



OGGO NSS Review

Opening Remarks: John M. Schmidt, CMISA Chairman

Mr. Chair and Honourable Members,

1. Thank you for the invitation to speak to you today on the National Shipbuilding Strategy.
2. I am here as Chairman of the Canadian Marine Industries and Shipbuilding Association, or “CMISA”.
3. CMISA’s purpose is to represent and champion the advancement of the marine and shipbuilding industry across Canada. We represent 80% of Canadian shipbuilding production capacity.
4. Our membership reflects a diverse group of successful businesses of all sizes, in a range of marine industry sectors, all across Canada.
5. Our Board therefore comprises Directors from all major sectors across Canada, including partners in our National Shipbuilding Strategy.
6. Personally, I have more than 45 years of experience in Canadian shipbuilding. Serving in executive positions in the private and government sectors, I worked on many contracts for the Government and later for the shipbuilders. I was deeply involved in the original NSPS having been part of the successful Irving proposal. I hope I can offer unique insights on behalf of all CMISA members.
7. Let me start by commending Canada for its foresight and political will in creating our National Shipbuilding Strategy. The key to any successful strategy is to plan, execute, monitor and adjust. So, this current review should be applauded for seeking to improve our NSS.
8. NSS projects either completed or underway, supported by many CMISA members, will benefit Canadians for decades to come.

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9. However, our NSS is not perfect. Its main goal is to replace our aging federal fleet, yet nearly 12 years into the large ship programs, we have delivered only 5 large vessels. In the 1980s, over a similar period Canada delivered 15 large ships.

10. The difference is easy to define. We transitioned from a more commercially influenced model, emphasizing on-time delivery, to an approach that promotes process, governance and control over that of ship delivery. In the 1980s, we estimated the internal government cost of managing new ship construction was 4-6% of contract value. Today, it is around 14-16%. So, to replace roughly 36 large ships, Canada must budget for 40.

11. Canadians live in volatile and worrying times. Yet we struggle greatly to provide our Canadian Armed Forces and Canadian Coast Guard with essential tools and capabilities.

12. We desperately need to fast-track ship construction to address growing threats to Canada's sovereignty, and other vital interests. Our NSS should be a unique Made-in-Canada solution to the growing challenges we face. It should also help create a stable and sustainable domestic industry, with export potential.

13. In our time of great need, Canada's procurement process hampers agility, innovation and execution. This has contributed to well-documented cost overruns and delivery delays. The backlog means we are performing Vessel Life Extensions on ships up to 50 years old.

14. We can fix this with pragmatic and proven solutions, which combine the best government and commercial practices.

15. A real-world example is the United Kingdom's refreshed National Shipbuilding Strategy. It seeks to build competitively priced ships today to create future exports. A more commercial approach is paying off. The UK has developed a warship for a fixed price of US\$336M. Five have already been sold to foreign governments.

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16. Canada can and I would say, should do the same. Canada is able to build competitively and there is increasing demand for the high-quality products, including complete vessels, that Canadian shipbuilders and supply chain can produce. Major global fleet renewal is an export opportunity for Canada. Other nations empower industry to drive shared success and we should consider doing the same.

17. A key step is to rationalize government oversight on projects with more control, delegation and responsibility given to the contractor, who is, after all the shipbuilding expert and responsible for delivering the ship.

18. For example, one of our members had a recent major project that used a commercial based procurement strategy and project management approach where only the Classification Society and a single Overseer was used by Canada to monitor shipyard performance. The project finished on time and on budget, meeting all contractual requirements. While this may have only been one element, it speaks volumes as to what can be done with a more commercial approach using industry norms rather than government ones.

Let's look at the ship design stage. Canada has a high-quality design capability and there is ample domestic capacity for the earlier steps in the design cycle. These early stages form a material contribution to innovation in Canadian shipbuilding. This capacity must not be allowed to stagnate due to project delays. Deepening the Canadian capability for early-stage design, will, over time, provide capacity and cost reduction in the later stages of the design process.

On the same topic, establishing and freezing the vessel requirements and build specification at the earliest possible time, will prevent design changes which lead to delay and cost increases.

In terms of the specification setting and design decision process, the optimal outcome will always be a trade-off between Government's operational, regulatory and performance requirements and the shipyards capability to procure for and build the design to a competitive price and on a schedule. It is essential to contract in such a way as to achieve these objectives. The design of an affordable ship will always be a compromise. Going to a car dealer and asking for every option will get you exactly that. No difference with ships.

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19. The shipyard that will build the ship should be contracted to undertake the full design process. Less than this adds delay since the shipyard will always take any design and run a second, often-lengthy and avoidable exercise to ensure the resulting ship is buildable.

As I mentioned, CMISA also encourages locking of the ship requirements at an earliest opportunity. From that point on, it needs to be about delegation to the shipbuilder and the limitation of customer approvals to those that are strictly necessary, such as those associated with safety and meeting the requirements of the classification society.

20. Coming back to what we said about embracing commercial practices, we must look at fixed or effective target incentive price mechanisms instead of cost-plus-profit contracting, where achievable. With fixed or target incentive prices, the shipbuilder is held to account and/or incentivized on its ability to deliver projects on cost and to schedule, against specification and performance criteria that have not been unnecessarily changed. This is aligned with commercial contracting and has had a positive impact on shipyard efficiency and responsiveness to customers' needs in cases where it has been applied.

21. Fixed or effective target incentive contracting can be achieved within PSPC's existing framework. It does however mean a change to today's norms and standards. In fact, it means a reset of certain specific shipbuilding contracting standard practices used by Canada if our industry is to succeed. By success, I mean delivery of 'performing' ships on the original schedule at the budget, both agreed with the Shipbuilder.

22. Our members also want more involvement in the build process. To this end, there are other innovations Canada should consider adopting such as Distributed Block Assembly Method. This is successful in other countries and CMISA members support more direct involvement in the production of ships and build strategies that create multiple build sites, also to smaller shipyards and metal fabricators. This has the added benefit of expanding capacity and maintaining schedule. Something very important in this time of inflation. However, to benefit from this potential addition to capacity and efficiency, the shipyard must be allowed to establish long-term relationships with subcontractors, i.e. smaller shipyards and fabricators to spread out the work and improve on schedule.

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23. Our Association believes in the importance of shipbuilding to the wider supply chain of Canadian suppliers of systems and equipment. The direct and indirect benefits – particularly because of the value of exports – of those suppliers to the Canadian economy has been demonstrated on Canadian shipbuilding programs in the past and should continue to be a key element of the NSS.
24. Making the adjustments necessary to successfully adopt these proven methods is a win-win for Canada, our shipbuilders and suppliers. Canada’s shipbuilding industry would thrive within a more flexible and efficient government procurement framework. This would also lead to export potential. Above all, it would enable us to deliver the ships Canada needs faster, more efficiently and cost effectively.
25. Finally, to complement this committee’s work, CMISA proposes the formation of a Procurement Review panel comprising Government and the association who would work together to review and recommend a more commercial procurement approach, drawing on industry and government best practices. This collaboration will lead to a more streamlined approach to the way we deliver fleet renewal.
26. I will end my opening remarks here, and I look forward to the committee’s questions.