

## **Future Sustainability of Australia's Naval Ship Building Industry**

### **Introduction**

The Australian Industry Group (Ai Group) Defence Council welcomes the opportunity to contribute to the inquiry by the Senate Economic References Committee on the future sustainability of Australia's strategically vital naval shipbuilding industry.

The Turnbull Government's Defence White Paper nation-building commitment to acquire new Patrol Boats to replace the Armidale Class, Offshore Patrol Vessels, Future Frigates and 12 new submarines is fully supported by the Ai Group Defence Council.

The Government's further commitment to a continuous, or rolling, ship and submarine build program confirms that it has learnt the lessons of the boom and bust programs of the past. These have seen experienced workforces and their skills not being retained for future programs, adding considerable cost when new workforces need to be recruited and trained for new programs.

The Government's ambitious naval shipbuilding program offers a major opportunity to Australian defence industry to prove its credentials for delivering on time and on budget each of the new naval platforms.

Australia's defence industry is highly capable, with proven ability to meet the demanding requirements of the RAN. Our national, naval industrial credentials are underpinned by internationally experienced prime defence contractors, each of whom has established stable and effective supply chains in Australia. DCNS, which has been awarded the design development contract for the new submarines, has a direct relationship with Thales Australia, offering a baseline to build an effective in-country supply chain.

The Ai Group is confident that Australia's technological, industrial, educational and research communities have the capability to meet the Government's naval ship building and submarine program. This will only occur provided Defence's soon-to-be released naval ship building plan clearly articulates the contractual arrangements for each platform, the schedule of design and build of each

platform, how it intends to maximise Australian Industry Content, arrangements for transfer of technology and protect Australian intellectual property, how it will skill and train Australia's industrial workforce, sustainment of each platform and the program of facilities construction for each platform, including for design, build, basing and sustainment.

Identification of industry's role as a Fundamental Input to Capability and sovereign industry capabilities in the naval shipbuilding domain are essential components of Defence's naval shipbuilding plan.

### **Australian Industry Group Defence Council**

The Australian Industry Group (Ai Group) Defence Council represents the interests of Australia's defence industry. Its principle role, through its overarching Defence Council National Executive, is to provide collegiate policy advice to government, Defence and other departments and agencies on matters of direct interest to defence industry. Continuous improvements to the health of our defence industry is a key driver of the work of the Defence Council. A recent example of this work was the Defence Council's direct advice and support to Defence during development of the Defence Industry Policy Statement, including establishment of the Centre for Defence Industry capability (CDIC).

The Ai Group Defence Council National Executive comprises the Chief Executive Officers of Australia's leading defence industry companies. Its Chairman is Chris Jenkins, Chief Executive of Thales Australia & New Zealand. The CEOs of Australia's prime defence contractors are members. Other members represent Tier Two companies as well as Small and Medium Size (SME) company representatives. The President and Executive Officer of the Australian Industry Defence Network (AIDN) are members and participate actively in the Defence Council's proceedings.

Members of the Ai Group Defence Council National Executive participate in the Naval Shipbuilding Forum established by Defence more than 12 months ago.

### **Australia's Naval Shipbuilding Successes**

Australia's defence industry has a proud history of building and sustaining a range of naval ships and submarines. Examples in recent decades include two FFGs, the Anzac frigate fleet and Collins class submarine sustainment. The FFGs and Anzac frigates were built on time and on budget. Collins sustainment has grown to be an exemplar in recent years, with 5 Collins submarines available alongside at HMAS Stirling in late 2016.

The skills, technical expertise and problem solving capability of naval ship and submarine workforces within this nation are second-to-none.

The combination of build and sustainment expertise in Australia provides a solid basis for meeting the requirement to build and sustain the new fleets of naval ships and submarines over the coming decades.

### **Naval Shipbuilding Plan**

Defence is preparing a Naval Shipbuilding Plan which needs to provide defence industry with clear guidance on the schedule for design and build of new naval platforms for the RAN, development and protection of sovereign industry capabilities, infrastructure needed to meet the requirements of the new platforms, skilling and training needed to ensure successful design, build and sustainment, and detailed plans for sustainment of each new platform.

### **Contractual Arrangements**

The Naval Shipbuilding Plan must clarify the contractual arrangements for design, build and sustainment of each new platform. This includes the schedule for each program and the mechanisms for ensuring contractual obligations are being met.

Preferably, prime contractors should be Australian companies. This provides greater certainty for establishing sovereign capabilities. It also provides a

higher degree of confidence that Australian supply chains are being evolved and nurtured by Australian based primes.

### **Australian Industry Content**

The Turnbull Government's commitment to maximise Australian Industry Content (AIC) for design, build and sustainment of new platforms is commendable. The Anzac Frigates and Collins Class submarine programs achieved an AIC of approximately 70 per cent. Given the growth of the nation's naval industrial base since both those programs commenced some three decades ago, an AIC above 70 per cent should be achievable in the new naval ship and submarine programs. The naval shipbuilding plan should clarify the level of AIC the Government requires for the new naval ship building programs. The plan should also address the arrangements for ensuring progress of AIC throughout the life of each program.

### **Sovereign Industry Capabilities**

The new naval platforms will require development and support of a range of sovereign capabilities including platform protection (e.g. phased array radars and stealth capabilities) to be able to operate effectively and independently. This is particularly relevant for the new submarines that usually operate in warm water environs.

### **Infrastructure**

The scope and breadth of naval ship and submarine building activity over the coming decades will require investment in new or expanded shipbuilding facilities in South Australia and Western Australia. The naval shipbuilding plan needs to clarify the extent of the facilities requirement, where and when it needs them and arrangements for engaging Australian constructors to undertake the necessary tasks.

### **Workforce Arrangements**

The new naval ship and submarine programs will require expansion of Australia's existing workforce. Defence's naval ship building plan needs to identify skills required, whether these skills can be acquired in existing education entities, especially universities, and what additional measures will

be needed to address identified skills shortages. Active industry engagement in meeting the skilling and training requirements for developing a sustainably engaged workforce over many decades is essential.

### Conclusion

The Ai Group Defence Council strongly supports the Turnbull Government's commitment to a national naval enterprise involving continuous ship and submarine build over the coming decades.

Australia's defence industry looks forward to release of Defence's naval shipbuilding plan. It needs to have key policy prescriptions for:

- maximising Australian Industry Content;
- identifying relevant sovereign industry capabilities;
- ensuring all contractual arrangements build strong Australian supply chains ensuring necessary technology transfer and protection of intellectual property;
- incorporating plans for growing and skilling the Australian workforce;
- identifying the facilities needed to build and sustain the new naval platforms; and
- properly sustaining, including upgrading, the new fleet of naval ships and submarines over the next three decades and beyond.