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# Standing Committee on Government Operations and Estimates

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Chair: Mr. Robert Kitchen





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• (1555)

[English]

**The Chair (Mr. Robert Kitchen (Souris—Moose Mountain, CPC)):** I call the meeting to order.

Welcome to meeting number six of the House of Commons Standing Committee on Government Operations and Estimates.

Today we will hear from the representatives of the Office of the Auditor General as part of the committee's study of air defence procurement projects and national shipbuilding strategy.

Today's meeting is taking place in a hybrid format pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. Regarding the speaking list, the committee clerk and I will do the best we can to maintain a consolidated order of speaking for all members whether participating virtually or in person. I'd like to take this opportunity to remind all participants in this meeting that screenshots, or taking photos of your screen, is not permitted.

Given the ongoing pandemic situation, and in light of the recommendations from public health authorities as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, the following are recommended for all those attending the meeting in person.

Anyone with symptoms should participate by Zoom and not attend the meeting in person. Everyone must maintain two metre physical distancing, whether seated or standing. Everyone must wear a non-medical mask when circulating in the room. It is recommended in the strongest possible terms that members wear their masks at all times, including when seated. Non-medical masks, which provide better clarity than cloth masks, are available in the room. Everyone present must maintain proper hand hygiene by using the hand sanitizer at the room entrance. Committee rooms are cleaned before and after each meeting. To maintain this, everyone is encouraged to clean surfaces such as the desk, chair, and microphone with the provided disinfectant wipes, when vacating or taking a seat. As the chair, I will be enforcing these measures for the duration of the meeting, and I thank members in advance for your co-operation.

I would now invite the representatives of the Office of the Auditor General to make their opening statements.

**Mr. Andrew Hayes (Deputy Auditor General, Office of the Auditor General):** Mr. Chair, thank you for this opportunity to discuss our fall 2018 report on Canada's fighter force and our report

on the national shipbuilding strategy, which was tabled in the House of Commons in February 2021.

I would like to acknowledge that this hearing is taking place on the traditional unceded territory of the Algonquin Anishinabe people.

Joining me today is Nicholas Swales, the principal who is responsible for the audit of the national shipbuilding strategy.

I would like to start with our fall 2018 audit of Canada's fighter force. This audit examined whether National Defence managed risks to the fighter force so that it could meet Canada's commitments to NORAD and NATO until a replacement fleet is operational.

In 2016, the Government of Canada directed National Defence to have enough fighter aircraft available every day to meet the highest NORAD alert level and Canada's NATO commitment at the same time. This meant that National Defence had to increase the number of fighter aircraft available for operations by 23%. This new requirement came at a time when the Royal Canadian Air Force faced a growing shortage of trained and experienced pilots and technicians.

To meet the new requirement, the government purchased used fighter jets from Australia as an interim solution to bridge the gap until it could roll out a replacement fleet. The Australian jets are about 30 years old and have the same operational limitations as Canada's current fleet of CF-18 aircraft.

National Defence expected to spend almost \$3 billion to extend the life of its fleet and to buy and operate the Australian jets. However, since the department did not have a plan to deal with its biggest obstacles—a shortage of experienced pilots and the CF-18s' declining combat capability—these spending decisions would not have been enough to ensure that the air force had available on a daily basis the number of aircraft needed to meet the highest NORAD alert level and Canada's NATO commitment at the same time.

We noted that more aircraft would not solve National Defence's problems unless the department knew how and by when it could solve the pilot shortages and improve combat capability.

We made two recommendations in our report, and National Defence agreed with both.

• (1600)

[Translation]

Let's turn now to our audit of the national shipbuilding strategy. This audit provided an opportunity to examine a complex program in its early stages, once the procurement process was completed.

The Royal Canadian Navy and the Canadian Coast Guard operate fleets of large vessels to support Canada's participation in security operations around the world, to support Marine science, and to ensure that Canada's waterways are safe and accessible. This audit examined whether these vessels were being renewed in a timely manner.

Timely renewal is important because of the need to replace aging fleets and introduce new capabilities. In 2010, the government launched the national shipbuilding strategy with the goals of renewing these fleets in a timely and affordable manner, of creating and supporting a sustainable marine sector in Canada, and of generating economic benefits for Canada. The strategy also calls for the building of at least 50 large science and defence vessels over about 30 years.

Overall, we found that during our audit period, the national shipbuilding strategy was slow to deliver the combat and non-combat ships that Canada needs to meet its domestic and international obligations for science and defence. The delivery of many ships had been significantly delayed. Further delays could result in several ships being retired before their replacements are operational.

National Defence, Fisheries and Oceans Canada, Public Services and Procurement Canada, and Innovation, Science and Economic Development Canada reacted to these delays. However, we are still concerned that the strategy has been slow to deliver. Considering the impact of the COVID-19 pandemic on work in departments and shipyards, and with the bulk of new ships yet to be built, departments need to look for opportunities to improve how they manage risks and contingencies.

Public Services and Procurement Canada, National Defence, and Fisheries and Oceans Canada agreed with the three recommendations we made in this report. Both of these audits underscore the importance of renewing fleets in a timely manner to avoid capability gaps that could jeopardize the ability of Canada to deliver on its national and international defence and science commitments.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

[English]

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

We will start our first round with Mr. Paul-Hus for six minutes.

• (1605)

[Translation]

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

Good afternoon, Mr. Hayes. Thank you for being here.

In your report, you talk about there being no plan. National Defence had planned to spend \$3 billion, and you do say that there was no plan. The key elements in the report included the shortage of pilots and the CF-18 fighters' declining combat capabilities. The department responded to you and gave you a plan, but then you said that the pilot shortage issue had yet to be resolved.

Four years later, have you seen any changes made on these issues?

**Mr. Andrew Hayes:** Thank you for the question.

The department responded to our recommendation to recruit pilots, but we don't have recent information about what steps they have taken and how much progress they have made.

**Mr. Pierre Paul-Hus:** All right.

Four years ago, I took part in the debates when the government said there was a capability gap and they planned to buy 10 Super Hornet fighter jets. However, we already knew that the CF-18s were short pilots. The Super Hornet is a totally different aircraft. Pressure was applied and small issues arose in connection with Boeing. The government then decided to purchase second-hand Australian aircraft. Thirteen former Air Force commanders then said the whole thing was stupid.

As Auditor General, did you find the government's decision to buy aircraft more political than operational, given the shortage of pilots and technicians to handle what we already had?

**Mr. Andrew Hayes:** We found that there was a shortage of pilots and technicians. In the report, we pointed out that only 64% of pilots were qualified. This meant that they are short a great number of pilots. Canada is therefore having a hard time meeting its operational requirements with regard to the North American Aerospace Defence Command, or NORAD, and the North Atlantic Treaty Organization, or NATO.

**Mr. Pierre Paul-Hus:** The Air Force's capacity was waning in 2018 due to the shortage of pilots. Currently, given our commitment to NATO, do you believe we would be completely out of the loop if we had to support an ally such as Ukraine, for example?

