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Senate Standing Committees on Economics

PO Box 6100

Parliament House

Canberra ACT 2600

### **Introduction**

1. The Australian Taxpayers' Alliance (ATA) welcomes the opportunity to make a submission to the committee on the Australia's Naval Shipbuilding future.
2. The ATA is a grassroots, free-market advocacy group, consisting of over 25,000 members nationally. The ATA stands for the principles of fairness, clarity and accountability in our government tender processes to ensure businesses can fairly compete and provide the best value for taxpayers as well as reduce problems experienced in the past such as cost and scheduling overruns.
3. The ATA supports a fair and competitive tender processes to ensure high quality outcomes at a reasonable cost for the taxpayer. Whilst it is understandable that security concerns limit the pool of options, we believe that between Australia and its close military allies, that there are a sufficient range of options to ensure this.

### **(a) the development of contracts relating to naval ship and submarine building;**

4. The ATA notes as per the investigation of the 44<sup>th</sup> Parliament Inquiry that some ships were excluded from tender for building new supply ships to address capability concerns. The ATA believes that proper long term planning and depoliticising of the procurement of new warships is essential to provide the stability and opportunity for shipbuilders. This certainty helps address issues

such as the 'Valley of Death' where downtime adds costs and inefficiency.

5. The ATA expresses concern about the recent decision to build submarines in Australia noting that the cost against the number of jobs it provides directly and through the supply chain in Australia is an excessively high amount. For the total program cost, the jobs created have a value of \$18 million per job and even only accounting for the premium cost incurred to build in south Australia, it is still \$4 million per job. And the price premium incurred which is estimated at \$12bn isn't going to produce the degree of benefits being claimed.<sup>1</sup>
6. The ATA also believes that it is possible to source high quality ships from our allied partners. These partners have the capacity, providing quality and technology that isn't guaranteed to be available in an Australia

**(b) the design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia;**

**(c) the utilisation of local content and supply chains;**

**(d) the integration of offshore design work and supply chains in Australia**

7. The ATA believes it is possible for Australian shipbuilders to be competitive through the quality of the product it can offer as well as integration of local supply chains. Whilst the government may make the decision to incur a small price premium in favour of such considerations the ATA rejects paying large premiums on contracts comparative to quality offerings from builders in allied countries.
8. The ATA also notes that Australia can benefit from joining existing shipbuilding programs through shared and reduced overhead costs. However consideration should be given to political risk in this circumstance. For example, the change of government in the United States has seen a shift in rhetoric relating to the procurement of fighter jets. Should existing build programs be cancelled or reduced, this would significantly increase the cost to Australia for fighter jets we

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<sup>1</sup> <http://www.theaustralian.com.au/opinion/columnists/judith-sloan/submarine-contract-inefficiency-premium-of-4m-per-job/news-story/c1d0658a63a6a37cabff970dad273759>

purchase from said programs.

9. The ATA is concerned about the nature of defence procurement projects producing poor outcomes for taxpayers. Delays, design flaws, significant maintenance and upgrade costs should not be occurring to the degree it does with an already long tender process.
10. The ATA supports the consideration of hybrid builds or integration of offshore design work and supply chains to consider their feasibility over alternatives. The ATA cautions that risks of such approaches need to be taken into account and assurances made relating to cost, quality and build time. There is also merit in utilising local supply chains and this already helps provide Australian builders with a comparative advantage

**(e) opportunities for flow on benefits to local jobs and the economy**

11. The ATA recommends against methods of attempting to inflate the benefits of contracts to local builders through economic multipliers or assumptions about possible spill over effects. The tangible benefit must not be overstated to justify incurring a price premium.
12. The ATA notes that whilst there is some flow on effects to the economy, the aim of procurement should be as a matter of policy to ensure good value for taxpayers in acquiring assets that address Australia's capability needs in a manner. Propping up local builders for the sake of political expediency risks imposing significant costs to the taxpayer, to the economy and to our national security.

**Recommendations**

13. The ATA recommends taking steps to ensure that producing assets to meet Australia's defence capability needs is done so to maximise the fairness and competitiveness for bidders both local and domestic and to not avoid locking out builders because of the need for expediency.

14. The ATA recommends against any attempts to inflate the economic impacts through multipliers or calculating spill over effects.
15. The ATA calls on the government to commit to approaching defence procurement as a matter of defence policy rather than industry policy by aiming to procure high quality assets that meet our needs that provides fair value for taxpayers. These programs should not prioritise regional economic interests.

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