



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on National Defence

NDDN • NUMBER 035 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Thursday, February 2, 2017

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Chair

Mr. Stephen Fuhr

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• (1530)

[English]

The Chair (Mr. Stephen Fuhr (Kelowna—Lake Country, Lib.)): I call the meeting to order.

I'd like to welcome our guests to our study of the Royal Canadian Navy and naval readiness. Specifically, I'd like to welcome, from Irving, Mr. James Irving, Mr. Ross Langley, Mr. Kevin McCoy, and Mr. Scott Jamieson. From Seaspan, I'd like to welcome Mr. Jonathan Whitworth.

Thank you very much for coming. We're looking forward to hearing how you gentlemen and your respective companies are going to deliver much-needed capability to our Royal Canadian Navy.

I'd like to start out by giving Irving up to 20 minutes to talk to us about how they're planning to do that. By way of making my job easier to manage the floor, as we move through our discussions here and opening statements, if you ever see me gesture, it means we're 30 seconds away from when you need to sum up so that I can make sure to get in everybody's comments and questions.

Thank you very much.

Mr. Irving, you have the floor.

Mr. James D. Irving (Co-Chief Executive Officer, J.D. Irving, Limited): Thank you very much, Mr. Chairman.

Just before we start, Mr. Ross Langley is not here with us this afternoon, just to correct that.

The Chair: Okay.

Mr. James D. Irving: Good afternoon, Mr. Chairman and members of the committee. I'd like to thank you for the opportunity to speak to you here today to provide an update on our work at the Halifax shipyard.

With me today are members of the executive team, as was mentioned. Vice-chairman Ross Langley is not here with us at the present time. Mr. Kevin McCoy is our president, and Mr. Scott Jamieson is vice-president of programs.

We have a proud history of building ships for Canada. We've built more than 80% of Canada's current naval fleet. The Halifax shipyard has been maintaining the Royal Canadian Navy since its inception. That was a long time ago. Canada can be proud of the national shipbuilding strategy that's in place, and after a long period without building ships in Canada, we now have a strategy that makes sense

for Canada and Canadians, and we'll make sure the navy and the Coast Guard get the ships they need at a fair price.

We've gone around the world to bring in the best management team with the right experience to lead our Canadian workforce to become world-class performers in the industry.

We've invested over \$360 million to construct state-of-the-art facilities with the best equipment for the efficient building of Canada's naval ships. We are committed to not only doing a great job of building ships for Canada, but also to making sure that the industry remains sustainable for the long term.

Finally, we are spending a lot of effort to tell the story of our progress and success to Canadians through our website and other communication means.

Every time there is a contract placed or a value proposition announcement, we get the word out so that Canadians and government officials have a chance to see the good things that are happening as a result of this shipbuilding strategy.

We are proud to continue our long history as a trusted partner in Canadian shipbuilding.

Now I'll turn it over to Mr. Kevin McCoy, our president, to speak to you about the work that's under way currently at the Halifax shipyard.

Thank you.

Mr. Kevin McCoy (President, Irving Shipbuilding Inc.): Thank you, Mr. Chairman and committee members, for having us here today.

I joined Irving Shipbuilding in 2013 after a long career in the shipbuilding industry, including 36 years in the U.S. Navy. I was honoured to be appointed president of Irving Shipbuilding at a time when the shipbuilding industry in Canada was changing significantly as a result of the national shipbuilding strategy.

This strategy was first conceived by Canada due to a lack of sustainability in the marine and shipbuilding industry nationwide. This boom-and-bust cycle of the industry was experienced at all major shipyards and in the communities in which those shipyards reside. It resulted in an inability to stay up to date with modern shipbuilding practices and created significant challenges in recruiting the best shipbuilders.

In developing the framework for the strategy, Canada acknowledged that there was not enough large ship construction required for the navy and the Coast Guard to sustain more than two shipyards and their skilled workforce for the future. It was through a fully transparent and competitive process that Irving Shipbuilding was selected as the centre of excellence to build Canada's future combatant fleet.

Today we are well on the way to re-establishing the capability to build large ships in Canada, and we are making excellent progress towards providing the navy with the ships they need to operate as a true blue-water maritime force. Currently our shipbuilders are hard at work building Canada's first two Arctic and offshore patrol ships, or AOPS. We expect to deliver the first AOPS, the future HMCS *Harry DeWolf*, at the end of 2018.

The work we're doing now on AOPS will afford our workforce the experience and expertise required to construct Canada's next combatant fleet, the Canadian surface combatants, or CSCs, starting in the early 2020s. We're working closely with Canada to ensure the right foundations for this program, including the appropriate ship requirements, budget, and schedule. As a prime contractor, we look forward to awarding a contract to start working with the CSC ship and combat systems designer in the fall of this year.

It's imperative that we work at a steady pace and minimize delays. There are several pressing reasons for this. First and foremost, the navy needs the capability that these ships bring to the fleet. Canada's only three air warfare destroyers, which were to be replaced by CSC, have already been removed from active service. Second, starting in the fall of 2019, production work on AOPS starts to wind down. If we don't put our skilled shipbuilders to work on CSC, we face significant layoffs. If there is a production gap between the two shipbuilding programs, the cost to reconstitute the workforce and the experience will be borne by the CSC program. Third, the impact of inflation is very real on a shipbuilding program such as CSC. With shipbuilding inflation running 3% to 5% annually, on a 15-ship program you lose the buying power equivalent to 45% to 75% of one ship for every year of delay. Delays have a serious impact on a huge program such as CSC.

Now let me shift to economic benefits and the impact our work is already having across Canada. The benefits span far beyond the walls of the Halifax shipyard, where our head count has already surpassed 1,400 and in fact is almost 1,500 today. With the CSC program, we expect to reach over 2,500 employees. As of December 31, 2016, we've issued purchase orders totalling more than \$1.2 billion to over 250 companies across Canada.

According to the Conference Board of Canada analysis, this will support an estimated 16,560 full-time equivalent person-years of employment and generate an estimated \$895 million in income, \$385 million in taxes, and \$620 million in consumer spending. These are real benefits for Canadians from coast to coast to coast.

In Ontario, where over \$543 million in contracts has been awarded, we have a seven-year contract with General Electric Canada for electrical power, propulsion systems, installation, and commissioning services for six AOPS vessels.

In Quebec, where over \$61 million in contracts has been awarded, we have the pleasure of working with Bronswerk Group, which is supplying heating, ventilating, and air conditioning solutions for AOPS.

● (1535)

Bronswerk's AOPS contract has allowed the company to grow by 25%, open two facilities in Halifax, and be able to compete for global contracts.

In addition to our direct contracts, there is work happening throughout Canada that may seem unrelated to the construction of navy ships, yet would not exist without the national shipbuilding strategy. For example, Aspin Kemp & Associates in Montague, P.E. I., was awarded an initial \$80-million contract with GE's global offshore and marine division to provide electrical components for drilling ships. This was a direct result of GE's industrial regional benefits obligation, under their contract with Irving Shipbuilding, to provide AOPS propulsion equipment. The spinoff work for drilling ships awarded to Aspin Kemp, which GE had previously been performing internationally, is now valued at more than \$160 million, and has created new jobs and millions of dollars in economic growth in P.E.I.

These are just some examples of the hundreds of companies across the country—from Toolcomm, an aboriginal-owned company in B.C. providing communication systems and Internet protocol, to Glamox, a lighting supplier located in a former fishing plant in Newfoundland and Labrador—that we're proud to be working with to create a sustainable shipbuilding industry.

We have also invested in training and education programs to develop 21st century shipbuilders and modernize the face of shipbuilding. Two programs that we're very proud of, Women Unlimited with 17 female students and Pathways to Shipbuilding with 19 indigenous students, are the first of many designed to provide training and employment opportunities at Irving Shipbuilding to under-represented groups. These are Canadians who now look forward to a bright future with long-term, stable careers in the trades with salaries of over \$70,000 per year, plus benefits. These are jobs you can raise a family on.

While we're hard at work on the Canadian navy's future combatant fleet, we also need to keep in mind how we are maintaining our current fleet, because it has a direct impact on day-to-day readiness. In November we were pleased to complete the refit portion of the Halifax-class modernization project on time and under budget. This involved extensive work on all seven of the east coast frigates to modernize the ships and their combat systems. This project not only sustained over 400 jobs in Halifax for the past six years but also once again provided the navy with the equipment required to successfully serve at home and abroad.

The success of this project can largely be attributed to the close proximity of our facilities to the navy's east coast home port. The same is true for Seaspan on the west coast. During this program, the shipbuilders at both Irving Shipbuilding and Seaspan honed their skills and truly developed into Canada's centres of excellence for maintenance and modernization, in addition to shipbuilding.

We are very concerned that Canada's current approach to running individual procurement competitions for ship maintenance is not in Canada's or the RCN's best interest, and strongly recommend that Canada take a holistic strategy with regard to ship construction and maintenance.

Let me explain. First, let me talk about the real cost to Canada. During the Halifax-class modernization project, the cost of shipbuilding at the Halifax shipyard was decreased, as a significant portion of our fixed overhead was spread across both new construction and maintenance. In 2016 alone, this resulted in lowering the cost by over \$20 million for AOPS. This is equivalent to getting roughly 130 shipbuilders per day for free.

Second, I'll talk about sustaining the shipbuilding workforce. Both new construction and maintenance work go through peaks and valleys of demand for individual trades. Critical to eliminating the boom-and-bust cycle for employees and this industry is having both new construction and maintenance work in the shipyard at the same time. As Canada's shipyards have clearly experienced over the last 20 years, ship maintenance alone is not sufficient to eliminate boom-and-bust periods.

• (1540)

The third point concerns the impact on ship readiness and crew morale. Canada's current strategy could result in the Halifax-class frigates and crews leaving home port in Halifax for maintenance elsewhere. This would result in undue stress on crews and their families, increased costs for the navy and Canada, and the need for another shipyard to familiarize itself with the ships and procedures on which Irving Shipbuilding is now an expert.

I will also point out that Halifax is an ice-free port year-round, allowing ships to be maintained and deployed at a moment's notice.

Finally, there is the impact on leveraging long-term investment. The current strategy of spreading out maintenance to many shipyards across the country does not leverage the significant investments in people, facilities, and processes that come with a sustained shipbuilding program. Investment in these areas requires long-term certainty.

Canada's allies in both the United Kingdom and the United States actively manage maintenance and in-service support as part of their

overall strategy for shipbuilding, enabling a steady workforce year-round and leveraging investments and facilities for both construction and support. We strongly encourage Canada to take a similar approach.

In closing, we're proud to continue our long history as Canada's shipbuilder and to create a legacy for the navy and Canada through the national shipbuilding strategy. The Halifax shipyard and employees take that responsibility very seriously, and we look forward to a bright and productive future that will benefit not only the men and women in uniform but all Canadians.

