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Chair

Mr. Stephen Fuhr

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• (1530)

[English]

The Chair (Mr. Stephen Fuhr (Kelowna—Lake Country, Lib.)): I'd like to thank everyone for coming today. I'd like to welcome everyone back after our Christmas vacation and time in our ridings.

I'd like to welcome a couple of new people to the committee. Mr. Yves Robillard, thank you for your service and for being here. Leona Alleslev, thank you very much. Our new clerk of the committee is Elizabeth Kingston.

Today, we are here to continue our discussion of the Royal Canadian Navy and naval readiness. I'd like to welcome Davie shipyard and Federal Fleet Services. I believe Federal Fleet Services is going to go first.

You have seven minutes, and then we'll follow that up with Davie. If you'd like to introduce yourselves, you have the floor.

Mr. Spencer Fraser (Chief Executive Officer, Federal Fleet Services Inc.): Mr. Chair, I am Spencer Fraser. I'm the CEO of Federal Fleet Services.

If we can, we'd prefer if Davie goes first in our prepared comments.

The Chair: As you wish, you have the floor.

Mr. John Schmidt (Vice-President, Commercial, Federal Fleet Services Inc.): Thank you.

Mr. Chair and honourable members of the committee, my name is John Schmidt, vice-president of commercial with Federal Fleet Services. Thank you for giving us the opportunity to speak here today. It is a great honour to be before the committee.

Having spent over 30 years in government managing marine programs for DND, Transport Canada, the Canadian Coast Guard, and Public Works—where I finished as the director of marine procurement on the Halifax class modernization program—and then moving across, first to Irving Shipbuilding and then to Davie Shipbuilding, I've worked on various shipbuilding strategy concepts throughout their evolution.

The concept of building Canada's warships, Coast Guard vessels, and crown corporation ferries in Canada by Canadians has always, and rightly so, received all-party support and is reflected by our “build in Canada” shipbuilding policy for the federal fleet. When one considers that up to 50% of the shipbuilding costs are related to labour, it is easy to understand why any country would want to build its federal fleet domestically. Given that the labour rates in Canada

are similar to those in Europe, where shipbuilders export their naval vessels worldwide, there is absolutely no reason why we cannot do the same here in Canada.

Unfortunately, the current strategy requires adjustment, as it is lacking shipbuilding capacity. That is the source of the delays and cost overruns that we all see today. To date, we have retired four large federal vessels without a replacement, and many more vessels that are in service are operating well beyond their life expectancy.

First, I would like to explain how Canada ended up where we are today, for I do not believe that what we have today is what was originally envisaged during my period in the government—far from it.

In 2009, the Shipbuilding Association of Canada submitted a letter signed by all major shipyards in Canada, including Halifax and Vancouver, which made a clear recommendation to the former prime minister as to how industry could successfully deliver on federal fleet renewal. It was simple and made total sense: build large ships at the large shipyard, medium-sized ships at the medium-sized shipyard, and small ships at the small shipyard, and all shipyards would have to work together to deliver this plan. In other words, use all the capacity that we have, building ship sections at shipyards throughout the country to ensure that schedules and budgets can be met. A copy of that letter has been provided to you.

In 2010, during the bidding for the national shipbuilding procurement strategy, I was the director of government initiatives for Irving Shipbuilding. Early on in the process, there was much emphasis on shipyards working together to deliver the new fleet for Canada. It was all about collaboration and co-operation. In fact, Irving and Davie had previously signed a teaming agreement to ensure that there would be enough shipbuilding capacity to construct that fleet in Canada. Anyone who understands the size and capacity of Canada's main shipyards understands why that collaboration is needed. Davie single-handedly constitutes over half of all Canadian shipbuilding capacity today.

Ironically, the question going around the industry circles at that time was, would there be any work for any smaller shipyards, or would Davie just build everything? In reality, the renewal of the federal fleet in a timely manner will require the combined capacity of all major shipyards in every region of Canada. Fast-forward a year or so, and the industry experts were surprised to see that the advice from all of Canada's shipbuilders had seemingly fallen by the wayside.

Instead, what transpired was a process that was largely based on promises of future capability, whereby factors such as experience, existing infrastructure, labour availability, and schedule counted for less than 36%, one third of the entire NSPS bid evaluation. If you can believe it, the price of building ships was not even a consideration when determining which shipyard would do it. Of course, it doesn't cost the same to build ships at every yard in Canada—far from it. The cost of a ship varies exponentially depending on infrastructure, experience, skilled labour cost and availability, build methodology, and regional cost of living. That wasn't even evaluated.

With Davie bankrupt at the time of the shipbuilding competition, and with only a third of the evaluation criteria based on normal industry parameters, there was a very real chance that a shipyard or even a greenfield site that did not possess the experience of building large, highly complex military vessels might end up being tasked to do so.

The rest is history. The smaller shipyard ended up being earmarked to build the largest of the ships, and the largest shipyard, which still single-handedly constitutes over 50% of the entire Canadian shipbuilding capacity, would be left unused in a program now desperately lacking capacity. It's like leaving your top line on the bench in the finals in the Stanley Cup. Your probability of a successful outcome becomes severely diminished.

• (1535)

No one questions the fact that there was an open and independently evaluated competition, free of all political influence. What has never been assessed is whether the design of the competition, the evaluation criteria, if you will, has produced the solution to the problem, which is the successful renewal of our federal fleet. As I mentioned, only 36% of the evaluation criteria was based on previous experience, existing facilities, and so on.

What was the 74% based on? A full 24% was based on the shipyards' plans to upgrade their facilities. Each shipyard required different levels of upgrades, the least of which, of course, was Davie, which was already delivering and exporting some of the world's most complex vessels for the oil and gas market and had already been significantly upgraded to build Canada's frigates in the 1990s as well as ship sections for the U.S. Navy in the early 2000s.

Ten per cent was given for the shipyards' current financial situation, which didn't really matter much considering that those who won had the chance to negotiate billions of dollars of contracts.

Another 10% was for the value proposition for Canadian industry and economic development, and a full 20% was awarded for simply agreeing that any cost the shipyards incurred to prepare to build the stated classes of ships would come at no future cost to Canada. Let me repeat: at no cost to Canada.

All shipyards received the 20% in their bid evaluations by simply ticking the “no cost to Canada” box. However, subsequent to the award—and as is now public record—we know that the government agreed to directly fund post-bid capability shortfalls, which, critically, in a competition where less than 20% separated the three bids, has now delegitimized the entire process.

The clearest example of this was the opaquely termed horizontal engineering program plan, or HEPP, handed to Vancouver Shipyards. Frankly, it is quite incredible that a government website states, “Both large vessel shipyards proceeded with their plans for infrastructure modernization and capability improvements (at no cost to Canada)”. However, Marty Muldoon, assistant deputy minister and chief financial officer of the Department of Fisheries and Oceans, testified in 2014 during a parliamentary committee, talking about the new program HEPP, “It's called horizontal engineering program plan. Basically, what we're doing is investing in the shipyard's capability to get itself up to capacity, to start churning out vessels.”

That doesn't appear as “no cost to Canada” to me.

It is obvious that there are gaps that need to be filled. Why not fill them with capacity from other Canadian shipyards, rather than applying band-aids to programs that have yet to produce a single ship?

Back in Quebec people ask how it is possible that the government changed such a key tenet of the bid, post-award, something that would have altered the course for thousands of skilled shipbuilders, had they known then what they know today. I simply don't have an answer for them, other than to say to you that we need to add capacity to this program if we are to renew the federal fleet in a timely and cost-effective manner.

Thank you. I'll turn it over to Mr. Fraser.

• (1540)

Mr. Spencer Fraser: *Bonjour.* It's a great honour to speak before you today, and thank you for inviting us.

[*Translation*]

I would first like to take this opportunity to thank the Government of Canada for supporting our current export proposals, involving three countries, for the Resolve class supply ship. In addition, I wish to congratulate Public Services and Procurement Canada, PSPC, for its efforts to modernize Canada's government policies in the area of costs and profits.

I had the privilege of serving in the Royal Canadian Navy for 20 years. After my military career, I worked with an international high tech firm where I provided training solutions. As you can see, my experience led me to support military and maritime operations in Canadian and international environments, while promoting Canadian industry.

