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Chair: Mr. Robert Kitchen

Standing Committee on Government Operations and Estimates

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• (1310)

[*English*]

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

I'd like to welcome everybody to meeting 10 of the House of Commons Standing Committee on Government Operations and Estimates.

Today we will continue our study on the national shipbuilding strategy. We will also discuss committee business during the last 30 minutes of the meeting.

Today's meeting is taking place in a hybrid format pursuant to a House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application.

Regarding the speaking list, the committee clerk and I will do the best we can to maintain a consolidated order of speaking for all members, whether participating virtually or in person.

I would like to take the opportunity to remind all participants at this meeting that taking pictures of your screen is not permitted.

Given the ongoing pandemic situation and in light of the recommendations from health authorities as well as the directive of the Board of Internal Economy on October 19, 2021, to maintain a healthy and safe atmosphere, the following is recommended so that we can continue to do so.

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 should you require them.

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 their desk, their chair and their microphone, with the provided disinfectant wipes when vacating or taking a seat.

As the chair, I will be enforcing these measures for the duration of the meeting, and I thank members in advance for their co-operation.

I would like to welcome our witnesses today.

Mr. Crosby and Mr. Page are back again this week.

Vice-Admiral Baines, it's good to see you.

I believe we have Mr. Smith as well. Welcome.

I understand you have an order of presentation. With that, I will ask PSPC to start, followed by DND and then the Canadian Coast Guard.

[*Translation*]

Mr. Simon Page (Assistant Deputy Minister, Defence and Marine Procurement, Department of Public Works and Government Services): Thank you, Mr. Chair.

[*English*]

I am Simon Page, assistant deputy minister, defence and marine procurement branch at PSPC.

[*Translation*]

Good afternoon, Mr. Chair and committee members.

Thank you for inviting me to appear before you today to discuss the national shipbuilding strategy, or as we often refer to it, the NSS.

More than a decade ago, the Government of Canada launched the NSS as Canada's long-term plan to renew the fleets of the Royal Canadian Navy and the Canadian Coast Guard, and it is helping rebuild a domestic marine industry and create sustainable jobs in Canada.

Since then, we have seen five large ships and numerous small vessels delivered to the Royal Canadian Navy and the Canadian Coast Guard, as well as the completion of dozens of ship repair, re-fit and maintenance projects at shipyards across Canada.

[*English*]

Between 2012 and 2021, contracts awarded under the NSS have contributed an estimated \$21.2 billion to Canada's gross domestic product for an average of nearly \$2 billion annually. Over the past decade, these contracts have also created or maintained more than 18,000 jobs a year, through the marine industry and its Canadian suppliers.

This past year, construction and design work continued on a number of vessels. Deliveries of completed vessels included new search and rescue lifeboats to the Canadian Coast Guard and a second Arctic and offshore patrol ship delivered to the Royal Canadian Navy.

Several repair, refit and maintenance contracts were also awarded on behalf of the Canadian Coast Guard and the Royal Canadian Navy, generating hundreds of jobs and significant economic benefits to communities across Canada. We also made progress towards selecting a third shipyard under the NSS to build icebreakers for the Canadian Coast Guard. We hope to have more to share on this in the coming months. These are important achievements, but despite the successes, the NSS continues to face significant challenges.

As indicated in the Auditor General's 2021 report, shipbuilding is highly complex and challenging work.

[*Translation*]

The delivery of ships has been slower and more costly than originally anticipated. During the early years of the strategy, expertise both at the shipyards and within government was still developing as new workforces in modernized shipyards were building entirely new classes of ships.

This has led to ongoing challenges with respect to planning, management and oversight of projects and related activities. Canada had limited recent experience in the planning of shipbuilding projects when original delivery schedules and budgets were established more than a decade ago.

Much has changed since then, and preliminary budgets did not fully consider refinements in build requirements and plans, inflation costs, changes in exchange rates, or labour rates and material costs—all of which have risen significantly over the last decade.

[*English*]

The marine industry is also facing challenges with attracting and retaining a workforce, as well as developing skills and capabilities. Of course, industries around the world have experienced added challenges due to the pandemic, and Canadian shipbuilding is no exception. COVID has put immense pressure on workforces, working practices and supply chains and has resulted in rising costs of materials as well as delays in building projects.

Although we are still assessing the full impact of the pandemic on our projects, we anticipate further adjustment to project schedules and budgets will be required.

These are serious problems that several industries are facing at the moment. It is true that we have made some progress since the inception of the NSS, but we know we need to apply lessons learned now so we can keep delivering in the future, especially as global challenges persist.

I can tell you that the government continues to work closely with shipbuilding partners to do just that, and now that the shipyards in Canada have gained the experience required to set more realistic schedules, we are better positioned to tackle emerging challenges and manage risks.

To address these challenges we have made significant enhancements over the past number of years in how we manage the strategy. This includes strengthening risk management tools and processes so that we can make more informed decisions. We are actively working with the shipyards to address issues related to overall performance using proven tools such as earned value management and actively managing specific risk registers through a rigid governance system.

We are engaging with the marine sector to develop an HR strategy that aims to support industry in its ongoing work to recruit new workforce talent.

The strategy relies on the active involvement of the marine sector, including the large shipyards, and relies on a common understanding of the challenges to be tackled and the joint development of solutions.

We know that the strategy is a decade-long initiative and ongoing enhancements will be required.

[*Translation*]

That concludes my remarks. I would be pleased to answer the committee's questions.

Thank you.

● (1315)

[*English*]

The Chair: Thank you, Mr. Page.

Now we'll go to DND.

Mr. Troy Crosby (Assistant Deputy Minister, Materiel Group, Department of National Defence): Mr. Chair, members of the committee, I'd like to thank you for the invitation to appear before you to discuss the national shipbuilding strategy.

I'm Troy Crosby, assistant deputy minister, materiel, at the Department of National Defence.

[*Translation*]

It is my responsibility to outfit the Canadian Armed Forces and its members with operationally relevant and safe equipment and services, so the Canadian Armed Forces can accomplish the missions assigned to it by the Government of Canada.

Today we are discussing the national shipbuilding strategy and what it means to the recapitalization and in-service support of the Royal Canadian Navy.

[English]

As a reminder, in the shipbuilding strategy it's planned to deliver six Arctic and offshore patrol ships, two joint support ships and 15 Canadian surface combatants to the Royal Canadian Navy. This is an immense undertaking spanning decades of work and involving billions of taxpayers' dollars. For context, one of the projects, the Canadian surface combatants, will be designed and then built over a 30-year duration and will be the backbone of the navy for four-plus decades. Construction of these 15 ships is currently forecast to require some 60 million person hours of labour.

[Translation]

Shipbuilding has many stakeholders. Internally, it involves interdependencies with departments such as Public Services and Procurement Canada, or PSPC, and Innovation, Science and Economic Development Canada, or ISED, and is supported by a broad web of policies and authorities. Externally, it involves our prime contractors, their subcontractors and a complex supply chain.

[English]

You have heard from my colleague at PSPC how we have made significant strides towards satisfying the objectives of the national shipbuilding strategy. You have also heard that there have been significant challenges faced, the global pandemic being but one of them.

Specific to the shipbuilding strategy objective of satisfying the requirements of the Department of National Defence,

[Translation]

my colleague, the commander of the Royal Canadian Navy has expressed that he is pleased with the performance to date of the two Arctic and offshore patrol vessels that have been delivered. The historic passage through the Northwest Passage, while circumnavigating North America, is evidence of the capability this new ship brings to Arctic sovereignty.

• (1320)

[English]

Ships four and five of this class are well under construction in the Irving shipyard in Halifax and steel cutting on the sixth ship is planned to occur later this year.

The very visible progress on construction of the first joint support ship in Vancouver is also most welcome. Vancouver shipyards is planning to cut steel on the second joint support ship in the coming months.

There has also been significant progress on work accomplished on the Canadian surface combatant design with a goal of cutting steel in the 2024 time frame.

[Translation]

Improvements in implementing the shipbuilding strategy are required, however, and investments in our collective capacity, including industry, are needed. Simply put, ships are not being built fast enough and are costing more as a result.

