Submission to Senate Inquiry into Defence Amendment (Sovereign Naval Shipbuilding) Bill 2018

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Introduction

The *Defence Amendment (Sovereign Naval Shipbuilding) Bill 2018* has the stated purpose to ensure that Australia continues to develop and sustain a sovereign naval shipbuilding capability. The development of this capability is obviously a subject of current interest to the Australian Government and other sections of the Australian community, and has been addressed in part in the *Naval Shipbuilding Plan* and the 2018 *Defence Industrial Capability Plan*.

The Bill aims to ensure that, apart from some extreme circumstances, that all naval vessels over 30 metres are built in Australia by commercial entities controlled from within Australia.

The proposed Bill goes some way to ensuring that Australia can respond, at least in a maritime sense, to developments in our geostrategic environment, but does not cover all aspects of naval ships, or shipbuilding. Implementation of the Bill will have a positive effect on the shipbuilding workforce, on the ability to attract, develop and maintain the skills necessary for building ships, and ultimately on the maturity of design and intellectual property aspects of those ships within Australia. The economic impact of the Bill is outside the scope of this submission, but there is a certain symmetry between the 30% "premium" for Australian ships as noted by the RAND Corporation[1], and a study undertaken for the Royal United Services Institute[2] in the UK that found that over 30% of the money spent on defence inside the UK was returned to the Government in the form of taxes and other payments. The impact to the Defence budget therefore becomes an accounting problem rather than an affordability problem. The ongoing overall impact to the Australian Government from adopting this bill may therefore be minimal; given sufficient ships, and with sufficient commonality, such that lessons learnt can be applied to follow-on vessels.

A number of additional considerations arise with the Defence Amendment (Sovereign Naval Shipbuilding) Bill 2018 when considering the overall nature of sovereignty, and of naval vessels.

Firstly, naval platforms are typically categorised in terms of the ability to float, move, and fight. The float and move aspects are obvious enablers to keep the important aspects, the fight components, out of the water and able to move into a location where the operation occurs. The Bill as proposed focuses on the float and move aspects of shipbuilding but avoids mention of the sovereign aspects of the ability to fight: arguably the most important aspect. Implementation of this Bill may therefore be useful in supporting the sovereign aspects of the shipbuilding activity, but will not guarantee the operational sovereignty that is ultimately required to enable the Royal Australian Navy to undertake required missions and tasks as, when, where, and for the period required. Whilst it is acknowledged that autarky with respect to naval systems is beyond the reach of the Australian defence endeavour, a greater focus on the domestic development of the combat management aspects of naval fighting vessels would seem to be warranted.

[1] Birkler, John, et al. 2015. Australia's Naval Shipbuilding Enterprise. Preparing for the 21st Century. RAND Corporation, Santa Monica CA.
[2] Taylor, Trevor, & John Louth. 2012. The Destinations of the Defence Pound. Royal United Services Institute, London.

Secondly, and related to the point above, the Bill does not ensure that the intellectual property associated with systems fitted to, and employed within, these vessels is resident within Australia and available for independent use by Australia. That is, enactment of this Bill will not overcome existing problems with major sub-systems, such as the combat management system, where Australia cannot independently implement innovations that may be developed here. Whilst the Bill will go some way to providing independent action by Australia in the face of increasing strategic uncertainty, operational sovereignty may still be adversely impacted by an overall inability to undertake independent industrial action with respect to the fight aspects of naval vessels.

Thirdly, and notwithstanding the comments above, the Bill will be more applicable to submarines than surface ships due to the inherent, and critical, stealth aspects associated with the hull and mobility-related systems within the submarine.

In addition, unless Australia gains control over the intellectual property associated with ship and submarine design, and limits its exposure to the International Traffic in Arms Regulations (ITAR), our ability to export complete naval systems will remain somewhat problematic.

There are two final points that are emphasised by the proposed Bill, although not created by it. The first is the need to promote the indigenous development of critical systems in order to lessen the reliance on offshore suppliers. The *2016 Defence Industry Policy Statement* highlighted the need for cultural change within Defence to remove barriers to innovation, and to encourage investment in the good ideas that develop in Australia. An independent ability to implement these innovations, without recourse to, and approval from, overseas suppliers is a pre-requisite if sovereignty is to be achieved. This point also impacts on the potential limitation due to ITAR.

The second final point concerns the protection of Australia's sovereign industrial capabilities from offshore technological predators. Defence industry is unlike other industrial activities in that the output is closely linked to military activities and to the mitigation of strategic risk. This point is recognised in the announcement of the Sovereign Industrial Capability Priorities (SICP) in the 2018 *Defence Industrial Capability Plan*. By definition companies that operate in the SICP areas are closely aligned to operational sovereignty and the ability of the ADF to operate as, when, where, and for the period required, and should not be able to be simply acquired by overseas companies. Enactment of something akin to the QANTAS Sale Act to ensure that majority control is maintained in Australian is required if sovereignty is to be retained.