



The National Shipbuilding Strategy

Canadian Institute for Procurement and Materiel
Management – November 2019



Overview

- Overview of the National Shipbuilding Strategy
- Performance Against Objectives
- Program Updates
- What's Next



Shipbuilding in Canada prior to 2010

- Traditional Government of Canada approach was “one-off” project-by-project procurements
 - Costly and inefficient “boom and bust” cycles with constant rebuilding of infrastructure and workforce within shipyards
 - The last large vessels built in Canada were the Halifax-class Canadian Patrol Frigates (production ended 1996)
 - During the “bust” cycle several yards had to either shut down, be repurposed, or converted to ship repair



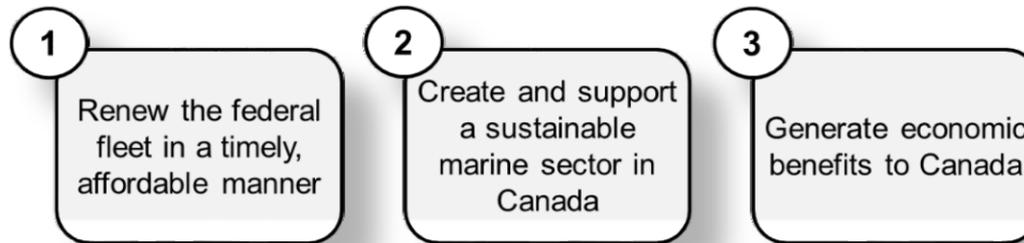
9 of the 12 Halifax-class frigates were built at Saint John Shipbuilding during the 1980s and 1990s



Saint John Shipbuilding was left with little work after constructing the Halifax-class frigates. The yard officially closed in June 2003

Creating a National Shipbuilding Strategy

- NSS was announced with the following three core objectives:



- Following extensive consultation with industry, the National Shipbuilding Procurement Strategy was launched in June 2010
- Renamed the National Shipbuilding Strategy in 2016
- NSS has evolved to meet new challenges and emerging requirements



Creating a National Shipbuilding Strategy

- For years industry called for a long-term shipbuilding strategy with considerations to maximize benefits and deliver results to the Canadian shipbuilding industry.
- Government commitment to a long-term shipbuilding strategy provides an opportunity to:
 - Provide more predictable work for industry through elimination of boom/bust cycles;
 - Allow for infrastructure improvements to the shipyards; and
 - Stabilize, grow and renew shipbuilding workforce and supply chain for vessel construction, repair, refit and maintenance



Canada's largest icebreaker, the CCGS Louis S. St-Laurent, has been in service since 1969



Prior to NSS, Canadian shipyards lacked the modern infrastructure and well-trained workforces required to build and maintain new ships



