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RESPONSE OF THE FEDERAL GOVERNMENT TO THE RECOMMENDATIONS OF THE CONSULTATIVE TASK FORCE ON THE CANADIAN SHIPBUILDING AND REPAIR INDUSTRY



Government
of Canada

Gouvernement
du Canada



INTRODUCTION

In February 1978, the first half-year report of the private sector consultations on measures to improve the performance of, and the outlook for the manufacturing, construction and services sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the private sector were established. Each task force had conducted a series of meetings and prepared a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of issues and the recommendations contained in them are viewed by the Federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Oversight Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and prepared a report which both to the industry and to the public.

RESPONSE OF THE FEDERAL GOVERNMENT
TO THE RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE
ON THE
CANADIAN SHIPBUILDING INDUSTRY

In reviewing the industry task force reports, the Oversight Committee has identified a number of key issues which are of particular importance and which might be viewed as providing a framework for the recommendations of industry and labour as well as the responses of the federal government. These issues focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of government, business and labour co-operation.

In assessing these reports, and the Government's response a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of industry and labour as well as the responses of the federal government. These issues focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of government, business and labour co-operation.

While the substance of what has emerged from the task force and Oversight Committee reports is of great importance, it is the view of the Government that the ongoing process of Government/private sector consultation is of equal value. In this regard, the Federal Government will continue to view the results of these consultations as a significant framework for evaluating existing policies and programs and for developing and implementing new ones.

INTRODUCTION

In February 1978, the First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, it is the view of the Government that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government has come to view the results of these consultations as a significant framework for evaluating existing policies and programs and for designing and implementing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. This document constitutes one of the 23 detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and government on specific industry sector problems are a vital part of this further work.

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The Consultative Task Force on Shipbuilding opened its report to the federal and provincial governments by stressing the importance of maintaining a strong domestic capability in the construction and repair of ships. It went on to state that, for a number of reasons, an efficient, profitable industry is essential for Canada.

In its report, the Task Force focussed on four main issues: the continuance of ship construction subsidy at the temporary rate of 20 per cent which has been in effect since March 1977, the advancement of government procurement, capital assistance in support of ship repair facilities and changes to shipping policy that would increase the requirement for Canadian built ships.

The Government has assessed these recommendations in the context of several basic facts. The most important of these is that although expectation of further export contracts is minimal, there is a significant domestic market that offers worthwhile opportunities to Canadian shipyards for commercial vessels, as well as for ferries, icebreakers and other ships required by the federal and provincial governments. Another, is that major naval contracts will soon be placed in Canada. Also, the volume of ship repair work done in Canada, already quite considerable, can be increased if dry docks are provided to handle the larger sizes of ships now trading into ports on both coasts. The market for ships to operate in the Canadian Arctic should also become significant during the next few years.

The present construction subsidy, paid to virtually every company building a commercial vessel in Canada, was an effective means of reducing Canadian prices to a level competitive with those of overseas shipbuilders. During the period 1971-1975, this subsidy enabled Canadian shipyards to obtain \$1.3 billion of export orders, in addition to a substantial volume of domestic orders. Now, however, the world situation has deteriorated to a point at which a more selective range of measures is required. Also, the construction subsidy, in its present form, has not proven successful in leading to any significant degree of rationalization in Canadian shipyards and as such does not fully address the concern of the Task Force for a more efficient industry.

The Government agrees with the objectives enunciated by the Task Force and recognizes the need to take constructive measures along the lines recommended by the Task Force. Accordingly, the ship construction subsidy will be maintained at the level of 20 per cent until December 31, 1979. In the meantime, the Government will open discussions with industry, the provinces and labour to work out details of new measures of assistance to achieve a more competitive, self-supporting shipbuilding industry.

In response to the recommendation concerning the advancement of government procurement, the Government has brought forward the following projects and has allocated \$35 million for them in fiscal 1979/80:

- replacement of the ferry Abegweit
- construction of an additional R-class icebreaker
- replacement of the fisheries patrol vessel Cygnus
- refit of the DND operation support vessel Preserver
- construction of seven search and rescue vessels

These measures will provide employment to well over 1,000 persons.

