

MEMORANDUM

Austal response to the Inquiry into the Department of Defence Annual Report 2023-24

FROM: Paddy Gregg POSITION: Chief Executive Officer, Austal

TO: Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT)

SUBJECT: **Inquiry into the Department of Defence Annual Report 2023-24**

DATE: 1st February 2025

Austal has been open, transparent and specific to aid the quality of the response for the inquiry, which has resulted in Austal including strategic thinking and providing specific project and company references.

Dear The Honourable Brendan O'Connor and the Joint Standing Committee,

Thank you for allowing Austal to provide comment to the Inquiry into the Department of Defence Annual Report 2023-24.

The inquiry reference asks to focus on Sovereign Defence Industrial Priorities, so our comments are focused on these topics:

1. A robust, reliable and effective sovereign defence industry is essential for the defence of Australia and its national interests.
2. Defence's progress to achieving continuous naval shipbuilding;
3. Enhanced self-reliance and resilience of guided weapons and explosive ordnance- **not relevant to Austal.**
4. Fuel supply assurance- **not relevant to Austal.**
5. Innovation, research and advanced capability acceleration.

Although not specifically requested we will make comments on the following topics:

6. AUKUS.
7. Uncrewed and Autonomous Systems, AI and their integration into the Joint Force.

Following the headings above:

- **A Robust, Reliable, and Effective Sovereign Defence Industry is Essential for the Defence of Australia and Its National Interests**

Austal acknowledges the importance of continuous naval shipbuilding (CNS) and offers the following observations and recommendations:

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Key Observations:

1. Benefits of CNS:

- The advantages of CNS are well captured in Defence's *Strategic Industry Capability Priorities* and the *Defence Industry Development Strategy*.
- CNS represents a significant shift from traditional approaches and is an unprecedented initiative to ensure the development and retention of a highly skilled workforce to meet the nation's needs.
- Austal commends Defence and the Government for recognising the importance of CNS and taking steps toward its implementation.

2. Strategic International Alliances:

- Austal supports extending strategic alliances such as AUKUS to the industrial base and promoting integrated supply chains, ease of labour movement, and a network of sustainment for visiting forces across the region.
- As the 5th largest defence and government shipbuilder in the United States, Austal believes Australia's sovereign capability should be further leveraged through proactive industrial policy and greater recognition of a sovereign-based, multinational approach to develop scale and domestic resilience.

3. Challenges in Transitioning to CNS:

- The shift to CNS presents challenges, particularly in workforce ramp up but will begin to deliver long term retention and capability sustainment benefits.
- As demonstrated by the UK's National Shipbuilding Strategy, the ability to leverage efficient and cost-effective design and build techniques developed across multiple-markets ensures value for money for the taxpayer and enhances capability, through technology sharing and best in class practice.
- This means – at least initially – partnering with experienced, proven sovereign shipbuilders to establish, embed and drive the capability required to develop and enhance CNS through continuous improvement over the medium to longer term.

4. Defence Investment in Sovereign Shipbuilding:

- The recent delivery of *Guardian Class* and *Evolved Cape Class* patrol boats exemplifies the Government's commitment to sovereign shipbuilding.
- These sustained programs have enhanced border patrol capabilities and strengthened diplomatic relations with regional partners, whilst deterring other potentially less-friendly nations.
- Notably, these were among the few shipbuilding projects not identified as areas of concern by the Australian National Audit Office (ANAO).

Recommendations:

1. Ongoing Patrol Boat Programme:

- Establish a continuous shipbuilding programme for Patrol Boats.
- Austal has received an order for two out of the eleven required vessels identified in the fleet review.
- Placing an order for the remaining nine vessels, with an agreed delivery rate, would ensure workforce sustainability, cost efficiency, and continuity in shipbuilding operations.

Austal remains committed to supporting Defence and Government initiatives that strengthen Australia's sovereign defence industry and looks forward to continued collaboration to achieve these critical objectives.

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Defence's Progress to Achieving Continuous Naval Shipbuilding:

Key Observations:

1. Strategic Shipbuilding Agreement (SSA) for Western Australia:

- Implementation of the SSA for Western Australia has commenced constructively. We note the commitment given in Senate estimates that it will be concluded by end March 2025, and Austal is working to support that. There is a risk of delays due to the natural rotation of defence personnel and the forthcoming potential Federal election.

2. Infrastructure Planning for Henderson Defence Precinct:

- The Henderson Defence Precinct infrastructure planning primarily focuses on SSN requirements. The Surface Fleet Review, along with other recent Defence strategies, highlights that shipbuilding precedes nuclear submarine requirements by approximately ten years.
- Defence are encouraged to acknowledge that transitioning to the final Henderson precinct design will take time, and early actions are needed to accommodate shipbuilding needs while this develops.

3. SSA Shipbuilding Projects:

- Shipbuilding projects under the SSA are crucial to sustaining the enterprise, delivering the required capability to Australia's armed forces quickly and preparing the precinct for SSN work. Any delays in awarding critical ramp up contracts will have significant negative impacts on Australia's naval capability and the long term health and effectiveness of CNS in Western Australia.

4. Transitioning LCM Programme to SSA Contract:

- The LCM programme, as the first SSA pilot, must transition smoothly from existing interim contracts to a single SSA contract without disruptions from the General Election.