[English]

At around the same time as the fire on one of our last two remaining supply ships, HMCS *Protecteur*, in February 2014, I met for the first time with the new owners of Davie. When they said to me that they had come up with a solution to provide a fast-track full-capability supply ship for the navy, it certainly piqued my interest, but it also begged the question of why they were chasing this, since the navy was just about to receive its new supply ships.

This was 2014. Just a few months before, the media were reporting that shipbuilding capacity constraints on the west coast meant that Seaspan wouldn't be able to build both classes of large ships simultaneously. Those were the joint supply ships and the polar icebreaker. The government had just announced that it was going to schedule the joint support ships first. I remember this clearly because I actually told the Davie team at the time to forget about the navy and to focus on gaps with the Coast Guard.

Despite my best efforts during the summer of 2014, I really never received the answers to the questions I was posing about delivery schedules. All I really managed to ascertain simply raised more questions. This wasn't all that surprising, but it was somewhat troubling. I was here in Ottawa asking where the integrated delivery schedule was and when the ships for the entire federal fleet were going to be delivered. The simplest question was when would Canada receive its much needed ships.

The replacement of the *Protecteur* class AOR was ongoing when I started my military career in 1983. As you know, after several iterations and failed procurements, the final design was to adopt a proven—meaning already designed and built—off-the-shelf, low-risk solution: the German Berlin class, which I had actually had the chance to sail on.

It was an existing design that cost the Germans \$504 million to build. That was the sail-away price for FGS *Bonn* in 2013. They did it in a couple of years. The price and delivery time are in line with those for other similar ships and navies. The obvious question, which I've never managed to have answered and which has been the subject of much public discussion, is why the joint support ships will now cost close to \$2 billion, according to the parliamentary budget office. That's four times the price that Germany paid for the same ship. The cost should have been less because this was a proven design.

At around the same time, there were stories about other classes of ships in the NSPS that cost less than \$100 million to design and build in other countries, whereas it was costing nearly \$300 million in Canada just for their “design and definition” ships for which, again, the design already existed. Even if it hadn't existed, how can ships cost this much to design?

The Resolve class AOR that we're currently converting in Quebec City will deliver a full naval supply capability, and the total cost of design and engineering is less than \$30 million. As with house renovation, the cost of conversion is typically more complex and costly than is designing and engineering a ship or a house from a clean sheet.

Despite the surreal cost being quoted in the media, it was the optimistic and seemingly unrealistic schedules that surprised me the most. Here was the navy desperately waiting for these ships, and

from what I could ascertain, there were no ships in sight. The JSS program started in 2005, and the original delivery date for the first of four, which was subsequently reduced to three, planned vessels was 2012. Then under the second procurement attempt, the current NSPS strategy, the first ship was meant to be delivered in 2015, then 2017, then 2019.

Now, with further delays and despite prioritizing the build of these ships over that of the much needed polar icebreaker, we're talking about a delivery into the 2020s. From my calculations at the time, that still assumes the shipyards penned to build them can deliver them faster than could the five experienced German shipyards that teamed up to build the same design in 2013.

● (1545)

I now understand what Davie was saying all along, but no one really wanted to listen to them. Basically, they were saying that it's easy to build a shipyard, but to build large, complex ships, as the PBO and other groups have noted in their reports, is a whole other order of magnitude and challenge. That takes decades. As a senior industry veteran recently reminded me, even experienced shipyards get these kinds of projects wrong.

The shipping industry learned this difficult lesson when they ordered ships from greenfield shipyards in China during the height of the market in the last decade, great-looking shipyards that never ended up delivering a single ship. They simply didn't have the requisite knowledge, the mature systems, the simple experience, and most importantly, the skilled labour.

Aside from the schedule, some of the costs being discussed in the media were most alarming. Having been involved with shipbuilding in other developed shipbuilding countries, the numbers just seem totally incomprehensible, especially after I had spent more than a decade intimately involved with Canada's cost principles and profit policy.

I am heartened to know a review of those policies is under way as we speak, but let's just highlight that these policies in their current state incentivize suppliers to spend more and they even disincentivize these businesses from taking on other non-governmental work. Under sole-sourced contracts, if all the contracts a company has are from the Government of Canada, the Government of Canada pays the company's entire overhead, but if the company takes on other non-governmental work, that overhead is spread across other projects.

The effect of this is massive. First and most obviously, it can be extremely expensive for taxpayers. Even worse is that under the current NSPS the shipyards were earmarked before the profit margins were even negotiated. Though not binding, it leaves the government without leverage unless they are willing to walk away. This is yet to be seen. Second, you are disincentivizing shipyards from developing commercial opportunities. Third, you are not encouraging shipyards to become internationally competitive. All that means you are not working toward developing a sustainable shipbuilding industry.

With all these unanswered questions, I joined Federal Fleet Services and I'm proud to be delivering the most commercially innovative naval program that Canada has ever executed. It's a fast-tracked, privately financed, and cost-effective solution. We simply don't get paid a cent until we deliver and the price is fixed. It's an entirely new way of procuring ships whereby the contractor takes the entire risk of delivering the capability to the navy, a system that is scalable and can be adopted for all of Canada's auxiliary and non-combat fleet. As a respected expert in the defence procurement field recently told me, this is the SpaceX of naval shipbuilding.

Having heard all about the issues of the shipbuilding program, but then also being actively involved in negotiations with those who were managing, what is clear is that the problems do not lie in our civil service, which is often identified by the media. The dedication and professionalism of our civil service, particularly those within PSPC and the armed forces, is simply exemplary, especially if you've had an occasion, as I have, of working in 15 countries exporting products.

The reality is that these highly competent people are trying to make the best out of an impossible set of regulations. The current status requires certain clear political intervention. It needs reform, and if we don't see reform in our shipbuilding policy, our naval readiness will continue to be challenged.

Thank you. I'll hand it over to Mr. Vicefield.

Mr. Alex Vicefield (Chairman, Chantier Davie Canada Inc.): Thanks. Do I have time still? Hopefully.

The Chair: You do.

Mr. Alex Vicefield: Good.

Good afternoon. Thank you for having me here. I'm Alex Vicefield. I'm the chairman of Davie Shipbuilding.

I just wanted to start with a bit of history and background here. We arrived in Canada in 2012 after having been invited to invest in Canada's largest and highest-capacity shipyard. We'd looked at shipyards in Europe, but Davie was at the top of our list mainly because it had very good production equipment and it really only needed modernization of some of the information systems there. In 2015, we won the Lloyd's List North American shipyard of the year award, and we beat General Dynamics NASSCO, which was quite a feat for us.

What's impressed us the most from having visited dozens of shipyards worldwide and then coming to Davie was the pool of available and skilled shipbuilders in Quebec City and their obvious passion. When we arrived, just one year before, their hopes and

dreams had been shattered as they'd seemingly been excluded from all future government work. The consolation that would continue to be repeated to them, which was "Don't worry. Davie can compete to build small ships", really didn't cut it. For the people in the region who knew the shipyard, this was probably the greatest insult to them. Why would the largest shipyard in the country, the only shipyard actually experienced in and designed to build large ships, simultaneously build small ships? It doesn't build small ships.

This is a shipyard that is very highly regarded on an international scale. It's the only Canadian shipyard that actually exports large ships, and there aren't many shipyards that can boast of building over 700 ships.

If you haven't guessed, I'm from the U.K. where we've actually experienced the same kinds of problems that Canada is now facing. These problems are far from unheard of, but the root cause is now widely understood. In the U.K., they've just introduced what they call their national shipbuilding strategy, and while it may sound similar, it's actually the polar opposite of Canada's version. In fact, it is being implemented to fix the kinds of problems that Canada is now facing.

I'd like to congratulate, at this stage, the Canadian government and Minister Foote for paving the way to reform by bringing in Mr. Steve Brunton from the U.K. as their independent adviser. I'm sure he knows a lot about what happened there and how that can be fixed here, and I'm sure he'll address the committee at some point too.

