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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Thursday, November 22, 2012**

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**Chair**

**Mr. Pat Martin**



## Standing Committee on Government Operations and Estimates

Thursday, November 22, 2012

• (0845)

[English]

**The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)):** Good morning, ladies and gentlemen. We'll convene our meeting of the Standing Committee on Government Operations and Estimates.

We're very pleased today to initiate a review or a study of our national shipbuilding procurement strategy. This was a motion or a request put forward by the Liberal Party, by our vice-chair of the committee, Mr. John McCallum, who I'm sure will be joining us soon.

We're very pleased to welcome a large panel of those involved in our national shipbuilding strategy.

I believe we'll hear an opening statement from the Department of Public Works and Government Services, the assistant deputy minister, Mr. Tom Ring.

Welcome back, Mr. Ring. It's a pleasure to see you. Perhaps you could introduce your fellow panellists and then proceed with an opening statement.

**Mr. Tom Ring (Assistant Deputy Minister, Acquisitions Branch, Department of Public Works and Government Services):** Thank you, Mr. Chair. I will do exactly that.

We certainly are happy to be here, and welcome the opportunity to discuss with you the national shipbuilding procurement strategy, NSPS.

I'm joined today by Rear-Admiral Pat Finn, Department of National Defence; Michel Vermette, deputy commissioner for the Canadian Coast Guard; and Mr. Scott Leslie, who is the head of the actual secretariat that ran the NSPS process.

[Translation]

Our presentation this morning will be twofold. First, we have a short video that presents the unique competitive process used for the selection of the shipyards that will build Canada's large vessels over the next 20 to 30 years.

[English]

The video will be shown simultaneously in both languages. You'll have to listen through the earpiece, because there's no room sound. We'll play the video, and then I will have a few more opening comments regarding the NSPS process.

**The Chair:** Thank you, Mr. Ring.

[Video Presentation]

• (0855)

**The Chair:** Mr. Ring, you still have some comments.

• (0900)

**Mr. Tom Ring:** Thank you, Mr. Chair.

Before I get to where we are in the strategy now, the reason we produced that video was that the successful selection process caused us to do some reflection. Why was that particular selection process so successful? What did we do differently?

We're happy to be here to share the video and to talk a bit more about the attributes of aggressive, early, and constant engagement with industry or potential suppliers, a new governance model for making sure decisions are taken appropriately, and then the aggressive use of third parties who will help to validate every step in the process.

The selection process itself is only one phase of a five-phase process for the NSPS. Phase one, developing the strategy, was launched in the summer of 2009, with a shipbuilding forum. This phase involved other industry consultations, and it led to the announcement of the strategy in June of 2010.

Phase two, selecting the shipyards, was a competitive process that was launched in June of 2010 and was completed with the announcement on October 19, 2011.

Phase three involves establishing the relationship with the two selected shipyards. This was largely completed with the signing of umbrella agreements in February of 2012. The establishment of a 20- to 30-year relationship is an ongoing process, and we continue to build and strengthen the relationship we have between the departments that are building the ships and the two shipyards involved.

Phase four is preparing the shipyards to do the work over a long period of time. In both cases, the shipyards will require significant upgrades to their existing facilities. That work has now commenced, and this is where we are today.

Phase five is actually constructing the ships. This is the next phase. The timing of this will depend on two key factors: when the designs are complete and when the shipyards are ready to start building.

[Translation]

The approach being used is “design then build”. In other words, we need to get the designs and production details right before work begins. We need to work with the shipyards to ensure that they are ready to build ships efficiently and avoid boom and bust cycles. The design-then-build approach will improve the efficiency and reduce the risks of the shipbuilding process.

[English]

The contracts to build the ships will take place in three phases: phase one, ancillary contracts to understand the requirements and the design; phase two, production and construction engineering contracts to mature the design; and phase three, the actual construction contracts to build the ships.

To date, ancillary contracts have been signed for the Arctic offshore patrol vessels, the science vessels, the joint support ships, and the polar icebreaker.

For their part, Irving Shipbuilding and Vancouver Shipyards have been actively recruiting senior personnel, establishing partnerships, and proceeding with facility improvements. The shipyards have also participated in numerous supplier engagement sessions across the country.

Although a considerable portion of the building of the large vessels will be carried out by the two selected yards, it is estimated that over half the value of the shipbuilding contracts could flow to the broader marine industry across Canada. The distribution of this work will include firms in related industries that manufacture equipment used on the ships or that provide services essential to the project. Many of these, undoubtedly, will be small and medium-sized enterprises.

As I said earlier and as is shown in the video, a key success factor of NSPS has been industry engagement. This engagement continues with each phase of the process. Three major consultations are currently taking place regarding procurement strategies for the Canadian surface combatant project, in-service support for the Arctic patrol vessels and the joint support ships, and for National Defence's small vessels.

Mr. Chair, we are one year into a 30-year program of work. Much has been accomplished, yet much remains to be done.

My colleagues and I would be happy to answer any questions that you have.

Thank you.

● (0905)

**The Chair:** Thank you very much, Mr. Ring.

I'm sure my colleagues do have questions.

Beginning for the official opposition, we have Linda Duncan.

**Ms. Linda Duncan (Edmonton—Strathcona, NDP):** Thank you, Mr. Chair.

I'd like to thank you for coming before us again. We appreciated the previous briefing and had said we'd love to meet with you again, so here we are. I'm sure we won't have time for all our questions, but

I'll try to find some good ones for you so we can have some really good answers.

I'd like to put the first question to the coast guard. I'm a great admirer of the coast guard; you do important work. We looked online at the original estimate and the statement by the coast guard that the asset base is at a high risk and it's critical that action be taken. So you obviously must be delighted that, as you say, we're moving forward.

I'm a little confused, though, about some of the estimates given. The report posted online under Fisheries and Oceans lists a cost of \$1.2 billion over seven years, which includes the polar icebreaker and four science vessels. But then when I look at another breakdown, the AOPS is \$3.1 billion. In the Vancouver Shipyards.... There actually isn't a price that I know of for the polar icebreaker, or for the offshore science vessels.

Can you tell me if you're on track for what you think the costing will be to provide, and if those are the basic, necessary ships that you need, to deliver your mandate?

**Mr. Michel Vermette (Deputy Commissioner, Vessel Procurement, Canadian Coast Guard):** Thank you.

The budgets for the polar and the science vessels do add up to \$1.2 billion. We're working to deliver those ships within those budgets. The budget for the polar icebreaker in that \$1.2 billion is \$800 million of that. Four science vessels are also in that package that total just under \$400 million.