In response to the recommendations concerning repair facilities, the Government has agreed to provide funds for the following ship repair facilities, which should support 600-1000 jobs on a permanent basis:

- provision of a synchrolift at St. John's which will attract new repair business from Soviet and other foreign fishing fleets;
- financial participation in the lengthening of the graving dock at Saint John, to capture repair business that must now go to the United States or to Europe;
- financial participation in provision of a larger dry dock at Vancouver, to service the many foreign ships trading into that port.

These three projects will require up to \$35 million in fiscal year 1979/80. With the advance procurement detailed previously, they will require a total expenditure of up to \$172 million during the next three fiscal years. In addition, if the private sector approaches the Government with reasonable proposals, further funds may be made available to assist in the provision of new dry docks at Halifax and on the Great Lakes.

The Task Force recommendations concerning shipping policy were fully considered during the recent review of shipping policy. As announced by the Minister of Transport on January 24, 1979, the Government considers that new fiscal or financial measures to encourage the development of a deep-sea fleet are not warranted at this time. However, the Government has decided that resources exported from the Arctic should be shipped in vessels registered in Canada where those are available at reasonable cost.

The Government is aware that some recommendations such as those dealing with limiting coasting trade, introducing a scrap and build incentive program and increasing duty have not been adopted. It appreciates that these issues are still of major concern to the industry and would like to continue attempts to develop reasonable solutions. In this regard, the federal government continues to attach a high degree of importance to the consultative process itself and would like to maintain an open dialogue between management, labour and both levels of government on these matters.

The individual recommendations of the Task Force and the Government's response have been reproduced on the following pages.

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

1. Recommendation (4.5.2.1)

The Government's Shipbuilding Industry Assistance Program continue to offer assistance at the rate of 20 per cent for at least a further two years beyond its current expiry date.

Government Response (Agree in part)

The Government has extended the date limit for 20 per cent rate of subsidy until December 31, 1979. By that time the increased rate will have been in effect for almost three years.

By January 1, 1980, it is intended that a new and more effective program of assistance to the shipbuilding industry will be introduced.

2. Recommendation (4.3.3)

Government to consider raising the level of subsidy for ice strengthened vessels as an offset for the reduced need for government icebreaker services resulting from the use of such vessels.

Government Response (Agree in part)

As part of its shipping policy, the Government has decided that resources exported from the Arctic in unprocessed or partially processed form should be shipped in vessels registered in Canada where these are available at reasonable cost. The Minister of Transport has indicated the government's willingness to consider, on an ad hoc basis and on their merits, requests for special assistance in respect of vessels for use in the Arctic that would be both built and registered in Canada. It is, therefore, considered appropriate that no automatic special subsidy provisions be provided for the construction of Arctic class vessels, particularly since program instruments relating to research and innovation would be available.

3. Recommendation (4.3.2)

To increase domestic workload available to Canadian shipyards, all Arctic class vessels for natural resource transportation and exploration in Arctic regions should be built and registered in Canada.

Government Response (Agree in part)

As noted in the previous response, the Government has decided that resources exported from the Arctic should be shipped in vessels registered in Canada where these are available at reasonable cost. The Government will also consider, on an ad hoc basis and on their merits, requests for special assistance in respect of vessels for use in the Arctic that would be both built and registered in Canada.

4. Recommendation (4.2.1.1 and 4.2.1.2)

- In its review of deep-sea policy, the Government ensure that the economic benefits of Canadian built vessels are fully evaluated.
- Government pursue a policy of making possible a deep-sea fleet on a selective basis.

Government Response (Agree in part)

The Government has completed its review of deep-sea shipping policy and the results of this review were released by the Minister of Transport on January 24. The Government considered that new fiscal or financial measures to encourage the development of a deep-sea fleet are not warranted at this time. In reaching this decision, the Government took into account the economic benefits of having vessels built in Canada.

