

DAVIE

CHANTIER DAVIE

MORE THAN SHIPBUILDING



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Davie is more than just Canada's largest shipbuilder – more than any kind of shipbuilder: its ability to provide end-to-end turnkey solutions and its strategic location makes Davie an ideal partner for a range of industries from oil & gas to defence

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The Davie shipyard at Lévis, just across the Saint Lawrence River from Quebec City, traces its origins back to 1825 when it was founded by an English sea captain called Allison Davie. Over its long lifetime it has built more than 700 vessels and drilling and production platforms and seen shipbuilding technology develop from wood and sail. During World War II, Davie built 35 warships (mine sweepers, corvettes and destroyers). Davie has also fabricated numerous other products for a variety of industries including power, defence and transport.

It is not altogether clear how Davie got into such a mess, culminating in its failure to be selected for the Canadian Government's \$33 billion National Shipbuilding Procurement Strategy (NSPS) in 2011. Not for the first time in its long and largely very distinguished history it had been rescued from administration, this time by a joint venture between the leading Canadian engineering group SNC Lavalin, a Korean shipbuilder and the Canadian Upper Lakes Group. However when it failed to get any part of the major defence business these backers pulled out and the provincial government of Quebec, which had been putting money into the yard to keep it ticking over, was again left with the problem of what to do with it.

There followed a period of uncertainty, culminating in the purchase of Chantier Davie Canada Inc by ZM Industries, an O&G service group. The ZM team led by Alex Vicefield, a

director of that company and Davie's present CEO Alan Bowen, conducted a thorough due diligence exercise before committing to their bid, which was accepted in November 2012.

The yard has had many different owners, but none with the experience this team had in working with investment companies and turning around distressed shipbuilding assets. "Before we bought Davie we spent about nine months actually at the shipyard with a team of about ten people with a mixed set of skills – technical, legal, commercial, financial, operational and the like – looking to see what had gone wrong before, and how we could make it better." Ultimately, he points out, Davie is the largest shipyard in Canada, one of the biggest in North America, and one of the largest general steel fabrication sites with coastal access in Canada. It may not

have built a ship since 1997 but it has completed some very big projects, equivalent in scale to a new build, including the conversion of LASH carrier to a DP pipelay vessel as well as a major upgrade for a Petrobras semi-submersible production platform to almost double its production capacity.

One of the things that gave ZM Industries an edge over its competitors – and there were several heavyweight international groups involved in the process – was its single-minded commitment to the acquisition, Vicefield thinks. "We took a big risk by dedicating a significant amount of resource to the project, commissioning environmental,

**\$170
MILLION**

.....
Cost of each vessel Davie
is building for Cecon



The senior management team

legal, operational and management studies and getting vendors in at an early stage to see where improvements could be made. I think that stood us in good stead during the bidding process.” One of ZM’s core competencies, he adds, is its project management experience. Just before the purchase of the Davie yard the company had completed the \$100 million conversion of the oilfield installation ship Sampson to a pipe-laying vessel. By giving the job to the Viktor Lenac yard in Croatia, itself just out of bankruptcy, he says, the job was done to international standards of quality, at the lowest possible cost: the high risk was offset by putting together a team of experts from within the group and running the project on best yard management practice.

With unequalled skills and all the scale necessary, Davie was nevertheless stuck with some outdated systems and practices. The biggest change has been a radical change in the manner of working there, says Vicefield. “Previously they were doing ‘build by discipline’, which meant that teams of electricians, welders, pipe-fitters and so on would be working simultaneously across the whole ship. During the due diligence we noted that was causing a lot of reworking. We changed that to a ‘work zone’ and ‘work package’ approach. For each work package we separate the ship into zones and have a zone manager responsible for each. That allows us

to keep real time control of the build and it is a more accurate way of measuring progress than simply counting the man-hours spent. This way we can record the work packages as they are completed: it is much more accurate.”

Another major departure was to install an RFID system throughout the yard, working in parallel with the shipyard management system that covers all functions from procurement to workflow management, financial controls, health and safety and HR. Workers had been used to using paper clock-in tickets: now they

have RFID swipe cards, and the completion of every work package is logged in real time.

In addition to its knowledge of shipyard management one of ZM’s key strengths was the ability to unpick the complex financial involvement of the several interested parties.

Davie is of strategic importance to the provincial government and the federal government but also to the owner of the three vessels that were already under construction in the yard. The Norwegian offshore and subsea installation contractor Cecon had contracted three specialised vessels for pipe-laying, installation ROV and seismic work in 2007 but in 2010 work was suspended.

