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Chair: Mr. Robert Kitchen

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• (1535)

[English]

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

Welcome to meeting number 17 of the House of Commons Standing Committee on Government Operations and Estimates. Today we will be continuing our study on the national shipbuilding strategy. We will also discuss committee business during the last 60 minutes of the meeting.

Today's meeting is taking place, as you know, in a hybrid format, pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. Regarding the speaking list, the committee clerk and I will do our best to maintain a consolidated order of speaking for all members, whether they're participating virtually or in person.

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

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

Anyone with symptoms should participate by Zoom and not attend the meeting in person. Everyone must maintain two-metre physical distancing whether seated or standing. Everyone must wear a non-medical mask when circulating in the room. It is recommended in the strongest possible terms that members wear their masks at all times, including when seated. Non-medical masks, which provide better clarity over cloth masks, are available in the room.

Everyone present must maintain proper hand hygiene by using the hand sanitizer that you may have seen at the entrance when you came in. Committee rooms are cleaned before and after each meeting. We thank the staff for doing that. To maintain this, everyone is encouraged to clean the surfaces such as the desk, the chair and the microphone with the provided disinfectant wipes when vacating or taking a seat.

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

With that, I would like to welcome our witnesses. We're going to hear from Mr. Fulfaro and Mr. Padulo.

Greetings and welcome to Mr. Fulfaro, who is with us from Italy.

Mr. Fulfaro, I invite you to go ahead with your opening statements, please.

Mr. Achille Fulfaro (Senior Vice-President, Sales, Fincantieri): Thank you.

I'm Mr. Fulfaro. I'm really happy and it's a honour. It is my pleasure to be with you today representing Fincantieri.

Fincantieri is one of the most important shipyard groups in the world. We are really honoured to be here today to discuss our capabilities with you. We are also open and ready to answer any type of questions you may have regarding the future programs.

If you agree, we can have a brief overview of our company or we can open the discussion directly through your questions. It's up to you.

The Chair: Thank you, Mr. Fulfaro.

If you have a two- or three-minute presentation that you'd like to make to the committee, that would be appreciated. Obviously, with time restraints, getting to those questions would be helpful, but if you have a quick presentation, that would be appreciated.

Mr. Achille Fulfaro: Sure. It's my pleasure and honour to introduce Fincantieri.

Fincantieri is one of the most important shipyard groups in the world, with the background of over 250 years of history and more than 7,000 ships built. We are not only involved in the military field, but also in cruises, offshore and new technologies. We also have important structures and capabilities going over the shipyard group including infrastructure, cybersecurity capabilities, new technology and also advancing the capability for service and service support.

We have about 20,000 employees and we create around 90,000 [Technical difficulty—Editor] all over the world. Our capabilities not only relate to Italy, but as you know, we have spread to four different continents, activating different important international programs.

In the Fincantieri portfolio, we have each type of travel vessel, including submarines, cruise, offshore and even mega-yachts, so we can have a cross-fertilization from different fields and different ages of technology in order to act as a global player.

We're also active in Canada in different important activities with important subsidiaries. We're aiming to act as an important strategic partner for this country.

For these reasons, Fincantieri is really interested in discussing the future programs of the combatant ships, starting from what we proposed in the past, which are the FREMM multi-mission frigates.

We are also able to discuss with you the different concerns, questions or points that you may raise in order to clarify exactly what our proposal could be and what our understanding is in order to have a strategic approach with Canada.

● (1540)

The Chair: Thank you, Mr. Fulfaro. I appreciate that.

Just so you are aware, we did receive your brief that you presented to us, and that has been distributed to the committee members, so they do have that in advance. Thank you.

We'll go to Mr. Padulo. Greetings, and thank you.

You have a couple of minutes, please.

Mr. Shaun Padulo (President, Heddle Shipyards): Thank you very much.

Bonjour and good afternoon, everybody. I would like to begin by thanking the chairman and members of the committee for allowing me to speak here today.

My name is Shaun Padulo, and I'm the president of Heddle Shipyards, which is the largest Canadian ship repair and construction company on the Great Lakes. I'm proud to say that we are 100% Canadian-owned.

The company was founded in 1987, and today, we own and operate three of the largest shipyard facilities in Canada and fluctuate between 150 and 400 people, which is due to the seasonal boom-and-bust cycles. Since 2012, we have performed over 70 projects for the Canadian Coast Guard, totalling over \$80 million, and we are currently on schedule to complete the CCGS *Amundsen* vessel life extension project at our shipyard in Port Weller. If we stay on course, it will be the first vessel life extension, VLE, in the history of the Canadian Coast Guard that has been completed on time.

Given the delays in building new ships, the VLE program is incredibly important, because it will ensure that the coast guard's current fleet remains operational. As a result, the government has allocated \$2.1 billion for the upcoming VLE II program.

In terms of our business activities, we offer a full gamut of vessel life-cycle services, which include construction, repair and maintenance overhauls, and recycling.

Despite our success we are still hampered by the inconsistency of work, and the boom-and-bust cycles that inconsistency creates. The worst part of my job is overseeing layoffs on a seasonal basis be-

cause of what it means for my people, their families and retaining hard-won skills, experience and knowledge.

We are here today to discuss the national shipbuilding strategy, NSS. For me and all of my people, the NSS represents hope. It is potentially the solution to the boom-and-bust cycles that have crippled shipyards in Ontario for generations. At its core, the NSS is an important industrial and defence policy that can unite Canada and Canadians, while bringing a vitally important capability back to our country. There have been challenges, to be sure, but the challenges were inevitable in order to accomplish the enormous task of rebuilding the industry.

I'm incredibly proud of the large ships that are being delivered on the east coast by Irving, the west coast by Seaspan and in Quebec by Davie. It is important that all three regions are active in the NSS, because our country needs the capacity and more. The motto of Canada is *A Mari Usque Ad Mare*—"From Sea to Sea". Canada is a maritime nation whether we like it or not, and we can't ignore that fact. Given current geopolitical events around the world, the NSS is more important than ever.

