

Stay the Course: Royal Canadian Navy Recapitalization and the National Shipbuilding Strategy

House of Commons Standing Committee on National Defence

Remarks

November 29th, 2016 11:00, Ottawa, Ontario

Check Against Delivery

Good morning and thank you for inviting me to speak to you today. In my opening remarks, I would like to give you a Canadian defence industry perspective on the recapitalization of the Royal Canadian Navy and Canadian Coast Guard.

Six years ago the government unveiled the National Shipbuilding Procurement Strategy, now called the National Shipbuilding Strategy or NSS. The core principle of the NSS is that this historically large recapitalization of the Royal Canadian Navy and Coast Guard will be carried out in Canada. The objectives behind the principle are twofold. First, to bring predictability to federal vessel procurement. Second, to end the boom and bust cycles that have characterized Canadian shipbuilding in the past. Together the result can be a sustainable, long-term shipbuilding plan that benefits Canadians and the Canadian marine industry.

CADSI fully supports the principle and the objectives of the NSS.

One of the strengths of the NSS is that--from day one--it received strong all party support in Parliament. I would say this is because it is a common sense proposition. Spending tens of billions of tax-payers dollars over two or three decades on recapitalizing the navy and coast guard presents a rare and achievable opportunity. The opportunity is to revitalize the Canadian shipbuilding industry, increasing high wage employment throughout the country and bolstering innovation.

Moreover, at a time when the federal government is trying to jump start the Canadian economy out of its slow growth rut, the projects that comprise the NSS are poised to have some significant short and medium run economic impact, effectively functioning not unlike the infrastructure stimulus that the current Government is investing in.

ISED has an economic model for the marine industry based on established Statistics Canada Input-Output multipliers. On average, one million dollars of signed NSS contracts contributes \$1.3 million of GDP and 14.5 jobs to the Canadian economy. For NSS' large vessels portion that equates, based on contracts to date, to nearly \$4.4 billion to GDP and up to 5,500 jobs created or maintained per year between 2012 and 2022. When you consider that one government estimate of the total cost of the large-ship construction program over 25 years is more than \$111 billion--that includes capital, personnel, operations, in-service support and maintenance costs--you can see how the overall economic impact of NSS will be significant.

Finally, it is worth mentioning that Canada is a G-7 country, and every G-7 country has a significant domestic naval shipbuilding industry--some of which will be actively bidding on the design and build of the Canadian Surface Combatant.

If you hear someone trying to convince you that they can offer an "alternative approach" to the NSS, that Canada's industrial benefits requirements should be relaxed, then it is very likely too good to be true. This is one of those very few industries that is seen as truly strategic and vital to the economies, if not the national defences, of the world's leading countries.

That said, there are those who argue that Canada should be recapitalizing the RCN by buying off shore and "off the shelf". They would say that Canada has no business in naval shipbuilding because we don't do this well.

This claim does not hold water.

Canada has a long and impressive history in naval shipbuilding. The last two major Canadian naval vessel procurements--the Iroquois class destroyer program of the 1960s and early 1970s, and the Halifax Class Frigate program of the 1980s and early 1990s--were carried out in this country at Canadian shipyards and by the Canadian marine industry. I know you have recently heard about the success of the recent modernization of the Halifax Class Frigate program. This was due, in part, to Canada's marine industries.

Then, as now, there were controversies over these programs, particularly over the frigates, chiefly with respect to cost, schedule and the ability of Canadian industry to deliver. Sound familiar? Yet in the final analysis Canadian industry delivered an impressive capability with the Halifax class that has served Canada and the RCN well for a quarter century and has led to significant exports of components and technologies developed right here.

In fact, Canada has proven to be very capable at military shipbuilding in the past, and we can be again if we have the resolve to stay the course with the NSS and have the right perspective.

We should also not allow ourselves to be seduced by the "off the shelf" bumper sticker. Our well established military buying pattern tells us that in Canada there is really no such thing as acquiring complex platforms off the shelf. These so-called off the shelf solutions are frequently altered--often significantly--through multiple "change orders" to meet unique Canadian needs and requirements. We should therefore be building the industry in this country to satisfy those unique needs, as our allies do.

The fixation over the last couple of years, as the NSS has gotten going, has been on "cutting steel", or to be more precise, the work on the hulls of these vessels. This is the really visible part of naval shipbuilding. And it is being carried out on both the east and west coasts. This will create jobs and growth. Approximately 17 per cent of total defence sector employment was located in Atlantic Canada in 2014, even before the work of NSS began. That number will grow significantly in the coming years.

While cutting steel is obviously important and valuable work, we also need to consider that the hull typically accounts for only about 35 per cent of the cost of a warship. Fifty per cent of the value is in the platform and mission systems, and another roughly 15 per cent is in design and systems integration. These jobs pay on average 60 per cent more than the average manufacturing wage. These are the jobs that employ high wage engineers, technicians and technologists which make up 30 per cent of the defence industry's workforce.

According to studies on the Canadian marine industrial base carried out by Innovation, Science and

Economic Development Canada and Statistics Canada, Canada has significant capability in some of these other areas of shipbuilding, such as naval shipborne mission systems and components, maintenance, repair and overhaul, and simulation. And our strength in these capabilities is in part a legacy of previous naval vessel construction in this country.

Let us not lose sight of the possibilities to drive innovation, high wage employment and exports in the less visible, yet more valuable, part of naval recapitalization. The initial acquisition phase of a contract is a smaller proportion of costs than the lifecycle costs that include the mid-life upgrades, technology insertions, and long-term supportability. It is in these that Canadian industry can achieve the greatest return on investment. If we lose sight of this potential because "cutting steel for 15 ships" is our only focus, we will have missed the opportunity of a generation.

For our part, CADSI is actively engaged with ISED on research on the Canadian marine industrial base. This work will improve the government's and industry's understanding of what leading edge marine capability exists in Canada. This helps ensure that capable Canadian companies get a fair shake on the systems, systems integration and other future work.

Finally, I would like to say a few words on budgeting. The recapitalization of the RCN has been estimated to cost approximately \$30 billion over 20 years. But it is now conventional wisdom that those initial estimates, conducted in good faith years ago, are in need of upward adjustments. Warship inflation alone--which runs at nine to 11 per cent in the US--has increased those numbers substantially. Furthermore, as any business person knows, the real costs of programs this complex become clear only when you get close to design and build, which we are only getting to now. This is not unique to Canada.

Going forward, the government needs to be flexible in general to adjust cost estimates over time as assumptions alter due to changing variables. Neither industry nor government have much if any control over the price of steel, foreign exchange rates, other input costs, and technological advancement. These costs will have changed since the outset of the project.

In conclusion, as a country that has some 58,000 kilometers of mainland coast on three oceans, a significant continental shelf, plus new challenges to its sovereignty in the Arctic, having a first rate Navy should be considered bread and butter. Canada should also be firmly committed to having a permanent and sustainable domestic naval shipbuilding industry, as do all of our G-7 partners. The NSS, while far from perfect, provides a roadmap to that end state, and we should stick to it. It is a time for us to be bold, not nervous. It is time to be resolute in the face of the challenges we will confront, not afraid of the decisions we will need to make.

Thank you for inviting me to appear before your committee today.