The 3 Pillars of the National Shipbuilding Strategy

1. Large Vessels (Over 1000 tonnes)

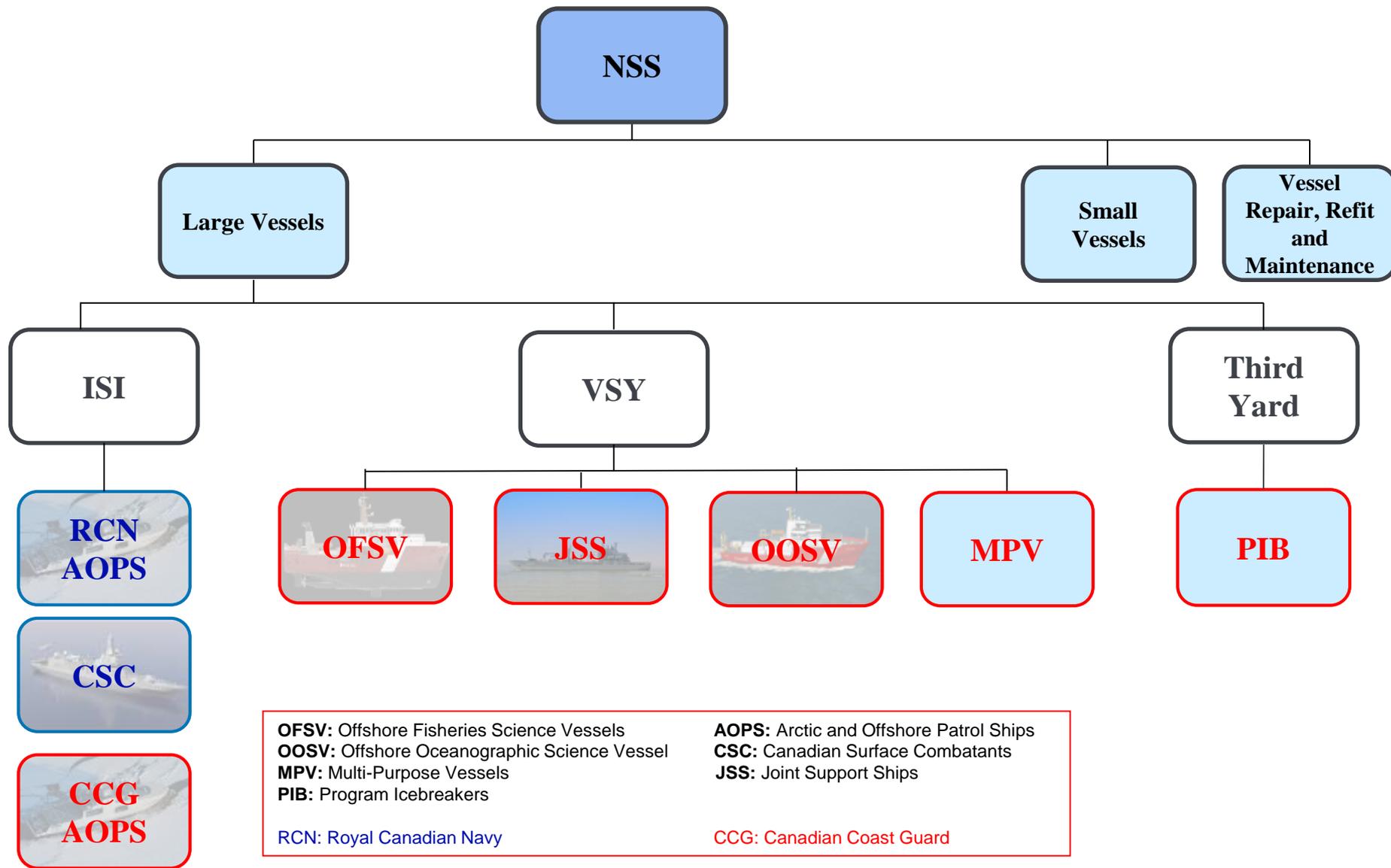
- In 2011, Vancouver Shipyards (VSY) and Irving Shipbuilding (ISI) were competitively selected to undertake separate programs of work
- Announced in 2019, a third yard is to be selected to build six Program Icebreakers (PIB) for the Canadian Coast Guard (CCG)

2. Small Vessels (Under 1000 tonnes)

3. Vessel Repair, Refit and Maintenance



The 3 Pillars of the National Shipbuilding Strategy



Shipyard Selection Process

- In June 2010, it was announced that two Canadian shipyards would be competitively selected for large vessel construction
- Five Canadian shipyards were short-listed following a Solicitation of Interest and Qualification process
- Short-listed shipyards were invited to participate in a Request for Proposals (RFP) process, with three bids received
- In October 2011, it was announced that Irving Shipbuilding Inc. (ISI) would build the Combat Package and Seaspan's Vancouver Shipyards (VSY) would build the Non-Combat Package
- Process confirmed as fair, open and transparent by an independent fairness monitor and the Auditor General of Canada



Umbrella Agreements

- Canada signed Umbrella Agreements with both ISI and VSY in February 2012
- Agreements define the working relationships and administrative arrangements between Canada and the shipyards
- Include parameters on ships to be built, shipyard modernization requirements, economic benefits obligations, dispute resolution processes, etc.



Contracts for Large Vessels

- Resulting contracts are awarded for each ship project to design and build the vessels
- Contracts are structured to:
 - Share the risk amongst the parties
 - Motivate shipyards to achieve efficiencies by sharing the cost savings
 - Eliminate risk premiums by paying only the actual costs
 - Provide appropriate profit by establishing minimum and maximum levels based on performance
 - Define specific Industrial and Regional Benefits and Value Proposition delivery obligations and reporting



Types of Contracts

- Ancillary Contracts
 - Used to understand the requirements and initial design
- Definition/Production Engineering Contracts
 - Awarded to mature the design so it is ready to be built
- Long Lead Items Contracts
 - Enable the shipyard to initiate early discussions with potential suppliers and to purchase required material and equipment
- Build Contracts
 - Awarded to shipyards to begin construction



*Vancouver Shipyard Cut Steel JSS EBB,
June 15, 2018*



*Irving Shipyard Inc. Launch of the AOPS 1,
September 15, 2018*



*The iAOR vessel entered into service in
January 2018*



Contract Negotiation: Best Practices

- Establish consistency of terms and conditions between contracts
- Interest-based negotiations
- Ensure clear mandates, roles and responsibilities in negotiation
- Support from strong governance model and subject matter experts
- Important principles:
 - Simplicity
 - Flexibility
 - Mutual trust
 - Respect for commitments
 - Fair risk sharing



Performance Against Objectives: Timely, Affordable Delivery of Ships

- First large vessel delivered, others launched
- Program and Portfolio Risk Management Process
- Challenges experienced



