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POLICY PERSPECTIVE

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As the fall 2019 federal election approaches, Canadians need to once again prepare themselves for party platforms, election promises, criticism of the opponents' party platforms – often unsubstantiated and lacking in evidence – and multiple self-interest groups with a view on a particular issue. This is a normal environment for Canadian elections and unless something significant occurs, defence and foreign policy are not likely to play a significant role in any party's campaign. Canadian elections are mostly about domestic issues and the economy. However, the government's recent announcements about changing the National Shipbuilding Strategy (NSS) and competing for a third shipyard may warrant some attention because of the domestic and economic context.¹ This is particularly true since some Canadians will view this as nothing more than a mechanism to award contracts to Davie Shipbuilding and get votes in Quebec. That may or may not be a fair assessment.

The intention of this policy perspective is to revisit why the NSS was created and examine if anything has changed that requires a third shipyard when the original analysis was that only two shipyards were needed. More pragmatically, is the addition of a third shipyard good economic policy or just pork barrel politics in an election year?

Background to the NSS

At the outset, it is prudent to remind the reader what the government of the day intended when it launched the NSS in June 2010 and why it chose the original two shipyards. On June 3, 2010, the Hon. Rona Ambrose, then-minister for Public Works and Government Services, announced that the government “made the decision to support the Canadian marine industry, to revitalize Canadian shipyards and to build ships for the Navy and Coast Guard here in Canada.”² Ambrose also said that: “The Strategy will bring predictability to federal ship procurement and eliminate cycles of boom and bust, providing benefits to the entire marine industry.”³

The critical issue in 2010 was a recognition that Canada needed to avoid the boom-and-bust cycle that has plagued Canadian shipbuilding in the past and create the circumstances for a viable, sustainable shipbuilding industry. Peter MacKay, then-minister of National Defence, said: “This strategic relationship with Canadian shipyards will help us deliver on our commitment to the Canada First Defence Strategy, and enable us to provide our Navy with the modern ships they need to defend Canada's interests at home and abroad,” while Gail Shea, then-minister of Fisheries and Oceans, said: “We are proud to support Canada's new shipbuilding strategy because it will create jobs and help stimulate our country's economy.” Shea added: “It will also give

¹ Note that the National Shipbuilding Strategy was originally referred to as the National Shipbuilding and Procurement Strategy. It will be referred to as the NSS throughout even though some references in the early years of the strategy refer to NSPS.

² Public Works and Government Services Canada (PWGSC), “Government of Canada Announces National Shipbuilding Procurement Strategy,” Press release, June 3, 2010. Available at <https://www.canada.ca/en/news/archive/2010/06/government-canada-announces-national-shipbuilding-procurement-strategy.html>.

³ Ibid.



Canada's Coast Guard the tools it needs to do its job.”⁴ It is important to note the emphasis on jobs and economic benefits as well as providing ships for National Defence and the coast guard. This was highlighted by Christian Paradis, then-minister of state for the Economic Development Agency of Canada for the Regions of Quebec, who said at the same press conference: “The strategy is about undertaking major ship procurements in a smarter, more effective way – a way that sustains Canadian jobs, strengthens the marine sector, and provides best value for Canadian taxpayers.”⁵

Much has been written about the strategy since its release, both positive and negative. For the purposes of this policy perspective, two issues are important. First, the strategy was about selecting shipyards to build ships for defence, the coast guard and other federal government departments and not actually about the cost of individual ships. Ship designs and costs were to be negotiated with the winning shipyards. Second, the strategy split the building of ships into three categories. One shipyard was to build combat vessels and the other shipyard was to build non-combat vessels. Critics often ignore the third category – smaller vessels to be built by other Canadian shipyards. The background as part of the press release was clear when it stated: “The construction of smaller vessels will be set aside for competitive procurement amongst other Canadian shipyards.” And most importantly, it said: “Under the strategy, the two shipyards selected for the construction of large ships and their affiliated companies will not be eligible to build any of the smaller vessels.”⁶

