



# Marine Industry Advisory Committee Procurement Working Group

**Summary Report** 

Hybrid Meeting - Ottawa, ON & MS Teams February 28 & 29, 2024

**Prepared by** 

Marine Commodity Management Office Public Services and Procurement Canada



#### DAY 1

February 28, 2024

Session 1: Pricing and Payment Discussion (Part 1)

#### **Discussion item:**

Impacts of inflation on multi-year contracts: How can we better mitigate the impacts of inflation/deflation (i.e., price adjustments) during contract execution for multi-year contracts?

- 15 year contract example negotiated allowance or Consumer Price Index (CPI), negotiated rates. Rates negotiated involving PSPC Cost Analyst (one existing example).
- Industry recommended 4–5 year contracts be indexed to London metal exchange used for quote, metal can vary dramatically.
- Possibility to have PSPC Cost Analyst help companies estimate for longer term? Maybe more of an
  option for publicly traded than privately owned companies, some confidentiality issues need to
  tie it to some kind of agreed marker like CPI.
- Are there other markers beside CPI? CPI is more averaged, need to be careful on what indexing makes sense for a project.
- Cost fluctuations are universal not company specific, maybe Government of Canada (GC) could build in cost for materials? This would not solve the labour piece, but would help with one aspect of the situation.
- Industry mentioned that hiring staff is extremely hard at this time. One company reported human resources said 50% of interview candidates do not show up.
- Industry mentioned that there are essentially two main parts of the problem fluctuating material costs, fluctuating access to labour and labour costs.
- GC should try to give industry a package of work, so industry may plan for price fluctuations.
- Suggestion to build in a set percentage (i.e. 2%) for price fluctuation on GC contracts.
- Can companies buy more materials earlier on to acquire protected prices? Barriers, ex., storage
  and upfront capital and carrying costs. Easier if company knows they will be reimbursed for costs
  promptly. In some cases, GC feels industry is not ordering as early as they could, which
  contributes to cost increases and project delays.
- Multi-year contracts should be regionally adjusted according to inflation/deflation.
- Sub-contractors do not incur any of the contractual risk, the prime contractor carries all the risk.
- Canadian index does not apply to foreign suppliers, (take into account foreign indexes), industry recommended to identify the index up front.
- Remove materials element from bids (takes risk away from industry), include percentage for material costs.
- Currency exchange fluctuation risks when buying from foreign countries.
- With volatile world situation, contracts should be shorter term to be able to react to changing situations.



### Session 2: Pricing and Payment (Part 2)

#### Discussion item 1:

Lowest price compliant – remedies: What mechanisms could/should be in place to address underbidding and subsequent cost increases post contract award?

- Increase the engineering up front so there is a tighter bid package going out. Trying to reduce occurrence of "cost arising" post contract award. Hard for the GC to work with cost increases later.
- As a bidder, you do not want to breakdown your price; however, maybe GC could ask for some justification.
- What about GC doing firm fixed price? GC has done this sometimes on refit work and listed their priorities to be done within RFP.
- Small vessel procurement pre-qualifying has helped balance technical rating against cost not always lowest bid, look at technical elements more may work for GC, and may have better results.
- GC needs a better understanding of yard capabilities to know when a bid is unrealistic for the yard's capacity.
- No penalty/consequence for deliberate underbidding discourages ethical bidders from
  participating in the process (or more experienced bidders are cautious); GC needs to allow for
  legit/justifiable increases, i.e. pandemic, poor up-front technical engineering.
- Program maturity matters where bid packages are more open to interpretation there is a
  greater risk of underbidding, bid variance.
- Mandatory/rated requirements not consistent in the bid process causing swings in tenders.
- Technical bid has to be specific to ensure end user is getting what they are asking for, but can become too restrictive for bidders (i.e. specific OEMs identified).
- Assessing overall value rather than just initial contract price (i.e., life vessel costs).
- United States model: highest and lowest bid put aside for evaluation; will encourage companies to try and align their bids with the majority. (This only works if there are multiple bids).
- Bid processes differ across the board (need more consistency).
- Increased engineering upfront. Tighter work packages to try to mitigate work arisings. GC is starting to deny non-urgent work arisings to control expenditures.
- Some companies have given up on bidding on GC contracts because of being underbid and then work arisings making up costs.

