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Chair: Mr. Robert Kitchen



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• (1300)

[*English*]

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

Good afternoon, everybody. Welcome to meeting number 20 of the House of Commons Standing Committee on Government Operations and Estimates. Today the committee will be hearing from the Parliamentary Budget Officer about the main estimates for 2022-23. It will then continue its study on the air defence procurement projects.

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 by 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 they are 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 points are recommended for those who are 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 over 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. I thank members in advance for their co-operation.

My apologies. We're having a little computer glitch, so we're just going to suspend briefly.

• (1300)

(Pause)

• (1307)

The Chair: We're back in. I apologize for that. It is Friday the 13th, and computers—at least mine—have been nothing but glitchy today.

I'd like to welcome Mr. Giroux and his colleagues. They are here with us.

I'll give you five minutes to make an opening statement.

[*Translation*]

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you, Mr. Chair.

Good afternoon, Mr. Chair and members of the committee.

Thank you for the invitation to appear before the committee today.

We are pleased to be here today to discuss our analysis of the Government's Expenditure Plan and Main Estimates for 2022-23 fiscal year, which was published on March 1, 2022^x.

With me today I have Kaitlyn Vanderwees, our lead analyst on the Estimates, and Christopher Penney, our lead analyst on defense issues.

The Main Estimates for 2022-23 fiscal year outlines \$397.6 billion in budgetary authorities, \$190.3 billion of which requires approval by Parliament. The first part of this money, about \$75 billion, was approved through C-16 at the end of March.

Of note, proposed spending for the Indigenous portfolio will total \$45.4 billion in these main estimates, which represents a 214 per cent increase over Indigenous-related budgetary expenditures in 2017-18. This significant increase is primarily related to the roughly \$20 billion in compensation for First Nations children and their families.

Additionally, Federal spending on Elderly Benefits is set to increase by \$6.7 billion, or approximately 10.9 per cent, to a total of \$68.3 billion in 2022-23, and the Canada Health Transfer will grow by \$2.1 billion, or 4.8 per cent, to \$45.2 billion in 2022-23.

[English]

A concern that I would like to point out is that while the government refers to the main estimates as the government's expenditure plan, they generally do not include any measures in the corresponding budget, nor do the departmental plans, and therefore they present an incomplete picture of government spending.

As such, it hinders your ability to understand and scrutinize the government's funding requests, track new policy measures announced in the budget or identify the expected results of new budget measures. This committee has released recommendations in both 2012 and 2019 to remedy these shortcomings, notably to table the budget and main estimates concurrently with consistent information and present details of new spending presented in main and supplementary estimates in departmental plans as soon as possible.

I see no reason that they cannot be implemented. These changes would create a cohesive, intuitive and, critically, transparent financial decision-making process for legislators.

We'd be pleased to respond to any questions you may have regarding our analysis of the expenditure plan and main estimates for 2022-23 or other PBO work.

Thank you, Mr. Chair.

● (1310)

The Chair: Thank you, Mr. Giroux.

We will now start questions. We will start with Mr. Paul-Hus for six minutes.

[Translation]

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

Good afternoon, Mr. Giroux.

Thank you for being with us, and thanks to your colleagues as well. It's always a pleasure to see you.

Near the end of your statement, you mentioned a major problem, which the committee noted in 2012 and 2019, and that's the fact that government spending and the budget don't match up.

Does that explain the other problem that recently arose, which you reported and which is the reason you're here today?

I'm talking about the \$15 billion discrepancy in the National Defence budget that the President of the Treasury Board couldn't explain. Even the explanation given by the deputy minister, who was accompanying her, wasn't clear. That's why we asked you to appear today to explain the \$15 billion amount, which doesn't appear in the documents initially presented to parliamentarians.

We're being asked to approve spending that doesn't match up. Does what you said today explain this \$15 billion discrepancy in the budget?

Mr. Yves Giroux: Yes, this is one of the potential consequences when federal budgets, which are tabled on varying dates, don't align perfectly with the estimates.

As you said, the Minister of Finance's budget allocates \$15 billion for the Department of National Defence that can't be completely explained by what's presented in the budget or the supplementary estimates.

The federal budget includes \$15 billion for National Defence, part of which comprises investments over several years to increase spending by the Department of National Defence. However, there's no explanation for the rest of it, at least not in the information available to the public or to my office. The information in the budget isn't consistent with the main estimates documents that you're required to approve as parliamentarians.

Mr. Pierre Paul-Hus: I see.

I'm going to ask a simple question related to this.

The government presents its budget to MPs, the public and the media. For example, let's say it announces that the deficit will be \$25 billion. Is that true, or will subsequent budget updates be issued during the year? Is it possible we'll never really know where it stops?

Is it possible that we'll find out later but that the budget presented to us doesn't really give us the true picture?

Mr. Yves Giroux: If I had to explain this in clear terms, I'd say that the budget the minister and government table in the House is probably more up to date than the main estimates, which are the focus of today's discussion.

The main estimates are a snapshot of the public finances and spending planned by the government departments and agencies as of March 1st, whereas the budget is introduced in April. The main estimates are a document that lags behind the actual situation. The federal budget tabled by the minister is more up to date than what we're discussing today, which is the legislative instrument that funds the government's operations.

● (1315)

Mr. Pierre Paul-Hus: Thank you.

I'll move on to another subject.

This week, we welcomed Kevin Mooney, the president of Irving Shipbuilding Inc., to the committee and discussed the contract for the surface combatant ships, the 15 future frigates.

The committee has a lot of data for our study on naval operations, but we're having trouble understanding it.

On Tuesday, Mr. Mooney said that, based on the data presented, the estimated cost to build the 15 frigates was currently less than \$60 billion. He also told us that our government had estimated the cost of the project at about \$60 billion. However, the estimate cited in the report you published last year, or two years ago, was \$77 billion.

Mr. Mooney also told the committee he was issuing quarterly updates. However, you often tell us you find it hard to get the information you and your team need to do your work.

Have you received a more accurate update on the frigates?

We hear various numbers: less than \$60 billion, approximately \$60 billion and \$77 billion. Which is the right amount?

Can you answer that question?

Perhaps your colleague who handles defence issues can.

Mr. Christopher Penney (Advisor-Analyst, Office of the Parliamentary Budget Officer): We haven't received any updates at this time. We can definitely do a new search to update the data should committee members wish.

Mr. Pierre Paul-Hus: We'd like that.

I'd also like to note that we adopted a motion last week calling on the government to prepare a progress report on all maritime and air defence procurement issues. That report would have to be submitted to the committee on June 30.

One thing's for sure: we want to know where we stand. No one really seems to know where all these billions of dollars are going, and that's a major concern.

Here's my last question.

Are you conducting studies on any defence procurement topics other than ships?

Mr. Yves Giroux: We're doing a study on the target of 2% of gross domestic product, GDP, to be allocated to national defence spending. It will be available in the next few weeks.

With regard to defence and procurement, we still have the option of updating previous studies in light of new data and information.

Mr. Pierre Paul-Hus: Great.

Thanks very much.

[*English*]

The Chair: Thank you, Mr. Paul-Hus.

We will now go to Mr. Kusmierczyk for six minutes.

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

Mr. Giroux, you've recommended in your report that a fixed date, as I understand it, be adopted for tabling the budget so that it can be reflected in the main estimates to, as you said, avoid confusion.

This year, Russia invaded Ukraine on February 24. Obviously things happened around the world and domestically that require significant expenditure and attention. If this rule were in place, I

would argue that there wouldn't have been time for the budget to respond to that major development.

I want to ask whether your recommendation to have a fixed date for the budget is not too rigid.

Mr. Yves Giroux: That is certainly one of the disadvantages of having fixed dates for budgets. It removes discretion on the part of the government as to the timing of tabling the budget; however, even if a government has discretion, as governments have had for the last several decades, there's always a possibility of unforeseen events happening that throw a monkey wrench into the fiscal planning of the government.

When the Minister of Finance tabled her budget in April, the invasion of Ukraine was already behind us, but there could be other events happening in the next couple of days that would severely affect the fiscal planning of the government. There's always the possibility of affecting the government's finances, and that's why the government always has a possibility of tabling an update if it's deemed necessary.

As we saw in the distant past—for example, when September 11, 2001, happened—the government tabled a budget in December that was outside of the normal cycle. There's always that possibility of tabling an update.

Mr. Irek Kusmierczyk: Items in the supplementary estimates undergo due diligence through the Treasury Board process to basically ensure that the public is getting good value for money.

When you align the main estimates with the budget, could that in any way interfere with that work in terms of providing that deeper analysis before it's voted on?

• (1320)

Mr. Yves Giroux: It's a possibility, especially if the Department of Finance and the Treasury Board Secretariat don't work together or don't work well together.

In my experience, having worked on several budgets, it is possible to overcome these obstacles by having the Department of Finance and the Treasury Board Secretariat work very closely together on potential and decided budget measures and having the Treasury Board Secretariat do its due diligence, possibly before the budget, so that items in the budget can also be included in the main estimates or in the supplementary estimates.

Mr. Irek Kusmierczyk: With regard to the government's expenditure plan in the main estimates report, you highlight the fact that this government is putting forward increases for elderly benefits. These have increased by 4.9%, which is \$2.9 billion. You highlighted in this report what we're seeing here. It says, "Over the same time period, the percentage of persons 65 and older in low income has been steadily decreasing and is projected to slowly decline over the medium term."

Can you tell us what is happening in terms of that number? What is the reason that fewer Canadians over the age of 65 seem to have low incomes?

Mr. Yves Giroux: I'd have to get back to you on the specifics.

I can tell you about what's driving the increase in expenditures on elderly benefits: It's mostly demographics. There's an increase in the size of the population aged 65 and over. The increases in benefits notably include the one-time increase in statutory GIS spending related to the one-time payment for GIS recipients who received pandemic benefits.

Mr. Irek Kusmierczyk: Is it possible that as the government invests more money in our seniors, we are seeing a reduction in the number of seniors who are living in poverty or living in low income? Can you draw that conclusion?

Mr. Yves Giroux: It's quite possible—especially for low income seniors who are receiving the guaranteed income supplement—that as they receive increased benefits, fewer of them are below the poverty line or the low-income threshold.

Mr. Irek Kusmierczyk: Okay, I got it. Thank you, Mr. Giroux.

Do I have any more time, Mr. Chair?

The Chair: You have one minute.

Mr. Irek Kusmierczyk: Great.

In your work plan, one item is a "stochastic debt sustainability analysis". Can you explain to laypersons like me what a "stochastic debt sustainability analysis" is?

Mr. Yves Giroux: I assume, Mr. Chair, that I don't have 30 minutes, so I'll try to summarize that pretty quickly.

It looks at the future path of debt and deficits in assuming a variety of scenarios. We run a couple of shocks to key economic variables and we look at what those would do to the debt path over the next several years.

Mr. Irek Kusmierczyk: Basically you're throwing different scenarios at the algorithm or whatnot and trying to see a range of outcomes that may come out of that.

