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THE FUTURE OF AUSTRALIA'S NAVAL SHIPBUILDING INDUSTRY

Senate Economics References
Committee Inquiry



Supplementary Submission by the State Government of Western Australia
and Responses to Questions on Notice for Minister for Defence Issues



Provided to the Senate Economics References Committee on 3 June 2017



**MINISTER FOR TOURISM; RACING AND GAMING; SMALL BUSINESS;
DEFENCE ISSUES; CITIZENSHIP AND MULTICULTURAL INTERESTS**

Senator Chris Ketter
Chair Senate Economics References Committee
PO Box 6100
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CANBERRA ACT 2600

Inquiry into the Future of Australia's Naval Shipbuilding Industry

Dear Senator Ketter,

I am writing to provide a supplementary submission to the Senate Economics References Committee's Inquiry into the Future of Australia's Naval Shipbuilding Industry. This submission contains responses to the Questions on Notice which were asked of me at the Public Hearing for this Inquiry, held in Perth on 3 April 2017.

As I communicated at the Public Hearing, the Western Australian (WA) State Government is making naval shipbuilding, and defence more broadly, a priority in the State's economy.

I am honoured to be appointed as the State's first dedicated Minister for Defence Issues. My appointment marks the commencement of a new approach towards defence in WA, recognising the importance of the Australian Defence Force presence in the State and our local defence industry's experience, capability and capacity.

On 26 May 2017 the State Government launched the Office of Defence West (Office), an agency that will develop and implement the State's defence strategy and policies. The Office will work with local industry to develop and promote the State's capability, work with Universities and training organisations to ensure we continue to have a skilled workforce, and work with the Commonwealth Government to ensure WA receives a fair share of the defence dollar.

The Office is currently drafting a Western Australian Defence Strategy that will highlight our capabilities, infrastructure and experience, and outline our targets across the six capability streams of the 2016 Defence White Paper and Integrated Investment Program.

This strategy will not only focus on domestic opportunities, but will look to take advantage of potential export markets in the Indian Ocean region. WA's place in the region will be an ongoing focus for the State Government and we have plans to develop a biennial Indian Ocean defence conference to showcase WA's local

industry's capabilities and attract international investment. This event would be on the alternate year to the Pacific International Maritime Exhibition, which the Office of Defence West will be participating in October of this year.

Following the establishment of the Office of Defence West, the State Government will soon appoint a WA Defence Advocate who will actively campaign for a greater share of the Commonwealth Government's defence spending for the state. The Advocate will be a well-respected and experienced former member of the military and will give the State a greater voice in the national defence discussion.

While the State Government will look to expand its focus, we acknowledge that our current strengths are in our shipbuilding, sustainment, upgrade and repair industries. Western Australia has a long and proud history of supporting the Royal Australian Navy fleet, in particular those vessels home-ported at HMAS Stirling. The State Government will look to maintain and expand this role going forward, and is working with the Commonwealth Government to ensure we have the necessary infrastructure on the west coast to service the current and future naval fleet.

Due to this experience, our local industry has developed the expertise, capability and capacity required to deliver complex defence programs. While we are pleased with Henderson being selected as one of two hubs to deliver the Commonwealth Government's continuous build program, we know that Western Australia can contribute to more of the national endeavour, than minor surface vessels. This State Government, through the Office of Defence West, the Advocate and myself, will continue to campaign for a greater share of the upcoming build programs which would not only benefit this State but the nation as a whole.

I thank you for allowing Western Australia to provide this supplementary submission and for giving me the opportunity to speak at the Public Hearing on 3 April 2017. The State Government looks forward to further engagement in the national debate on the future of Australia's naval shipbuilding industry.