The U.K.'s national shipbuilding strategy is being chaired by a businessman called Sir John Parker. It is all about ending the monopolies held by a couple of shipyards in order to create competition, spread shipbuilding work throughout the country, and develop an exportable and sustainable industry. That means creating an environment and strategy for shipyards to build a variety of both commercial vessels and naval vessels, and to develop designs that are actually exportable. This is something that countries in Europe like France, Italy, Germany, Spain, and Holland have actually gotten right.

Unfortunately, despite the best intentions, the resulting Canadian version of the national shipbuilding strategy is not a shipbuilding industrial strategy. It's proving to be just a procurement strategy or sourcing strategy, and it doesn't actually encompass the overarching strategy to build a sustainable industry where creating export opportunities is the angle. Without that, Canada is simply providing a medium-term, artificial economic stimulus that will certainly postpone a boom and bust cycle but doesn't eliminate it, and in fact, may well contribute to it.

What the U.K. study concluded was that this kind of arrangement results in an exclusive reliance on government work, which actually creates the boom and bust cycle and forces governments, of course, to pay through their noses for ships and subsidies.

Although the development of an industrial strategy is key to economic development, that is probably the least of the problems that Canada is now facing. The limited shipbuilding capacity in the current strategy is the single greatest threat to Canada's naval readiness. We are six years in now with the national shipbuilding procurement strategy and not a single ship has been built. Six years is not a teething problem or a growing pain; it is a failing grade for shipbuilding projects.

We must not accept the vague defence here that these complex vessels are the excuse. The vessels that have been contracted are not complex. They're small, commercially classified ships of an existing design.

I'll just come back to Quebec City for a bit. Our stakeholders and our people in the region continuously ask us the same question: why won't the government let us build ships if it just isn't working elsewhere? Thankfully, I don't have to answer the public on that, but I do have to answer to a furious 300,000-man-strong union. Despite employing 1,200 staff, there is still an equal number of francophone skilled shipbuilders in the region who are out of work. They see other provinces struggling to find workers and having to train them. The question is, what do I say to them?

I'll come to some of the problems that are raised by them.

● (1550)

The Coast Guard offshore fisheries science vessels were meant to be delivered in 2013, and now we're talking about 2018. It's very difficult to explain the situation to them when we just built a class of vessels that are three times the size and three times the complexity, and we did it in a shipyard that was bankrupt with fewer than 20 employees just a few years before.

Why, as Spencer said, is it costing \$2 billion to build the Berlin class AOR when Germany built it for \$504 million and we are now delivering a ship with equal capability for less than what the Germans spent? Also, the polar icebreaker program was started in 1985, and under the latest strategy, was meant to have been delivered in 2017 for \$720 million, and now we're talking about 2025 and a price of over \$1.3 billion.

Of course, we have the *Louis S. St-Laurent* returning now. The workers are asking us why we are again repairing and refitting a 1967-built icebreaker when we could just be building a new one. Our shipyard is geared to build these ships. It uniquely has the experience and the track record in building them, and we have the capacity to build them. You just can't answer these questions because there is no real answer.

All that said, 2016 was a brighter year for shipbuilding in Canada and for Davie in particular. The Resolve class AOR is 15% ahead of schedule, and we are now demonstrating by our actions, and not just words, why Canada is actually capable of competing on an international scale.

The government is taking decisive action now to deliver much-needed ships. At the end of last year the government issued a solicitation for a fleet of icebreakers, and last week we responded with a series of value propositions. If we get this right, this will allow Canada a more sustained presence in the north and bolster trade by

providing enhanced support for shipowners with better icebreaking capability in the south.

I think on the greater NSPS everyone seems to be gunning for their province, but this really can't be political. This is a simple situation. There is enough work here for everyone, and this has to be based on common sense and benefit the whole of Canada, especially the men and women of the armed forces, the Coast Guard, and of course, the Canadian taxpayer.

The fact of the matter here is that the government does have a free hand in reforming the shipbuilding strategy. It's normal; you think you have a great idea, it doesn't end up working out, and you go back to the drawing board. The umbrella agreements that form the basis of the NSPS are non-binding. We are not suggesting to cancel them and start again. What we are saying is that there is a need to do some fine tuning and to use the capacity that exists.

Going back to the U.K.'s national shipbuilding strategy, it's all about taking the monopoly away. It is about using all available shipbuilding capacity in a country and encouraging shipbuilders to consider the government work as just a baseline in order to develop other commercial opportunities, and therefore, a sustainable industry.

Going back to Germany again, when they built the same design as a joint support ship, they did it in only a couple of years and at a price that was 25% of what Canada is now projecting. The reason for that was that they built in blocks or ship sections at different shipyards throughout the country, actually a similar way to what the U.K. did with the aircraft carriers. That has expedited the delivery of the ships. It's spread the regional economic benefits. It's reduced the inflationary effects that the delays have had, and therefore, it has pulled the whole cost down. What's not to like?

That is why most shipbuilding countries actually do things like this. Even at Davie we have been producing ship sections, such as bow sections and aircraft elevators for the U.S. Navy, for many years. When we recently built and exported a class of offshore support vessels for Norway, we built the ship sections at five different shipyards and steel fabricators throughout Quebec.

That's our first recommendation: use all available capacity. There's enough work for everyone.

Our second recommendation would be to build a second Resolve class AOR and thereby allow for the polar icebreaker to be prioritized, while ensuring full naval readiness in the near term. With the Arctic becoming an ever more strategic area of operation, Canada really can't wait another decade for a polar icebreaker. At the same time, Canada must fast-track the interim icebreaker program, which is currently being solicited. The window is limited for securing a handful of the modern, powerful icebreakers that are currently available due to the downturn in the oil and gas industry. We must look at the facts and act on them.

Last, and by no means least, let's ensure that costs are fair and reasonable. Shipbuilding and domestic shipyards should be something that everyone is proud of, especially in what is one of the world's great maritime nations.

Thank you. I'd like to extend an invitation, to anyone who would like, to come to Davie if you're ever in Quebec City.

• (1555)

The Chair: Thank you for your testimony.

Just by way of keeping some sort of timing here, we're going to go into seven-minute questions. We've burned up a little bit more time than I was hoping to burn up, but it was important that we heard from you. Thank you for that.

Having said that, we'll open up the first seven-minute question with our new defence committee member, Mr. Robillard.

You have the floor.

[Translation]

Mr. Yves Robillard (Marc-Aurèle-Fortin, Lib.): Thank you, Mr. Chair.

Allow me to take a moment to tell you that it is a privilege for me to speak for the first time at this committee. As a former Canadian Air Force officer cadet, this opportunity to sit on the Standing Committee on National Defence is an honour and a responsibility I take most seriously.

That being said, my question is addressed to Mr. Vicefield.

Can you tell me how many Davie and Federal Fleet Services are currently working on the MV *Asterix* conversion project?

[English]

Mr. Alex Vicefield: I think that's pretty much for Spencer to answer.

• (1600)

[Translation]

Mr. Spencer Fraser: Thank you for the question, Mr. Robillard.

Currently, at the Lévis shipyard, there are approximately 550 people working directly on that project. The numbers vary from one month to the next according to the work being done. Since our firm, Federal Fleet Services, is going to begin its service for the Royal Canadian Navy in September, we are hiring personnel. We are hiring people who will make up the ship's crew. In September, there will be approximately 100 employees.

Mr. Yves Robillard: Mr. Vicefield, how is the conversion of the MV *Asterix* into an interim auxiliary oil replenishment ship progressing thus far at Davie? Can you give us an update on the status of the project?

[English]

Mr. Alex Vicefield: Yes, I can take that. It's very good, actually.

I think the interesting thing for us is that this is the first contract we've undertaken that is not a legacy project, i.e., it wasn't a project we took over when we bought the shipyard. It has allowed us to actually use our new systems. We have some very cutting-edge systems.

The project is running at 15% ahead of schedule. We're at about 68% complete. We're on track for delivering the ship in September of this year.

[Translation]

Mr. Yves Robillard: In your opinion, what are the challenges of converting an existing civilian ship into a naval vessel?

Have complications or delays been encountered since conversion work began in May 2016?

Mr. Spencer Fraser: It must be said that the systems installed onboard supply ships like the MV *Asterix* are proven systems. We work with a company from Toronto, Hepburn Engineering, which manufactures replenishment equipment. That company has been making systems of this type for 40 years for naval forces around the world. There are only four companies in the world that make this type of equipment.