We're working very hard with the yard right now on the science vessels and with our designer on the polar icebreaker to ensure that we can deliver those capabilities within the budgets we have set for those projects.

**Ms. Linda Duncan:** Thanks.

I understand that your target.... So the polar icebreaker is being built in Irving, or the Vancouver Shipyards?

**Mr. Michel Vermette:** The polar icebreaker will be built in the Vancouver Shipyards.

**Ms. Linda Duncan:** Okay. Can you give us an idea of when exactly you think you might be cutting steel?

**Mr. Michel Vermette:** That's subject to a long conversation on finishing the design work and some sequencing conversations we have to have with Vancouver Shipyards. Currently we project delivery of that vessel in 2017. That would imply cutting steel in about 2015.

**Ms. Linda Duncan:** When you're doing the bidding process—and I appreciate the secretariat went through this to an extent with us before, but your process is still evolving—can you outline briefly who exactly decides on the winning design? Is there a matchup among the cost, who has the expertise, where is the best equipment, what work can be done in Canada? Can you tell us briefly?

Mr. Ring looks like he might want to jump in.

**Mr. Tom Ring:** Thank you, Mr. Chairman.

Thanks for the question. I think I'm going to ask both Mr. Vermette and Rear-Admiral Finn to answer the question, because the answer to your question will probably be different project by project. There is no straightforward, single answer to how it will be done across every project.

**Ms. Linda Duncan:** I was speaking specifically of the polar icebreaker.

**Mr. Michel Vermette:** Thank you.

Mr. Ring is correct that each project has a different approach, in part in terms of timing, when we started the project, the arrival of the NSPS. For instance, some of our projects predate the NSPS, although we're bringing those projects into the strategy now.

For the polar icebreaker specifically, we stood that project up in 2008. We did a lot of proof-of-concept work ourselves. The first stage of delivering a vessel like this is to set out the requirements for the vessel: how much ice should this icebreaker break, what range—

**Ms. Linda Duncan:** Right. I don't want to interrupt you. I appreciate all the detail, which we actually had from the shipbuilding secretariat. But it's actually a very simple question I'm asking.

I'm just trying to figure out, for the specifics, is that decided by the coast guard, is that decided by the shipbuilding secretariat, is that decided by the person who is going to build the ship?

• (0910)

**Mr. Michel Vermette:** Very clearly the requirements are set by the coast guard, for operational reasons.

**Ms. Linda Duncan:** Okay.

If I have time, I have one more quick question.

**The Chair:** Very quick, please.

**Ms. Linda Duncan:** I appreciated the words from the fairness monitor. I'm wondering if you can give us assurance that the fairness monitor for this process is going to have greater success in accessing the costing information than the PBO has.

**Mr. Tom Ring:** Thank you, Mr. Chair, for the question.

I may actually have to ask you to rephrase the question, because the fairness monitor does not play a direct role in assessing costing information. The role of the fairness monitor is about assurance of the fairness of the procurement process.

We can provide additional information to you on precisely the role of the fairness monitor. It is an established program within Public Works that we use in most of our major procurements. The roles and responsibilities of the fairness monitor are specifically laid out.

I'd be happy to provide that information to you.

**Ms. Linda Duncan:** He's more like an auditor than a PBO, then?

**Mr. Tom Ring:** He's an auditor of the procurement process.

**Ms. Linda Duncan:** Thank you.

**The Chair:** Thank you, Mr. Ring.

Next, for the Conservatives, Mr. Jacques Gourde.

[*Translation*]

**Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC):** Thank you, Mr. Chair.

I want to thank the witnesses for joining us this morning. Your video was really interesting.

Could you quickly talk to us about how the national secretariat functions, how it has been progressing and how the roles of the different departments involved are administered?

[*English*]

**Mr. Tom Ring:** Thank you for the question, Mr. Chairman.

One of the unique parts of the NSPS is that it brought together multiple projects from multiple different departments into a single organization to look at a unique and different way of procuring all of the government's requirements for large vessels over 20 to 30 years. That required all of the various departments to come together and agree on a process and an approach. As Mr. Vermette has mentioned, and I'm sure Rear-Admiral Finn would say, the requirements for the different projects will be unique, so we had to find a way to agree to a process that would work for everyone. And the NSPS is the result of that process.

We established a specific secretariat with individuals not only from the departments represented here, but also from Industry Canada. There was a broad consultation with our central agencies. The Treasury Board played an active role in participating in the design of the selection process, as did all of the departments. As well, as I mentioned, in the engagement with industry, the actual potential bidders were also consulted on how the secretariat should work, how it should proceed with the selection process.

So that broad, extensive engagement and collaboration across different responsibilities in the different government departments we think was actually one of the singular success factors in assuring the selection process was done quickly and rapidly. The selection process itself was done in a very short period of time, and it was a key contributor to the outcome that you saw.

I think that addresses your question, unless Michel wants to add something.

[*Translation*]

**Mr. Jacques Gourde:** Were the Department of National Defence and the Canadian Coast Guard consulted during the shipyard selection process?

**Rear-Admiral Patrick Finn (Chief of Staff, Materiel Group, Department of National Defence):** Yes, we have been members of the secretariat since the very beginning—so since the secretariat and the acquisition strategy were established in 2008.

**Mr. Jacques Gourde:** Can you explain how the secretariat fits into the existing Canadian defence procurement system? How is that different from the normal procurement process?

**RAdm Patrick Finn:** The secretariat is obviously still around. National Defence and Coast Guard members are constantly being brought into it. For each project, the Treasury Board gives its approval in the usual way, and projects move forward. However, because of the secretariat and the strategic process, projects go through the strategy for every shipyard. Consultations with shipyards also go through the secretariat and through the appropriate project offices. Afterwards, the secretariat provides reviews and updates.

• (0915)

**Mr. Jacques Gourde:** As you have shown, the secretariat has helped speed up the decisions involved in procurement for new ships.

Has this collection of expertise—which involves departments and the industry—helped improve the decision-making expertise overall?

[English]

**Mr. Tom Ring:** Thank you, Mr. Chairman.

Yes, as I mentioned, the use of independent third parties is one of the key success factors or attributes of the success of the shipbuilding strategy. In the selection process itself, we used a number of third parties. They were listed in the video. I won't go through them again, but we have continued that attribute through each of the individual projects. We will continue to use outside third party expertise to review, assess, and validate both our thinking and our decisions as we move forward on each individual project.