Mr. Yves Giroux: Exactly. We run thousands of simulations and see what the likely path is, what the more likely paths are between 25% and 75% of chances, and then the very unlikely scenarios of exceptional circumstances.

The Chair: Thank you, Mr. Giroux.

I will now go to Ms. Vignola for six minutes.

[*Translation*]

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

Thanks again to the witnesses for being with us.

I'm going back to the \$15 billion that Mr. Paul-Hus discussed earlier.

Here on the committee, we've had a lot of trouble figuring out what this amount was for. We ultimately learned that it was related to capital spending not yet approved by the Treasury Board, although no further information was provided.

Do you have any more information on that than we do?

Mr. Christopher Penney: We unfortunately don't have any further information on that.

Mrs. Julie Vignola: All right.

In your report entitled, Budget 2022: Issues for parliamentarians, you state, "...the private sector forecast of nominal GDP...has been revised up by \$41 billion per year, on average, over 2021 to 2026, due almost entirely to higher GDP inflation in the near term."

I have two questions here.

What's your opinion on this upward revision? Is it optimistic, realistic or pessimistic?

In the medium term, if inflation lasts longer than anyone can predict, how will that affect the budget? What should we expect?

• (1325)

Mr. Yves Giroux: I think those forecasts were realistic when they were made. Inflation has clearly been stable since they were established and published. If private sector forecasters redid them today, the \$41 billion amount would very likely be revised upward since there's no indication inflation will abate.

As for the other question on the impact of sustained inflation, prices are obviously rising, but I imagine you're mainly referring to the effect that would have on public finances. Since the federal government charges roughly 14% or 15% of GDP in direct and indirect taxes, its spending will also rise slightly under higher inflation to offset the increasing cost of certain benefits and the goods and services it purchases. Its operating expenses will grow too, but its revenues will also rise comparably with inflation.

It's hard to determine the exact impact on public finances because that depends on the source of inflation. Is it mainly oil and energy or imported goods? Right now, it's mainly energy and fossil fuels, and that has a positive effect on public finances.

Mrs. Julie Vignola: In the same report, you stated that, "Expanding the audits of CRA will likely trigger an increase in the number of objections and appeals from taxpayers" and that no funding has been announced in Budget 2022.

Have you also had an opportunity to mention this to the government authorities? If so, how did they react?

Mr. Yves Giroux: We did not directly contact the Canada revenue agency, the CRA, or the Department of Finance, or even the government in general. We publish our reports, and people in the departments and the government are free to read them or not. I assume they have been read, but we haven't had any reaction from the Canada Revenue Agency or the Department of Finance about this conclusion.

To my knowledge, we haven't received any comments either. No one has told us that we were wrong or that we had made a mess of things. We haven't had any feedback on it.

Mrs. Julie Vignola: The surprise, then, might well appear in the supplementary estimates (A), for which there was an internal briefing on April 28.

Mr. Yves Giroux: It's possible. But the CRC may reassign internal resources to increase the amounts allocated to these sectors. This could be done within a few months or years, when the impact of appeals and objections begins to be felt on operations. There could also be a change in CRA internal operations to deal with the expected inflow of objections.

Mrs. Julie Vignola: In the same paragraph, you also mentioned that, "CRA's performance on the collection of arrears is below the average of comparable countries."

I have two questions on that.

Firstly, what are the repercussions of delays in collecting arrears, where applicable?

Secondly, which countries are most successful and could we improve what we do to be as effective as they are?

Mr. Yves Giroux: The repercussions of an increase in arrears are at two levels. First of all, interest on arrears accumulates because the Canada Revenue Agency collects interest on unpaid amounts owing, which is altogether justified. Unfortunately, it also means that the longer it takes to collect the amounts owing to the Crown or the Canada Revenue Agency, the more the risk of default increases. For example, taxpayers may have declared bankruptcy and left Canada.

I don't have the information about the most successful countries with me at the moment, but we could certainly supply it to you in writing following this meeting.

• (1330)

Mrs. Julie Vignola: Thank you, Mr. Giroux.

[English]

The Chair: Thank you, Mr. Giroux.

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

Mr. Gord Johns (Courtenay—Alberni, NDP): Thank you very much for being here, and thank you for the important work you're doing.

Can you speak about COVID and how it has impacted both the work you're doing and the government in terms of budgeting? I

can't imagine the challenges you're facing. Maybe you can speak to some of those challenges.

Mr. Yves Giroux: The challenge it has represented for the office, and still continues to represent, is that the workload has increased because of government expenditures.

At the early outset of the pandemic, there was not a lot of information being made available to Canadians on the budgetary situation, so we had to step up and provide that information. It also meant a lot of work for the employees, the staff in the office, to try to independently estimate the cost of the multiple measures that were put in place. That was one impact.

As with millions of Canadians, our employees have had to work from home for a significant period over the last two years. Some continue to work from home, at least part time. It has presented challenges, but in that sense we're no different from others.

What it meant for the fiscal situation, as we have seen, is a dramatic increase in government expenditures and the deficit, which the government is still recovering from by lowering the extraordinary expenditures under COVID and returning to a more normal level of deficit that is closer to what we saw before the pandemic.

Mr. Gord Johns: In your report on the main estimates 2022-23, you noted that the Canada health transfer, which is obviously the largest transfer between the provinces and territories, is set to increase by \$2.1 billion, or 4.8%, to \$45.2 billion in this fiscal year.

You projected that by 2026-27, transfers will reach about \$56.1 billion to cover rising health care costs. As you know, the provincial and territorial premiers have asked the federal government to increase its share of health care costs through the health transfer.

Should the formula used to calculate the health transfer be revised?

Mr. Yves Giroux: That's an excellent question, but I don't think I'm the best person to answer that question, given that it's a matter of policy and that it's up to the government to decide how quickly or not it wants to increase the Canada health transfer.

Mr. Gord Johns: Given that, have you analyzed what it would cost to increase Canada's share significantly in terms of working towards the former arrangement back when Tommy Douglas worked on bringing health care to fifty-fifty, which was the agreement initially?

In terms of each percent towards 50%, have you costed out what that looks like?

Mr. Yves Giroux: I don't remember having costed that, not since I was appointed. Maybe we did, and I forget. If that's the case, my apologies, but I don't think so.

Mr. Gord Johns: We have over 235,000 homeless people in Canada. Have you costed out what it costs overall for the health care system and the criminal justice system? We know that many people end up in the criminal justice system or mental health care, and all of that. Have you costed out what it costs our overall society?

Mr. Yves Giroux: Again, it's probably a disappointing answer, but we haven't costed that. It would be a tremendous undertaking, because the costs are multiple, as you pointed out. It would be challenging, and we have not costed that.

Mr. Gord Johns: Given that it's such an enormous cost, do you think that it should be costed out and that the government should provide resources so that you can do that, if we're going to get to the root of these problems and save taxpayers money in the end by providing solutions?

Mr. Yves Giroux: Again, that's a very good question.

Mr. Gord Johns: Do you have the resources to conduct such a study, do you think?

Mr. Yves Giroux: If I were to undertake the costing of such an important and complex issue, I would certainly have to drop other aspects of my mandate.

Mr. Gord Johns: Without dropping aspects of your mandate, if additional resources were provided to make it possible to do that job, would it then not impact your mandate?

Mr. Yves Giroux: We could certainly look at ways of doing that. Given that it's a multi-dimensional issue, I'm not sure that we would have an estimate that would be robust, but we could probably come up with a reasonable approximation of the multiple costs.

Mr. Gord Johns: Away from housing, obviously there's a toxic drug issue, and 27,000 Canadians have died in the last six years. Have you done any costing around criminalization?

There was a report done by experts on the substance use task force, and they quoted that the cost was \$6.4 billion just in policing alone in 2017. Here we are, five years later. Has the PBO looked at the cost of criminalizing people who use substances, given that this expert task force of Health Canada says that criminalizing people who use substances is causing more harm than good?

• (1335)

Mr. Yves Giroux: We have done costings of repealing some mandatory minimum penalties on some types of offences, but we have not looked at the cost of criminalizing some drug offences.

Mr. Gord Johns: Is it something that your office is considering?

Mr. Yves Giroux: Not at the moment, but if there's a desire from the committee to have our office look at that, we could certainly at least consider and try to determine if it's feasible for us to do that, and, if so, to undertake that kind of work.

The Chair: Thank you, Mr. Johns.

We'll now go to our second round, starting with Mr. McCauley for five minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Welcome back. It's good to see you again.

We've had a lot of witnesses in the last little while on the ship-building issue. We heard Irving this week say that their costing is

very different from the government's. We've heard various witnesses talk about steel inflation and inflation from COVID, although I do note that steel futures have dropped dramatically and that copper is dropping as well.

How difficult would it be for you to update the previous CSC and AOPS costing for this committee?

Mr. Yves Giroux: It's certainly something that we could do. In the absence of significant new information, I am not certain that our costing would be significantly different. The reason is that I am very confident, in fact, that our previous costing was accurate and strong. It's certainly something we'd be happy to reconsider if the committee wishes us to do so.

Mr. Kelly McCauley: Okay. I won't waste your time, then. I was going to actually ask for a motion to do that, but it doesn't sound like much has changed.

What do you think, then, of the comments we've heard from other witnesses about catastrophic inflation in steel and copper prices and cost rises from COVID? Are they valid comments, or comments to be taken with a grain of salt?

Mr. Yves Giroux: Well, we have done a sensitivity analysis, should there be, for example, a one- or two-year delay in the construction of these ships. We have estimates for that, so if COVID really did end up delaying the construction of these ships, there's a sensitivity analysis that indicates how much this would mean in terms of cost increases.

It's true that the costs of materials have increased, but if the committee wishes us to revise our cost estimate, we can certainly do that.

Mr. Kelly McCauley: Actually, if you don't think it's going to be that material, then I won't ask you to do that.

TBS vote 10 is always an issue for me. Traditionally, it has been \$5 million for a decade. It was \$3 million, \$5 million, and then we saw it balloon to \$152 million in the main estimates.

When we had TBS here, they said, "Well, we can't tell you what it's for because we don't know yet, and if we do know, we don't yet know how much it's going to cost." That sets off my alarm bells.

Do you think it's proper to have that money in a vote 10 instead of putting it into departments and doing horizontals, where Parliament can actually oversee and vote on specific initiatives?

Mr. Yves Giroux: I think that if departments know how much they need for a horizontal initiative, it certainly is more transparent to allocate that funding to each and every one of these departments so that it's clear when you, as parliamentarians, are asked to vote on it. If the Treasury Board Secretariat or Treasury Board allocates that to a central vote, it is probably because they don't know how to allocate the funds. Otherwise, it would be highly preferable to allocate these amounts to specific departments.

Mr. Kelly McCauley: That they don't know how to allocate it tells me that they haven't fully developed it. Would it not be better, then, to put it into the supplementary estimates (A) or supplementary estimates (B) if it's not developed?