I should add that a replenishment ship does not have weapons systems on board, or systems subject to technological evolution. These are systems that are well known. And so this is less complex than building a war ship.

[English]

Mr. Alex Vicefield: I'll add something there in terms of the question. It is nothing new to convert a commercial vessel. The U.K. has done it. The U.S. has done it. Australia has done it. It's innovative for Canada, and it's an innovative thing to convert to an AOR, but to actually convert a commercial vessel for naval use is nothing new.

To go back to the U.K., when they delivered HMS *Ocean* in the 1990s, it was one of the first naval vessels, let's say, that was actually built to commercial standards. That's something as well, I think. You can look at the U.S. naval programs such as the littoral combat ship, where it's not fully commercially classed but a lot of the equipment is actually commercial equipment that has been brought up to some sort of mil-spec.

Mr. Yves Robillard: Mr. Chair, I will share my time with Ms. Leona Alleslev.

The Chair: You have the floor.

Ms. Leona Alleslev (Aurora—Oak Ridges—Richmond Hill, Lib.): Thank you very much for coming.

How very interesting this is. I would like to go a bit deeper into the sort of structure you have around the project management. There is no question that we are concerned, not necessarily with your program but certainly with shipbuilding in general around cost, time, quality, deliverables, outcomes, etc.

I understand from what you've just said that you're ahead of schedule, but could you give us some more depth in terms of the controls, the integrated project planning, that you have perhaps at the entire facility, and how you're measuring against the outcomes, quality, time, cost, and budget?

Mr. Alex Vicefield: The first thing I'd say there is that this is not a typical new shipbuilding program. The interesting thing here, as Spencer has said, is that we take the entire risk of this program. The government doesn't pay us a dollar for the ship until we deliver it. We've privately financed the actual delivery of the ship, and then we will lease it to the government.

Ms. Leona Alleslev: Are there penalties, then, if you don't deliver it as available in September?

Mr. Alex Vicefield: Yes, there are. The contract states that the lease period would be reduced by the equivalent number of days to the days we would be late, but that's not happening. We're 15% ahead of schedule right now so it's not something we're considering.

If you look at the complexity of this conversion, it's not that complex. If you look at projects we've done in the past where we have built an entire ship or where we have converted a ship, such as in the gas market with a pipe-laying ship, for example, where you have a lot of systems on board the ship and those are all interdependent, where you have a big risk that if one system doesn't work the whole ship doesn't work. This is a ship where you're keeping the existing engines. You're literally taking out the container holds, and you're putting in tanks for fuel and accommodation.

It's a lot of work in terms of some of the parts, but there's no critical risk. It's not a situation where, come September, it's not going to work. It already works. It's already on the ship.

• (1605)

Ms. Leona Alleslev: Perfect.

You talked about capacity. Could you give us some feel for what your surplus capacity is at your shipyard?

Mr. Alex Vicefield: Absolutely. Davie can build seven ships at any one time. We're now building three.

The Chair: I had the feeling you had more to say there, but we can circle back on that if we have another opportunity.

I'm going to give the floor to Ms. Gallant.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Mr. Vicefield, you mentioned the success of the U.K. procurement, with the U.K. shipbuilding. No...?

Mr. Alex Vicefield: It has not been good in the U.K. A businessman called Sir John Parker came from industries like Airbus. He was on the board of Airbus. He has looked at how shipbuilding has worked, and how monopolies have been created there, and how that's not developing a sustainable industry with exports and so on.

The new national shipbuilding strategy in the U.K. is there to fix what was a very bad situation.

Mrs. Cheryl Gallant: When you have a successful strategy, for example in Denmark. They have a system that works on budget and on time. Is there a single project manager, an individual, in such successful strategies who sees a project from beginning to end, or is it just given to these amorphous entities of government to interact with one another, and nobody's really taking responsibility for anything and 20 years down the road you have nothing to show for it?

Mr. Alex Vicefield: Coming from the commercial shipbuilding and commercial marine industry, we're used to very lean projects. When I came to Canada, I came from that side. Everything was about doing something fast and cheap, but still very specialized and very high quality because I came from the oil and gas market, which is even more complex on many occasions than naval vessels.

I think the difference there is that you build thousands of those vessels whereas perhaps you don't build as many naval vessels, so in the government or in the parties who are supervising it, you probably don't get that level of experience, potentially.

Maybe Spencer could add some more.

Mr. Spencer Fraser: What's unique on this project is that when we started down the path of delivery this.... Quite frankly, the *Protecteur* caught fire in February and then in June of that year *Preserver* was deemed incapable of going back to sea due to rust out. When we proposed a fast-track solution, we did not specifically want to have layer upon layer of bureaucratic resistance.

In my comments, I made the point about how in a lot of the rules we looked at we had to say, "This isn't really adding to success. Why are we doing it? What is this policy guidance on a specific item?" What we settled on was a provision of service. To your point about what our penalty is, we don't get paid and our financiers who are funding the project are not going to be happy if we're late.

We do have a very lean, very innovative.... We've avoided the Frankenstein requirement. If we say it has to have monitoring machines that are not mil-spec, so they can submit to a nuclear blast, we try to bring over, as much as we can, the oil and gas expertise and people who get things done quickly.

What's important to point out, though, is that we have a really good model here. Right now my team of 10 people run the whole project. In the shipyard, there's a management team of about 30 or 40 engineers who are doing the production engineering and the kind of program management you talked about. There's one project manager in charge.

The government has a third-party assessor who comes into the yard once a month and has unfettered access to look at how things are moving, and then we get feedback. We have a quasi-governance group where we talk about any problems we're leading into. Touch wood, right now, as Mr. Vicefield said, we're ahead of schedule.

• (1610)

Mr. Alex Vicefield: I think when we started this project we said that the navy needs a ship and it's urgent; you have no supply ships. You want us to do this and we're going to do it quickly, in a lean manner, fast, and we're going to give you all the military systems you want, to have full interoperability with the fleet.

To come back to that point about how shipyards become efficient and how shipbuilding projects actually do end up working, you just have to look at some of the shipbuilding projects in Europe. As I've said, you have five different shipyards in Germany and each shipyard is building super blocks, big blocks, which are all taken to one shipyard. The blocks are fully outfitted with all the piping and electrical systems in them already. They get slotted together, and quickly. Speed is the biggest killer for any shipbuilding project. The longer a project takes, the more inflation gets added to it. They can go exponentially out of control, as you see in Canada.

Mrs. Cheryl Gallant: Mr. Vicefield, you described the national shipbuilding strategy as a prolonged procurement as opposed to eventually a commercialization. What would be the missing ingredient, the missing aspect that just isn't in our national shipbuilding strategy, to convert it from being just successive procurement to something that can be ongoing?

Mr. Alex Vicefield: It's capacity. It's lacking capacity. There's this very limited capacity in the current framework. I honestly don't think that when someone.... Actually, having heard from people in the past, I know that when the federal fleet renewal was being discussed at the very outset, no one ever envisaged not having Davie shipyard in there. It's the only shipyard of a large scale in Canada. I think that to end up in a situation where they weren't involved led to the kind of problems you experience today.

Mrs. Cheryl Gallant: Mr. Fraser, would you explain more fully what the relationship is between your company and Davie shipyard?

Mr. Spencer Fraser: In shipping worldwide, vessels typically are a single-purpose company. That's done for a variety of reasons—the traditional history—so Federal Fleet Services is actually a company that is completely independent from Davie shipbuilding.

We've given a conversion order, just as any two legal entities would, for the conversion of the vessel. Then I have a whole other side of the company that's doing the crewing and ramping up in terms of Mr. Robillard's question as to the ramping up of that service.

We are under the Inoce group of companies, of which Mr. Vicefield is the chair. We're sister companies, but that's the extent of it. I report to a different board. There's a contractual relationship between us and Davie.

Mrs. Cheryl Gallant: Okay. You'll have the crew, and there will be military on board when you're doing one of your refuellings.

Mr. Spencer Fraser: Yes.

Mrs. Cheryl Gallant: Who's in charge, military or civilian?

Mr. Spencer Fraser: This type of activity is not unique.

The Chair: You have about 15 seconds.