This is not, I would say, necessarily entirely unique, but the aggressive way in which we use third parties is, in fact, a bit different, and it has contributed to the success of the strategy.

**The Chair:** I'm afraid that concludes your time. Thank you very much.

Next, for the NDP, we'll have Denis Blanchette.

[Translation]

**Mr. Denis Blanchette (Louis-Hébert, NDP):** Thank you, Mr. Chair.

I want to thank our guests for joining us today.

You haven't talked to us about a procurement process, but rather about shipyard qualifications. The procurement actually begins now. I think we can agree on the terminology.

You have talked to us about selecting two companies for shipbuilding. However, there is also a third component, but we have not heard anything about it so far.

Could you tell me what you intend to do as part of this third component and tell me about the timeline?

[English]

**Mr. Tom Ring:** I just want to confirm that you're referring to small vessel construction. Okay.

I'll ask Mr. Leslie to give you the specific details, and I think Admiral Finn and Mr. Vermette will also speak to that, because those small vessels are being built for those two departments. They have the details on the timelines for when those projects will go forward. One of them, I think, was initiated just recently.

**Mr. Scott Leslie (Director General, Marine Sector, Acquisitions Branch, Department of Public Works and Government Services):** Thank you, Mr. Chair.

Yes, and perhaps it would be helpful if I clarified that there has been a certain degree of I think perhaps misunderstanding. It's not our intention to bundle all of these small ships into a third package. The small ships will be procured on a project-by-project basis as those projects come forward and mature far enough along in their development for us to engage with industry on them.

As Mr. Ring mentioned, we're just about to launch a consultation process for DND's large tugboat requirements. The coast guard also has some very significant requirements, such as lifeboats and such, that will also be coming forward as those projects are developed.

I'm afraid I'm not in a position to be able to give you a more specific timeline for those projects, but there will be extensive consultations with industry, as we have done throughout the process, to ensure that the industry is aware and is provided significant input and advice on how we should proceed.

Perhaps I should also mention that part of the NSPS process was that the two shipyards selected to build our large ships, and their affiliates, will not be participating in any competitions to build the small ships. Supplying those other ships will only be among the other Canadian shipyards.

Michel, did you want to add anything?

**Mr. Michel Vermette:** Yes.

There are a number of small vessels in the coast guard fleet. In fact, about two-thirds of our fleet of 116 to 118 vessels on any given day are made up of vessels under 1,000 tonnes, the cut-off line between large and small vessels.

Mr. Leslie spoke of our lifeboat fleet, for instance. We have about four dozen lifeboats, 47- and 55-foot lifeboats. Our 47-foot fleet is actually in pretty good shape. We turned out the most recent five of those under the 2009 economic action plan. Our 55-foot lifeboat fleet, an example of which is the *Cap-aux-Meules* in Cap aux Meules, is an aging fleet of lifeboats. We recently initiated a design contract to work out a design for that lifeboat fleet. We need ten of these. As an example of the small vessel package, we will be going, in we hope late 2013 or early 2014, to an RFP for construction of those ten smaller vessels.

Just as one final comment, you should think of those projects, like the projects we have recently completed in

[Translation]

the Méridien Maritime de Matane shipyard

[English]

to build three 22- and 25-metre nearshore science vessels, or the project we have with ABCO, in Lunenburg, to build a small patrol vessel for Prince Edward Island—

• (0920)

[Translation]

**Mr. Denis Blanchette:** Thank you.

I would like to come back to main contracts. With those types of contracts, the risks are very high, mainly because an extended period of time is involved.

Let's first talk about what you call ancillary contracts. Is that your way to control ship costs? You decided that you wanted 28 ships, and you targeted a certain amount of money. However, cost overruns are already being suspected. Can you explain to me how you will be able to control costs through that ancillary contract process?

**Mr. Tom Ring:** Thank you for your question.

That's right. Ancillary contracts are not necessarily meant to control costs, but to help understand how the different projects are developed, and that in turn helps better understand costs. I will ask Mr. Vermette and Mr. Finn

[English]

to comment a little further on the details about the ancillary contracts, and what they are designed to do, in terms of better understanding how design of a vessel will proceed, and thereby controlling costs.

**RAdm Patrick Finn:** One of the outcomes of the strategy, as was mentioned in the video, is the bilateral engagement it has created. Historically we would have tried to do many of these very complex acquisitions in a competitive environment, where it is very, very difficult to have any kind of dialogue between the competitors to get to what I would call "ground truth" for costs.

As Mr. Ring indicated, the auxiliary contracts are just the first in a three-phase approach. These are meant to be an engagement by which we can have a dialogue with the shipyards such that we can bring to the table the designs we're maturing, and the actual people who will build it can give us feedback on the implications of our design. It's not unlike a house where an architect may want to have a beautiful design, and the house builder will tell you it's not affordable.

This is part of the early engagement by which we're using their expertise to comment on it—

[Translation]

**Mr. Denis Blanchette:** When will you choose between what you want to have and what you can have, given the costs? You know very well that needs will change over 20 or 30 years. However, we are looking at the costs today. What will be the key element in that process?

**RAdm Patrick Finn:** Usually, a spiral process is used in ship design. Budgets are set. We know very well that the opportunities to surpass and increase those budgets are very limited. So the process will entail changing the design and reviewing the needs—repetitively and in co-operation with the yards—to be able to ultimately deliver ships within the set budget.

[English]

**The Chair:** Thank you, sir.

For the Conservatives, Peter Braid.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

Thank you to all of our guests for being here this morning.

Most of my questions will go your way, Mr. Ring, I suspect.

I want to start with a question about the secretariat itself. You each, of course, have your respective roles in government. Does the secretariat itself still exist? Does it have a continuing mandate? As well, what is the lifespan for the secretariat?

● (0925)

**Mr. Tom Ring:** Thank you for the question, Mr. Chair.

Yes, the secretariat does exist, and it will continue to exist. There is a role that is defined for the entire life of NSPS. The reason for that is that, as we've discussed, we're bringing together multiple different projects and establishing strategic supplier relationships and arrangements with two suppliers, Vancouver Shipyards and Irving Shipbuilding.

In the case of Irving, all of the work that's being done there, currently or planned, is for National Defence. There is probably what I would call a simpler relationship, as it were.

In the case of Vancouver Shipyards, there are projects for both National Defence and the coast guard. The secretariat, as Rear-Admiral Finn mentioned, is a way of ensuring that we have a coordinated dialogue amongst the various shipbuilding projects and the shipyard.