Regards

Hon. Paul Papalia CSC
Minister for Defence Issues

**Senate Economics References Committee
Inquiry into The Future of Australia's Naval Shipbuilding Industry**

**Public Hearing held in Perth on 3 April 2017
Questions on notice for the Hon. Paul Papalia CSC, Minister for Defence
Issues**

Number	Question	Hansard page
1	<p>Senator SMITH: Perhaps on notice you could tell me <u>which of the 15 recommendations in the previous government's submission you agree or disagree with. And perhaps, on notice, you could share with me a little bit more detail about what are the four or five measurements of success the new government will judge themselves against, not just in the first 12 months but over the term of the government.</u></p> <p>Mr Papalia: I think the measurements of success of our government will be made by the Western Australian public.</p> <p>Senator SMITH: I am very sure of that.</p> <p>Mr Papalia: I will undertake to supply a submission which revisits the submissions you have received previously from the past government, and updates to reflect our priorities.</p> <p>CHAIR: We would welcome a supplementary submission.</p>	4

Which of the 15 recommendations in the previous government's submission you agree or disagree with?

Recommendation 1 – That the Commonwealth Government invests in Stage Two of the Floating Dock (FD2) to provide strategic docking capability on the west coast for current and future naval vessels.

It is essential that the Commonwealth Government continues to invest in strategic docking capability on both the West and East coasts of Australia to ensure that the Royal Australian Navy's operational requirements are supported and that the two-ocean policy can continue.

Additional docking capability is a priority for the State Government so that a greater range of vessels can be docked in Western Australia, which would benefit both the Royal Australian Navy and visiting allied navies such as the United States.

The State Government is working with the Royal Australian Navy, the Department of Defence and other key stakeholders to identify and understand future docking requirements, to inform infrastructure investment at the Australian Marine Complex (AMC) in Henderson.

The State Government, through the Office of Defence West, is currently seeking clarity from the Commonwealth Government on how the previous infrastructure study undertaken by RAND, and the studies proposed to be undertaken in the second half of 2017, will factor into future infrastructure planning and investment at Henderson.

Recommendation 2 – That Defence continue to fund and support the Defence-State and Territory Government Industry Advisory Forum that provides strategic direction and advice and coordinate implementation of the DIPS initiatives.

The State Government agrees with this recommendation.

Recommendation 3 – That Defence continues the industry engagement roadshow initiative for naval shipbuilding and other Defence acquisition projects, in order to directly engage with Australian industry in relation to these programs.

The State Government agrees with this recommendation.

Recommendation 4 – That Defence continue to make Australian Industry Capability (AIC) Plan summaries publically available and use AIC Plans as the basis for ongoing discussions with prime contractors to ensure maximum local industry involvement throughout the procurement cycle.

The State Government agrees with this recommendation and as I stated at the Public Hearing, it is essential that shipbuilding supply chains be established in Australia if we are to develop a sovereign industry capability.

Defence needs to engage with prime contractors, both international and local, to ensure there is Australian industry participation in their build programs to enable the development of a sustainable sovereign capability in shipbuilding.

Further to this, overseas designers should be encouraged to assist Australian industry in achieving the certifications and standards required, rather than defaulting to existing relationships with their overseas suppliers.

These steps need to be taken and the Commonwealth Government must encourage and monitor Australian industry participation throughout the procurement cycle if the nation is to develop a sustainable shipbuilding industry.

I am encouraged by the 29 June 2017 announcement from the Commonwealth Government that AIC Plan provisions have been strengthened, and I am pleased to hear that this more robust approach has been included in the tenders for the Offshore Patrol Vessel and Future Frigate programs.

Recommendation 5 – That Defence work closely with prime contractors/designers for naval shipbuilding programs to build Australian industry capability through ensuring the transfer of knowledge and intellectual property to the local industry.

The State Government agrees with this recommendation.

Recommendation 6 – That Defence does not duplicate the facilities, infrastructure or industry capability that currently exists in WA for future naval shipbuilding programs.