**300
TONNES**

.....
**Davie’s weekly steel
construction capacity**

The contracts were worth something in the region of \$170 million each - a major headache for Cecon that first brought Alex Vicefield and ZM into the picture: “They were financially heavily reliant on those ships being delivered,” he says. The financing that had been arranged with major international bondholders

had to be restructured, and Vicefield was appointed to the Cecon board to represent these bondholders’ interest. “When the opportunity came up to buy the shipyard we jumped at it because we knew that it was a unique facility in terms of the O&G business, let alone its other potential.”

“WHEN THE OPPORTUNITY CAME UP TO BUY THE SHIPYARD WE JUMPED AT IT”



A vessel under construction



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As legal counsel to Davie Canada Yard Inc., we understand the complex legal and practical issues that present unique business, regulatory and legal challenges to our clients of the Transportation industry as well as the Oil and Gas industry.

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Naturally the first priority was to restart the work in progress on the three ships awaiting completion. The sale of Davie to ZM Industries in December followed by the completion of a \$280 million financing agreement with York Capital Management on 20 February this year came as a huge relief to the shipowner. The first vessel, already 80 percent complete, will now be delivered by November of this year. The other two will follow in 2014.

With the business secure, other pending projects could go ahead. As we said, Davie has over the years been a strategic asset to the Quebec government. On May 16 its ferry operating agency La Société des traversiers du Québec (STQ) was able at last to confirm its order for two dual-fuel LNG ferries to operate on the St Lawrence River. Each 92 metres long,

these vessels will have over 625 lane metres across two decks, allowing the transport of over 115 vehicles, 200 passengers and ten heavy goods vehicles. The dual-fuel LNG engines, an environmentally friendly choice, are a perfect fit with Davie's specialisation in advanced propulsion and vessel manoeuvring systems says Vicefield. "We come from the O&G sector where you build vessels with unique designs rather than churning out

commoditised vessels. This allows us to play on our core skills in specialised propulsion systems and unique designs."

Alan Bowen, the CEO of Davie is a global authority on dynamic positioning (DP) systems, he adds. The vessels being built for Cecon are to be equipped with DP3 dynamic positioning systems, the highest grade with least two independent computer systems and a separate backup system. It's one of the reasons why ZM

“WE COME FROM THE O&G SECTOR WHICH ALLOWS US TO PLAY ON OUR CORE SKILLS IN SPECIALISED PROPULSION SYSTEMS AND UNIQUE DESIGNS”

was undoubtedly a better owner for this yard than any of the large Asian shipbuilders that had expressed an interest. Such companies are versed in the production of commoditised tankers and container ships whereas ZM has brought in the know how associated with the specialised, highly customised vessels needed increasingly by the hydrocarbon sector, as well as defence and even fishery customers.

Among the residual equipment at the yard is the commencement of a project to build two

accommodation vessels for 400 personnel – also with DP as an important part of the spec. That project was stalled when the original client went bankrupt, but Davie is now planning to build these and either operate them on its own account or lease them out. “The market for vessels of this kind is very strong at present,” he says.

Losing out on NSPS was undoubtedly a kick in the teeth for Davie, but the situation is different now. The yard that was chosen is much smaller

“WE HAVE NEVER BEEN TO A SHIPYARD WHERE WE HAVE SEEN SUCH HIGH QUALITY WORKMANSHIP IN WELDING AND THE OTHER KEY SHIPBUILDING SKILLS”



The fabrication workshop



Working below decks

capacity than Davie, with a steel construction capacity of around 70 tonnes a week against Davie’s 300. Nevertheless there is still a lot of defence work to be contracted out, and in any case NSPS would have tied up the shipyard for many years to come, which may not have been the ideal situation for a company that could still mop up much of the requirement for auxiliary naval vessels, and in the immediate future the coastguard fleet and O&G exploration vessels. As the only Canadian shipyard with the capacity to take on these requirements it has a strong competitive advantage: if anyone wants to operate in Canadian waters for over a year the vessel has to be registered under a Canadian flag, meaning being built in Canada – or pay an import tax of 25 percent!”

Alex Vicefield is clearly enthusiastic about

the future for Davie. Under the Plan Nord Quebec is investing \$80 billion in developing mining, fishing and energy industry in the north of the Province. “We are working with the government of Quebec to meet some of the needs of that infrastructure development,” he says. “And the quality of the workmanship here is nothing short of unique. We have never been to a shipyard where we have seen such high quality workmanship in welding and the other key shipbuilding skills. This is the best deal we have ever done, and I’d say our problems now are all high quality ones!”

For more information about Chantier Davie visit: www.davie.ca

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