OFSV 1 was accepted by the Canadian Coast Guard on June 27, 2019

Performance Against Objectives: Create a Sustainable Marine Sector

- Value Proposition (VP)
 - As of 2018, ISI has initiated \$12.6 million and VSY has initiated \$5.2 million in activities related to these obligations
- Growth in Canada's Marine Defence Industry
- Domestically-focused Supply Chain Activity



In March 2017, ISI announced a \$4.52M investment in the Centre for Ocean Ventures and Entrepreneurship (COVE)



Performance Against Objectives: Generate Economic Benefits for Canada

- Contracts awarded across the country
 - From 2012 to June 2019, the Government signed approximately \$11.4B in new NSS contracts throughout the country
- Canadian industry participation to date
 - Over \$2.15B in contracts were awarded to Canadian suppliers by ISI and VSY
 - 918 Canadian firms have received economic opportunity through sub-contracting
- Industrial and Regional Benefits (IRB)
 - NSS shipyards and major suppliers are required to undertake business activities in Canada equal to the value of the contracts they are awarded by Canada



ISI Program Update

- Complex package of work consisting of eight Arctic and Offshore Patrol Ships (AOPS) and fifteen Canadian Surface Combatants (CSC)
- Since 2012, the Government has awarded \$3.25 billion in contracts to ISI for large ship construction and another \$614.5 million for repair, refit and maintenance work



ISI Program Update

- Four AOPS under construction
- Acquisition of AOPS 6 for the Navy and modified AOPS 7 and 8 for the Coast Guard
- Canadian Surface Combatant currently in design phase



AOPS 1: the Harry DeWolf



BAE's Type 26 Frigate



VSY Program Update

- Complex package of work consisting of three Offshore Fisheries Science Vessels (OFSV), one Offshore Oceanographic Science Vessel (OOSV), two Joint Support Ships (JSS) and up to sixteen Multi-Purpose Vessels (MPV)
- Since 2012, the Government has awarded \$1.7 billion in contracts to VSY for large ship construction and another \$26.9 million for repair, refit and maintenance work



VSY Program Update

- OFSV under construction since June 2015
 - OFSV 1 delivered in June 2019
- JSS 1 under construction since June 2018

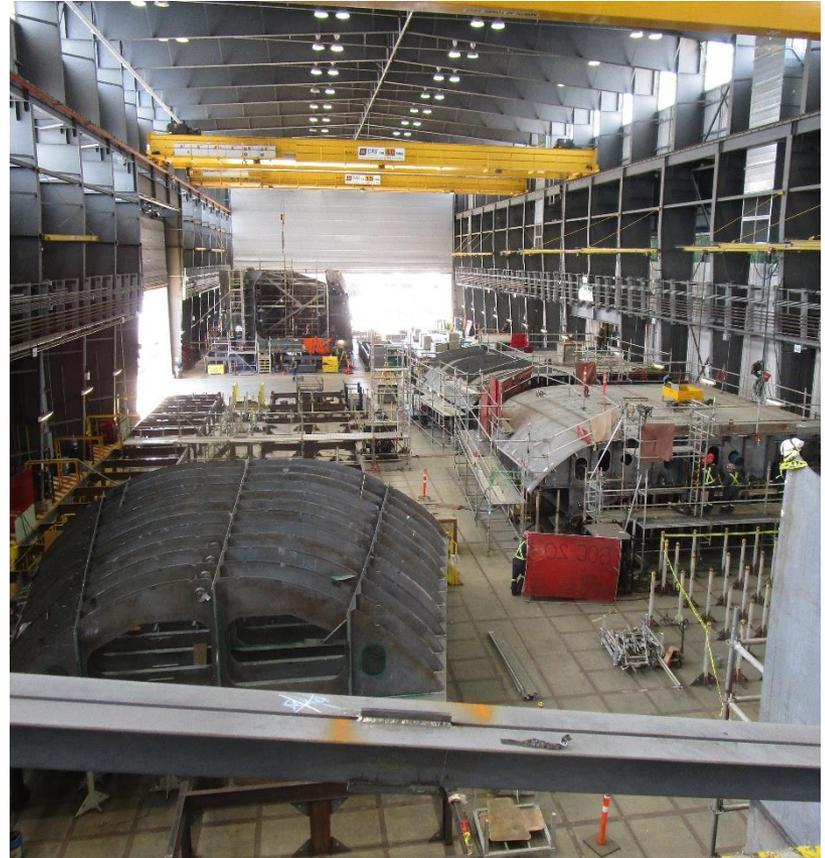


OFSV 1: the CCGS Sir John Franklin



What's Next

- Selection of third shipyard for large ship construction
- Design review work for AOPS 7 and 8



Early block construction of JSS 1