[English]

A recent PBO report on the NSS underlined the time value of money on a project of the magnitude of the Canadian surface combatant. By their calculations, one year of ship schedule slippage could equate to \$2.2 billion of lost buying power. At the same time, we need to keep in mind the cost and collective ability to keep our Halifax class frigates in service and at the required operational level while bridging to deliveries of the Canadian surface combatant.

[Translation]

The required security in shipyards where warships are built and maintained, as well as their supply chain, limits options as to where this type of work can be done. Having the domestic capability and capacity to support our existing and future fleet allows sovereign control. Events in the world today have reinforced the importance of this ability.

[English]

The national shipbuilding strategy is crucial to National Defence. Collective focus is required to continue across the various stakeholders, including industry, to bring the new fleet into service in the time that it is required.

I will be pleased to take your questions.

Thank you.

The Chair: Admiral, do you have anything or are we okay?

Vice-Admiral Craig Baines (Commander, Royal Canadian Navy, Department of National Defence): I do have some opening remarks, if that would be okay, Mr. Chair.

The Chair: Admiral.

[Translation]

VADM Craig Baines: Mr. Chair and members of the committee, thank you for inviting me to speak with you today about the national shipbuilding strategy.

[English]

Before we discuss the national shipbuilding strategy, I would like to provide a brief overview of my mandate as the commander of the Royal Canadian Navy and my priorities for ensuring that Canada has combat capable maritime forces that are ready to deploy when called upon by the Government of Canada to meet the wide variety of taskings that can come our way through the spectrum of conflict.

As head of the navy, I am responsible for producing globally deployable maritime forces. In this role, I lead an organization that takes the required capability and combines it with trained sailors to prepare ships and submarines for Government of Canada missions both domestically and internationally.

[Translation]

A somewhat unique feature of the naval force is that it can be used for humanitarian assistance, disaster relief, naval diplomacy, deterrence or combat, depending on the situation.

[English]

This means ensuring that the required sailors and ships are ready to deploy in various circumstances according to the Government of Canada demand signal, which includes responding to international crises, such as supporting NATO in light of the Russian aggression in Europe, operating in the Arctic in support of Canadian sovereignty, combatting drug trafficking in the Caribbean or responding to humanitarian disasters such as earthquakes or floods. However, it should be noted that I am not responsible for leading deployed operations. That responsibility falls to Vice-Admiral Bob Auchterlonie, commander of the Canadian Joint Operations Command.

As I command the navy, my top priority is people. Without the sailors and public servants that crew and support our fleet, we cannot be operationally effective through the spectrum of activity in which we are asked to operate. Part of focusing on people is ensuring that we have an organizational culture that meets the needs of both our people and our institution. This means continuing to develop an inclusive and diverse navy that is reflective of Canada's values and ethics and is based upon a foundation of respect.

Systemic problems require systemic solutions, which is why we are working closely with the commander of professional conduct and culture to ensure that we keep culture change on the agenda and that we lean in to correcting past wrongs while enabling an operationally effective navy for the future.

- (1325)

[Translation]

Everyone is welcome in the Royal Canadian Navy and should feel safe there, regardless of their gender, ethnic origin or sexual orientation. Our corporate culture must reflect the values of Canadians, and it will.

[English]

Another important priority, which brings us together here today, is fielding ships and submarines for operational employment. The Royal Canadian Navy's primary role in the national shipbuilding strategy is to provide the right maritime requirements to ensure that our fleet is positioned to meet the challenges of both the current and future threat environments.

In this regard, the navy team works closely with Mr. Crosby's team in ADM materiel to set the requirements in order to meet the missions assigned to the Royal Canadian Navy by the Government of Canada.

After setting this requirement, the navy team coordinates closely with ADM materiel and Public Services and Procurement Canada as they deliver the necessary and effective capability to meet Canada's maritime needs.

[Translation]

That is why today's meeting is so important to the Royal Canadian Navy. The national shipbuilding strategy is the mechanism through which the future fleet will be delivered, and we need to make sure the strategy is well positioned to do it as effectively as possible.

Thank you.

[English]

The Chair: Thank you, Admiral.

We'll now go to the Canadian Coast Guard.

Mr. Andy Smith (Deputy Commissioner, Shipbuilding and Materiel, Canadian Coast Guard, Department of Fisheries and Oceans): Mr. Chairman, thank you for providing me with the opportunity to speak with you and the members of the committee regarding the national shipbuilding strategy.

My name is Andy Smith, and I am the deputy commissioner of the Coast Guard in charge of shipbuilding and materiel.

The Canadian Coast Guard's on-water missions, including aids to navigation, icebreaking, search and rescue, environmental response, fisheries conservation and protection, and ocean science, are fundamental to enabling the Canadian maritime economy, facilitating northern community resupply, supporting northern Arctic sovereignty, advancing the stewardship of our oceans and promoting maritime safety.

[Translation]

To effect this wide-ranging mandate, the Canadian Coast Guard operates 123 ships, including 26 large ships over 1,000 tonnes. The average age of these large ships is 40 years, and although they are safe and well maintained, a generational and comprehensive renewal of the Canadian Coast Guard fleet is needed to ensure that we continue to be able to serve Canadians and promote Canadian interests.

[English]

The Coast Guard fleet renewal plan has been in existence since 2005 and has accelerated significantly with the introduction of the national shipbuilding strategy.

Over the last four years, the government has approved the renewal of the non-combatant fleet, including the construction of 30 large ships.

The Canadian Coast Guard is a core member of the national shipbuilding strategy and is engaged in all aspects of the strategy, namely, large ship construction, small ship construction for ships less than 1,000 tonnes, and ship repair and maintenance.

[Translation]

More specifically, the Canadian Coast Guard had either construction or repair contracts in every major yard in Canada over the last six years and is currently progressing the design or construction on three new classes of vessels, including the polar icebreaker.

Subject to the conclusion of the current process to select a third shipyard, we anticipate having contracts for large ship design and construction in the three major Canadian shipyards. A key element of our fleet renewal program is keeping the current fleet safe and operational until the arrival of new ships, and in this regard, we are engaged in repair and vessel life extension work for the entire fleet.

[English]

With the launch of the national shipbuilding strategy in 2010 and the commitment of long-term government program funding, the Canadian shipbuilding industry underwent a renaissance following a fallow period. This long-term commitment resulted in the modernization of two major shipyards, the regeneration of the Canadian marine supply chain and the reconstitution of the government's program and project management expertise in the shipbuilding domain.

With respect to the large ship fleet renewal, the Canadian Coast Guard cut steel on its first large vessel in 2015. The first large ship and the first class of ships to be delivered under the national shipbuilding strategy were the offshore fisheries science vessels built at Vancouver shipyards and delivered in 2019 and 2020.

These ships, with their advanced technology and laboratory capabilities, will enable fisheries science research on both coasts for decades to come.

• (1330)

[Translation]

We also experienced good success with our small vessel fleet regeneration, which is realized via an open competition process with smaller Canadian shipyards. The channel survey and sounding vessels delivered by Kanter Marine, in St. Thomas, Ontario, and the search and rescue lifeboats being delivered by Hike Metal Products, in Wheatley, Ontario, and Chantier Naval Forillon in Gaspé, Quebec, bear testament to this success.

[English]

As concluded by the Auditor General in her February 2021 report, shipbuilding is a complex and challenging undertaking. We were pleased to take delivery of three large well-built ships, but we must acknowledge that these ships have taken longer to produce and have cost more than originally envisioned.

Additionally, in the last two years, the COVID-19 pandemic has had an undeniable impact on the shipyards and the global supply chain. Current production schedules have been adversely impacted. Moving forward, as we continue to work with the shipyards to monitor performance and incorporate lessons learned, there is an expectation that build duration and, by extension, costs will come down, particularly on long series runs of ships.

[Translation]

As the operator of the largest federal civilian fleet, the Canadian Coast Guard is heavily invested in the national shipbuilding strategy. The regeneration of the aging fleet is a top priority for us, and we continue to work with the entire stakeholder community to realize the goal of timely fleet renewal.

[English]

Thank you. I'll be happy to take your questions.

The Chair: Thank you very much.

We'll now go into 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.

Thank you for your opening statements, gentlemen.