We did a study following the selection process to look at what the long-term role of the secretariat should be. It was agreed that we should have a coordinating or management role through the life of the NSPS process. And it comes back to the issue that it's not the only time that we have had a strategic source of supply for procurement of a particular commodity, but this one is very unique because multiple departments are involved. We've looked at putting unique governance processes in place to make sure that we keep on track and that we have effectively dealt with the needs of the various clients who are involved, and have a strong relationship with the shipyard.

**Mr. Peter Braid:** By the way, congratulations on the success of this process. You've clearly created a model that I think can and will be used in the future for other procurement processes as well.

I'm curious about another aspect. Of course, you're responsible for overseeing the building of the ships themselves, Halifax and Vancouver, but these will be ships with sophisticated technology and nifty gadgets. How will those be managed and tendered? Will you be taking care of everything from soup to nuts, as it were, with respect to the entire ship?

**Mr. Tom Ring:** Thank you very much for the question.

If I could, I will make a comment about your question about using the model for other procurements, and then I'll ask my colleagues to speak to the specific question at the end, regarding the various component parts.

The attributes, engagement governance, and the use of third parties are in fact being applied in other procurements today, notably fixed-wing search and rescue and coast guard helicopters. We have taken those attributes and are trying to even better understand how they can be applied, not only in large procurements but also in small procurements.

So you're absolutely correct that this is a model for how we should do procurement, that it is actually transforming the procurement processes step by step. You to make sure that you do it in a step-wise fashion so you don't get too far ahead of yourself. But it is proving to be quite successful, and we've received quite positive feedback from industry about the way in which we are conducting aggressive engagement on large procurements.

Now I'll ask Rear-Admiral Finn and Mr. Vermette to speak to your specific question about how we would manage the component parts of the individual projects.

**RAdm Patrick Finn:** Thank you for the question, sir.

Again, it depends on which vessel we are talking about and the level of complexity involved. If you look at the Arctic offshore patrol ships for the navy, the joint support ship for the navy, the auxiliary vessels, in those cases the hull form, the propulsion, and the power generation become the key components in where the complexity brings efficiency and speed.

In the case of those projects, although it will all be managed by us in Public Works, the relationships are a little more straightforward around the shipyards largely performing the role of the prime contractor. Some of the details of how all of the other players are involved have yet to be established in the detailed acquisition contracts. In most cases, given the relative cost, they will go through a form of acquisition themselves, clearly with oversight by Public Works and others.

When we get into the next generation of surface combatants for the navy, which are much more complex, in that case what we would call the combat systems, the sensors, and the weapons are the majority of the costs and the majority of the complexity. We usually describe it as a combat system that's wrapped in a hull.

We've just started the consultation on that project. Again, Public Works is leading that. We kicked off the industry day in the middle of November, and have gone out to industry. There are many models used internationally. We've gone out, we have some views on it or some options, but again, in learning from the shipbuilding strategy of the importance of early consultation, we've gone out to industry and asked how we should form the relationships between the shipbuilder and combat systems integrator and what we can do. In that case we're very early in the process, and I've just opened that up.

● (0930)

**The Chair:** Thank you very much, sir.

We're letting the questions and answers go on a little longer just because a lot of these are technical questions that are difficult to answer within the strict five minutes that we usually allocate.

Now we have John McCallum for the Liberal Party, please.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you.

First of all, I think you have done a good job, especially in relation to F-35, so I congratulate you on the success.

I do have a few questions. You talk about \$35 billion over 30 years, I believe. Is this \$35 billion in 2012 dollars? Is there an adjustment for inflation?

**Mr. Tom Ring:** The answer to that would come from the individual projects themselves.

Michel, do you want to speak that?

**Mr. Michel Vermette:** There is some inflationary coverage included in the numbers that I spoke to a little earlier, the \$1.2 billion. We built those into our cost estimations. The polar icebreaker, for example, is a 10-year-long project, developed in 2008 for delivery in 2017. That number of \$800 million is one of the components of the \$35 billion, but the vast bulk of the \$35 billion is obviously a Department of National Defence number.

**RAdm Patrick Finn:** Yes, sir. To answer your question, our budgets are also in budget-year dollars, so they were developed using escalation.

In the case of the three key...the joint support ship, Arctic offshore patrol ship, and Canadian surface combatant, all of which were part of the Canada First defence strategy, were all established with a degree of escalation included in those budgets.

**Hon. John McCallum:** That means you have specifically assumed the years in which the construction would be begun and completed?

**RAdm Patrick Finn:** In developing the cost estimates, yes, sir, we did. We established the baseline, escalated it, and also included some contingency, recognizing that there was the reality of the economic uncertainty and also the schedule uncertainty. So there is some contingency included in there to try to offset some of that risk. I can't guarantee that we have offset all of the risk.

**Hon. John McCallum:** If, for example, inflation turns out to be higher than you've assumed over the future years, does that mean the dollars would stay the same, and you would reduce the number of ships, like with the F-35s, or would you try to increase the number of dollars and keep the number of ships the same, if inflation is higher or any other negative contingency were to arise?

**RAdm Patrick Finn:** Sir, I think in every case, with these particularly complex procurements, we manage them within the envelope, but also would in fact return to government, as a policy question, to say: given the economic realities beyond our control, here were the assumptions going in, here's how we established the budget, there has been a significant increase in commodities and things have happened—which has occurred to us in the past. We would come forward with a question: do you want us to proceed within the existing budget, meaning fewer ships, less capability within a given ship, or do we want to revisit the budget allocation to continue forward?

It would really depend on, I would say.... If the degree of change is such that the contingency that we have established is insufficient, we would bring that back for decision to see from a policy perspective what the desired way forward is.

● (0935)

**Hon. John McCallum:** That makes sense.

There's been some concern that the construction is somehow being delayed, and some concern that this might be partly related to government cutbacks through fiscal restraint.



Is there any truth in that? With regard to the time at which construction will begin, is it being delayed partly for fiscal reasons?

**Mr. Tom Ring:** Thank you for the question, Mr. Chair.

No, there is no delay. From the start point of the selection process of selecting the two shipyards, it was always envisaged that the next step in the process would be to examine what the shipyards needed to do to upgrade their own infrastructure in order to efficiently build the ships.

The concept here in NSPS was not just to select two shipyards and have them attempt to build complex vessels—as they were—but also to assess and benchmark what infrastructure upgrades those shipyards would need to do in order to efficiently build ships over 20 to 30 years. It was always understood that would take some time. Those infrastructure upgrades have commenced.