Mr. Yves Giroux: It's probably preferable, but again, there might be other reasons leading ministers and the government to put that in a horizontal vote, but—

Mr. Kelly McCauley: It certainly does not do a favour for transparency or for parliamentarians' ability to vote properly on government spending.

Mr. Yves Giroux: It might be more convenient, but it's not more transparent.

• (1340)

Mr. Kelly McCauley: You commented about the alignment of the estimates and the budget.

I'm wondering if you could comment. We've studied estimates reform a lot. We saw in the Senate, I think last month, that Treasury Board said they're basically abandoning efforts to reform the estimates. What do you think that says about efforts for transparency or for parliamentarians or taxpayers to actually follow the dollar and hold this government and future governments to account?

Mr. Yves Giroux: Well, it certainly indicates that it is not a high priority for the government to have these two processes aligned. Aligning these two important documents and processes would certainly improve transparency and make your collective job easier, but that's all I can say at this point.

Mr. Kelly McCauley: With regard to the next budget date, even though they don't have legislation, I know Australia, since the First World War, has had the same budget month every single year, except for one. Many OECD countries have fixed dates.

It's not a difficult issue to have a fixed budget date, is it?

Mr. Yves Giroux: No, it's not difficult. It certainly is possible.

As you pointed out, there are other countries that do that, or, if they do not have fixed dates, they have a short window in which the budgets are tabled. It certainly is possible, and it's something that I know many public servants who work on budgets would be very happy with.

The Chair: Thank you, Mr. McCauley, and thank you, Mr. Giroux.

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

Mr. Parm Bains (Steveston—Richmond East, Lib.): Thank you, Mr. Chair, and thank you to our witnesses for being here today.

In the 42nd Parliament, there was a pilot project to align the estimates. Mr. Giroux, what was the PBO's feedback on that project?

Mr. Yves Giroux: I think that was an interesting experiment in improving or in making genuine efforts to better align the budgets and the estimates process. However, the fact that the estimates were.... The timing was amended. It was not a full success, because the budget kept on being tabled relatively late in the process, in late March or April. It was not a full success, in part for that reason.

Mr. Parm Bains: Were there concerns over parliamentarians being asked to approve spending before the Treasury Board did?

Mr. Yves Giroux: I would say that probably for some there were concerns about that, because then proposals were not fully or rigorously looked at by Treasury Board ministers. However, you also have the same possibility of having Treasury Board ministers scrutinizing the proposed spending after Parliament approves it, so it's not a major concern.

Mr. Parm Bains: Did that produce results you're advocating now? If not, what could be done differently to achieve them?

Mr. Yves Giroux: I think what would probably be most helpful for parliamentarians would be to have a more complete picture of government spending when they are asked to approve spending. Measures of the budget could be included in the main estimates when parliamentarians are asked to approve it, as opposed to having an incomplete picture of the government spending plan.

Mr. Parm Bains: Going back to parliamentarians, what's their feedback on that?

Mr. Yves Giroux: I think most parliamentarians who expressed an opinion, at least that I'm aware of, were happy that the effort was made but not totally satisfied with the result, because for a good part of time the budget still came late in the process and was not fully reflected in the main estimates.

Mr. Parm Bains: Okay.

Perhaps we'll now go to our parliamentary precinct and the modernizing of the federal accommodation space, the revitalizing of it. Do you believe there is more funding needed for this project?

Mr. Yves Giroux: That's a question that I can, unfortunately, not provide an answer to, because it's not something I have looked at in its entirety over the last several months. I cannot attest to whether more money is likely to be necessary for the parliamentary precinct.

• (1345)

Mr. Parm Bains: Mr. Chair, do I have any more time?

The Chair: You still have one minute and 40 seconds.

Mr. Parm Bains: Okay. I will pass that time along to my colleagues, if anybody wants it. Those are all the questions I have.

The Chair: Thank you very much, Mr. Bains.

I'll give 30 seconds extra to Ms. Vignola, who was to have two and a half minutes. I'll give her three minutes, and I'll give Mr. Johns the same.

[Translation]

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

For several weeks now, the committee has been studying the budget, as you know. For the 2022-2023 year, \$7.4 million was allocated to the Office of the Parliamentary Budget Officer.

Is this enough, given your team's unbelievable workload? I know that your office has approximately 40 employees.

I had previously asked this question and was told that that was the number of full-time staff. It's all very well to talk about the full-time employees, but is the amount enough to do all the work you have to do?

Mr. Yves Giroux: Thank you for the question.

Honestly, I believe it's enough to fulfil the mandate assigned to us by Parliament. The fact that we have not been spending all of our budget would indicate that we have enough money, at least for the time being.

The funding that has been allocated to us is sufficient for us to perform our role and deal with the requests sent to us. That's in large part a result of the productivity and dedication of our employees.

Mrs. Julie Vignola: I believe that everyone acknowledges that.

I would now like to return to the report we were just discussing.

You mentioned that over the coming years, the federal government's budget deficits would be higher than in the outlook described in the 2022 budget.

What were these forecasts based on, since they have not performed as well as anticipated?

Mr. Yves Giroux: It's mainly because, apart from the initiatives mentioned, the budget did not include many other commitments, for a variety of reasons determined by the government.

For example, many of the commitments in the electoral platform of the Liberal Party, which forms the government, are not included in the budget. Nor did the budget factor in the pressures exerted by the provincial governments, which wanted more health funding. The budget did not include the commitments made to address these requests, or the government's commitments with respect to increased spending in certain sectors, including national defence, to meet or at least get close to the 2% GDP target.

That's why I suspect the deficit might be higher in years to come, unless taxation is increased to enable the government to meet these budget targets mentioned in the 2022 budget.

Mrs. Julie Vignola: The Bank of Canada's key interest rate is rising. No one knows how long it will continue to rise, but we can assume it will.

Will the increase in the key interest rate have an impact on the budget?

Could you give a brief answer?

Mr. Yves Giroux: You're being a little harsh by asking me to answer briefly.

Mrs. Julie Vignola: As the bells have just begun, I'd like to ask you to send us your response in writing.

Mr. Yves Giroux: Okay.

Mrs. Julie Vignola: Thank you.

[English]

The Chair: Thank you.

We'll now go to Mr. Johns for three minutes.

Mr. Gord Johns: Thank you again for the work you do, and for being here.

The Minister of Finance said they're going to sell the asset around TMX and make money off it, and that it was actually a financially sound decision.

I think your office will think it's pretty unlikely that the government will actually recover their costs when they sell TMX. Can you talk about how that's been updated, given COVID-19 and the increased costs? We know that they just gave out a loan guarantee for \$10 million. Maybe you can spell out how the public is on the hook for this money.

Mr. Yves Giroux: We looked at the Trans Mountain pipeline a couple of times over the last three and a half years. Every time we looked at it—especially every time there was a delay in construction and coming into operation—we found that it was less and less likely that the government will be able to sell the pipeline for more than the acquisition and construction costs. It is very likely that the government will end up losing money when it sells the Trans Mountain pipeline and its expansion, despite the fact that oil prices are at a high level.

The price of oil does not have a direct impact on tolling. Rather, the volumes have a direct impact on the revenues generated by the Trans Mountain pipeline. With delays in construction and additional construction costs, we find that it's very likely the government will lose at least some money when it sells the pipeline.

• (1350)

Mr. Gord Johns: Tom Sanzillo, the director of financial analysis at the Institute for Energy Economics and Financial Analysis, stated that the Minister of Finance's "assertion that Canada will invest no more public money in TMX" was "grossly misleading".

Do you foresee the government needing to spend even more money on top of the loan guarantee? Do you project that?

Mr. Yves Giroux: That's a difficult question to answer directly.

I think what's more likely to happen is that the government is probably likely to.... It's difficult to say whether they'll spend more money. The likely outcome is that the selling price will be lower than what the government has spent, or will spend in totality, before selling it.

Mr. Gord Johns: What if they didn't sell it and they kept it as a public asset? How many years would it take for that asset to be paid off by the Canadian taxpayer?

Mr. Yves Giroux: That's a question I don't have the answer to off the top of my head. I think we would need to run a couple of simulations to have a clearer idea as to that question.

Mr. Gord Johns: Could it ever be like 50, 60, 80, 100, 200 years?

Mr. Yves Giroux: It would depend on a number of scenarios—for example, their production profile and the usage of alternative ways of delivering oil—so it's a—

Mr. Gord Johns: If there's even a demand.

Thank you.

The Chair: Thank you.

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

Mr. Ben Lobb (Huron—Bruce, CPC): Thanks very much. I'll share my time with Mr. McCauley.

As my first question, have you ever considered doing a price comparison for Mr. Johns for a dry dock in his riding? Have you ever done that?

I'm sorry; that's a long-running joke. If you run out of everything else to do, that's what he'd like you to do next.

Digital ID and digital government are topics that are coming up more and more often. At the last meeting we had with Treasury Board, on digital government, they were talking about streamlining services and how there are 270 points where you can sign in, etc. These are going to be big expenditures, multi-billion-dollar expenditures, by the looks of things. Have you had an opportunity to kick the tires on that one and do any value on it?

Mr. Yves Giroux: No, I haven't had the opportunity, nor have I been requested, to the best of my knowledge, to kick the digital tires, so to speak.

Mr. Ben Lobb: Okay. That would be one we would ask you to look at at some point in time.

Another one is that at this point in time—and I don't think I'm telling any secrets out of school here—I get a lot of requests from vendors, as I'm sure other MPs do as well, who are doing business with the government in hardware, software, the cloud and so on, and they're making all sorts of comments about capabilities, cost and the way procurement is done. Have you ever looked at this area to see if we are getting value for money? Is the government, in their RFPs, issuing the right RFPs to provide the right hardware, speed and security? Is this something you've looked at? Is this something you'd be willing to look at?

Mr. Yves Giroux: We have looked at one issue specifically, which is the infamous Phoenix pay system. We were asked to look at how much it would cost to upgrade, replace and fix Phoenix. It was mostly to replace Phoenix. In the course of discussions with many stakeholders, we were told that this was not an example to be repeated.

However, to answer your question on whether we looked at the broader issue of procurement and issues around software and hardware, no, we have not looked at that.

Mr. Ben Lobb: I'm going to turn my time over to Mr. McCauley.

Mr. Kelly McCauley: Great.

I have a quick question for you, Mr. Giroux.

In the public accounts, on page 18 a section about accounting for the Bank of Canada's purchases of Government of Canada bonds reports a \$19-billion net loss. Can you give a Coles Notes version of it or walk us through that \$19 billion and what happened to result in the \$19-billion loss? Is it a paper loss only, that will be recovered later?

• (1355)

Mr. Yves Giroux: I assume, again, Mr. Chair, I don't have more than 60 minutes.

The short answer is that the bank purchased bonds on the market at market price, and these securities, these bonds, had a higher return or higher interest rate than what was available at that time. In bond markets, the principal goes up in value when a bond has an interest rate that is higher than what's available at that specific time. That's why the bank had to write it off: They paid slightly more, the face value, than the capital value of these bonds—

Mr. Kelly McCauley: Then it is a real \$19-billion loss?