I'm glad that all of you recognize the serious issues Canada has experienced in the past few years when it comes to shipbuilding. My biggest concern today is moving forward and doing better. Above all, the cost overruns have to stop; these projects are becoming completely cost-prohibitive.

Vice-Admiral Baines, my first question is about capability.

Is the Royal Canadian Navy worried that it will have a capability gap like the one faced by the Royal Canadian Air Force? The existing frigates are being adapted to extend their life, but will they reach the end of their lifespan before the new vessels arrive?

Does that worry you?

[English]

VAdm Craig Baines: Mr. Chair, thank you very much for the question.

The transition between the Halifax class and the Canadian surface combatant is one that we are going to monitor very closely. It is our expectation that with the right amount of investment in both maintenance and capability that the navy will be able to have a transition plan between the Halifax class and the Canadian surface combatant.

How that will all shake out will depend eventually on the schedule and how that plays out and the ships themselves.

[Translation]

Mr. Pierre Paul-Hus: Thank you, Vice-Admiral Baines.

My second question is about the model of the vessels. The type 26 frigate was the model selected, but it turns out that Australia has had issues with the vessel. It doesn't deliver good performance and requires a lot of fuel.

Should the government have chosen the multimission frigate, which was previously considered to have good performance and a much lower price tag?

• (1335)

[English]

Vadm Craig Baines: Mr. Chair, the selection of the design went through a very rigorous and well-supervised process to ensure that the right ship was selected within a competitive process for Canada.

[Translation]

Mr. Pierre Paul-Hus: Thank you, Vice-Admiral Baines.

Mr. Page, I'm trying to understand something about the Arctic and offshore patrol ships. The initial contract was for five ships, each costing \$400 million. The government then ordered a sixth, but the price had doubled to \$800 million. The increase is apparently due to the fact that Irving Shipbuilding is charging hundreds of millions of dollars in fees for various reasons. Now we are finding out that the project is going to cost \$4.3 billion, with the pandemic and supply issues being blamed.

How is it possible that a billion dollars plus in additional fees is the result of the pandemic?

Is there a simple explanation?

Mr. Simon Page: Thank you for your question.

It's hard to give a simple explanation for the additional fees that were charged. This strategy has a number of complexities, which we manage diligently. I mentioned a few of them in my opening statement. When the projects were initially developed, we had to seek out experience and expertise. Today, we have a better understanding of where we are headed in terms of cost and schedule.

As for the procurement of the Arctic and offshore patrol ships, we always had the option of purchasing a sixth ship. A few years ago now, the decision was made to exercise that option, and we are paying close attention—

Mr. Pierre Paul-Hus: Sorry to cut you off, Mr. Page.

Originally, under the terms of the contract, each ship was supposed to cost \$400 million. When the government decided to purchase a sixth ship, the price tag was higher for various reasons. That put the bill at \$2.8 billion. Now we are finding out that the cost of that same contract has hit \$4.3 billion, while construction of the ships is under way, progressing well. Once again, it is taxpayers who are on the hook.

Aren't the additional costs being charged by the shipyard excessive? After all, construction of the ships is under way. I can understand that getting started on a project may bring some complications, but how is it possible to justify charging double to build the same ship? Each one is going to cost \$750 million.

As a government institution, how can you allow shipyards to charge us this much for these ships?

Can they justify it?

Mr. Simon Page: Thank you for your question.

We work diligently with shipyards. Overall, I would say that we were on the right track with the construction of the Arctic and offshore patrol ships at the Irving shipyard, in Halifax. Unfortunately, just when the performance indicators were looking good, the pandemic hit and it hit hard. I'm not saying that the pandemic is re-

sponsible for all the issues, but it did not help the shipbuilding industry whatsoever.

We now have to deal with the additional costs shipyards are charging and the new schedules. We are working closely with third parties to review everything and make sure that, as you said, the costs are justified. We are working with them to ensure performance. It's not easy. The challenges are many, but I think we are making good progress.

Mr. Pierre Paul-Hus: With all the upcoming projects, such as the frigate project, isn't the scope of the work becoming too much for Canada's shipbuilding industry?

Shouldn't we consider using subcontractors?

I know we want to keep everything here, but at some point it becomes unwieldy and there are too many delays.

Isn't that a problem, currently, with the National Shipbuilding Strategy?

Mr. Simon Page: Thank you for the question.

We are very focused, globally, on getting the strategy right. As Canada and the world return to the pre-pandemic pace, we will need to evaluate all of this.

As you know, we're trying to build additional resources into the National Shipbuilding Strategy to manage all the requirements. There is a lot of work to do and we are aware of that. We have to accommodate the operational requirements of the Canadian Coast Guard and the Royal Canadian Navy. It's not easy to manage, but I think we do it well. If there are options that we need to consider that are not on the table, we will bring them forward.

• (1340)

[English]

The Chair: Thank you, Mr. Page.

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

Mr. Anthony Housefather (Mount Royal, Lib.): Thank you very much, Mr. Chairman.

I want to thank all of you for being witnesses here today, and for the great job that you do for our country. It is very much appreciated.

I want to come back for just one second to the AOPS.

Wouldn't it be true, Mr. Page, that the AOPS for the Coast Guard and those for the navy are not exactly the same? They're different, so it's not comparing apples to apples. There are obviously cost issues related to COVID, and there are cost issues related to the supply chain, but they're also not the same ships.

Mr. Simon Page: Thank you very much for the question, Mr. Chair.

You're very right. They are not the same ships. The AOPS that the Coast Guard will receive are different. We're working on this design now, and the design has generated the conclusion that you have just put forward. The designs are not the same. The ships will never be the same. Ultimately, they will look the same from the haul down, but up top, they will be quite different.

I'm sure Mr. Smith could give you some details in this respect.

Mr. Anthony Housefather: Thank you.

Mr. Smith, I don't know if you want to intervene, or I can go to my next question. If you feel that you want to, please do.

Mr. Andy Smith: Thank you very much, Mr. Chair.

Indeed, the ships may look the same, but they will be fundamentally different. For example, we've taken the armament off the AOPS for the navy. We've put some bridge wings on to facilitate the way we operate in ice. There are some accommodation changes. The ships may look the same, but inside they will be different.

With respect to the earlier reference that they are \$750 million per copy—there was an article published earlier this week—I do think that, to use your expression, it's not really a fair apples-to-apples comparison. They will cost more, but in fairness, look at the price of steel in the last two years. It has skyrocketed, and for the supply chain and the long-lead items that were generated for the first six ships, a lot of the procurements were done four or five years ago, so it's not untoward to think that the costs of ships seven and eight would be higher than those for the first six.

Mr. Anthony Housefather: Right.

I think we're all focused on making sure we get delivery of product as quickly as we can, to make sure the men and women of our armed forces have the best up-to-date equipment. We also want to be cost-efficient and keep costs down, but we have to recognize that not everything is the fault of either procurement or defence. Part of it is worldwide trends; part of it is shipyards and the labour experiences they have had during the COVID-19 pandemic. It's easy to blame. I want to make sure that I'm not blaming and instead am more trying to fact-find and see where we can help.

I'm confident, Mr. Page, that you have been working very closely with the shipyards—all three of them, including Davie—to help them mitigate the challenges they face in the NSS. Can you talk to us, whether with respect to the COVID-19 pandemic or with respect to supply chain issues, about things that Public Services and Procurement Canada does to help the shipyards confront the challenges, for example, in terms of facilitating their access to steel? Talk to us about what you and your team do to help the shipyards be more cost-efficient.

Mr. Simon Page: Thank you very much, Mr. Chair, for the question.

At the outset, to answer this question, I would say that we have a very rigid governance system with the shipyards. That includes Chantier Davie Canada in Lévis, Quebec. This rigid system of governance enables us to cover an array of topics that are key enablers

within the shipbuilding strategy and, eventually, for the execution of the respective work programs in the shipyards.

Under this governance of the shipyards, we review where they are with respect to their labour workforce, their supply chain challenges and their schedules and costs. We have now enabled a specific review of schedules and costs through the earned value management system. Very recently, we have taken the national shipbuilding strategy human resource strategy to a different level. We've engaged them in specific discussions about accessing the right tools and programs in the hopes that they will be able to resolve some of the challenges they have with their workforce.