The other part of the answer to the question is wrapped in the design-then-build approach that we've adopted. Keep in mind that for many of these projects, sir, they're developmental projects. You have to develop a design, test it, and look at how you would construct it. In fact, with modern shipbuilding techniques, you essentially get to a full 3D design—you know virtually where everything is before you actually start the construction process. That way, you don't get design and engineering changes through the construction process that costs you more money, and you go back and forth, which was probably the traditional way of doing it. It was always anticipated that these steps in the process would take some time, and in fact allow you to more efficiently and more rapidly build a vessel when you actually got to the construction process.

**The Chair:** Thank you, Mr. Ring.

Thank you, John, your time is concluded.

Bernard Trottier, go ahead.

**Mr. Bernard Trottier (Etobicoke—Lakeshore, CPC):** Thank you, Mr. Chair, and thank you, guests, for coming in today.

I want to pursue what you're talking about in the design-then-build approach. These are long-term contracts, 30 years. Fifteen to 25 years from now, there might be new technologies that become requirements, there might be new threats, new economic circumstances. How do you incorporate emerging requirements into the design-then-build approach?

**Mr. Tom Ring:** Thank you for the question. I'll ask my colleagues to speak, because the answer will lie individually in the various projects.

Michel, do you want to start?

**Mr. Michel Vermette:** Thank you, Mr. Chairman.

The question is a really interesting one for somebody who is in the business of delivering an asset that could potentially have a life exceeding my own right now. We're operating the *Louis S. St-Laurent*, conceived of in the early 1960s, and it is still in operation, still a vital part of our fleet.

There are a couple of ways you do that. One is in setting your requirements at the outset and in thinking through the design, you have to think your program long term. What might we need in the long term? To give a specific example, as we're designing the

offshore fisheries science vessel, the trawler fleet of the future, we're thinking of three vessels. One of our requirements is to trawl at a depth that our current fleet can't trawl at. That has to do with going to places in Canadian waters where we haven't been before, to see what is there. Very simply, we can trawl at 1,500 metres right now with our current fleet, but we're thinking of a capability of trawling at 2,500 metres in case we need that capability in the future. Bear in mind what Admiral Finn talked about in terms of a cost-capability trade-off. Trawling at a greater depth means more power requirement, an increased cost of the vessel. So we always have to have those considerations in mind.

The second piece of what we do is we think of a good, basic platform that we're going to deliver. A ship is a complex arrangement of hull propulsion and systems aboard. We do have the opportunity, and in our forward planning we think about what we call a “mid-life modernization” partway through the life of the fleet, to adapt new systems to the vessel, to upgrade technologies, and to do significant repair and maintenance work at that time so that the vessel continues to be a vital part of our fleet.

So, two pieces: one is good fundamental design that defines your requirements, and the second piece is taking a point in the life of the vessel to say we need to renovate this thing.

● (0940)

**Mr. Bernard Trottier:** Over the long term of these contracts there's a significant risk to the shipbuilding itself. How would you classify the different categories of risk, and which do you think are the most significant? What could possibly derail the whole program?

**Mr. Michel Vermette:** The way I would approach it is to come back to this question of the gradual approach to contracting that Mr. Ring outlined: the ancillary, then the design, and then the construction approach.

The ancillary contracts are about exploring some concepts with the yard to try to manage down the amount of risk and contingency that would be in any future part of the project. Right now we have ancillary contracts with the Vancouver Shipyards for both our science vessel project and polar icebreaker.

Admiral Finn spoke of the involvement of the builder in the design phase. It's having the builder sit with us as we're designing the hull form of the polar icebreaker, which we're currently doing, and testing it in the tank at the National Research Council, in St. John's. In understanding the structure that might be required for that hull form, the builder could say, well, if you did it this way, it would reduce our risk or fit better into our field of expertise or our knowledge or our technical approach.

Managing risk is about the spiral in terms of design, of increasing certainty around the project, down to the point that when you actually start to cut steel, you know exactly where every bolt and every cable tray goes, what systems are going to be aboard, and what engines are going to be in the vessel. You're not designing the vessel as you're building it. That's the last thing you want to do. You never want to be making changes to the structure of your house as you're building it.

**Mr. Bernard Trottier:** Still on that theme of risk, these are such large contracts—the largest contracts we've ever had for the navy and the coast guard. What led to building such large contracts? Would it have been possible to tender these as a series of smaller contracts being spread out over more time? Would that have diversified the risk and therefore reduced the risk somewhat?

**Mr. Michel Vermette:** There's not a huge amount of shipbuilding capability in Canada. In fact, what led to the NSPS was the knowledge that having the one-off approach for the big projects wasn't going to lead us to a productive environment where we could deliver ships with low risk and the kinds of ships we needed.

There is an investment that has to be made in the capability of the yard. It's not just the infrastructure of the yard, but also their intellectual property, how they build ships, which both Irving and Vancouver Shipyards are making now to handle these large complex projects.

Our smaller vessels are relatively more simple in terms of construction. They're good projects for smaller yards to get involved in. They don't have to have the complex systems. Breaking them down in terms of the 1,000-tonne large-small vessel made sense to us.

We need to have a consistent supply, and here's a perfect example. We have about three dozen large vessels in the Canadian Coast Guard fleet. If we built a ship every year to replace those vessels, we would never lower the average age of that fleet.

**The Chair:** Bernard, you're well over time. That was close to six and a half minutes.

Thank you very much. That's the end of our first round.

I'd like to ask Mr. Vermette to expand a bit on one comment that he made toward the end of his remarks.

You said that Canada doesn't really have a lot of shipbuilding capacity. We're a country with the largest coastline of any country in the world, and surely we used to be at the leading edge of shipbuilding, whether historically, in Lunenburg, or during the Second World War. My own union used to have 40,000 members working in the Burrard drydocks, cranking out a boat a week during the war efforts. We were at the leading edge.

Will this new commitment to building ships in Canada put us back at the leading edge of the nations that build ships? Will it revitalize our shipbuilding industry?

**Mr. Tom Ring:** Thank you, Mr. Chair.

If you don't mind, I'll respond to the question.

It's an excellent question, and in fact, you're quite right in noting that there has been a significant "evolution", if I can put it that way,

in the shipbuilding capability in Canada since the war years, as you've referenced.