I've heard previous witnesses talk about the geostrategic importance of the NSS in terms of defence and sovereignty, but I would also like to raise awareness of its importance for economic security. The merchant fleet operating on the St. Lawrence Seaway moved 231 million tonnes of cargo in 2018—that's over \$100 billion in value. Prior to Heddle reopening the Thunder Bay shipyard and Port Weller dry docks in 2016 and 2017 respectively, many of those merchant ships were dry docking in the United States. Those ships are now being repaired and maintained in Canada at our shipyards. The government work made available through the NSS is contributing to the revitalization of our shipyards and is therefore important to the commercial sector, which is vitally important to our nation's economy.

Ultimately, the NSS is a bipartisan issue developed and altered by both Conservative and Liberal governments, and it should be recognized for its significance as one of the most important industrial, defence and economic policies in the history of our country.

Although there have been many successes in the NSS, especially recently, there is room for improvement. I've heard repeatedly in previous committee meetings that there is not enough capacity in Canada to deliver ships on time and on budget, and that delays are the main driver of the cost overruns.

Ontario shipyards have the largest untapped capacity in Canada. Heddle's six dry docks constitute over 30% of the dry dock capacity in Canada, yet in 2020 and 2021, our average dry dock utilization was less than 40%. At peak employment, our facilities had 4,200 people, and today we have fewer than 200. Ontario has the largest manufacturing capacity in Canada, and we have two shipyards based in the industrial core of the province. We are currently building a ferry for the Ministry of Transportation Ontario, and the methodology we have adopted relies heavily on our southern Ontario supply chain, as well as suppliers all across Canada.

Heddle and Ontario are here to support our country. We have a solution for this committee to consider, but most importantly, though, our message to the committee is that Ontario should be included in the NSS in a meaningful way.

• (1545)

Much of the national shipbuilding strategy's benefits to Ontario have actually sailed through corporate boardrooms to real jobs in other jurisdictions. Our solution is to have Heddle Shipyards become a strategic partner for Canada to execute the VLE II program and construct vessels of less than 1,000 gross registered tonnes.

By partnering with Heddle, Canada will bring Ontario's industrial complex and manufacturing capacity to bear on the NSS. The partnership will provide a continuity of work for Heddle and Ontario, which will eliminate the boom-and-bust cycles and allow Heddle to continue to be a supplier that Canada can have to deliver projects on time and on budget.

In closing, I would like to thank the committee for allowing me to speak here today. It's been an honour and a privilege.

Thank you.

The Chair: Thank you, both of you, for your presentations.

With that, we will now go into questions. You can appreciate that we are within a time frame. We will try to stay as strict as we can on that.

We're going to start with Mr. Paul-Hus for six minutes.

[*Translation*]

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

Good afternoon, gentlemen. Thank you for being with us today.

My first question is for Mr. Fulfaro.

You made an offer to the government to build 15 European multi-mission frigates, or FREMMs, at a fixed cost of \$30 billion. You stated that there would be 15 frigates for \$30 billion and that there would be no cost overruns. These frigates would have been built by Irving.

Can you explain how you can tell a government that there will be no cost increase when all the other contracts are still ballooning?

[*English*]

Mr. Achille Fulfaro: The point is that we feel also through our international experience that what we are doing in the different important programs is that we are aiding all over the world—in Italy,

but also in the U.S., Indonesia, Egypt and other important countries in which we are offering a multi-mission frigate, the FREMM—in that experience you are gaining through either the transfer of technology or through the capability to be acting as a global player from the initial profile analysis up to the end of life. It is to manage the program, starting as a prime contractor and acting from the beginning in trying to clarify all the points and the terms and conditions, including the price.

When we originally presented the proposal in the international market for a program like FREMM, we were considering these very complex ships where we need just to assist the user, then use the requirements analysis up through the different processes of this program. It is very important to fix from the beginning, in a clear way, all the terms and conditions.

One of the key points that we consider a basic point is having a fixed price. A fixed price is a sort of a clarification in the matter. It is a way through which we can define the scope of work in a clear way from the beginning. We can define the time plan from the beginning. We can define the quality of the product from the beginning in order to just have a fixed way to fix a price. This is the best practice in order to act in the proper way. This does not mean that we are not flexible enough in order to modify, to have amendments or to change the prices during the course of the program, but a fixed price is one of the key issues in order to maintain the optimal solution in the best way.

Considering the way we are proposing regarding the fixed price for the FREMM, let me say that we are confident about this. We are talking about a product that is a well-proven product. We are talking about a product that is under our complete control in acting generally as the prime contractor in the different international programs so we can manage everything in the proper way in order to reduce and optimize the price—

[*Translation*]

Mr. Pierre Paul-Hus: Thank you. I have to interrupt you as we have very limited time.

I fully understand what you are telling me. Given that your proposal was very interesting to the government from a financial point of view, can you tell us why it was refused?

I don't think it was because of the price. Were there any other grounds for refusal?

• (1550)

[*English*]

Mr. Achille Fulfaro: We cannot say what was refused.

There was a tender. You know the story. We were out of the tender because in the terms and conditions of the tender the scope of work was unclear. There were many points that were not fixed in the right way, so we proposed, with our solicitor, the way that we considered was the best way in order to reduce the risks to the program in managing quality and, in time, the ship. We proposed also a fixed price.

We also were very clear regarding the capability of Fincantieri to make a transfer of technology and also to have a completely local supply chain, because in that Fincantieri proposal we were also very clear on the details regarding all the suppliers, but it was not refused—it was not considered. That is different, from our point of view. The reason why it was not considered cannot be addressed by Fincantieri. You will have to ask in another way.

[*Translation*]

Mr. Pierre Paul-Hus: In October 2016, you warned the minister at the time, Minister Foote, that procurement for the surface combatant frigates was problematic.

Is it correct that you provided Minister Foote with a detailed outline of why the procurement process was in trouble?