### Session 2: Pricing and Payment (Part 2, cont'd)

#### Discussion item 2:

Evaluation criteria: How can the GC ensure contract awards are based on best value?

- Tools GC could offer:
  - Breakdown pricing
  - Negotiation with contractor
  - Price support
  - Good estimates for level of effort
- Joint industry/GC definition of "value" not cheapest but the best end product for associated price.



- If you do not do well with technical (i.e. on 70% technical bid), good way to lose a lot but if technical bids all strong then will come down to price.
- Can specify requirements to industry and say "you do this as specified" or tell industry what is needed, and industry brings back proposal. Clear GC goals/preferences.
- GC is not always open to innovation/new approaches. Would help if GC makes clear what is important to them and attaches appropriate weights/scores.
- Specifications based on operational capability not prescriptive:
  - o "Or equivalent" room for improvement.
  - Responsibilities b/w parties need to be clear.
- Should more points be awarded for experience and successful projects (include years after completion – vessel reliability, ease of repair)?
- Technical and price should be there but should be interrelated, not split. Not easy to achieve.
- Best value on refit different from construction on time matters most, how do you incentivize getting done on time? Experience may also have more weight, ex., track record of on time, on budget. Financial incentive? Give some/all of contingency budget?
- PSPC piloted paying milestone incentive, worked well so far.
- Adding innovation criteria might be good but "how" to is challenging.
- Innovation will have hits and misses expectation needs to be clear to control risk.
- Vendor performance management.
- What is the right level of engagement? Too much versus too little? IS GC asking the appropriate questions to achieve best value?
- Financial versus technical versus performance value, how do we measure each?
- Not incentivizing in a punitive way, but provide learning experience and re-evaluate after certain amount of time.

### Session 2: Pricing and Payment (Part 2, cont'd)

#### Discussion item 3:

Method of payment – milestones and delivery: The current methodology for milestone and deliverable payments requires shipyards and marine companies to have significant cash flow to fund the projects until payment is received from the GC. How can the GC work with industry to alleviate potential fiscal pressures that can arise in a procurement?

- Vendors do not have much influence on payment schedule unless they are involved at draft RFP stage.
- Milestone payment are not a problem, pre-payments may be more challenging.
- Important for GC to pay promptly according to schedule, GC standard is net 30 days and is not likely to change.
- If a company has to carry costs for a long time before receiving payments, that is challenging.
- GC generally requires deliverables before any advance payment, but can increase frequency of payments to monthly instead of six months for example.
- Industry discussions earlier, talked about it would be good if companies bought material earlier but if they will not be paid back for months, that does not work in the company's favour – causes fiscal pressure.



- When a construction project is completed, waiting for holdback, completion sea trial, vessel delivery can be a significant amount of money which then is not available to reinvest in the company for a while. Can be 18 months to complete the final steps for last payments.
- Want milestone payments to better follow construction.
- Some companies are okay with up-front costs, "how" universally true is this? What about smaller companies and new entrants?
- May holdbacks be smaller percentages for the end, not 30%.
- Companies should build cost of borrowing into the bid, but this may be harder for smaller companies.
- Understanding material versus labour costs in a project if more is material than different payment schedule, maybe even advance on smaller value projects might help companies to order material sooner, protecting material costs and helping project to proceed faster.
- GC is asking more of yards than ever before innovation, socio-economic procurement, etc. (extending vessel life).
- Repair/refit work has more flexibility to work with industry timelines, so projects move forward smoothly with minimal financial hardship to supplier companies.
- Financing costs can not be charged to the client (how can GC alleviate financial pressure on industry in a procurement).
- Consistency within the regions required.
- Consult with other countries to identify ideas and solutions (International Quad)?
- Administrative benefits to milestone payments versus holdback payments for GC.
- Companies have difficulties modernizing/expanding their business because they carry high loans to cover upfront costs (costs of goods before the build is started).



