



# ONTO theROCKS

With disaster looming,  
National Shipbuilding Strategy  
needs urgent change of course

Michael Byers

## **Onto the Rocks**

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by Michael Byers

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# 1. Introduction

Four years ago, Stewart Webb and I warned that “the likelihood of something going drastically wrong” with the National Shipbuilding Procurement Strategy “has been greatly increased by the almost inexplicable lack of competition and oversight provided for in the NSPS, now that the two shipyards have been chosen.”<sup>1</sup> Our warning has proven accurate: Cost projections have more than doubled, delays have stretched into years and now decades, and just this month the federal government rejected a fixed-price offer to build 15 warships that could have saved Canadian taxpayers more than \$30 billion.

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Way back in 2006, a new Conservative government announced that three new Joint Supply Ships (JSS) would be built for the Royal Canadian Navy for \$2.1 billion, with the first being launched by 2012. In 2007, it announced that 6-8 Arctic/Offshore Patrol Ships (A/OPS) would be built for the Navy for \$3.1 billion, with the first being launched in 2013. In 2008, it announced that a polar icebreaker would be built for the Canadian Coast Guard for \$720 million and launched in 2017. Had these plans been fulfilled, all of the announced ships would be in the water by now. Unfortunately, not a single one of them is.

In 2010, a second (re-elected) Conservative government announced the National Shipbuilding Procurement Strategy, a long-term plan to renew the Navy and Coast Guard fleets. It projected a total cost of \$35 billion for all the replacement vessels.

The government created a process to select two shipyards where the larger vessels would be built. In October 2011, Irving Shipbuilding (Irving) was chosen to build 6-8 Arctic/Offshore Patrol Ships and 15 Canadian Surface Combatants (CSC) for the Navy, at a projected combined cost of \$25 billion. Seaspan’s Vancouver Shipyards (Seaspan) was chosen to build 2-3 Joint Support Ships for the Navy as well as one polar icebreaker, one offshore oceanographic vessel and three offshore fisheries science vessels for the Coast Guard, at a projected combined cost of \$8 billion. These acquisition-cost estimates were soon altered to \$29.3 billion for the combat vessel package and \$7.3 billion for the non-combat package, for a new total projected cost of \$36.6 billion.

The procurements were formalized under two non-binding “umbrella agreements”—one with Irving; the other with Seaspan. Under the umbrella agreement with Irving, obtained by the Halifax Chronicle Herald through an access to information request, the federal government retains the right to alter or cancel the procurement at any time and for any reason.<sup>2</sup> One can expect that similar powers exist under the umbrella agreement with Seaspan. As a result, the government only becomes legally bound when actual contracts are signed, e.g. for the design of a vessel, or for a specific build.

In October 2013, the Conservative government added up to ten Coast Guard vessels – five Medium Endurance Multi-Tasked Vessels and up to five Offshore Patrol Vessels – to the Seaspan contract, at an estimated additional cost of \$3.3 billion. No other shipyard was considered for these additional builds.

Initially, the process for selecting two shipyards was widely celebrated for being competitive and arms-length from government. However, the National Shipbuilding Procurement Strategy was soon suffering from rising costs and lengthening delays. By the 2015 federal election, the strategy was clearly in trouble, prompting Liberal Party leader Justin Trudeau to promise to redirect money from a controversial fighter-jet procurement into shipbuilding. In March 2016, the new Liberal government renamed the shipbuilding program by removing the word “procurement” from the title—giving rise to the “National Shipbuilding Strategy”. But unfortunately, little else has changed. No naval vessels have been launched, and construction contracts for the Joint Support Ships, polar icebreaker and Canadian Surface Combatants have yet to be signed.