Thank you again, and we're happy to take your questions.

• (1545)

The Chair: Thank you for that.

I'm going to turn the floor over to Mr. Whitworth from Seaspan.

Thanks for coming.

Mr. Jonathan Whitworth (Chief Executive Officer, Seaspan): Good afternoon, and thank you.

I'm pleased to be here along with Irving Shipbuilding as one of the two long-standing and long-term strategic partners selected by Canada back in 2011, through a competitive process, to build the next generation of combat and non-combat maritime vessels for the Canadian government under what is today called the national shipbuilding strategy, or NSS. In our case, it involves non-combat vessels to be built primarily for the Canadian Coast Guard. We are also under contract for two joint support ships required by the Royal Canadian navy.

In my opening remarks, I want to make sure that committee members are aware of the transformation that has taken place at Seaspan's Vancouver shipyards over the past five years, thanks to the NSS. I want to provide a progress report on the four concurrent NSS programs that are in various stages of development in our shipyard and the parallel impact on the Canadian economy. I'd also like to address a number of popular myths that have appeared since the inception of NSS. Finally, I look forward to answering your questions at the conclusion.

The national shipbuilding strategy and the government's commitment to manage the recapitalization of the Canadian Coast Guard and the Canadian navy fleets through a program of planned and scheduled work over the long term gave us confidence to invest our own money to rebuild our own shipyards in both Vancouver and Victoria, with the expectation that our capital investment would be recovered through the volume of work we would earn over the time. A total of \$170 million of our own money was spent on shipyard infrastructure, wholly on the back of our single shareholder, the Washington Companies, and not a penny was received from any level of government.

The result is that Seaspan's shipyard in Vancouver is recognized today as one of the most modern shipyards of its kind in North America, tailor-made to build the vessels that are part of the non-combat package.

You may hear about the size of other shipyards in Canada. We agree that actually size does matter. It matters because we believe it's important to keep our cost structure as low as possible. We didn't want to build a yard with excess capacity, because Canada would just end up paying for this in higher overhead and to the detriment of vessel capability. We also didn't want to build a shipyard that was too small, because then we couldn't efficiently and effectively honour the commitment to build ships in Canada by Canadians.

When the NSS winners were announced in the fall of 2011, Seaspan's Vancouver shipyards employed 120 tradesmen and tradeswomen and 30 management professionals. If it had not been for NSS, we most likely would have closed our doors, after over 100 years of continuous operation. Today, thankfully, we have over 750 tradesmen and tradeswomen working this morning. Similar to what you heard from the Irvings, they're in highly skilled occupations, earning above-average family-supporting wages. We've also added 70 apprentices just in the last 12 months, and 30% of them are either aboriginal or female. They are supported by now 390-plus engineers; procurement, planning, estimating, and program managers; and the staff in the office.

We are working closely with the B.C. government on labour market planning, and internally on labour resource-loading strategies to avoid any serious shortfalls or excess of demand in the NSS build program. We have initiated Seaspan apprentice and internship programs to seed the market with future shipbuilding trades and professional candidates. We are investing in B.C.-based college, aboriginal, female, and even high school training programs with an eye to attracting new non-traditional segments of our community to shipbuilding and also to ship repair.

In 2016 alone, Seaspan awarded NSS contracts worth close to \$200 million. Of these, 93% were won by Canadian-based companies. I also would share with you that of those Canadian companies that won those contracts, 87% were small and medium-sized enterprises. We enjoy giving contracts to large companies, but I have to tell you that what is creating a difference, from coast to coast, is creating these small and medium-sized enterprises.

That's just one year—and, I would dare say, our first year—at the start of a program that is expected to grow and last for at least the next 20 years.

• (1550)

For the period 2012 to 2020, I have seen data from an economic impact study that estimates that the NSS non-combat package will contribute over \$290 million a year to the GDP, with an annual increase in employment of 2,300 people across the country during the same period. We are clearly on the right path.

Thanks to the NSS, we are contributing to a resurgence of shipbuilding on the west coast. We are offering an increased number of Canadians the opportunity of a generation to find high-value work in shipbuilding and ship repair. We are creating a west coast centre of excellence that will benefit the entire marine industry across Canada.

We are a long-term partner to the Canadian government to smooth out the boom-and-bust cycles that have unfortunately defined previous federal shipbuilding programs.

Now I would like to explain a little about what's going on within our shipyard and the programs and the vessels we are constructing.

In the non-combat package, we are starting off with a series of vessels called the offshore fisheries science vessels, or OFSVs. We have three ships to build in this class. The first one was 60% complete as of the end of 2016. It's about 65% done now. The second vessel is approximately 20% to 25% complete, and as of tomorrow morning, we will begin full production on our third vessel.

A first-of-class vessel coming through a new shipyard with new equipment, new people, new processes, and new systems, where everything is new, typically results in things not always going according to plan, which normally results in upsets to schedules. We are no different. That said, when this project for the OFSVs was designed and agreed upon with the federal government, we committed to delivering the first ship in 2017. We are still on path to deliver the first ship in 2017.

I would also like to make it clear that the project cost to Canada is protected by virtue of our being under a ceiling price contract, so I can assure you that the risk to Canada from cost overruns on this first class of vessels is zero. Both cost containment and schedule adherence are extremely important to our business and to our shareholder. Therefore, as you would expect, we've learned a number of lessons on OFSV ship number one, and now, thankfully, we get to apply those to OFSV number two, and soon, as of tomorrow, OFSV number three.

The next vessel, a single vessel in its class, is the offshore oceanographic science vessel. Planning, engineering, and long-lead equipment purchasing are ongoing. Basic design development was signed with the government on December 22, just over a month ago. We've done the down-selection on the single system integrator, which is currently under way, and we're expecting to receive draft terms and conditions from Canada in the spring.

The third class of vessels for the Royal Canadian Navy is the joint support ships, or JSS. Planning, engineering, and long-lead equipment purchasing are ongoing. Functional design was also signed just over a month ago, and procurement of long-lead items continues with the propulsion system integrator, which has already been down-selected.

Following the JSS is the polar icebreaker. The Canada-Vancouver shipyards workshop occurred just in the last two weeks. Once we get going on the polar design, we will be the only shipyard in North America simultaneously designing three active vessel classes. If you look at the largest shipyards you could imagine in the United States, you see that none of them is designing three vessel classes simultaneously.

Following that, there are also more vessels in the Canadian Coast Guard for future renewal. In October of 2013, the federal government increased Seaspan's non-combat build package by up to an additional 10 vessels. These additional ships were originally identified as five medium-endurance multi-tasked vessels and five offshore patrol vessels. This program and the vessel concept or concepts are still under discussions between Seaspan and Canada.

Next, I'd like to share my thoughts on a few changes to NSS program management through which Canada and Seaspan can together improve the program performance and the public's perception of the program, at least as we see it on the west coast:

I hope my testimony has convinced you that the NSS is getting the job done. It's building ships, rebuilding an industry, and creating jobs and economic activity across the country. The international community is sitting up and taking notice, and is impressed at what Canada has been able to accomplish in such a short period of time.

- (1555)

NSS is the right strategy. It's designed to avoid the boom-and-bust cycles that have defined previous national shipbuilding programs.

After careful consideration, full consultation and an open, fair, and transparent competition, two was judged by the government of the day to be the right number of shipyards to sustain the viable domestic shipbuilding industry in Canada for the long term. Despite what has been reported, delays in the national shipbuilding strategy have not been the cause of today's need for interim vessels for both the navy and the Coast Guard. Rather, it is the lack of real shipbuilding in Canada from the mid-1990s until the NSPS was put in place in 2011 that is the root cause of the interim needs.

Remember, we are catching up for not having had a large and complex shipbuilding program in Canada for over three decades. Thankfully, NSS will permanently correct this via a steady flow of long-term shipbuilding contracts and a properly structured industry to efficiently handle this for the long term.

From Seaspan's perspective, the biggest risk to the program is not the strategy itself but rather not allowing the time needed for this program to succeed. We believe this is a marathon and not a sprint. We have accomplished a great deal in a short period of time, and we've learned a tremendous amount about how we and Canada alike can work together as long-term partners to improve NSS program governance and management. The federal government must stay the course and avoid the trap of commercially driven unsolicited proposals and short-term expediency.

Critics of the NSS program and certain media members have commented on how different announced program budgets are from the actual cost performance. They have been able to do this because in most instances, and certainly from our own experience, program budgets were developed and codified within the federal program

approvals system in a bygone era, long before the vessel requirements had been agreed to, and even longer before enough engineering work had been performed to properly estimate the labour, time, and materials required to build the subject vessels.

We believe that to peg performance against the build contract and not against the nominal indicative cost estimate required to get through Treasury Board initial project approval many years—in some cases five to eight years—before a project may begin, and many more years before enough is known about the vessel's requirements, is not a fair representation of either the government's or the contractor's competence to manage to a budget. We can change the public perception by changing the federal government's approval process and timelines.

Due to the number of vessels and vessel classes under the NSS non-combat package, we are also being contractually managed on a program-by-program basis, with a number of contracting phases and task authorizations within each program. Choppy contracting reduces efficiencies and increases uncertainty within our own company and—more importantly, perhaps—across our supply chain, in that we sometimes think we are in a perpetual state of contract negotiations with Canada and then also with our own supply chain. We made these observations as part of our submission to the defence policy review and more recently to the meeting of deputy ministers. We hope to see a more efficient process moving forward as the NSS program matures—that is, fewer contracts, fewer phases, and fewer task authorizations required so that we can get on with the business of building ships for Canada, by Canadians.

Thank you for your time. I look forward to the Q and A.

The Chair: Thank you for your testimony.

I'm going to open the floor up to Ms. Alleslev.

You have the first seven-minute question.

Ms. Leona Alleslev (Aurora—Oak Ridges—Richmond Hill, Lib.): Thank you very much.

Thank you, everyone, for coming, particularly in light of such an exciting topic, the national shipbuilding strategy. The Canadian surface combatant program is by far the largest naval procurement in history but also, I would argue, probably the most significant procurement that Canada will do for a generation. It will deliver not only critical combat capability to the navy, but equally, if not more importantly, it will create a significant impact on the Canadian economy.

I certainly don't need to tell you that 20% of the cost is in acquisition and 80% is in in-service support of the life cycle of any program. When we talk about technical benefits or industrial technical benefits, otherwise known as Canadian content, we really do need to talk about the impact of direct Canadian content on the ship itself, not only because it's important to the ship and therefore the technical capability and our sovereignty of that ship, but also in terms of the impact it has on the Canadian economy, not only today but of course through a core competency of a life cycle.