**Mr. Andrew Hayes:** I would ask Mr. Swales to answer this question.

**Mr. Nicholas Swales (Principal, Office of the Auditor General):** Thank you.

The issue is a potential increase in demand for Air Force fighters and possibly having to provide fighters for NORAD and NATO at the same time. The context could depend very much on the circumstances.

**Mr. Pierre Paul-Hus:** Let's come back to the pilot issue. We have two issues right now. First, it's taking too long to purchase new aircraft. It gets put off year after year. We've ended up with old Australian aircraft for which we do not even have any pilots. Also, it seems nothing has been done to address the shortage of pilots.

During your investigation, did you find people had no interest in a career as a fighter pilot in Canada? Did any young Canadians tell you they had no intention of flying old fighter jets in Canada because they didn't feel it was worth it and they didn't want their career as a pilot to be limited to old aircraft?

**Mr. Andrew Hayes:** I believe recruitment is an issue for the department. Recruitment is a real challenge for the Canadian Forces.

In addition, they do face other issues, including the number of older aircraft that require added maintenance.

A few years ago, we did an audit on recruitment in the Canadian Forces.

• (1610)

**Mr. Pierre Paul-Hus:** Did the audit reveal that the lack of interest could be attributed to the equipment being too old?

**Mr. Andrew Hayes:** The audit didn't cover equipment or capabilities *per se*, but we did note that the Canadian Forces needed to do something about recruitment.

**Mr. Pierre Paul-Hus:** Three billion dollars has been announced with no mention of planning, in the midst of a pilot shortage.

Could that be considered a waste of money or was there a credible basis to justify that amount?

**Mr. Andrew Hayes:** That amount takes into account the reality of maintaining an aging fleet, as well as the cost of purchasing Australian aircraft. It's a lot of money, yes, but there are reasons for that. However, as you said, no planning was done as a result of our audit.

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

[English]

**The Chair:** We will now go to Mr. Housefather for six minutes.

**Mr. Anthony Housefather (Mount Royal, Lib.):** Thank you so much.

First of all, thank you so much for both reports. They're very illuminating and helpful. Thanks for your work on them. I'm glad to see that your recommendations were considered.

Can I ask a question? You just talked about no plan. I believe you had done an audit in 2012 related to replacing Canada's fighter jets. What was found in that audit? How did that affect the current strategy of replacing fighter jets? Was there a plan at that time?

**Mr. Andrew Hayes:** I might ask Mr. Swales to add to my answer.

The 2012 audit did focus on the purchasing of the fighter jets. The 2018 audit did not.

In the 2018 audit, we were looking at the readiness or the ability of the forces to meet the NORAD and NATO requirements, but in 2012 our scope was a bit different. I know that there were concerns

about management, about the assessment of risks and about costing, but Mr. Swales might be able to add to that.

**Mr. Nicholas Swales:** The report in 2012 didn't look at the question of personnel, so the issue that was raised in 2018 wasn't examined in that report. That report was really about some of the questions around the transparency and the process for acquiring the new aircraft. At that time, there were some fairly different time scales being considered as well.

**Mr. Anthony Housefather:** Thank you. I guess what I'm trying to say is that the issues you uncovered in 2018 may very well have existed back in 2012 as well. They are not necessarily new issues.

I understand also.... The issue that you raise in your report is an interesting one, and I'd like to just question you further on that. In paragraph 3.52—and now I'm talking about the jets—you conclude that the additional operational requirements needing to conform to the highest level of NORAD requirements as well as NATO commitments put National Defence in a “difficult” position until the replacement fighter jets are in place.

But can I just understand, based on our NORAD commitments and our NATO commitments, are the new requirements not sensible? If we have obligations in both cases to meet certain norms and NORAD was at its highest level of alert, don't we need to be able to meet the highest NORAD level of commitment plus the NATO one?

**Mr. Andrew Hayes:** I don't think that we are in a position to comment on the policy decisions of the government. I do think that, obviously, when you look at a given point in time, the factors of what is reasonable and what might be a challenge for the departments or the forces to respond to might be different.

As we mentioned in the report, historically—I guess before 2016—the focus was on meeting the NORAD requirement, and in 2016 that changed. Our point in the report was that it is not only about acquiring additional fighter jets. You also have to have a plan for having the technicians and the pilots to operate the fleet.

• (1615)

**Mr. Anthony Housefather:** I agree. I agree completely. I don't think that I'm trying to dismiss what you said. I think it's important. We may have had these *lacunes*, as we would say, for a long time. I think it's important to know that we need to do better in terms of that.

What I was basically saying, though, is that my understanding is that we would be in breach of our agreements if we didn't actually meet the newer levels that were talked about, because we have to be able to meet the highest NORAD level and also fulfill our NATO commitments.

Mr. Chair, do I have any time left?

**The Chair:** You have a minute and 55 seconds.

**Mr. Anthony Housefather:** Thank you so much, Mr. Chair.

Could I ask one question related to the shipyards? I think we're all very interested in the qualification of the Davie shipyard in Quebec as the third official shipyard. My question is, will the addition of the third official shipyard help with delays and scheduling risks?

I believe you mentioned that the government has implemented lessons learned from the past in bringing on the third shipyard under the national shipbuilding strategy. What lessons specifically do you think should be used to help draft the umbrella agreement for the third shipyard?

**Mr. Andrew Hayes:** At this point, I don't know exactly what the status of bringing Davie on is. I know that at the time of our audit they were in negotiations about the umbrella agreement.

With respect to the umbrella agreement, one of the most important pieces from our perspective is the idea of "target state": reaching target state to be able to produce the ships according to the time frames and requirements that are outlined.

At this point, one of the recommendations we made was to learn from the previous experiences with the shipbuilding strategy to date, and from that perspective, we would expect that the departments have taken on the information about how to approach reaching target state and the reasonable amount of time that would take for a shipyard, also so that they can plan ahead to when those ships can be delivered in a reasonable time frame.

**Mr. Anthony Housefather:** Thanks very much.

I assume that my time is close to ending, so let me thank both of you again for your work on both of these reports and all that you do.

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

We'll now go to Ms. Vignola for six minutes.

[*Translation*]

**Mrs. Julie Vignola (Beauport—Limoilou, BQ):** Thank you, Mr. Chair.

Mr. Hayes and Mr. Swales, thank you for being with us this afternoon.

I have read your reports on military procurement, aviation and shipbuilding. I had to wonder, have we had nothing but armed forces in this country for the past 15 years? I got the impression that we've had little planning, few monitoring structures, little procurement and little construction, or perhaps we didn't know where we were at or where we were going. I'm making a general observation.

With respect to the Air Force, you mentioned that we have more pilots retiring than new pilots in training, and as stated earlier, only 64% of pilots at National Defence are qualified to fly the CF-18.

To your knowledge, has the situation changed at all? Has it gotten better or worse?

**Mr. Andrew Hayes:** I will start answering, but I will ask Mr. Swales to finish off.

We have no information on the status of pilots in the Armed Forces.

