

# Chapter 7

## National security

7.1 A number of submitters accepted the argument that the naval shipbuilding and repair industry is not simply about costs, broader economic benefits or local jobs—it is about national security.<sup>1</sup> In this chapter, the committee considers the decision to conduct a limited tender for the two supply ships in light of the argument that an indigenous shipbuilding industry is required for national security reasons.

### Strategic imperative

7.2 There are many and significant benefits that accrue from the construction of naval ships in Australia, including: the establishment and further development of a strong industrial base supported by a skilled workforce; expanded indigenous research and development, design, production and management capabilities; and extensive technology transfer across a broad spectrum of activities. There are also savings to be considered that may derive from being better able to support the vessels throughout their operational life. But shipbuilding is not purely an economic, research and development or job creation activity, it is above all a Defence activity with national security its foremost concern. Thus, when considering a major naval acquisition, Defence's primary concern, within a limited budget, is with maximising its capability and the continuing support needs of the naval fleet.

7.3 To fulfil its primary role to protect the national interest, Defence must ensure that it has control over the capability and technology needed to secure operational independence in areas vital to Australia's defence. For Navy, it means that its fleet must be equipped to best meet the security challenges it confronts. Many argue that to do so, Australia needs an indigenous shipbuilding industry and a domestic capability to support Australia's naval ships and their systems throughout their working lives.

7.4 Indeed, the Australian Business Defence Industry stated succinctly that the strategic requirement for the repair and maintenance of naval ships would appear to be 'a given'.<sup>2</sup> Mr Dunk similarly recognised the importance of a shipbuilding industry to Australia's national interest. In his words:

There can be no doubting that the ability to maintain ships is a strategic requirement and it may well be...that with a shrinking overseas shipbuilding capability there is a strategic requirement to build ships here

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1 See for example, AMWU, *Submission 4*, p. [1] and Defence Teaming Centre, *Submission 10*, p. 4.

2 *Submission 2*, p. [1].

but that work has not been done and has not been unambiguously stated as such.<sup>3</sup>

7.5 The AMWU stated that naval shipbuilding, including both construction and repair, was about:

...having the sovereign industry necessary to keep the Australian Navy operating every day at sea; having an industry with the ability to conduct expert maintenance and repair on complex warships; and an industry with the ability to build new warships that meet the specific requirements of the Australian Navy. Our industry is critical to Navy's operations in support of peacetime activities like humanitarian assistance and disaster relief, as well as high-end warfare operations.<sup>4</sup>

7.6 Thus, the union argued that the capability of Australia's naval shipbuilding industry was 'foremost a national security issue as well as being an issue for our economy and our manufacturing industry'.<sup>5</sup> In this regard, the Government of Victoria sought to impress on the committee the importance of taking account of the whole life cycle of the supply vessels and of the need to sustain that capability. In its view, a local shipbuilding industry capable of maintaining and modifying these vessels throughout their lifecycle would be critical to Navy's capacity to operate and support this expanded capability. The Victorian Government informed the committee that Victoria was home to one of the region's most advanced shipbuilding dockyards in BAE Systems at Williamstown. It referred to its substantial contribution to the LHD program and its work in supplying blocks for the AWD program. According to the Victorian Government:

The Williamstown shipyard has been one of the cornerstones of maintaining, developing and building Australia's shipbuilding capability with the ANZAC Class Frigates a prime example of their capability. This capability will not be available in the future unless companies such as BAE are afforded the opportunity to participate in major defence projects.<sup>6</sup>

7.7 Mr Hamilton-Smith argued that the current thinking about purchasing the supply vessels offshore was unsound. He argued that unless you maintain, sustain, mid-cycle dock and keep that capability in the water—and if you have not built it your ability to do that is diminished—then you do not have a war-fighting capability. To his mind, the argument that you can save money up-front by bidding off your projects overseas, which satisfies a Navy and ADF need and then forget about the acquisition, was flawed.<sup>7</sup> Indeed, he informed the committee that:

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3 *Committee Hansard*, 21 July 2014, p. 44.

4 *Submission 4*, p. [1].

5 *Submission 4*, p. [1].

6 *Submission 13*, p. 2.

7 *Committee Hansard*, 21 July 2014, p. 52.

...the decision to restrict the tender to build these two supply ships to companies outside Australia, in the South Australian government's view, is detrimental to the future of naval shipbuilding in Australia. It is a consequence of the longstanding and, in our view, short-sighted project by project mindset to naval shipbuilding in this country to date.<sup>8</sup>

7.8 In his view, over the next 12 to 18 months and before the next White Paper, the government must devise the right strategy, policy and investment decisions. Otherwise, in his words, it will cost Australian taxpayers more money over the future life of the projects; be at the expense of Australian jobs; and throw away investment in skills. According to Mr Hamilton-Smith:

Most importantly, it may irreparably damage our capability to defend ourselves as a nation in the Asian region.<sup>9</sup>

7.9 The Navy League of Australia argued that, as far as practicable, the ships that the Navy needs should be built in Australia, particularly warships and submarines. It noted that:

