

Defence Policy Review

Recommendations

Time to reassess the fledgling shipbuilding program, its flaws, its cost to the taxpayer and Canada's role in the world

The non-binding nature of the NSPS framework agreements (Umbrella Agreements) means that the new Government of Canada has a free-hand in shaping Canada's shipbuilding industry and ensuring the Royal Canadian Navy (RCN) and Canadian Coast Guard (CCG) receive the vessels they need, when they need them and at a cost which provides value to the Canadian taxpayer, all while ensuring that the entire marine industry benefits from these investments.

The current shipbuilding program has become untenable and unaffordable and is failing to renew the Federal fleet in a timely manner. At the current rate of program slippage there will be operational gaps in icebreaking, fisheries patrol and scientific survey capabilities, presenting a risk to the sovereignty, safety and security of our nation.

Canadians are already asking themselves whether we are spending too much? Whether there are there other classes of ship that are more suitable to Canada's role in the world? Whether there better ways to do this? The answer to these questions is yes; if we don't proactively react to the current situation, it will only deteriorate further.

Let's change the trajectory and look at a shipbuilding program that is also an industrial strategy to meet all our maritime needs.

We would implore the government to implement the measures recommended by our industry's trade-body, the Canadian Marine Industries & Shipbuilding Association, which can be found here: http://canadianshipbuilding.com/wp-content/uploads/2016/06/CMISA_Defence-Policy-Review-2016_Report.pdf

- The root of the current problems, which feature almost daily within the national press, is the lack of shipbuilding capacity within the current procurement strategy. The fleet is rusting out faster than it can be replaced by the two small shipyards which are earmarked to receive the lion's share of future shipbuilding contracts. Consequently, programs will go unfulfilled and the Canadian Federal fleet will continue to shrink. Delivering one ship every 2-3 years at these two shipyards will mean that Canada won't reach equilibrium in the renewal of the existing Federal fleet.
- Today, the smallest and lowest capacity of Canada's three major shipyards are penned to build the largest of vessels. Meanwhile the largest shipyard has been left to compete for small craft and ship repair which is not economically viable for Canada's only large-scale shipbuilding facility with a vast labour pool of skilled shipbuilders.
- Politics have prevailed above common sense. Facing the dilemma that the existing program infrastructure cannot deliver critical ships within the timeframe required, Canada was wrongly made to believe that it must make a painful concession. That it must prioritize the urgent needs of either the CCG or RCN to the detriment of the other by way of a 'scheduling decision'. In fact, a sourcing decision would have solved the problem in its entirety.
- Delays and the corresponding inflationary effect to the original budget can be easily mitigated through the addition of shipbuilding capacity. Ignoring the majority of Canada's shipbuilding industry is akin to leaving more than half of the players on the sidelines while the team is trying to win the Stanley Cup.
- Unless major adjustments are made, the potential socio-economic benefits of building ships in Canada are heavily outweighed by the lower costs

achievable from building ships abroad. Ships being built under the fledgling National Shipbuilding Procurement Strategy are being budgeted to cost three to five times as much as other shipyards have built identical designs. This is resulting in budgetary pressures, demands for reduced ship capabilities and a reduction in the number of ships to be delivered, contrary to the *raison d'être* of the National Shipbuilding Procurement Strategy (NSPS); the renewal of the Federal fleet.

- The spiraling costs of the NSPS program are creating the misconception that it costs more to build ships in Canada. This is not the case - as has been evidenced by Davie Shipbuilding's export to Norway of one of the world's most complex offshore support vessels as well as the numerous smaller ships which other shipyards throughout Canada are building for worldwide export.
- The National Shipbuilding Strategy is solely a government procurement strategy. A wide-ranging marine industrial policy is required which intelligently addresses the future of the marine and shipbuilding industries.