When we talk about that direct Canadian content, we need to know that not all Canadian content is created equally. Certainly electronic warfare, command management, communication systems, underwater radar, and all that kind of stuff is actually the step change. It is something that Canada has been incredibly good at, something that we have a great industry in, and something that obviously is a sovereign requirement.

Could you share with us how we're going to ensure that on this critical procurement for the navy and for Canada, we will have direct Canadian high-tech content?

• (1600)

Mr. Scott Jamieson (Vice-President, Programs, Irving Shipbuilding Inc.): Thank you for the question.

On the Canadian construction program, as I think you're aware, we did, along with Canada, considerable industry engagement. We worked very closely with the regional development agencies to look at the capabilities that existed in Canada in the context of being able to supply.

Again, it's a complex warship. In terms of the procurement itself, it is heavily weighted towards incentivizing bidders to create direct and indirect Canadian content, known as a value proposition for the program. The level at which that is weighted in the competition I think is fairly unprecedented, recognizing the importance that both we and the government put in that program to have strong economic benefits as a result of that program. I think it has been at the forefront of our mind, and I think it is reflected well in the procurement that is currently being executed.

Ms. Leona Alleslev: I thank you for that.

Throughout the conversation, you indicated how important and costly delays can be. Now we're looking at a commercial off-the-shelf ship simply because we're looking at being able to shrink that delivery time to get us faster to a build. However, most of those commercial off-the-shelf ships, of course, already have combat systems integration with all those command management and high-tech electronic warfare systems that are already designed into them. They're not currently Canadian, because they're obviously not currently Canadian ships.

If we look at the bid process, we would be looking at taking out existing technology that's already systems-integrated into those ships to be able to put in that direct Canadian content, which would therefore potentially increase the risk and the time. How is the procurement ensuring that the weighting of the Canadian content for that high-tech systems integration is not adversely affected by the evaluation criteria, leading to a short time to get to that build and delimiting the risk?

Mr. Scott Jamieson: I think it's all about balance.

You raise a very good point: Canadian content and economic benefits are incredibly important. Also incredibly important is delivering a very capable ship to the navy. Also incredibly important is delivering good-value ships with a low-risk profile. All of those things have to be taken into account. I don't think it's one thing that beats all else.

The process that's been created along with Canada allows all of those inputs to come in, with the right information at the right time, to make a considered decision on how you maximize the Canadian content, maximize the capability to Canada, and minimize the risks that the program will face. We very much look forward to that phase of the program. There will be a lot to discuss, I am sure, but we're well aware of it and are working well with Canada to create that process.

• (1605)

Mr. James D. Irving: We shouldn't underestimate the value of indirects in this thing, because I think we're going to establish a lot of companies in Canada—small and medium-sized business, to Jonathan's point—that haven't been in the business before. The Aspin Kemp example by GE on Prince Edward Island is a case in point. If you can get a running start, if you have a small business and you can get a big baseload customer like GE that will take you global, that's a huge asset.

I think we should be broad in our thinking to make sure we don't get so narrowly focused on one aspect that we can't maximize the opportunities for Canada. I believe there are good opportunities there.

Mr. Kevin McCoy: I will just chime in too.

First and foremost, this procurement is about getting Canada's navy the equipment that it needs. From the start, this is a requirements-driven process. We went through an exhaustive effort over almost a year to look at every single requirement on a ship. It was probably the best one that I've ever seen, including in my experience in the U.S. We really threw out the stuff that would be kind of nice to have and got down to the requirements. We did that, and for whatever ship we pick, there are many areas, particularly in the war-fighting area, that are going to have to be customized for Canada's needs.

Canada has a different naval need than other nations do. For example, Canada doesn't have a high-low mix, a series of small, medium, and large surface combatant ships, which many nations have, so we're going to have to do tailoring of our electronic warfare. The radar is going to be different for the ship that we pick. There are a number of areas that are going to be ripe for good Canadian content and modification that we know we are going to have to do.

Ms. Leona Alleslev: I think that is a very important point, and those are core competencies that already exist in Canada. Of course, as the landscape for defence and security is changing around the world, ensuring that we have those mission-critical war-fighter systems and that sovereign capability within Canada is obviously going to be a significant factor going forward, and I'm pleased to hear that you're putting that as a top priority.

The Chair: I thank you for that, and I turn the floor over to Ms. Gallant.

Ms. Gallant, you have the floor.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chair.

Mr. McCoy mentioned in his statement that he had a long career in shipbuilding and in the U.S. Navy. The U.S. never seems to have the kind of procurement issues and delays that we have currently with the national shipbuilding strategy.

Through you, Mr. Chair, what, in your opinion, is the difference that creates our delays, and what steps can be taken to ensure that the Royal Canadian Navy gets the ships it needs built in a timely manner?

Mr. Kevin McCoy: Thank you for that question.

First let me say that every year, the U.S. Navy continuously builds, on average, 13 to 15 major capital warships, so it's not a matter of... As our colleague Jonathan from Seaspans indicated, we're both standing up shipyards from scratch, so we're on the front end of this process, and I think five or 10 years from now, this will look different in Canada.

First of all, the U.S. has an ongoing industry that's geared up for it, and in fact the government builds 15 ships a year for two reasons. One is to support the navy, and two is that if they built any fewer, the industrial base would start to fall apart. It's not just the shipyards; it's the next tier. It's the engine suppliers and the valve suppliers and the launcher suppliers. You need 15 ships in that big economy in order to keep them alive. I think that's one of the things that Canada is going to have to go through. We'll have to determine the minimum self-sustaining level, not only for the shipyards but also for that industrial base for which we're now growing the supply chain here in Canada.

The other thing is that there is a real priority put on the speed of decision-making in the U.S., because when a ship in the U.S. is put under contract, it is because it already has a deployment date. It has already been assigned a battle group for deployment, so there's a real pull from the operational side that says you need to get that ship not only under contract but also delivered, because someone is already counting on it. I think that's the kind of mentality that allows you to build ships without having the ones they're going to replace already falling out of service.

I think there is the speed of decision-making, and I would say that one thing that does work against the system here is having authorities and responsibilities distributed through very many departments, rather than having what I'm used to, which is a single accountable officer, particularly for a program as huge as the Canadian surface combatant—somebody who can say, “Yes, in that area I'm going to go with Canadian content; in that area I'm going to go with operational requirements; in that area I'm going to go with low costs and risks”, someone who can push things forward, rather than debating over them for a very long period of time.

In a program like CSC, inflation is a real killer to a ship count, so you need speed in decision-making, recognizing that this is something that has to go on year after year after year. We're at the

front end, trying to gear up for that serial production, and then we'll have to figure out how to maintain it.

• (1610)

Mrs. Cheryl Gallant: Do we have that single project manager to see it through?

Mr. Kevin McCoy: Today we do not. I'm not telling a story out of school; we've made this comment to the government. It's very much a distributed process in which we will sit across the table from Industry Canada, Department of National Defence, the navy, PSPC, and the Department of Justice and negotiate everything from technical requirements to contract requirements, and it takes a while to churn the consensus through the system.

Mrs. Cheryl Gallant: Patrick Finn, head of military procurement at National Defence, has stated that even minor changes can cascade into big costs and delays in relation to trying to fit Canadian equipment requirements into pre-existing foreign-designed military equipment.

With that in mind, what are the biggest issues you see arising from a pre-existing foreign design for our surface combat ships?

Mr. Kevin McCoy: I would say one of the things we're going to have to manage well, both the government and industry collectively, is our appetite for change. If you start to change too much on a ship, if you start to change 10% or 15% of the ship, you're starting to change 75% to 80% of the drawings. I've seen it time and time again, and at that point you're into essentially a clean sheet with big risks.

Therefore, collectively we're going to have to manage change. The most important part of a shipbuilding program like CSC, bar none, is to get the requirements right up front. I really applaud the effort that the Canadian navy made to do a lot of soul-searching. We went through four very rigorous war-fighting exercises. We looked at anti-air warfare, undersea warfare. We had all the classified intelligence data on cruise missile threats and other threats from around the world, from both the U.S. database and the Canadian database. We got the requirements down to a tight basket that is not the world, so that when you go buy the ship, you're not buying any more than you need but you still have the ability to execute the mission.

I'm very pleased with where we are on that. Now, when we pick a ship, all of us are going to have to constrain our appetites for change, and there will have to be that balance among Canadian content, risk, cost, and schedule, and that's what's going to take very strong leadership to push through.

Mrs. Cheryl Gallant: We heard in earlier testimony that, really, with the national shipbuilding strategy we weren't going to be spinning off or starting up a whole new naval shipbuilding industry in Canada. There would be merely a series of procurements. Can you dispute that or give us any explanation as to why we will have a continuing commercial industry once this series of procurements is finished, or at the same time?

Mr. Jonathan Whitworth: One of the things that we on the west coast like about the non-combat package is that it is a combination of ships that will be built that actually look a little bit more like commercial. We would have been very pleased and happy to build combatant ships, I assure you, but the non-combat package actually lends itself to alternative commercial work.

When we see the capacity break, when we're not building federal vessels, we think we're going to be in a perfect position to actually market our skills and expertise to foreign countries that may be looking for icebreakers or oceanographic ships. Those are commercial-minded vessels. On the west coast we also have, in our province of British Columbia, the world's largest fleet of ferries. We really look forward to rebuilding and building BC Ferries' fleet.

The Chair: We move now to Ms. Blaney.

Welcome. You have the floor.

Ms. Rachel Blaney (North Island—Powell River, NDP): Thank you so much.

Thank you so much for being here. I have the great honour of representing North Island—Powell River, so I am a very close neighbour and very happy to have a fellow B.C. resident here with us today.

Two days ago we had testimony by Davie Shipyard in which they clearly indicated their discontent with the national shipbuilding strategy. Canadian Marine Industries and Shipbuilding Association has also expressed some concern.

I have a couple of questions around that. As the main recipient of this strategy, do you both believe that Canada must look at more than one procurement or possibly look at procurement with a wider angle? If so, what do you think that would look like?

• (1615)

Mr. Jonathan Whitworth: Canada has already made that decision, and made that decision for us. Back in 2010 and 2011, when the national shipbuilding procurement strategy, the NSPS, was started, the government looked at it and asked if it should repeat the past, which would basically be to say it would give these ones three ships, these ones five ships, these ones one ship, and these other ones two ships, and then in eight years everybody would be bankrupt and lay everybody off. Alternatively, it could “right-size” the number of vessels to keep a number of centres of expertise alive. I will note that it never said it would pick one for the west coast and one for the east coast; it said that the number of combat and non-combat ships would justify work for two shipyards. That's how they stated it.

Then it opened this fair, open, and transparent policy to actually see who could win the rights to be one of those two winners. It ended up being one on the east and one on the west, but it could have been anywhere. It could have been any of the recipients who were trying to win the bid.