**Mr. Nicholas Swales:** I would add that in this year's annual performance report for the Department of National Defence, you can see that they are short-staffed in half of the military roles. It doesn't identify which roles, but pilot is likely one of them. We still don't have enough pilots.

**Mrs. Julie Vignola:** Okay.

One might assume from this report that the situation has worsened. It's getting worse, but now they want to buy 80 new aircraft. If there are not enough pilots, that means there are not enough pilots to train the new pilots. That's a major cause for concern.

In your recommendation for the Air Force, you suggest introducing recruitment and retention strategies. The department responded that they have a fighter sustainment renewal initiative that would bring in 200 technicians. As part of its defence policy for Canada, it wants to create 200 pilot positions. That's my understanding.

In your opinion, if the department achieves this goal of 200 new technicians and 200 new pilots, will that be enough to meet operational requirements and international commitments?

• (1620)

**Mr. Andrew Hayes:** I think it's hard to say if that will be enough. There's also the cold, hard fact that the aircraft will be even older.

Mr. Swales, do you have anything to add?

**Mr. Nicholas Swales:** I would point out that it depends on how many losses are incurred in the interim. We do not know that right now. Those two figures need to be correlated.

**Mrs. Julie Vignola:** In your report, you mention the hours required to maintain the aircraft, 24 hours of maintenance for each hour of flight time.

Do you know if the number of hours has increased?

**Mr. Andrew Hayes:** I don't know if that number has already gone up, but maintenance could take longer as the aircraft age.

**Mrs. Julie Vignola:** All right.

In the same report, you recommend that National Defence analyze improvements to be made to the CF-18s to ensure operational relevance through 2032. National Defence responded that the analysis would be completed in 2019.

Have you followed up on the analysis? What were the results?

**Mr. Andrew Hayes:** We haven't followed up on that analysis, but we plan to in the future.

**Mrs. Julie Vignola:** Okay.

We learned recently that the government had initiated a competition to procure armed drones, to be based in Nova Scotia and British Columbia. Two hundred and forty Royal Canadian Air Force staff will be needed to operate these drones.

If we add to this the current and emerging aircraft requirements, is it realistic to make these purchases without ensuring we have the human resources needed?

**Mr. Andrew Hayes:** I would ask Mr. Swales to respond, as I don't know the details about this.

**Mr. Nicholas Swales:** This is not just an Air Force issue. From that perspective, it is more of a challenge for the military in general, whether they have enough personnel to run various programs and take care of equipment.

As I said, certainly, based on the public performance report, there is cause for concern about the number of personnel the military has in general, as well as the degree to which personnel are trained.

[English]

**The Chair:** Thank you.

We'll now go to Mr. Johns, for six minutes.

**Mr. Gord Johns (Courtenay—Alberni, NDP):** Thank you both for your testimony. I really appreciate having you here.

I'm going to follow the same thread of questioning as Mr. Paul-Hus and Mrs. Vignola.

With regard to the personnel shortages, can you talk a bit about our failure to recruit? Do you have any idea what other countries have done to ensure they have capacity or number of personnel? Where are we falling short?

Obviously, human resources is a big issue, crossing all sectors of society right now, but what are the barriers? Is it compensation, is it the work environment? Can you cite some of those things that might have been identified and you noticed while you were doing your research?

**Mr. Andrew Hayes:** It is important to recognize that the information we have in this report is a few years old. There have been developments along the way. Basically, the COVID-19 pandemic created some changes in the industries that could contribute in some ways or others to technicians or pilots being available. However, at this point, I don't know what has actually transpired at National Defence.

As was brought up in a previous question, there can be a number of factors, including the attraction of working on new equipment instead of old equipment, but then again, I am only speculating at this point.

Mr. Swales, do you have anything you might add to that?

• (1625)

**Mr. Nicholas Swales:** No, we haven't looked at what other countries may have done by way of special recruiting strategies.

**Mr. Gord Johns:** Are there barriers that you can identify that are notable?

**Mr. Nicholas Swales:** The last work we did on this in any depth was our 2016 audit of recruitment, and we raised a number of issues then about whether the recruiting personnel were providing the fulsome exposure to the different options available, and also whether some of the issues around training times would have per-

haps discouraged people from wanting to join. Those are some of the issues we raised back in 2016.

**Mr. Gord Johns:** I'm just going to stay on that HR issue, because I know that it's a DND issue generally, and especially with shipbuilding. Given the number of civilian workers at the Department of National Defence, how much has the contracting out of defence work contributed to the delays? In other words, how much of the delay is due to hiring temporary workers and contract workers as opposed to having a properly staffed public service?

**Mr. Andrew Hayes:** I don't know if we can say that we looked carefully at that element in the contracting out of staff.

Mr. Swales, would you like to answer that?

**Mr. Nicholas Swales:** No, we didn't. We do talk in the report about the availability of capacity in the federal government as a risk in managing some acquisition programs such as that one, but we didn't explore the question of the potential sources of that expertise.

**Mr. Gord Johns:** In terms of the capacity just overall in the shipbuilding sector, there's something that I've asked before and that's of great concern to me. I live on the west coast. We're trying to build a floating dry dock. We have the only deep-sea port on the west coast of Vancouver Island, and yet there's no federal program for floating dry docks. Capacity is a real issue. Costs go up. The demand goes up. Can you talk a little about, in your research, the lack of capacity in Canada for shipbuilding and the need for the federal government to expand and invest in creating more options and utilizing such deep-sea ports as Port Alberni in my riding?

**Mr. Andrew Hayes:** I think part of the research we did showed...and this also dates back to a previous audit we did of the national shipbuilding strategy in 2013 or 2014, I believe. One of the objectives was to try to address what was termed the "boom and bust" cycle of shipbuilding. When you look at needs but you only address a need during a particular period of time and then you shut down an industry, then it will take time to build it back up. In that context, the national shipbuilding strategy with its three objectives, renewing the fleets in a timely manner but also having economic benefits for Canada and supporting a sustainable marine sector, addresses some of those previous challenges.

Now, that's only as good as putting it in place, monitoring it, and delivering on time.

**Mr. Gord Johns:** Do you think the government is putting forward programs to expand capacity enough to actually ensure that we can have an upstream program that can help relieve some of the pressure on the bigger ports? I mean, this is really a big deal. We have communities that want to take the pressure off the big ports and that can create efficiencies. In the long term, we could be avoiding shipping boats overseas for refits, as we're doing with BC Ferries, and building boats somewhere else.

In terms of long-term sustainability, do you think this is a program Canada should be looking at and embarking on?

**Mr. Andrew Hayes:** I think that's a policy decision, but I do think that building capacity at this point in time.... We mentioned a little bit earlier the target state work that's being done and the efforts that were deployed to try to assist the shipyards to meet target state. To also have the ships delivered on time is a start, but for a shipbuilding industry to be sustainable, it has to have a long-term view. There needs to be constant monitoring and constant involvement from all parties.

• (1630)

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

We have finished our first round.