Holistically, we have very good conversations with the shipyards. We work together. There are some things that government controls and some things that government does not control, but together we're having the right conversations.

• (1345)

Mr. Anthony Housefather: Thank you.

In addition to helping review—and I understand that we provide them support in that regard, in the form of technology and intelligence—we also, for example, in the event that they're having challenges with respect to certain materials, and the Government of Canada has better access to those materials, do you not make introductions? Do you not also help the shipyards potentially access materials that they might not be able to get otherwise, or help them with logistics that they may need help with?

Mr. Simon Page: Mr. Chair, we do that. Especially with materials, one real enabler, is to plan the procurement of long-lead items and materials ahead of time. We do that for all of our contracts. We see this as a key enabler, moving forward, to address some of the challenges we see in the supply chain.

The Chair: Thank you, Mr. Page.

Thank you, Mr. Housefather.

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

[Translation]

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

Mr. Crosby, the estimated cost of the 15 Canadian combat ships that have been ordered from Irving is \$56 billion to \$60 billion. The Parliamentary Budget Officer doesn't quite agree with that cost estimate. He has pegged its maximum at more than \$10 billion.

That being said, what I see is that the delivery date for the first ship has not yet been determined.

When will the first Canadian surface combatant ship be delivered?

[English]

Mr. Troy Crosby: Mr. Chair, at this point, we're forecasting the delivery of the first Canadian surface combatant in the early 2030s.

To come back to the question of cost and the situation of where we are right now with the procurement, we aren't actually on contracts for the construction of any of the ships yet. Those are contracts that have yet to be negotiated and put into place, so there remains cost uncertainty there.

As you'd appreciate, when we're talking about the timing scales and various economic factors that are taken into consideration, there remains uncertainty in the overall program cost for the Canadian surface combatant project, which includes not just the 15 ships. It includes all of the program management costs, weapons and infrastructure.

[Translation]

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

Indeed, with regard to costs, the contract for the combat ships was awarded to Irving. However, on February 8, 2019, the Government of Canada confirmed that the Irving shipyard had awarded a subcontract to Lockheed Martin Canada to finalize the design.

Isn't using a subcontractor one of the reasons you are unsure of the final cost?

Irving's proposal included its own estimated profit and the cost associated with its expertise, but since it is using a subcontractor who also wants to secure a profit margin, doesn't that also affect the final cost, in addition to costs related to ammunition acquisition, infrastructure, and so forth?

[English]

Mr. Troy Crosby: Mr. Chair, the contract structure we have right now is, as the question suggested, that Irving Shipbuilding is the prime contractor and they have subcontracted work through Lockheed Martin for the design of the combat system. While the parent design of the Type 26, which originates in the United Kingdom, will be what we call pulled through—made part of the foundation of the CSC design—the mission systems will be unique to meet Canadian requirements.

We work alongside ISI and their major subcontractors, Lockheed Martin and BAE, in order to find the trade-offs that are required to deliver the ships efficiently and effectively to meet the navy's requirements.

• (1350)

[Translation]

Mrs. Julie Vignola: Given that the design work was subcontracted to Lockheed Martin, I think you can appreciate that this raises questions. This company is seriously being considered to build aircraft, and it is also being subcontracted for ships that are, after all, important to Canada.

Since it is an American company, is it required to comply with the Industrial and Technological Benefits Policy?

Is it required to do so in any other way than the way Irving has managed to do it, that is by investing in potato chip plants in Alberta?

[English]

Mr. Simon Page: Mr. Chair, maybe I can answer this question, as this is a process question.

For all procurements that have been mentioned here, the policy for ITB and value proposition applies fully, so in the case of the aircraft contract it applies, and in case of the shipbuilding it also applies. We will have specific obligations that will be required to be met and monitored for the Canadian surface combatant project. It was part of the contract and it's part of the proposal.

[Translation]

Mrs. Julie Vignola: Thank you.

I'd like to turn now to the multipurpose vessels that are under contract between the Government of Canada and Vancouver Shipyards of Seaspan. It is stated that there could be as many as 16 multipurpose vessels to be built, but the budget and timing of the delivery of the first vessel is still undetermined.

Having a spouse who works in the private sector and has to submit bids to companies to meet their needs, I wonder how Canada, being the client and knowing its needs, can ask a company to bid but not know how much these 16 ships will cost. It seems to me that when you make a proposal, you include the costs and that includes increases due to inflation and contingencies.

Why do we still not know how much these 16 ships are going to cost us?

When do we expect to receive them?

Mr. Andy Smith: Thank you for the question.

In terms of the first multi-purpose vessel that will be delivered, we expect it to be in service in 2028-2029. We are currently in the design stage.

[English]

We won't be into a contract for the actual cutting of steel for that ship before probably 2025 or 2026.

With respect to the budget, I would offer you the same answer that we have for some of the other projects we have out there, like the program icebreakers and the polar icebreakers. It's not that we don't or won't make those budgets public, but until such time as we actually get into contract, to put those budgets out in the public domain would remove some of the leverage we have in terms of contract negotiations.

We look forward to making those transparent and public, and we will do so at an appropriate time.

The Chair: Thank you, Mr. Smith. If you have anything further to add, by all means please submit it in writing if you can.

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

Mr. Gord Johns (Courtenay—Alberni, NDP): Thank you, Mr. Chair.

Thank you to all of you for your important work and for being here today.

One thing I keep hearing about, obviously, is the skyrocketing cost due to inflation—cost of materials and labour—and labour shortages. My concern is that I don't think we're thinking outside the box as a nation, in terms of developing on federal lands—federal opportunities.

We have 18 Canadian ports. I live in Port Alberni. We have a port, and the Port Alberni Port Authority has been doing incredible work. It has been asking for the government to develop a dry-dock program, for example.

I was at the Pacific NorthWest Economic Region conference just four years ago. It cited that there is \$3 billion of dry-dock work done annually, and it was absolutely short of dry-dock space at the time.

We look to countries like Norway, which has developed dry-dock space in small communities to build economic resiliency. In Port Alberni, there is this great company, Canadian Maritime Engineering, that's doing incredible work. It's working in partnership with the port to try to get a dry dock.

I just want to talk about the cost of living on the west coast. It costs \$1.5 million now for the average home in Vancouver, over \$1 million in Victoria and about \$500,000 in Port Alberni. The wages you have to pay somebody to make their mortgage in Vancouver is absolutely through the roof.

Why are you not working collectively with Transport Canada in opening up opportunities so that we can reduce costs of shipbuilding in this country?

• (1355)

Mr. Simon Page: Mr. Chair, as I alluded to before, we have a very good and rich system of governance for the national shipbuilding strategy and defence procurement writ large. This governance includes Transport Canada, so we can actually have discussions about such topics. For instance, the salary of employees versus the cost of living in the areas where we build ships is often discussed.

With respect to the specific piece about Port Alberni, I'm not aware of this proposal. I don't think we are tracking this proposal. I'd be happy to have a detailed look at it, if it's tabled.

Mr. Gord Johns: Well, I'll just say this. We've actually met with department staff at Transport Canada, and they don't even have a program for floating dry docks. That's why Port Alberni can't even apply for it.

I think the federal government, especially when it comes to procurement and seeing skyrocketing costs, needs to examine all opportunities, especially in markets where there's a.... The only deep-sea port on the west coast of Vancouver Island is in Port Alberni, but there are rural communities that have huge strengths, in that there are lower labour costs and, as well, skilled labour from other sectors that could be transferable.

Now, I look at government policies, and there's that 25% tariff, for example, to build ferries outside of Canada that was in place so that we would deter companies and governments from building boats in Turkey, Poland and other places. The Conservative government of the day removed it in 2010, and that actually helped to deplete the capacity of shipyards right across Canada.

Is the government looking at policies like that and at reinstating those policies? That 25% tariff generated \$118 million annually. That could be reinvested in building capacity. The more the capacity, the lower the ship costs come down. That's what the PBO stated when he testified here at this committee.

Do you support new types of policies that are going to support the domestic shipbuilding sector so that when bids come up we're more competitive?