[*English*]

Mr. Achille Fulfaro: That's correct. We wrote a letter saying in detail the reason why we felt it was not the proper way. If you go through that letter, you see today that we were right. We say there is a high risk when you consider—not in a proper way—the scope of work between the bidder and the selected shipyard. We saw through our experience the reality, because, of course, this was really a big problem. The first aspect of a very complex international program is to fix the role, the responsibilities and the scope of work.

First of all, you need just to define in a clear way all your end-user requirements. This is very important. In the letter we wrote clearly about our concern regarding the program. We wrote of the high level of risk in the scope of work. We wrote of the problem regarding the IP, the intellectual property, and the management of this important issue in the different phases of the program. The different phases of the program, and the responsibility inside each of these phases, was very unclear. We were also very clear regarding the opportunity to have a fixed price, instead of running the risk to discuss and discuss, with the result that we would have a higher price year by year. So whatever we proposed was clearly what we saw in the following years.

The Chair: Thank you, Mr. Fulfaro.

[*Translation*]

Mr. Pierre Paul-Hus: Mr. Chair, I would like the witness to send us this letter.

[*English*]

The Chair: Mr. Fulfaro, if it's possible, can you submit that letter to the committee? If you would send that to the clerk, that would be appreciated, and he will distribute it. If that's available.

Thank you.

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

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

I'd like to thank all the witnesses.

I'll be splitting my time with MP Thompson. My only question is going to Mr. Fulfaro.

You indicated there was a fixed-cost proposal submitted for 15 off-the-shelf frigates based on the FREMM design. You indicated you submitted that as an unsolicited bid. We also know it was rejected due to the misalignment with the official Canadian procurement process.

As you know, PSPC highly values its rigorous procurement process. Can you comment on why you felt the procurement process did not need to be followed and you submitted an unsolicited proposal?

• (1555)

Mr. Achille Fulfaro: As I said before, we wrote a letter regarding this. In this letter we wrote about the main issues and the areas that were unclear regarding this first level of bid, considering our experience in the international market and our experience in negotiating a very complex program with different end users.

We wrote in this letter that there was an unclear process for the transfer of technology in the different phases. For us, as you know, the transfer of technology is one of the key issues in order to allow the local capabilities and manage such a complex program, and this was unclear in the terms and conditions. There was a problem related to the risk in the share of work, because the role of the bidders was not clear. Considering the leading role of the shipyard, it was rather an important point. The other important point was related to the fact that the management of the IP was not clear.

We are not against, in principle, all of these issues, but we were in an unclear position about the risk for this program, and not only for Fincantieri. In the letter we wrote, "In our opinion, the contract structure proposed in the bidders' prime contractorship and in the RFP, request for proposal, does not serve well any of the parties, the prime contractor, the bidders, the Canadian authorities". We exposed the details—

Mr. Majid Jowhari: Thank you. Let me get a clarifying statement in less than 10 seconds.

You highlight a number of issues, project management, scope and IP, yet you submitted a fixed price for an off-the-shelf for \$30 billion.

I have a problem reconciling this. I come from management consulting. I've done a lot of fixed bidding for solutions. If the scope is not clear on all of those things, I won't submit a fixed bid.

Why did you submit a fixed bid?

Mr. Achille Fulfaro: The fixed price we submitted was not \$30 billion. I don't know the data you are using. This was not our proposal.

In the market capability of Fincantieri, we never proposed in international markets a frame for frigates for \$2 billion, \$3 billion, \$4 billion or \$5 billion per ship. I don't know how you can say that we proposed an unsolicited \$30-billion proposal. This is not our market value. I repeat again, the value in the market of the frame is not \$2 billion, \$3 billion, \$4 billion or \$5 billion, as I heard time to time. This is not a market where you—

Mr. Majid Jowhari: Thank you.

I yield the rest of my time to Ms. Thompson.

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

Mr. Padulo, Seaspan and Heddle Shipyards signed an agreement that the latter would construct modules for the polar icebreaker. The project is currently in the design phase, I believe.

When do you expect to begin construction on the polar icebreaker component in your facility?

Mr. Shaun Padulo: At the moment, I would say it's too soon to tell. As you mentioned, it's still in the design phase. We've had multiple meetings with Seaspan and are currently in discussions with them about when that will kick off. I think, unfortunately, right now there is still a lot of design work to be done.

Ms. Joanne Thompson: What are the benefits for Seaspan, in your opinion, of assigning the construction of this project to another shipyard?

Mr. Shaun Padulo: I think the collaboration that we were looking at would be beneficial to them from a capacity standpoint. The idea would be that we build smaller modules that can be sent to them by rail or by truck. It would help them, given some of the other programs that they have ongoing right now. It could help them accelerate capacity on the polar icebreaker.

Ms. Joanne Thompson: Is that the partnership you referenced in your opening comments?

Mr. Shaun Padulo: I did not reference the Seaspan partnership.

Ms. Joanne Thompson: No, you didn't. It was more general.

Mr. Shaun Padulo: Correct.

Ms. Joanne Thompson: Thank you.

In December 2021, in the sessional paper, the Canadian Coast Guard lists commonalities between both polar vessels as a risk factor for this project. Are Heddle and Seaspan in discussion with Davie about the polar icebreaker design?

• (1600)

Mr. Shaun Padulo: Not that I know of. We're not in discussions with Davie, but I can't speak for Seaspan on that subject.

Ms. Joanne Thompson: This might be difficult for you, but I'll ask anyway. How are the delays in the Davie negotiations with the federal government affecting the design process for Seaspan's polar icebreaker?

Mr. Shaun Padulo: Again, I don't want to speak on behalf of Seaspan. With two designs, there will be some complex logistical challenges that could be created, but I can't speak on behalf of Seaspan in terms of how it will impact their design.

The Chair: Thank you.

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

[Translation]

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

I will address Mr. Fulfaro.

Mr. Fulfaro, in 2017, with the support of Naval Group, you submitted a proposal to the Government of Canada, which was rejected, as you said earlier.

Who contacted you to file this proposal? Did you initiate it or did someone contact you?

I'm just trying to understand.