We will begin our second round with Mr. McCauley.

You have five minutes.

**Mr. Kelly McCauley (Edmonton West, CPC):** Great.

Gentlemen, thanks for joining us. Thanks for your work and for your answers so far.

I have a couple of things. First, I want to ask if you looked at the contract structures. This is more in regard to the Irving work for the CSC and the AOPS. I'm wondering whether it's a cost-plus or fixed cost and whether PSPC has set up strong enough fencing to protect taxpayers.

**Mr. Andrew Hayes:** We did look at the contract structure largely from the beginning part of the procurement process back in the 2013 or 2014 audit. At the time, we were concerned about making sure that the contract was fair and transparent and that the obligations were clear. In the context of the current audit, we weren't focused to the same degree on that issue, because the procurement had already started.

**Mr. Kelly McCauley:** Can I ask why not? You talked about 2013 being focused on transparency and fairness. The current one is set up rather obliquely. Parliamentarians still cannot get an answer on any of it. We're getting sued by Fincantieri, I think it is, because of accusations that the T26 did not meet the RFP requisites.

Why did we skip over it? Is that something the AG should be looking at again, especially in light of what's happening in Australia with their version of the T26 being overweight and not meeting the specifications as set out in their RFP? It's the same accusation currently going on for our ships as they're being designed.

**Mr. Andrew Hayes:** I'll ask Mr. Swales to perhaps add some details in a minute.

At this point, this procurement process in the shipbuilding strategy had entered into some of the delivery or the implementation angle. That's where we put our scope for this one, to see where there would be delays, if there were any, and mitigation strategies, if there could be some.

I'm not familiar with the details in the example you gave, but Mr. Swales might be.

**Mr. Kelly McCauley:** Mr. Swales.

**Mr. Nicholas Swales:** Thank you, Mr. Chair.

We'd distinguish two things in what my colleague was saying. One is that our 2013 report was speaking about the selection of the

shipyards to be strategic partners, which we judged to be following a good process.

In the most recent audit, we did speak to some aspects of the contract arrangements. Particularly, we were concerned that the government didn't have sufficient steps and protections in there regarding schedule management and that it was not getting schedules in a timely way.

**Mr. Kelly McCauley:** What other risks are there?

I want to bring in an example. I had a briefing with DND and PSPC on this several years ago, and we asked about Irving being the contractor and purchasing services that are only available in that area from themselves: "What protections did we have from them sole-sourcing to themselves?" The comment from DND and PSPC at this briefing came back, "Well, Irving has given us their word that they're not going to overcharge us."

I was kind of gobsmacked that both departments would have such faith in any corporation that their word would be enough. It doesn't appear that there's anything written down or any other fencing to protect taxpayers. We've seen the costs balloon through the roof. Our allies in the States expect the CSC to be well above \$100 billion.

Does the AG share concern about the lack of protection for taxpayers in these contracts, especially the refusal repeatedly over the years by DND or PSPC, in committee, to answer any questions about the makeup of the contracts, whether it's a fixed cost, cost-plus and how the last ships.... There's a contract for three, but what about the other ships?

**Mr. Andrew Hayes:** Transparency and accountability are always at the forefront of our minds when we are doing our audits. On the questions you asked about the contracts in terms of the government's interests, we recognize that some contracts will have enforcement clauses. The question comes down to the relative benefits and costs of enforcing those contract clauses. I think the reality of seeing delays in the ships being delivered is that we've shown it will result in increased costs—

• (1635)

**Mr. Kelly McCauley:** Let me ask a quick question. Are you satisfied that there is protection for taxpayers in how these contracts are written?

**Mr. Andrew Hayes:** I'm going to defer to my colleague Mr. Swales on the details of the contract. We didn't raise concerns about the actual protections in the contract—

**Mr. Kelly McCauley:** Are you comfortable that taxpayers are protected?

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

Mr. Swales, if you could provide that answer in writing to the committee, it would be appreciated. We unfortunately have run out of time.

We'll now go to Mr. Bains for five minutes.

**Mr. Parm Bains (Steveston—Richmond East, Lib.):** Thank you, Mr. Chair.

Thank you to our witnesses for joining us today, and thank you for your report.

My questions are coming from Richmond in British Columbia. I'm interested in the shipbuilding strategy because of its importance to our marine sector on the west coast here.

The report on the shipbuilding strategy reads, "Despite the delays, federal organizations have made adjustments to the strategy's implementation that improve the prospects of timely future deliveries."

Can you go into detail about the adjustments that were made? That can go to either witness, please.

**Mr. Andrew Hayes:** I'll start, and Mr. Swales might add to this.

We know that they changed the order of the building and delivery of certain ships to facilitate the ability of the shipyards to meet their targets and to deliver them. We also know that the addition of a potential third shipyard was intended to release some of the pressure on the delivery times for the ships.

We mention also in the report some of the more short-term approaches that they took, whether it was chartering certain ships for specific purposes or leasing certain ships for particular purposes.

Mr. Swales, I will ask if you want to add to that.

**Mr. Nicholas Swales:** There are two other points I would add.

At the start of our period, some of the expected delivery dates for ships were clearly unrealistic, for instance, the oceanographic science vessel being delivered for October of 2021 when it hadn't started yet. Clearly, there was a need to make some changes.

The other thought I would add is that we comment on the fact that the schedule for the AOPS, the Arctic and offshore patrol ships, was changed to help close a gap that would have opened up in production between those and the Canadian surface combatant, which would have been very costly in terms of loss of trained personnel and the need to rehire and retrain them.

**Mr. Parm Bains:** Would you say that this improved the efficiencies in the report and the potential outcomes?

**Mr. Nicholas Swales:** It was our conclusion that this opened up the possibility that ships could be produced in a more timely manner and that some of the flow of work would be smoother, and that it had the potential to be positive. That's recognizing that this was projecting forward into the future, and the result remains to be seen.

**Mr. Parm Bains:** This report covered the period from 2018 to 2020. When was the last report done prior to that?

**Mr. Nicholas Swales:** We tabled a report on what was then called the national shipbuilding procurement strategy in 2013. That was shortly after the selection of the shipyards had been made to commence the strategy, but before any actual ship contracts had been let.

**Mr. Parm Bains:** What was the shape of our shipbuilding and ship procurement prior to the installation of the new shipbuilding strategy?

• (1640)

**Mr. Nicholas Swales:** The 2013 report talks about the fact that there had been a long period when no government ships were built, so the shipbuilding industry had lost that capacity. There had also been some failed procurements, when the government had sought to run competitions for ships and either didn't receive any bidders or compliant bidders, so there were clearly some challenges being able to get agreements and contracts in place to build ships.

**Mr. Parm Bains:** Thank you for that.

How much time do I have? Do I have enough for one more question?

**The Chair:** You have 30 seconds for a question and answer.

**Mr. Parm Bains:** What are some long-term lessons from this report that you feel can improve Canada's naval procurement process? Answer as quickly as you can.