## 2. Rising costs

In June 2017, the Parliamentary Budget Officer estimated that the acquisition cost of the 15 Canadian Surface Combatants (CSC) had more than doubled, to \$61 billion.<sup>3</sup> One week later, the Liberal government expressed the intent to build all 15 CSCs at a cost of up to \$60 billion.<sup>4</sup> At the same time, the government refused to specify how many Arctic/Offshore Patrol Ships (A/OPS) would be built. Reportedly, the reason for the uncertainty is that the A/OPS construction contract has a ceiling price, creating a risk that the Irving will only be able to build five rather than six ships within that ceiling.<sup>5</sup>

At Seaspan, the projected acquisition cost for just two Joint Support Ships (JSS) has risen to at least \$2.3 billion, up from the original \$2.1 billion for three ships, while the projected acquisition cost for the polar icebreaker has nearly doubled to \$1.3 billion.<sup>6</sup>

There are a number of reasons for these rising costs, including:

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### (A) ABSENCE OF TRUE COST COMPETITION

The Conservative government limited the competitive portion of the National Shipbuilding Procurement Strategy to the choice of shipyards. Without any further competition, Seaspan was then designated as the prime contractor for the Joint Support Ships while Irving was designated as the prime contractor for the Arctic/Offshore Patrol Ships and the Canadian Surface Combatants. “Shipyard” and “prime contractor” are quite different roles, and neither shipyard had any experience as a prime contractor for 21<sup>st</sup>-century military vessels.

The absence of any practical requirement for appointing a shipyard as prime contractor is demonstrated by how the Liberal government, later, decided not to link the construction contracts with the maintenance and refit contracts needed to support and sustain the resulting vessels. For example, in August 2017 the government awarded a contract to Thales Canada (a subsidiary of the French company Thales) for in-service support, including refit, repair, maintenance and training, for both the Arctic/Offshore Patrol Ships and the Joint Support Ships.<sup>7</sup> Contracts like this will be fulfilled in existing Canadian shipyards, including those owned by Irving and Seaspan.

As prime contractors under the National Shipbuilding Strategy, Irving and Seaspan are free to select the “system integrators” which coordinate various aspects of the procurement, including the selection and acquisition of propulsion, communication, sensor, and weapon systems. Indeed, Irving selected Lockheed Martin as the “command and surveillance” systems integrator for the Arctic/Offshore Patrol Ships without any competitive process involving the government, and before the shipyard had even been designated as the prime contractor.<sup>8</sup>

The shipyards, together with their appointed system integrators, will also select the various sub-contractors who design and equip the vessels. For example, the Conservative government signed a \$288 million contract with Irving for the design phase of the Arctic/Offshore Patrol Ships in 2013.<sup>9</sup> Irving then subcontracted much of the design work to Odense Maritime Technology (OMT), a Danish company.<sup>10</sup> Irving chose OMT on a non-competitive basis and without government involvement. Indeed, Irving chose all the system integrators and principal suppliers for the Arctic/Offshore Patrol Ships project on a non-competitive basis, including Lockheed Martin as the command and surveillance systems integrator, GE Canada as propulsion system integrator, Lloyd’s Register Group as classification society, OMT as marine engineering and naval architecture provider, and Fleetway Inc. as integrated logistics support provider.<sup>11</sup> A similar process can be expected for the Canadian Surface Combatants.

It is within this less-than-truly competitive context that concerns were raised about Irving partnering with Britain’s BAE Systems to bid on the \$5-billion maintenance and support contract for the Arctic/Offshore Patrol Ships and Joint Support Ships. Although that competition was won by Thales, BAE is now bidding on the Canadian Surface Combatant design contract—with Irving playing an important role in the choice of winner.<sup>12</sup> Concerns about BAE being in a possibly privileged position were heightened further when, in October 2016, the Canadian government allowed non-proven designs – namely BAE’s Type 26 frigate – into a competition that it had previously indicated were limited to “off the shelf” designs.<sup>13</sup> At the same time, the government hired Steve Brunton, a retired British admiral with close ties to BAE, as an “expert advisor”.<sup>14</sup> It has been reported that a total of four major European shipbuilders – Italy’s Fincantieri, France’s Naval Group, and two as-yet-unidentified others – chose not to submit bids for the Canadian Surface Combatant design contract, seemingly because of concerns about possible favoritism toward BAE.<sup>15</sup>

