17 July 2014

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

AUSTRALIAN BUSINESS DEFENCE INDUSTRY SUBMISSION TO THE SENATE ECONOMICS REFERENCES COMMITTEE INQUIRY INTO THE TENDER PROCESS FOR THE ROYAL AUSTRALIAN NAVY'S NEW SUPPLY SHIPS

Australian Business Defence Industry (ABDI) is a national association representing the interests of defence industry in Australia. ABDI members cover all aspects of defence industry and range from the large global Primes to very small companies comprising a few employees.

On behalf of this diverse membership, ADBI is pleased to make this submission to the Senate Economics References Committee Inquiry into the Tender Process for the Royal Australian Navy's new supply ships.

Yours sincerely

Graeme Dunk
Manager
Australian Business Defence Industry

Australian Business Defence Industry
NSW Business Chamber Limited ACN 000 014 504 ABN 63 000 014 504
PO Box 234, Campbell, ACT, 2612 Ph (02) 6230 1137, Fax (02) 6257 4421
Email defence@australianbusiness.com.au
Web www.australianbusiness.com.au/defence

AUSTRALIAN BUSINESS DEFENCE INDUSTRY SUBMISSION TO THE SENATE ECONOMICS REFERENCES COMMITTEE INQUIRY INTO THE TENDER PROCESS FOR THE ROYAL AUSTRALIAN NAVY'S NEW SUPPLY SHIPS

Preamble

The direction, size and sustainability of the Australian shipbuilding industry has been the subject of debate for many years, and the overall challenges facing this sector were exacerbated with the award of the Air Warfare Destroyers (AWD) to ASC in South Australia in 2007.

One of the issues facing naval shipbuilding is that it has not been determined in the Defence White Paper (DWP) 2013, nor the Defence Industry Policy Statement (DIPS) 2010, as a Priority Industry Capability (PIC) although it has been included at the lower level of Strategic Industry Capability (SIC). It is however regularly described as being strategically important.

Although the strategic status of naval shipbuilding is arguable, the strategic requirement for the repair and maintenance of naval ships would seem to be a given. This is borne out in the listing of *ship dry-docking facilities and common user facilities* as a PIC.

From this background, issues for consideration by the Inquiry should include the following, namely:

- Is naval shipbuilding a strategically important industry capability, and what are the measures by which this determination is made?
- What are the nature of the links between naval ship repair and maintenance, and naval ship building; and does the strategic capability of the former rest upon having the latter?
- Is the Australian naval shipbuilding industry competitive when considered against other procurement options?
- What are the national economic impacts of naval shipbuilding, and do any impacts outweigh any current deficiencies in competitiveness?

The capacity of Australian shipbuilding to carry out, in part of in full, the construction and fit-out of two auxiliary ships to replace the Navy's HMAS SUCCESS and HMAS SIRIUS

It must be considered doubtful that Australian shipbuilding could carry out the full construction and fit-out of the auxiliary ships in a manner considered broadly competitive with an overseas alternative given that this has not been done previously. The build would most likely require new facilities to be implemented for a build of two ships, and with little prospect of export orders in the medium term. Issues associated with the construction of both the Collins class submarine and the AWD have highlighted the project risks associated with construction within a new yard, and that it generally takes until hull #4 to develop full efficiency[1].

That being said, the construction offshore of the Landing Helicopter Dock (LHD) ships and the fit-out within Australia does provide a model to suggest that the fit-out option might have been employed successfully by local industry. Other options where the superstructure was constructed in Australia and shipped to an offshore shipbuilder for integration may also have been possible.

Given that there is a looming reduction in naval shipbuilding work in Australia, it could be safely assumed that local shipbuilding yards would have the capacity to undertake the work. The option for the construction and shipping of the superstructure would not necessarily require this work to be done in a shipbuilding yard.

[1] See for example The Auditor-General Audit Report No.22 2013–14; Performance Audit Air Warfare Destroyer Program; Australian National Audit Office, Canberra, 2014.

The real question therefore becomes one of feasibility, rather than capacity, and the answer would depend on consideration of:

- The proposed work-share between the offshore and Australian yards;
- The difficulty (or otherwise) of transferring the work-share into Australia;
- The increased technical risks (if any) of undertaking the work-share in Australia;
- The increased cost (if any) of undertaking the work-share in Australia;
- The increased schedule (if any) of undertaking the work share in Australia.

The type of work to be conducted, and whether the skills utilised and developed are strategically important, will be fundamental to determining whether the additional investment (if any) vis-à-vis the complete build offshore is justified.

ABDI is not in a position to comment on whether alternatives, or the nature of alternatives, were considered.

The feasibility of including Australian industry participants in the tender process for the replacement auxiliary ships

The feasibility of including Australian industry participants in the tender process for the replacement auxiliary ships is associated with the issues as described above. Considerations of strategic risk and strategic industry, as well as purely economic issues, are also required.

In this particular case, the replacement for HMAS SUCCESS and HMAS SIRIUS is an imperative for the Royal Australian Navy (RAN) with the ships near or at their end of their operational life. A driving factor is the potential schedule impact should the build be split into two parts (hull construction offshore and fit-out in Australia) or three parts (hull construction offshore, superstructure construction onshore, and integration offshore).

The likely delay to the delivery of the ships from inclusion of Australian industry participants in the tender and build must be considered against the local economic benefits.

In all likelihood an opportunity for local inclusion was lost due to Government delays in committing to this project.

Any related matters

A fundamental requirement for Defence Industry Policy in Australia is to develop a framework for considering these types of issues. This framework, once developed, will provide a clear view of how capabilities within the defence industry sector relate to strategic risk, and therefore provide a robust mechanism for Government decision-making. The economic benefits associated with defence activities, such as naval shipbuilding, can therefore be considered within a wider strategic context.