The State Government agrees with this recommendation and expects that the second RAND report which is currently being produced will take into account the capability and capacity of Western Australia's infrastructure and industry to deliver naval shipbuilding programs, and not just those vessels classified as Minor Naval Vessels.

If the Commonwealth Government was open to a modular or block build strategy for the Future Frigates and Future Submarines, as suggested by Senator Reynolds comments at the Public Hearing on 3 March 2017, Western Australia and other States could play a greater role in the upcoming build programs.

This approach would be a more efficient use of public money rather than duplicating infrastructure and skills base in South Australia that already exists elsewhere. The concern is that the recently released Naval Shipbuilding Plan states that there will be significant Commonwealth Government investment in infrastructure, approximately \$1 billion across Osborne North and South shipyards, and there is no mention of modular or block build strategy for upcoming programs.

My office has also discussed alternative build strategies with the Minister for Defence Issues the Hon Christopher Pyne, however he reiterated that Minor Naval Vessels will be constructed in Henderson and Major Surface Combatants and Future Submarines will be constructed at Osborne in South Australia. Despite this position, the State Government will continue to pursue opportunities for our local shipbuilding industries.

Recommendation 7 – That Defence publishes the Naval Shipbuilding Plan as soon as possible to ensure the timely planning and development of infrastructure that will enable delivery of the future naval shipbuilding programs.

The Naval Shipbuilding Plan was released on 16 May 2017. The State Government understands that this is the first of several plans to be released and intends to have input into future iterations.

Recommendation 8 – That the Commonwealth implements the commitment of the continuous build of Minor Naval Vessels in Henderson, and ensures an efficient and effective transition of the OPV build program from Adelaide to Henderson.

As I stated at the Public Hearing, I believe that the decision to build the first two Offshore Patrol Vessels in South Australia is not the right decision for that program, nor is it in the interest of the national naval shipbuilding endeavour.

I understand the desire to bridge the gap between the completion of the build of the Air Warfare Destroyers and the commencement of the Future Frigates, however Western Australia is facing its own valley of death following the State's resources boom. As I stated, perhaps the better decision to avoid the loss of workforce in South

Australia would have been to build a fourth AWD, rather than the first two OPVs which introduces unnecessary risk into that program.

Western Australia has the capability and capacity to deliver the OPV program in its entirety.

We have a surplus of skilled workers who are willing and able to contribute and due to their experience in the maritime and resources sectors, the skills base in this State is far greater than what is available in South Australia.

As Henderson in Western Australia is the designated hub for the construction of Minor Naval Vessels the State Government will also be seeking to understand which other programs captured in the 2016 Integrated Investment Program can be undertaken here and encourage the Commonwealth Government to bring these forward where possible. The State Government, through the Office of Defence West, is developing a proposal for the Commonwealth Government regarding the broader minor vessel build programs.

Recommendation 9 – That the State Government work with Defence to establish the OPV project headquarters and the Systems Program Office in WA, to be ready for the transfer of the build program.

The State Government agrees with this recommendation and Office of Defence West is in discussions with the Commonwealth Government and potential prime contractors for the OPV program regarding the establishment of the Systems Program Office.

Recommendation 10 – That Defence work with the State Government to ensure that a campus of the proposed Maritime Technical College (MTC) is located in WA, with appropriate funding being allocated to this initiative.

The Commonwealth Government announced earlier this year that the Maritime Technical College (MTC) would be based in Adelaide and will see Australians studying and training for careers in areas such as welding, steel fabrication, fitting and turning and electrical trades.

The Commonwealth Government's position is that the MTC will work with existing TAFEs, universities and other training providers, and a Request for Proposal has recently been released to all States and Territories.

Western Australia has first-class education and training organisations which offer defence related courses and skills development, and the Office of Defence West is working with these organisations and the Commonwealth Government to ensure they can be involved in this initiative.

Recommendation 11 – That Defence work with State and Territory Governments to identify the skills required to support the Naval Shipbuilding Plan, fund the training and development of these skills to enable the delivery of the continuous build programs and develop sovereign industry capability in naval shipbuilding.

