Seaspan chooses to subcontract some of the work, is there an obstacle to smaller shipyards participating in those larger contracts?

Ms. Lisa Campbell: Not at all. In fact, what we're finding is the two prime yards are reaching out, building supplier relationships in Canada and abroad, and we encourage them to do so. We encourage them to reach out to Canadian industry and, quite frankly, it's in their long-term interest. Because they have long-term programs of work and the certainty of that, they want a reliable supply chain that they can count on.

They also need to meet their industrial and technological benefits obligations, so every chance they have to do that, we're finding that they are.

RAdm Patrick Finn: That would be small and medium enterprises, be they shipyards or otherwise. For example, on the west coast at Seaspan, they have opted not to do pipe spools or pieces of pipe in the yard. They've subcontracted that out, so they're looking across the supply chain for the most efficient way for them to bring it together.

Mr. Randall Garrison: The other question I asked General Vance was about concerns with both the in-service supply contracts and regular maintenance in the Canadian Forces. I asked whether there has been a study done on the impacts of having private companies provide these maintenance functions when it comes to maintaining the readiness of the Canadian Forces and in terms of security questions. Has there been such a study and if so, could that be tabled with us?

RAdm Patrick Finn: I would not say there's a specific study, but perhaps I could give a bit of context.

The use of industry to provide support, and how we have traditionally done this, is levels of maintenance. The sailors on board ship do first-level maintenance. I think you had previously asked questions about our fleet maintenance facilities at the second level. Industry has for decades, in the 40 years I've been involved with this, and well before that, always been involved with doing the maintenance.

What is key here is there is often a perception that we're changing the approach by using industry. It is industry that is actually designing, building, and providing this equipment. It is industry that has the detailed knowledge and intellectual property.

We are continuing to use industry as we always have. What's changing a little is around these levels of maintenance. It's not unlike cars, where it used to be that we did some work at home, went to the local garage, and then went to the dealership. Very often people go straight to the dealership. In military equipment there's a bit of a similar trend.

We are trying to use industry, which has to get this heavy maintenance work, bringing them in to try to do some knowledge transfer and work with our fleet maintenance facilities—and it's the same in the air force and the army—to continue to meet that strategic capability.

We haven't looked at it from a security perspective or otherwise because it's always been there. They will always be involved. In fact, they have more knowledge than we do. We're trying to bring them in to make sure that our fleet maintenance facilities continue to be an important strategic asset.

Mr. Randall Garrison: I think it's a concern, both in terms of cost and the ability of the navy to actually sustain itself. If companies go out of business, you have a problem.

The other concern is non-Canadian companies. The British have run into this where occasionally export permits have been refused for goods needed by the British from another European country. If we allow foreign contracting in some of these, we might run into that same problem in the future in terms of our ability to act independently.

Ms. Lisa Campbell: Increasingly what we're finding is that in-service support and maintenance is really about complex systems that we put on platforms, whether it's for the navy, land, or the air force. We don't want, as a public buyer, to be beholden to one OEM which either is going to charge us overly high rates or is not going to be around when we need to make modifications down the road.

Our focus is, at the outset of the contract, especially with such things as intellectual property, on either having ownership or actually being pretty restrained with ownership—having licensing and access—so that down the road we can re-compete, have choice, or have innovation and not be hamstrung by a particular supplier.

We're talking with industry right now about this, because we have heard from them that it's a sore spot. It is for us as well. We're working out some basic guidelines for a country the size of Canada that needs to have choice and flexibility and is also very linked to innovation. If we want to make sure that we keep access to key intellectual property in our country so that we can both service our

fleets and also help companies grow and become part of the supply chain, that's our focus.

•(1225)

RAdm Patrick Finn: The strategy itself, of building in Canada, is actually to reduce that very risk. If we were to go offshore and acquire these assets—and we see it in other areas of military equipment—we would be absolutely beholden to export licences and other things. Bringing it into Canada is the way we're trying to mitigate some of that risk.

Mr. Randall Garrison: Thank you very much.

The Chair: Ms. Romanado, you have the floor.

Mrs. Sherry Romanado (Longueuil—Charles-LeMoine, Lib.): Thank you, Mr. Chair.