The issue of construction of smaller vessels is quite clear but the government then complicated it by awarding a contract to Davie Shipbuilding for the provision of an interim support ship for the Canadian Forces, clearly not a “smaller vessel”. The strategy split small and large vessels into those that were less than 1,000 tonnes in displacement and those that were more than 1,000 tonnes in displacement.⁷ However, it can be argued whether this was actually a ship construction or the refit of an existing ship, an issue that also allows for the selection of alternative shipyards. The strategy also said: “Future requirements for ship repair, refit and maintenance will be competed through publicly announced requests for proposals.”⁸ In this context, it is easy to justify having a third shipyard perform the refit of an existing ship to meet what many would consider an urgent requirement for the Royal Canadian Navy. Critics would likely question whether the refit was a refit or was in fact construction, based on the scale and scope of the work.

Canadians should not be surprised that other shipyards protested the government's decision. In testimony to the Senate Standing Committee on National Finance, Kevin McCoy, president of Irving Shipbuilding, said his company was “still waiting to find out why our \$220-million bid, to be delivered in one year, was bested by a \$660-million to \$700-million bid to be delivered in two

⁴ Ibid. The Canadian Coast Guard falls under the Department of Fisheries and Oceans in the government departmental structure.

⁵ Ibid.

⁶ Ibid.

⁷ Public Services and Procurement Canada (PSPC), “About the National Shipbuilding Strategy,” August 2019. Available at <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/mer-sea/sncn-nss/apropos-about-eng.html>

⁸ PWGSC, “Government of Canada Announces ...,” Available at <https://www.canada.ca/en/news/archive/2010/06/government-canada-announces-national-shipbuilding-procurement-strategy.html>



years.”⁹ The implication was that Irving should have been selected rather than Davie because it would have delivered more capability in less time for less money. The reader should not be surprised or concerned about this.

Executives from all three shipyards testified at the Senate committee hearings on March 20 and all three had issues with the government’s decisions. Davie argued that Canada needed “a second resolve-class replenishment ship to support the Atlantic and Pacific fleets. Canada has over 243,000 kilometres of coastline and, as the Senate said in 2017, we need four supply ships” and added that: “There is no contractual obligation to allocate all of the NSPS’s large-ship construction program contracts to the selected shipyards under the umbrella agreements.”¹⁰ That is not how the other shipyards would view the strategy but it does raise the issue of what changes were made between the release of the strategy and the selection of the two shipyards and the final umbrella agreements. Davie’s testimony implies that something has changed.

All the shipyard executives have businesses to run, shareholders to satisfy in some cases, and they naturally want the additional business. They also do not really want more competition from additional shipyards, but it appears that the government now wants three shipyards to be engaged. Does that mean the NSS is dead?

The situation in the summer of 2019

On May 22, 2019, Prime Minister Justin Trudeau announced major investments in the coast guard and said that a third shipyard was going to be added to the shipbuilding strategy. In addition to speaking specifically about 18 ships being built at the original two shipyards, Irving and Seaspan, Trudeau said: “To support future shipbuilding needs and attract more talent and good jobs to our communities, the Government of Canada intends to add a third Canadian shipyard as a partner under the NSS. The Government of Canada will move forward with a competitive process to select the third shipyard in the coming months.”¹¹

In the context of the demise of the NSS, two issues are critical in Trudeau’s statement. First, “to support future shipbuilding needs” does in fact open the door for the government to make the case that needs have changed since the original strategy was released in 2010 and that a third shipyard is now required. The press release says the government expects that: “These additional vessels will provide both shipyards with steady work over the next 2 decades and will help maximize production to ensure the timely delivery to the Canadian Coast Guard.”¹² Two decades may appear to Canadians to be a long time, but two decades is not three decades and three decades was the timeframe originally intended. The 2017 annual report on the NSS still speaks of “...