Mr. Simon Page: Mr. Chair, we definitely discuss and support different policies and adjustments to current policies with the view to optimize the output of the national shipbuilding strategy across three pillars. The one specific policy piece that has been mentioned is not, however, at this time being tracked.

Mr. Gord Johns: I hope the government takes another look at this.

Also, in terms of funding, B.C. shipyards are at an unfair playing advantage. The Atlantic Canada Opportunities Agency got money. They're investing there. B.C. is lacking that. Is that something you're looking at? Are you looking at creating a funding mechanism in British Columbia to expand shipbuilding capacity?

Mr. Simon Page: Mr. Chair, we are not specifically looking at a funding mechanism in this regard at this time. We have multiple conversations and multiple ways to access these conversations. We are always open to looking at proposals. Right now, we're very focused on what the programs of work are in the national shipbuilding strategy and the variables associated with this.

Mr. Gord Johns: Okay. I just think that with the state of the crisis we're seeing right now and the skyrocketing costs, we need to expand capacity. I'm hoping that all the departments will come together and start looking at opportunities like this, because for me, this is just glaring in terms of the failure of government to expand and invest.

This question is for you, Mr. Smith.

We know that the Coast Guard currently is very short on engineers and crew in general. We need to commit to employees like other marine sectors do. What are you doing? Have you been going to Treasury Board to make sure that the employees of the Coast Guard, who we're all grateful for in terms of their sacrifices and the risks they take, are getting compensated properly?

Attraction and retention is a huge issue. Now we're looking at building more vessels, we're going to need to meet those needs when they're built out. Can you speak to that?

• (1400)

Mr. Andy Smith: Mr. Chair, it's an insightful question as we go about the fleet renewal.

Fleet renewal really speaks to the building of the ships, but that needs to necessarily be accompanied by the maintenance funding to support them in the long term, the additional operating expenses and the personnel costs as we grow the fleet. That's very much front and centre on the Coast Guard as we look to ensure that in the long term, once we take delivery of these ships, we'll be able to operate them and maintain them for decades to come.

The Chair: Thank you, Mr. Smith.

Thank you, Mr. Johns.

In looking at the time we have and in trying to make certain that we stay on track, we're going to go now into our second round and change to four minutes for the first two, two minutes for the next two and then four minutes for the next two. That will work.

We're going to Mr. McCauley for four minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Thanks, Mr. Chair.

Gentlemen, thanks for joining us.

We're very, very short of time, so I'm going to ask you to provide some information to the committee and email it back to us.

To start with, I'd like to hear from all of you regarding our design costs—basic design, function design, production design—for these projects, especially for the icebreakers, compared to benchmarking to international standards. I'd also like to get information from you on our productivity at the two main shipyards versus international benchmarking, please.

Please provide that to the committee, especially on the productivity.

Mr. Smith stated that costs will come down on long series ships.

I want to follow up on Mr. Paul-Hus' comments. We know that as we build more and more of a specific type of ship, the productivity is supposed to increase quite dramatically, exponentially, as the crew learns more. We've seen that with the AOPS. Despite the fact that they added a sixth ship, the cost has gone up. Now, with the Coast Guard ships going up massively, instead of being perhaps around the \$200-million mark, it's going up to \$750 million.

Mr. Smith commented that it's a different design. Heavy, heavy costs are being taken off of the AOPS, which is the weapon system.

I'd like a straightforward answer as to why the cost is probably tripling, not just doubling but tripling, because the productivity and knowledge on building those ships will be so high by the time you get to the seventh and eighth ships. Why is the cost basically tripling?

I think it was South Africa or Spain that built a similar ship this year for just \$170 million.

Are we just sticking with...? As Mr. Smith said, it's basically just the hull that's the same. Have we made a mistake in picking a bad design and then building around it that is costing us so much money?

Mr. Simon Page: Mr. Chair, maybe I'll start, and then I'll ask Mr. Smith and Mr. Crosby to speak about their respective AOPS portion.

From a process point of view, as we mentioned, with the AOPS program one through six, we had really good momentum established with Irving Shipbuilding on the east coast. The navy accepted one. They accepted two. Three was—

Mr. Kelly McCauley: Sir, I'm aware of all that.

We're short on time. Could you please just stick to answering the question?

Mr. Simon Page: We had very good momentum building, and then the pandemic happened. We lost that momentum. We are grateful for the shipyards to have remained operational during the pandemic. It could have been worse. ISI had to shut down. We really felt at number four—

Mr. Kelly McCauley: Mr. Page, how long did they shut down for, please?

Mr. Simon Page: They shut down for a few weeks, Mr. Chair.

Mr. Kelly McCauley: It was a few weeks. So we're looking at an almost tripling of a price because of two weeks lost.

The reason I'm bringing that up is that I'm looking at a forensics from a company. Fincantieri shut down for a couple of weeks. With the U.S. Navy, there were no major disruptions. Several were encouraging employees to work from home.

We've heard repeatedly excuse after excuse after excuse, "Oh, it was COVID." ISI shut down for two weeks out of a two-year period, and you're blaming a tripling of cost on two weeks. I do not find that acceptable. I don't think taxpayers find that acceptable. I don't think the men and women in our navy find these continual delays acceptable, blaming it on COVID.

I'd like you to provide to this committee, in writing, an exact breakdown, from both shipyards, on how many hours were lost, by month, please, due to COVID, because I do not believe your excuse of COVID for these massive cost overruns and delays.

• (1405)

The Chair: Thank you, Mr. McCauley.

Mr. Page, if you can submit that to the clerk, he will distribute it to the committee. Thank you.

We'll now go to Mr. Jowhari for four minutes.

Mr. Majid Jowhari (Richmond Hill, Lib.): Thank you, Mr. Chair.

Thank you, witnesses, for your testimony today.

As our time is short, I'll cut to the chase.

We know there have been increased costs, so going forward and looking forward, what measures are we putting in place to track progress, to monitor and to report?

In preparation for the meeting, I was looking at the sources tracking the progress updates and I noticed there is a decentralized and collaborative approach taken in the national shipbuilding strategy. I found out there are multiple sources reporting on the progress and different projects that stem from this initiative.

Is there any centralized source that reports on all of these projects? If not, can you kindly give us an update on the best way to get a holistic and comprehensive report that talks about material and labour costs as well as progress and where we are, along with any challenges or highlights that have been flagged?

That's for either Mr. Page or Mr. Crosby. If Mr. Smith or Admiral Baines want to make any comments, I'll be glad to hear those.

Mr. Simon Page: Mr. Chair, again, through our governance we manage the national shipbuilding strategy as a strategy, so we look at different measures at this level. We also manage at the program level, shipyard by shipyard. We have specific governance with the shipyards to manage their respective programs of work, and we manage and report at the project level, so project by project, according to their specific authorities and accountabilities.

The programs of work from one coast to another as well as the challenges are not the same, so sometimes it's difficult to really have the same discussions with the same mechanisms for resolution; however, we do take a holistic approach at the strategy level.

Mr. Majid Jowhari: Thank you.

Is there a single dashboard, perhaps broken down into different projects, and therefore a centralized source for reporting on progress that we could get access to?

Mr. Simon Page: An overall NSS dashboard does not currently exist. We do monitor measures for the strategy, but those are not project by project.

We do have what I would call a central benchmarking or central view of programs of work in the respective shipyards. Those are managed on a monthly basis at regular governance meetings.

Mr. Majid Jowhari: Thank you.

On February 4 we heard from the Auditor General, who talked about the need for strict monitoring and oversight. Can you clarify how your team along with the shipyards and other suppliers oversee the construction and delivery of the ships to NSS to ensure that we have proper oversight on these projects?

Mr. Simon Page: We do exercise rigid oversight on all our projects and programs. Since the OAG report, we have embraced all recommendations.

There was a specific recommendation about managing in a more comprehensive and meticulous way the schedules, costs and scope of the project. We're using the earned value management tool to do this.

We've also increased the level of risk management that we exercise on the projects, the programs with the shipyard, and the strate-

gy writ large, and we have integrated risk management discussions within all levels of governance.

• (1410)

The Chair: Thank you, Mr. Page.

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

[*Translation*]

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

Canada has purchased six Arctic patrol ships for the Department of National Defence that will not be able to go to the Arctic in the winter. They are called icebreakers, but they are not designed well enough to break ice in winter.