5. Recommendation (4.2.2.1)

The Canadian coasting trade should be limited to vessels of Canadian registry.

Government Response (Under review)

Coasting trade policy is currently under review in Transport Canada in the light of comments on the proposals put forward by the Minister of Transport in August 1977 and developments since that time. This review is expected to be completed later in the year.

6. Recommendation (4.4.1)

The Government to allow no relaxation of current coasting trade regulations as they apply to Great Lakes.

Government Response (Under review)

As noted above, the coasting trade policy is currently under review.

7. Recommendation (4.5.2.2)

Government accept the recommendations of the Joint Committee of Shipowners with regard to debt financing, lease financing, greater flexibility of capital cost allowance, tax deferral for vessel replacement purposes, market protection and protection from excessive technical requirements.

Government Response (Agree in part)

As noted in the response to recommendation 4, the Government has decided that new tax or financial incentives to encourage Canadian flag deep-sea shipping are not warranted at this time. However, as recently announced, investment in rail, air, water and long haul road transport now qualifies for the basic seven per cent investment tax credit. This and other elements of the policy announced by the Minister of Transport on January 24 represent a response to a number of the recommendations contained in the industry brief to the Minister. Other recommendations, such as those relating to the Great Lakes, and to technical requirements, are still under study.

8. Recommendation (4.5.3.1)

The Government seriously consider the introduction of a scrap and build incentive program.

Government Response (Under review)

Government will continue its examination of this recommendation in connection with an analysis of the situation on the Great Lakes in particular.

9. Recommendation (4.5.4.1)

That the procedures for admitting foreign built vessels to Canadian registry be revised by requiring that all such applications be submitted to an agency, committee or via a process of consultation, which would include input from the Department of Industry, Trade and Commerce, and that the criteria to be used for approval, should include not only an appraisal of the safety of the vessel, but an evaluation of the economic impact of the applicant vessel on Canadian shipping and Canadian related trade, as well as the industrial development impact on the Canadian shipbuilding industry. Ships over 10 years old should be prohibited from importation for use in the coasting trade.

Government Response (Agree in principle)

The question of importation of used ships is more complex than the Task Force report implies. The Department of Transport is, however, conscious of the economic implications of vessel importation and will, in consultation with the Department of Industry, Trade and Commerce and other departments, continue to monitor the situation from that point of view.

10. Recommendation (4.3.5, 4.5.4.2 and 4.2.2.2)

- The Government examine whether it is appropriate to classify drill ships as drilling equipment liable to 10 per cent duty, as distinct from the 25 per cent which normally applies to ships.
- All British Commonwealth ships which can currently enter Canada duty free should be subject to the 25 per cent duty applicable to other imports.

Government Response (Under review)

These two recommendations are currently under active consideration by Industry, Trade and Commerce and other departments.

11. Recommendation (4.2.3.1)

A mechanism should be established whereby Canadian suppliers of offshore exploration equipment be given more opportunity to compete with foreign suppliers of this type of equipment.

Government Response (Agree)

The Advisory Committee on Industrial Benefits from Natural Resources Development (ACIB) currently provides the requested "mechanism" in its review process. The Committee's terms of reference require it to hear presentations from companies undertaking projects on Canada lands and provide advice to interested departments on whether the industrial benefit objectives of the Government are being met. In addition, Bill C-20, the proposed Canada Oil and Gas Act contains Canadian content requirements. The associated regulations are currently being prepared. Bill C-25, the Northern Pipeline Act also contains specific Canadian content requirements. The ACIB contributes to both bills.

12. Recommendation (4.3.1)

Suitable long-term (10 to 15 years) industrial policy should be defined in relation to Arctic development so that all parties involved may be aware of the ultimate policy requirements and are able to take full advantage of long-term future.