The only restriction on Irving and Seaspan’s ability to select designers, systems integrators and suppliers is that the designs and equipment must meet the requirements of the Navy and Coast Guard. For instance, the Maritime Warfare Centre at Canadian Forces Base Halifax assessed needs and capabilities for the Canadian Surface Combatant’s weapons systems, without recommending a specific system. The Naval Electronic Warfare Centre in Ottawa developed specifications for the communication and sensor systems. Based on all these specifications, the bidders on the design contract have advanced their (and their proposed sub-contractors’) systems, which will then be assessed by these branches of the Navy. However, Irving will do the actual selection and contracting of the system, and not necessarily on a fully competitive basis. Indeed, these selections need not be made on the basis of best value, but may be determined by other factors such as the shipyard’s “familiarity” with a particular company.<sup>16</sup>

This approach to shipbuilding is unusual.<sup>17</sup> In many NATO countries, a naval procurement begins with the definition of requirements, followed by the setting of a budget, and only then by the competitive selection of a prime contractor (which, by this point, generally has a consortium of system integrators and suppliers in place). As a result of that approach not being followed in Canada, and the largely uncompetitive and unsupervised process of sub-contracting by the shipyards, these procurements can become much more expensive than is necessary.

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The awarding of a \$230 million “design and production engineering” contract for the Joint Support Ships to Seaspan in February 2017 is a case in point.<sup>18</sup> The design will be based on the German Berlin-class, for which the plans were purchased by the federal government in 2013, but it will be extensively “Canadianized” in response to a definition of requirements provided by the Navy.<sup>19</sup> Seaspan will likely not have a design team of its own that can deliver on the contract, which according to the government’s own press release “will help develop and finalize the design.”<sup>20</sup> It will probably therefore subcontract the work and then add its cost-plus percentage on top of the actual design costs. This padding would help to explain the size of the contract, with \$230 million being an extraordinary amount for adjusting an existing design for relatively simple refueling ships.

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## (B) COST-PLUS SYSTEM PROVIDES NO INCENTIVE FOR SHIPYARDS TO CONTROL COSTS

The National Shipbuilding Strategy uses a cost-plus system for the various contracts with Irving and Seaspan.<sup>21</sup> Unlike fixed-price contracts, which are the norm internationally, cost-plus contracts guarantee a profit margin. They provide no incentive for the shipyards to control costs. This was the conclusion of a report commissioned by the Conservative government and delivered to the newly elected Liberal government by PricewaterhouseCoopers in November 2015: “The regime provides perverse incentives for industry to increase costs ... if the profit percentage is fixed, increased costs result in increased profits.”<sup>22</sup> One example of this concerns the Arctic/Offshore Patrol Ship design contract, where Irving used the costs of designing an extremely high-tech US stealth destroyer as one of the bases for its projected costs of designing a relatively basic ice-strengthened patrol ship.<sup>23</sup>

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## (C) INDUSTRIAL REGIONAL BENEFITS (IRB)

As the Industry Canada website explains: “The IRB Policy ensures that Government of Canada defence and security procurements generate high value-added business activity for Canadian industry. The IRB Policy requires companies undertake business activities in Canada valued at 100 percent of the value of the defence or security contract they have been awarded by the Government of Canada. The IRB obligation is a contractual commitment and part of the overall government procurement contract.”<sup>24</sup> Within the National Shipbuilding Strategy, any foreign company that wins a design competition and/or serves as a systems integrator or supplier of expertise, equipment, parts and components, is required to undertake IRB business activities

valued at 100 percent of the contract value, thereby ensuring a dollar-for-dollar investment in the Canadian economy. Moreover, at least ten percent of the investment must flow to small and medium-sized Canadian firms.