There were two winners, which have now rolled out hundreds of millions of dollars of their own money into our business to make sure that we can fulfill Canadians' needs.

As I mentioned in my speech earlier, I was fully aware that had we not won, we would have shut down our shipyards. There's only so much capacity in Canada for shipbuilding. There's a reason that there are now two.

Mr. James D. Irving: Could I just add to that, Jonathan?

We've been in the shipbuilding business as a family and a company for a long time. As a company, we've built about 80% of the warships in Canada's fleet today, and we've seen the booms and

bust. We had a first-class shipyard built and paid for, to a large extent—or some part, anyway—but we modernized it, I should say, in the early 1980s, when the Canadian frigate program started up. We were fortunate enough to win that contract at that time. The government was going to continue to build ships. It was going to be a shipbuilding centre of excellence for Canada. About 1990, or in the early 1990s, the contract was completed, and there were no more ships. We fiddled around for five or six years. We built a few ships for ourselves. There were no ships from Ottawa, so we shut the thing down. We had 1,500 or 1,700 people on the payroll. Today we have a drywall plant. We've converted it to a drywall facility. We have 75 people. It's a nice little business, but it's not 1,500 people. All that was for naught.

We came to Halifax. When this contract was awarded in 2011, when we won, just as Jonathan said, we had a shipyard that was over 100 years old in Halifax, the first shipyard in North America. The British built it in the 1800s. We've been chugging along. We were just on the verge of going into the condominium business, I can tell you, because I was responsible for it. I said, “Enough of that. We're either going to do something else or get out of it.” You heard the same thing from Jonathan.

So we know the ups and downs. Both of our companies have made enormous commitments, and as far as I'm concerned, we should settle down. As a Canadian and a taxpayer and an employer, I see all the contracts. There are no surprises. Everything is fully transparent. You see the profit, you see our overhead costs, and you examine everything. We don't mind being held accountable.

I can speak for myself, and I'm sure Jonathan would say the same: as far as I'm concerned, we should build the ships on the east and west coasts, and we should maintain them there at the lowest possible costs and be accountable for our performance.

Some parts of this country have oil. Some parts of this country have automobile plants. Some parts of this country have aerospace. We on the coast have ships, because we're on the water. We have competitors. You mentioned Davie. I'm not going to talk about my competitor, but recently a half-built ship they'd been building up there for 10 years sailed away on another ship to Europe to be finished. It had to be carted away. Now they're bringing over a topside for a ship it's currently building for the navy, and the topsides are being built in Finland.

As far as I'm concerned, we're running our business and we're doing a darned good job for Canada. We want the business and we're going to earn the business, but we're going to give you good value for your money.

Ms. Rachel Blaney: Thank you so much.

Earlier you outlined some of the serious issues with having to deal with multiple departments, and that key point of being able to talk to one person to get some decisions and to move forward.

From your industry's standpoint, are there other ways in which the national shipbuilding strategy could be improved?

• (1620)

Mr. Kevin McCoy: Thank you.

We have a very close working relationship with the Canadian government. We're the prime contractor. We're proud to be the prime contractor for both the Arctic ships and the Canadian surface combatant. What we highlighted in our testimony was really to keep the CSC urgency out there, because we can undermine the stability of the shipbuilding program and bring back the boom and bust if we don't do that. The costs will spiral if we continue to delay that program. Then it's the speed of decision-making, as we just talked about, somebody who can say, "Okay, we're going that way."

We've done a good job so far on CSC, but the tough work is ahead of us. The tough work is to decide, once we pick a ship, how much of it we'll change, in what areas and to what end, as was brought out about Canadian content. It's going to take speed, it's going to take somebody in charge, and it's going to take leadership, somebody who's credible enough within the government to be able to get that through the individual departments.

Last, we do think the current strategy for maintenance, particularly on the major combatants, the Halifax class, is undermining the shipbuilding strategy. In my last job in the U.S., one of my big responsibilities was to load the big shipyards that were building ships with plenty of maintenance to drive the cost of shipbuilding down and take that overhead. If you take the Halifax class out of Irving Shipbuilding and put it somewhere else, you will pay that other place's overhead and you will pay for the full cost of the overhead on the AOPS and then the CSC program. There are other reasons, but there's also the stability of the workforce.

Those are the areas. We'd say you should look at maintenance as a strategic enabler of shipbuilding. Keep CSC on the road, and let's have speed of decision-making by somebody who can make the hard decisions in a very timely manner.

The Chair: Thanks for that.

I'll now give the floor to Mr. Spengemann.

Mr. Sven Spengemann (Mississauga—Lakeshore, Lib.): Thank you, Mr. Chair.

Gentlemen, thank you for being here. I think it goes without saying to note that the level of interest represented in the audience underscores the importance of this discussion this afternoon. Canada has a long and proud history of shipbuilding, and it's certainly a reasonable proposition, given that we have the world's longest coastline and the history and the experience, that we should always strive to be among the global leaders in this field.

I wanted to pick up on the questions that my colleague Ms. Alleslev brought to you just a little while ago. Maybe to backpedal a bit, just for the benefit of the committee and Canadians, taking a look at the surface combatant vessels, could you give us an idea, in terms of the overall value of one of these ships, how much of it would be the hull, the engines, the superstructure, and how much of it would be the weapons systems, the communications systems, the high-tech aspect of it? If you were to break that down, even in approximate terms, what would that come out to?

Mr. Kevin McCoy: Thank you for the question.

About half the cost of the ship will be associated with the mission systems. The combat systems and the communication systems are

about half the cost of the ship. It'll go plus or minus 10%, but it's somewhere in that range.

I'll also say that a good amount of the ship... I'll give you AOPS as an example. AOPS is a \$2.3-billion contract. Of that \$2.3 billion, \$1.2 billion is for material. That's material that's spread out throughout Canada and other places. About half of the combat system, half the cost of the ship—material, overhead, labour, and all—is for the base platform.

Mr. Sven Spengemann: All things being equal, what's the trend on that? Ten years down the road, would weapons systems be an even greater component?

Mr. Kevin McCoy: I can tell you that the higher inflation area—I used to look at these areas in my previous role—is the combat systems area. It really goes to signal processing, the computer system and all the advances in weapons, with weapons seekers and the integration of all of it.

I will tell you that a cost driver that we'll have to deal with on CSC particularly is the radar. Canada's navy needs a very high-end radar. I understand it. We did the war-fighting analysis to make sure they didn't buy more than they needed. We actually started out the analysis needing a very high-end long-range radar and a high-end medium-range radar. We settled on a high-end medium-range radar, as that's all we needed to buy, so that will be a driver on the ship.

Mr. Sven Spengemann: That's helpful.

If you were to take that same breakdown of 50/50, how would that line up in terms of jobs—how many jobs in the yard, and how many jobs in the offices around the country that build software weapons systems?

• (1625)

Mr. Kevin McCoy: I would say that certainly for every job in the shipyard—we think we'll be at about 2,500 people in the shipyard—there will be an equal number of contractors and other support folks, mostly supporting the combat systems piece. The combat systems piece is where we anticipate the Canadianization to be. The propulsion, the galley, and all that kind of stuff will be pretty much what it is. It's really the combat system that involves tailoring the ship to how Canada's mission requirements will direct them to fight.

Mr. Scott Jamieson: Can I expand on that? A study we had done by PricewaterhouseCoopers looked at the economic benefits of shipbuilding in Canada. One of their conclusions was that for every billion dollars spent in Canada on shipbuilding, Canada receives \$1.8 billion's worth of value in return through the directs and the indirects. If you compare that to the return you'd get if you were to build your ships offshore and buy them and bring them to Canada, for every billion dollars that you spent in shipbuilding offshore, you would get maybe \$600 million's worth of benefits, up to at most \$1.1 billion. That's largely driven by the indirects.

Mr. Sven Spengemann: Sure, and that's well noted and appreciated.

Who holds the intellectual property on the development of software under your structure?

Mr. Kevin McCoy: The RFP, the request for procurement, as it is currently structured, gives Canada the ownership and the rights to the intellectual property.

Mr. Sven Spengemann: You mean the Government of Canada.

Mr. Kevin McCoy: Yes, the Government of Canada.

Mr. Sven Spengemann: In your view, is that the right structure?

Mr. Kevin McCoy: That is the right structure. This is going to be Canada's main naval battery for 50 years. It will be modified several times, and Canada needs to own that IP.

Mr. Sven Spengemann: Okay. That's very helpful.

Mr. Chair, I have about two and a half minutes left, if I'm right, and I'm going to delegate the remainder of my time to my colleague Mr. Rioux.

[Translation]

Mr. Jean Rioux (Saint-Jean, Lib.): Thank you.

Since I have only two minutes, my question will be very direct.

You said that only two naval shipyards should be maintained for all of Canada. Are we talking about eliminating competition? I have the impression that you're talking about oligopoly or trust. It is obvious that you have developed great expertise and shouldn't worry about the other sites.

Mr. McCoy, what do you think?

[English]

Mr. Kevin McCoy: Does that eliminate competition? I think all of us up here would say that Canada has already held the competition, and the shipyards that are sitting up here have won that competition. The decision was made to invest heavily for the long term in these modern shipyards, and now that you have them, you need to feed them with work. Trying to sprinkle work among too many industrial facilities will only seriously undermine that strategy, and you'll wind up with underutilized capability and capacity and a boom-and-bust cycle. That's the reality that Jonathan talked about. We would take you back to your point that you held that competition already. Now you have incredible capability. You have two world-class shipyards in the country, so now let's work with the Government of Canada on how to deliver the best value, not only for the citizens but also with products for the men and women of the Coast Guard and the navy.

Thank you, sir.

Mr. Scott Jamieson: I would just add that the strategy was well devised. It looked at the capability required and determined it needed two centres of excellence based on the number of ships the navy has requirements for. Unless that requirement has changed dramatically, the answer is already there, and it's two.

The Chair: That's your time.

We're going to move to five-minute questions.

First we will go to Mr. Robillard. You have the floor.

[Translation]

Mr. Yves Robillard (Marc-Aurèle-Fortin, Lib.): Thank you, Mr. Chair.

I would like to thank the witnesses for being here today.

My first question is for both the representatives from Irving and Seaspan.

Are there adequate human resources assigned to the national shipbuilding strategy contracts to supply new vessels for the Royal Canadian Navy? Could you tell us how you established your diagnosis on this?

More importantly, how do you try to retain your workforce?

[English]

Mr. Kevin McCoy: Let me first say that it's not the shipyard's job to determine the laydown of naval forces. We have done analysis of a 15-ship Canadian surface combatant fleet with maintenance cycles and a traditional and historic deployment profile for the taskings that Canada's navy is asked to do. It clearly shows that 15 ships is not an excess number of ships for the navy but that 15 ships is really a floor for the navy. We're very satisfied that the number is not a flush number for the navy.