By doing so we will maximize the long-term benefits of developing the industrial capability essential for the long-term support and modification in service of such vessels. We will maintain independence in the support of our naval assets.<sup>10</sup>

7.10 The League accepted that, apart from the organisations currently engaged in naval programs, Australia no longer had a significant shipbuilding industry. Even so, it contended that Australia should sustain the capability of the current participants in Australian naval shipbuilding in order to 'maintain the strategic industry capability they provide'.<sup>11</sup> The League argued that the key to maintaining this capability was:

...continuity of orders and a concentration on building those ships most relevant to this aim, warships and submarines. In maintaining this capability we may have to pay a premium, although this is not necessarily so if the programs are of sufficient size to allow Australian industry to benefit from continuous production. The ANZAC frigate program of 10 ships, 8 for the RAN, 2 for the RNZN, is a good example.<sup>12</sup>

7.11 Mr King did not subscribe to the argument that Australia needed to build the ships to be able to maintain and repair them effectively throughout their service life. He indicated that Navy has had ships from overseas all of its life and Australia has supported them. Indeed, Defence told the committee that ships are 'generally

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8 *Committee Hansard*, 21 July 2014, p. 47.

9 *Committee Hansard*, 21 July 2014, p. 48.

10 *Submission 12*, p. [1].

11 *Submission 12*, p. [1].

12 *Submission 12*, p. [1].

sustained by different companies and at different sites'.<sup>13</sup> Mr King gave the example of the F111s, 'one of the most expensive, exotic aircraft of their day':

They were fully maintained by Australian industry right up to the finish and very effectively. Super Hornets, Hornets, JSFs will all be built overseas and I can assure you we will support them very effectively in Australia. What is important is that you have the intellectual property in order to be able to make changes and to modify them through life—that is very important. We have six FFGs. The first four of those were bought straight from America.<sup>14</sup>

7.12 It should be noted that at the time of considering the acquisition of the LHD, Defence maintained that the case for a domestic build was not as strong for these large ships as for the AWDs: that a local build for the LHDs was likely to produce relatively few savings for through-life support. In particular, Defence suggested that the LHD platform would not require the high-end skills that are critical for the industry to retain. In its view, the skills used during platform construction are 'less important in the through life support phase of ships'.<sup>15</sup> Consequently, although Defence agreed that there was 'some crossover between shipbuilding and ship sustainment and repair', it suggested, as Mr King had already made clear, that it was not necessary to have built the ship to sustain it. According to Defence, it was more important to ship sustainment to have access to ship design experience and the required technical data.<sup>16</sup>

7.13 Mr King explained further, that while he did not believe that the maintenance argument was very sound, he saw the need for Australia to have a strategic capacity to support its naval fleet. Thus, whereas Mr King rejected the notion that Australia could only maintain its ships if it had built them, he did contend that Australia should have a shipbuilding industry and in this context he stated his strong support for the surface combatant shipbuilding industry.

7.14 According to Mr King, it was important to remember that the decision to tender for the supply ships was one of a number of decisions including the one to pursue the feasibility of building future frigates in Australia. In his view, this decision was critical to having a vibrant and effective shipbuilding industry. In respect of surface combatants, he said:

...you need lots of competent supervisors and management levels. The world capacity that we can access to buy surface combatants is diminishing quickly. American shipyards, UK shipyards, European shipyards are diminishing quickly...Ships take five or six years to build. It strikes me as a good, strategic insurance policy that we have the ability, should pressures outside grow for us to need an expanded navy, that we have a fundamental

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13 Department of Defence, answer to question on notice No. 17.

14 *Committee Hansard*, 21 July 2014, p. 30.

15 Foreign Affairs, Defence and Trade Committee, *Blue Water Ships: consolidating past achievements*, December 2006, paragraph 7.90.

16 Department of Defence, answer to question on notice No. 17.

capacity to be able to build those ships. Because one thing we know for sure is that if there were suddenly a demand for another 20 or 30 surface combatants from our friends and allies in the markets that we could go to, we would not be seeing one for eight or 10 years.<sup>17</sup>

7.15 The Navy League of Australia noted that in view of the commitment of ASC and the Techport to the AWD program 'the priority there should be to ensure the success of that program and to prepare for the construction of the future frigate and future submarine, bringing forward the frigate program if necessary'. In its view, it was already 'too late to prevent a run-down of capability at the major AWD sub-contractors Forgas in Newcastle and BAE Systems in Melbourne'.<sup>18</sup>

## Conclusion

7.16 National security concerns are central to any consideration about Australia having a naval shipbuilding industry and the priorities that should be given to developing and retaining the skill base and experience to support that industry. The committee has referred to the important capability that the supply ships provide to Australia's naval fleet. But, as Mr King explained, Australia does not need to build the supply ships in-country in order to maintain and upgrade them throughout their life. He did recognise more broadly, however, the need for Australia to have an indigenous industry that has the strategic capacity to support the Navy's fleet.

7.17 In the following chapter, the committee looks at Australia's Defence industry policy and how the government's decision to restrict the tender for the supply ships was consistent with its policy objectives.

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17 *Committee Hansard*, 21 July 2014, p. 30.

18 *Submission 12*, pp. [2–3].