[English]

Mr. Achille Fulfaro: It was our initiative. We were not contacted regarding this because we were confident at that time with a French partner on the value for proposal. We were confident on the price. We were confident on the quality. We were confident that our proposal, considering the discussion we had with a user up to that time, was the best solution.

Going out from the bidder, we decided to make an unsolicited proposal.

[Translation]

Mrs. Julie Vignola: Thank you.

In your proposal, you suggested that Irving Shipbuilding build the FREMMs. What was your rationale for choosing Irving Shipbuilding over all the other builders in Canada?

[English]

Mr. Achille Fulfaro: It's because Irving is capable. We know Irving. We know the skills and facilities. We feel that we could be the right partner. We could also be the right partner not only for the production, but for the complete management of the program.

I want to underline the fact that the key issue is not to produce the ship. The key issue is to manage the program, considering also the different phases of the program, including one of the most critical phases, the integration of the combat system, the combat system function and integration.

We were confident at the time that having a local shipyard, and also considering our experience with other local shipyards in the world, it was possible.

[Translation]

Mrs. Julie Vignola: Thank you.

Quebec has already done business with the Fincantieri shipyard for the *F.-A.-Gauthier*, a ferry between Matane and Baie-Comeau or between Matane and Godbout, Quebec.

After barely three weeks in service, the carpets in the lounges were frayed and the door handles were coming off. People on the North Shore and in the Lower St. Lawrence region of Quebec are amazed when the ship is on the water four weeks in a row.

Is it possible that the setbacks experienced in 2015 made the Government of Canada less interested in your proposal?

[English]

Mr. Achille Fulfaro: I'm sorry. Is that question to me?

[Translation]

Mrs. Julie Vignola: Is it possible that Quebec's setbacks with a ship purchased directly from Fincantieri influenced the Government of Canada's decision to set your proposal aside instead of giving you an opportunity to correct the situation?

[English]

Mr. Achille Fulfaro: Yes, I can reply in a general view regarding this. We are open, also, to consider the Quebec capabilities. It's not a problem.

I repeat again, the problem is not the local shipyard. The problem is not the local capabilities. The problem is how you manage the program, considering the investment you have to make, considering the local supply chain you have to create. Fincantieri is not having any problem also considering Quebec.

Also, we can have good experience in Canada, considering that we have Vard Canada, which has very important data for design, and also Vard Electro, for the system capabilities, and other important companies that can support us.

[Translation]

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

Nonetheless, the *F.-A.-Gauthier* is often in dry dock for repairs due to various problems with the engine, ventilation, etc.

I will continue with Mr. Padulo.

Mr. Padulo, in 2020, you partnered with Heddle Shipyards to build some modules for the polar icebreaker. At this stage, do you know which module it is?

• (1605)

[English]

Mr. Shaun Padulo: We have a general idea of what the components will be, but again, it's still too early in the design phase for us to have specific sections of the ship that have been dedicated or understood to be built at Heddle. Until the design is more mature, we won't have that understanding.

[Translation]

Mrs. Julie Vignola: If I understand correctly, since the design is not very advanced, there is no construction schedule yet, let alone a delivery schedule.

[English]

Mr. Shaun Padulo: I apologize. Can you repeat your question one more time?

[Translation]

Mrs. Julie Vignola: If I understand correctly, since the design is not complete, the details are not yet set and there is no construction schedule or delivery schedule.

Is that right?

[English]

Mr. Shaun Padulo: From my understanding, there is a schedule in place to deliver the vessels before the 2030 imperative. However, based on the fact that design is still in a very immature phase, I don't have insight into when we'll start building modules, and also the overall schedule for the project.

Seaspan would be the prime on that project in B.C., and Davie would be the prime on the project, for example, in Quebec for the second polar icebreaker.

Unfortunately, I don't have the details on the overall schedule yet.

[Translation]

Mrs. Julie Vignola: Thank you.

[English]

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

Mr. Gord Johns (Courtenay—Alberni, NDP): Witnesses, thanks for being here.

Mr. Padulo, can you speak a bit about how your business has changed since vessel repair, refit and maintenance projects were organized under the national shipbuilding strategy in 2010? Maybe you can speak a bit about how the federal government could do better to help smaller shipyards in developing capacity for national shipbuilding strategy projects.

I live in an area where there's a deep-sea port. They've had aspirations to build a floating dry dock on the west coast of Vancouver Island and there hasn't been federal support for them to grow that vision and that dream, despite that on Vancouver Island and the west coast we have a different capacity issue where we have not enough capacity on floating dry docks.

Maybe you could speak a bit about what the federal government could do.

Mr. Shaun Padulo: Is your riding in Port Alberni?

Mr. Gord Johns: Yes, that's it.

Mr. Shaun Padulo: That's awesome. It's a great part of the country.

I think the biggest issue that all of the smaller shipyards are facing is a continuity of work. Especially where we are, on the Great Lakes and the St. Lawrence Seaway, the majority of our commercial customers want their work done within a three-month period during the shutdown of the seaway, when they're not able to transport cargo. We have a massive ramp-up period followed by a massive bust period.

The projects have all been green-lit. We have these VLE programs. We have regular dry dockings and refits. If the government is able to strategically align those projects during the slow periods for the smaller shipyards, what it will do is create a continuity of work and intrinsically link commercial work and government work in Canada.

It will allow shipyards to have a continuity of work and save our workers, essentially. When we have to lay people off, we're losing experience and skills. It's very difficult to get those people to come back into our shipyards. As you all know, it's a very tough labour market out there right now, and continuity and long-term employment are very important.

Mr. Gord Johns: That was going to be my next question. How are you doing with retaining staff right now? It's a huge investment to train them, maintain them and then keep them for the long term.

How could the federal government support that recruitment, training and retention, and efforts around that?

Mr. Shaun Padulo: For me, it's what I discussed in my opening remarks. I think it's important for Heddle and Ontario to become a partner with Canada in the national shipbuilding strategy for these large VLE programs, these complex programs, as well as some of the vessels under 1,000 tonnes.

If there can be a continuity of work.... I don't think any of the yards are asking for handouts. What we would like to see is the work come into our yards so that we can earn a living and keep our people employed.