In terms of sustaining the workforce, as my colleague Mr. Jamieson said, we built our shipyard and sized our shipyard for the Arctic and offshore patrol ship program and the 15 Canadian surface combatants. We built that. That's what I would call the takt time of units going through our big facility. Now the paint time, the amount of time for structural assembly, and those kinds of things are all optimized over the 30 years of building the six Arctic patrol ships and the 15 Canadian surface combatants.

We're hiring to that and we're training to that. We're looking at our demographics. For example, right now 30% of our workforce is under 30 years of age. We're looking at the long term. Our workforce is 11% females. We are trying to get more under-represented groups in. We think, because we have the capacity sized to Canada's needs, that we'll be able to sustain that workforce for the long haul.

• (1630)

[Translation]

Mr. Yves Robillard: My second question is for Mr. Irving.

With regard to your staff, I would like to know how the recruiting and training of skilled and specialized workers have progressed in your shipyards since 2010. Do you apply policies to ensure that your workforce includes women and members of the indigenous community, for example?

Mr. James D. Irving: Yes, we have made a major effort in this area. We have a training program for the entire workforce. We started with a group of employees used to building ships in a traditional way. We changed our entire method and adopted much more sophisticated technology. We have a program where we work with the community college to train people.

[English]

We put 500 people through community college.

[Translation]

About 500 people have gone through the community college, which helped them learn their trade. And as Mr. McCoy said earlier, we have a program for women. We also have one for people who are having difficulty in finding work. That's part of our program.

Mr. Yves Robillard: And that includes indigenous people?

Mr. James D. Irving: Exactly.

Mr. Yves Robillard: May I continue, Mr. Chair?

[English]

The Chair: You have about 45 seconds for a question and an answer.

Mr. Yves Robillard: That's very fast.

[Translation]

In terms of infrastructure and human resources, could you explain how Irving has expanded and modernized its shipbuilding capacity since the national shipbuilding strategy was launched in 2010?

[English]

Mr. Kevin McCoy: Thanks for the question.

We've built the most modern shipyard in North America. We have the single biggest building for shipbuilding in all of North America. We went around the world. We looked in the U.S. We looked in Europe. We even had the Koreans come and benchmark against how they would build ships with their build strategy and the layout of the equipment. We've bought the best machines and equipment in the world. We're very confident. Not only that: our target state is audited, as part of our contract, by a group that holds the standard for shipyard performance around the world. It's called First Marine International. It has standards for how you order material and trigger material, how you paint, how much automated welding you do, and all of that. We get audited and inspected by them as part of the contract to ensure that we are using world-class practices.

Between our investment, the benchmarking that we did, the equipment and machines, the training we've done, and the outside independent third party that makes us beholden to Canada to satisfy, we're very confident that Canada is getting the best in terms of practices and output for the navy.

• (1635)

The Chair: Thanks for that.

Mr. Paul-Hus, you have the floor.

[Translation]

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

Good afternoon, gentlemen.

My question is related to the comments of Mr. Rioux, the new parliamentary secretary to the Minister of National Defence.

On January 30, 2009, the Shipbuilding Association of Canada sent a letter to Stephen Harper, who was the Prime Minister of Canada at the time, to ask him to establish a naval strategy. Mr. Irving was one of the co-signers of the letter. The letter listed various needs and four shipyards involved, including Davie, in Lévis, Irving, Washing

Marine Group and Upper Lakes Group Inc. in Ontario. The builders of these four groups got together to ask that a maritime strategy be established, and it was. Fortunately, Irving and Seaspan ended up getting the contracts.

Today, you think that the other shipyards can disappear, that you will get the contracts, and you will build Canadian ships for the next 100 years. I would like to understand why you are so intent on doing this. You have already nearly shut down the other companies in the industry. Now you are doing business and consider that the others can disappear.

What is your intention? You know you have contracts for 30 years.

[English]

Mr. James D. Irving: You know, there was no shipbuilding in Canada for many years. You had shipyards in Montreal and you had shipyards up in the Great Lakes. You had a number of them. They all went broke. Davie's has been broke I don't know how many times. It went bankrupt different times. You heard from Jonathan here that they were about ready to close down. We closed down one big modern shipyard, and we were about to close the one in Halifax because the government had no foresight in this business. It was going to let it go. It was letting it disappear.

We worked as an industry group, and we had no idea where it was going to end up. All we were saying to Ottawa was: "Listen, if you want ships and if we're going to protect our country and have an industry that supports the country and defends the country and so on, somebody better wake up." We worked as a group, and in that period of time some people dropped out, some people were sold, and some people went bankrupt, because it took many years. I wrote many letters and made many trips to Ottawa to try to convince politicians to move, and we got no response, so the thing went into disarray.

In that time, we all bid. Davie's bid. Jonathan's company bid. Anybody could bid. I can tell you that when it came to the deadline, there were very tough requirements about bidding. At the last minute we were told, "There will be a two-week delay because Davie wants another two weeks to bid." We said, "That's not fair. Those aren't the requirements." We were told, "Forget about the requirements. That's what we're going to do." I said, "Okay, let it go."

I understand the problem for Davie. I'm sympathetic to it, but I'm also going to fight for our company. We've spent hundreds of millions of dollars. We've trained people. We've worked like hell to make something go. The problem in Canada is that we get political about everything, and then we end up with nothing, because we can't sustain a competitive business. We're going to have to do what we have to do to build ships in this country. We're going to have to look after industries in Quebec, and I'm all for that, but we can't be so political about everything that we get nothing that is efficient.

There will be lots of good things happening in Quebec because there always is, but don't feel that we're out there trying to say, "Kill the competition." We've been beaten up like everybody else has been in this business, so we want to be reasonable. We're trying to support lots of local industries, and we're going to support local industries, but we have to be strategic about how we spend federal money.

[Translation]

Mr. Pierre Paul-Hus: Thank you for your answer.

I fully understand. You managed to get the contract.

I visited your facilities last November. Just like Seaspan, you have a great company. I have nothing to say about your companies, and I find it normal that you want to get contracts to ensure your survival and continuity.

Having said that, now that you have managed to get your contracts and you can plan in the long term, can you give other companies the opportunity to get contracts without blocking them?

The Davie yard was bought back in 2012. It now has the *Asterix* contract. These people also want to develop their activities, pursue them and go further. It is the biggest building site in terms of area. Like you at the time, it needs contracts to progress.

Can we include Davie in the process and not block the strategy by keeping only two shipyards in Canada?

• (1640)

[English]

Mr. Jonathan Whitworth: I'll take that one.

In 2009, that letter you spoke about predated the national shipbuilding procurement strategy at that time. All of us, quite frankly, were trying to figure out how to survive the next day.

Once NSPS came out and the government, not us.... To be honest with you, if you had asked us, I would probably have said, as the shipbuilders would say, "We'll just do it all." We didn't say that it would be two shipyards. The federal government did, based on the number of vessels they knew they had to build.

The reason that makes sense, and the reason we're not looking to hold anybody out, is really about the cost to Canada. It's back to that story I talked about before. We're not talking about hundreds and hundreds of ships, as in the United States, which builds 15 combatant ships a year, and probably an equal number of non-combatants. Unless Canada is going to spend that kind of money, which I don't think it is, then not everybody can feast. It physically doesn't work.

The other part that was recently brought up was that maybe we could build the ships in different shipyards and cut them up, unblemished by success. It never happens.

There was the case of a shipyard in the United States last year. The shipowner decided to cut the ship up into three shipyards. Two of the three shipyards went bankrupt, and so did the shipowner. It's very inefficient, and it costs a lot of money.

Mr. James D. Irving: I could just finish that, if you don't mind.

The Chair: Go very quickly, please.

Mr. James D. Irving: I mentioned this earlier. In December, Davie took a ship.... They were building it for 10 years. They had federal government money. It was maybe not the same owner, but the previous owner had \$200 million-plus from EDC. They built one. It took 10 years. The contract 10 years ago was to build three ships. One of those ships finally got completed and sailed away a couple of years ago, I think. The second one sailed away half-finished, on a ship. It was taken to Europe to be finished in another yard. The third ship is still in pieces in Quebec. The top side for this navy ship they are currently building is being built in Finland.

I understand they want work, but the work we're doing is being done in our yard, and we're finishing the ship, sir. I don't want to be rude about it, but it's troubling to me, so I'll just tell you that.

Thank you.

The Chair: Mr. Fisher, go ahead.

Mr. Darren Fisher (Dartmouth—Cole Harbour, Lib.): Thank you, Mr. Chair.

Thanks, folks, for being here. We appreciate your input and your level of expertise.

For full disclosure, Irving is a big employer in my riding. I was happy to tour the assembly hall a couple of times, and I was thrilled to see steel being cut in Dartmouth and Burnside industrial park.

Mr. Whitworth, you spoke a bit about your capacity, so I'm going to ask Irving about room for growth. Let's go out on a limb and say that you got some of the in-service support contracts. Would that mean more jobs in Nova Scotia, or is the repair and the support a different process from the actual shipbuilding? Is it a massive change, or do you have the same skill sets in your yard?

Mr. Kevin McCoy: Thank you for that question.

Today we are doing both, and doing them quite well. We have two ships under construction, the first Arctic patrol ships in our new, modernized facility, and right in the same.... You can throw a baseball to the dry dock, where we have a Halifax-class frigate. We ramped up and started the construction on a Harry DeWolf-class ship at the same time. We typically had two of the frigates in the shipyard.

What is very important for us is that new construction has trade peaks and valleys and repair has trade peaks and valleys. Typically, when you put them together, you can manage if you have a critical mass of work to do that.

Right now, we have about 300 people—mechanics, engineers, and logisticians—who work in Halifax-class maintenance and in-service support. If we didn't continue to get that, that would be 300 people fewer. Those skills, knowledge, and abilities would have to transfer to some other part of the country. Along with it would come the loss of supporting overhead. It would also degrade that critical mass of workers so that when we have those trade imbalances, we would be forced to take more drastic action than we typically do now, which would be that we would have to move workers back and forth all the time between repair and new construction in order to smooth out those balances.

Today we're doing it. We're doing it quite well. We just finished seven of seven Halifax-class mid-life upgrades, on time and under budget. It's an integral part of our business that we manage.

Mr. Darren Fisher: Then skill sets aren't so specific that you can't move people around for different jobs within the yard.

•(1645)

Mr. Kevin McCoy: We move them routinely. Yes, sir.

Mr. Darren Fisher: It makes me think about all your training, all the courses at NSCC. Could you tell me a little bit about the ramp-up you needed to get some of these trained people? I understand you're working closely with NSCC.