⁹ Senate of Canada, Senate Standing Committee on National Finance, Evidence, March 20, 2019. Available at <https://sencanada.ca/en/Content/SEN/Committee/421/nffn/54615-e>

¹⁰ Ibid.

¹¹ Justin Trudeau, Prime Minister of Canada, “Prime Minister Announces Renewal of Canadian Coast Guard Fleet,” Press release, May 22, 2019. Available at <https://pm.gc.ca/en/news/news-releases/2019/05/22/prime-minister-announces-renewal-canadian-coast-guard-fleet>

¹² PSPC, “Expanding Current National Shipbuilding Strategy Agreements,” 2019. Available at <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/mer-sea/sncn-nss/strengren-navale-eng.html>



Canada's 30-year plan to renew the fleets of the Royal Canadian Navy and the Canadian Coast Guard. The primary objectives of the Strategy are to equip the fleets of the Royal Canadian Navy and the Canadian Coast Guard in a timely and affordable manner, build a sustainable marine sector in Canada and maximize economic benefits for Canada, including job creation."¹³

The question that arises from the two decades versus three decades timeframe is whether or not that will lead to a bust in the shipbuilding industry after 20 years, which is what has happened in the past in Canada. More importantly, avoiding the boom-and-bust cycle was one of the main reasons for developing the NSS in 2010.

The second issue from Trudeau's statement is the intention to move forward with a competitive process. The government has started this process. On Aug. 2, 2019, the government issued its Invitation to Qualify (ITQ) for the third shipyard. The notice on the PSPC website indicates the ITQ is to "establish a short list of shipyards that demonstrate they meet the initial, defined requirements to build six program icebreakers for the Canadian Coast Guard. This includes experience, capability and capacity." It also states: "Interested suppliers have 15 days to respond to the ITQ."¹⁴ Those shipyards that qualify will then be invited to participate in the Request-for-Proposal and evaluation process that will be similar to that used for the original NSS.¹⁵

Much like the two-decades issue, this may appear to Canadians to be the appropriate and logical way to go about adding a third shipyard. Unfortunately, the government has created its own challenges around this issue. To some, this third shipyard decision is a façade to justify awarding contracts to Davie Shipbuilding. Media reports and ministerial statements have complicated the situation. In the media reports dealing with the government's July 16 announcement of frigate repair contracts to Davie and Seaspan shipyards, Jean-Yves Duclos, minister of Families, Children and Social Development, who made the announcement in Quebec on the government's behalf, says that "parts of the National Shipbuilding Strategy have been delayed 'because the Davie shipyard was excluded from the Conservative strategy for naval construction'." He adds that "this was an 'error' that was 'important to admit to' so that it could be more easily fixed."¹⁶ In a separate media report, Christian Paas-Lang of the Canadian Press writes that "a spokesperson for Davie said it is 'an open secret' the company will become part of the national program" and that "There is no doubt in our minds that we will be designated the third shipyard."¹⁷

Both of these media references call into question the notion of an open and transparent competition for shipyards in Canada. This is not to say that the government will not conduct an open and fair competition but the narrative suggests this is about a government providing jobs in

¹³ PSPC, *Canada's National Shipbuilding Strategy: 2017 Annual Report*, 2018. Available at <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/documents/rapport-report-2017C-eng.pdf> Note that the 2018 annual report available on the same website does not make the same observation.

¹⁴ PSPC, "Canada's National Shipbuilding Strategy Process to Add a Third Shipyard," Press release, Aug. 2, 2019. Available at <https://www.canada.ca/en/public-services-procurement/news/2019/08/canadas-national-shipbuilding-strategy-process-to-add-a-third-shipyard.html>

¹⁵ Ibid.