[*Translation*]

Thank you very much, Rear-Admiral Finn and Ms. Campbell. It's always a pleasure to hear from you.

[*English*]

I want to talk a little about the time frame required for capital expenditures.

The time it would take to go from statement of requirement to RFP to selection to acquisition to being combat ready could, obviously depending on the object we're looking to buy, be quite a long time.

Given the importance of being able to protect our Arctic sovereignty, and given the—I don't want to say mistakes—lessons of the past with respect to our Victoria-class submarines, are there any thoughts already in play for replacing those submarines with nuclear? If so, are you able to share how long that would take?

Obviously, they are going to need to be replaced. I'm not sure whether they'll be replaced with nuclear submarines, but given that requirement, how long in advance would we need to start preparing in order to make sure that we don't have a capability gap in that regard?

RAdm Patrick Finn: I'm really not the right person, in the context of capability and future capabilities. That would be our vice chief, chief of force development, and others.

What I will say from experience, having a couple of times been involved in looking at nuclear submarines in Canada, is that it's a very complex, massive undertaking. I was involved with this a few decades ago and went to sea in British, French, and American nuclear submarines. It's a very expensive and very massive undertaking.

As a country, of course, we have a nuclear industry that actually puts us ahead of others who may look at this, but it is a massive undertaking. At this point I'm not aware of any discussions in that vein, but to be fair, it's really a question best addressed to our vice-chief and the commander of the navy.

Ms. Lisa Campbell: Let me add that you raise an excellent point about the time at which you buy. One thing we try to do in all of our procurements is capture the span of existing technology that is proven and tried and also what's coming on the horizon but isn't at such a stage of research and development that there's lots of risk attached to it, so that when the actual contract is issued, Canada benefits from what is the latest in the market for which there's an established supply chain, so that we can get best value. That is the balance we try to strike, keeping in mind that it can take years to get to that stage.

RAdm Patrick Finn: I apologize, but I would like to add something to Ms. Campbell's comments about technology.

When you look around the world at submarine technology and the advances in air-independent propulsion in fuel cells, there is a lot happening in this area which in the future could be used, if not under ice, certainly at ice edge and in other things like that.

These are the sorts of things we try to stay abreast of. What the intentions are, I'm not sure, but it's having quite a dramatic impact on non-nuclear-powered submarines.

Mrs. Sherry Romanado: Madam Campbell, you mentioned visiting BCIT. In a previous life I worked in the higher education sector.

What would be the importance of working with, say, research-intensive universities to forecast the next generation of technology we might need and foster the research we might need in the future?

I know that capability is being identified by someone outside of your portfolio, but I'm thinking in terms of supporting and leveraging the great brain power we have here in Canada with our research-intensive universities to come up with that next best thing we might need, so that we can keep that made in Canada right here.

Ms. Lisa Campbell: It's an excellent question.

There are three aspects that I'd like to point out. One is that Innovation, Science, and Economic Development Canada is right now looking at key industrial capabilities in Canada. They've hired a company, Avascent, to help them with that in looking at where Canada's existing areas of strength are, so that when we are letting these huge contracts we can support things that are already there.

We also have at our department the build in Canada innovation program. Although it's not a big program, it's quite powerful. What it does is it pairs innovative pre-market technologies with government departments. It's hugely successful. The Department of National Defence and the National Research Council are some of our biggest clients, as well as Environment Canada. What we're finding is that they want to buy it more.... They think it's fabulous.

I would say as well that we receive a lot of unsolicited proposals. Historically, our department has said that it isn't interested in unsolicited proposals. We actually take a more nuanced view of that now. It's business creativity, after all, as well as advertising, but also

layered in there are business solutions to things we didn't even know were problems yet, or business solutions to existing things we're doing that may not be done in the most efficient way. We are very open to that. We do industry engagement not just on specific procurements but actually across the board.

The last thing I would mention is that in addition to the shipyards having to grow, our procurement workforce has had to grow and specialize in this area, so we are doubling and probably tripling our marine procurement workforce over the next couple of years. We have just let a poster to hire new recruits, and I'm happy to say that we've had 1,700 applications across the country, with a special reach out to 14 universities and colleges. There's a lot of excitement about joining the procurement workforce.