**Mr. Andrew Hayes:** Identifying the risks to success and the delays that might be occasioned, as well as regular monitoring and follow-up, are the lessons that I would glean from this report.

**Mr. Parm Bains:** Thank you.

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

Now we'll go to Ms. Vignola for two and a half minutes.

[*Translation*]

**Mrs. Julie Vignola:** Thank you very much, Mr. Chair.

I'm also going to ask a question about the national shipbuilding strategy.

Mr. Hayes, what would be the consequences of not including a third shipyard as quickly as possible?

**Mr. Andrew Hayes:** The reason for operating a third yard is to increase the likelihood that vessels will be delivered in a timely manner. It is possible that delivery times will be pushed forward if we do not step up the pace of shipbuilding.

Mr. Swales, do you have anything to add?

**Mr. Nicholas Swales:** That's basically it. If the third yard is not put into operation, we would lack the capacity to produce ships before the old ones reach the end of their life.

**Mrs. Julie Vignola:** Okay.

There are glaring staff shortages throughout the Canadian Armed Forces, including the Royal Canadian Navy and the Canadian Coast Guard. I have noticed that the national strategy focuses solely on construction and economic benefits, not on training and recruitment to ensure that we will have competent staff to operate the 40 or so ships.

What is the current status of the situation?

Is there enough staff to operate these vessels?

Is there a strategy to address these issues?

**Mr. Andrew Hayes:** I don't have the answer to that question.

Mr. Swales, can you elaborate on this matter?

**Mr. Nicholas Swales:** Staff training and recruitment are not part of the national shipbuilding strategy. The Royal Canadian Navy and the Canadian Coast Guard have a duty to transition to meet these needs.

**Mrs. Julie Vignola:** In the event of a staffing shortage, what do you believe would be the most cost-effective and timely options for both the Royal Canadian Navy and the Canadian Coast Guard to address the shortage?

**Mr. Andrew Hayes:** Can you answer this question, Mr. Swales?

**Mr. Nicholas Swales:** I have no comment on this. We haven't done any analysis lately on how to recruit personnel for the Royal Canadian Navy and the Canadian Coast Guard.

**Mrs. Julie Vignola:** All right.

[English]

**The Chair:** Thank you.

We'll now go to Mr. Johns for two and a half minutes.

**Mr. Gord Johns:** Thank you.

Your audit found that delivery of ships was often delayed and delivery schedules were actually getting longer. It's also noted that the government's efforts to address the risk of unreliable schedules wasn't always actually effective.

Can you talk about what factors are due to what the contracting parties use to negotiate a delivery schedule? How could the federal government more accurately establish deliver schedules?

**Mr. Andrew Hayes:** I'd start by saying that—

[Translation]

**Mrs. Julie Vignola:** Sorry to interrupt, Mr. Hayes.

I have a point of order, Mr. Chair.

I can no longer hear the interpretation.

• (1645)

[English]

**The Chair:** Sorry, we have a little translation problem.

It's been solved.

I had stopped the clock for you, Mr. Johns, so we'll start it at this point in time.

Thank you very much. Please proceed.

**Mr. Andrew Hayes:** Thank you.

We would start with a recognition that the government's forecasts for the schedule of delivery were not realistic. At the point in time when we were auditing in 2020, we had suggested that the government should use the lessons learned to increase the likelihood of delivery of ships on time.

In terms of the question about what the obstacles were, there could have been many. I do remember, as we were looking at a target state over the course of the two different audits, the challenges for the shipyards to meet targets states were many, whether it had to do with the personnel or the construction of the facilities for that.

Mr. Swales, would you like to add to that answer?

**Mr. Nicholas Swales:** I would add that we look at the detailed action plan that was provided by the departments in the audit to the public accounts committee in response to our recommendation on schedules. It committed them, in particular, to introduce a tool called "earned value management" into their review of schedules in a systematic and structured way.

If those actions were are followed through, that would go a long way to improving the situation.

**Mr. Gord Johns:** Thank you.

How much time do I have, Mr. Chair?

**The Chair:** You have time for a very quick hello and thank you.

**Mr. Gord Johns:** Okay. I'll get you on the next round.

Thanks.

**The Chair:** We'll now go to Mr. McCauley for five minutes.

**Mr. Kelly McCauley:** I'll take your nine seconds, Mr. Johns.

Can I get back to the question I was asking? Does the Office of the Auditor General believe the contract structures are set up properly to protect the interests of taxpayers?

**Mr. Andrew Hayes:** We didn't raise issues with the structure of the contracts. I think the—

**Mr. Kelly McCauley:** I know you didn't raise them. Was that because you didn't look at it or because you're comfortable with the set-up of the contracts?

**Mr. Andrew Hayes:** How I would answer that is that we didn't raise concerns about the structure of the contracts. The questions that I think should be posed to the government are around how they enforced the contract and what the considerations were that they were balancing to get to the decisions they made about enforcement.

**Mr. Kelly McCauley:** I want to get back to a question Mr. Bains had asked. You mentioned this in your opening remarks and then on page three of the report it states: "Despite the delays, [the government has] made adjustments to the strategy's implementation that improve the prospects of timely future deliveries."

The comments that we heard were that they've reacted to the delays, were opening up possibilities in the future and there was a potential new shipyard, again, in the future.

What have they actually addressed? What have they actually changed to justify the comment that they've improved the prospects of timely future deliveries?

Talking about adding the potential contract doesn't quite qualify to meet the commenting in your report. One seems to be an action they've taken, as opposed to future actions they may take.

**Mr. Andrew Hayes:** As Mr. Swales noted a little earlier, some of those statements were forward looking. The addition of a third shipyard was one—

**Mr. Kelly McCauley:** Let me interrupt. Your comment is the government has “made adjustments”. That's past tense, not future looking. What adjustments has the government made, as in accomplished, as you've stated in your report and your opening remarks?

I'm sorry to be pushy about this, but what have they done to address this to make prospects of timely future deliveries?

**Mr. Andrew Hayes:** We would consider the procurement process to add a third shipyard to be an action. Obviously it takes time to implement that action. We also—

**Mr. Kelly McCauley:** Then a future potential third shipyard is considered action achieved according to your report.

• (1650)

**Mr. Andrew Hayes:** I think we have to recognize that it does take time to put one in place. We also noted some other actions, such as adjusting schedules and build and delivery time frames.

However, it is important to note that in our report we also noted that there is very little time, very little wiggle room in terms of delays before these ships will go past their useful life and not be replaced by other ships. There needs to be a very rigid and rigorous approach to monitoring risks to completion and delivery at this point.

**Mr. Kelly McCauley:** Let me ask you about some of the pricing. We added I think it was a sixth or seventh AOPS. A couple of them have actually been delivered. However, for the last one, the price was almost double the average of the first ones.

The price should be dropping as we learn how to make these. Did the AG look at why the last one added was almost double the average cost of the other ones?

**Mr. Andrew Hayes:** I think you're correct that we would expect that the cost of ships will drop as the shipyards become more experienced in building them.