Mr. Yves Giroux: Yes and no. I'd say it's mostly no. It's a paper exercise, because over time the interest that the bank will get on these bonds will be higher than what the bank would have received had it purchased bonds issued at that same time. It paid more in capital to compensate for the fact that these bonds are paying more in interest. Over time, it's a wash.

Mr. Kelly McCauley: Is doing it like this, for lack of a better word, a form of printing money? Is it like an MMT in a rough way?

Mr. Yves Giroux: It's certainly not MMT. I would personally stay away from MMT. It's not purely printing money in the sense that people understand that. That's why we and people like economists use “quantitative easing”, as opposed to “printing money”. “Printing money” usually refers to printing money and not registering a liability anywhere else, so it is really a practice not to be repeated. In that case—

Mr. Kelly McCauley: But this is a book liability that will have to—

Mr. Yves Giroux: —be repaid.

Mr. Kelly McCauley: We will have to pay it back.

Mr. Yves Giroux: Yes. It will not disappear. Eventually, these bonds will mature and expire, and the government will have to refinance itself.

Mr. Kelly McCauley: [*Inaudible—Editor*] lower rates.

Thank you.

The Chair: Thank you, Mr. Giroux. That was well done in 60 minutes.

We'll now go to Ms. Thompson for five minutes.

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

Welcome. It's certainly been a difficult start to Parliament in terms of continuing COVID-19 and other challenges, so I'd like to get clarification on this year's vote 10.

The 2022-23 main estimates include \$152 million in Treasury Board vote 10. Amounts are planned for the following initiatives: \$107 million for COVID-19 vaccine policy implementation in the core public administration, including the RCMP; \$24 million to respond to claims arising from the Phoenix system; \$10 million for the modernized business applications and migrating them to secure data centres or the cloud; \$7 million to modernize the programs and administrative services occupational group; and an uncommitted balance of \$3 million.

Is that correct?

Ms. Kaitlyn Vanderwees (Analyst, Office of the Parliamentary Budget Officer): The figure of \$152 million is correct. For the exact breakdown, I would have to check.

Ms. Joanne Thompson: Thank you.

If I could go back to a question that was asked earlier, there are just a couple of other points around a fixed date being adopted to table the budget.

As PBO, do you see yourself as having an educational role to prevent the confusion that was described earlier by clearly explaining the purpose of tabling the budget and the main estimates? Can you explain the difference in less than an hour?

Some hon. members: Oh, oh!

Mr. Yves Giroux: Certainly. It's always a pleasure to explain these fiscal and budgetary issues.

The main estimates and the supplementary estimates are the way by which the government finances its operations. Because the government cannot spend money that has not been approved by Parliament, it has to seek approval, either through stand-alone legislation—such as, for example, through the Old Age Security Act to spend in an ongoing manner for old age security, as one example—or it can seek approval for an annual spending authority, such as for the functioning of Parliament, of government operations and departments, and so on. There needs to be legislation to allow the government to spend. That is done, usually, through the main estimates or the supplementary estimates.

The budget, on the other hand, is a document that lays out policy priorities and the way the government will be exercising that authority and implementing those priorities, and that includes changes to tax policy and changes to policy that may not have any expenditure implications. Those exercises are not identical, but they are broadly similar.

It's not a very good explanation, I know, in a short period of time.

• (1400)

Ms. Joanne Thompson: Thank you.

Many budget items require consultation to develop. That can't happen while protecting budget secrecy. How can budget secrecy be protected under your proposal?

Mr. Yves Giroux: The government could still indicate its intention to move ahead with something without necessarily indicating exactly how much it would be spending in future years. For example, if anybody wants to launch a new policy proposal or expand an existing policy and allocate additional funding to it, and do so only after consultations have taken place, it will require some time. There is nothing that prevents the launch of consultations before the allocation of money is performed.

It is not inconsistent. It would certainly require a bit more attention to the timing of those announcements, but it is not something that is impossible to do.

Ms. Joanne Thompson: It may not come under your umbrella, but can I ask a question that was asked earlier on costing and the significant societal issues for housing?

Have you come across examples of social innovation or social finance becoming part of a costing structure in terms of expanding budget dollars? I realize that your work is not in the solving of problems, but do they creatively draw from resources to solve major or significant societal problems?

Mr. Yves Giroux: There must have been some instances of such innovative proposals, but at this moment, there's nothing that comes to mind, unfortunately. I'm sorry.

Ms. Joanne Thompson: Thank you.

The Chair: Thank you, Mr. Giroux.

With that, we've come to the end of our questions. I would like to thank Mr. Giroux, Mr. Penney and Ms. Vanderwees for coming today and bearing with us at the beginning. Thank you for your answers. We look forward to having you back at a future time.

With that said, so that the committee is aware, the order of reference for the committee study of the main estimates expires on Tuesday, May 31, 2022. If the committee feels that it has completed its considerations of the main estimates, we can proceed to take a decision on the votes that were referred to the committee.

In all, 21 votes in the main estimates 2022-23 were referred to the committee. Unless anyone objects, I will seek the unanimous consent of the committee to group the votes together for a decision.

Is there unanimous consent to proceed in this way?

Some hon. members: Agreed.

The Chair: Thank you very much.

Shall all votes referred to the committee in the main estimates 2022-23, less the amounts voted in interim supply, carry?

CANADA POST CORPORATION

Vote 1—Payments to the Corporation for special purposes.....\$22,210,000

(Vote 1 agreed to on division)

CANADA SCHOOL OF PUBLIC SERVICE

Vote 1—Program expenditures.....\$62,991,464

(Vote 1 agreed to on division)

CANADIAN INTERGOVERNMENTAL CONFERENCE SECRETARIAT

Vote 1—Program expenditures.....\$5,613,899

(Vote 1 agreed to on division)

CANADIAN TRANSPORTATION ACCIDENT INVESTIGATION AND SAFETY BOARD

Vote 1—Program expenditures.....\$31,924,200

(Vote 1 agreed to on division)

NATIONAL CAPITAL COMMISSION

Vote 1—Payments to the Commission for operating expenditures.....\$75,875,420

Vote 5—Payments to the Commission for capital expenditures.....\$78,341,049

(Votes 1 and 5 agreed to on division)

OFFICE OF THE GOVERNOR GENERAL'S SECRETARY

Vote 1—Program expenditures.....\$20,510,231

(Vote 1 agreed to on division)

OFFICE OF THE PARLIAMENTARY BUDGET OFFICER

Vote 1—Program expenditures.....\$6,650,891

(Vote 1 agreed to on division)

OFFICE OF THE PUBLIC SECTOR INTEGRITY COMMISSIONER

Vote 1—Program expenditures.....\$5,121,624

(Vote 1 agreed to on division)

PRIVY COUNCIL OFFICE

Vote 1—Program expenditures.....\$171,938,081

(Vote 1 agreed to on division)

PUBLIC SERVICE COMMISSION

Vote 1—Program expenditures.....\$80,875,554

(Vote 1 agreed to on division)

SENATE

Vote 1—Program expenditures.....\$84,536,860

(Vote 1 agreed to on division)

SHARED SERVICES CANADA

Vote 1—Operating expenditures.....\$2,161,889,344

Vote 5—Capital expenditures.....\$339,296,808

(Votes 1 and 5 agreed to on division)

TREASURY BOARD SECRETARIAT

Vote 1—Program expenditures.....\$320,060,709

Vote 5—Government Contingencies.....\$750,000,000

Vote 10—Government-wide Initiatives.....\$152,305,896

Vote 20—Public Service Insurance.....\$3,195,856,257

Vote 25—Operating Budget Carry Forward.....\$2,100,000,000

Vote 30—Paylist Requirements.....\$600,000,000

Vote 35—Capital Budget Carry Forward.....\$700,000,000

(Votes 1, 5, 10, 20, 25, 30 and 35 agreed to on division)

The Chair: Thank you.

Shall I report the votes back to the house?

Some hon. members: Agreed.**The Chair:** Thank you.

With that, we will suspend briefly to set up the next panel of witnesses and then continue with our study.

● (1405)

(Pause)

● (1410)

The Chair: I call the meeting back to order.

I'd like to welcome our new witnesses. We have three here in the room and one who is appearing virtually.

Before we start, I would like to say that the committee has expectations that all witnesses will be open about any potential conflict of interest that they may have. This is to ensure that the committee can fully understand the context of the testimony it is about to receive. If they feel their testimony may be coloured by a previous or current interest, I invite the witnesses to disclose this during their opening statements.

With that, we will start with Mr. Kendrick.

Mr. Ben Lobb: Can I raise a point of order, Mr. Chair?**The Chair:** Go ahead on a point of order.

Mr. Ben Lobb: I don't mean to besmirch any previous witnesses who have appeared in front of this committee, but to be quite honest, I don't think one of the witnesses at the last committee declared their conflict of interest when they appeared at the committee and made their presentation.

I think Mr. McCauley called them out on a potential conflict of interest. They were a perfectly nice witness, but they received money from the federal government to promote the value of shipbuilding, which is a direct conflict of interest, to my point, and should have at least posted it so that we know what they're doing. I know they are a promotional group for an industry. I'll just put that out there.

Maybe I'm wrong. I'll apologize in advance if I am wrong, but I think they should have made mention of that in their presentation. I'm not talking about any of the witnesses here today. I'm just talking about one we've had already.

The Chair: Go ahead, Mr. Johns.

Mr. Gord Johns: Can we make sure that if witnesses sit on a board of a company and they're testifying on behalf of another organization, they disclose that as well, especially if it's in relation to this topic?

The Chair: Thank you for that.

Just so the committee does understand, that's one of the reasons we have started reading what I just presented. It's so we can get a declaration of that, should it come about. We did not do that at the beginning, but we are doing it now for that very reason. When the report comes about, if you feel that there was an issue, you can bring that up when we deal with the report.

With that said, we will start—

Mr. Anthony Housefather (Mount Royal, Lib.): I have a point of order, Mr. Chair.

The Chair: Go ahead, Mr. Housefather.

Mr. Anthony Housefather: Mr. Chair, I'm sorry. I don't know where that suddenly came from.

By making allegations against a previous witness without specifying who that witness is, theoretically a cloud hangs over every single witness who has appeared before us in this study. I don't think that was appropriate. If somebody is going to make allegations, they better be specific and they better have facts. I found that to be totally inappropriate.

The Chair: Thank you, Mr. Housefather. I believe Mr. Lobb has indicated who the witness was.

Mr. Ben Lobb: I'm not trying to cause any trouble, Mr. Housefather. I just want you to know that.

It was the Canadian Association of Defence and Security Industries. I thought it was pretty clear by my comments on who appeared the other day. They personally had a nice presentation and were well versed and everything else like that. I have no critiques there. I just think they should have maybe said that they receive \$600,000 a year from the federal government, etc.

Let's move on and take that for what it is. It's just like if you're on town council and you work for the paving or cement company, you'd make the same comment.

I'll leave it at that and I hope we can just drop it.

