

Home-grown shipbuilding bound to be a boondoggle

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Stephen Harper addresses workers at the Halifax Shipyard in January 2012.

The ongoing controversy regarding the cost of Canada's planned Arctic Offshore Patrol Ships (AOPS) points out two serious problems with the government's shipbuilding program. First, it is clear from the defence minister's own admission that the government has no idea how much it will cost to build the AOPS in Halifax.

By extension, we can assume they have no idea of the actual cost of new Canadian surface combat ships to replace our aging frigates and destroyers.

If the government sticks to its \$25-billion budget for these programs, this will mean the navy will likely get far fewer ships than it needs to do its job.

Alternatively, the cost of the program will balloon catastrophically, in the same manner as the F-35 fiasco. If a country with an established industry, such as the United States, can see the cost of its new

Littoral combat ships double since 2005, what will happen in Canada with no recent experience or expertise in warship construction?

Given the above, the second, far more strategic, issue to be discussed is: Should we in fact be building warships in Canada at all? What is the long-term benefit to Canada?

The immediate answer from politicians of all stripes is, interestingly, not great ships, but jobs, jobs, jobs. However, the jobs they are talking about may well be far less valuable than we imagine.

There is no standard breakdown of the costs of building a warship, but a recent study by the South Australian government (as part of its input to that country's proposed 30-year, \$250- billion naval shipbuilding strategy) suggests the actual shipbuilding represents much less than half of the cost of a warship, perhaps 30 per cent to 40 per cent.

The rest comes from the design, armament, engines, electronics, etc., which will largely be procured outside of Canada, certainly outside of Nova Scotia. The benefits to Nova Scotia and to Canada will be in largely blue-collar jobs such as shipwrights, welders, electricians and general labour. In a job-poor province such as ours, these are nothing to sneeze at. This massive expenditure will not, however, create a sustainable long-term industry for our province.

To put it bluntly, there is no market for Canadian-built warships. The major buyers, the Americans, the British, the French, the Chinese, etc., build their own. They will never buy a ship from Canada.

Our governments, federal and provincial, will spend billions establishing a small, inefficient industry for which there is no market outside the government of Canada.

A commercial market does exist. The International Maritime Organization estimates the world's seagoing merchant fleet at 104,000 ships. However, commercial shipbuilding is dominated by Asian countries, including China, South Korea and Japan, which take 80 per cent to 90 per cent of the market. It is highly unlikely Canadian industry can ever compete with these heavyweights.

There is something of a parallel here with the aircraft industry. John Diefenbaker has been condemned for nearly 60 years for cancelling the Avro Arrow, Canada's last attempt at building a warplane.

In retrospect, he was right. Instead of spending billions on a jet for which there was no market, subsequent governments invested in companies like DeHavilland and Canadair (both ultimately

purchased by Bombardier) and Pratt and Whitney Canada which focused on the growing market for commercial aircraft, particularly small airliners serving regional markets.

Today this country has a vibrant aerospace industry that is among the world's largest. Canadian-built aircraft fly on every continent and jobs have been created across the country, including many here in Nova Scotia.

Large parts of this industry resulted from the identification of a sustainable, growing niche market (regional airliners) and investing in the components (e.g. airframe design, small turbine engines, landing gear) required to meet that demand. There is no evidence that kind of strategic thinking has gone into Canada's shipbuilding program.

The navy needs ships and the province and the country need jobs. The government's approach of building, virtually from scratch, a small, unsustainable industry is liable to ensure neither goal is realized.

The inevitable escalation of costs will probably result in fewer ships than the navy needs and the jobs will be short- to medium- term in areas that offer no sustainable strategic advantage. Perhaps it is time for the government to re-examine this program, as it has with the F-35, and ensure this is the right path forward for Canada. There are alternatives.

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