#### DAY 2

February 29, 2024

**Session 3: Decision Making Process Map in Procurement** 

#### Discussion item 1:

#### Procurement Process Map: What works well in the current procurement process?

- Fair, open and transparent procurements, sharing of information.
- Industry as a partner. Collaboration throughout the process.
- Industrial Technical Bid (ITB) policy, Canadian content.
- Outreach and engagement.
- Supply Arrangements (SA) and Standing Offers (SO) are a good opportunity for Small and Medium Enterprises (SMEs), not as difficult and time intensive as RFPs etc.
- Phased bid compliance process.
- Questions and Answers (Q&A) process (everything is posted publicly).
- Request For Information (RFI) to get feedback to build requirements.
- Being able to bid electronically.
- Virtual meetings save on travel budget.
- Pre-approval and pre-qualification remove a lot of the paperwork requirement for each bid, saves companies from wasting time on full bid process if they do not qualify.
- Move to electronic submissions was good.
- Having single points of contact for projects who are appropriately qualified for technical discussions etc.

### Session 3: Decision Making Process Map in Procurement (cont'd)

#### Discussion item 2:

#### Where are the areas for potential GC improvement?

- Bidding process itself currently very cumbersome (time and cost).
- Innovation not supported or incentivized.
- Add request for feedback from suppliers after the procurement process, possibly through Procurement Assistance Canada (PAC).
- SAP Ariba / CanadaBuys not user friendly (barrier for both industry and GC users), it is difficult to customize notifications training required. Buy and Sell was more user friendly and better than CanadaBuys. CanadaBuys search features in particular are not as good. SAP Ariba less liked than CanadaBuys; industry does not like to use more than one system.
- Lack of industry engagement during development of Statement of Work (SOW) (information is outdated, lack of marine related expertise in some client departments).
- Consistency in Request For Proposal (RFP) documents (Contracting Authorities, regions have different approaches) for small boat RFPs.
  - ✓ Contract Modernization Initiative (CMI) software will solve this issue starting in June 2024.
- RFI one-on-one discussions as opposed to an open forum approach to receive comments and questions (risk fairness).
- Procurement/RFP timelines can be too short. Bid timeline sometime too short; this becomes a barrier to entry for new proponents.



- If a company has not been a supplier to the Government of Canada, it can be hard to be in the loop/break in to the procurement system.
- In order to help MIAC attendees and supplier at large, it would be appreciated if information about everyone's roles during introductions at MIAC meetings.
- It would help to be clearer and have more information on roles of PSPC/GC when individual changes are made so industry knows who to contact.

# Session 3: Decision Making Process Map in Procurement (cont'd)

#### **Discussion item 3:**

## How can the GC socialize/disseminate this information to industry better?

- Wherever possible, Canada should contact relevant suppliers for input on RFI's.
- Invite industry to participate in MS Teams meetings to discuss RFIs. This worked well because industry did not have to write everything down.
- GC to spend time with one company at a time to obtain their RFI comments.
- Grant more opportunities to work together toward solutions like MIAC Procurement working group. Industry noted that this improves GC/Industry relations as well as systems.
- How do non-MIAC members stay well-informed? How do MIAC members help share information?
- GC should take some responsibility for helping successors get up to speed on key industry relations.
- Have a central person/point of contact that industry may contact to find out who has changed/current contacts. Information flow outside of MIAC, (i.e. former members) who within GC can industry contact, especially after turnover of staff. GEDs is somewhat helpful but limited.
- Pre-MIAC meetings, provide list of expected participants with titles, departments, and context where possible (context on what does their title and departments do where possible; what does that title/role do?). Something that could be referenced during and post meetings.
- More engagement at the working level to maintain relationships.
- More frequent updates on Outlook information in between conferences.
- Include Procurement Assistance Canada (PAC) information for regions, invite regional representatives.
- Marketing PAC related information for new companies, more visibility, i.e., online.
- Use Association newsletters (tool packages) to disseminate information about PAC and their services.



#### Session 3: Decision Making Process Map in Procurement (cont'd)

#### **Discussion item 4:**

Given the GC's mandate to ensure openness, fairness and transparency, how would industry suggest increased communication without compromising GC's underlying mandate?

- Industry feels the current process is generally open, fair, and transparent.
- One-on-one RFI had a fairness monitor involved when done with individual representative. Keep record of comments/discussion.
- Some deal with a large volume of industry wanting to talk to them.
- Does more contact with some companies create conscious or unconscious bias? See what is
  happening in one yard can influence future thinking, but industry contact improves awareness of
  innovation, trends, etc.
- Provide a space where companies can upload their information/capabilities between RFPs so they
  can get on GC radar.
- PSPC tries to maintain GC principles but also needs to work with client department to make sure RFPs stay relevant, have appropriate requirements.
- Short turnaround time favour those with experience, but proponents can request extensions (usually granted).
- If industry has some idea what's coming, they can do some advance preparation to submit bids. Outlook is helpful, letter of interest can help flag what is coming too.