Mr. Gord Johns: You've seen policies in the past. You talked about doing some work on ferries. There was a 25% tariff. The Harper government got rid of that, and ferries were being built in Europe and around the world. That was a deterrent.

Can you talk about policies that are critical and that need to be put in place to support Canadian shipyards and Canadian workers? Can you also speak about the multiplier effect and the money that stays in our communities when we invest in Canadian shipyards?

• (1610)

Mr. Shaun Padulo: It's a very important point. Ultimately, there have been Liberal and Conservative governments that have come up with different economic policies that have helped and hurt the shipbuilding industry in Canada. There was a 25% tariff on large ships and that was removed at one point. Ferries is another one.

If we talk about a national shipbuilding strategy where we're trying to support the domestic production of ships, the federal government has done a lot at the federal level for the Coast Guard and the navy to roll out programs. It would be great to see collaboration with the provinces as well. If you look at B.C. and Ontario, there are a number of ferries that have been built offshore recently. Working collaboratively with the provinces would be something that the feds could do to help us keep that work onshore and create jobs in Canada.

The multiplier effect that you talked about is real. For every dollar spent in a shipyard, there is a multiplier effect, whether you use \$5, \$6 or more in the surrounding communities. That's a very

important consideration that we need to factor in when we're talking about keeping work domestic.

Mr. Gord Johns: We look around the world and we can see Norway, where they've utilized rural and remote communities. They have shipyards in towns that have 2,000 people. It's to build resilience and economic diversity, but they also do it because of affordability. We're seeing skyrocketing real estate in all of the urban centres in Canada where the shipyards exist, which is going to make it even harder to find and retain a workforce and attract workers.

Can you speak about the critical need to expand into rural Canada and develop shipyards within a rural context?

Mr. Shaun Padulo: It's a very important point. We have a shipyard in Thunder Bay, Ontario, which is a city, but it's in northern Ontario. For all intents and purposes, the outlying region could be considered very rural.

You're right, there is a lot of pressure on people who are trying to buy homes now in some of the major urban centres of our country, and some of the largest shipyards that are in our country are in those major urban centres. It's important that we start looking at some of these outports, whether they be on the east coast, the west coast or in the internal ocean, which is the Great Lakes, and start considering sending capacity and work to those places.

Mr. Gord Johns: I'd consider Thunder Bay rural for sure.

Can you talk about what your number one frustration's been?

Mr. Shaun Padulo: Our number one frustration has been the fact that we own facilities that are the largest shipyards in Canada in terms of the actual space and our dry docking capacity, but we haven't been able to support Canada in what is the largest procurement in the history of our country, the national shipbuilding strategy. It would be important for us going forward if Ontario could be considered in a meaningful way to be part of the national shipbuilding strategy to help deliver ships on time and on budget.

There's a ton of capacity within our three shipyards and we would like to help the country deliver on the projects that we have currently.

Mr. Gord Johns: Thank you.

The Chair: Now we will go to Mr. Lobb for five minutes.

Mr. Ben Lobb (Huron—Bruce, CPC): Thanks, Mr. Chair.

Some days I just feel like I'm going around in circles with this study.

My first question is to Mr. Fulfaro.

How is it that you can put a bid in—and I'm giving you a compliment, almost—at a fixed price, and I'm assuming a fixed period of time? It's my understanding that the work would have been done at the Irving shipyards, but yet with the very same people and other shipyards, the cost is maybe double or triple what you bid? How is it that you folks have the ability to produce these surface combatants at a fixed cost, and now I read that the cost of these 15 ships could be almost \$70 billion. How is it that you have that ability?

Mr. Achille Fulfaro: I don't know what the \$70 billion is in reference to, because as I said before, and I want to remark again, the FREMM frigate has a different cost per unit. When I heard the \$70 billion, we were out of mind.... I want to be clear regarding this. The price in the market of the FREMM is very clear. You can check the contract for Egypt, for Indonesia, even the contract for the U.S. We are talking about another order of magnitude. I don't talk about the \$70 or \$30 billion; it's out of mind for 15 ships.

Regarding the question of the fixed price and how—

● (1615)

Mr. Ben Lobb: I'm sorry. I'm not saying that's what you're going to charge or what you're proposing to charge. I'm saying that compared to what the others were proposing to charge, yours is way lower. That's what I'm saying. How can you do it?

Mr. Achille Fulfaro: That's a good point. We can stay a couple of hours regarding this, but I have a few seconds to reply to this question.

I come back again to the fact that we are talking about a well-proven design. When I say well-proven design, it means that these are proven at sea. We completely control the cost of this program. When I say we control, I mean that we start, of course, from the evaluation coming from our experience. We never proposed something related to Irving shipyard's cost. This is a matter that can be discussed.

Also, in our letter, we proposed the cost related to the production of the ship in Europe, even in Italy or in France. We never spoke about the prices outside that. Through the experience we get in an international market that they offer for Indonesia, Egypt, for U.S. or whatsoever, we know also the cost of having the production outside from our shipyards. We can control even this cost. It's a matter to seek and to discuss, together with the shipyard and the local supply chain, the different items, going through the points item by item and evaluating the cost impact.

We can do this job, because we act as a global player. We have experience in the transfer of technology. We have experience on how to control the cost outside of our capabilities and our shipyard.

Mr. Ben Lobb: In your proposal, what percentage of the manufacturing would have been completed inside Canada? I won't hold you to the five decimal places, but a rough estimate—like 70%?

Mr. Achille Fulfaro: In our proposal, we proposed to have a proper transfer of the technology in order to have all of the production in Canada. This is the future idea of our proposal, not the value of the proposal we did. The idea of our approach was to make a transfer of technology to have the local production capability to manage item by item with the local supply chain, and then major equipment, let's say. The value of the production is a certain per-

centage. The value of the local supply chain depends on the technical viability of the local supply chain. We cannot estimate this. It's a matter of discussion, through the news, the local shipyard and Fin-cantieri.

The Chair: Thank you, Mr. Lobb.