The Chair: Thank you. Looking around, I don't see any more hands up.

Go ahead, Mr. Kendrick, please.

Mr. Andrew Kendrick (As an Individual): Mr. Chair, thank you. Committee members, thanks for this opportunity to testify. I'll introduce myself and my reasons for being here today.

I am a naval architect who emigrated to Canada in 1981. Since then, I have worked on every major Canadian government marine project, and on many other government and commercial shipbuilding projects worldwide. I retired from full-time employment at the end of 2020. I should emphasize that I am testifying today as an individual concerned Canadian citizen and not as a representative of any group or past employer.

You have already heard much testimony in this committee that the NSS has challenges and has had setbacks. My much blunter message is that NSS has failed and that it needs to be fixed or scrapped.

It's not delivering the ships the Canadian navy and Coast Guard need, and the few ships it has delivered have cost an indecent amount of money. We've become an international laughingstock. Broadly speaking, Canada is paying between three and five times the world price for ships and taking two to four times longer to get them.

We can't wait indefinitely for our new ships. Our navy and Coast Guard are rusting out. In the last few years, Canada has had to acquire more interim ships than new ones in order to fill gaps.

Let me review some comparative international projects.

I'll start with JSS. I was involved with JSS from 1998 until my retirement. In 2011, the project was awarded to Seaspan under NSS. In 2013, the decision was made to select the German Berlin class as the basis. Design work started in 2014 and construction in 2018. As of May 2022, assembly of the basic construction blocks is still not complete. My estimate is that the first ship may be completed by late 2025, perhaps 2026, with acceptance by the navy later. The project cost is currently estimated at about \$4.1 billion for two ships and is likely to escalate further. The first ship will cost at least \$2.5 billion.

The New Zealand maritime support ship *Aotearoa* is a brand new design, with a polar ice class that allows for Antarctic operations. She is technologically well in advance of JSS and roughly the same size and speed. Her design and build took almost exactly four years. The shipyard contract was \$500 million Canadian. The Canadian project is roughly five times more expensive and is taking well over three times longer.

The Italian navy's new *Vulcano* was mentioned by a previous witness. She was awarded as a design contract in 2015 and commissioned in 2021, despite a major fire during construction. She also cost roughly \$500 million Canadian.

Most of the ships under NSS are highly specialized vessels, so it is often difficult to find projects that look directly comparable. The Canadian offshore oceanographic science vessel and the South African navy equivalent are both designs by my ex-employer, with the much smaller Canadian ship being currently quoted at five times the cost of the South African vessel.

Another interesting recent project was the development of a large offshore patrol vessel for the Taiwan Coast Guard, a 5,000-tonne vessel with a 24-knot speed. Concept design to delivery took less than four years, and the cost of that four-ship program was slightly below \$500 million Canadian. This Taiwanese vessel is different in concept from the Arctic and offshore patrol ship, but comparable in terms of complexity.

I was the program manager for AOPS from 2007 to 2010. AOPS is a cousin of the Norwegian Coast Guard's *Svalbard*, and my team had full access to costing for the *Svalbard* in order to support our own estimates, particularly for shipyard labour. We generally assumed that three times the European labour content would be needed. Based on the actual cost of AOPS, it seems that the true numbers are catastrophically worse. Given that the costs of the seventh and eighth ships are expected to be in excess of \$1.5 billion, it seems that the situation is getting worse, not better. The Norwegian Coast Guard is now building three new ships that are bigger and more powerful for around \$700 million in total.

Please note that these latest AOPS are not wanted or needed by either the navy or the Coast Guard. They are only being built to keep the shipyard busy until the surface combatant project is ready to move forward.

Fix NSS or scrap it. Frankly, I don't think it's fixable. There are fundamental flaws baked into its design. Much of the government's decision-making has been contracted out to what I'll describe as rent-seeking oligarchs whose interests don't appear to be aligned with those of the navy, the Coast Guard or the country.

- (1415)

Canada squandered billions of dollars on NSS and is at risk of wasting tens of billions more in the coming decades. We will not be giving the navy, the Coast Guard or Canada itself the ships they'll need.

This shouldn't be a partisan issue. Successive Conservative and Liberal governments share responsibility for the situation we find ourselves in. I implore this committee to look at the hard decisions that need to be taken to preserve our maritime safety and security capabilities.

Thank you.

The Chair: Thank you, Mr. Kendrick.

We'll now go to Ms. Sampson.

Ms. Shannon Sampson (President, Unifor Marine Workers Federation Local 1): Thank you, Mr. Chairman and members of the committee.

I represent Unifor Marine Workers Federation Local 1. We appreciate the opportunity to speak with you today to highlight the importance of the shipbuilding contract for our members.

My name is Shannon Sampson. I'm the president of Local 1. With me today is our business agent, Adam Slaunwhite.

I understand that Kevin Mooney and Kevin Young have invited you to come to visit the Halifax shipyard. We would be honoured to have the opportunity to introduce you to your proud shipbuilders.

The three main topics I would like to discuss are as follows: number one, our members and the national shipbuilding strategy; number two, the challenges of COVID-19; number three, the transition from AOPS to the Canadian surface combatant project.

Marine Workers Local 1 was established in 1937. We have had up to three generations of shipbuilders working together at one time. Our members have weathered the boom and bust of national shipbuilding, and we still stand. We know what it means to see our members lose their livelihoods. The period of bust before that big announcement in October 2011 saw the largest shipyard in the country close. Saint John Shipbuilding was once home to over 3,200 skilled trades building the frigates. That is something we would never want our members to face.

Today we are building ships to sustain future generations. Canada has made this possible, and we do not take this for granted. The national shipbuilding strategy is growing a whole new generation of shipbuilders, and we are committed to delivering the best ships to the Royal Canadian Navy and the Canadian Coast Guard.

My generation is committed to the national shipbuilding strategy. We're keeping trades home, and we're bringing them home. Our local has over 229 apprentices, which is the largest number in a single employer in Atlantic Canada. Local 1 is committed to supporting our apprentices throughout their journey to achieve their Red Seal certification. We had a record-breaking number in 2021 and we're on track to breaking the record again in 2022.

The NSS has added over 700 skilled shipbuilders to our local. These shipbuilding opportunities are life-changing for our members. Our workforce is growing and diversifying, and we believe that skilled trades must include the under-represented. I am the first female president of Local 1, and I am proud of the number of women in trades at our shipyard. It exceeds both the provincial and the national average.

The Halifax shipyard and our members felt the impact of COVID-19, being an essential workforce. Nova Scotia Health Authority regulations closed schools and day cares for months on end, which reduced our workforce because of the need to care for young children. Irving Shipbuilding worked closely with the Health Authority to create site-specific distancing and safety protocols that protected all of our members. Maintaining these protocols affected production efficiencies, but we still persevered to deliver two Arctic offshore and patrol ships and are pulling together to deliver ship number three this fall.

Our members in ship repair, which is the mainstay of hundreds of jobs, have also delivered HMCS *Charlottetown* back to service and have welcomed HMCS *Ville de Québec* to the dry dock.

We're working hard to maintain the vote of confidence we rightly earned from Canada in 2011. As a team, Local 1 firmly believes that the protection of Canada against threats to our sovereignty and security begins at home and should be built at home. The NSS is all about Canadians working to keep Canadians safe.

AOPS has given us the opportunity to grow our team and expand our skills as we get ready for CSC. In order to sustain our workforce, we need to ensure there is no gap between completing AOPS and starting CSC. Our skilled members at Irving Shipbuilding earned the contract to build these combatant ships, and we are committed to building them all. This is a generational opportunity, and we are 100% focused on seeing this generation and the next employed on this historic journey for the navy.

Thank you.

• (1420)

The Chair: Thank you, Ms. Sampson.

Now we'll go to Mr. Schmidt.

Mr. John Schmidt (Chairman of the Board of Directors, Canadian Marine Industries and Shipbuilding Association): Mr. Chair and honourable members, thank you for the invitation to speak to you today on the national shipbuilding strategy.

I am here as chairman of the Canadian Marine Industries and Shipbuilding Association, or CMISA. CMISA's purpose is to represent and champion the advancement of the marine and shipbuilding industry across Canada. We represent 80% of Canadian shipbuilding production capacity. Our membership reflects a diverse group of successful businesses of all sizes in a range of marine industry sectors all across Canada. Our board therefore comprises directors from all major sectors across Canada, including partners in our NSS.

In the spirit of full disclosure, all our directors have day jobs in the industry. In my day job I am senior vice-president for commercial and government programs at Davie shipbuilding.

Personally, I have more than 45 years of experience in Canadian shipbuilding. Serving in executive positions in the private and government sectors, I worked on many contracts for the government and later for the shipbuilders. I was deeply involved in the original NSPS, the national shipbuilding procurement strategy, having been part of the successful Irving proposal. I hope I can offer unique insights on behalf of our CMISA members.

Let me start by commending Canada for its foresight and political will in creating our national shipbuilding strategy. The key to any successful strategy is to plan, execute, monitor and adjust. I emphasize "adjust". This current review should be applauded for seeking to improve our NSS.

NSS projects either completed or under way, supported by many CMISA members, will benefit Canadians for decades to come. However, our NSS is not perfect. Its main goal is to replace our aging federal fleet, yet nearly 12 years into the large ship programs we have delivered only five large vessels. In the 1980s, over a similar period, Canada delivered 15 large ships.

The difference is easy to define. We transitioned from a commercially influenced model, emphasizing on-time delivery, to an approach that promotes process, governance and control over that of ship delivery. In the 1980s, we estimated the internal government cost of managing new ship construction at between 4% to 6% of contract value. Today it is around 14% to 16%. To replace roughly 36 large ships, Canada must budget now for 40.

Canadians live in volatile and worrying times, yet we struggle greatly to provide our Canadian Armed Forces and Coast Guard with essential tools and capabilities. We desperately need to fast-track ship construction to address growing threats to Canada's sovereignty and other vital interests. Our NSS should be a unique, made-in-Canada solution to the growing challenges we face. It should also help create a stable and sustainable domestic industry, with export potential.

In our time of great need, Canada's procurement process hampers agility, innovation and execution. This has contributed to well-documented cost overruns and delivery delays. The backlog means we are performing vessel life extensions on ships up to 50 years old.

We can fix this with pragmatic and proven solutions that combine the best of government and commercial practices. A real-world example is the United Kingdom's refreshed national shipbuilding strategy. It seeks to build competitively priced ships today to create future exports. A more commercial approach is paying off. The U.K. has developed a warship for a fixed price of U.S. \$336 million. Five have already been sold to foreign governments.

Canada can, and I would say should, do the same. Canada is able to build competitively, and there is increasing demand for the high-quality products, including complete vessels, that Canadian shipbuilders and our supply chain can produce. Major global fleet renewal is an export opportunity for Canada. Other nations empower industry to drive shared success, and we should consider doing the same.

A key step is to rationalize government oversight on projects with more control, delegation and responsibility given to the contractor, who is, after all, the shipbuilding expert and responsible for delivering the vessels.