### Session 3: Decision Making Process Map in Procurement (cont'd)

### **Discussion item 5:**

How do industry participants view the importance of open and competitive procurement in ensuring long-term competitiveness of the Canadian marine industry on a global level?

- Making sure process is accessible to new proponents more bidders more choice for GC drives companies to be more competitive.
- Unbundling may help build more opportunities, help more companies get involved in procurement. Does Canada have the capacity to meet this need?
- Investment and re-investment in yards are important.
- Blocks of meetings by sector/industry/element to assure the right people are available to talk to industry.
- PlanBox allowed for innovative proposals, no solution since other than events organized by Associations with invitations to GC to identify solutions aligned with GC requirements.
- Not all companies want to be a part of an association, it is impossible to get the full picture; suggest picking categories; it is a missed opportunity to not be a member.
- Industry days with primes and Original Equipment Manufacturers (OEMs).
- Navy/Coast Guard industry days across Canada to learn what businesses are doing (one-on-one Government to Businesses (G2Bs)).



#### **Session 4: Innovation in Procurement**

#### **Discussion item 1:**

### Identify how GC can better integrate innovation into Procurement.

- How proven does technology need to be before welcomed on a boat/ship?
  - 1. Depends how critical the component is to the vessel.
  - 2. Depends on how that vessel as a whole is to be used.
- PAC has programs to support innovation, but how do products get involved in future procurement projects?
- It has been challenging to establish parameters (start/stop points) and have enough human resources. Open to testing products for non critical components with pilot projects.
- Some innovation may not help to achieve client department goals may not have a requirement for it and funding is not enough for "nice to haves" unless it is cost competitive.
- Industry suggested that GC needs to balance keeping some competition in the bidding process with improvements that may be offered by one company with a new product offering.
- Any new products need to demonstrate a benefit to the GC.
- Focus on operational requirements, not prescriptive.
- More challenging to square flexibility in operational requirements with higher engineering packages.
- Can an RFP be partnered with an Innovative Solution Canada (ISC) challenge? Theoretically yes, but GC is still struggling to plug it in after ISC challenge stage.
- Cannot make choices that risk vessel safety, pulls them out of operation outside of planned schedules.
- Industry mentioned that the GC needs to take some risks to test/allow for innovation.
- Even if technology has been proven on other types of vessels/environments, will likely still want to test it on their own vessels.
- Innovation needs to bring cost saving, operational benefit-especially for legacy fleet.
- Hard for industry to include innovation and be cost competitive might save over the long-term but not in upfront costs. Industry noted, sometimes money just is not there upfront.
- Industry note, there is more room for innovation in new builds perhaps than repair/refit projects (legacy fleet).
- Small, simple changes/innovation can lead to significant savings/improvements on vessels. Sometime solutions may be well established in other use environments.
- Include more life-cycle costs in procurement as discussed Day 1 might help create space for innovation with higher initial costs but more long-term savings.
- How do you assess bids with different innovation? Maybe GC may have to allocate in budget for innovation?
- Canadian Coast Guard (CCG) and Department National Defence (DND) procurement/innovation interests showcased to industry through Associations / Society of Naval Architects and Marine Engineers (SNAME) etc.
- Positive feedback after innovations is being showcased, but then not integrated into GC procurements.
- Understand needs of the stakeholders for industry to present possible solutions.
- 'Connector' industry integration model with academia and industry, can be theme based by requirement.
- More consistent approach across Canada using the industry associations.



- PAC working with Canadian Council of Innovators (CCI) network across Canada to better utilize innovation in the context of innovation; events planned across the country.
- Design RFIs to encourage innovation in procurements.
- PAC working with ISC to increase SMEs' ability to understand procurement and GC requirements to increase that knowledge and competitiveness.
- Encourage SMEs to look out for SA/SO opportunities.
- Staying price competitive while incorporating innovation (look more at life cycle advantages and cost savings rather than initial cost of implementing the innovation).
- Proven technologies from different (i.e. land based) environments could be considered to be incorporated in marine environments.
- Innovations that generate different benefits, i.e., cost savings vs better operational capability (how do we assess which one is the better innovation).
- Easier to integrate innovation in new builds versus existing vessels.
- Innovative solutions have to be introduced and tested before they can be developed into a specification.
- Importance of GC providing the technology to be proven so companies can then sell to other markets.