The government have requested that we make our recommendations based on three important criteria:

Innovation and technology

- Due to the shortcomings of the NSPS and reduced delivery capability, Canada must now address urgent operational gaps for icebreakers, maritime humanitarian and disaster relief (HADR), search and rescue, submarine rescue, fisheries patrol and offshore scientific research capabilities. This can be achieved using commercial solutions that will embrace innovation and technology to provide fit-for-purpose solutions in a highly affordable manner. In particular:
 - Using the conversion of existing commercial vessels in a similar manner to the successful Resolve-Class AOR program for

multipurpose platforms and icebreakers. A fraction of the cost of building from new.

- Using call-off agreements for Roll-on/Roll-off vessels similar to the UK's Point-Class Sealift Ships. The Canadian Armed Forces do not require a permanent rolling stock capability which would lay idle for the majority of the time. We must look towards solutions that have been successfully adopted by allied navies.
- Canada can save money and divert construction risk by using alternative service delivery options including ship leasing and the third-party ownership and operation of Canada's auxiliary fleet. This will also provide potential employment for Canada's merchant seafarers whose livelihoods are being destroyed by the elimination of cabotage in Canada.
- Canada can adopt tried-and-tested lessons, processes and procedures from the commercial marine industry's outsourced ship management sector for the In-Service Support of Canada's fleet. Using expensive defence contractors to perform the same service for Canada's fleet, all of which will be commercially-classed, is an unnecessarily expensive and overly-bureaucratic option.

Leveraging economic growth in Canada

- Developed countries throughout the world that have engaged in naval fleet renewal programs of late have adopted a modern production assembly methodology. With multiple shipbuilders being tasked with the construction of ship sections and different aspects of the construction, it leads to a faster, cheaper delivery and supports businesses throughout the economy. In Germany for example, which built the same design as the Joint Support Ship, it built the last vessel in parts at five different shipyards resulting in a final cost that was one-third of what Canada has allocated for its two vessels. For the Canadian Surface Combatant program it would solve the current shipbuilding capacity constraints within the program and provide an

opportunity to reduce the budget and expedite the delivery of Canada's next naval fleet. Of course it would also ensure the distribution of economic growth throughout Canada.

Streamlining defence procurement

- Given the unexpected, multi-year delays in the National Shipbuilding Strategy, the requirements for Canada's next fleet must be reassessed:
 - Certain classes and design of vessels, such as the Joint Support Ship (based on Germany's design) are now two decades old. At a cost of three times that of the Resolve-Class AOR but only capable of delivering around 5% greater capability, an updated assessment of pre-existing designs should be made. Over the past decade significant advances have been made in shipbuilding and marine technologies. Delays to the program mean that a real risk exists that once ships do eventually get delivered, the design of the ships and their systems will be obsolete.
 - The global socio-political and security environment has also changed over the past six years. Canada may well be better served by reducing the number of single-class surface combatants in favour of other classes, for example amphibious assault ships/helicopter carriers which could provide significantly more joint capabilities. Not only for combat operations but also humanitarian and disaster relief capabilities. Such a class of vessel would be more suited to combatting the greatest of Canada's current threats: those emanating from non-state actors.
- Canada has two long-term capability gaps that it must address. Firstly, the ability to replenish and support its naval fleet and secondly, its ability to provide year-round coverage in the high Arctic. This can only be achieved by increasing shipbuilding capacity in the current and future Federal government shipbuilding programs.

About Davie Shipbuilding and Federal Fleet Services

Davie Shipbuilding is Canada's largest, highest capacity and most experienced shipbuilder. In 2015, it was voted North American Shipyard of the Year ahead of several of the United State's largest naval shipbuilders, specifically for its accomplishments in delivering the most complex commercial vessel ever to be built in North America in 2014. Federal Fleet Services is another Inoceca Group company which has been contracted to provide Canada's next Auxiliary Oiler Replenishment Ship for use by the RCN – once delivered next year, it will be the largest ship in the Canadian naval fleet.