I'll ask Mr. Swales if he has any insights on—

**Mr. Kelly McCauley:** You specifically referenced adding the AOPS in order to end the gap between the AOPS and the start of the CSC, but adding it at such a higher price, is that a benefit to taxpayers or to the Coast Guard?

**Mr. Nicholas Swales:** I would make two comments. One is that our audit was looking at the timeliness of delivery, not directly at the cost. We didn't directly look at that issue.

One of the other aspects with the AOPS is—

**Mr. Kelly McCauley:** Does it raise a red flag, as an auditor, or do you just drive by and say, “Okay, that's someone else's issue;

we'll look at it later”? When you're looking at the shipbuilding, doesn't that raise a red flag?

**Mr. Andrew Hayes:** It's fair to say that we are always aware and we do take into consideration the costs and variances. However, in this audit we were looking at the broader picture of delivery and timeliness of delivery, the obstacles to delivery. There are, of course, the other objectives of the national shipbuilding strategy that were at play.

**The Chair:** Thank you.

**Mr. Kelly McCauley:** Thanks.

**The Chair:** We'll now go to Mr. Jowhari for five minutes.

**Mr. Majid Jowhari (Richmond Hill, Lib.):** Thank you, Mr. Chair; and thank you to our witnesses. It's very interesting testimony. As well, thank you for the reports.

I'll go back to the fighter jet reports. In paragraph 3.19, your report indicates the following:

In 2016, the Government of Canada directed National Defence to have enough aircraft available every day to meet the highest NORAD alert level and Canada's NATO commitment.

Later on, you indicate that “it was a significant change”.

I know in your opening remark and response to some of my colleagues you said you're not in a position to be able to make a comment about the policy, and I appreciate that, but when words such as “it was a significant change” are used, I would assume that this is a significant change in the scope.

In your opinion, how are scopes changed on the two fronts, on supporting our commitment to NORAD and NATO, that put you in a position when you did your assessment to say it was a significant change?

**Mr. Andrew Hayes:** I would answer that question by pointing to the fact that in the report we identified that there would need to be a 23% increase in the number of aircraft. There would need to be about a 36% increase in trained pilots. What we referred to in the report was that the forces had 64%.

**Mr. Majid Jowhari:** Did our commitment or the directive from the government mean that we had to go to a higher, elevated NORAD or higher level of support for NATO, and that's why it's such a big change?

**Mr. Andrew Hayes:** I think the difference was that we hadn't, as a country, been approaching meeting NORAD'S highest level of alert and our NATO commitments at the same time. I think that's the answer to that question. That was a big change.

**Mr. Majid Jowhari:** Thank you for clarifying that.

Also, there was a comment about \$3 billion and there being no plan. I want to go back. When you did your analysis, did you look at general breakdown and categories that that \$3 billion was being assigned to? Has that \$3 billion been spent to date, and if not, do you know how much of it has and where it's been spent?

• (1655)

**Mr. Andrew Hayes:** I haven't had the information since our 2018 report about how that money has been spent. We did identify that the plan we would have expected would have been to deal with the combat capability, of course, given that the aircraft would have been required for a longer period of time. There was also the element of purchasing the Australian jets, but we don't know exactly where that money has been spent at this point, because it is four years down the road now.

**Mr. Majid Jowhari:** You don't know whether all of it has been spent. You just know this is how much was earmarked.

**Mr. Andrew Hayes:** That's correct. That might be something we would follow up on.

**Mr. Majid Jowhari:** Yes, that would be great. I actually want to point out paragraph 3.21 of your report as well, which says that "In 2017, National Defence approved a \$628 million plan to increase the number of available aircraft. At the time of...audit, the plan was in the early stages of implementation, and it was too soon to assess whether it [worked or not]."

At least we know there was a clear earmark of \$628 million. Four years forward, do you have any idea whether this money has been spent and has it yielded the result needed?

**Mr. Andrew Hayes:** I don't have that information at this point. Again, that would be something that we would follow up on in future work.

**Mr. Majid Jowhari:** Okay, thank you.

Quickly, I'll ask one last question. I do realize there were lots of conversations about replacement of the CF-18s, and the F-35 was one of the candidates in there. Back in 2010 there was heavy discussion on the procurement of those, but those were delayed. Do you have any insight into why and what the impact is?

**Mr. Andrew Hayes:** I might turn to Mr. Swales to see if he has insights there. I don't have any ideas to share on that point.

**Mr. Nicholas Swales:** I think we're talking about the fighter replacement project that was reset at the time, in the mid-2010s, and so we are now, as I understand it, at the point of assessing the last two competitors with a view to making a decision. It's been reported publicly, anyway, that the decision is due within a year or so.

**Mr. Majid Jowhari:** Thank you.

**The Chair:** We're now into our third round.

We'll go to Mr. Paul-Hus for five minutes.

[*Translation*]

**Mr. Pierre Paul-Hus:** Thank you, Mr. Chair.

My question has to do with the National Defence departmental plan 2020-21.

It states that the percentage of air fleets that should be serviceable to meet requirement and operational readiness criteria is 85%. The target for achieving this was March 31, 2021.

In 2018, it was 79%. In 2019-20, it was at 60%, and currently, it's at 55%.

In 2018, we went around in circles. Canada wanted to buy 18 Super Hornets, but there were no pilots to fly them. It bought Australian planes knowing there were no pilots.

When you know there are no aircraft or pilots, and you buy the aircraft without pilots to fly them, there's a problem.

Mr. Hayes, is this a political issue or is it a Department of National Defence issue? Who makes the decisions?

**Mr. Andrew Hayes:** Our mandate is to conduct departmental audits.

The analyses revealed that there were problems with the number of pilots and technicians.

We believe the department is accountable.

**Mr. Pierre Paul-Hus:** Okay.

You say it's the responsibility of the department.

When the department decides to buy second-hand Australian aircraft knowing that there are no pilots to fly them, shouldn't the government take the initiative to tell the department responsible for the purchase that there's a problem? Isn't it up to the government to say no?

• (1700)

**Mr. Andrew Hayes:** Decisions are made at the political level. Our mandate is to examine what the department is doing. It's important that departments provide the necessary information to the people who make the decisions. That's what we're talking about.

**Mr. Pierre Paul-Hus:** Are you telling me that the department kept the government in the dark, that it didn't have the necessary details to make a decision on a \$3 billion purchase and that it was caught off guard?

**Mr. Andrew Hayes:** I can't answer that question.

Mr. Swales, do you have any comments to make about this?

**Mr. Nicholas Swales:** No, I don't have anything to add.

**Mr. Pierre Paul-Hus:** Okay.

Let's talk about surface combatants. An Australian report noted that the Type 26 that Canada is preparing to build presents a capacity issue. It's too heavy and too slow for combat operations, and it consumes far too much fuel.

The Parliamentary Budget Officer has done an assessment of the different ship models that Canada could have. He even estimated that the costs were much higher for the Type 26 than originally planned.

Do you have any updated data? The Parliamentary Budget Officer hasn't received an update from the government on the amounts. In addition, there is a capacity issue, which the Australian government already knows about.