Under this approach, there is a risk that Irving, Seaspan and their foreign contractors might increase the size of their contracts in order to support the work required in Canada as IRBs. In other words, the National Shipbuilding Strategy might only deliver dollar-for-dollar investments because taxpayers are paying above-market rates. Fortunately, these extra costs associated with IRBs can be reduced: through fully competitive procurements, completely off-the-shelf designs, and fixed-price contracts—as discussed below.

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## (D) HIGH RATE OF INFLATION IN SHIPBUILDING

Inflation is higher in shipbuilding than in the general economy, yet successive governments have failed to account for this in their procurement plans. For instance, in an audit of the Joint Support Ship project in 2011, the Department of National Defence’s own Chief Review Services found that inflation had improperly been assessed at 2 percent annually instead of the 3.5 to 5 percent “acknowledged to be prevalent in the shipbuilding industry.”<sup>25</sup> The higher actual rate of inflation was part of what caused the cost of the project to rise to the point where it was shut down and then re-started with a larger budget.

The same risks face the Canadian Surface Combatant (CSC) project. For instance, Assistant Parliamentary Budget Officer Mostafa Askari indicated in 2017 that the costs of combat systems on warships increase by 6.5 per cent annually.<sup>26</sup> This helps to explain why the projected cost for the CSCs has doubled in the last six years. Even then, the Liberal government’s recent commitment to spend up to \$60 billion for 15 ships will likely be insufficient—especially if more delays occur.

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## (E) INCOMPETENCE

There are many examples of apparent incompetence – or at least inexperience, overstretch and/or failures of internal communication and coordination – within the federal civil service with regards to naval and coast guard shipbuilding. One example was discussed in the previous section, namely the use of an incorrect inflation rate in the planning of the Joint Support Ship project, which contributed to it being shut down and restarted.<sup>27</sup> A more recent example involves the awarding of an in-service support contract for the Joint Support Ships to Thales in August 2017, at least two years before the construction contract for the same vessels is likely to be signed with Seaspan. Apart from putting the cart before the proverbial horse, this sequencing failure prematurely limited the government’s flexibility under the umbrella agreement. If the government decides to change its plans concerning the support ships, it will now have to renegotiate or cancel the contract with Thales—at some unnecessary cost to taxpayers.

## 3. Lengthening delays

The Joint Support Ship procurement began in 2006 but is still in the pre-construction phase, with Seaspan being awarded a contract in February 2017 to “help develop and finalize the design.”<sup>29</sup> The Arctic/Offshore Patrol Ship procurement was announced in 2007 but the first vessel is still being constructed by Irving. The polar icebreaker procurement was announced in 2008 but no contract has been signed and construction will not begin until the two Joint Support Ships are completed, which is now projected to be as late as 2022. This means that the acquisition of just one icebreaker could take 15-18 years. As for the Canadian Surface Combatant procurement, it was announced in 2010, and more than seven years later, the design contract has not yet been awarded.

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The reasons for all these delays include:

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### (A) SHIPYARDS WERE NOT READY

Neither the Irving or Seaspan shipyards were equipped or staffed to build the kinds of ships awarded to them under the National Shipbuilding Procurement Strategy. The Conservative government realized that preparatory work was needed; indeed, part of the justification for the strategy was to help two Canadian shipyards to develop these capacities. However, the government seriously underestimated the time this would take.

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### (B) ABSENCE OF PENALTY PROVISIONS

In the United States and European countries, shipbuilding contracts usually provide substantial penalties for delays. In Canada, successive governments have failed to include penalty provisions in contracts awarded under the National Shipbuilding Strategy.