For example, one of our members had a recent major project that used a commercially based procurement strategy and project management approach whereby only the classification society and a single overseer were used by Canada to monitor shipyard performance. The project finished on time and on budget, meeting all contractual requirements. While this may only be one element, it speaks volumes as to what can be done with a more commercial approach that uses industry norms rather than government norms.

• (1425)

Let's look at the ship design stage. Canada has a high-quality design capability, and there is ample domestic capacity for the earlier steps in the design cycle. These early stages form a material contribution to innovation in Canadian shipbuilding. This capacity must not be allowed to stagnate due to project delays. Deepening the Canadian capability for early-stage design will, over time, provide capacity and cost reductions in the later stages of the design process.

On the same topic, establishing and freezing the vessel requirements and build specifications at the earliest possible time will prevent design changes, which we all know lead to delays and cost increases.

In terms of the specification setting and the design change process, the optimal outcome will always be a trade-off between government's operational, regulatory and performance requirements and the shipyard's capability to procure for and build the design to a competitive price and on schedule. It is essential to contract in such a way as to achieve these objectives. The design of an affordable ship will always be a compromise. Much as when we go to a car dealer asking for every option and getting exactly what we want, it's no different with ships.

The shipyard that will build the ship should be contracted to undertake the full design process. Doing less than that adds delays, since the shipyard will always take any design and run a second exercise—often lengthy and expensive, and avoidable—to ensure that the resulting ship is buildable.

As I mentioned, CMISA also encourages locking in the ship requirements at an early stage. From that point on, it needs to be about delegating the project to the shipbuilder and limiting customer approvals to those that are strictly necessary, such as those associated with safety and with meeting the requirements of the classification society.

Coming back to what we said about embracing commercial practices, we must look at fixed or effective target price incentive mechanisms instead of just cost-plus-profit contracting, where achievable. With fixed or target incentive prices, the shipbuilder is held to account and/or incentivized on its ability to deliver projects on cost and on schedule against specifications and performance criteria that have not been unnecessarily changed. This thinking is aligned with commercial contracting and has had a positive impact on shipyard efficiency and responsiveness to customers' needs in cases where it has been applied.

Fixed or effective target incentive contracting can be achieved within PSPC's existing framework. It does, however, mean a change to today's norms and standards. In fact, if our industry is to succeed, it means a reset of certain specific shipbuilding contracting standard practices used by Canada. By "succeeding", I mean delivering performing ships on the original schedule and budget agreed to by the shipbuilder.

Our members also want more involvement in the build process. To this end, there are other innovations Canada should consider adopting, such as the distributed block assembly method. This is successful in other countries, and CMISA members support more

direct involvement in the production of ships and build strategies that create multiple build sites—

• (1430)

The Chair: Excuse me, Mr. Schmidt. I'm sorry for interrupting.

Unfortunately, due to time constraints, we are limited. Perhaps you can get more of your information out during questioning. Anything you have submitted to us has been provided to the committee members, so they will be able to read what you presented.

We'll go to questions and answers, and we'll go to Mr. Paul-Hus for five minutes.

Go ahead, please.

[*Translation*]

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

Ladies and gentlemen, thank you for being here today.

Mr. Kendrick, I'd like to begin by saying that I found your testimony to be very incisive.

Our study of the national shipbuilding strategy showed that the situation was problematic. The purpose of this study was to determine where our money was going. From the very outset of the study, all of the witnesses we heard seem to indicate that Canada is truly dealing with an enormous management problem.

In your testimony, you gave concrete examples, particularly in connection with your involvement in the development of the Arctic/Offshore Patrol Ship, the AOPS, and with the associated costs.

The naval strategy introduced by the Conservatives, whose intent was to be effective and to establish specific contracts with shipyards so that we could work within established budgets and timelines, is not working. It's highly problematic. In fact you said so elsewhere in your testimony.

How could we begin today to deal with the situation? I believe that it's been a financial disaster, one of the worst scandals in Canada, a squandering of billions of dollars, particularly given that we don't have the capacity required to defend the country as we should.

What would be the best way of settling the problem quickly? As you mentioned in your last sentence, we need to come to a decision quickly.

What should we do?

[*English*]

Mr. Andrew Kendrick: This is the \$64-billion question. Unfortunately, I don't have a simple answer for it, partly because neither I nor anybody on this committee or anybody else seems to have a real handle on what is happening. The project's process was supposed to be fair, open and transparent. It's not. It is completely opaque.

When I was involved in redoing the cost assessment for the polar icebreaker a few years back, my team asked for productivity data from the NSS yards, which had already been working for some time on it. We were refused it. How can you develop a cost estimate if you don't know what the productivity metrics are? I know more about productivity metrics in U.S. shipyards, U.K. shipyards and South African shipyards than I do about Canadian shipyards.

I don't know what the contracts are. The contracts have not been publicized. The contract values have not been publicized. We cannot find this information, and until we move to a more transparent system, unfortunately, it's difficult to see what the solutions are likely to be.

I very much agree with some of the suggestions made by Mr. Schmidt, whom I've known for many years, about measures that could be taken on the government side. The measures could be taken on the industry side as well. I think we need to move towards, as he said, much more fixed-price, fixed-schedule contracting and accountability for things that fail to meet those targets.

That's my quick answer for now.

● (1435)

[*Translation*]

Mr. Pierre Paul-Hus: Well, since we're talking about fixed prices, Fincantieri, a European company whose representatives have appeared before the committee, had offered the government a contract under which it would build 15 frigates at a fixed cost of \$30 billion. I know that it's not the same model, but they were nevertheless frigates for \$30 billion. The government rejected this company's offer because of the way it had made its proposal. I don't understand it, because Irving could have built the rest of the frigates following implementation, based on this model

In your presentation, you were talking about oligarchs who controlled the government purely to their own advantage.

Do you really think that in Canada, the shipyards will be able to make profits by going beyond the government's requirements? Do we have a problem of this kind?

[*English*]

Mr. Andrew Kendrick: Again, it's a difficult question. I was not involved in that unsolicited proposal, though I was associated with the group that was involved in making it. My opinion is that they could not possibly have delivered at a European price under the current system.

Canada's shipyards are not as productive as shipyards internationally. That is the case at the moment. Whether they could be made as productive as other yards is another question, but you would need to restructure the contracting approach.

When Fincantieri has to deliver a cruise ship, a frigate or an icebreaker, it has control. It exercises control and it knows what it's doing. It has well-established procedures, and those procedures are successful. We are obviously not using the same procedures in Canada currently.

The Chair: Thank you, Mr. Kendrick.

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

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

To start, I have to say again that I entirely disagree with this concept that the national shipbuilding strategy is an abject failure. One of the things that it has done is create approximately 20,000 well-paying jobs in Canada. It is ensuring that we have the ability in Canada to build ships that we need, especially in light of times when we see that sometimes other countries will not put our needs before theirs and deliver ships to us. It's a bit frustrating hearing criticisms that I think in some cases are unwarranted.

We started from scratch. We had not built ships for government, the navy or the Coast Guard in a very long time. We're getting up to the pace of other shipyards that have been constructing for decades—in the case of the U.K., hundreds of years—without stop.

I'd like to ask Ms. Sampson if she believes that Canadian shipyards, as we get up to gear, can be as productive and can have workers who deliver on time and on budget just as well as shipyards in other countries.

Ms. Shannon Sampson: Absolutely. Thank you for your question. I appreciate it.

I definitely think it's something we can strive for. We've come leaps and bounds ahead of where we were a decade ago. We're constantly involved, getting groups such as NSCC to promote our shipbuilding trades, starting them fresh and growing them through the system, and they've absolutely come leaps and bounds. The program that they're in right now has given them the opportunity to really learn the Red Seal shipbuilding trades, and it makes all the difference.

I truly believe that won't be a problem.

● (1440)

Mr. Anthony Housefather: It's a matter of gaining the skilled workers and keeping them there for enough time so that they learn the process and are able to deliver.

As you stated, I think very clearly that in terms of being able to move from the AOPS to the CSCs, you need constant, steady work and the guarantee of constant, steady work to make sure that the shipyard can be on the level of the U.S. or the U.K., correct?

Ms. Shannon Sampson: Absolutely, yes. This is—

Mr. Anthony Housefather: I—

Ms. Shannon Sampson: I'm sorry. Go ahead.

Mr. Anthony Housefather: No, you go ahead.

Ms. Shannon Sampson: It is something... You're talking about about how we started about 10 years ago. We have been building these skills for a long time. I feel that if we still had that boom-and-bust cycle, we wouldn't be able to continue those skills that we worked hard at every day in teaching each other and growing through that system.

Mr. Anthony Housefather: Thank you so much.

Mr. Schmidt, do you agree that it is necessary to develop this talent and to be able to build ships domestically for the government?

Mr. John Schmidt: Yes, it is, and I think that's exactly what's happening. As we build programs and as we complete programs, we're learning. We're becoming better, just like in anything else we do. There's no doubt. I agree that the workforce—the skilled trades and the labourers we have—are as good as anywhere in the world. We've proven that over and over with the quality of work we do.

I think the changes we're suggesting are to speed things up so that we can get more ships through this wonderful cycle. We have our learning curves. We'll improve. Our productivity will improve and we'll deliver these products faster to meet the needs and demands of the Coast Guard and the navy.

Mr. Anthony Housefather: I agree.

I have just some very quick questions, because I don't have much time.

On the type of design you're talking about, people have come to the committee and have said, “Well, you should just be buying off the shelf.” I don't think there are any navies or coast guards that buy ships off the shelf. You customize.

What you're saying is that the government should give specifications to the shipyards, tell them exactly what we need, let the shipyards do the design and then approve them. Is that basically what you're saying, instead of duplicating?

Mr. John Schmidt: Not quite, sir. It's more that we would work together. For example, the government produces a technical statement of requirements and operational requirements. We work together on refining those into a detailed specification.

However, once we complete the concept and basic design and the customer is happy, we do a final design review. If they give us a thumbs-up and say, “You got it; take it from there”, that's the point at which they should turn it over to the shipyard and say, “Now we're going to monitor your performance. Get on with delivering.”

Mr. Anthony Housefather: Got it.

Mr. Chair, do I have any time left or am I done?

The Chair: I'm going to say you're done, even though you have 10 seconds left.

Mr. Anthony Housefather: I wouldn't be able to do anything with that 10 seconds.

The Chair: We're going to go to Ms. Vignola.

[*Translation*]

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

Mr. Kendrick, I'd like to begin by thanking you for being with us today.

I understand fully that your comments are not aimed at workers or the industry as such. They are mainly about managing the national shipbuilding strategy.

The figures and examples you gave are worrisome.

What's the reason behind these cost overruns?

Why is the country with the most kilometres of coastline on the entire planet unable to stay on budget in a field in which it should have acquired expertise a long time ago?

[*English*]

Mr. Andrew Kendrick: Thank you very much, Madame Vignola.