Government Response (Agree)

Government policy with respect to the economic and social development of the North during the 1970's was announced in 1972, the announcement including a statement of national objectives, a strategy and priorities. Since then, a number of related announcements have been made which include policy on industrial development related to individual projects and areas of specific concern. A further development has been the establishment of the Advisory Committee on Industrial Benefits from Natural Resource Development whose concerns have been primarily with projects in the North.

Some examples of the foregoing would be:

- the announcement in 1974 of the Nanisivik Mines Ltd. Agreement concerning the development of Canada's first Arctic mine;
- the statement of Government policy about Canadian participation in Northern natural resources development made in 1975;
- the Government's decision to support the construction and operation of the world's first major Arctic Class 2 bulk carrier, the M.V. Arctic, announced in 1975;
- the decision in 1978 to lease the CCG John A. MacDonald to Dome Petroleum to support the company's oil and gas exploration efforts in the Beaufort Sea;
- the announcement in 1978 of the establishment of a new government laboratory, the Canadian Arctic and Marine Research Institute on the campus of Memorial University, St. John's, Newfoundland;
- the most recent announcement by the Minister of Transport (January 24, 1979) of the Government's shipping policy which has particular import for Arctic shipping.

13. Recommendation (4.5.7.1)

The federal and provincial governments including their agencies and Crown corporations procure all ships from Canadian shipyards.

Government Response (Agree)

It is federal government policy to have its agencies and Crown corporations give full consideration to bids from Canadian shipyards and to ensure that procurement is used effectively to promote industrial development as well as other socio-economic objectives consistent with Canada's international obligations. The federal government cannot respond on behalf of the provinces.

14. Recommendation (4.5.7.2)

In view of the serious lack of government shipyard work as projected by the federal government in its latest forecasts, government operating departments and agencies should advance procurement plans and obtain the necessary funding approvals.

Government Response (Agree)

The Government has brought forward procurement of a ferry to replace the Abegweit, a third "R" class icebreaker, patrol and search and rescue vessels and will undertake a major alteration of the naval supply vessel "Preserver". Up to \$35 million will be spent on these ships in fiscal 1979/80 alone. This is part of a package of \$172 million to be spent over the next three years for advanced procurement of government vessels and improved ship repair facilities.

15. Recommendation (4.5.8.1)

Government to maximize Canadian content in departmental and Crown corporation vessels.

Government Response (Agree)

It is federal government policy to ensure that Canadian content is used effectively to promote industrial development as well as other socio-economic objectives consistent with Canada's international obligations.

16. Recommendation (4.5.8.2)

Government to ensure maximum Canadian content in Canadian financed vessels.

Government Response (Agree)

It is a condition set out in every subsidy agreement that Canadian materials, components, equipment and services be used whenever available and competitive. Failure to comply with this requirement is penalized by reduction of subsidy.

17. Recommendation (4.5.8.3)

As much as possible, equipment for Arctic class vessels should be manufactured in Canada.

Government Response (Agree)

The practice, as discussed above, is to administer shipbuilding subsidy so as to maximize the Canadian content in Canadian built ships. In addition, industry is encouraged to manufacture equipment for incorporation into ships to replace otherwise imported equipment. These practices apply to all ships including Arctic class ships.

18. Recommendation (4.5.1.1)

The Government provide special capital assistance leading to ongoing unsubsidized business in the deep-sea repair work.

Government Response (Agree)

This is presently the subject of active consideration by Government. An agreement to provide capital assistance to Burrard Yarrow Corporation, Vancouver, B.C. has been finalized. Offers to provide assistance have been made to Saint John Shipbuilding and Dry Dock Company Ltd., Saint John, N.B., and to Newfoundland Dockyard, St. John's, Newfoundland. (Assistance in improving repair facilities represent a substantial part of the \$172 million to be spent during the next three years).

In addition, further funds may be made available to assist in the provision of new dry docks at Halifax and on the Great Lakes.

19. Recommendation (4.4.2)

Immediate action to consider Government assistance in response to proposals by Great Lakes yards regarding facilities for the construction and maintenance of 1,100 foot vessels.