Mr. Kevin McCoy: We work very closely with NSCC. We built a training program that's available to the entire industry. I call it shipbuilding 101. It was a five- to six-week course that was run by the NSCC. We paid them the tuition to do that. We put 500 of our workers through it to make sure they were up to speed on all the modern shipbuilding techniques and processes, including modern unit construction and blueprint reading.

Then there was a three- to four-week practical factor that everybody had to pass. If you were an ironworker, you had to assemble a tank. If you were a welder, we gave you a certain amount of welding to do in different configurations and with different processes in a certain period of time. An electrician had to do wiring, and for pipefitters there was something similar. We worked with the Nova Scotia Community College and got about 500 of our people those modern skills to make sure they were ready to construct a ship.

On top of that, on the first floor of our massive facility, we have a 17-booth welding school. We have the Canadian Welding Bureau right in there, and we bring in Canadians who don't have full journeyman certification and give them the training and the certifications right there. We knew we would have to work with Canadians to get them these jobs, because a lot of them didn't have all those skills. We also have a full training centre in that facility for electricians and tank-testers and pipefitters and ironworkers. We think we're set up for the long haul.

The certainty of the 30-year shipbuilding contract that was run with this national shipbuilding strategy gives us the ability to invest this kind of money and talent into training, which we were never able to do before.

Mr. Darren Fisher: Do I have time?

The Chair: You're out of time. Sorry.

I'm going to turn the floor over to Mr. Bezan.

Mr. James Bezan (Selkirk—Interlake—Eastman, CPC): Thank you, Mr. Chair.

I want to thank our witnesses for being here.

Also, thank you for the time that you've taken with us in the past, for those of us who have been able to tour through both the Vancouver shipyard and the Halifax shipyard. It's truly impressive to get into those big facilities and see how you build those ships.

I'm trying to get a handle on the time frame here. Mr. Whitworth, you're talking about where we are with the science vessels. You're starting number three tomorrow, but you still have to get them all completely kitted out before we throw them in the water. When are you going to start building on the first joint supply ship?

Mr. Jonathan Whitworth: We are currently in build contract for the OFSVs. That's why we have definitive dates. It will be 2017 for the first vessel, and the other two should be in 2018. We don't have a definitive build contract on the joint support ships yet, but that should be started sometime in late 2018.

Mr. James Bezan: If you did get going on cutting steel in 2018, how long would it be until we would get the first one into the water?

Mr. Jonathan Whitworth: You're looking at, I believe, 2021.

Mr. James Bezan: These are very big ships.

Mr. Jonathan Whitworth: These will actually be the largest ships ever built in western Canada.

Mr. James Bezan: Then as we look at the Arctic and offshore Harry DeWolf class, Admiral McCoy, we already have the first two in the queue, rolling off the back end here pretty quickly. The first one will be in the water in 2018. Are you still on time for them?

Mr. Kevin McCoy: Yes. We expect to deliver the first one by the end of 2018.

Mr. James Bezan: When is the last one going to come out, then, through the production cycle?

Mr. Kevin McCoy: It will be in the summer of 2022, sir, but we will start ramping down on the front end of the process. For example, the shipbuilders who cut steel will start running out of work at the end of 2019.

Mr. James Bezan: The goal is to try to have the surface combatant design selected and coming into the chain right about then.

Mr. Kevin McCoy: Yes, but we know from the timeline that there's going to be a gap, and so we're in active discussions with the government on how best to mitigate that gap.

Mr. James Bezan: You have no idea on the time frame, how long that gap will be, or how many people you're going to have to lay off?

Mr. Kevin McCoy: This goes back to the discussion we were having earlier about the speed of decision-making and getting through making those hard decisions, once we pick the ship, as to how much we are going to change and what we're going to keep the same and all of that. That's why we're very concerned about the speed of decision-making and keeping things going. We already know that in the best-case scenario, there's going to be a gap of probably about 18 months that we're going to have to mitigate. If we don't have the speed in decision-making, that gap will grow.

Mr. James Bezan: A number of witnesses we have had here have talked about the future of the Royal Canadian Navy. We've talked about that future surface combatant, whether it's a frigate or something of a hybrid between a destroyer and a frigate. Are we going to be looking at just one class of ship, or is there going to be an ability to change the modules on the basic ship so that we can adapt to new and emerging threats?

• (1650)

Mr. Kevin McCoy: Right now we're looking at a single platform. Some ships may get an upgrade in certain areas, and that's certainly doable. That's really up to the Canadian navy.

I will tell you that in just about every combatant program in the world, surface ships, submarines, or whatever are built today with what we call "open architecture", so that as the threat emerges, you're making software changes. Very rarely are you changing major hardware, such as launchers, torpedo tubes, and things like that, or even changing out radar arrays wholesale. It's really more in the signal processing to follow the threats through life. I would expect these ships to be what I would call "spiral upgradable" as threats progress over time.

Mr. James Bezan: To go back to Mr. Irving's comments about the timeline and that shipyards are sitting in limbo and going broke, I'm glad to see that it was our previous government that made the decision, and it had all-party buy-in. I think we're getting closer to a point where we can put partisanship aside when it comes to things as important as the protection of the sovereignty of our country and ensuring that we do have the industrial complex there to support our military, whether it's on the sea, in the air, or on the land.

I just want to thank all of you for the role you're playing, for the jobs you're creating, and for stimulating economies in your neighbourhoods. At the same time, I want to encourage you to look at trying to spread that wealth as much as you can through the industrial and technical benefits as well as through partnerships that you can create.

The Chair: Mr. Ellis, you have the floor.

Mr. Neil Ellis (Bay of Quinte, Lib.): Thank you.

It's been great listening to you both today. I apologize that I haven't been to your shipbuilding yards, but maybe I can make it some day. I did have the pleasure of visiting the largest shipyard in the world, and I believe it still is the largest. It is the Hyundai shipyard in South Korea. I believe they employ probably around 20,000 to 24,000 people.

I look at Hyundai, a corporation, and I believe their yard is probably in the 40- to 45-year range and booming worldwide. I look at both your companies, and you've been here for 100 years and hanging on to shoestrings, I guess, until these last few years. With

regard to technology and upgrades, at the Hyundai yard I saw their core business and the spread-off from the shipbuilding. We talked about other businesses and small business in general. It's about cyclical risks, and the ups and downs.

Jonathan, you mentioned other ship businesses and repairs that you're going to get into. Can you elaborate on that strategy? When you answered that question, you talked about when your capacity gap comes. Maybe I didn't hear it correctly, but wouldn't that strategy be kind of laid out right now?

To the Irvings as well, yes, this is a great thing to happen, but are there other businesses you're going to get into?

I'll throw out a second question. It's great to support small businesses, but you mentioned the idea of spreading the ships over Canada and not all the ship companies making it. These ships are to be built over the long term, and obviously will sometimes deal with bigger companies, but what are the pitfalls and risks of dealing with small businesses, with the cyclical risks they have, such that you can ensure the quality control in those small businesses and ensure that their risk is taken care of and they're not put out of business due to large corporations?

I'll just open it up to you.

Mr. Jonathan Whitworth: I think there were three questions. I'll see if I can get to them.

On the first one, it's interesting that you talk about Hyundai. It is an amazing facility. In previous lives I've actually built ships in Hyundai as well as some of the other Korean shipyards. Also, ironically, they are absolutely getting killed. You talked about business being cyclical. Right now the Chinese, Korean, and Japanese yards are having tremendous difficulties. I believe Hyundai alone lost \$2 billion U.S. last year. Cycles come and go, and right now they're in the trough of one.

What we talk about is if, God forbid, you get to those troughs, how do you fill them? As for the capacity gap that I was talking about, there are two. There's a short-term gap when we'll have maybe 10 months in between the OFSVs—the ocean fisheries—and the OOSVs. That we'll figure out. There'll be something to close that gap. The capacity beyond the first seven ships is still a point of discussion between us and the Canadian Coast Guard, because it's going to be that natural tension between operations that want all the ships now and the shipyards that want to stretch them out to have a continuous flow of work.

If the work is stretched out, the whole concept that we were hoping and looking for was about, say, 50% to 60% federal work and 40% to 50% commercial work. That's what we were going to hope for once we got through the first seven ships. The first seven ships will really keep us busy. Looking at the long term is exciting to us, because now we can leverage off the federal government contract but not be solely dependent on it.

I mentioned BC Ferries, a large fleet in our backyard. Seaspan, as part of our other operations, is one of the largest vessel operators in Canada, so we could be building vessels there. We have been contacted by other foreign countries, and we know that there's now something that could actually be traded, perhaps sugar cane from Brazil, in return for vessels that we could build for them, and things like that. It can be a trading chip that Canada gets to use that, quite frankly, didn't exist up until five or six years ago.

Regarding pitfalls and risks of small and medium-sized enterprises, that's spot-on. It is a real issue and concern and one we work with them on very closely. We understand that if they're normally producing 100 widgets a week, and now we're going to ask them to go to 2,000, we've really increased their revenue and hopefully profitability, but two things arise: one, can they handle it? Two, if they can't handle it, what does that do to our schedule? I dare say we have had some problems with that aspect.

What we're doing is we're learning, as I'm sure the Irvings are as well. You're teaching your own employees and business how to grow to this new contract, and you're also doing it with your vendors, especially the small and medium-sized enterprises. I will say the vast majority of them are coming up that curve. To some of them we've unfortunately had to say, "You know what? Maybe you just can't handle this", and we've moved on efficiently to somebody else.

• (1655)

Mr. Neil Ellis: I guess I'll just add a quick question. What about—

The Chair: Actually, I'm going to have to cut you off there. A lot of times they go back, so maybe they'll ask that question later.

Ms. Blaney, you have the floor.

Ms. Rachel Blaney: Thank you so much.

I would like to give you an opportunity, Mr. Whitworth, to talk a little bit about what's happening in terms of recruitment, in terms of how you're training people, and how that's going. We know the reality in Canada is that we have a large aging population and that getting people with high-level skills can be a challenge. I just want to hear a little bit more about how that's working for you.

Mr. Jonathan Whitworth: It's one of my favourite topics, because we have both the tradesmen's and tradeswomen's side, as well as the engineers and professionals we're bringing into the office.

On the trades side, we were always quite bullish in thinking and knowing that we were going to attract all these additional employees we needed, primarily because of lot of that steel or pipe or electrical work, to be honest with you, is no different out east, and a lot of those folks and skills had gone to Alberta.

We offered something different. You could be home every night. You could coach your kid in hockey. You weren't working in -20° weather. You weren't living in a man-camp. You weren't flying in

and out. You weren't gone for Christmas. It was all those kinds of things. We thought we had something different. Then the oil price dropped, and our cup runneth over.