Yes, I would like to emphasize that I am not against any sector of the Canadian marine industry, whether that be the designers, the builders or the equipment suppliers. I have been a firm supporter of that throughout my career in Canada, and I've participated in many unpaid activities—to the regret of my wife—that have dragged me to meetings all over the place.

We have the ability to build a capability in Canada better than we have today, but we have to go about it the right way. There are problems that come from the government side. There are problems that come from the management side within the shipyards. In my opinion, the latter are greater.

Just to give one example, the original design of the AOPS was purely commercial. It was designed to use commercial equipment, the cheapest possible commercial equipment. It was a design-to-cost project to keep the costs down. As soon as the project was awarded under NSS, the program office in DND was told that the shipyard was going to make it an ITAR project under the international arms trade regulations, because of the people they wanted to use to support them from the U.S.

That instantly caused a huge cost increase. It caused an increase in complexity. It required us to go and search for drawings that had been given to companies around the world and get them back because they weren't authorized to have them any longer. That was purely a shipyard decision, and there are many other shipyard decisions I could point to that have had the effect of driving up the price.

My concern here is that the government had lost control.

I said to the program manager at the time, “Why are you allowing this to happen?” The answer: “Oh, the shipyard tells us they need to.”

The shipyard is not in control. These are government ships.

That's the sort of messaging I've heard repeatedly about NSS, which is an indication to me that the system as designed, the system as implemented, is not a good system.

• (1445)

[*Translation*]

Mrs. Julie Vignola: Thank you.

You're saying that Canada has become an international laughing stock because of its national shipbuilding strategy.

Is it possible that because of this poor reputation, certain countries are asking a higher price for ships we buy from them instead of building them here?

[*English*]

Mr. Andrew Kendrick: This is another interesting aspect.

If you are forced to compete on price, if you're forced to meet a price, then you accept risk. Another thing the shipyards have been doing is transferring as much risk as possible to their suppliers and contractors. They're not making a balanced decision on where risk should be.

As soon as you transfer a risk to an equipment supplier or to any other party involved, their price goes up. You've avoided the risk, but you're still able to charge the same amount of profit on the project. You're boosting the price and you're gaining profit at no particular risk to yourself.

There needs to be some form of price discipline. That price discipline, in part, needs to be based on the government's having informed knowledge of what the price of these ships should be. Many other governments around the world give their government projects to the shipyards in their countries. They do that all the time, whether it be the Dutch, the French, the Italians or whoever. They understand how to control cost.

A good example from the Netherlands is that when the Dutch government was given a quote for building a new ship, they took pieces of that away from the shipyard and did it in third-party facilities because they thought the cost of those elements was unreasonable.

These are the sorts of measures you can take. Control the costs. Make sure that's being done in an intelligent manner.

The Chair: Thank you.

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

Mr. Gord Johns: Thank you.

Thank you all for your really important testimony and for being here today.

We've heard that if we build ships abroad, the upkeep and maintenance will very likely end up being done abroad in the long term, which is obviously an impact.

Ms. Sampson, if Canada built the national shipbuilding strategy vessels abroad, do you believe that skilled workers in the naval industry would need to seek opportunities elsewhere?

Ms. Shannon Sampson: Absolutely. That would be absolutely devastating to the families in Nova Scotia who have been chasing that dream of 30 years' work, and they found it. They grew roots in Nova Scotia. They built their families. We would end up going back to the same boom-and-bust cycle that we were looking to avoid. That was one of the big staples of the NSS, not to mention that looking to build abroad would cause some concerns for our own security and the sovereignty of our country. I wouldn't want another country building our naval ships. That is something we would take personal offence to. We would be very concerned about that. I feel like that would not be a good idea.

Mr. Gord Johns: You talked a little bit about the national security aspect of it. Do you want to touch on that?

As for boom and bust, we want to avoid boom and bust. There's some history here. I'm sure that you can share how we went through boom and bust in Nova Scotia. How do we avoid that in the long run?

Using the national shipbuilding strategy for the next 30 years is a foundation base for the 30 years after. What needs to happen to make sure we are competitive on an international front? Can you talk a little bit about the importance of getting this right?

• (1450)

Ms. Shannon Sampson: Our whole shipyard is based off of generational shipbuilders. We enjoy a family-oriented business. We wouldn't want to see any of our members face the same boom and bust we saw 10 years ago and prior to that. It was a hard time.

It's really hard. We have families who live around here. We have mortgages now. Inflation is through the roof. To go back and see that same boom-and-bust cycle would just... We wouldn't have any jobs in Nova Scotia. That is where we work. It's one of the biggest employers in Nova Scotia. We would end up having to go elsewhere for work, and that's not something we want to see for our membership.

Mr. Gord Johns: I really appreciate that. I don't even need to ask you. I was going to ask you about the multiplier effect, but I think you summed it up. It's having a massive impact.

In terms of attracting skilled workers from abroad, do you see a huge spike now that we're going full steam ahead here?

Ms. Shannon Sampson: Are you referring to the—

Mr. Gord Johns: I mean attracting new workers to Nova Scotia and to the region.

Ms. Shannon Sampson: Yes. We're open to that. I know Irving shipbuilding is always looking to hire more Canadians. If we're running short on applications and looking abroad, we will welcome people with open arms to become Canadians and come into our membership to gain the experience and the skills to join our team.

Mr. Gord Johns: Can you talk about how COVID has impacted your membership in terms of costs in the whole project?

Ms. Shannon Sampson: COVID hit really hard. For many months, we didn't have a full operating workforce. When we did, we had really strict restrictions. Nova Scotia took a leadership position in the way they operated in the COVID pandemic. Many different things were put in place.

We had zones in the shipyard such that if you were working in one area, you couldn't travel to another area to get anything, so you had to wait on what we called a "runner" to go and get that material for you. We weren't able to work in as many groups. There were things like having to wear masks, social distancing, and trying to lift up a large piece of steel and put it in place by yourself when you were normally used to having an extra set of hands.

In August on those ships—I'm not sure if any of you have been in them, especially with full PPE and tools—it is very hot with a mask on. Our safety department was always preaching about micro-breaks and being sure to hydrate and to not get overheated. It just added to prolonging items. It definitely took a long time to adjust to living with COVID.

The Chair: Thank you, Mr. Johns. We'll now go to Mr. McCauley for four minutes.

Mr. Kelly McCauley: Thanks, Mr. Chair.

Mr. Kendrick, thanks for your comments.

You said that the navy and the Coast Guard don't want the AOPS. Could you expand on that?

Mr. Andrew Kendrick: Obviously, this is hearsay, because they have never declared that very publicly. Having worked with both the navy and the Coast Guard, I believe that to be the case. If the navy had wanted them, they'd have taken them. They would have taken ships seven and eight, rather than making sure that the Coast Guard took them.

The Coast Guard really doesn't have a mission profile for a ship like the AOPS. In fact, for some of you who may know the Coast Guard fleet, I believe the plan is to use the AOPS to replace the *Cape Roger* and her sister ship. Those are really fishery patrol vessels. Those are non-ice-strengthened. They displace less than 2,000 tonnes. They're being replaced by an AOPS, which is getting on to 8,000 tonnes and is really optimized as an icebreaking vessel.

You're using a sledgehammer to open a tin can, essentially, with those ships. They are having to be customized for Coast Guard use because, as one example, the accommodations—

• (1455)

Mr. Kelly McCauley: Can you give us a ballpark of how much these customizations are going to cost us?

Mr. Andrew Kendrick: No. It doesn't seem to be public. A number that was mentioned in the testimony earlier this week was \$1.5 billion for the two ships. Frankly, that's an astonishing number.

Mr. Kelly McCauley: What are peer countries paying for them?

Mr. Andrew Kendrick: There's nothing exactly like the AOPS, but I think another ship that was mentioned in earlier testimony is

Le Commandant Charcot, which was built at the Vard shipyards in Romania and Norway. This is a polar class 2 icebreaker. It's almost exactly the same size and power as the *John G. Diefenbaker*. It's costing \$500 million for a ship that is a luxury hotel. It's powered by LNG, so its propulsion plant, batteries and science equipment are very complicated. That's costing less, apparently, than an AOPS, which is a quarter of the size and far less complex.

Mr. Kelly McCauley: Do you know what effect COVID has had on peer countries for shipbuilding? It seems to be a whole-of-government approach to use that as an excuse for everything.

Mr. Andrew Kendrick: Well, on COVID, I really have to accept a lot of what was said by our witnesses here today. You have to be aware of the differences in a place like Nova Scotia compared to a place like Norway, which actually did a much better job of controlling COVID without shutting down as much.

I was within 48 hours of visiting *Commandant Charcot* when all the restrictions were put in place. She was built during the course of COVID, and I believe it had about a three-month impact on the delivery of the ship.

Mr. Kelly McCauley: You talked a bit about reforming the NSS or killing it. Is it too far down the road to walk away from? Is it too far down the road to fix the NSS?

Mr. Andrew Kendrick: One of my mentors told me at a very early stage that when you're in a hole, stop digging. It's never too late. What are we cancelling at this stage?

As John Schmidt said earlier, when we were this amount of time into the frigate program in the 1980s, we were getting ships. We seem to be still at least a decade away from getting ships under the CSC.

The Chair: Thank you, Mr. Kendrick. If you have anything further that you would like to add, by all means, please submit it to the clerk and he will distribute it.

We'll go to Mr. Kusmierczyk for four minutes.

Mr. Irek Kusmierczyk: Thank you, Mr. Chair.

Ms. Sampson, on this side of the table, I can tell you that we are very proud of the national shipbuilding strategy, and we are very, very proud of our shipbuilders. Please pass that along to your membership, and thank you very much for your tremendous work through very difficult circumstances during COVID.

Canada has an unemployment rate, based on the latest labour force survey, of 5.2%. It's the lowest unemployment rate since Statistics Canada began measuring in 1976, so it's the lowest in 50 years. Many people will attribute that to our COVID policies and the track record of this government in leading this country through the COVID pandemic.

Are you seeing a job crunch from your vantage point, as well in terms of shortages and whatnot? What is the union doing to address some of those shortages?

Ms. Shannon Sampson: Do you mean to address some of the job shortages?

Mr. Irek Kusmierczyk: Yes—I mean labour shortages. Pardon me.

Ms. Shannon Sampson: We do work hand in hand with ISI, but as we're not a labour hiring hall. We don't actually have recruitment from our labour union. That would be solely on the Irving shipbuilding side of things. We do work in tandem with them. If we have anybody we would like to refer or... Tradespeople have lots of friends who are tradespeople, so we get a lot resumes in, and we work in tandem to try to get that done. There definitely seems to be a shortage everywhere.

Mr. Irek Kusmierczyk: I'll maybe rephrase that a bit.

Congratulations on being the first female president of this union, the marine workers, in its 85-year history, as I understand it

How do we get more women and more under-represented groups into the skilled trades, and particularly into the shipbuilding industry?

I know this government, for example, has brought forward a \$10-a-day child care plan, with the hopes of getting more women into the labour force and going back to school and getting upskilled. What can we do to get more women and under-represented groups into the skilled trades?

