

Dissenting Report by Deputy Chair, Senator Sean Edwards

1.1 It is disappointing that I have to table this Dissenting Report on such an important national issue. However the Executive Summary to this report has rewritten history or in this case the evidence we heard at the full day hearing on 21 July 2014 in Canberra. The first and credible draft of this Executive Summary bares no resemblance to what is now tabled. This report denies a number of issues including:

- That the Australian Manufacturing Workers' Union agrees that Labor's failure to address the approaching capability gap has caused this urgency;
- It would take over two-years and \$200 million to upgrade infrastructure if we chose to build the ships in Australia; and
- If a hybrid build was undertaken it would require significant re-engineering of production methods, upskilling, infrastructure upgrades and likely further overspends.

1.2 Much evidence was taken on the Air Warfare Destroyer (AWD) construction program during the inquiry yet this report makes scant reference to specific issues which have led to blowouts in build times and costs, as well as the positive fact that cost and build times will likely decrease the more of these ships Australia constructs.

1.3 The inquiry was charged with reviewing the tender process for the Royal Australian Navy's new supply ships as its first order of business.

1.4 I do not agree with 3 of the 4 the recommendations in this report and will address the central areas where I consider that the recommendations cannot be supported in their current form.

1.5 I recognise that the Coalition Government is developing a defence strategy for a way forward to deal with a range of unresolved structural and systemic issues that have remained unaddressed for too long. The Government is again forced to address Labor's economic failures.

1.6 The Government has also agreed to and committed \$78.2m to bring forward preliminary design work to ensure Australia maintains the necessary capabilities to retain the option of building the future frigate in Australia. In parallel, the Government is reviewing Australia's shipbuilding requirements, capabilities and capacities in order to inform a long-term strategic naval plan that provides the ADF with leading-edge capabilities and Australian taxpayers with value for money.

1.7 The Government has brought forward an open competition with Australian industry to construct more than 20 replacement Pacific Patrol Boats. This important project will boost the maritime security and resource and fishery protection capabilities of partner countries in the South West Pacific and generate additional work for yards around Australia.

1.8 Australia needs these replenishment ships urgently, they are a vital part of our Navy that can support the operations of our fleet and we face a capability gap if we do not act now.

1.9 The replenishment ships are so big (26,000 tonnes) that no Australian shipyard has the capacity to build them without substantial funding for new infrastructure. Current shipyards are struggling to build ships a third of that size.

1.10 The unquantifiable information in the report around 'some future investment' to upgrade local major shipyards, including 'long-term' benefits are very vague. Yet the Defence Materiel Organisation CEO Mr Warren King estimated at the inquiry hearing it would cost around \$200 million. The economies of scale cannot be expected with the two-off build of replenishment ships.

1.11 I note that the report acknowledges the urgent need to purchase the replacement replenishment ships to avoid a capability gap and to stem the continuing costs of maintaining an ageing vessel. However, the report fails to address the main reason for this urgency. Namely, the fundamental failure of the previous government to act on this two years ago. The Australian Manufacturing Workers' Union (AMWU) accepts that performance on construction of the three destroyers is a problem and has caused schedule delays and cost overruns. The AMWU quotes 'The project to replace Success should have been approved and announced *many years ago*'. Yet this evidence is not highlighted in the report.

1.12 There is no getting around the fact that the previous government's decision to defer spending on naval capability over a number of years has put Australia in the position we now face.

1.13 I do not believe that sufficient weight has been given to the compelling evidence provided to this inquiry on the importance of continuity and economies of scale for a healthy and viable Australian shipbuilding industry.

1.14 I acknowledge the Government's agreement and support for much of the evidence, analysis and conclusions in the Draft Report – in particular, the discussions on the importance of productivity issues for naval shipbuilding and the strong track record of overseas shipbuilders in producing large tanker-like vessels cost-effectively and without delays.

General Recommendations surrounding the tender process for the Royal Australian Navy's (RAN) new supply ships

I do not support Recommendation 1

1.15 This calls for the tender process for the two replacement replenishment ships to be an open tender to allow all companies, including Australian companies, to compete in the process. If the Government went to open tender on the supply ships, Australian shipbuilders could never be successful due to capacity, costs and schedule, yet it must be conceded that it would have cost them substantial amounts of money

to take part in the tender process which would exceed millions of dollars with little chance of success.

I do not support Recommendation 2

1.16 This will prevent the Government from investing \$78.2 million to provide the option for an Australian Frigate build with an Australian Radar and an Australian designed combat system. This would also prevent the Government from going to tender to Australian Companies for the Pacific Patrol Boat.

1.17 This may have led to the current AWD being built OS.

I do support Recommendation 3

1.18 This should represent all Australian's aspirations.

I do not support Recommendation 4

1.19 This report is commercial-in-confidence and is industry sensitive. Governments of all persuasions over the years have dealt with these types of issues similarly and credibly.

1.20 The Coalition Government is committed to a viable 'value for money' local shipbuilding industry but this cannot start with a two 26,000 tonne replenishment vessels when the current yards are finding it a challenge to build warships a third of that size.

1.21 To do otherwise would be simply economically reckless and irresponsible.

Senator Sean Edwards
Deputy Chair