We now go to Mr. Kusmierczyk for five minutes.

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

Mr. Padulo, I want to start off by saying thank you to Heddle and your team for your tremendous support of humanitarian efforts in Ukraine and for the donations you have made through the Red Cross and the Canada-Ukraine Foundation, as well.

According to the Government of Canada website, since 2012 the NSS has awarded \$20.87 billion worth of contracts, with over \$950 million to SMEs with fewer than 250 employees. As well, through the repair, retrofit and maintenance program, 8,400 jobs have been either created or maintained annually under the NSS.

As you mentioned, in 2021 Heddle received a \$12-million federal retrofit contract from the Canadian Coast Guard, again, to retrofit the *Amundsen*. Just to build upon questions that were asked by my colleague, I want to ask you how many jobs this project created at Heddle.

● (1620)

Mr. Shaun Padulo: Mr. Chairman, I appreciate the comments earlier on. I think Ukraine is a very important issue right now, and we appreciate the recognition.

With respect to the *Amundsen*, it created approximately 100 jobs. I just want to reiterate the point. Once the CCGS *Amundsen* leaves, it's going to be during the summer, and that's our quiet period, so those 100 jobs are in jeopardy. Those 100 individuals are responsible for delivering on a project that, as of right now, will be on time and on budget—which will be the first time that's happened in the history of the VLE program.

I do not want to see any of those individuals get laid off. Again, I'd like to bring back the point that we need the federal government's support to bring Ontario into the national shipbuilding strategy in a more meaningful way so that we can protect those jobs and continue to deliver projects on time and on budget.

Mr. Irek Kusmierczyk: Thank you very much for that.

Again, just to build on my colleague's previous questions, is there anything else you'd like to put on record in terms of how the NSS has impacted your shipyard and smaller shipyards?

Mr. Shaun Padulo: Of course.

As I mentioned during my opening remarks, there have certainly been challenges in the NSS, but at the heart of it, I think it's one of the most important strategies and policies in the history of our country.

We took over Port Weller in 2017 and Thunder Bay in 2016. When we took those facilities over—and they had once been the largest shipyards in Canada—there were zero employees there. Although the work is sporadic, the NSS has really helped us bring those shipyards back to life and revitalize them.

I want to thank the government for that, first and foremost. I think there are lots of things that can be done to improve..., but this was always an ambitious policy and strategy. So I think there a lot of positives that are coming and that will continue to come out of it.

Thank you.

Mr. Irek Kusmierczyk: I appreciate your comments once again. I feel it's important to emphasize, again, the benefits that are accruing for the Canadian economy and businesses like yours through the NSS.

I want to switch gears just a little bit, really quickly. I think last week Davie announced that it's becoming a member of the Centre for Innovation, Industrialisation and Inclusion of Alternative Energies and Green Metallurgy. The purpose of this is basically to increase investments in sustainable marine technologies and work towards long-term decarbonization.

In your opinion, is there a need to examine the NSS through the lens of climate change? Also, do you believe there are examples of initiatives in this industry that can help improve the negative impact shipbuilding might have on climate change?

Mr. Shaun Padulo: Mr. Chair, I want to say, first and foremost, that I think it's a very bold and welcome strategy Davie has adopted. They're leading the industry right now in terms of adopting those policies, and it is important. Whether it's shipbuilding, aviation or car manufacturing, considering the environment and construction in the context of environmental sustainability is very important.

If we look at the traditional methods of ship production, and the activities that occur in a shipyard, there are certainly many things we can do to improve. If we look at shipyards across Canada right now, I believe we're all trying to figure out how we can adopt the most environmentally sustainable methods, whether in the activities our people are engaging in on the shop floor or the ships themselves, or in the equipment we're purchasing.

I do think it's important, and I commend Davie for being leaders on that front.

The Chair: Thank you, Mr. Padulo. I apologize for interrupting you. If you have further information you would like to provide to the committee, please submit it to the clerk and we will distribute it. I appreciate that.

We'll now go to Ms. Vignola again for two and a half minutes.

[Translation]

Mrs. Julie Vignola: Thank you very much.

Mr. Fulfaro, the design costs of the Type 26 frigates, which Irving Shipbuilding will build, are currently around \$490 million. Lockheed Martin is designing it. Do you think that this design cost is reasonable for fifteen Type 26 frigates?

• (1625)

[English]

Mr. Achille Fulfaro: Can you translate that into English? I didn't receive a translation.

[Translation]

Mrs. Julie Vignola: Currently, Irving Shipbuilding has contracted Lockheed Martin to design the Type 26 frigates. This will cost about \$490 million. Do these design costs for 15 frigates seem elevated or appropriate to you?

[English]

Mr. Achille Fulfaro: Generally, I don't talk about the proposals that come from others. I'll repeat that Fincantieri's proposal is very clear. Our proposal covers all the issues. We are acting as a global player, including in the transfer of technology—

[Translation]

Mrs. Julie Vignola: I see.

[English]

Mr. Achille Fulfaro: We are confident in our cost. I cannot give you information about other—

[Translation]

Mrs. Julie Vignola: Very well, I will rephrase my question.

In this case, out of the \$30 billion in your proposal, what percentage is the cost of design?

[English]

Mr. Achille Fulfaro: The percentage is very low for the reason I explained before. We are talking about a well-proven and sea-proven ship. We have to tailor the ship to the [Inaudible—Editor] and to the user requirements, but we don't feel we have to completely change the design.

The difference between a well-proven, sea-proven design like the FREMM and the paper design is exactly the difference in the cost. We expect to reduce the cost of the design, but also, I have to say, reduce the risk. The important point we underline in our letter is that we have not only reduced the cost of design—

[Translation]

Mrs. Julie Vignola: Thank you. Unfortunately, my time is up, Mr. Fulfaro. I wish you an excellent afternoon.

[English]

Mr. Achille Fulfaro: We'll spend two hours discussing this in the future.

The Chair: Thank you, Mr. Fulfaro.

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

Mr. Gord Johns: Thank you all again for being here.