Through our unions we get close to a thousand requests for jobs a month. We can't keep up with what is being required. Thanks to the local supply of talented trades, we've dramatically changed the makeup of our tradesmen and tradeswomen. To be honest with you, in 2009, it was tradesmen. There weren't a lot of women in the trades, first because they were not attracted to it and second because employers didn't do the right things to pull females into the trades. We've been very active in that. We just did a \$300,000 scholarship that was sent to Camosun College to solely focus on females in trades. We also gave \$300,000 to BCIT to focus on aboriginals in trades, because that was another segment that has been missing in this component.

As we grow, we want to change the makeup of shipyarding from what it looked like in the past. We've dramatically lowered the average age, and now you will see not quite the same makeup of what you used to see in the past.

I'd like to refer to the engineering and professional staff, as we're producing a lot of new Canadians. When you go 30 years without producing large, complex ships, the people who worked in that area have either retired or unfortunately passed away, so we have gone worldwide. I know Irving Shipbuilding has been very efficient at this as well, and we've picked some of the best shipbuilders from around the world. We brought them here with their families and established and started them.

The federal government, by the way, as well as our provincial government, has done an outstanding job of helping us with immigration and bringing the right people in at the right time. That's what's grown our force in the engineering staff.

At the same time, we just created a \$2-million investment in UBC's naval architecture and marine engineering group. The current need was too desperate. We had to get these people. The future shipbuilders are going to be homegrown as well, and we're going to help them do that.

• (1700)

Ms. Rachel Blaney: That's amazing.

The Chair: It's time to circle back, so that ends the formal questions, but we've got some time left, so we'll start with five-minute questions for all three parties.

We'll start with Mr. Spengemann, and then Mr. Bezan, and then we'll come back to you, Ms. Blaney.

Mr. Spengemann, you have the floor.

Mr. Sven Spengemann: Thank you very much, Mr. Chair, for an opportunity to follow up.

I have two questions, two separate areas. First, where is the level of automation in the yard at the moment? Have we plateaued? Are there any paradigm shifts further down the pipe in automation? What will that do to the workforce? If you look back 20 years, what did it look like then compared to now?

Mr. James D. Irving: Do you want me to give you the technical answer? My answer is that I don't think we could spend any more money to get any better. We spent a bundle to get it right, so, Kevin...

Mr. Kevin McCoy: Thank you. The boss answered the question, but let me follow up.

Mr. James D. Irving: You've got a tough job dealing with me.

Mr. Kevin McCoy: Let's just start with the ship design.

The ship design is in the most modern, three-dimensional tool, the same one the Koreans use. In all the dimensions for steel cutting, for example, we don't fat-finger anything. It comes through the model, through some middleware, through our machines, and cuts the steel plate to within a millimetre of accuracy. It's the same for pipe bending, and the same for trimming and cutting holes for pipes and cables and things like that. There's a very high level of automation.

As a matter of fact, when we were having some issues with it and we asked the software vendor about the rest of the world, they told us that here at Irving Shipbuilding their software was being used to the greatest degree of automation in the world, which was an eye-opener for us.

We've invested heavily not only in the base software, but even in logistics. We've got thousands of little pieces that have to get cut out of steel, and to move those efficiently around the shipyard and know where they are and when they're done, we just implemented bar-coding throughout the shipyard. We understand where everything is at the right time and we can track everything from the supply chain, and we're even looking right now at RFID tracking of valves and pieces of pipe and things like that throughout the shipyard.

I think we're heavily investing in that where it makes sense and will reduce the costs, and we're looking toward the Canadian surface combatant, which has a degree of complexity beyond what we're dealing with here, so we're looking to the future with technology.

Mr. Sven Spengemann: Is it fair to say, then, if you're saying you have 2,500 people doing physical labour on a ship, that that's going to stay at that level for the foreseeable future and there isn't going to be a breakthrough where you're going to drop that workforce by 50%?

Mr. Kevin McCoy: Right now, all of our labour projections say around 2,000 to 2,500. We're at about 2,500 and steady.

Mr. Sven Spengemann: Okay.

Mr. James D. Irving: Excuse me, and just to finish what Kevin was saying, not only do we have RFID tags on our equipment, but all of our employees in the yard have an RFID tag. We know where all of the employees are in the yard, for a couple of reasons. Safety is number one. These are complex areas. They're tight. They're difficult spaces to work in, so we track everybody. There's an emergency button that they can press if they have a medical problem.

Also, from a productivity point of view, we know that the payroll costs a lot every hour, so we want to know where everybody is. Are

they on the job, or are they not on the job? Is the supervisor managing the job properly? We're learning that, and we've had good co-operation with the union on that. They've been good partners, which is a big step change in the labour movement, as you can imagine. We're determined to be productive.

Mr. Sven Spengemann: Thanks for that.

I have a quick second question, Mr. Chair.

You talked about reducing the overhead federal-commercial mix. Another way to look at it is the domestic versus international mix. What does the international market look like—I'm looking at the Halifax-class upgrade on the service side, but potentially other work—and where do you draw the balance between potentially overfilling your books and having excess capacity?

• (1705)

Mr. Jonathan Whitworth: We actually have a great example of that working right now. We, as the west coast partners with Irving on the east coast and our other partner, Lockheed Martin, were very successful in doing the Halifax-class modification, the FELEX program. On the east coast, it was seven ships, and on the west coast, it was five ships. They were on time and under budget. It was a great program.

Thanks to that project, we were able, with our Lockheed partners, to go to New Zealand and successfully win a New Zealand combatant package, which we are going to be starting in Victoria this year. It is extremely rare for a country to export their defence contracts. Why did they do it? They were able to visit our shipyard in Victoria to see the HMCS *Calgary*, which had already been finished. They said, "Wow, that looks great." Then they went into the yard and saw the *Vancouver*, which was being ripped apart, and they were like, "Okay, this is how it works." Then they went on the *Regina*, which hadn't gone in yet, and they knew it was going to end up looking like the *Calgary*. It was a fantastic story, based on success and an ability to bring non-Canadian international work to our country. It's very rare, and an incredible success story.

Mr. Sven Spengemann: It's a new pathway to future work.

Mr. Jonathan Whitworth: You got it.

The Chair: That's awesome to hear.

Mr. Bezan is next.

Mr. James Bezan: I have one quick question, and then I want to give the rest of my time to Mr. Clarke.

You're saying there's that gap of 18 months from the time that we wrap up AOPS and hopefully are into the new surface combatants. That time lag wasn't there originally. What's the reasoning? Is it because of the change in the way we're tendering for the design for the surface combatants?

Mr. Kevin McCoy: It's due to delays in the program on the government side in understanding the requirements, getting the procurement strategy defined, getting the RFP out. It's just moved to the right.

Scott, do you want to chime in?

Mr. Scott Jamieson: I think that's absolutely right.

In a perfect world, the procurement strategy would have been announced several years before it was, and we would be moving forward. However, we are where we are, and that's what we're working towards.

Mr. James Bezan: I'll give the rest of my time to Mr. Clarke.

[*Translation*]

Mr. Alupa Clarke (Beauport—Limoilou, CPC): Thank you, Mr. Bezan.

Welcome, gentlemen.

During your presentations and your responses, you raised concerns about the shipyard industry, that is, how to keep them active and solvent in the long term. You also raised concerns about national defence and public safety. You said that you are proud and happy to be part of the defence of Canada and the security of our country and of Canadians.

What I'm interested in is icebreakers. I know they aren't included in the national shipbuilding strategy. But looking at the situation from a global perspective, icebreakers provide commercial security, if only for the St. Lawrence Seaway, which has traffic equalling \$2.4 billion annually. With direct and indirect spinoffs, this represents almost 5% of Canada's GDP.

Icebreakers also provide public safety, whether it involves ice backup in Quebec City or ice overflow in various major rivers, like the Saint John River in New Brunswick, or in Saint-Jean-sur-Richelieu in Quebec.

The St. Lawrence Economic Development Council, or SODES, in Quebec City, which is the chamber of commerce for all large shippers in the world that operate in Canada, the Government of Quebec, and a number of people I met over the holidays told me they feared that a crisis was imminent.

We have 14 icebreakers: six large and eight medium. The six large icebreakers used for transportation on the St. Lawrence Seaway are in a state of almost inactivity. The two largest are currently in dry dock for repairs, and the remaining four will likely be soon. There is a risk of a dramatic crisis in the Atlantic provinces, in Ontario and in Quebec.

Does that concern you? Are you concerned about that? What do you have to say to us about the potential crisis concerning icebreakers, which I think could create a long-term crisis in your industry?

• (1710)

[*English*]

Mr. Jonathan Whitworth: We are keenly aware of what is going on. Seaspan is not only a shipbuilder but also a vessel operator. I dare say I probably had lunch with some of the same people that shared their concerns with you about icebreakers on the St. Lawrence and in the Great Lakes.

As the non-combat shipbuilder for Canada, we were blessed with the delivery of any vessel that's over 1,000 gross tonnes. All icebreakers would fall under that category.

The timeline of vessels that need to be built and the operational requirement, which your constituents probably talked to you about,

don't necessarily match up. What we do know is that the Canadian Coast Guard is currently, as we speak, looking at what it is going to take to operationally keep some of the older vessels alive, have vessels built with Seaspan, and possibly look at interim solutions, as they're doing with the interim AOR.

[*Translation*]

Mr. Alupa Clarke: This brings me to my second question, Mr. Whitworth.

The polar icebreaker that you're about to begin building soon will be used to ensure our sovereignty in the Arctic, which is fantastic. In fact, that's why I became a Conservative 10 years ago. However, it won't be used to protect the commercial seaway in the south.

Your company and Irving will start building ships in 2017 or 2018—please forgive me if my dates aren't accurate. Irving will be done by 2040, and you will be done by 2030.

In this period of about 25 years, would you be able to enter into a contract to build six new icebreakers, based on your current capacity?

[*English*]

Mr. Jonathan Whitworth: Very much so, and this goes back again to what the Coast Guard is talking about with us, literally as we speak, and have been for the last six months, because the icebreaker issue didn't sneak up on us.

These vessels that are operating today are good vessels, but they're 30 and up to 40 years old. They need to be replaced. It goes back to the comment we unfortunately both said earlier: if you go three decades without building new ships, this is what we own. This is what we have to do.

Seaspan looks forward to building the ships we've been asked to build. If the Coast Guard deems that there are going to be interim solutions, we look forward to hearing what they are, hopefully helping or bidding on that. How the Coast Guard is going to fill that gap really is in the Coast Guard's hands right now, as well as how many vessels there will be for the St. Lawrence.

The Chair: That's your time.

Ms. Blaney, you have the floor.

Ms. Rachel Blaney: Thank you.

I'm very excited to hear that you're looking at building for BC Ferries. I think a lot of people in our communities will be very happy to hear that.

I have a question about how you're preparing for the construction of the RCN joint support ships. How is the training going and how are you preparing for that?