Canada has purchased two more for the Canadian Coast Guard, with the same hull, according to what was said earlier, but they will only be able to patrol from August to October, because they are not designed to break ice.

How can you make icebreakers that don't break ice?

Why haven't we had icebreakers built that can do their job year-round? After all, we need year-round data and protection.

[*English*]

Mr. Andy Smith: I think it needs to be understood initially that the AOPS are ice-capable, not icebreakers. There's a fundamental difference there.

As it relates to the Coast Guard mission set, the two AOPS Coast Guard variants will have primary missions of offshore search and rescue and conservation and protection for the Northwest Atlantic Fisheries Organization. They will have secondary missions to enable science and ice track maintenance. For example, on Lac Saint-Pierre, once the icebreaking track has been made by an icebreaker, the AOPS service for the Coast Guard will be able to maintain that track.

[*Translation*]

Mrs. Julie Vignola: Please excuse me, Mr. Smith, but I was talking about the Arctic patrol ships. I'm going to ask my question differently.

What are the deadlines for when ships can go to the Arctic?

[*English*]

Mr. Andy Smith: There's a very well-established entry into the Arctic regime, much as there is for the naval variants or the AOPS. It depends on where in the Arctic, in fairness, but I think any time past late September would be a limiting date for their entry into the Arctic.

The Chair: Thank you very much, Mr. Smith. By all means, if you think of anything else, you can add to that answer, if you feel you need to.

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

Mr. Gord Johns: Thank you, Mr. Chair.

Thank you all again.

Mr. Smith, I worked with Mr. Girouard and Ms. Thomas, when they were the previous Pacific region Coast Guard deputy commissioners, on the development of the Coastal Nations Coast Guard Auxiliary program. I was really grateful to see a couple of vessels come out, just last month actually, to serve our coast. We know how important it is to provide resources to indigenous peoples, who are more likely to respond even before the Coast Guard can in many cases.

Can you provide any updates to this committee about new vessels you're going to be adding to the indigenous auxiliary fleet and about what's going on with the Pacheedaht? I know they've been waiting anxiously for that station to be implemented, and it's critical to protecting the west coast.

Mr. Andy Smith: Mr. Chair, with respect to the engagement with the indigenous populations on the west coast, we have an active program. The community boats program is an active program the Coast Guard is moving out. That's part of the oceans protection plan. Additionally, we continue to build the search and rescue lifeboats, and some of those will be deployed to the west coast.

With respect to the Pacheedaht, it's not my area per se. I'm aware that there is an initiative going forward to work with the Pacheedaht. However, for specifics on that, I'd have to take that question on notice.

• (1415)

Mr. Gord Johns: Thank you. I think there's some sense of urgency to get that project up and running, especially when it comes to ensuring the safety of our coast and making sure those indigenous communities have those resources.

Has the issue of the midships the Coast Guard had, which had a rocking issue due to the lack of a stabilizer, been addressed? How are you going to make sure we don't have that issue come up again as we did a couple of years back?

Mr. Andy Smith: Mr. Chair, I just want to make sure I understand the question.

Are you talking about the midshore patrol vessels we have?

Mr. Gord Johns: Yes. There was a huge issue, as you remember, with the ballast. They had rocking issues that were making staff and crew sick.

Mr. Andy Smith: First of all—

The Chair: Excuse me, Mr. Smith, but unfortunately we have time restraints. If you could provide the committee with a written answer to that question, it would be appreciated.

Thank you.

We'll now go Mr. Paul-Hus for four minutes.

[Translation]

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

Mr. Page, my question is about polar icebreakers.

A contract to build a polar icebreaker was awarded to Seaspan. It was withdrawn in 2019 because the project was not progressing. Last year, the government suddenly announced it would have two polar icebreakers built.

Given the experience we have had in this area, do you feel that the announcement is political? Is it realistic?

[English]

Mr. Simon Page: Thank you, Mr. Chair, for the question.

[Translation]

The Government of Canada has decided to have two polar icebreakers built. The announcement also mentioned where the icebreakers would be built. At Public Services and Procurement Canada, we have the processes in place to ensure that these priorities are met.

Mr. Pierre Paul-Hus: Do you think it can be done, given that for 10 years it has not worked? Nothing has been done for 10 years, and now we are told we are going to have two. It seems ridiculous to me.

Does Canada have the capacity to do this, especially since we still don't know if the Davie shipyard will be part of the strategy, which is one of the conditions?

Given the urgency of having resources in the Far North, would there not be a case for doing business abroad for the construction of polar icebreakers?

Mr. Simon Page: Thank you for the question.

For our part, we run the procurement processes for both polar icebreakers. One process is more advanced than the other, the Vancouver yard. We are already monitoring all the steps that are associated with that project, so...

Mr. Pierre Paul-Hus: I'm sorry to interrupt you. That answers my question, Mr. Page.

Vice-Admiral Baines, my next question is about the *Asterix* supply ship, whose conversion contract was a result of the last decision of the then Conservative government. I think that was a very good idea.

It's already been almost seven years since we've had the *Asterix*, and the lease term is 10 years.

Since we don't have the supply ships yet, which are under construction, do you think the Royal Canadian Navy should buy it, as was planned, at the end of the 10-year period?

[English]

VAdm Craig Baines: Mr. Chair, *Asterix* has been incredibly useful to the navy during the period of the contract, which is five years and which we're in right now. She's allowed our sailors to maintain the very important skills they need to do replenishment at sea. She's also had a major role in fuelling our ships from a training perspective and while doing deterrence operations around the world.

I would say to you that this capability has been an excellent addition to the RCN while we transition and look forward to the joint support ships in the future.

[Translation]

Mr. Pierre Paul-Hus: Do you think we will keep it at the end of the lease?

Would the Royal Canadian Navy like to keep the *Asterix*?

[English]

VAdm Craig Baines: Mr. Chair, this will be entirely a government decision based on the capability that it wants the Royal Canadian Navy to have going forward.

[Translation]

Mr. Pierre Paul-Hus: Mr. Chair, do I have any time left?

[English]

The Chair: You have 30 seconds.

[Translation]

Mr. Pierre Paul-Hus: Given the state of our submarines, should we think about acquiring submarines as soon as possible in order to ensure our sovereignty?

• (1420)

[English]

VAdm Craig Baines: Mr. Chair, I'm very pleased to be able to report that we've stood up a Canadian patrol submarine project to replace our Victoria class submarines. We're very much looking forward to that process, identifying the requirements that Canada needs for the future and then proceeding very rapidly to find a replacement for the Victoria class.

The Chair: Thank you, Admiral Baines.

We'll now go to our third and final round—

I apologize, Mr. Kusmierczyk. I totally forgot.

You have four minutes.

Mr. Irek Kusmierczyk (Windsor—Tecumseh, Lib.): Thank you, Mr. Chair, no harm, no foul.

I want to focus my first question on the relationship between the NSS and economic development and jobs.

I was delighted to hear Mr. Smith talk about Hike Metal, which is a shipbuilder in Wheatley, not far from Windsor. They had a contract of close to \$80 million to build 10 search and rescue ships.

This had a huge impact on that community. The president of that company, Mr. Ingram, was quoted as saying that it “had an immediate impact on an industry that was dying in Canada.” Those were his words.

That really helped to revive the market for small and mid-sized shipbuilders and communities. That contract not only supported the existing 2,500 employees, but it also created 10 new jobs in that community of Wheatley.

Can you talk about how the NSS has contributed to Canada's economy? How has it impacted jobs across the country?

Mr. Simon Page: Mr. Chair, maybe I'll start, although this is probably a better question for ISED with respect to numbers and specific figures.

There were some figures mentioned in my opening remarks. I mentioned, for instance, that since the NSS started, there have been over \$20 billion in benefits to Canada's gross domestic product and over 18,000 jobs created across the three pillars of NSS. We defi-

nately have figures that are more specific that cover every province. Every province has seen and been impacted by the influence of NSS.

On specific companies, sometimes we talk about the large shipyards. We're very well aware of the work they do, but the example you mentioned is one of many examples of smaller shipyards and smaller communities across the country being positively impacted by the work the national shipbuilding strategy generates, again, across the three pillars. Sometimes we tend to forget the sustainment and refit pillars, which impact many shipyards across the nation.