• (1230)

RAdm Patrick Finn: If I may add to that, on the innovation, of course, our minister, Minister Sajjan, is extremely interested in this area, which is a key part of the defence policy review. He's challenged us to see how we can further use innovation in working, as indicated, with Innovation, Science, and Economic Development, but also in all the round tables, and to look at different models around the world, such as DARPA in the U.S., and other areas that we could bring home and do more work on, not just to innovate in the sense of what are the future threats and what's going on, but on things that we've seen in the past in the ships that could also then be leveraged for export.

Mrs. Sherry Romanado: In terms of risk mitigation, is there a percentage of maximum contracts that one supplier could have in the event that the supplier were to go under? In terms of risk mitigation, is there a percentage?

Ms. Lisa Campbell: In the two programs of work, combat and non-combat, those are actually not contracts. They're umbrella agreements. How they've been structured is that it is essentially a promise by the Government of Canada that this work will be undertaken in those yards. There are off-ramps, however, and they're performance based. In other words, if Canada doesn't receive what it wants on time and within the budgets we've agreed to, there are off-ramps for Canada.

How the work progresses is that contracts are put in place as needed with specific tasks. Canada does still retain the purse strings. A large element of the national shipbuilding strategy, as Mr. Finn and I were saying earlier, is that those two prime yards have enough work to keep them in continuous production for a long time, but a lot of the rest of the work is deliberately spread out across the country and, in some cases, around the world, again, to regrow the entire marine industry.

With respect to risk apportionment, though, and risk sharing in contracts, that's something we're also looking at closely with industry, to make sure that we don't pay for contingencies that we know will never materialize; it makes our contracts expensive. We are increasingly looking at risk apportionment with industry in a way that makes sense. Where it's less expensive for us to cover because of our insurance or because of long-term sustainability, we will cover it. In other instances, industry will share the cost.

Mrs. Sherry Romanado: Thank you.

The Chair: Given the time we have available, we're going to a second round of questions. We have enough time for everyone to get through before the end of this meeting, if we're all disciplined.

Mr. Fisher, you have the floor for five minutes.

Mr. Darren Fisher (Dartmouth—Cole Harbour, Lib.): Thanks, folks, for being here. I appreciate your expertise and all the information shared with us today.

I'll try to be quick. I want to talk for a moment about the Halifax-class frigates. It seems that this is a very successful refitting, this modernization.

I'd like to understand this better. My understanding is that the frigate has been refitted to be able to also serve as a destroyer. I'm probably oversimplifying things, but I guess the command and control function allows this frigate to act as a destroyer.

I'm wondering if this is unique. Is this considered a hybrid situation in the industry? I'm wondering if we've had a frigate deployed to be perhaps a destroyer. Again, I don't know the ins and outs of the history of this, but this seems to me to be something new and perhaps unique to this refit.

• (1235)

RAdm Patrick Finn: A generation ago, the distinction in size and firepower between a frigate and a destroyer would have been quite different. Nowadays, they've probably morphed in size of ship.

I think what has happened is, as we've retired our Tribal-class destroyers, the two capabilities that were unique to them in the navy were command and control of a task group and what we would call area air defence, which is an umbrella of missile capability that could protect all of the ships.

We have had evolution in both areas that has enabled us to do some work with our Halifax-class frigates and we've fitted the first four ships, which is the part that you're talking about. We literally moved bulkheads. We moved walls and did everything and actually designed, quite frankly, a better command and control capability than the destroyers had. We've completely modernized all the command and control, so there's the ship command and control, but

there's also the task group commander's command and control that we've fitted in the ship.

We have retained the ability to command a Canadian task group, but we can also command an international task group by retrofitting and also deploying those ships. Interestingly, there was a bigger challenge. You have to embark a lot more people, because the commodore comes with a lot of staff, and we had to do a lot of work around habitability or what we would call heads and wash places, and bunks. That was an interesting challenge. The navy has basically maintained, and in fact from the early feedback we're getting from ships in the Black Sea or otherwise, improved, and not so much made it a destroyer, but provided it with the task group command and control capability that was otherwise being retired with the destroyers.