Mr. Spencer Fraser: There are several precedents for this type of activity, such as the combined air training or combat air training systems program.

Mr. Alex Vicefield: Perhaps I could interrupt there.

Mr. Spencer Fraser: Go ahead.

Mr. Alex Vicefield: In essence, the ship will be crewed, steered, and the engines maintained, and so on, by the Federal Fleet Services team. The navy will do all the deck operations and so on. That's the simple answer.

Mrs. Cheryl Gallant: Thank you.

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

Mr. Randall Garrison (Esquimalt—Saanich—Sooke, NDP): Thank you very much, Mr. Chair.

Welcome back, everybody, after what I call the “winter break”.

Welcome to the two new members of the committee. It's good to see both of you here.

Thank you, witnesses, for your presentation, although I have to say, as someone who represents the west coast, that I think what you've presented is somewhat problematic for me. I guess I would say that there are some who, at best, would describe your presentation as an attempt to reopen the bidding in the last shipbuilding strategy. At worst, some would call it sour grapes.

My real question here, I guess, is that you seem to have implied that somehow those who won the contracts aren't doing their jobs. I wonder whether that's more a function of the administration of the shipbuilding strategy and the changes that have been made in the shipbuilding strategy, such as, for instance, changing the design for the supply ship from a ground-up to an off-the-shelf design. I mean, these are decisions that have been made not by the people who bid on the contracts, but by the Canadian government.

The implication on the west coast is that Seaspan is not doing anything. They're certainly already constructing ships for Fisheries and Oceans, and they'll be laying steel for the supply ship sometime later this year, but they had to wait for the design. You can't lay steel for ships until you have a design.

I guess that's my first question. You somehow seem to be arguing that it's the fault of the shipyard that we don't have any ships in the water yet, when I would say that perhaps that's due to changes the Canadian government made, particularly the last government, in constantly changing the playing field.

• (1615)

Mr. Alex Vicefield: If you're talking about Seaspan in particular, I think they build very good tugboats and very good barges, but going from that to building.... I think they can develop into building good small vessels for the Coast Guard, as was originally envisaged in the letter that I think you have.

Do you have the letter?

Mr. Randall Garrison: Yes.

Mr. Alex Vicefield: Going from that to building 180-metre naval auxiliary vessels is a tough one.

Mr. Randall Garrison: I will resist going down that road any further, I guess. Certainly the facility in Victoria works on some of the largest cruise ships in the world. They work on very large ships.

Mr. Alex Vicefield: Repairing ships is a different game.

Mr. Randall Garrison: Well, let's try not to go there.

The second thing you suggested was that somehow you could—

Mr. Alex Vicefield: How many blocks is the joint support ship being built in at Seaspan?

Mr. Randall Garrison: I'm not going down this road with you, as I just said.

Another thing you suggested was that somehow you can take the contract for the second supply ship, rip it out of the existing contracts, and give it to you—

Mr. Alex Vicefield: No.

Mr. Randall Garrison: You said you're assigned to build by Davie.

Mr. Alex Vicefield: No, we weren't proposing that. What we were saying was that now that they have a formula to fill this urgent need for the naval supply ships, you could go back to the decision that was made by the previous government in 2013, where they prioritized the naval supply ships over the polar icebreaker, and you could build the polar icebreaker first. We could build a second Resolve to see us through to a point, and if you still want to do the joint support ship later on—

Mr. Randall Garrison: But there's a company that already has a contract to do that work.

Mr. Alex Vicefield: To do what, sorry?

Mr. Randall Garrison: To build a second supply ship.

Mr. Alex Vicefield: Which one?

Mr. Randall Garrison: That's part of the package that Seaspan bid on.

Mr. Alex Vicefield: But we've just been contracted by the government to do it.

Mr. Spencer Fraser: To be clear, there's no attempt here to interfere with the work that Seaspan has received under the letter of interest or the umbrella agreement. That's not the intent here. The intent is to say that right now the system is not producing.

In Emerson's report last year, chapter 10 says that the ships are rusting out faster than the capacity that's currently contracted by the Government of Canada to replace these ships. This applies to ferries, this applies to icebreakers, and this applies to warships. The Canadian government will unfortunately be faced with a situation where it will have to buy ships overseas and bring them to Canada, thereby not filling a lot of middle-class jobs. A lot of people will not receive jobs because of a planning issue.

Mr. Garrison, I know where you're going, and we're not trying to.... I think Mr. Vicefield's point was that circumstances have changed in the last seven years since this was started. Maybe it's worthwhile saying, for the cost savings and for the time savings and in view of what's happening in the Arctic, that we do not want to take any work away from Seaspan. Maybe give them the icebreaker to build, the *Diefenbaker*, get that going first, have us finish a second Resolve so that we can cover off the navy's requirements, and then have them finish the JSS after that.

I mean, we're talking about 10-year projects here, but to believe that we'll have an Arctic icebreaker in the next 10 years.... Find me an international expert who'd be willing to put his name to that. Meanwhile, the Russians are building 11 icebreakers, of which seven, I think, are nuclear.

We're not trying to business-interfere. That's not our intent. Our whole message is that there's capacity. We're working with a lot of companies and we're getting a lot of our product source from the west coast, so we're bringing jobs. We have a pan-Canadian team. We're just trying to say that the current capacity is not producing the ships. We want to help the Government of Canada produce ships and bring jobs to Canada.

I will point out that I mentioned in French when I started my comments—I don't know if all of you had simultaneous translation going on—that we're very thankful in terms of the Government of Canada right now, because we actually have three allied nations looking at the Resolve class. We can compete on price point and on capability, and they want Canadian-quality products. Our tier-one suppliers across Canada are fantastic. Foreigners are now coming to Canada, looking at Davie shipbuilding and Federal Fleet Services, and saying, "We love your model. We can't believe it. We'd like to get some of that."

Is that happening elsewhere? I don't believe it is.

We're not here to castigate. We're trying to say that we have a good thing going. Mr. Vicefield talked about 1,200 workers today.

[Translation]

Mr. Robillard, there are 2,000 other people who are waiting for a job at the shipyard.

[English]

We're ready to go. There are no infrastructure changes required here. We're ready to go.

• (1620)

The Chair: Thank you.

I'll turn the floor over to Ms. Alleslev for seven minutes.

Ms. Leona Alleslev: Thank you very much.

I'd like to go back to that capacity question. I understand that the *Louis S. St-Laurent* was a bit delayed getting in. I'm interested in understanding why, and how that is or is not affecting your surplus capacity.

You also bid on the most recent project. How much capacity will that take, and if you were to be successful, what would that leave? Give us an idea of what type of surplus capacity we're actually looking at and the capability that goes with that.

Mr. Alex Vicefield: In terms of the *Louis S. St-Laurent*, I'd probably defer to John on that.

When you say it came in late, do you mean it came into the shipyard late? It's not there yet. I think it arrives in a few weeks.

Mr. John Schmidt: She arrives in the middle of February. She had to be redeployed for a little bit longer period in the St. Lawrence, so she was delayed getting to the shipyard.

Ms. Leona Alleslev: That was no result of Davie's capacity...?

Mr. Alex Vicefield: She has not arrived yet, no.

Ms. Leona Alleslev: No, but the reason you couldn't take it in was that you already had the other ship.

Mr. Alex Vicefield: No. This is a big shipyard, even by international standards. I would say it's probably the third- or fourth-largest shipyard in North America. It is a very big yard.

In terms of spare capacity, first of all, we're not restricted by labour availability. As Spencer was saying in French, we have 1,200 workers at the moment. We have CVs from another 2,700 people, and about 1,000 of those are actually skilled shipbuilders who are ready to work, people who have 10, 20, 30 years of actual shipbuilding experience.

In terms of capacity, we have two slipways that could be used. We have half a dry dock and a whole other dry dock. If we took on this program to do the conversion of some of these icebreakers, the ones we're proposing to buy out of the oil and gas market, we would still have capacity for new builds, because we have the construction slipways. If you came to the yard, I'd be happy to show you exactly what I mean. It's a bit hard to do here. There is also subcontracting, as John said.