Mr. Padulo, you talked about your shipyard, which, not long ago, had no workers at all when it was once one of the most thriving shipyards in the country.

Hearing that, can you talk about the importance of the national shipbuilding strategy as an anchor, not just for today, but so that, 20 or 30 years down the road, we won't have an empty shipyard but a thriving shipyard? How important is it that we do it right with the investments we're making now? Can you speak about the critical need for us to ensure that we're making key investments strategically so we have a long-term, thriving shipbuilding sector in Canada?

Mr. Shaun Padulo: I think the situation we find ourselves in right now is one that is a historical challenge. We're looking at a fleet for the Canadian Coast Guard as well as a fleet for the Royal Canadian Navy that are past their service lives.

My background is in commercial shipping. I spent many years in the Netherlands and Houston, Texas. Ships are supposed to last 25 or maybe 30 years. A lot of our vessels are quite older than that.

From a government perspective, I believe we need to ensure that we have a constant build program ongoing, so that as ships start to reach their end of life, there's a continuous renewal.

At the same time, as I mentioned in my opening remarks, we can't forget the fact that Canada is a maritime nation, whether we like it or not. Commercial ships are operating on the Great Lakes, east coast, west coast and internationally. I think that marrying government work and commercial work is extremely important.

The shipyards that were shut down need a boost. We need to be resuscitated, and we have been, through the national shipbuilding strategy. We need to be here to support our commercial sector. For many years, the ships that we're currently repairing in our shipyards in Ontario were going down to the United States. We completely lost capabilities within those yards. We're rebuilding that now.

The government work is critical to allow us to rebuild that capacity, so that in the future we can not only build ships for the government, but we can build ships for the commercial sector and repair ships for the commercial sector and government.

• (1630)

Mr. Gord Johns: Do you believe that the end of life of those vessels is built-in, like the ship-breaking piece? Right now, we're sending a lot of our ships to Bangladesh and other countries.

What can we do to ensure that can also help build on the capacity piece?

Mr. Shaun Padulo: I think it's incredibly important that the ship recycling piece does become part of the larger picture. When we look at a vessel, there's an entire life cycle. There's design, construction, repair maintenance and then recycling.

In Canada, we have very strict environmental regulations. We have very strict regulations when it comes to health and safety. I think when ships are sent to other jurisdictions, those jurisdictions may not be held to the same standards that we hold our companies and employees to here.

I think it's very important that we consider recycling as part of the entire life cycle and include it in a national shipbuilding strategy.

The Chair: Thank you.

Now we'll go to Mr. McCauley for five minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Thanks gentlemen for being with us today.

Mr. Padulo, you mentioned that at one point you were up to 4,200 employees at the shipyards. What were you working on at that time that you had such a large number compared to now? What period was that, please?

Mr. Shaun Padulo: That would have been during the 1980s when the St. Catharines dry dock had about 2,000 employees, and roughly during the 1970s when the Thunder Bay shipyard had about 2,000 employees as well. Throughout various courses of my period at Heddle, we've had up to 200 in Hamilton. It was at peak periods in each one of those yards.

The reason I drew attention to that was that those shipyards are large and they're capable of handling that many employees. Some of the largest icebreakers that are currently operating within the Coast Guard's fleet, like the *Des Groseilliers*, were built at Port Weller, for example.

Mr. Kelly McCauley: What projects do you see your company focusing on? You mentioned you can't join the NSS because then you're excluded from 1,000 tonnes and above.

Do you see that as a niche? Do you see that as a partner of Seaspan and Davie for the polar icebreaker? Are you looking for a change with the NSS to encourage the main players to subcontract?

There was a story a couple of years ago about Irving outsourcing a lot of the value-add business to European companies for the AOPS.

Where do you see a role for your company?

Mr. Shaun Padulo: Ultimately, I see a role for our company in partnering with Canada in the NSS. I understand the rules within the NSS. Partners are not allowed to build vessels under 1,000 tonnes. I see us playing in that space, building vessels under 1,000 gross registered tonnes for Canada. As well as—

Mr. Kelly McCauley: May I interrupt you quickly? Has anything been announced for 1,000 and below?

A lot of ships have been announced for Seaspan and Davie for the Coast Guard. Are any of them about 1,000? Traditionally, what would be below 1,000 tonnes that you work on?

Mr. Shaun Padulo: Multiple programs have been announced. The near-shore fisheries vessel is one of them. It's a one-off. There are two aid to navigation vessels and then there are six mid-shore multi-mission vessels. These are all of the programs that we're looking at when we talk about the vessels under 1,000 tonnes.

I think that within the last few years, the rules of the national shipbuilding strategy have shifted. Namely, if Davie becomes a third shipyard, that would be a large departure from the original rules of the program.

I think there is an opportunity for us to become a partner of Canada, but to focus on vessels under 1,000 tonnes and also on the complex VLE programs.

Mr. Kelly McCauley: What is your ability to scale up should you get a contract for one of those ships? We know there's a labour shortage. There's a skills shortage. Would it be focused on one certain area? You mentioned that you have several docks. Where would it go? Where would you find the people?

Mr. Shaun Padulo: Thank you. Those are good questions.

I think our biggest issue right now is that in southern Ontario we're in the most populated centre of the country. We had to ramp up several years ago to take on a commercial project to replace 250,000 pounds of steel after they ran aground, and we were able to bring on 300 people very quickly. Our issue has always been the continuity of work and being able to keep people and attract people.

The proposition of being hired for three months and then being laid off is not a good one, especially in this labour market when there's a ton of different opportunities. At the same time, the jobs in the shipyard are high-paying jobs, so if we can create continuity of work, I think we can solve a lot of the labour issues that we've seen during the boom-and-bust cycles. I hope that answers your question.

Mr. Kelly McCauley: Thanks.

I have just one last question. On partnering with Davie, Seaspan and Irving, how do you do so? How does the government, under the NSS or any other form, encourage such subcontracting partnerships without basically sticking it to the taxpayer? It's one thing to say, "hey, great, we're building everything in Canada", but if we're doing it at Irving and doing it at eight times the going rate, that's not great value for taxpayers. How do we move forward and address something like that?