Over the course of the last 30 years or so, what shipbuilding capacity there was in Canada was largely reliant on large federal government work. Because of the ebb and flow, if I can put it that way, of federal shipbuilding work, we experienced what was referred to as "boom and bust". Shipyards would have work for a certain period of time but then not have work and would have to lay off skilled workers. Skills would decline. There would be an evolution in technology that the shipyard would not keep up with. When it came time to do additional work, it raised the cost of whatever federal shipbuilding there was.

It was a very poor boom-and-bust cycle, and it resulted in an erosion of shipyard capacity in Canada and in vastly more expensive ships whenever the federal government needed to construct vessels.

It was in about 2008 that the government said, "Oh. Hang on a second." They talked to industry and said let's have a shipbuilding forum; let's get all of the shipbuilders around the table; let's have an understanding of how we break this cycle to more efficiently build ships.

Now, to get to your specific question, the process of NSPS will actually, we believe, result in two very capable, world-class shipyards in Canada for building large vessels. We certainly hope that those shipyards will be able to compete effectively for more work beyond federal government work, but first and foremost, we will have a vibrant shipbuilding industry and the related marine support industries in Canada to support those two world-class shipyards.

• (0945)

**The Chair:** That's what I like to hear. Thank you very much.

Jean-François Larose.

[Translation]

**Mr. Jean-François Larose (Repentigny, NDP):** Thank you, Mr. Chair.

I want to thank our guests for joining us today.

I will share my time with Denis Blanchette.

I have two questions. What will be the participation of suppliers—the SMEs in Quebec and across Canada—under the National Shipbuilding Procurement Strategy?

When will the maintenance contracts valued at \$500 million be awarded, and what granting process will be used?

[English]

**Mr. Tom Ring:** Mr. Chairman, in general terms, we believe there will be extensive work for small and medium-sized enterprises throughout the country. This is an issue that we addressed in the request for proposals that we put to the yards. We wanted to see a broad distribution of the work, particularly to small and medium-sized enterprises, not just within the local areas but across Canada, and we believe there will be a strong distribution.

I'm going to ask Mr. Leslie if he has some specific figures on it.

On the second question, I'm going to ask Mr. Vermette and Mr. Finn to respond.

**Mr. Scott Leslie:** As mentioned, there will be considerable opportunities for small and medium-sized enterprises across the country. There has been an extensive engagement process conducted on both coasts with respect to that. ACOA and Western Economic Diversification Canada have been holding focused presentations, together with the shipyards, for those small and medium-sized enterprises to make them aware of the potential of the opportunities and to prepare them for those. Both shipyards have also initiated a process to register companies that are interested in participating in future requirements and those websites have been ongoing now for quite some time and have been successful.

The supply chain for building ships is a very long one. It will be extensive, and we do foresee considerable opportunity. At this time I'm afraid I do not have facts and figures on exactly what those will be.

[Translation]

**RAdm Patrick Finn:** As for the other contracts, the \$500 million is an annual amount. Those procurement contracts are awarded on an ongoing basis for refit and docking periods, for replacement parts and updates. They are awarded through a competitive bid process.

We regularly have ships on the east shore and the west shore. We have a destroyer—HMCS Athabaskan—which is currently being repaired at an Ontario shipyard. Those contracts vary in value—from one million dollars to tens of millions of dollars—and are issued in a competitive manner throughout the year.

• (0950)

**Mr. Denis Blanchette:** Mr. Ring, Canada doesn't have only two world-class shipyards—it has three of them. There is another one in Quebec City that has unfortunately not done well.

My colleague talked about suppliers in Canada. That brings us to the issue of ships' Canadian content. What efforts have you made to encourage Canadian content in those ships?

[English]

**Mr. Tom Ring:** Thank you for the question.

At its heart, the NSPS is a Buy Canadian policy: the ships must be built in Canada. So I'm not sure....

Maybe your question was a little different, though, sir.

[Translation]

**Mr. Denis Blanchette:** That's actually good. They will be built in Canada.

However, a ship is not just a steel shell. Today, a ship is also a high-tech machine. A major part of those ships' value comes from that. So I would like to know what your objective is regarding that.

[English]

**Mr. Tom Ring:** As part of the NSPS process, we have required the shipbuilders to demonstrate best value to Canada. There is also an IRB policy; there's no colleague here from Industry Canada to speak to the IRB program.

There are incentives built into the shipbuilding process for both shipyards to ensure that they maximize the investments they need to make, or to buy in Canada, both through the IRB policy and also through the requirement that they demonstrate to us that it is best value. So there are two particular ways in which we can ensure that these investments are maximizing the value to Canada.

[Translation]

**Mr. Denis Blanchette:** Do you ensure that kind of follow-up? Do you intend to do so?

[English]

**Mr. Tom Ring:** Yes, sir. The IRB policy managed by Industry Canada has a very specific follow-up process for ensuring that the IRB commitments that are contractually included in the contracts themselves are followed up. I don't have the specifics of how the follow-up is done by Industry Canada, but I'm sure we could provide the committee with that information in terms of this process.

[Translation]

**Mr. Denis Blanchette:** Thank you. That would be appreciated.

[English]

**The Chair:** Thank you very much, Denis.

Next, for the Conservatives, Costas Menegakis.

**Mr. Costas Menegakis (Richmond Hill, CPC):** Thank you, Mr. Chair.

Thank you to our witnesses for appearing before us today.

This was clearly a unique process. On the one hand, it was very open and transparent, with considerable broad consultation. On the other side of the equation, it was also very confidential. In my opinion, it was the third party involvement—the involvement of the fairness monitor, KPMG, and Pricewaterhouse—and that confidentiality that contributed considerably to the integrity of the process.

Given that, as I believe my colleague Peter Braid said earlier, this is a model that will be employed in the future for other procurement projects, could you share with us some of the practical administrative methods or the model that was employed to gather the information, evaluate the submissions, and follow up with the bidders?

I believe I read in the quite excellent presentation on the video that there were seven separate teams assessing nine areas. How was that done? How was that all coordinated?

**Mr. Scott Leslie:** Do you want me to speak to that?

**Mr. Tom Ring:** Yes.

**Mr. Scott Leslie:** Thank you for the question.

Yes, it was quite the exercise. The evaluation teams were composed of public servants. They were advised by some third party experts, but the evaluators themselves were all public servants. They were drawn from Canadian Forces, coast guard, Industry Canada, PWGSC, and Justice Canada.

There were, as you mentioned, seven teams evaluating the nine different areas within the evaluation plan that had been published and was available to all the bidders, so they were aware of exactly the relative importance of all the evaluation criteria.