Government Response (Agree)

This matter is the subject of discussion with the Province of Ontario and will be actively considered after formal proposals have been received from the companies seeking assistance. The new program to be introduced in January 1980 is aimed at providing assistance to projects of this type where it seems justified.

20. Recommendation (4.3.4)

Immediate action be taken to consider Government assistance in response to proposals by some yards regarding facilities for the construction and repair of large Arctic vessels.

Government Response (Agree)

Action has been taken on specific proposals as detailed in the response to recommendation 18 and will be taken in response to specific additional requests. More generally, the performance improvements provisions of the Shipbuilding Industry Assistance Regulations, which provide a three per cent productivity improvement payment, are applicable. After January 1, 1980, special forms of assistance will become available under the proposed new program.

21. Recommendation (4.5.6.1)

Government incentive to further R&D both through direct programs and tax incentives are important and must continue, with particular priorities being R&D related to Arctic shipping design, fishing vessels and 1,000 foot lakers.

Government Response (Agree)

The Government recently announced an expansion of federal financial programs to help Canadian industry meet the world trading competition of the 1980's. Included were a number of changes designed to encourage R&D by industry. In the November 1978 budget, additional incentives were provided through income tax legislation changes. These changes included the application of the basic seven per cent investment tax credit to water transport.

As part of the revised shipping policy, the Government has agreed that the Marine Research and Development Advisory Board of Transport Canada should monitor technological changes in the shipping industry.

It should be noted that the Government has contributed substantially to construction and operational costs of the Arctic prototype vessel, the MV Arctic; to research on the new Canadian patrol frigates, R-class icebreakers, etc.

22. Recommendation (4.5.6.2)

In their consideration of proposals to expand or initiate new R&D facilities, including towing tanks, the federal and provincial governments should take into consideration existing facilities, the demand for services, and the potential benefits which may accrue from having research facilities located in close proximity to centres of learning related to the maritime industries.

Government Response (Agree)

This is being done and action is being taken through the Ministry of State for Science and Technology to ensure that government's assessment of proposals is comprehensive and coordinated.

23. Recommendation (4.1.1, 4.1.2, 4.1.3)

- In its review of fishing policy, Government ensure that maximum opportunity be afforded the Canadian shipbuilding industry to participate in the full economic benefits afforded by the 200 mile limit, including support at a level which maintains the competitive position of the Canadian shipbuilder.

- Government continue the subsidy to the shipbuilder of fishing vessels over 75 feet in length at the current rate of 20 per cent but recognize that a supplementary subsidy rate may be necessary as part of its assistance to the fishing industry.
- Government not issue fishing licenses for the use of used foreign built vessels imported without payment of duty, with the possible exception of novel types of vessels imported to test new fishing techniques.

Government Response (Under review)

These recommendations are under active consideration by the Department of Fisheries and Environment. A definitive response must await development of a broad policy framework for fisheries development in relation to the new economic opportunities in that sector.

24. Recommendation (4.5.5.1)

That the personnel section of the Canadian Shipbuilding and Repair Association, in conjunction with the Departments of Industry, Trade and Commerce, Manpower and Immigration, Labour, and with representatives from provincial governments and trade unions, address appendix 2 of the report and develop from it an action plan for a policy with respect to the training and development needs of the Canadian shipbuilding industry.

Government Response (Agree)

The recommended action including the 10 specific recommendations in Appendix 2 of the report, has taken place and a report has been made to the Canadian Shipbuilding and Ship Repairing Association who will take further action and work in association with Industry, Trade and Commerce and the Canadian Employment and Immigration Commission.

25. Recommendation (4.5.9)

The Department of Industry, Trade and Commerce to organize a continuation of a sector committee for the shipbuilding industry, to include labour and provincial government membership.

Government Response (Agree)

This will be done.

LIST OF PARTICIPANTS IN CONSULTATIVE TASK FORCE
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