Through this program, we just delivered these two vessels for export to Norway, these very large 130-metre subsea construction vessels. For that, we used six different shipyards and metal fabricators throughout Quebec, as we were proposing for the NSPS. The blocks are built in the different yards and you have them brought by barge, by road, or by rail to the shipyard, and then you put them together there. That's something that everyone should really be doing.

Ms. Leona Alleslev: Can you give us a feel for the balance between government work and commercial work in your shipyard?

Mr. Alex Vicefield: Do you mean in terms of federal government or provincial government? In terms of federal government, I'd say now it's about fifty-fifty. When we first came to the shipyard, it was 100% commercial for the first two years and then we started doing the Coast Guard. We've done five Coast Guard icebreaker programs now, so we've transitioned more.

When we first came to the shipyard, the oil and gas market was still strong. That's really fallen away of course.

The market for Canadian shipyards, aside from building government vessels, is really ferries—that's a big one—and the oil and gas market.

Ms. Leona Alleslev: So you're saying it's about fifty-fifty government and commercial.

Mr. Alex Vicefield: At the moment we're building two LNG-fuelled ferries as well.

Ms. Leona Alleslev: Okay.

Could you give us a feel for cost structure or viability or profitability differentials between the two, to understand where we are in a competitive field?

Mr. Alex Vicefield: Do you mean where the federal government...?

Ms. Leona Alleslev: I mean between the government and commercial operations.

Mr. Alex Vicefield: I think you can talk to Spencer about profit a bit.

Ms. Leona Alleslev: Obviously I mean without giving us any of your secrets, but how do the two compare?

Mr. Spencer Fraser: When the Government of Canada chooses to sole-source....

Very quickly, there were two controversies during the First World War. There was a conscription crisis and war profiteering. Canada has a tool box to ensure that there is no profiteering and that costs are very well controlled. I mentioned in my talk that Public Works is currently reviewing the cost and the profit policies. Costs are assessed. There's very little wrong with the cost policy in Canada. A whole group of auditors come in and they assess your costs and they tell you what they are.

Then there's the whole discussion around profit. The U.K. has said that when there is a thin market, you have to have directed contracts or sole-source contracts. Many years ago, the U.K., separate from the points Alex was making, said it needed someone with business acumen to be sitting there looking at—

● (1625)

Ms. Leona Alleslev: This is a sole-source contract and it's a lease, and it's very difficult to get a competitive analysis to determine whether or not we're getting fair market value for a lease. All I was wondering was really if you had a preference or if there was any kind of economic structure that allows you or incentivizes you to prefer commercial work over government work, or government work depending on a cost structure, as in this case, where you've taken all the risk and therefore are in a position to dictate the lease costs.

Mr. Spencer Fraser: My point, which I think is along the lines of what you're asking—and this is the critical item that gets lost in all of our discussions of procurement, the fundamental criticality of the cost and profit policy—is that our profit for the lease that we negotiated with the Government of Canada is within what the Government of Canada policy requires. The challenge you have—and I think this is where you're going with your questions—is that if you're a shipyard doing only government work, all the overhead of that project get put onto that one naval ship. It's very simple math that if you bring a second ship in that's not a government contract, half the overhead of the yard get assigned to that ship, so you're disincentivized from bringing in any commercial work when you have 100% government work. We're not set up that way. We don't have an umbrella agreement giving us 30 years' worth of work.

The last point I would make is that the risk you have for profit should correspond to how much risk you're taking on commercially. If someone tells you that you have 30 years' worth of work and there are billions of dollars.... Under the profit policy in Canada, the Government of Canada can give you only 1% to 7% profit, so the question is this. If it's above that in terms of contractual risk, are we following those policies? I would suggest that's something that has to be looked into. That's something the Auditor General has commented on.

Ms. Leona Alleslev: Thank you very much.

The Chair: Thank you for that. I'm going to go to five-minute questions now. Leading that will be Mark Gerretsen.

You have the floor.

Mr. Mark Gerretsen (Kingston and the Islands, Lib.): Thank you very much, Mr. Chair.

I want to explore and understand Davie a little bit better. I have a couple of questions on that. I understand that Davie bid on the national shipbuilding strategy to be considered a centre of excellence, and I know that Mr. Fraser recently responded, in answer to a question, that there are about 515 employees.

Is that about right?

Mr. Alex Vicefield: There are about 1,200 employees.

Mr. Mark Gerretsen: My apologies.

Mr. Spencer Fraser: That was just on our project specifically.

Mr. Mark Gerretsen: Thank you.

Can you comment as to what the state of the company was when you made that bid and how many employees you may have had at that time?

Mr. Alex Vicefield: That wasn't us. In 2009, just after this letter was sent out, Davie went into bankruptcy. There were about 20 people in the shipyard at that time. It was just sort of being maintained. There was no activity there. I don't know the specifics, because it was before our time, but it was revived at the very last minute to try to put in a bid out of bankruptcy.

Mr. Mark Gerretsen: Explain “our time”. You said, “it was before our time.”

Mr. Alex Vicefield: We bought the shipyard in 2012. We weren't here in Canada before then. John, at the time, was working for Irving and—

Mr. Mark Gerretsen: You bought the goodwill of the company, I imagine.

Mr. Alex Vicefield: We bought the company.

Mr. Mark Gerretsen: And you bought the goodwill or lack thereof that goes along with that.

Mr. Alex Vicefield: I don't know. What do you mean by that?

Mr. Mark Gerretsen: You bought the company.

Mr. Alex Vicefield: We bought the company in 2012.

Mr. Mark Gerretsen: In a press release, you called yourself a “centre-of-excellence for federal government ship repair and maintenance”. I'm curious as to how you arrived at that title, because I know that the government had designated both Vancouver and Halifax shipyards as centres of excellence, but I hadn't heard that Davie had been given that same title by the government. I'm curious as to how Davie arrived at that title.

Mr. Alex Vicefield: We were considering ourselves a centre of excellence because this would be the fifth program in which we had refitted and upgraded one of the heaviest icebreakers for the Canadian government, so we became a centre of excellence in that.

In terms of the actual question, I think the government, under the NSPS umbrella agreement, which is this non-binding framework agreement by which it can negotiate contracts with these two shipyards.... I've lost my train of thought. That doesn't include ship repair. That's only for shipbuilding projects, so all ship repair in-service support for the future naval fleet and for the existing naval fleet will be publicly competed and openly competed.

• (1630)

Mr. Mark Gerretsen: Okay. In the same press release, Davie noted that it has the highest capacity and is the most experienced shipyard.

Can you explain the metrics for how you came to state that?

Mr. Alex Vicefield: In terms of capacity, it's quite evident just in terms of size. You can analyze that based on steel production capability or ship-berthing infrastructure.

Sorry, what was the second part?

Mr. Mark Gerretsen: I'm just curious, in making the claim that you're the highest-capacity and most experienced shipyard, how you —

Mr. Alex Vicefield: In terms of being the most experienced, if you look at Davie, it's the only shipyard in Canada that's still around today that's actually built warships. It's built over 700 vessels. It's built large warships.

Mr. Mark Gerretsen: Is it safe to say that's how you came to that claim?

Mr. Alex Vicefield: It's built more ships than a lot of shipyards around the world.

Mr. Mark Gerretsen: Okay.

I have just one more question on safety. You can appreciate that the government finds that to be paramount, as would all Canadians, and I'm sure you would agree. I understand that Davie recently offered to provide the federal government, through an unsolicited bid, this supply ship to carry oil. Oil normally is carried by a double hull ship. This ship is not a double hull ship.

Mr. Alex Vicefield: Oh, it's double hull.

Mr. Mark Gerretsen: Is it? Okay.

Mr. Alex Vicefield: You don't build non-double hull tankers anymore.

Mr. Mark Gerretsen: You did not request the federal government to exempt the ship from a double hull requirement.

Mr. Alex Vicefield: Absolutely not a chance, no.

Mr. Mark Gerretsen: Okay.

Thank you, Mr. Chair.

The Chair: I'll turn the floor over to Mr. Paul-Hus.

[*Translation*]

Mr. Pierre Paul-Hus (Charlesbourg—Haute-Saint-Charles, CPC): Thank you, Mr. Chair.

Good afternoon everyone. Since I am a member from Quebec, I have been familiar with the Davie shipyard for a long time. I also worked in Lévis for a long time.