Ms. Lisa Campbell: If I may also add that it's actually an excellent example of contract flexibility. I think there is a perception that we've put in place a contract that stays there and operates, when it's actually quite the contrary. We adapt them and change as circumstances arise or as what we're trying to incentivize changes.

In this instance, there were a lot of unexpected things that arose through the work and we had to adjust the contracts. It took some goodwill on both sides, if you will, to make sure that we still stayed on schedule and on budget.

Mr. Darren Fisher: Has this helped bridge the capability gap by having these ships with the capabilities of both ship types? We have about 10 to 12 years before we get the surface combatants.

RAdm Patrick Finn: We have about a decade, so you're exactly correct. We've structured all 12 ships, as far as the layout of compartments and spaces and cabling go, but we've only fitted four with the command and control capability, since you only need one on each coast. We can actually move the equipment to any of the ships and they can perform that role. By retiring the destroyers, it was to make sure that the navy, which works as a task group as their primary mode of operation, as Admiral Lloyd would explain far better than I, would actually maintain that capability until the arrival of the first Canadian surface combatant.

Mr. Darren Fisher: You responded to Mr. Spengemann about Australia's interest in this modernization, and I think maybe you said New Zealand. Is that perhaps because of the success of this hybrid? That's my term that I'm using, not yours. Is that why they're looking at our ability to do that?

RAdm Patrick Finn: Yes, it's specifically New Zealand, not Australia.

Mr. Darren Fisher: Okay.

RAdm Patrick Finn: I was just saying that Australia had the same ships. It is part of it, yes. I would say in the overall context of the work that we did and the capabilities that showed up. For the New Zealand navy, when they were looking at all the capabilities and they looked around the world competitively, everything that we had done regarding design and with non-recurring engineering was of interest to them.

Mr. Darren Fisher: Thank you very much.

Mr. Chair, we're probably right on time.

The Chair: You're right on time.

Mr. Godin, you have the floor.

[*Translation*]

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair.

Ms. Campbell, Mr. Finn, thank you for participating. I also want to thank you for your collaboration and understanding, considering the crazy schedule. This is the life of parliamentarians. I think that you understand.

I am a member from a rural region. We know that procurement contracts in Canada are often awarded in urban centres. I will explain what I am getting at. I would like to talk to you about the procurement process in regional markets. Do you plan to include, in your procurement process, the awarding of contracts in small and medium-sized markets?

• (1240)

Ms. Lisa Campbell: Thank you.

Actually, SMEs are awarded 40% of government contracts. The Office of Small and Medium Enterprises of Public Works and Government Services Canada covers 3,000 contracts with small and medium enterprises across the country.

When I was in Vancouver a week ago, I talked to one of our employees who spends half of her time in small communities, specifically to facilitate the awarding of contracts to small and medium-sized companies. That's very important to us. We recognize the Canadian industrial base. We have been focusing our efforts on that for 10 years, and we are starting to see the positive impacts of those efforts. Company representatives are telling us that the process has become easier, and that they know how to navigate.

Moreover, one aspect of our modernization is about making the process even simpler. I think that the idea that those people have to spend entire days completing a form is unacceptable. We would like selling to be very simple for them and purchasing to be just as simple for us. That is part of our procurement modernization.

Thank you for the question.

Mr. Joël Godin: Thank you, Ms. Campbell.

You said that SMEs were awarded 40% of federal government contracts, but I think that percentage does not really apply in the regions. Do you understand that those are two different categories?

An effort is being made to support SMEs in Canada, and that's great, but what measures are being taken to ensure more balanced distribution and avoid our rural ridings being left behind?

The rural aspect is not pejorative. I am proud to represent the riding of Portneuf—Jacques-Cartier.

Are mechanisms being established to ensure the fair distribution of contracts and, if so, what are those mechanisms?

It is completely normal for urban centres, given the number of companies and the size of their population, to have a share of the cake, if I may put it to that way. However, I think that the regions are very important in Canada. They must be provided with support, so that they would have an opportunity to become major centres one day.

Ms. Lisa Campbell: Thank you.