The main thrust of the evaluation was around assessing the current state of the shipyard facilities, which was done by a third party, First Marine International of the U.K., which is an internationally recognized expert in shipyards. There are plans to close the gap between their current status and the target date that had also been identified and defined by FMI.

They were also evaluated with respect to the costs that would be borne by Canada for those infrastructure upgrades, their financial capability, and the value propositions, which was another unique element of the NSPS process, where we were requiring the successful shipyards to invest a portion of their own profits in certain key areas that would benefit the overall marine industry within Canada.

That process was conducted over a period of about July, August, September of last year, resulting in the announcement. All the results by the evaluators were done in isolation. They evaluated their team but did not see the results of any others. They were coded going up, as was mentioned in the video, and literally at the end of the process the only two people who knew the results were the leaders of the evaluation teams overall.

I was the chair of the evaluation oversight committee. I knew only that bidder A had this score, bidder B had that score, and bidder C; I did not know who was who. It remained like that as we bid up through the governance structure of the NSPS, right up to the deputy ministers, who weren't aware either.

It wasn't until the day of the announcement, when that envelope was opened revealing who was bidder A that had been successful, and who was bidder B. When Mr. Ring phoned the shipyards, told them, and then informed the minister and the deputy minister, the announcement was made at the National Press Gallery.

• (0955)

**Mr. Costas Menegakis:** Thank you.

Moving forward, what can you tell us about the organizational structure that will be in place to monitor the progress over the life of this project, including the management of the ancillary suppliers? Is that going to be managed through some central group, or is that going to be managed by the two different shipyards?

**Mr. Scott Leslie:** The shipyards will be managing their own supply chain. We will be overseeing, ensuring that we are obtaining value for money throughout that process. So they'll be responsible for that.

As to the secretariat, as mentioned before, it does continue to exist. It is continuing to be an integrated team of National Defence, coast guard, PWGSC, and Industry Canada. The governance structure around that, the ADM level and deputy minister, governance committees...continues to exist and meets very regularly to review progress and issues as they arise.

**Mr. Costas Menegakis:** Thank you very much.

**The Chair:** Thank you, Mr. Leslie.

Thank you, Mr. Menegakis.

For the NDP, Linda Duncan.

**Ms. Linda Duncan:** Thank you very much.

I want to follow up on the comments that Monsieur Vermette made about there not being a lot of shipbuilding expertise in Canada.

It's my understanding that one of the conditions in these umbrella agreements or contracts, whatever you call them, with the two shipbuilding entities is that for every dollar invested by the federal government, they will also invest dollars, particularly toward R and D and training.

I wonder if one or all of you can speak to that, if that's actually happening and whether a lot of that is being directed toward trying to ensure that Canadians' skills are being upgraded so they can actually participate in this industry.

I'm raising this because, of course, you have to abide by the IRB, and there are supposed to be regional spinoffs. This all sounds very familiar to a rather large industry in my jurisdiction, the oil sands. What we have also in Alberta is this boom and bust. That occurs because all of the permits are given out and they're all given out at once. This is something that former Premier Lougheed raised concerns about, that if you don't pace the industry properly you'll have this boom and bust because the costs escalate for the labour and competition to get the equipment and so forth. Then you start having to go offshore to get that equipment in a timely manner.

I am wondering what your strategy is to try to avoid the problems they've run into in that large sector, and whether part of your skilled expertise will include a complement of temporary foreign workers.

**Mr. Tom Ring:** Thank you for the question.

Mr. Chairman, if you don't mind, I'll begin and then see whether Mr. Vermette wants to add anything.

You're quite correct regarding the IRB program. That is one aspect, as I mentioned earlier, of ensuring that there is appropriate investment.

But more specifically to answer your question, you're probably more interested in what we included in the NSPS for the first time, which is a value proposition. What we actually included in there—the philosophy behind it, if I might—was if we're going to have a strategic sourcing arrangement with a supplier for 20 to 30 years, what are you contributing back to ensure that you have the skills development necessary to be competitive and competent over the life of that?

• (1000)

**Ms. Linda Duncan:** But is it binding? That's what I'm trying to get at.

**Mr. Tom Ring:** The value proposition commitments are binding. If that was your specific question, then the value proposition commitments are in fact binding—this is in the umbrella agreement—and their commitment to live up to their value proposition commitments will be written into each of the individual contracts. Fulfilment of those commitments will be conditions precedent to continuing with the contract.

So yes, it is binding.

**Mr. Michel Vermette:** The coast guard hadn't acquired a large vessel since the late 1980s. There had been no demand in Canada to build a large coast guard vessel since the *Henry Larsen* was turned out into our fleet.

When I speak to the issue of shipyard capacity, one of the biggest pieces of demand in Canada for those are government vessels. Similarly, the navy had not acquired a large vessel since the end of the frigate project. When we were looking at the age of our fleet, knowing the kinds of needs that we had, we needed to smooth the source of supply. It doesn't make sense to hire a welder to build one ship, lay that welder off, and then teach a new welder to build a new ship.

So partly—

**Ms. Linda Duncan:** Let me interject here, Mr. Vermette.

That's really good. What I'm trying to raise is that even within the oil sands sector they're having a hard time competing with each other to pay higher salaries to get these technical skills. I'm wondering whether you have also considered that. Do a lot of the skills overlap—welders and so forth? Do you have a strategy for how you're going to address the cost overruns? Are you going to have to turn to temporary foreign workers?

**RAdm Patrick Finn:** Again, thank you for the question.

The strategy at its heart, when we started to work on it—that was one of the key issues we were trying to deal with. Within the federal government, within National Defence and with our colleagues at the coast guard, we had a number of projects under way, which you now hear us talk about in the context of a strategy, that were not moving completely independently but certainly were not sufficiently integrated to understand the very issue that you're talking about, with a certain expectation that competitive requests for proposals would go to multiple shipyards across Canada. At one point we were talking about how we could be in fact in five different shipyards building ships, which meant that the government would be investing in five shipyards to build up capacity and that there would be competition for skill sets.

So at its core, the shipbuilding strategy was, amongst other things, established to exactly do what you're saying. It caused us to bring all of the projects together to impose a certain amount of schedule, a certain amount of flow. In reality, each of the projects has now been phased to deal with, amongst other things, the things you're talking about.

The complexity of shipbuilding today is not based on the labour-intensive approach it had 20, 30, or 40 years ago. It is now much more technologically advanced, even in the construction piece. What we want to do is invest in two shipyards that have a reasonable amount of skill. If we create massive shipyards, we will in fact return to the boom and bust.