There have been more difficult years for the shipyard, but I think that for several years now, since the acquisition, things have been going very well, and everything is in place for what is going to be done.

There is a lot of talk about the National Shipbuilding Strategy. The process was created to facilitate management and remove the political aspect from the files, so that shipyards would function better. But there are still some issues. I don't remember whether it was Mr. Fraser or Mr. Vicefield who said that everything was going well with the civil service.

If the political aspect has been removed through the strategy and if everything is going well with the civil service, can you tell me what the issue is, currently?

Mr. Spencer Fraser: Thank you for the question.

This is what I want to say. Mr. Gerretsen mentioned earlier that when public servants change their minds or viewpoints, things happen and problems arise.

Personally, I do not approve of the concept behind this manoeuvre. I know what is going on, which is that people are responding to political demands. In my opinion this takes us back to the notion of capacity. In his chapter 10, Mr. Emerson clearly says that capacity is insufficient. The Canadian Coast Guard fleets are rusting out and will not be replaced in time.

We are not here to attack our colleagues from the west coast, but to let it be known that we have the necessary capacity and that we

are willing to propose solutions to the government. It is up to the government to decide whether it wants to wait 10, 15 or 20 years before applying solutions that could be applied immediately.

Mr. Pierre Paul-Hus: Are you implying that the political sector is still involved?

The political decision consists in determining whether we invest and whether we have the billions of dollars needed to do so. From the moment when the government gives the go-ahead, everything should unfold according to the strategy.

Do we agree on that?

[*English*]

Mr. Alex Vicefield: I think it's the reform that's needed now. That's where politicians need to play a role, in actually reforming it and acknowledging that it has issues.

As Spencer and I have both said, we've had a fantastic experience with the civil service, with the guys at Public Services and Procurement Canada now, in the award of the contract and work on the contract, but I think there is still this leftover of people who are gripping to the policies of yesteryear when they are proven not to work. They're still holding strong onto that and saying, "You know, our policy was good from the beginning."

I don't think it needs to be like that. Things do change. You have a new situation in the Canadian shipbuilding industry today, and the program needs to take account of that.

• (1635)

[*Translation*]

Mr. Pierre Paul-Hus: Very well.

My next question is not about the government context. Canadian shipyards have a lot of trouble obtaining foreign contracts.

Could you explain to me why Canada cannot obtain contracts from the private sector abroad, or military contracts from other countries? Why must we always depend on the Canadian government?

Mr. Spencer Fraser: Thank you for the question.

On this I can speak to our current situation. I thanked the Government of Canada because it is helping us at this time. Indeed, three allied countries are considering our ships. We're not talking here about a 5- or 10-year horizon. We are producing a vessel at a competitive price, as compared to those produced by other countries.

In my previous position I exported Canadian high-tech products to 15 countries. We won everywhere. We are approaching what we want to do here in Canada with the same vigor.

Earlier, I spoke of

[*English*]

the costing and profit policy.

[*Translation*]

If the government does not resolve this, shipyards that only execute government contracts will never be competitive internationally.

Take, for instance, an icebreaker that costs \$1.7 billion, but can be purchased for \$700 million in Europe.

Mr. Pierre Paul-Hus: Fine. Thank you.

[English]

The Chair: Thank you for that answer.

Mr. Fisher, you have the floor.

Mr. Darren Fisher (Dartmouth—Cole Harbour, Lib.): Thank you very much, Mr. Chair.

Thank you, gentlemen, for being here.

My riding is Dartmouth—Cole Harbour, so I was fortunate enough to see steel being cut in Dartmouth, and across the harbour, get a chance to visit the assembly hall at the Irving shipyards a couple of times, once with the Prime Minister and once with some local politicians.

It seems like the oil-replenishing vessel is a success. It seems like this is a stopgap sole-source contract success. I'm happy to hear that you're 15% ahead of schedule, and it sounds like you're on budget.

Can you tell me a bit about what other contracts Davie has under the shipbuilding umbrella, whether it be repairs or service? What else are you doing for the Government of Canada under the shipbuilding contract? Is that the only thing?

Mr. Alex Vicefield: We're not doing anything under the national shipbuilding procurement strategy.

Mr. Darren Fisher: Is that right? Okay.

Mr. Alex Vicefield: This is something that's a common myth, I think. The national shipbuilding procurement strategy is based on two contracts: one contract to Irving Shipbuilding and one to Vancouver Shipyards. Those are called umbrella agreements. Those umbrella agreements, as we've said before, are sort of non-binding letters of interest to say, "We're going to negotiate with you to build ships, but we're going to do it on a piece-by-piece basis and the government isn't obliged to build anything, any number of vessels." Those umbrella agreements are actually restricted to a certain number and type of vessels, which are listed in annex A of those umbrella agreements.

Mr. Darren Fisher: The vessel we're talking about that you're supplying now is under this shipbuilding strategy, correct?

Mr. Alex Vicefield: No, it's not. It was outside of the shipbuilding strategy.

Mr. Darren Fisher: Oh, it's separate? Is that right? Okay.

Tell me about the inspectors who routinely go to the yard to check on the progress of the contract we have with your company or all companies. I understand that there was a delay of several months when the shipyard didn't let the inspectors in to check on the....

Mr. Alex Vicefield: That's the first we've heard of that. Where did you hear that from?

Mr. Darren Fisher: I just heard it.

Voices: Oh, oh!

Mr. Alex Vicefield: I'd like to know where you heard that. That would be interesting.

Mr. Darren Fisher: It's not the case?

Mr. Alex Vicefield: It's absolutely not the case, no.

Mr. Spencer Fraser: I think what's germane to the discussion is that during the negotiation, which lasted almost four and a half months, the Government of Canada employed five third-party external auditors to audit what we were proposing to the Government of Canada to fill this urgent operational requirement.

There was KPMG, which reviewed the financial model to make sure it was fair and reasonable. We had Aon, I believe, do the insurance. We had FMI International look at the shipbuilding capacity. Norton Rose looked at the contractual arrangements to make sure the Government of Canada wasn't getting itself into.... I would challenge anyone to find another project that has been under that many external reviews simultaneously. It was a very thorough process.

● (1640)

Mr. Darren Fisher: I don't think I need my entire five minutes, Mr. Chair, but I did think that Davie was under the shipbuilding contract with this particular ship as a stopgap.

Mr. Alex Vicefield: No. This was a fix to the national shipbuilding strategy.

Mr. Darren Fisher: Okay. Thank you, Mr. Chair.

The Chair: We have about one minute or a minute and a half.

Is there another quick one from that side?

Mr. Bezan, you have the floor.

Mr. James Bezan (Selkirk—Interlake—Eastman, CPC): Thank you, Mr. Chair.

I want to thank our witnesses for taking time out of their busy schedules to help us with our study.

I want to also thank you for bringing forward your unsolicited proposal on the Resolve class oil replenisher. I think that showed courage, but it also gave us an opportunity to look at where there were some gaps when we were in government and to fill them, and I'm glad cabinet supported that. Personally, I do think what you're proposing here today, which is to go with a second Resolve class to allow us to get caught up at Seaspan with some of the other ships, may be something that the government should look at. Again, put it in writing and sit down with the ministers that are affected. I think that's a good way to go.

You make a good argument as well about the capacity and trying to maximize what we have here in Canada to expedite some of these projects that are lagging. Is there anything under the national shipbuilding strategy that's in place right now with Irving or Seaspan that prohibits them from actually farming out some of that work to Davie?

Mr. Alex Vicefield: The simple answer is no. I will tell you that when we first arrived in Canada, we did have communications with both of the shipyards, and from the outset there was a reluctance to go that route. That was an offer specifically for the polar icebreaker that we had made to your friends on the west coast.

Mr. James Bezan: You mentioned that in the U.K., since all ships are built in blocks now, some of these blocks could be built in Davie

Mr. Alex Vicefield: Absolutely.

Mr. James Bezan: —or even at other shipyards, and be moved in for final assembly.

Mr. Alex Vicefield: That's the way to speed up the programs, to save money for the taxpayers, and to get these ships built for the armed forces.

Mr. James Bezan: Does Davie have the opportunity to bid on the maintenance and life-cycle programs that are required on the upcoming surface combatants as well as the current one that's out with the Arctic offshore patrol vessels?