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### (C) CANADIANIZATION

“Canadianization” refers to the modification of an existing “off-the-shelf” design for requirements unique to the Canadian Armed Forces. In 2016, the new Liberal government announced that the Canadian Surface Combatants would be built on the basis of an off-the-shelf design in order to save time and money. However, the Navy then introduced literally hundreds of requirements that will necessitate changes in any existing design. According to a spokesman from one of the potential bidders on the design contract, this created a situation where:

To the best of our knowledge, neither we, nor any other prequalified bidder, possesses an off-the-shelf ship design which could be modified to meet all of the requirements without, in effect, becoming a new design with all of the risks that would stem from a massive redesign effort. Not only will we not be in a position to make a proposal, which we believe will best meet Canada’s objectives, but we have reason to believe

that most, if not all, other prequalified bidders with an existing ship design will be in a similar situation. In such an event, a failure to respond positively to our enquiries might put the process at a very high risk of failure, either because an insufficient number of bids are received or because the bids which are received do not meet Canada's value for money objectives.<sup>30</sup>

In response to these and other concerns from potential bidders, the deadline for submissions to the design competition was repeatedly pushed back. The latest deadline of 30 November 2017 passed with only three bids reportedly received—from a total of 12 pre-approved bidders.<sup>31</sup> Three out of twelve does not constitute a respectable submission rate for an ostensibly competitive process involving \$60 billion in taxpayer-funded work.

An October 2016 briefing note obtained by the CBC indicated that construction of the first Canadian Surface Combatant might now be delayed until 2022, leaving a potentially expensive gap after the completion of the Arctic/Offshore Patrol Ships. The gap would be expensive because Irving expects to lay off many of its workers during any such pause between government contracts, which would then necessitate new hiring and training.<sup>32</sup> Irving is now pushing for more work, involving billions of dollars in additional government spending, in order to fill the gap caused by the delay.

Sometimes, modifications to an off-the-shelf design are made for cost-reduction purposes. The Arctic/Offshore Patrol Ship is based on the Norwegian ice-strengthened patrol ship *KV Svalbard*, the design of which was purchased for the purpose of the procurement.<sup>33</sup> However, the design was then dramatically altered for cost-reduction reasons, including by removing the planned "Azipods"—rotatable propeller units that enable many Arctic ships to sail in both directions, and thus be equipped with an efficient bow for high speed open-water sailing, and an ice-breaking stern. In addition to removing the Azipods, the initial planned displacement of 6940 tons was reduced to 5874 tons and the initial planned top speed of 20 knots reduced to 17 knots. These changes required a great deal of re-design, creating the perverse possibility that the eventual overall cost of the procurement might not be reduced as a result of the scaling back of capabilities.

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## (D) CHOICE OF SHIPYARDS AS PRIME CONTRACTORS CAUSED INTELLECTUAL PROPERTY CONCERNS

The Canadian Surface Combatant project has been delayed several times as a result of foreign governments and companies being reluctant to transfer the technical and intellectual property data required under the design competition.<sup>34</sup> The problem goes back to the selection of Irving as prime contractor, rather than holding a competition to select a prime contractor that comes with a consortium and a design. The foreign governments are concerned that transferring intellectual property to a Canadian company with which they do not have a direct

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relationship could pose a risk to their national security, while the companies are concerned that Irving might benefit in other, later competitions from having access to the intellectual property now.<sup>35</sup> In what the CBC has described as a “concession to worried bidders”, the government recently agreed to acquire the intellectual property rights directly. “They won’t flow through our prime contractor,” said Lisa Campbell, the assistant deputy minister of Defence and Marine Procurement.<sup>36</sup> That said, building an information firewall between the prime contractor and sub-contractors working with high security intellectual property cannot be easy, will likely result in further delays, and might help to explain why only three bids for the design competition were received.

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## (E) DELAYS LEADING TO ADDITIONAL DELAYS

Any delay in a project can cause knock-on delays, associated cost increases, and even reductions in capabilities. For example, delays, inflation, and other increased costs required a redesign of the Arctic/Offshore Patrol Ships (A/OPS) to scale back their capabilities. Similarly, there were originally supposed to be three Joint Support Ships (JSS) with a multi-functional design to enable them to double-up as troop support vessels. Now, the project is down to two ships with a scaled back design that is focused on the refueling function. Even then, the cost will likely be much higher than announced so far: In September 2017, Department of National Defence spokesman Daniel Le Bouthillier indicated that the previous \$2.3-billion figure is no longer accurate, but that detailed costing will not be released until 2018.<sup>37</sup>

In Halifax, the current delays in the Canadian Surface Combatant (CSC) design phase could create a gap between the A/OPS and CSC projects that will cause Irving to lay-off workers. This will later require new hiring and training, thus delaying construction further. As mentioned above, Irving is now pushing the Liberal government for more work to bridge this gap.