The State Government agrees with this recommendation.

Recommendation 12 – That Defence work with the State Government to further develop WA as the RAN maintenance and sustainment hub and to facilitate the transfer of Full Cycle Docking for the Collins Class submarine fleet from Adelaide to WA.

The State Government believes that the transfer of full cycle docking for the Collins Class fleet from South Australia to Western Australia would be the right decision due to the fleet being home-ported at HMAS Stirling and the capability and capacity of our industry to deliver these sustainment requirements.

The State Government will work with the Commonwealth Government, including the newly established Australian Naval Infrastructure (ANI), to ensure that Western Australia is in the strongest position for this increased sustainment work. The State has a long and successful history of submarine sustainment and the provision of through-life-support and has a workforce willing and able to undertake full cycle dockings.

Recommendation 13 – That Defence work with the State Government to further develop and enable Fleet Base West to continue to be the home port for the RAN submarine fleet.

The State Government agrees with this recommendation and as the submarine fleet is home-ported on the West Coast, it makes sense for the Commonwealth to continue to invest in the facilities and infrastructure required to sustain the fleet into the future.

As I stated at the Public Hearing, we need to understand the details of the \$100 million infrastructure investment announcement made by the Prime Minister prior to the State Government Election.

My office has subsequently discussed this matter with the Minister for Defence Industry the Hon. Christopher Pyne, and we will continue to work with him to ensure this investment is made in a timely and effective manner.

The State Government's desire is to have the AMC and HMAS Stirling complement one another and to have as much maintenance work as possible undertaken in Henderson to allow HMAS Stirling to focus on operations.

Recommendation 14 – That Defence recognise the flexibility and scale of WA's fabrication, engineering and shipbuilding industries and incorporate the internationally competitive range of capabilities and skills that exist within the State's resources sector to develop sustainable industry capability through naval shipbuilding.

The State Government agrees with this recommendation and while this capability and capacity was captured in the Naval Shipbuilding Plan, it is disappointing that significant Commonwealth Government investment will be made to replicate the required skills in South Australia, rather than utilising Western Australia's workforce to a fuller extent.

The State Government will continue to make a case for a greater share of the upcoming build programs which would better utilise the existing skilled workforce available.

Recommendation 15 – That Defence maintain a clear and consistent procurement process for naval shipbuilding programs and continue to engage with Australian industry throughout the procurement process to identify realistic opportunities.

The State Government agrees with this recommendation and the Office of Defence West intends to work closely with the Commonwealth Government and prime contractors to ensure not only maximum industry participation in these programs but that the workforce be effectively transitioned from one build program into the next.

This approach would avoid the valley of death and ultimately better meet the requirements of the Commonwealth Government and the Royal Australian Navy.

Could you share with me a little bit more detail about what are the four or five measurements of success the new government will judge themselves against, not just in the first 12 months but over the term of the government?

The State Government is committed to obtaining a greater share of the defence dollar for Western Australia. We have met our election commitment of establishing the Office of Defence West, and the appointment of a WA Defence Advocate to champion the interests of our local defence industry is imminent.

Western Australia has the infrastructure, capability and capacity, skills and workforce to deliver far more than Minor Naval Vessels. The Office of Defence West is currently developing a Western Australian Defence Strategy, which will outline our plans for the future in relation to naval shipbuilding and the other defence capability streams.

The State Government believes that Western Australia has not been as active in the discussion as it should have been and through my office and the work of Office of Defence West, we intend to change the shape of the national debate so that the State receives a greater share of defence work.

This would ensure the state has a robust defence sector capable of supporting the ADF in peacetime and at war. This outcome is in the national strategic interest.

There are many ways in which the success of the State Government will be measured in this space and ultimately we are accountable to our local defence industry to deliver them more work than has currently been allocated.