Mr. Alex Vicefield: Yes, they do, for every naval and Coast Guard ship repair and maintenance contract. Those are excluded from the NSPS and will be competed amongst all Canadian shipyards.

Mr. James Bezan: Good. I'm glad to know that.

In some of the testimony we've had at committee, looking at the future needs of the Royal Canadian Navy, there are concerns about the current state of the Victoria class submarines, and where we go with new submarines, whether we build them offshore or whether we can build them here. On the surface combatants, are we looking at some sort of hybrid destroyer-frigate ship, or are we actually just going to build beefier frigates? Does that still address the aerial threats that our navy's going to be taking at sea?

Right now in the national shipbuilding strategy there isn't anything for destroyers. Is there that possibility, or have you guys, both your companies, looked at whether or not there are other capacity and capability questions surrounding the Royal Canadian Navy that Davie could address?

Mr. Alex Vicefield: Davie built all of Canada's existing destroyers. The frigates were built half by Davie and half by Saint John shipyard. Of course Davie could build destroyers. It's what's it's been doing for the past 190 years.

In terms of the submarines, I'm sure we could have a debate about this all day, but I would honestly say that I don't think they should be built in Canada. It doesn't make any sense. You could build any ship in Canada. Could you build submarines here? You could, but it would take some expertise. If you look at what the Australians are doing, it's quite interesting, I think.

Mr. James Bezan: They're building 12 right now.

Mr. Alex Vicefield: They're building sections in France, I think.

Mr. Spencer Fraser: I'll give you my personal view on submarines—this is way outside of FFS, but you've asked the question—and if Canada were to embark. Twenty years ago there was a program called CASAP, the Canada-Australia submarine acquisition program. We were going to share the build in what was going to be a 20-year program.

That's possible, but as Mr. Vicefield has pointed out, the complexity of submarines is such that you need a long 30-year... The Australians, I believe, have now closed the door because they've

gone with the French solution and have decided to go it alone with the French.

• (1645)

Mr. Alex Vicefield: I think you have to keep it very simple. That goes for, as you said, the design of warships. That was one of the key findings from the U.K. national shipbuilding strategy. Build the simplest designs, like the French do, and you'll be able to export them. If you try to, as you would do in Canada, Canadianize everything, you'll build this unique design that you'll never be able to actually export.

Mr. Spencer Fraser: I have just one follow-on comment that speaks to the earlier question. The key thing to remind everyone about Project Resolve, the Resolve class AOR, which I keep coming back to, is that it's a non-developmental system. Typically in a warship today, 40% is for cutting steel and 60% is weapons and sensors. I think that's generally what's happening worldwide.

For a lot of those systems, there are weapons system costs and developmental costs. In the case of Resolve, you can actually cut a purchase order for a replenishment-at-sea system and there is no development. Our focus is mostly on that non-combat part, but we could do combat ships as well.

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

Mr. Sven Spengemann (Mississauga—Lakeshore, Lib.): Thank you very much, Mr. Chair.

Thank you to all three of you for being here.

I want to roll up some of the comments in the discussion that took place earlier and put them through the lens of the economics of shipbuilding. I think it was Mr. Schmidt who mentioned that in the evaluation of contracts, there's a 10% rubric assigned to the value proposition for economic development.

I just want to zoom in on that. This government is all about investment. It's not spending but actually investment that creates value. It's also about creating jobs for the middle class, sustainable, well-paying jobs in the skilled trades. Let's look at the Canadian marketplace but also the global marketplace. How many shipyards the size of Davie exist around the world, approximately? It doesn't have to be precise. Just give a thumbnail sketch.

Mr. Alex Vicefield: It's very hard for me to put a number on that. I couldn't put a number on that.

I would say that each country in the world has at least one shipyard similar in size to Davie, except for maybe some of the ones that we're bidding to, as Spencer said, export ships to, like some of the countries in southern Europe.

Mr. Sven Spengemann: If we take as the crucial components of international competitiveness the presence of a large yard, the presence of a labour force, and the presence of a government policy that sustainably backs shipbuilding, where would you rank Canada in terms of international competitiveness in shipbuilding?

Mr. Alex Vicefield: I've actually looked at this in detail. If you look at the European Union, it publishes reports for shipbuilding costs. As Spencer said, shipbuilding costs are split roughly fifty-fifty between labour and materials around that point. So really, material costs are the same wherever you go in the world. These are international manufacturers and suppliers.

What creates your competitive edge is the labour cost. In terms of Quebec, we are on par with or less than the majority of European shipbuilders who export ships. Is it feasible to have an export market here for specialized ships? Absolutely it is. I can't speak to other parts of the country and what the labour costs are there. I'm sure they are different from what they are in Quebec.

Mr. Sven Spengemann: You gave us a snapshot of the labour force. You said you have 1,200 people who are ready to go who are in the skilled trades. Are you in a position to comment on the national labour market?

Mr. Alex Vicefield: As I said before, as far as I know Davie is the only shipyard that exists today that has actually built large-scale warships. I think all the other shipyards, if I'm right, no longer exist.

Mr. Spencer Fraser: They're ramping up.

Mr. Alex Vicefield: Actually having that capability or that experience is something that's....

Mr. Sven Spengemann: Are you in a position to comment on the multiplier effect? In other words, one skilled shipbuilding job creates x number of ancillary feeder-industry jobs in the surrounding areas.

Mr. Alex Vicefield: Spencer can speak to that.

Mr. Spencer Fraser: Part of the frustration I had in my last company was that I was exporting into 15 countries, and I often found that the most difficult place to sell was in my home market. Running a small business high-tech company through which you're winning contracts throughout the world in the hardest markets and then having a challenge in Canada, you get pretty knowledgeable about where you are at.

My sense is that your question about whether we can compete.... I think Davie shipyards won a prestigious Lloyd's award in 2015 for having exported what they claim was the most sophisticated—

Alex, you have more detail on that.

Mr. Alex Vicefield: It was the most complex commercial vessel ever to be built in North America. It was so complex because it had triple redundancy on every system throughout the ship for use in oil fields to do subsea intervention.

• (1650)

Mr. Spencer Fraser: These are big ships. Two of them have now been produced. They are 10,500 tonnes. A frigate is about 4,000 tonnes. That gives you a feeling for the size and complexity.

Mr. Sven Spengemann: How transposable a skill set in general terms is shipbuilding? Could people transition from other sectors that are underemployed into shipbuilding?

Mr. Alex Vicefield: From my experience, no, not generally. There are, of course, a lot of skills that can be transitioned across, but if you look at how you shape metal for ships when you build a bulbous bow, that is an art form and not a science.

Spencer and I walk around the shipyard quite often, and we see this. You speak to people, and they have 40 years of experience in doing that. That's really important to build ships, specifically on time and on budget.

Mr. Sven Spengemann: What would the Government of Canada need to do, to your mind, to make us more competitive abroad, to open up channels of export?

Mr. Alex Vicefield: I think you need to look at the whole maritime industry. Look at countries like Norway that actually develop what they call a "maritime cluster", which is not just the shipyards but everything throughout the value chain, including seafarers. Just developing that entire marine value chain, I'd say, is the most important part. It's about developing that whole sustainable marine industry.

Mr. Spencer Fraser: I would just add that when we talk about shipbuilding in Canada, we sometimes talk about the cutting of steel. We have to remember that a lot of the companies that were created during the frigate days are still surviving and thriving. I use L3 MAPPS of Montreal or OSI on the west coast as examples. These are companies that are selling into 40 nations.

The Chair: Thank you.

The last question will go to Mr. Garrison.

Mr. Randall Garrison: Thank you very much, Mr. Chair.

I appreciate hearing about the success with the supply ship that's taking place, but I would suggest that we have business to transact in camera. Also, we have to keep in mind that we give the same amount of time to various witnesses who appear before the committee, so I would suggest we move to our in camera session at this time.

The Chair: Okay. Very good.

Thank you for coming, gentlemen. It looks like our interim AOR solution is in very good hands. Actually, what I learned today, which I think is important, especially for workers in your area, is that this particular project gained some consumer confidence and there are other countries looking at your capability. Thanks for sharing with us today.

[Proceedings continue in camera]

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