• (1635)

Mr. Shaun Padulo: It's a great question. I don't want to speak on behalf of Irving, Seaspan or Davie. I think there are challenges on both sides: with the shipyards but also with the government.

Again, this was a monumental undertaking in terms of trying to rebuild an industry. I know that from our perspective.... Again, I don't mean to keep bringing up the *Amundsen*, but if we deliver it—and we're on course to deliver it on time—it will be the first on-time and on-budget project. I think creating a framework to bring other yards into the national shipbuilding strategy, to bring more capacity into the national shipbuilding strategy, will help alleviate some of the constraints that are currently there and potentially bring down prices.

Mr. Kelly McCauley: That's perfect timing. Thank you.

The Chair: Now we'll go to our final questioner, Mr. Bains, for five minutes.

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

Thank you to our witnesses for joining us today.

My questions are coming from Richmond, British Columbia. This study is very important to us and to our marine sector on the west coast. Richmond is also the home of the largest commercial

fishing harbour in all of Canada, so much of what you've said is very interesting to me.

I think you answered a bit about the sustainability of shipbuilding, and you went into some length there. What should we do beyond the national strategy? I think you've answered some of those things, but I'm just wondering about recruiting and retaining staff. What can we as a government do to support the recruitment and retention efforts, maybe in partnerships or collaborations with our academic institutions?

As you may know, we have the British Columbia Institute of Technology, one of the best and a world-class trade school. What are your thoughts on that? Are there any partnerships with the academic institutions and the industry? How we can help support that?

Mr. Shaun Padulo: I would echo that B.C. has some great educational institutions. I went to school there; it was a great time.

Right now at Heddle, we're embarking on a program in which we're partnering with trades colleges that are in the areas where we have shipyards: Mohawk College in Hamilton, Confederation College in Thunder Bay and Niagara College in the Niagara region, in St. Catharines. What we're doing is creating a standard curriculum for ship repair and ship construction.

We need to get young people attracted to this industry. I think there are some incredible things that can be done. It's a great industry, and it's one where you can have a career, should we find stability within all the different shipyards in Canada.

Again, I'd just like to echo that I think if the federal government can do anything, it's to perhaps mobilize some of the trades colleges across the country to come up with a consistent curriculum, but to at the same time ensure that the shipyards that are offering employment do have work. For example, ensure that Davie in Quebec has multi-generations' worth of work and ensure that Seaspan and other shipyards—like in Port Alberni—have work.

I think the single greatest thing the federal government could do is roll out the programs that have already been green-lighted and funded.

Mr. Parm Bains: Thank you.

In terms of the maintenance of ships, at what point do you think they should need to be completely replaced? What's the lifespan of many of these?

Mr. Shaun Padulo: That's a very difficult question. There are many different variables. Again, the rule of thumb within the commercial sector is 25 to 30 years, but they're built to last 25 to 30 years. If I look at some of the Coast Guard ships we have repaired, they are into 40 or 50 years, and one is almost 60 years old. I think at that point you're almost spending money to keep a ship alive and you're probably throwing good money after bad. It's extremely important that we start bringing new ships into operation so we can start recycling in an environmentally and sustainable way the vessels that are in the current fleets.

Mr. Parm Bains: When you look at the recycling and the amount of money going into the repairs, is it better to bring new ships into circulation rather than even doing the repairs?

• (1640)

Mr. Shaun Padulo: I think it all depends on the circumstance. The large, complex VLEs are extremely complex. If you look at the *Amundsen* that we have in the shipyard right now, it requires a significant project management team. There's a huge team in place. The workers we have are incredibly skilled. If the government hopes to continue on with major VLE programs, they're really going to need to look at shipyards that are capable of taking on that work so they don't hurt smaller shipyards, which are starving for work and which would take on a large complex project and then be unable to deliver. That hurts the shipyard, but it also hurts Canada; it hurts the Coast Guard and it hurts the navy. I think it's incumbent upon Canada to look at certain shipyards that are capable and large enough to take on the complex VLEs. Nothing is impossible; it's just a matter of projects being able to go to the yards that are capable of doing them.

Mr. Parm Bains: Thank you.

Mr. Chair, how much time do I have?

The Chair: You have 14 seconds.

Mr. Parm Bains: Well, I will allow someone else to take some of that time.

The Chair: You are yielding the time back to me. I appreciate that.

With that said, we've come to the end of our questions.

I would like to thank Mr. Padulo for being with us here in person.

Thank you, Mr. Fulfaro, for being here with us. We realize that it's closing in on 11 o'clock your time. We appreciate your taking the time to answer our questions and provide clarification to the committee.

So thank you very much—

Mr. Achille Fulfaro: Could I get 20 seconds of your time before we close?

The Chair: Okay, we'll give you 20 seconds.

Mr. Achille Fulfaro: Thank you very much. I really appreciate that.

I want to convey a message from Fincantieri to you all.

We discussed today very complex programs like the frigate program. As we said, from Fincantieri's side, in order to achieve the target, to be on time and to be within the budget and be of quality, you need three major things. You need for a local capability, a local shipyard. You also need a strategic partner acting as the prime contractor from the time of mission profile analysis up to the end of life in order to properly reduce the risk in the different phases. Fincantieri can be this strategic partner because it's a global player and can act with the proper transfer of technology in order to maintain the program within the targeted price, without going over any type of valuation for a real frigate that is completely different from what you are having in your program. Finally, you need a very solid design in order to properly manage the program.

This is the message I want to convey to you all. I hope we can have a chance to discuss this in more detail.

Thank you very much.

The Chair: Thank you once again.

Thank you, all.

As I mentioned throughout, if there is something further that either of you would like to submit to the committee, please feel free to do so. Submit that to the clerk, and we will distribute that to everybody.

With that said, the public portion of our meeting is now complete. We're about to go into the in camera portion of our meeting.

With that said, I now declare the meeting suspended.

[Proceedings continue in camera]

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