

Strategic and Operational Considerations for Canadian Naval Shipbuilding

A Response to Tim Choi

Alan Williams



In July 2021 the NAC published a short examination of Canadian shipbuilding options. This work, by University of Calgary PhD Candidate Tim Choi, entitled *Strategic and Operational Considerations for Canadian Naval Shipbuilding*, was framed as a response to recent media op-eds by former Assistant Deputy Minister (Material) Alan Williams. In order to facilitate debate and promote strategic thinking, the NAC is pleased to offer Mr. Williams' response to that paper.

Having a public debate on the Canadian Surface Combatant (CSC) project for the Royal Canadian Navy is in everyone's best interest. And so, I was pleased to read Timothy Choi's opinion in NAC and *The Hill Times* last week regarding the plan to build 15 frigate Navy ships, including a critique of my previous piece, which argued the government implemented a flawed procurement process and the life-cycle costs of the CSC will exceed a quarter-trillion dollars.

First, let's turn to costs. Mr. Choi suggests that I didn't account for "drastic spending increases budgeted in the latest policy review." To quote from the policy document (Page 45) "In total, *Strong, Secure Engaged* will invest an additional \$48.9 billion over the next 20 years on an accrual basis - \$33.8 billion for the of capital assets and \$15.1 billion for operating requirements." With respect to the operating costs, the document indicates that these funds are split between three initiatives-funding the sustainment costs for capital assets, funding additional people and funding new initiatives. Assuming an even split, \$5 billion would be allocated to supporting capital acquisition for a total of \$38.8 billion over the next 20-years to buy and sustain equipment. Adding this amount to the current capital

and sustainment funding of about \$240 billion over 30 years results in a grand total of \$278.8 billion — still less than the \$286 billion expected long-term costs of the CSC alone. The planned infusion is anything but drastic and doesn't come close to addressing the funding shortfall. As currently planned, the forecasted costs to build and maintain the CSC will exceed the available funding to equip the army, navy and air force combined. It would eviscerate the department and prevent it from fulfilling its mandate.

Mr. Choi notes that the DND budget will "increase from \$18.7 billion in 2017 to roughly \$30 billion in the 2030s." He continues, "assuming this figure is sustained, one can multiply it by the planned 30 years of the CSC's lifespan, resulting in a total of \$900 billion-far above the \$286 billion." That may be true but the \$900 billion reflects the funding for the entire DND not just for capital and capital sustainment. Contrary to Mr. Choi's opinion, spending a third of the defence budget on these warships is completely unreasonable and reflects a complete lack of understanding as to how funding is allocated to meet DND's core responsibilities.

Mr. Choi, argues that it is misleading and

irresponsible “to compare the lifecycle costs of the CSC with just the capital budget”. He is exactly right and that is why I never did so. I compared the \$286 billion expected life cycle cost for the CSC to the annual budget for capital and sustainment of approximately \$8 billion per year or \$240 billion over 30 years. (As indicated above, even adding in the \$38.8 billion in additional funding referenced in *Strong, Secure and Engaged* still leaves a shortfall). My analysis is responsible. Mr. Choi’s critique is not.

Second, Mr. Choi takes issue with the unsolicited proposal by Fincantieri to build these ships for \$30 billion or half of DND’s estimate to build these ships. He is concerned that Fincantieri did not adequately show how it intended to meet Canadian industry requirements. Frankly, I am more focused on ensuring that the Navy’s requirements are met rather than those of industry. Fincantieri’s proposal to meet our Navy’s requirements and build these ships in a Canadian shipyard with Canadian resources at half the cost should be welcomed. Nevertheless, I can’t help but wonder whether the costs would be even lower through an appropriately structured competition.

Third, I have never suggested that “domestic shipyards should compete with foreign ones” The Government’s policy is to build ships in Canada. I am comfortable with that direction. Fact is, as mentioned above, were it not for the fatally flawed procurement process for the CSC, 15 of these ships could have been built in Canada for half the cost.

Fourth, Mr. Choi is not pleased with my recommendation to have a mixed fleet. Actually, I agree with him. My preferred option would be to cut our losses now and compete all 15 ships in an open, fair and transparent competition, including opening up the Canadian shipyard to competition. Doing so would maximize the cost saving without further delaying the delivery of these ships. However, I did not feel that the government would have the courage

to do so. Allowing for the construction of three ships under the current rubric allows for sufficient “economies of scale” to make it viable. By the way, Mr. Choi presents no alternative strategy.

Lastly, Mr. Choi is concerned that we have the right ships to counter the China threat. So too am I. But in a democracy, our elected officials set the policy, role and mandate for the Canadian forces. In turn, our civilian and military leaders respond by outlining the equipment and its long-term costs to support this role. If the funding is inadequate to fulfill the mandate then it is the accountability of our Ministers to increase the funding or modify the mandate. Civilian and military officials do not back the Government into a corner by understating the costs and acquiring equipment we cannot afford.

Mr. Williams is a former Assistant Deputy Minister of Materiel at DND. He is now President of The Williams Group, providing expertise in the areas of policy, programs and procurement. He has authored two books, *Reinventing Canadian Defence Procurement: A View From the Inside* and *Canada, Democracy and the F-35*. He can be reached at williamsgroup691@gmail.com.



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