¹⁶ The Canadian Press, "\$1.5B in Frigate Repair Contracts Split among Yards in Three Provinces," CBC, July 16, 2019. Available at <https://www.cbc.ca/news/politics/davie-shipyard-seaspan-repair-1.5213626>

¹⁷ Christian Paas-Lang, The Canadian Press, "Canada Awards \$1.5B in Frigate Repair Contracts Split between Shipyards in Three Provinces," *The Star*, July 16, 2019. Available at <https://www.thestar.com/politics/federal/2019/07/16/ministers-jean-yves-duclos-and-carla-qualtrough-to-make-announcements-at-davie-seaspan-shipyards-today.html>



Quebec for election purposes rather than what it might want Canadians to believe. The above-mentioned CBC report also noted that Duclos won his riding by just under two percentage points in 2015. Again, the implication for Canadians is that the government is doing this to win or sustain votes. In an election year, it is not hard to support this narrative.

Not surprisingly, Seaspan has also voiced its concern about the establishment of a third shipyard. In its news release on May 22 dealing with the government's announcement of building coast guard ships at Seaspan, the company also stated that the announcement about a third shipyard was "an unexpected and disappointing development".¹⁸ Its news release went on to express the belief that "a third shipyard building large vessels in Canada will return us to the boom and bust cycles that defined previous federal shipbuilding programs", and that this "undermines the founding principles of the NSS that identified two shipyards as Canada's strategic partners and centres of excellence for federal shipbuilding".¹⁹ Readers should not be surprised, but this once again highlights the boom-and-bust issue that the NSS was created to avoid.

What should Canadians think?

In many ways, Canadians should not be surprised at any of this. It does raise the question about what is factual, who should be believed and whether taxpayer dollars are being spent effectively. Large procurement contracts are always open to criticism in Canada and elsewhere. Large procurements are complex, must meet multiple government objectives – operational requirements and economic benefits, to name just two – and will always dissatisfy some Canadians. For the shipbuilding industry, the question must be whether or not recent events imply the demise of the NSS and its plan for a 30-year, sustainable shipbuilding industry in favour of shorter term economic benefits. Unfortunately, Canadians will not know the answer to this for at least three decades when ships built today and in the very near future need to be replaced. Will the government in 30 years be making the same arguments about needing to avoid the boom-and-bust cycle of past shipbuilding acquisitions?

While Canadians may not know the answer to that for 30 years, some things are important to realize today. First, the creation of a third shipyard may or may not be a good thing in the long term, but it will create jobs and economic activity in the short term. Economic benefits have been an important part of the narrative with the existing two shipyards. The government's 2018 annual report on the shipbuilding strategy provides details of contracts awarded to companies across Canada during the reporting period and an indication of future obligations under the Industrial and Regional Benefits (IRB) policy and the newer Industrial and Technical Benefits (ITB) policy. For example, the annual report states that Irving has an "IRB obligation of nearly \$4 billion, of

¹⁸ Seaspan Shipyards, "Seaspan Shipyards Responds to the Government of Canada's Announcement Regarding Renewal of Canadian Coast Guard Fleet," May 22, 2019. Available at <https://www.seaspan.com/wp-content/uploads/MPV-Announcement-May-22nd-2019-Final.pdf>

¹⁹ Ibid.



which \$2 billion has been completed to date and another \$403 million is underway for the Arctic Offshore Patrol Ships project and modernization of the Halifax-class frigates.”²⁰

Non-government organizations have also written about the economic benefits for the NSS. The Greater Halifax Partnership looked at the economic issues in the pre-selection phase of the original competition and stated: “On an average annual basis, the combat vessels fabrication project would generate an estimated \$661 million in gross domestic product (GDP) and about 8,500 jobs.”²¹ The Conference Board of Canada also looked at the economic benefits to Nova Scotia and other regions of the country and said that there would be benefits across the country, not just in Halifax and Nova Scotia. Similar economic impact studies were completed for B.C. and the impact for contract awards to Seaspan.²² Studies are consistent in the positive economic impact that shipbuilding will bring to Canada.

To date, no study is available that speaks of the longer term opportunity cost of adding a third shipyard or the possible loss in economic benefit to the existing two shipyards. In our system, government does get to make these types of decisions. It appears under the available information that the decision is for short-term economic benefit to serve political ends regardless of what narrative the government might provide to the public about long-term intentions.