• (1500)

Ms. Shannon Sampson: I feel that representation does matter. I think we get out into schools more, visit high schools, NSECs, and just have that representation so that people are really thinking. A lot of high school students now know that Irving shipbuilding is somewhere they would like to work because of its job security for a solid, stable career.

We have a lot of committees in our local. We have an AWA committee, a women's committee, to get those under-represented groups out at high schools and really start advocating so that people are aware that these are possibilities for them. I think that's something we're going to be looking at doing in the future.

Mr. Irek Kusmierczyk: Through the national shipbuilding strategy, domestic shipbuilding is going to be here for years and decades to come. Is that going to have a positive impact on attracting women and under-represented groups into the industry, knowing they're going to have a job and avoid the boom-and-bust cycle for the long term? Is that an incentive to attract more under-represented groups into shipbuilding and skilled trades?

Ms. Shannon Sampson: Yes, absolutely.

One big thing that was a bit of a deterrent for women in trades and under-represented groups was that a lot of the time, if you were going to work, it would mean going across the country to Alberta. That was where a lot of our skilled trades were going. To have the opportunity to stay home and to stay with your family is huge.

Mr. Irek Kusmierczyk: Thank you.

The Chair: Thank you.

We'll go to Ms. Vignola for two minutes or less.

[*Translation*]

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

Ms. Sampson, it's not just the members on the other side of the table who are pleased to see that employees in the shipbuilding sector in Nova Scotia and Vancouver are able work, develop their talents and hone their skills. I hope that it will also be the case for employees in Lévis. Everyone's happy to see this.

However, based on what you said in your testimony, the shipyard you work for is breaking records.

What are these records? To whom or to what is Canada being compared?

[*English*]

Ms. Shannon Sampson: Thank you for your question.

The records I was referring to are with our apprenticeship program. We have had record-breaking numbers for our shipyard. We had 51 apprentices who successfully passed the Red Seal certification in 2021. I believe in 2022 we have it up around the 20s so far, and we have lots more who are going to achieve the Red Seal in the rest of the year. That's what I was referring to.

[*Translation*]

Mrs. Julie Vignola: What do these records relate to? Is it in comparison to previous years or other countries?

[*English*]

Ms. Shannon Sampson: No. That was referencing record-breaking numbers just within our shipyard, within our establishment.

[*Translation*]

Mrs. Julie Vignola: Thank you.

[*English*]

Ms. Shannon Sampson: In terms of what that's based on, we hired some skills coaches and really changed how the program ended up working out. Just getting together with our apprentices and having a skills coach there teaching everybody and sharing experiences really helped out the apprentices to be able to be successful.

[*Translation*]

Mrs. Julie Vignola: Thank you.

[*English*]

The Chair: Thank you, Ms. Vignola.

We'll go to Mr. Johns for two minutes.

Mr. Gord Johns: Great.

Thanks again, all of you, for being here.

Ms. Sampson, I also want to congratulate you on being the first woman appointed to your role with your local.

Maybe you can speak about the value of unionized workers and what they bring to the national shipbuilding strategy.

Ms. Shannon Sampson: I find that the value of unionized workers is the ability to have absolute pride in your work and ensure the safety and security of your fellow co-workers. We have lots of committees that are dedicated to health and safety. There is a sense of more security in unionized environments.

You know, when we grow together as a team, we have many events with the company. It's really grown in the last 10 years. When we have these events together with the union and our company, it just shows what kind of a strong bond we have. I find it really generates out on the production floor.

That's how I find it. It's really impactful.

• (1505)

Mr. Gord Johns: What would be one of the top recommendations that you would like this committee to hear from labour around the national shipbuilding strategy?

Ms. Shannon Sampson: One of the biggest things that I would like you guys to know is that each and every day, everybody works really hard. They are very proud shipbuilders. They are proud of what they do. At the end of the day, when we hand it over to our Royal Canadian Navy and they board the ship and sail away, there is that sense of pride. You know that you have given them that product. That is their home. That's something we really pride ourselves on.

We work right next door to the dockyard, to our navy. We work hand in hand with them, a lot of time on the frigates, fully manned ships. We just grow a bond with them. It's something that we really take pride in.

The Chair: Thank you, Mr. Johns.

Mr. Gord Johns: I also want to thank all of you.

Thank you, Mr. Chair.

The Chair: We'll now go to Mr. Lobb for four minutes.

Mr. Ben Lobb: Thanks very much, Mr. Chair.

Mr. Kendrick, I think Mr. McCauley and others mentioned that we know we need an able fleet. I think we will all agree with that in this country. We want to do it right, and we want to do it for the right piece of machinery for the right price. We respect the workers, obviously. I worked in work environments when I was a younger guy. I understand the value of good work. I was actually in a CAW union years ago.

My question to you is this: What is it that we actually need? I know that we've asked questions. I've sat in this committee and we've all asked. What is it that we actually need? It sounds to me like we're 10 years in and we really don't know exactly what we need for our navy.

Am I wrong when I say that?

Mr. Andrew Kendrick: The navy needs ships. The navy needs ships that are first-class fighting ships. They need to be able to afford enough of them to have a meaningful fleet.

The Type 26, which is the basis for CSC, may be an excellent ship; I'm actually not sure. There are concerns that have been raised about aspects of that ship. All ships have problems, but if it's going to cost that much money, then we're not going to be able to afford them. The British have given up on having to buy their original-sized fleet.

Let's say that we can emulate U.S. yards in our productivity and our quality. I would love to think that we can do better, because we're Canadians, so of course we can do better, except when it comes to hockey teams.

The U.S. equivalent at the moment, the new Constellation-class frigate, is costing about \$1.4 billion a copy. You can get 15 of those for \$20 billion. Our PBO is saying \$80 billion; our navy is saying around \$60 billion, maybe. It's three times as much. Why is that? We must delve into this to figure it out. Otherwise, our navy is not going to be a navy. It's going to be six AOPS and a couple of other old ships.

We've got to do better than this. We have to give the navy the tools that they need. We're living in a dangerous world and a dangerous neighbourhood. That's the challenge we have to meet.

How do we get from the \$60-billion and the \$80-billion fleet to the \$20 billion fleet? What are we going to do to achieve that? Can Canada afford a \$60-billion fleet?

Think of what \$40 billion can do in terms of affordable housing, infrastructure, child care and all of the other things that are important to people, such as pharmacare and dentistry. How far does \$40 billion go? It goes a long way.

Mr. Ben Lobb: Obviously, that is a big difference. That's three times the cost.

Where is it that we've gone wrong? Is it a process flow? Is it the people at the top or that everybody's lining their pockets?

I don't really think we have any answers here so far. Everything's either confidential or it's just the way it is or it's inflation or whatever it is. I can't imagine there's \$40 billion dollars worth of inflation on these ships. Maybe I'm wrong; it could be, but I don't think it is.

If the U.S. is doing it for the price, where is the discrepancy, or do we know?

• (1510)

Mr. Andrew Kendrick: It's a really good question. I can point to certain things that I know about, but as I said earlier, part of the real problem to me is lack of transparency. The NSS is supposed to be an open book. Where is this book? Who's allowed to open it? Who's allowed to analyze what's going on?

Currently something I'm doing, wearing another hat, is analyzing ferry procurement for Washington state down in the U.S. We have everything. We have every number we need to get. We can see exactly where the money is, where the money is going and why the money is going that way. Can I do that for NSS? I can't.

The Chair: Thank you.

Mr. Ben Lobb: Mr. Chair, I know my time's up.

For the committee, I think it would be worthwhile to talk to some of these Americans and see what their feedback is and where we are. I think we should know, as part of our report.

The Chair: Thank you. It's something we will discuss within the committee as we move forward.

We'll go to Mr. Bains for four minutes, please.

Mr. Parm Bains: Thank you, Mr. Chair, and thank you to our guests for joining us.

My question is to Shannon Sampson.

I represent Richmond, British Columbia. My questions are coming from out west. The marine sector's extremely important to us over here.

In your opinion, do you believe that workers in shipyards have a prosperous future in the shipbuilding industry out west?

Ms. Shannon Sampson: I can't really speak to the shipyards out west. I'm not really well versed on Seaspan and that shipyard, to be honest. However, I'm a firm believer that shipbuilding is a must in Canada, and we should continue to use that to build our sovereignty and the security of our country.

Mr. Parm Bains: You did get some questions from one of my colleagues regarding the diversity in shipbuilding and the trades. Along those lines, we have out west here some of the best training institutes, such as the British Columbia Institute of Technology. It's a premier institution that teaches pipefitting and welding. A lot of diversity in the trades has been introduced there already.

Maybe you can speak to our academic institutions like that. Are you and your union engaged with academic institutions in the future of the shipbuilding industry?

Ms. Shannon Sampson: Thank you for your question.

Absolutely. We partner with Irving shipbuilding on Pathways to Shipbuilding, as well as Women Unlimited. We have lots of groups that come into the shipyard.

I had quickly written down a few numbers. In 2017 we had 11 from Women Unlimited come to our shipyard. In 2019 we had 12 from Women Unlimited. In terms of indigenous people, in 2018 we had nine. As for African Nova Scotians, in 2019 we had 17. We're looking to partner more and more with the under-represented groups. That's something we definitely pride ourselves on. We'll definitely be doing more of that in the future.

Mr. Parm Bains: Thank you.

I'll move over to Mr. Schmidt.

Canada's defence procurement process is complex. How could the Government of Canada simplify its defence procurement process?

Mr. John Schmidt: If we're talking just ships, sir, I think what we're saying is that it's the contracting process. If we're talking large ships, we've selected shipyards to build those ships. We've assigned those ships.

The problem is when we get into contracts, or how we get into contracting and how we manage the projects. The requirements drive us to have to put quite a bit of extra overhead into the way we manage. As we like to say, we should be spending the money on steel, not paper. That's not to say anything against the paper industry, but we have to find ways of streamlining the way we're doing the contracting. If we can do that, we can deliver the ships more quickly. A design phase shouldn't take us 24 or 36 months. We should be reducing that to half and finding ways we can bring those costs down.

That's the key message we're trying to bring from the association. If we do that, we're building ships faster. We're also generating more capability within our membership. We're delivering more product, and at the end of the day, the federal fleet is being renewed.

To Shannon's earlier point, we can keep up. We believe we can keep up to the labour requirements both internally.... All our members have internal training programs, and some of them are affiliated with American or European partners. They can bring or help bring those trained people to Canada so that we can build our own capability internally.

• (1515)

The Chair: Thank you.

Mr. Parm Bains: Thank you.

The Chair: With that, I would like to thank all the witnesses, those who are here with us in person and those who are with us virtually.

Mr. Kendrick, Ms. Sampson, Mr. Slaunwhite and Mr. Schmidt, thank you all for participating today and for providing your testimony to the committee. We look forward to that.

With that said, I'd like to thank our interpreters and our technicians, who have helped us throughout the day to get things done, as well as our analysts and our clerk.

To everyone, have a good weekend.

I declare the meeting adjourned.

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