Mr. Jonathan Whitworth: Well, the good news from a shipbuilding perspective is that if you're working in one of our shops, you're building parts of a vessel almost like building with Lego pieces. To be honest with you, right now we are working on a vessel. In less than about four weeks, the entire vessel will be seen on our property. Stem to stern, top to bottom, it will look like a ship. Up until this point, it's been pieces of a vessel, which we build in blocks, that have been moving throughout our shipyard.

The reason I give that story is a lot of our employees working in a shop, putting a panel together, actually don't know if it's going into an OFSV or a joint support ship. Thankfully, shipbuilding is agnostic as to the type of ship that comes out the door.

For us, it's about building up, and similar to what we heard when Kevin was talking about training at schools, it's getting them comfortable and knowledgeable about how to build a ship. I mentioned earlier that we are seeing fantastic tradesmen and tradeswomen coming from Alberta, for example, with 10, 15, 20 years of experience. That's not shipbuilding experience, so we have to retrain them in some areas from their basic trade into a shipbuilding version of that trade—pipe, steel, electrical, whatever it is. Once we get that skill set ingrained, they're going to go to work and they're going to build beautiful ships, but in their portions of the building, they actually don't see anything different.

• (1715)

Ms. Rachel Blaney: Perfect.

Mr. Jonathan Whitworth: The key is that we're training them now. Regardless if it's a joint support ship or an icebreaker, they'll be doing the same work.

Ms. Rachel Blaney: One of the things we've heard a lot about is how both of you are working with local businesses and getting as much Canadian content as possible. I'd like to hear a couple of success stories of that, and also if you have any stories about how you're working with smaller yards to help you with the work that you're doing.

Mr. Kevin McCoy: I'll give you a couple of examples from the AOPS program. We have a local small business, Bluedrop associates. Bluedrop has a \$15-million contract to develop the 3D visualization of the training. They're really a world leader in this, a small company right in Halifax, and they are actually taking some of what they're putting together for the Arctic offshore patrol ship and that technology, and with the people they're hiring, they think they're going to be in a better position for export.

In my notes I talk about a Quebec company, Bronswerk, that is opening up two additional sites in Halifax and has about \$80 million's worth of contracts and people. We have a multi-mission rescue boat. Two of them will be on each AOPS. They're going to be built in Rosborough, Nova Scotia, about 20 to 30 kilometres from us—a great small boat company, a great opportunity for them. They're going to build 12 of these multi-role rescue vessels.

We're very much committed. As a matter of fact, our contracts have small and medium-enterprise goals that we have to satisfy for Industry Canada as part of the contracts. We work very closely, particularly with the small and medium-sized enterprises. We have things that are mundane—foundations, doorways, ladders—being manufactured in three or four different machine shops around Nova Scotia. They are good jobs and provide steady work that is keeping people employed. We think it's a good-news story.

Mr. James D. Irving: If you have the opportunity, I hope you do come and see us at the yard in Halifax. You will be able to see a vendor map of Canada on a screen, with every vendor on it, up to date.

We can lay the ridings on it right over that map, so everybody can have a good look at where the money is going and how it's getting

spent and what's happening. We're taking that responsibility very seriously. We really work hard at that; that's important, and we understand it.

Ms. Rachel Blaney: Thank you.

Mr. Jonathan Whitworth: We have a very similar story and we also have a map of where all the money is being spent across the country. Obviously it's migrating more east and west, with a little bit of central work. The central provinces don't see a lot of that because of the manufacturing they do, but it is coast to coast.

I think it was one of the gentlemen earlier who asked us to please make sure others are included. This is the great storyline here. The vast majority of the money that flows out is to these businesses across Canada.

Interestingly enough, we also just recently have brought Bronswerk on board, as well as another company in Quebec called Techsol. It does a lot of our electrical work, producing great products, and they are shipped to our door. Then, being where we are, we also have a lot of local vendors either on Vancouver Island or in Vancouver proper, such as Ideal Welders, which is producing hundreds and hundreds of pipe spools for us that we put into our vessels.

We have a list of probably 150 success stories like that.

Mr. James D. Irving: Just as a point of interest, when we built the frigate program in the 1980s and 1990s in Saint John, there was more money spent in Ontario and Quebec than there was in New Brunswick in Saint John. Ontario and Quebec were the big beneficiaries of that program at the time. I would expect that by the time this is all over, they will still be the big beneficiaries.

Ms. Rachel Blaney: Thank you.

The Chair: Ms. Alleslev is next.

Ms. Leona Alleslev: Thank you very much, you guys. It's clear that you are committed to delivering this program to a high standard, on time and on budget, as of course our government is as well.

I want to come back to project management. You highlighted the complexity of it, and the need for speed and quick decision-making. Could you share with us the roles and responsibilities between you and the crown? What recommendations do you have for the crown with regard to how this could be changed to support the process so as to ensure that our navy gets those ships as quickly as possible?

Mr. Scott Jamieson: There's a lot of detail we could go into around roles and responsibilities, but I think, fundamentally, the government is responsible for setting the requirements and the strategic direction of what we're doing. Decisions on the requirements, what they want out of these contracts, and what success looks like at the end is absolutely Canada's responsibility.

Our role and responsibility is to execute all this in the most cost-efficient, timely way that we can. We are very focused on that, and I think the government is focused on it, but the divestment of responsibilities across a number of departments sometimes isn't the best way to achieve speedy decision-making.

• (1720)

Ms. Leona Alleslev: What's the recommendation? How do we fix it? Come on, guys.

Mr. Kevin McCoy: What we've suggested to the crown is to look at the models used in the U.K. and the U.S. that have a single leader accountable for delivering the program within all the constraints. That was our suggestion to the crown.

Mr. Jonathan Whitworth: We did the same. A single point of accountability is very important. Actually, within our own shipyard we unfortunately can't build ships with masses of people all making a decision, so we have an SPA, a single point of accountability. From the government, we also find this would be helpful.

Ms. Leona Alleslev: Would it be safe to say that you're recommending a single point of contact across programs—that is, an integrated program rather than an individual stovepipe program?

Mr. Jonathan Whitworth: That's correct. We're a bit more complicated because we have two customers, two main customers, but that would be very helpful. There's acknowledgement from the crown that it would be something it would like to look at. It's not falling on deaf ears; it is something that would help both shipyards out immensely.

There is also the matter of the number of contracts. I mentioned that earlier. It slows down the process. It's all about speed. Kevin spoke eloquently about what kills speed. We have to increase speed when it's slowing down, and right now we could have up to 60 different contracts that need to be signed with the government in 2017. It's a lot.

Mr. Scott Jamieson: Could I add to the point you made about being integrated? That is incredibly important. We find that as you break it down to different programs, there's a tendency to want to micromanage individual contracts. A single point of accountability needs to have the responsibility for the strategy as well as for making the individual program successful.

The Chair: Thank you for that. I'm going to turn this over to Ms. Gallant.

Mrs. Cheryl Gallant: Thank you, Mr. Chairman.

What percentage of the workers in Halifax were recruited from outside Canada?

Mr. Kevin McCoy: People like me and my colleague Scott Jamieson represent less than 4% of the workforce. All the trades in the shipyard are Canadian. As Jonathan indicated, it is the same with Seaspan.

In order to get this business run right, there are people who need 20 years to 30 years of planning, engineering, project management, and supply chain experience. These people didn't exist in Canada, so we have gone out for a handful. It's small. About 4% of our workforce right now was recruited from outside of Canada. However, all of them are on a path to permanent residency with their families. Their kids are in school. Some of them are on a path to citizenship, and some have already been through the path to citizenship. We're committed to keeping this as a Canadian program, but we recognize that shipbuilding is an incredibly complex and talent-specific business, and we're relying on that handful of folks

from outside of Canada to mentor and train the next generation of Canadian shipbuilders.

Mrs. Cheryl Gallant: Thank you.

The Chair: Next we will go to Mr. Paul-Hus.

[*Translation*]

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

Gentlemen, could you explain what kind of relationship you have with BAE Systems? That company made a bid for the contract for the design of the warships. Now you are asking them to make a bid for the maintenance.

How do you manage the conflict-of-interest risk with BAE Systems?

[*English*]

Mr. Scott Jamieson: First of all, we need to understand the industry in Canada. It isn't a huge shipbuilding and defence industry. Most of the companies involved in the industry have worked together at some point in the past, or work together presently, or are likely to work together in the future. There is certainly nothing unusual or untoward about any arrangements we have in place.

However, to be responsible you have to put measures in place to make sure that there isn't any sense of injustice to anybody. With the surface combatant program, and with all of our dealings, we've put in place all the appropriate firewalls and protections to make sure everybody is treated fairly.

I think it's a result of the size of the industry, but we have dealt with it.

• (1725)

Mr. Kevin McCoy: Can I also add to that?

Ahead of time, we went to the Government of Canada in our role as the prime contractor for the Canadian surface combatant program. We explained what we were intending to do with one of the bidders from a joint venture basis, explained the protections we were going to implement and the firewalls we were going to put between the programs, and satisfied all of Canada's concerns.

[*Translation*]

Mr. Pierre Paul-Hus: Okay.

The primary goal of the naval strategy was to eliminate the political side of the industry and to ensure that public sector management was effective in selecting contracts.

Do you consider that the strategy works in this sense and that the political aspect no longer hinders the process?

[English]

Mr. Jonathan Whitworth: We were very fortunate when we saw the NSPS program unfold in 2010 and 2011, because we in industry were as skeptical as the rest of the country that it could be truly transparent and open and that no decisions would be made at the political level. In my career—and lifetime, actually—this process was the first time I'd ever seen that done successfully, so hats off to the government and the government of the time. As mentioned earlier, it was embraced by all parties, as it should be, because it's been a flagship program that's been held up around the world. I know other countries have looked at how the NSPS program was administered and said, "Why aren't we doing that?"

Therefore, yes, I think that clearly there's a way to do procurement, and it was done well in 2011.

Mr. Pierre Paul-Hus: That's it. Thank you.

The Chair: We learned a lot about shipbuilding today and at the last meeting as well. One thing I learned is that we have three great

shipbuilding companies in this country. If you include interim AOR and the work that you gentlemen are going to be doing, everyone has a role to play.

I'd like to return to something that Mr. Bezan said earlier and that Mr. Jamieson mentioned. It was about what could happen in the future, especially if we start to get more work from other countries, such as the upgrade to the frigate that we have, which I suspect might actually happen. Given the work we're going to be able to do, there might be an opportunity for you guys, including the company that's not here, to work together at some point. I would encourage everyone to come to the party, because at the end of the day, we want to make sure this thing delivers to the navy on time. If there's an opportunity to work together, I would encourage you all to do that.

Thank you very much for coming.

The meeting is adjourned.

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