

June 27, 2016

Seaspan Response to the Defence Policy Review

Seaspan is pleased to contribute to the government's Defence Policy Review. The Review represents an important opportunity to consider Canada's current and desired future defence and security posture in a domestic, North American and global context. Federal government decisions emanating from the Review will define our national ambition from which will evolve a clarification on the expected role of our Armed Forces and the capabilities they will need to perform their duties as asked of them by Canadians.

As a significant employer on Canada's west coast and a proud partner with the federal government in the delivery of the National Shipbuilding Strategy, we have a number of lessons learned to share from the early years of this long-term relationship.

We start by underscoring the strategic value to Canada of the National Shipbuilding Strategy (NSS), namely to:

- a. Recapitalize the Royal Canadian Navy and Canadian Coast Guard, through a long-term build strategy, to promote and defend Canada's national security interests in the maritime domain;
- b. Rebuild sustainable shipbuilding capability and capacity in Canada through long-term supplier partnerships with competitively selected shipyards on Canada's east and west coasts;
- c. Leverage economic benefits within and beyond the marine industrial sector across Canada and generate stable, value added work for shipbuilding and ship repair professionals and trades men and women for generations to come. An economic impact study developed under NSS estimates that over the program's first 10 years 2,300 jobs will be created on average, \$290M in GDP and \$600M in economic activity will be generated each year.
- d. Avoid boom and bust cycles, and the temptation to take short cuts, that have defined previous federal shipbuilding programs.

Second, there is an opportunity of a generation to capitalize on NSS to pre-position Canadian industry for success in the international marketplace by contractually encouraging the creation of long term supplier relations between primes and their supply chains. This will allow suppliers to invest in new plant and innovation, attract and retain a qualified workforce for the long term and generate economies of scale that will provide cost savings to the customer and export opportunities for the supplier. Our ability to enter into long-term supplier arrangements depends in large measure on contractual guarantees we have from our federal customers. In the current NSS environment, we are working under task-based per project contracts rather than under an omnibus contract for the program.

Third, achieving economies of scale with our supply chain will require our customers to use common capability/equipment across platforms as often as possible. Accomplishing this will contribute directly to reduced life cycle training, sparring and system/equipment upgrade costs to Royal Canadian Navy and Canadian Coast Guard fleets. It will also require our federal customers to be making decisions at the requirements and design scope stages of projects for Seaspan to be able to support.

Fourth, there is considerable latitude to achieve NSS program efficiencies with a direct impact on cost containment and greater schedule predictability, including by:

- managing the portfolio of work under the NSS non-combat package as a program as it was intended rather than as currently, a series of one off projects. This can be enabled by:
 - eliminating task-based contracting in favour of an omnibus project budget to include design, long-lead equipment acquisitions and the build phase;
 - developing and implementing a set of standard contractual terms and conditions;
- improving Canada's costing and contracting models
- creating a non-rotational cadre of professional procurement and complex program managers at the Department of National Defence; Fisheries, Oceans and Coast Guard; and, Public Services and Procurement Canada;
- amending Government of Canada project and contract authorization approval practices, including by:
 - accepting a significant margin for front end project funding approval;
 - approving the build budget only once there is sufficient fidelity in the design to allow the contractor to properly price materials and estimate man hours for construction;
 - and, ensuring a short period of time between setting the build budget and start of construction; and,
- increasing the number of value-added manufacturing hours by reducing the volume of weekly/monthly program/project reporting obligations on industry and Canada.