A delay in one project can also lead to delays in other projects, particularly where more than one project is designated for a single shipyard. The delays in the JSS project have already resulted in a significant setback to the polar icebreaker project. The original plan for the JSS anticipated delivery of three vessels between 2012–16, with delivery of the icebreaker following in 2017. But when the JSS timeline slipped, a major scheduling conflict emerged. The Conservative government chose to prioritize the construction of the JSS and push back the construction of the icebreaker. In September 2017, government officials admitted that “they do not know when the supply ships or the icebreaker will be finished, or how much they will ultimately cost.”<sup>38</sup>

## 4. Return of Davie Shipbuilding

Although Davie Shipbuilding (Davie) has long played a significant role in Canadian shipbuilding, the company was under creditor protection at the time that two shipyards were being selected for the National Shipbuilding Procurement Strategy. In 2012, Davie was bought by Monaco-based Zafiro Marine, since renamed as the Inoceca Group. Although the shipyard's record since then has been decidedly mixed,<sup>39</sup> Davie clearly has the physical plant and workforce needed to build large ships.

In 2015, Davie took advantage of the delays in the National Shipbuilding Strategy to obtain a single naval procurement. The Navy had been without a resupply ship since 2014, after a fire on HMCS *Protecteur* and serious corrosion on HMCS *Preserver*. Davie proposed to convert a civilian container ship, the MV *Asterix*, to serve as a stop-gap until the Joint Support Ships are built. The refit-and-lease agreement with Davie cost \$700 million, including \$490 million for the ship and its services, with the remainder covering five years of operating costs, including fuel and port services.<sup>40</sup> The ship will be operated by a civilian crew, with a small number of naval personnel on board to perform security functions.

It was thought that this arrangement might lead to a contract for another converted vessel. Davie proposed to transform the MV *Obelix*, a sister ship of the MV *Asterix*, into a second supply ship for \$600 million.<sup>41</sup> However, Irving and Seaspan were resolutely opposed to any such development and, in November 2017, Defence Minister Harjit Sajjan indicated that no second ship would be contracted.<sup>42</sup>



MV Asterix

## 5. Desperately needed icebreakers

The Canadian Coast Guard icebreaker fleet is growing old, with the six vessels having an average age of more than 35 years.<sup>43</sup> One new icebreaker was never going to replace the fleet, and the lengthy delay in the procurement of that icebreaker has only made the situation worse. In November 2016, the Coast Guard indicated that it might need to lease up to five extra icebreakers over the next two decades as its existing ships go through repairs and upgrades and the new polar icebreaker is built.<sup>44</sup>

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In October 2017, the CBC reported that internal documents prepared for the federal cabinet had warned that a failure to replace the icebreaker fleet could result in the ports of Montreal and Quebec City being partly cut off in the winter months. This would have devastating consequences for the economy as well as the provincial government's \$9 billion maritime strategy.<sup>45</sup>

Meanwhile, climate change is reducing the severity of ice conditions, making a ship of the size and ice-breaking capacity of the planned polar icebreaker excessive—and overly expensive. The plan for a single polar icebreaker should now be reconfigured into a procurement of 4-5 medium icebreakers. And given the lessons learned from the National Shipbuilding Strategy, this procurement should take the form of a fully competitive fixed-priced contract.