Second, as a follow from the first, it seems clear when looking at the evidence that multiple agendas are at play and no one is really providing Canadians with information about the strengths and weaknesses of the various opinions and arguments that are being presented. In an election year, this is likely to get worse, not better. The government has not provided Canadians with any evidence that would indicate what has changed in the long-term demand for ships in Canada that warrants establishing a third shipyard to build large vessels. What has changed about the previous government’s analysis? It included consultation with industry and determined there was only enough work for two shipyards if Canada was to sustain an industry and avoid the boom-and-bust cycle of the past. Canadians deserve to know the answer to that question.

Third, the government will need to do something to change the current narrative that this is all just a process to justify giving Davie Shipbuilding more work in an election year. The most recent Canadian Press article by Lee Berthiaume about Heddle Shipyards’ complaint to the Canadian International Trade Tribunal highlights this issue. The article notes that the government has refused to change the requirement for “shipyards to have a contract now or recent experience in building a ship weighing more than 1,000 tonnes or integrating a module weighing that much into ‘an offshore marine structure’... no shipyard in Canada ‘is capable of satisfying this requirement except Chantier Davie Canada’.”²³

²⁰ PSC, *Canada’s National Shipbuilding Strategy: 2018 Annual Report*, 2019, 12. Available at <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/documents/rapport-report-2018C-eng.pdf>

²¹ Greater Halifax Partnership, *Shipbuilding in Halifax: A Pillar of Nova Scotia’s Economic Transformation. The Catalytic Impact of the National Shipbuilding Procurement Strategy*, May 2011, 3.

²² See the Conference Board of Canada, *Canada’s National Shipbuilding Procurement Strategy: Potential Impact on Nova Scotia and other Regions*. Prepared for the Greater Halifax Partnership in May 2011.

²³ Lee Berthiaume, The Canadian Press, “Feds Amend Shipyard Search Criteria, Extend Deadline Following Complaint,” Global News, Aug. 26, 2019. Available at <https://globalnews.ca/news/5815392/federal-shipyard-search-davie-quebec/>



Finally, Canadians should expect more media coverage, political agendas and industry misinformation as this process continues through the election period. All of it will be biased in one way or another. It should not surprise Canadians if Davie wins the third shipyard award and the government provides a narrative that justifies why Davie won, why it was a fair competition and why it is good for Canada. It should also not surprise Canadians when those shipyards that are not selected complain that it was not anything the government said it was. That is the reality of large government procurement projects in Canada. Complex, politically sensitive, expensive, seldom without controversy and always with unhappy participants who are not selected.

► About the Author

Dr. Craig Stone holds a BA in Economics from the University of Manitoba and an MA and PhD in War Studies (Defence Economics) from the Royal Military College of Canada. Dr Stone joined the academic staff at Canadian Forces College (CFC) as an Assistant Professor in the summer of 2005 after 29 years in the Canadian Forces, the last five at CFC in the Strategic Studies Directorate. He teaches Strategic Resource Management and Formulating National Security Strategy on the National Security Programme, and Defence Management on the Joint Command and Staff Programme. Dr Stone was a member of the Department of National Defence Defence Industrial Advisory Committee from 2009 until 2014, a member of the Interim Board of Directors for a new Defence Analysis Institute in 2014, and served as both the Director of Academics, Canadian Forces College from December 2008 until June 2015 and the Head of the Department of Defence Studies and then Associate Dean of Arts Royal Military College of Canada during the same time period.

As a military officer for 29 years in the Royal Canadian Artillery, Dr Stone served in a variety of regimental positions in the First and Third Regiments, Royal Canadian Horse Artillery in Lahr, Germany, and Shilo, Manitoba. Employment outside the Artillery included a variety of staff positions at the Brigade, Area and National Defence Headquarters levels. Dr Stone is a graduate of Canadian Land Forces Command and Staff Course 8801, and Canadian Forces Command and Staff Course 21.

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