### **Open Forum**

Questions presented by ABCMI for future discussion:

- Changes to federal procurement systems.
- High level changes to federal procurement requirements, such as indigenous participation and green initiatives.
- Available supports.
- Upcoming opportunities in federal procurement.

## Round Table Discussion: Next steps for Procurement WG

- Uneven number of industry participants versus GC employees in breakout rooms. Utilize the video conferencing capability to include virtual industry MIAC members in the breakout conference rooms.
- Frequency of Working Group meetings depends on lead times to fix some of the issues that were discussed.
- Follow-through required for industry who provided questions for discussion during these two days; provide feedback on what was discussed and any proposed solutions.
- Provide summary report quickly outlining discussions / potential 'quick wins'.
- Reference trails in bid documents were removed with new Contract Modernization Initiative (CMI) based approach.
- June 19/20 Vessel Life Extension (VLE) industry consultations (include VLE requirement, pricing and payment, contract management, program delivery, VLE template incl. CMI and new Terms of Service (T&Cs) - Cindy's team, Halifax PSPC offices.
- Working Group participants should include more participants / SMEs than MIAC members.



### **Appendix A - Meeting Attendees**

#### **Industry Associations:**

- Atlantic Canada Aerospace & Defence Association (ACADA)
  - Victoria Belbin President and CEO (virtual)
- Association of British Columbia Marine Industries (ABCMI)
  - Alex Rueben Executive Director (virtual)
- Canadian Association of Defence and Security Industries (CADSI)
  - Mindy Pearce Policy Advisor (in person)
- Canadian Marine Industries and Shipbuilding Association (CMISA)
  - o Colin Cooke President (in person)
- Nova Scotia Boatbuilders Association (NSBA)
  - Jan Fullerton Executive Director (in person)
- Council for the Advancement of Native Development Officers (CANDO)
  - o **Paul Macedo** Director of Communications (in person)

# **Marine Industry Market Segment Representatives:**

- In-service support
  - ✓ Thales Canada Tom Rose Offsets Director (virtual)
  - ✓ Secunda Canada LP **Darrell Sheppard** President and CEO (virtual)
- Repair, refit and maintenance
  - √ Groupe Océan Philippe Filion Director Corporate and Public Affairs (in person)
  - ✓ Newdock, St. John's Dockyard **Richard Eddy** Operations Manager (virtual)
  - ✓ Canada Maritime Engineering Ltd. (CME Ltd.) Tony Kennedy President (virtual)
- Small vessel construction
  - ✓ Chantier Naval Forillon Inc. Jean-David Samuel Président-directeur général (in person)
  - ✓ Rosborough Boats Heaton Rosborough President (in person)
- Supply chain
  - ✓ Wartsila Canada Alan Novotny West Coast Senior Manager for Marine Industry (virtual)
  - ✓ Thordon Bearings **Jeffrey Butt** Business Development Manager Marine (in person)
- Naval Architecture and Engineering
  - ✓ Genoa Design International Ltd. Chad Mercer NSS Program Portfolio Manager (in person)
- Vessel Disposal
  - ✓ R.J. MacIsaac Construction Ltd. Darren Webster Director of Operations (virtual)

# **Government Department Representatives:**

- Canadian Coast Guard (CCG):
  - o Neil O'Rourke Director General, ITS (in person)
  - Adam Watt Director, ITS (in person)
  - o Adam Wettges Director, Vessel Modification Projects (in person)
- Department of National Defence (DND):
  - Keith Coffen Director General, Maritime Equipment Program Management, (in person)