Davie is well-positioned to compete with Seaspan for such a contract. It has already refitted Canada's largest and oldest icebreaker, the CCGS *Louis S. St. Laurent*. It has also proposed to refit an existing commercial icebreaker for the Canadian Coast Guard, much as was done with the CCGS *Terry Fox* three decades ago. As for Irving, it has already proposed to build new icebreakers in Halifax during the gap between the construction of the Arctic/Offshore Patrol Ships (which are not icebreakers) and the construction of the Canadian Surface Combatants.<sup>47</sup>

## 6. Fincantieri & Naval Group

A recent intervention by Italy and France should have stood the Canadian Surface Combatant (CSC) project on its head. According to a report by the Ottawa Citizen's David Pugliese, the two foreign governments bypassed the procurement process to make a proposal that could save Canadian taxpayers more than \$30 billion.<sup>48</sup>

Together, Italy's Fincantieri and France's Naval Group make the FREMM frigate, which is already in operation with the Italian, French, Moroccan and Egyptian navies. According to Pugliese, the consortium proposes to build 15 FREMM frigates at Irving's Halifax Shipyard for a fixed price of \$30 billion.<sup>49</sup> Canadian technology would be used on the ships and some of the existing European technology would be transferred to the Canadian companies involved, enabling them to be involved in future sales of FREMM frigates to other countries.<sup>50</sup>



*FREMM frigate*

The proposal is a modified version of one that Fincantieri made in 2016 for a fixed-priced competition whereby the first three CSCs would be built outside of Canada with Canadian technologies included, and the remaining 12 ships would be built at the Halifax Shipyard.<sup>51</sup> The Liberal government rejected that proposal out of hand.<sup>52</sup> However, this was before the same government acknowledged that the projected cost of the CSCs has climbed from the original \$26 billion to as much as \$60 billion.

Unfortunately, the Liberal government has also rejected the Italian and French proposal out of hand. On 5 December 2017, it issued the following statement:

Establishing and respecting a bid and evaluation process that is consistently applied to all potential bidders is fundamental to a fair, open and transparent procurement. ... The submission of an unsolicited proposal at the final hour undermines the fair and competitive nature of this procurement suggesting a sole source contracting arrangement. Acceptance of such a proposal would break faith with the bidders who invested time and effort to participate in the competitive process, put at risk the Government's ability to properly equip the Royal Canadian Navy and would establish a harmful precedent for future competitive procurements. To be clear, any proposals submitted outside of the established competitive process will not be considered.<sup>53</sup>

The government's reasons for dismissing the Italian and French proposal might make sense if the cost-saving involved in the proposal was less than 20 percent of the current projected cost. But a cost saving of 50 percent is difficult to ignore. Among other things, it confirms that the procurement to date has not been "fair and competitive", since it has hardly forced the bidding companies to offer the lowest possible price.

Moreover, the government assumes that following up on the Fincantieri and Naval Group offer necessitates “a sole source contracting arrangement”. There is, in fact, an easy way to seize the opportunity for \$30 billion in cost savings within a competitive framework, by: (1) opening-up the non-contractually binding umbrella agreement with Irving and (2) launching an expedited fixed-price competition involving completely off-the-shelf designs. The ships would still be built in Irving’s Halifax Shipyard but the prime contractor would be the winning bidder.

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Not seizing upon the significant cost savings made available by Fincantieri and Naval Group is both irrational and irresponsible. \$30 billion is a staggering amount of money—more, indeed, than the original budget for the entire National Shipbuilding Procurement Strategy. Other companies can still be allowed to submit competitive bids, provided that those bids include fixed-prices and completely off-the-shelf designs and are submitted on a short timeline.

## 7. Recommendations

- 1 Open-up the non-contractually-binding umbrella agreements with Irving and Seaspan.
- 2 Cancel the Canadian Surface Combatant design competition and re-launch the entire procurement as an expedited fixed-price competition involving completely off-the-shelf designs.
- 3 Cancel the Joint Support Ship design contract and re-launch an expedited fixed-price competition for the immediate conversion of a second container ship into a supply ship.
- 4 Shelve the plan to build a heavy polar icebreaker in Vancouver and launch an expedited fixed-price competition for the conversion or construction of 4-5 medium icebreakers.

## ENDNOTES

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