Mr. Irek Kusmierczyk: I appreciate that answer.

As you know, oftentimes when we talk about economic benefits, we tend to focus on the shipyards themselves and the communities they're located in, including the three strategic shipyards, but we can also talk about downstream impacts. I'm thinking of the land-based testing facilities, let's say, at Shearwater, Nova Scotia, and elsewhere.

Is it correct that when we're looking at economic benefits we have to look even downstream and beyond where the shipyards themselves are located?

Mr. Simon Page: Mr. Chair, that is very accurate. We need to look downstream. We need to look deeper in the supply chain. Beyond the shipyards, large and small, there are very rich and active supply chains that contribute to the national shipbuilding strategy and the construction of vessels.

This includes the example you mentioned: infrastructure. Many of the projects that are under way now come with specific infrastructure requirements, and those infrastructure requirements will also generate their own benefits through their own supply chains.

The Chair: Thank you, Mr. Kusmierczyk.

Now we will go to our third and final round. We will go to Mr. McCauley.

If you want to go a little bit shorter than the four minutes, by all means do.

Mr. Kelly McCauley: Like that's going to happen.

Gentlemen, quickly, perhaps PSPC and Mr. Smith, would you be able to provide us with a breakdown of what the cost savings are going to be for the seventh and eighth versions of the AOPS from removing all the military hardware? Could you provide a separate breakdown for that and a separate breakdown for the added costs for what it's going to cost to adjust it to a Coast Guard design, please? If you could provide that to the committee later, that would be wonderful.

Mr. Smith, you were commenting—and you were cut off—about the operability of the AOPS and the future Coast Guard version of the AOPS in the Arctic. It sounded like you were saying that after September the Arctic would be closed to operating up there. Could you fill us in a bit better on that, please, on what date range it can operate in fully up there?

• (1425)

Mr. Andy Smith: Mr. Chair, just to be clear, when I say limited in the Arctic, that's specifically and only with respect to the two AOP ships. The Coast Guard will continue to have icebreakers that will—

Mr. Kelly McCauley: The AOPS and the ones you're going to receive.

Mr. Andy Smith: Okay. Understood.

Mr. Chair, having said that, we haven't even taken delivery of them yet, and that won't happen until 2026, but it is envisioned that we would be operating in the Low Arctic because, notwithstanding that they have proven their ability to transit the Northwest Passage, from a Coast Guard mission accomplishment perspective, we would see them operating in the Low Arctic and between the—

Mr. Kelly McCauley: In the Low Arctic...?

Mr. Andy Smith: In the Low Arctic, between the dates when the ice is out, say, in late April until late September—

Mr. Kelly McCauley: After September we can't even operate in the Low Arctic. Is that correct?

Mr. Andy Smith: Yes, we can operate in the Low Arctic until September, bearing in mind—

Mr. Kelly McCauley: It's just that after September we can't generally operate in the Low Arctic until around April again.

Mr. Andy Smith: With these ships—bearing in mind, though, that the primary missions of these ships—

Mr. Kelly McCauley: I'm not asking about the mission. I'm just asking specifically when they can operate.

That's wonderful.

I want to go over to the T26 quickly. England has reduced its original order down to eight, perhaps even more. With the Aussies, we've seen their problems with the weight and other issues with the design.

I'm wondering what level of confidence we have in our going forward with the T26 design, knowing that England has said they're too expensive to fill their original order; Australia is having issues, and there have been reported issues—I think we're getting sued over it—that the original T26 design cannot achieve the original speed set out in the RFP, as well as crew compartment issues.

Is that an issue to the navy, seeing that our brethren in England and Australia are having these issues?

Vadm Craig Baines: Mr. Chair, we are obviously very closely monitoring the situation in the United Kingdom and in Australia through our global combat ship users group. We're doing our very best to take advantage of the lessons learned in those programs to make sure that—

Mr. Kelly McCauley: Have we learned from the U.K. and the Aussies so far?

Vadm Craig Baines: Yes. As they are developing and designing their ships, we're learning from their experiences and pulling through those lessons through the global combat ship users group.

Mr. Kelly McCauley: Could you comment on the much bandied-about issue of overweight for the T26 and the fact that it will not perhaps be able to achieve the speed set out in the original requirements?

Vadm Craig Baines: We are, of course, watching the weight of the ship very closely. We should all appreciate that we're still in the design process, which means that as the original Type 26 design is being built and they have more certainty around the weight that's required for that ship—and we pull that weight through to our design—we're able to manage that.

Because we're still in the design process, we're also still looking at ways to mitigate any sort of weight change and through-life weight that the ship might require. As we go through these design processes, we'll be able to model what the effect will be on speed, and then after we've built the first one to see for real what that actually means.

It is something that we're watching very closely.

The Chair: Thank you, Admiral.

We'll now go to Mr. Duguid for four minutes.

Mr. Terry Duguid (Winnipeg South, Lib.): Thank you, Mr. Chair, and thank you to the witnesses today, as well as to the members of the committee. I have learned a lot about the NSS, a lot more than I knew before I came on the screen today.

My questions are about the north. I'm new to the committee, so I hope that these are relevant.

Things are changing very rapidly in our north. Canada is warming at two times the rate of other countries around the world, the Arctic three times the rate. We know that we're going to have open ice in the Arctic, ice-free Arctic conditions, sometime within the next 20 years. Also, the sovereignty situation is changing as we speak with the war in Ukraine, and we know that Russian submarines are scouting around in our Arctic without permission.

Given this situation that I just described, I'm wondering if there is a need to re-evaluate our national shipbuilding strategy. Are we able to pivot there? I know there are long periods between approval of a project and delivery, but are we being flexible and are we re-evaluating our needs?

Mr. Chair, I'll maybe get both of my questions out.

I'm wondering if we have formal community benefit agreements. I know that is government policy, through a private member's bill that went through Parliament, I think in 2019.

Does someone have a comment on that? I think a number of our members are in favour of having those benefits accrue to not only where the shipbuilding happens, but to some of the smaller communities that benefit from those ancillary contracts.

• (1430)

Mr. Simon Page: Mr. Chair, maybe I'll address it at a very high level. Currently the national shipbuilding strategy is significantly focused on operational requirements as articulated by the Canadian Coast Guard and the Royal Canadian Navy. We have projects and implementation in the two large shipyards, so we're working very hard with both shipyards to make sure that these remain on pace.

To your question and your point about flexibility, we are also looking at increasing the capacity of the national shipbuilding strategy by accepting a third strategic partner into the strategy for large ship construction. We are competitive with respect to other needs and requirements across the national shipbuilding enterprise.

With respect to your point about formal community benefits, we do have programs with the two large shipyards for some benefits as part of the NSS value proposition, and we monitor those with the shipyards.

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

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

[Translation]

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

Vice-Admiral Baines, we talked a little bit about the *Asterix* earlier. When it was ordered, there was an opportunity to order the *Obelix*. We're not talking about bringing back the whole Gallic village, but simply one ship.

Given the delays in ship deliveries over the past few years, would it be a good idea to ask for the construction of the supply tanker *Obelix*?

[English]

Vadm Craig Baines: Mr. Chair, the navy has made plans to deal with the transition between the *Asterix* and the joint support ship in a way that sees us continuing to work with the *Asterix* while also working very closely with our allies.

[Translation]

Mrs. Julie Vignola: For now, according to your plans, you do not need a second supply tanker.

Is that correct?

[English]

Vadm Craig Baines: I would articulate that we do need to have this capability filled through the national shipbuilding strategy. While we wait for those joint support ships to come, we plan to use the *Asterix* and to work closely with our allies to make sure we have the appropriate capability for the missions we're tasked with.

• (1435)

[Translation]

Mrs. Julie Vignola: Thank you, Vice-Admiral Baines.

Mr. Page, how many years do Seaspan and Irving have to comply with international shipyard requirements?

Mr. Simon Page: Thank you for the question.

It's not a set number, we determine that with them. We look at their plans and what's happening on the job sites, the status of the work and some specific variables.