This is a long-term goal but we are committed to achieving outcomes that benefit Western Australian economy as well as the national shipbuilding endeavour.

2	<p>Senator XENOPHON: I invite you to take on notice the RAND review. It is a very respectable think tank in defence matters. It is not a political document. It is something that is highly regarded by analysts in the defence industries as being pretty impartial. <u>Could you on notice take into account the RAND Corporation's recommendations?</u> The recommendation to build all of the OPVs in WA was actually rejected by Navy on the basis of the RAND review.</p>	5
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Since the Public Hearing I have had a closer look at the 2015 RAND report into Australia's Naval Shipbuilding Enterprise and I maintain that the recommendation to split the build of the Offshore Patrol Vessels was made with the overall intention of avoiding the valley of death in South Australia between the AWD and Future Frigate builds.

I understand that it is important to retain the shipbuilding workforce in South Australia between these two programs, however I believe the decision to bridge the gap with two OPVs is not the right decision for this program or for the national endeavour.

The RAND report included limited content on Western Australia, or other States capability and capacity related to shipbuilding. It also did not closely examine the skills and workforce availability in other States.

While the AMC-CUF, Austal, BAE Systems and ASC were acknowledged in the Report, we would like to see both the upcoming RAND Report and future studies take a deeper look into the industry capability and capacity that exists in Western Australia, and recognise the surplus of skilled workers we have in comparison to other States including South Australia.

3	<p>ACTING CHAIR: Senator Reynolds will answer that question. Minister—you may want to take this as part of your supplementary submission—the Australian Business Defence Industry have made a submission to us, and I quote directly from them. They say, 'Apart from jobs directly associated with construction and tests and trials, the opportunities for wider flow-on benefits to local jobs and the economy are unlikely to be realised by the commencement of builds at dates currently mandated for Sea 1180, the offshore patrol vessels, and Sea 5000, the future frigates.' That is because they are arguing that the designs are taken offshore with offshore supply chains. Their proposition is that Australian manufacturers—small- to medium-sized manufacturers—will not get much of an opportunity to participate in these contracts. <u>Could I ask you to comment on that submission as to its veracity, in your assessment?</u></p>	6
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I do not believe that overseas designs require overseas supply chains. As I stated at the Public Hearing, it is essential that supply chains be established in Australia and that overseas designers integrate as much Australian content into their build strategies as possible.

My understanding is that Australia has the required capability and depth within its industry to build ships and that the Commonwealth Government needs to work with prime contractors throughout the procurement cycle to ensure local content is maximised.

4	ACTING CHAIR: Similarly, in terms of your supplementary submission, the Royal Institution of Naval Architects talks about the use of Australian standards. <u>Could you address that issue because that goes directly to the question of which companies do the work?</u>	6
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As I discussed at the Public Hearing, where the issue is standards, prime contractors should assist industry to achieve the necessary standards rather than deferring to a supplier in their existing overseas supply chain.

This however is not solely the responsibility of a prime contractor or the Commonwealth Government. The State Government, through Office of Defence West, intends to work with local industry to up-skill and assist companies in achieving the certifications and standards required to enter and remain in defence supply chains.

5	Senator REYNOLDS: In addition to the questions that Senator Smith asked—about which of these 15 recommendations you agree with and a little more fidelity around what your measures of success are—perhaps you could go into more detail, because we already do a lot of the sustainment. BAE are doing a wonderful job on the frigates, we have the Australian Submarine Corporation here doing the maintenance on the submarines and we have a lot of commercial work. The next part of the question is: where do you see that going? We do not have to push our case that we have the talent and the skill sets to do the sustainment maintenance, but that is where the 50-year-plus jobs are. Not only for everybody here but also for their children and their children's children, the sustainment and maintenance—as well as the build—is where their jobs are going to be in the future. Can you take on notice: <u>what is your plan to lock in not just the build, which is important enough, but also the sustainment and maintenance?</u>	7
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The State Government is in agreement with the two-ocean policy and wishes to continue the home-porting of the submarine fleet and other vessels on the west coast.

