



# Naval Association of Canada Association navale du Canada

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The Office of the Parliamentary Budget Officer (PBO) recently made public an independent cost estimate and report on Canadian naval warships used for at-sea replenishment. The Report compared the acquisition cost of the two Joint Support Ship (JSS), currently under construction in the Seaspan Shipyard in North Vancouver to the Motor Vessel (MV) Asterix, which was converted from a sea container ship by Chantier Davie (Davie) in Quebec and is in service currently under lease to the Royal Canadian Navy (RCN), and a similarly to be converted sister ship, the MV Obelix.

Shortly after the PBO Report's release to the public the Department of National Defence (DND), on 17 November 2020, issued a statement which presented a number of key factors not considered by the PBO as they lay outside the Report's assigned mandate. This brief statement by DND provides valuable context as to how the PBO Report needs to be interpreted, particularly with respect to the cost comparisons. The Naval Association of Canada (NAC) wishes to provide some additional comment on the PBO Report and the DND Statement to ensure that Canadians have a better understanding of the value and validity of the cost comparisons and rationale in these documents.

The operational requirements of the RCN, reflecting lessons learned over the last half century, demand that a JSS purpose-built warship be delivered that is able to deploy in harm's way, achieve the assigned operational mission and ensure the safety of Canada's sailors, as is clearly articulated in the DND statement. The legacy Auxiliary Oiler Replenishment (AOR) Class, which JSS will replace was required to deploy several times to high threat areas. Often the ships were fitted with mission specific equipments such as in Op FRICTION (1<sup>st</sup> Gulf War), Op FORWARD ACTION (Maritime Interdiction Operations off Haiti) and Op SHARP GUARD (NATO Naval blockade in the Adriatic) to provide a modicum of defensive weaponry and improve their damage control capabilities. While the interim capability provided by MV Asterix does meet the capability gap between the legacy AOR and the JSS, it does not meet the requirement for combat and defensive capabilities inherent in the JSS design.

Separate from the challenges of comparing a purpose-built, fully capable operational warship with a commercial vessel converted to achieve an interim capability, in terms of technical and programmatic complexity, is the unsuitability of making direct costing assumptions. Such comparisons can be fallacious and lead to incorrect conclusions. Focussing on the costs, the Report says nothing about how the JSS will contribute to achieving Canada's defence industrial objectives beyond noting that ancillary project management and administrative costs are not included. Such industrial objectives carry costs borne by the JSS Project and the resulting contracts remain a priority of all governments – federal and provincial.

In some respects, the PBO costing data and analysis presented is superficial and omits some critical factors. The NAC believes that three areas are noteworthy. Firstly, the reconciliation of the difference between the DND and Davie assessments on the remaining life of MV Asterix is

simplistic. Use of the United States (US) Algol-class fast sealift ships' experience to accept the Davie finding of up to 40 years of life remaining from 2018 is flawed. The eight vessels of the US Algol-class are in Reduced Operating Status, rarely putting to sea, and do not match the operational tempo of MV Asterix.

Secondly, the Report estimates a yet to be negotiated hypothetical purchase price of MV Asterix by employing a simple discount to the vessel's value linearly for each of the five contract years. This raises several questions relating to the terms and conditions of such a contract including how defence industrial objectives would apply and what level of sparing and access to supply chains would be provided.

Thirdly, the Report has simplistically estimated the conversion costs of the MV Obelix based on the relative recent Asterix conversion providing shipyard learning and lower design and engineering costs as key factors. This reasoning is suspect as even in optimal circumstances the time from project inception to government decision and issuance of a contract will be approximately four years and the shipyard workforce will need to be expanded, recruited and trained.

While providing a useful point of reference to the JSS Project costs, the PBO Report must be studied carefully, with emphasis on the critical areas that are outside of the scope of study. This careful study will ensure that erroneous findings and assumptions are avoided. The NAC commends all readers of this PBO Report to be cautious in deriving conclusions.

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