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

**BAE SYSTEMS AUSTRALIA WRITTEN RESPONSE TO THE SENATE ECONOMICS REFERENCES
COMMITTEE INQUIRY INTO SEA 1654 PH 3 PROCUREMENT**

Dear Secretary,

Thank you for the invitation to provide input into the Senate Economic References Committee's Inquiry into the future of Australia's naval ship building industry.

As a lead industry participant in the Australian naval shipbuilding sector, BAE Systems Australia welcomes the opportunity to comment on matters pertaining to this critical national sovereign capability. Our commentary specifically addresses item (b) in the terms of reference.

b) The capacity of Australian shipbuilding to carry out, in part or in full, the construction and fit-out of two auxiliary ships to replace the Navy's HMAS Success and HMAS Sirius.

- BAE Systems believes that there is sufficient capacity, capability and experience within the Australian naval shipbuilding sector to carry out, in part or full, the replacement program for HMAS Success and HMAS Sirius.
- BAE Systems approach to the SEA 1654 Ph 3 Replenishment Ship replacement project was to offer a Hybrid Build Program, with part of the ship built overseas and part of the ship built in Australia. This would be a similar model to the LHD Program which is successfully in progress at our Williamstown shipyard. BAE Systems submitted an unsolicited proposal to the Government in September 2012 defining this approach and its benefits for Australia.
- BAE Systems currently has approximately 1000 employees, both blue and white collar, engaged on the LHD project, plus several hundred subcontractor personnel. So a capable workforce to undertake a hybrid build of Replenishment ships already exists in Australia.
- The two LHDs are larger, more complex vessels than the two Replenishment ships will be. Construction will not begin immediately in any procurement scenario. So it is clear that BAE Systems has the capacity in Australia to undertake the hybrid build of two Replenishment ships using the same workforce and facilities that are currently producing the LHDs.

- To build the Replenishment ships completely in Australia, there would need to be some capital investment because they are too large to launch from any shiplift or slipway in Australia. However, if produced based on the hybrid approach proposed by BAE Systems, there will be no major new capital investment required. The investments made for LHD and AWD are sufficient.
- BAE Systems estimates that the Replenishment ships will involve roughly 5 million manhours of work (design, production, integration, testing, training and initial logistical support). Of that, we estimate that at least 1.5 million and as many as 2.5 million manhours (blue and white collar) can be accomplished in Australia under the hybrid build approach we have proposed.
- BAE Systems Williamstown Shipyard has achieved significant improvements in productivity through its work on the LHD project and building blocks for the AWD Program. As an example, the targeted level of productivity for blocks on the AWD project is to achieve 80 manhours per Compensated Gross Ton by ship 3 (as mentioned in the recent Senate Estimates testimony). The Williamstown shipyard has already surpassed this target as we are currently at 76 manhours per Compensated Gross Ton. Maintaining high levels of productivity requires a continuity of work.
- An important component of successful hybrid build programs is the demonstrated capability to build utilising third party designs and working in partnership with the ship designers to deliver the ship. BAE Systems has demonstrated this capability, developing close relationships with Navantia on the LHD program and also on our highly successful block build for AWD.
- The time required to produce Replenishment ships completely in Australia would be longer than if produced in larger shipyards overseas and this is a concern to the Government. However, to produce Replenishment ships according to the hybrid model proposed by BAE Systems, we estimate the additional time required to only be approximately 6 months.
- Under a hybrid model the workshare which was earmarked for completion in Australia related to areas where it makes sense to complete in Australia. For example integration and testing of the combat and communications systems required by the ADF, Australianisation of parts of the ship to meet other unique requirements of the Royal Australian Navy, training, and initial logistical support. Even building parts of the ship in Australia can be done in parallel with production occurring overseas, as we have proven on the LHD project.
- Including an Australian build component on the program (via a hybrid approach or other contractual mechanisms) also has significant flow on benefits for the local suppliers (eg buying materials, equipment and services from other Australian companies in our supply chain). On LHD for example, this amounted to approximately AUD 400 million dollars.

- Involving Australian shipyards in the shipbuilding project from the beginning also creates a greater level of capability and productivity that will be carried forward into the through life support contracts that will follow for maintenance, repair, overhaul and future upgrade of the ships throughout their service lives. This advantage is also not recognised in the initial purchase price of the ships.

Regards,

David Allott
Chief Executive Officer
BAE Systems Australia