This is very much a drumbeat, by international standards, into medium-sized yards with a medium-sized workforce to build one ship after the other, to try to deal with the very issue you're highlighting.

**Ms. Linda Duncan:** Am I done, Mr. Chair? Too bad; I enjoyed the conversation.

**The Chair:** You're well over time. I'm sorry.

Next we have Ron Cannan, from British Columbia.

**Hon. Ron Cannan (Kelowna—Lake Country, CPC):** Thank you, Mr. Chair.

I echo my colleagues on the great work you've done to date.

I want to pick up on Ms. Duncan's comments. Skills training is so important. It's all about jobs, jobs, jobs for the next 30 years—for children, grandchildren, and future Canadians across this country. Having the privilege of representing constituents in interior British Columbia, I already know that our college is training welders and trades, with university president Toope from UBC, and UBC Okanagan, looking at engineers. That industrial liaison is really important not only for governance but institutional post-secondary training. I'm glad to see that this continues to work forward.

I have a couple of questions. One is about the process for contract bidding for smaller vessels. There is still about a \$2-billion portion. Has it been allocated? Maybe you can update the committee on how that is going to unfold. My understanding is that Irving and Seaspan would not be eligible for bidding on those contracts.

• (1005)

**RAdm Patrick Finn:** Each of the smaller-vessel projects within National Defence will proceed as independent competitions. The one we currently have under way is for the replacement of our tugs on the east and west coasts. We've started the process of consulting with industry to get feedback from them.

You are correct that the two yards and their affiliates that have the shipbuilding strategy umbrella agreements and contracts were precluded from bidding on the smaller vessels. We are entering our definition phase, and we're getting into the design piece. In the next few years, we'll be seeking a competitive process to replace them as a key component of the work that will go to other yards.

**Hon. Ron Cannan:** Similar to Ms. Duncan, growing up in Alberta, actually in the riding she represents today, I know about the skills shortage, the labour, the demands. One joke was that the West Edmonton Mall had a larger subfleet than the Canadian Navy. It's a joke, but it's also a very serious concern of my constituents of Kelowna—Lake Country. I've been there over 22 years.

Government has a pretty poor track record of procurement. There's not a lot of faith from some of the actions of former governments—the cancellation of contracts, and the billions of dollars that have been wasted. Maybe you share with the committee, and my constituents, how you can put some confidence in the process and alleviate their concerns.

**Mr. Tom Ring:** Do I have time to answer the question?

**The Chair:** Yes, you do.

I'm getting a little restless because the bells have begun to ring in Parliament for a vote at 10:34.

Perhaps maybe we should canvass the committee for its wishes.

**Hon. Ron Cannan:** Can he answer the question?

**The Chair:** You certainly have time to answer the question, Mr. Ring. I'm just taking this opportunity to ask the committee how we want to handle this.

**Hon. John McCallum:** I wouldn't mind being able to ask a couple of questions. I think I'm next.

**Mr. Mike Wallace (Burlington, CPC):** I think we should be consistent, whether we like the witnesses or not. We have been consistent as a committee. As soon as the bells ring, we leave.

**Ms. Linda Duncan:** No, we need to vote. As soon as the bells ring, we decide.

**Mr. Mike Wallace:** That's not true, Linda.

**The Chair:** It has been the practice that as soon as the bells start to ring this committee adjourns.

**Mr. Mike Wallace:** It's safer that way.

**The Chair:** That's when we begin to make our way to Parliament to vote. That has been the past practice.

**Mr. Mike Wallace:** If he wants to answer this question, we could....

**Hon. John McCallum:** What about asking for written answers?

**The Chair:** That would certainly be in order if you wanted to put the questions. I think we could take a minute for you to put those questions and ask for written answers.

Mr. Ring, you were about to answer Ron's question. We'll let John put a few questions to which you could respond in writing at a later date.

Go ahead, Mr. Ring.

**Mr. Tom Ring:** I think your question was directed at assurances regarding the integrity of the procurement process. In fact, I'm not certain I would say that the NSPS is a gold standard. But it set a high standard, a high bar, for ensuring a fair, open, and transparent procurement process. It dealt with the siloing of the different evaluation teams, keeping the results secret, and coding the results. At times Treasury Board approvals were received without knowledge of the names of the bidders. All of these things taken together contributed significantly to I think an overwhelming view that the process was run in a fair, open, and transparent fashion.

It's more complex than that with the engagement of the shipyards. For instance, the shipyards were consulted on evaluation criteria and how we would weight them. We even sat down with potential suppliers and asked them to tell us what they thought the weighting

should be for these criteria. The transparency has been extraordinary. The shipyards themselves agreed to share their own evaluations of how the yards fared, one against the other. That level of transparency we think contributes to the integrity of the procurement process.

• (1010)

**The Chair:** Thank you, Mr. Ring. Thank you, Mr. Cannan.

John, you wanted to get on the record a couple of questions that you'd like to have answered in writing.

**Hon. John McCallum:** Yes, I have three questions.

I'm not saying this is the case now, but echoing a little bit what Mr. Cannan said, in my day at Defence there was always a tendency to lowball. For example, they'd offer a bid for planes without taking account of the cost of the hangars.

First, what is the inflation rate, approximately? Is it 2%, 5%, 10%? This question is mainly to Admiral Finn, I believe.

Second, I might have missed something, but you said that construction will be delayed for various reasons. What's the expected date of the beginning of construction of ships? Is it two years from now, five years from now, eight years from now?

And third, in terms of this lowballing comment, does this estimate of \$35 billion include all the costs or are there certain things such as hangars, if they were planes rather than ships, that are left out?

**The Chair:** Okay John, I think you've made your point. We've cut some latitude to have you pose those questions.

We'll look forward, perhaps, to a brief written response, Mr. Ring. There's no need to write a big essay, but perhaps some brief answers to those questions.

I will simply say thank you very much for a very interesting presentation. You can tell by the enthusiasm from the committee members that we're all as excited about this as a lot of Canadians are, and credit goes to all of the actors. Perhaps it is a new standard in how we make major procurements.

Could I add one question to those put by John?

I'd like to know how much of the money is actually being invested in the shipyards to upgrade the shipyards. What is the federal government's role in the technical upgrading of the shipyards?

**Mr. Tom Ring:** We will provide a direct answer to that question.

**The Chair:** Okay.

Rear-Admiral Finn, Mr. Ring, Mr. Leslie, and Mr. Vermette, thank you very much for the time and trouble you took to be with us today.

The meeting is adjourned.









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