Mrs. Julie Vignola: As I understand it, they are not yet in compliance with international standards.

[English]

The Chair: Thank you, Ms. Vignola.

Mr. Johns, go ahead for two minutes.

Mr. Gord Johns: Thank you, all, again for the important work you're doing.

I seem to be surrounded by end-of-life vessels in my riding.

The Union Bay fiasco with ship-breaking happened in my riding. There is clearly a lack of regulations in Canada to deal with ship-breaking and the end of life and divestment and disposing of vessels.

I just think about the *Laurier II* that was in Union Bay in my riding. It was listing, and we actually had to fight tooth and nail to get the government to remove it instead of letting it sink. It was formerly a federal vessel that was sold to the private sector and it went down the line and it was going to sink.

We know that right now there aren't any good regulations in place. Obviously, it's better to break them apart on land than to let them sink because of the leaching and the environmental impact.

Seventy per cent of vessels right now end up in Bangladesh, where there are very, very low environmental and labour standards.

I want to know what the government's plan is in terms of improving regulations and adhering to the Basel Convention, which we're a signatory to, or even taking it to the next level, which we should, and having something like the EU ship recycling regulations, which are very strong and much better than those of Hong Kong. We should be there as a leader and should be investing in national capacity when it comes to ship-breaking as well, and ensuring we have dry-dock space, which you have heard me talk about many times now.

Can you respond to that? What responsibility are you going to take for these vessels as they retire?

Mr. Simon Page: Mr. Chair, with respect to disposal efforts, the life-cycle management of assets is effected by the client departments, the Canadian Coast Guard and the Royal Canadian Navy. When they articulate the requirements for a specific disposal effort, the disposal efforts are completed, across normal processes, through the enterprise. In recent years, we have executed in Canada very specific disposal projects with success. When we do so, we follow all the environmental rules and associated rules that would be part of disposal efforts.

With respect to the question about dry-docking, we have a comprehensive infrastructure study on the way now, across the NSS, that will look at dry-docking and a really complete picture of infrastructure versus assets for dry-docking, shipbuilding, ship repair and ship maintenance over time.

The Chair: Thank you, Mr. Page. If you do have anything further that you think you can add with regard to those questions, by all means do submit that in writing, please.

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

[*Translation*]

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

Due to the ongoing conflict between Russia and Ukraine, the North Atlantic Treaty Organization, or NATO, is asking its member countries to increase their military spending to 2% of their gross domestic product.

I've supported this for years, but what worries me a lot is the waste that is going on. There are always incomprehensible costs added to projects that run into billions of dollars.

By increasing the National Defence budget to meet this target, will we get more bang for our buck? I know this is a very hypothetical question for you, but I'd still like your opinion.

Is the shipbuilding industry capable of doing more at the moment? I think the order books are full. We are not even able to achieve what we have to do.

If the budgets were increased, would that allow us to do more or improve what we are already doing?

My questions are for Mr. Page or Mr. Crosby.

Mr. Simon Page: Thank you for the question.

We are working hard to assess the ability of our shipbuilding business to meet the operational needs of the Canadian Coast Guard and the Royal Canadian Navy. That is why we are working very hard on the selection of the third yard. We are also looking at how the smaller yards could make a greater contribution on an ongoing basis.

In terms of specific questions about the budget, I will turn it over to my counterpart, Mr. Crosby.

• (1440)

[*English*]

Mr. Troy Crosby: Just quickly, in a more general sense for defence procurement, should the opportunity arise, we would turn to the services who are the sponsors of the requirements. Once those requirements are determined and we know where the investments need to be made to meet future requirements, then we would proceed with processes, generally a competition, and take the best advantage we could of the market.

[*Translation*]

Mr. Pierre Paul-Hus: Thank you, Mr. Page and Mr. Crosby.

I yield the floor to my colleague Mr. McCauley.

[*English*]

Mr. Kelly McCauley: Thank you.

Vice-Admiral, I want to get back to the T26. Won't it be a bit too late, if we find it does not meet requirements, after the first one is built, as you seem to be suggesting?

Vadm Craig Baines: Mr. Chair, I would just clarify to say that we're still in the design process. Through that design process, we try to find trade-offs that will reduce weight and meet the speed parameters that are listed in—

Mr. Kelly McCauley: If I could just interrupt, my understanding is that all during the design process, the LSW's getting heavier and heavier. So we're not finding any reductions every step. I've been doing this for six years on the committee. The ship's getting heavier and heavier every time.

Do we reach a point where we say, no, we can't achieve the speed that's required, and then we cancel the T26? It will reach that point where it cannot get any more speed out of that basic design.

Vadm Craig Baines: Mr. Chair, again, as we're still in the design process, we're still making sure that we understand the through-life weight of the ship. Once we're through all of that design, we'll have to decide whether there are trade-offs that have to be made to make sure that the ship can meet the speed we'll need for the future threats.

Mr. Kelly McCauley: Is there a risk this will happen? What trade-offs are we going to make to stick to what I think is a very politically motivated, poorly chosen ship design?

Vadm Craig Baines: Mr. Chair, as we pull through the design from the Type 26, we go through our own design review process to look at the equipment put in the ship and the through-life weight the ship has to have, understanding that it starts at a weight, and then there are margins that exist through the life of the ship. We can look at how we manage those margins through time to make sure that we maintain the right requirement for the navy going forward.

The Chair: Thank you, Admiral Baines.

We will now go to Mr. Bains for the final four minutes of questioning.

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

I want to welcome our guests and thank them all for their service to Canada.

My question is coming from Richmond, British Columbia. As it is to one of our other members, the marine sector in British Columbia is very important to us. Asserting Canada's territorial sovereignty is crucial, given Russia's actions in Ukraine. The multi-purpose vessels and the polar icebreaker that are to be built in Seaplan's Vancouver shipyards....

My question is for Monsieur Page.

Can you update the committee on the progress of the design work? Also, could you expand on the impacts to supply chains, steel costs and other things that are affecting the progress?

Mr. Simon Page: Mr. Chair, with respect to the multi-purpose vessels and the polar icebreaker, we are in what I characterize as the definition phase of the project—the design phase of the project. We're still in conversation about efforts required ahead of pure shipbuilding efforts.

For instance, with the polar icebreaker, we are very focused right now on negotiating the contract for construction, engineering and long-lead items, and eventually getting that contract and the full design on the way. We have some cut-steel dates in the future with a focus on meeting the operational imperatives of the Canadian Coast Guard.

With respect to your question about commodity pricing, as mentioned before, it is something that we monitor closely with the shipyards. Our efforts on long-lead items and ensuring that we can order in large quantities ahead of projects are discussed in a continuous fashion with the shipyards in order to generate some economies of scale ahead of the shipbuilding efforts themselves.

• (1445)

Mr. Parm Bains: The global impacts on the supply chains.... Ultimately, how much did those affect the cost and the progress?

Mr. Simon Page: It's very difficult to put a number on how much, even as a percentage. It has been impacted. Supply chains have been impacted by what's happening globally, including the transportation segment of the supply chain management. At this time, it's difficult to put a precise figure on that.

Mr. Parm Bains: Has it negatively impacted the progress, yes or no?

Mr. Simon Page: Supply chain issues have negatively impacted projects across the NSS.

Mr. Parm Bains: Moving forward, what safeguards are built into the shipbuilding contracts to encourage shipyards to deliver ships as close to on time and on budget as possible?

Mr. Simon Page: We have different contracts for different projects. One contract mechanism that we use at the moment with the Vancouver shipyard is what we call a CRIF model: a cost reimbursable incentive fee model. There are specific incentives associated with meeting deadlines and staying within costing envelopes.

The Chair: Thank you very much, Monsieur Page.

With that, we've come to the end of the questioning. I would like to thank the officials for being here today. Mr. Page, Mr. Crosby, Mr. Smith and Admiral Baines, thank you very much for your attendance.

With that said, we're now ending the public portion of our meeting and we are going to go in camera. As you are aware, this meeting will have to close and the technicians will shut down this Zoom. You will have to come back in on a new Zoom with the new passcode. I ask that you do this as quickly as possible, so that we can be expedient and respectful of the time.

With that, I now declare the meeting suspended.

[Proceedings continue in camera]

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