Doesn't that raise a red flag for the Auditor General? Can a change be made before it's too late?

**Mr. Andrew Hayes:** Mr. Swales, do you have anything to add?

**Mr. Nicholas Swales:** We have no additional information on what you're referring to. There are certainly some concerns about this project.

**Mr. Pierre Paul-Hus:** Your office isn't aware of everything, but you're aware of an Australian report on ships being built at a cost of over \$77 billion.

Should DND raise a red flag or sound the alarm to ask what to do with this information? Will the government hit a wall or is it not time to try to make changes?

Do you have any advice for parliamentarians on this?

**Mr. Nicholas Swales:** I can say two things about this report.

First, in our National Shipbuilding Strategy report, we say that using experts to validate information in the development and procurement process is the right thing to do. That's what the Australians have done, and it's a model to follow.

Second, although the basic model, Type 26, is the same, there are ways to tailor the structure to the needs of each country. The way the Australians have done it has raised some concerns, but that doesn't necessarily mean that Canada will have to face the same challenges.

[English]

**The Chair:** Thank you.

We'll now go to Mr. Kusmierczyk, for five minutes.

**Mr. Irek Kusmierczyk (Windsor—Tecumseh, Lib.):** Thank you very much, Mr. Chair.

I really do appreciate the conversation and the responses we've heard today. Thank you very much for your testimony.

Besides increasing the naval capacity of Canada, some of the parallel goals or aims of the national shipbuilding strategy are to restore shipbuilding to rebuild the marine industry, the blue economy in some sense, and to create jobs as well. We see that in our community, in our region, with a company called Hike Metal, which is a small shipbuilder and supplier out of Wheatley, not too far from Windsor.

Other than distributing economic benefits to different regions, do you see other advantages for increasing the number of shipyards with the capacity to build, for example, icebreakers and other ships?

• (1705)

**Mr. Andrew Hayes:** I'll ask Mr. Swales to add to my answer. Obviously we have three coasts, and the ability to operate in the west, the east and the north is becoming even more important as we are seeing shipping lanes expand in the north and that sort of thing.

Having a shipbuilding environment here in Canada is a reasonable undertaking. At this point in time, the balance of getting ships in a timely way with the economic benefits and with the objective of getting a sustainable shipbuilding economy going is a challenge.

Mr. Swales, would you like to add to that?

**Mr. Nicholas Swales:** I would add two points. One is that we did see in the late 1990s and early 2000s the impact of a boom-and-bust cycle on shipbuilding, the cost it can incur and the time it can take to rebuild in order to meet the underlying policy statement, which is that government ships will be built in Canada, broadly speaking. If we're going to have that policy, it makes sense to have the capacity to implement it.

The other thing I would add is that we need to remember the shipbuilding strategy. While our report talked about the large ships, it does have two other components to it: small ship construction and repair, refit, and maintenance. There is a lot of other activity going on through the strategy that requires an industry to support it or undertake it.

**Mr. Irek Kusmierczyk:** In looking at Canada's fighter force, you talked about some of the HR concerns and the challenge with recruiting and retaining talent. I know that's outside the scope of the shipbuilding report that you provided, but is there a sense that we're seeing an influx of talent technicians as a result of the fact that we've expanded the number of shipyards now and because of the national shipbuilding strategy? Again, I know it's outside the scope of the report, but is that something you've picked up on? Are we seeing, for example, local colleges pumping out or turning out new graduates specifically in shipbuilding with those technical skills?

**Mr. Andrew Hayes:** I'll start off with the comment that Mr. Swales made a bit earlier about the fact that in the forces there might still be a problem, based on their public reporting for recruitment and retention. I think your question expands into whether jobs are being created and whether the various regions are benefiting from that. Mr. Swales may have a view on that.

**Mr. Nicholas Swales:** I would say two things. One is that through looking at the idea that there's a need to maintain the workforce, clearly that workforce has been developed. The other aspect is about one of the economic benefits that was required by the shipbuilding strategy. This is not something we talked about in the report, but it's a feature: Companies were required to invest in building that workforce. Some of the economic benefits were specifically targeted at that activity.

**Mr. Irek Kusmierczyk:** Mr. Chair, how much time do I have?

**The Chair:** You have eight seconds.

**Mr. Irek Kusmierczyk:** Okay. I will yield.

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

We'll now go to Ms. Vignola.

Ms. Vignola, we'll give you an extra eight seconds. You have two and a half minutes.

[*Translation*]

**Mrs. Julie Vignola:** Thank you, Mr. Chair.

In your audit of the National Shipbuilding Strategy, you mention that the government had taken steps to extend the useful life of its aging ships, but that you hadn't made any recommendations in this regard.

Since essential services have been delayed due to aging ships, why has your office not made recommendations?

**Mr. Andrew Hayes:** Mr. Swales, do you have a comment on that?

**Mr. Nicholas Swales:** That's basically because our comment was about the need for timely replacement of ships. Life extension was essential, but the real challenge is to make sure that the new ships arrive on time.

• (1710)

**Mrs. Julie Vignola:** Okay.

In your audit, you also mentioned that you hadn't verified whether the ships that would be built would provide the expected capacities.

Why is that?

**Mr. Andrew Hayes:** I would ask Mr. Swales to answer that question.

**Mr. Nicholas Swales:** Our audit focused on delivery times, on whether the ships would be delivered on time. At the time of the audit, almost no ships had been delivered. The process of confirming whether the new vessels had the expected capacities wasn't really possible for the vast majority of ships.

**Mrs. Julie Vignola:** What resources would your office need to evaluate the National Shipbuilding Strategy as a whole and to ensure that all the objectives of the strategy are indeed met?

**Mr. Andrew Hayes:** I think we have the capacity internally to do the assessment. The question is whether progress has been made so that we can do all of this work.

**Mrs. Julie Vignola:** Okay.

Thank you, gentlemen.

[*English*]

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

We'll now go to Mr. Johns. As Ms. Vignola still had 10 seconds, we'll add that to Mr. Johns' time.

Mr. Johns, you have two minutes and forty seconds.

**Mr. Gord Johns:** Thanks.

I'm going to go right back to capacity. You touched on small ships a couple of minutes ago. Here we are. We talked about Port Alberni, where the Port Alberni Port Authority is actively trying to get federal investment to build more dry dock space to build capacity.

What we've learned and what we've been hearing at this committee is that countries that have invested in long-term strategies for shipbuilding have much lower costs overall when it comes to shipbuilding.

Do you see potential for the government to create funding programs, so that they can invest in building capacity? Overall, it would help deal with some of the timing on delivery schedules and costs.

**Mr. Andrew Hayes:** That's a matter of policy. It would be a good question for the government.

I'll add that the idea of reducing costs by not having a boom and bust cycle is one of the objectives from before this procurement strategy was even implemented.

Your question ties to the second and third objectives of having a sustainable marine industry in Canada and having economic benefits realized for Canada.