- Nadine Khaddaj Procurement Manager, ADM(Mat), Maritime Procurement (in person)
- Frédéric Pierre Director, Maritime Equipment Program Management (Non-Combatants), DMEPM(NC) (virtual)
- Innovation, Science and Economic Development (ISED):
  - Tracy Chatman Policy Advisor, Aerospace, Defence and Marine Branch (in person)
- Public Services and Procurement Canada (PSPC):
  - Marc Baril A/Director General, Marine Services and Small Vessels Sector (MSSVS), DMPB (in person)
  - Clinton Lawrence-Whyte Director General, Procurement Assistance Canada (virtual)
  - Cindy Soyland Director, Refit, Logistics and Small Vessel Construction, MSSVS, DMPB (in person)
  - Madeleine Pandini Manager, Marine Projects Division, Refit, Logistics and Small Vessel Construction, MSSVS, DMPB (in person)
  - o **Kevin Lafleur** A/Sr. Director, Marine Sustainment, MSSVS, DMPB (in person)
  - o Russ Passmore Director, Major Vessel Construction, DMPB (in person)
  - Tom Swindlehurst Acquisition Manager, Marine Sustainment Directorate, MSSVS, DMPB (in person)
  - Manon Langlois Procurement Manager, Major Icebreaker Construction, DMPB (in person)
  - o André Godin Manager, Pacific Region, DMPB (in person)
  - o Naoual Guérinik Manager, Quebec Region, DMPB (in person)
  - o Steve Simoneau Supply Chief, Marine, Quebec Region, DMPB (in person)
  - Heather Robbins Acquisition Manager, Atlantic Region, DMPB (virtual)
  - Carri Mitchener Manager, Procurement, Small Vessel Construction Division, DMPB (virtual)
  - Marc Norris A/Director, Marine Services and Strategic Initiatives, MSSVS, DMPB (in person)
  - Julia McDonald A/Manager, Marine Commodity Management Office (MCMO), MSSVS, DMPB (in person)
  - o Robyn Brink Incoming A/Manager, MCMO, MSSVS, DMPB (in person)
  - Vanessa Good-Davidson Supply Team Leader, MCMO, MSSVS, DMPB (in person)
  - o Dianne Tinkess Supply Team Leader, MCMO, MSSVS, DMPB (in person)
  - o Alexe Leduc Events Coordinator, MCMO, MSSVS, DMPB (in person)
  - o **Erin Newark** Policy Analyst, MCMO, MSSVS, DMPB (in person)
  - Saeed Nemati Policy Advisor, MCMO, MSSVS, DMPB (in person)
  - Erin Dufour Administrative Officer, MCMO, MSSVS, DMPB (virtual)
- Royal Canadian Mounted Police (RCMP):
  - o Darren Mierau National Manager, Marine Fleet



### **Appendix B: MIAC Industry Membership**

### **MIAC** industry membership

### **Outgoing MIAC members:**

- Richard Eddy, Newdock, St. John's Dockyard Ltd.
- Mark Keneford, Wartsila Canada
- Tony Kennedy, Canada Maritime Engineering Ltd.
- Gina Pecore, Genoa Design
- Mike Pratt, SNC Lavalin
- Heaton Rosborough, Rosborough Boats
- Jean-David Samuel, Chantier Naval Forillon
- Darrell Sheppard, Siem Offshore Canada LP

### **Incoming MIAC members:**

- Carole Arneson, Jastram Group
- Markus Astor, ABB Inc., Marine & Ports
- Bradison Boutilier, Lunenburg Shipyard
- Paul Jamer, Helm Management Services; Martin MacCorquodale, Babcock Canada Inc.
- Michael MacDonald, MacKinnon & Olding Ltd.
- John MacKillop, ZODIAC Hurricane Technologies Inc.; Jennifer Mitchell, Titan Boats Ltd.
- Marcel Montrose, Glovertown Shipyards (2010) Ltd.
- Joel Newhouse, Hike Metal Products Ltd.
- Gerald Parsons, BAE Systems (Canada) Inc.



# **Appendix C – Procurement Abbreviation Definitions**

Abbreviation	Definition
ACAN	Advance Contract Award Notice
CA	Contracting Authority
GOC	Government of Canada
LOI	Letter Of Interest
мои	Memorandum of Understanding
PAC	Procurement Assistance Canada
POC	Point Of Contact
PSPC	Public Services and Procurement Canada
RFI	Request For Information
RFP	Request For Proposal
RFSA	Request For Supply Arrangement
RFSO	Request For Standing Offer
SA	Supply Arrangement
SO	Standing Offer