We have built up our local industry to provide support for these home-ported vessels and the State Government will work with the Commonwealth Government and with other parties including ASC and the newly created Australian Naval Infrastructure to ensure that Western Australia has the required infrastructure to deliver full cycle dockings for the Collins Class fleet.

The State has a long and successful history of submarine, frigate and patrol vessel sustainment and the State Government has a strong desire to expand this role in the future.

We currently have a capability gap where we are unable to dock the fleet oiler HMAS Sirius and other larger RAN vessels, however we will continue to plan and develop, in conjunction with the RAN and other key stakeholders, the capacity to deliver full docking capability on the west coast.

6	<p>Mr Papalia: I accept that, Senator. I am just saying that you said: 'What would we use as a measure of success?' I would say, as a measure of success, yes; we get all the sustainment in the future, because half of the fleet is here and we are close to the areas of operations. But beyond that, right now: before the last federal election, in the course of one week, the federal government announced \$89½ billion worth of ship and submarine builds and \$86 billion worth of it was assigned to South Australia. I would say it is a measure of success if we get more than \$3 billion!</p> <p>Senator REYNOLDS: Minister, now that you are in government and the election is over, I would respectfully submit to you that that is completely wrong. In fact, we can provide you the detail and publicly provide the information—</p> <p>Mr Papalia: Thank you.</p> <p>Senator REYNOLDS: I would just ask you to go back and recalculate that. As you said, we can build the components here, we can do the electronics; we can build many of the components in our fabricators here. So while the build might be in South Australia, Western Australian companies have absolutely got the opportunity to provide a lot of the parts and the systems for it.</p> <p>Mr Papalia: I understand that. But it is the skill of fabrication that I am concerned about—</p> <p>Senator REYNOLDS: <u>Can I ask you to take that on notice and come back with the sums?</u></p>	8
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Western Australia, specifically Henderson, has been selected by the Commonwealth Government as the location for the build of Minor Naval Vessels as part of the continuous Naval Shipbuilding Plan.

Western Australia has the capability and capacity to deliver far more than the Pacific Patrol Boat and Offshore Patrol Vessel programs, and that with a change of approach to modularisation for the Major Surface Combatants and Future Submarine programs, some of this work could be undertaken in Western Australia and the shipyards of South Australia could be used to consolidate the builds.

We understand that Western Australian industry will manufacture and supply components for these larger programs but what we would like to see and what we need to see is our world-class capability in steel fabrication, rolling and welding being utilised to its fullest.

The experience of the resources boom and the construction of large, complex modules for the oil and gas and mining industries, a substantial amount of which was undertaken at Henderson, leaves the State with a highly skilled workforce.

There is no need to spend millions of public money in training and skilling programs, or on additional infrastructure for that matter, in South Australia when this capability already exists elsewhere. Western Australia will also continue to have a strong focus on sustainment and the State Government will work to build and maintain the capability and capacity to expand our role in providing through-life-support to current and future vessels.

The Federal Liberal Government have recently advertised in The West Australian newspaper and online sources that they have delivered a victory for Western Australia as 31 of the 54 naval vessels committed to be built in Australia will be built in Henderson. These vessels are comprised of up to 21 Pacific Patrol Boats, currently being constructed by Austal under a contract worth \$305 million (which includes seven years of sustainment), and 10 of the 12 Offshore Patrol Vessels worth a total of \$3.5 billion.

While there may be a lesser number of Future Frigates (nine vessels) and Future Submarines (12 boats) being produced in South Australia, the value of these programs in terms of dollars, jobs and flow-on benefits are far greater in comparison to 31 vessels to be constructed in Western Australia. This argument is therefore redundant and the State Government will continue to campaign for a greater share of these upcoming shipbuilding programs.