The Office of Small and Medium Enterprises is really emphasizing rural communities. It is aware that, in urban areas, the most sophisticated small and medium-sized companies are doing business with all levels of government. Those who work for the office deliberately spend most of their time in rural regions so as to reach individuals who don't necessarily have access to the Internet, among others.

In addition, Innovation, Science and Economic Development Canada, which I mentioned earlier, is keeping an eye on how contracts are awarded in the entire country and in the communities, especially in rural areas, but also in urban areas.

Thank you very much.

Mr. Joël Godin: Thank you, Ms. Campbell.

As you know, our current submarine fleet is reaching the end of its life.

Is there a plan to extend the use of those submarines or to acquire new ones over the next few years?

RAdm Patrick Finn: Thank you for the question.

You said that the submarines are at the end of their life, but that's not quite true. This may be a positive effect of an unfortunate situation, but at the very beginning of their life in Canada, the submarines went to sea less often than was suggested. So their hulls were not exposed to the pressures submarines experience in deep seas.

We now have much more data and knowledge on those submarines. In the plan, we are talking about 10 to 12 additional years for the time being. We are currently conducting studies to determine, based on the maintenance we are providing, to what extent we could prolong those submarines' lifespans.

For the time being, we are mainly trying to determine how much we could extend the lifespans of those submarines and increase their current capacity, considering the use we have made of them so far and the current circumstances. At the same time, given the changing military threat, we want to specify what other changes should be made to the submarines.

That is currently what our main effort is focused on. It could even help extend those submarines' lifespan to 2030, even beyond. It will then be up to the Royal Canadian Navy, the department and the government to come up with replacement plans.

• (1245)

Mr. Joël Godin: Thank you.

Thank you, Mr. Chair.

[English]

The Chair: Mr. Gerretsen, you have the floor.

Mr. Mark Gerretsen (Kingston and the Islands, Lib.): Mr. Chair, I'm going to turn my time over to Mr. Spengemann, who's going to ask a question.

Mr. Sven Spengemann: Thank you very much.

I'm going to ask a question that's a bit out of the box on the intersection of our defence sector, civilian shipbuilding, and civilian merchant and commercial marine enterprises and cargo.

Are there synergies? Are there overlaps? Does the revitalization of the Canadian navy and the framework we're considering this afternoon produce benefits on the civilian side or vice versa? If so, what are they with respect to technologies, navigation, communications, and interdiction of hostile behaviour potentially against civilian ships? More broadly, are there amplifications we could achieve?

RAdm Patrick Finn: I would say that in the evolution of specifications by which we build ships, if you went back a generation ago, the military specification would have been the highest standard. That's still true, I would say, for our front-line combatants. The way we will design and build the Canadian surface combatants, or were we to do submarines, will be around structures and capability that make them highly survivable. If they take damage, they will continue to operate.

The civilian standards around ships have continued to evolve and move forward. In this day and age, most ships are built to international classification societies. In fact, most of the ships we are building under the strategy for the Coast Guard, as well as for the navy—so parts of the Arctic offshore patrol ship, parts of the joint support ship—are actually built to civilian standards. They are sufficient and of very high quality.

As a result, the shipyards, ship designers, and equipment suppliers across Canada are all building skill sets across the marine industry that would also enable them to perform well in the commercial sector. It's highly competitive, and there's a lot of protectionism internationally, but there are certainly Canadian companies that are watching very closely, even Canadian fleet operators.

In the case of Seaspan, they are not only shipyards, but they also have a very large international fleet, and they have a very large fleet of auxiliary vessels that actually provide services to Vancouver harbour. There is an opportunity there. In fact, when we established the umbrella agreements, the expectation was that we are going to provide them this work, but we expect them to go out and to complete their order book by finding other work.

Both yards continue to do that in a number of areas. Of course, for Seaspan, it's across multiple yards, whether it's other parts of Seaspan they're working for or other suppliers. For example, they continue to do a significant amount of work, interestingly, for foreign-flagged cruise ships. They do massive refits in Victoria. It's really impressive to see. The idea is to continue to build on that.

Ms. Lisa Campbell: Let me just add that as Mr. Finn pointed out, a significant portion of Seaspan's work is commercial, and we expect that to continue. When I talked about us ensuring continuous work in the yard, that's partly Canada, but there are also expectations that the yard will look after that as well.