**Mr. Gord Johns:** Right now, the markets where these ships are being built are very expensive when it comes to housing and the cost of living. Other countries, such as Norway, Finland and Sweden, have decided to invest in rural, coastal, communities and expand their shipbuilding capacity in those areas, because it's more affordable for people to live there.

As a long-term strategy, do you see that as an advantage that we should be looking at in Canada?

**Mr. Andrew Hayes:** Your question makes me think of the focus that we place as an office on evaluating and examining how the government is achieving the sustainable development goals, which would include infrastructure and spreading out benefits across the country.

At this point, we look at what the government has committed to, but that lens is something that comes through to me when you're asking that question.

**Mr. Gord Johns:** Right now, there is no federal program at all for communities like Port Alberni and others. There's pretty much no dry dock capacity at all on the west coast.

**The Chair:** Thank you, Mr. Johns. You left 10 seconds nice and clear and open.

We'll now go to Mr. Lobb for five minutes.

**Mr. Ben Lobb:** Thanks, Mr. Chair.

That would be my hundred-metre dash time—10 seconds—so I have plenty of time to run my 100 metres there. Maybe I could have 35 years ago.

I have a question for the witnesses. Back in 2018, I think, there was an issue with the welds on the first of the offshore fishing vessels. It was to do with the semi-automatic welding machine. Remember, back at that time, they had to redo almost 120 feet of welds.

I don't think the last of those have been delivered yet. In your report, I think you said it was under construction. Because that was a very significant issue, did your report look at it at all?

• (1715)

**Mr. Andrew Hayes:** I believe that we did refer to that as a challenge for delays.

Mr. Swales, did you want to speak to that?

**Mr. Nicholas Swales:** Yes, that's right. We identified it as a source of delay.

I would mention that the third of those ships has now been delivered.

Of course, our report was completed some time ago.

**Mr. Ben Lobb:** Was that issue corrected after the first one, with corrective actions in place so they didn't have issues on the second and third vessels? Or were there still issues with the welds on the second and third ones?

**Mr. Nicholas Swales:** It's our understanding that the ships were accepted into service after examination and testing, so a satisfactory solution had been found.

**Mr. Ben Lobb:** That's good.

In my area, we have Bruce Power, a nuclear power plant. They've been involved in a number of refurbishments of reactors through the years. In each one, obviously, they become better and better. Now, they're very efficient and are probably world leaders at that site in refurbishing reactors.

Is this something that you observed in your review and report? That as each ship gets passed through, they're better and more efficient, with less overruns...?

**Mr. Andrew Hayes:** I believe that's the expectation as the strategy moves along: that after the construction and delivery of the first few ships, it will be easier and more efficient for the next ships.

Mr. Swales, would you like to add to that?

**Mr. Nicholas Swales:** There's not much I can add, other than to say that is part of the expectation around the delivery schedules of each of the classes of ship where there are multiple ships.

**Mr. Ben Lobb:** Yes, so in that case, for the ones on the west coast, where they're doing those offshore vessels one-two-three, is that what your experience was when you did your report? Was two was quicker and better than one? Was three was quicker and better than two and one? Or was there not much difference in one through to three?

**Mr. Andrew Hayes:** We do have in the exhibit some of the actual delivery dates for the early ships. It did show, for example, for the offshore fishery science vessels, that the second was delivered only eight months later than the deadline, as opposed to 10 months for the first one, so there is a bit of a speeding up of the delivery there. Of course, you will see that the third one came a little bit later. Whether that is attributable in some respects to the early stages of COVID or otherwise, that third ship was delivered after our audit period had finished.

**Mr. Ben Lobb:** Exhibit 2.3 in your report states, "Delays in delivering new ships had many effects", and one was cost increase. In

2019, you identified that a design change would cost "\$111 million because of delays".

Do you investigate that? Was that design cost a mistake? Was it something in a technological change? Did you identify what that was and why that was?

**Mr. Andrew Hayes:** I'll ask Mr. Swales if he might be able to answer that.

**Mr. Nicholas Swales:** Thank you.

The issue was, without going into the specifics, that it was taking them longer than they had intended, and it was because it's a very complex design. The cost represented the additional staff time required to continue the work.

• (1720)

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

We will now go to Ms. Thompson for five minutes.

**Ms. Joanne Thompson (St. John's East, Lib.):** Thank you, Mr. Chair.

Welcome.

I'm going to stay with shipbuilding. I represent St. John's East. The Coast Guard is very important not only to my riding but to the province.

I want to talk about procurement for a couple of minutes. In paragraph 2.62 of your report, you mentioned that several ships are "already at or beyond their expected service lives", in part "because of failed procurements".

What procurements are you referring to? To that, how would those have improved the situation if they had been allowed to go through?

**Mr. Andrew Hayes:** I will turn to Mr. Swales again for this answer.

When there are failed procurements, it is natural or almost unavoidable that there will be delays because these procurements do take quite a long time from the beginning to when you actually see construction and then delivery. Mr. Swales, would you be able to talk about the specifics of the failed procurements?

**Mr. Nicholas Swales:** Sure. I would to a degree. I'm sorry—I do have the information but not necessarily in my memory at this precise moment.

One of them was what became, then, the joint support ships. An initial attempt was made to acquire joint support ships. If I recall correctly, the situation was that there were no compliant bids, so nobody came forward within the price envelope the government had identified. At that point, the decision was to not go forward with that procurement at that time.

**Ms. Joanne Thompson:** Thank you.

I really appreciate questions in different areas, but I'll finish with something a little bit more general.

With regard to the delays to essential service deliveries, which we've heard so much about in the last couple of hours, how often would they have been attributable to factors that were really outside of departmental control?

**Mr. Andrew Hayes:** That's a difficult answer to put our finger on. One of the most important elements of our report is that thorough risk analyses and identifying specific time-bound and measurable risk mitigation strategies can help to reduce the likelihood of delays occurring. I don't know if right now, without those processes in place, we can put a precise amount of time or cost on exactly what could have been avoided.

I talk about the risk mitigation and monitoring. There is, obviously, the importance of implementing mitigation strategies at the right time in order to make sure that costs and delays don't pile up.

**Ms. Joanne Thompson:** Thank you.

I've finished my questions. Thank you.

**The Chair:** Thank you very much, Ms. Thompson.

We've reached the end of the third round. Because of the time, and unfortunately due to the vote, we got started a little bit late. So at this point in time I want to thank the witnesses for participating today and the Auditor General's office for being here.

In particular, Mr. Hayes and Mr. Swales, thank you for participating and for answering our questions. Anywhere you felt you could add more or where you were asked to submit something in writing, if you would forward that to our clerk, it would be greatly appreciated, and our clerk would distribute that to committee members.

Thank you very much for that.

I would like to thank our interpreters for being here today and assisting, as well as our technicians for the work they've done to help us out, as well as our analysts and our clerk for the great work they do in allowing us to move forward.

With that said, committee, I'd like to thank you for being here. We will meet again on Friday, and we will see you then.

With that, I declare the meeting adjourned.

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