To the point about dual-use civilian and military applications, we actually think that's good for industry. We encourage it, and we try to permit it as much as possible. It's healthier for Canadian industry. We know that sustained funding over time allows the kind of R and D that has a direct impact on innovation and also increases the number of dual-use civilian and military applications.

Mr. Sven Spengemann: That's very helpful.

Thank you, Mr. Chair. That was my question.

The Chair: Ms. Watts, it's over to you.

Ms. Dianne L. Watts (South Surrey—White Rock, CPC): Thank you very much. I appreciate being at my first meeting here.

I come from the west coast, and am particularly interested in the status of the joint support ships project. I'm wondering if you could give us an update on that.

RAdm Patrick Finn: Regarding the joint support ships, the ships themselves are based on a mature German design, the Berlin-class ship. We have acquired that design and brought it into the yard where we have a combined workforce. I have some people in the yard, engineers and others, working with a significant workforce in the yard and beyond, who are now looking at the design. The thing about a design, if you will, is that the blueprints and the build design have to be produced to the yard that is actually building, because their processes will be slightly different and their flow will be slightly different. That work is under way.

We're about to let the next fairly significant design and production engineering contract, as we call it, of over \$200 million. Not only will it bring the design to a production-ready state, but we'll actually acquire all of the material and long lead items, as we call them, such that when we sign the build contract, there's no delay.

We're probably about 12 to 14 months away from the actual build contract, with the idea that in 2019 we start cutting steel. The idea is that the steel, the slow-speed diesel engines, and the systems are all there ready to be assembled. There's a fairly aggressive schedule to deliver the ships. The first ships would be delivered within about 36 months. We continue to be on track to deliver as planned.

• (1250)

Ms. Dianne L. Watts: The expectation to begin, I think, was around 2020-21.

RAdm Patrick Finn: I think we see both ships right now at about 2021, beginning of the year and end of the year. That will continue to refine as we do all the design work I talked about, but that would still be the view.

Ms. Dianne L. Watts: Within that whole program, have you looked at the job creation numbers in terms of what that looks like?

RAdm Patrick Finn: We have, collectively. Again, our colleagues at Innovation, Science and Economic Development Canada feed us those numbers, and they have. I just don't have them with me. I apologize.

Ms. Lisa Campbell: I would say that the yards have seen tremendous growth. That includes Seaspan shipyards, as I mentioned earlier. I was just out there, as was Mr. Finn. The recruitment that's going on in the Vancouver area is very impressive. They have a relationship with an aboriginal trade school and have been hiring at a rapid rate.

RAdm Patrick Finn: They were telling us last week that just in the yard, their shipbuilding workforce is now over 500, and engineers and procurement specialists beyond that. Of course, in that whole supply chain of systems and pipework and cable, it would be in the thousands. Again, I just don't have the numbers. I apologize.

Ms. Dianne L. Watts: No, that's fair enough.

In terms of using the German design, you're saying that you're working with the engineers. Are these local engineers or are they from Germany coming in to work collectively together?

RAdm Patrick Finn: These are local engineers. We do have a reach-back to the company, ThyssenKrupp Marine Systems. They have a Canadian division as well, and have actually hired in Canada. That's really to make sure that if we have any questions about interpretation of the design package or things that they have given us...but this is a Canadian workforce. Again, some maybe have come to Canada. I would say to you that this is the nature of shipbuilding internationally. When we built the frigates, we used to joke about everybody having a Scottish accent.

People with expertise who move around the world are coming to Canada, moving their families here, planting roots, because they actually see, as a result of the shipbuilding strategy, almost uniquely in the world, except perhaps for a couple of places, a long-term vision of shipbuilding. In fact the Australians and other allies have approached us to get us to come and explain the approach we've taken, the road we've taken, because they see opportunities for themselves as well.

Ms. Dianne L. Watts: Okay.

Quickly, when was the shipbuilding strategy was developed?

RAdm Patrick Finn: We started in 2008. We received Government of Canada approval in 2010 and issued the requests for proposal. In late 2012 we signed the umbrella agreements with the two yards. They then spent about 36 months each completely recapitalizing their facilities, impressively so. As Ms. Campbell said, if you have a chance to visit either yard, I would recommend that you do it.

It's really since 2015 that we've been building. Having been involved with it since the outset, I would say that a shortcoming, I often think, for myself, is in 2012 the effort we put into communicating that we weren't going to be starting to cut steel in a month. But the road we've been on at the shipyards, what they've achieved in three years of recapitalization, is very impressive. Irving Shipbuilding has the largest single building for shipbuilding in North America. It's highly impressive.

Ms. Dianne L. Watts: Thank you very much.

The Chair: Ms. Zahid.

Mrs. Salma Zahid (Scarborough Centre, Lib.): [*Inaudible—Editor*]

The Chair: Mr. Garrison, would you like the last question?

• (1255)

Mr. Randall Garrison: Yes, I would. Thank you very much.

I'd like to follow up on the joint supply ships. To get back to my floor and ceiling analogy, we have two coasts and we're only getting two supply ships. Obviously ships spend time in refit and maintenance, so really, we're still damaging our blue-water capability by having only two supply ships. Would you agree with me on that?

RAdm Patrick Finn: Again, I think it's a better question for Admiral Lloyd. He and I have talked about this. We had to prematurely, from the perspective of what we wanted to do, retire the two Preserver-class ships. We were at two, so we replaced capability by capability. I think time will tell. I think the admiral talked about how from a policy perspective we're still in the world of two with an option for a third. The question will really be, I think, for the navy and the department, what it is they want to invest in next.

Mr. Randall Garrison: Will the ship that's being refit to fill the gap be available to us after we have the two ships in place? There seem to be some timelines that cut off before that.

Ms. Lisa Campbell: Yes, because of an unforeseen need that arose, Canada did enter into a service contract, a lease, which is for refitting a ship at Chantier Davie so that it can provide these services and get us through to full operation of the two joint supply ships that, as Mr. Finn said, are both expected in 2021.

Mr. Randall Garrison: Perhaps I could slip in one more question here about apprenticeship. I'll be a little picky. Victoria shipyards is actually in Esquimalt, in my riding. We've talked a lot with the manager of the yards, who's very committed to getting non-traditional apprentices. I wonder if any of that is built into the contracting that's being done, such as hiring first nations apprentices, more women apprentices, more visible minorities in the apprenticeship programs. Is that one of the objectives in the contract?

Adm Patrick Finn: In all of these contracts, under the aegis of the defence procurement strategy that was announced a few years ago, we now have weighted and rated value propositions. As part of those value propositions, there will be aboriginal offsets and other things built in. Now, the bidders have to propose them, but generally they do, and they are there, but I would also say for all the shipyards across Canada, it's almost self-preservation, in the context of they need apprentices everywhere. I volunteered for a while with an organization that was looking at the traditional kinds of trades. It's self-preservation to actually bring in, I will say, more employment equity, more gender balance, more first nations. Without that, there will be great difficulty creating the workforce to carry this off. Again, both of the shipyards, Davie, as well, have worked very hard to bring in non-traditional people, and it's very exciting to go to either yard and see the people they've brought in to do the work.

Ms. Lisa Campbell: If I may add, they actually have formal programs to do this. I mentioned that Seaspans relationship with an aboriginal trade school has been hugely successful, and has stimulated their workforce. Irving shipyard has a women shipbuilders first program, which reaches out to female single parents, offers to train them over a period of time, with the end result that they have a valuable skill set. It's brilliant on their part because often the women have children in school and are invested in staying around for a while as well. As Mr. Finn said, it's a long-term investment.

Mr. Randall Garrison: It's something that seems to be working very well. I have the privilege of being in the shipyard a lot locally. When I first got elected in 2011, I asked the manager, and he said, "Yes, we have aboriginal people. I know both of them." We've moved a long way from that attitude, and I think it is also due to the way you're doing the contracting, so congratulations.

Ms. Lisa Campbell: Thank you.

The Chair: Thank you both for coming today, and thank you for your patience. I'm sure that we'll see you again.

Could I get a motion to adjourn, please?

The meeting is adjourned.

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