5. Landing Craft Heavy (LCH) Programme:

- The involvement of the Strategic Shipbuilder in design assessment for LCH has ensured a mature and low-risk design.
- The LCH programme is at risk of delay due to a lack of clarity in the acquisition process, with contracts unlikely before mid-2025.

6. General Purpose Frigate (GPF) Programme:

- Austal's engagement in the GPF is increasing as procurement progresses.
- There is concern that offshore builds may be promoted as lower-risk and more cost-effective, which would significantly undermine sovereign capability development and strategic resilience.
- Policies should ensure such decisions align with Australia's long-term national interests.

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Recommendations:

- 1. Unlock Contracting Constraints for LCM, SSA, and LCH:**
 - The SSA was announced on November 23, 2023, but remains incomplete. Defence are recommended to expedite the contracting process to meet the March target.
- 2. Prioritise Sovereign Shipbuilding Capability:**
 - Policies should discourage offshore shipbuilding of defence platforms (grey ships) to ensure sovereign capability remains a strategic priority.
 - To deliver choice and value for money to the taxpayer, consideration could be given for flexible overseas builds for non-grey ships, whilst still being procured through Australian parent companies to ensure IP, revenue and taxes remain onshore.
- 3. Accelerate Henderson Precinct Consolidation:**
 - The current three-year timeline to develop the precinct plan does not align with shipbuilding needs outlined in the Surface Fleet Review and Integrated Investment Plan. Delays also pose risks to AUKUS commitments.
 - Austal is actively supporting Defence in consolidating the Henderson Precinct.
- 4. Mitigate Strategic Shipbuilding Risks:**
 - To ensure strategic shipbuilding continuity as the Henderson Precinct develops, Defence should consider infrastructure investments such as a floating dock to support the General Purpose Frigate programme.
 - Austal has extensive experience operating floating docks internationally and is currently building one for the US Navy.

Austal remains committed to supporting Defence and Government initiatives that strengthen Australia's sovereign defence industry and looks forward to continued collaboration to achieve these critical objectives.

Innovation, Research, and Advanced Capability Acceleration:

Key Observations:

- 1. Introduction of the Advanced Strategic Capabilities Accelerator (ASCA):**
 - During the reporting period, Defence introduced the ASCA to enhance innovation support. While the initiative is positive, there appears to have been a reduction in the number of supported projects.
- 2. Australian Technology Innovation:**
 - Australia possesses world-class technology, but many innovations are forced offshore—particularly to the USA—for funding through mid-level Technical Readiness Levels (TRL) and production. Australian Defence tends to prioritise procurement of proven technologies or innovations close to operational readiness, limiting support for earlier-stage development or scoping activity.
- 3. Challenges in Supporting Early-Stage Innovation:**
 - Alone, Australia may lack the scale and capacity to sustain long-term, early-stage defence innovation.
 - Partnering with international allies, potentially accessed through long-term framework agreements, could help provide the necessary scale, provided efforts remain aligned on shared strategic challenges.

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4. **Austal's Role in Advancing Defence Technologies:**

- Austal is actively working with its US subsidiary to advance critical defence technologies, including:
 - Digital Shipyard and Industry 4.0 applications to modernise naval shipbuilding.
 - Autonomy platforms, particularly large and medium unmanned surface vessels.
 - Advanced manufacturing techniques to enhance production efficiency and capability.
- It is also developing an Integrated Digital Environment in support of SSA objectives in Australia, to improve efficiency, project & supply chain management, clarity of reporting and access to information in support of CNS objectives.

5. **Unique Geographical Challenges:**

- Australia's vast maritime domain presents operational challenges that may not align with foreign-developed technologies.
- Conversely, it also provides significant opportunities, driven by the maritime security orientation towards the Indo-Pacific and presence of sovereign bases.
- A strong reliable sovereign innovation ecosystem is required to ensure Australia can develop and adapt technologies suited to its unique requirements, while still collaborating with international partners.

Recommendations:

1. **Review the ASCA Model:**

- Review the ASCA model to ensure it does not exclude novel and early-stage TRL innovations. Adjustments could help balance its focus while broadening the range of supported projects.

2. **Increase Investment in International Collaboration:**

- Increase investment in international collaboration to enhance scale and capacity in research and development while ensuring Australian sovereign capability is strengthened.

3. **Establish Long-Term R&D Funding Models:**

- Establish long-term R&D funding models that extend beyond short-cycle project funding, which limits confidence in long-term development and delivery.

4. **Ensure Sustained Defence Innovation Funding:**

- Ensure sustained Defence innovation funding, recognising that rapid technological advancements require continuous support to maintain a cutting-edge sovereign defence industry.

Austal remains committed to advancing innovation and capability development to support Australia's sovereign defence industry and will continue working alongside Defence to strengthen these efforts.

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AUKUS:

Key Observations:

1. **Economic Opportunity:**

- AUKUS offers a significant opportunity to leverage Australia's industrial base, with Austal already contributing to the US submarine program (Virginia and Colombia Class). The partnership could have a long-term positive impact on Australia's economy, particularly in defence and related industries.

2. **Infrastructure Efficiency:**

- Austal's experience in the US highlights the efficiency of US government-industry partnerships in rapidly developing necessary infrastructure. The successful USD 450 million funding for submarine module facilities, with a two-year turnaround from concept to cash, showcases the effectiveness of such collaboration.

3. **Worker Mobility Challenges:**

- Current visa restrictions hinder the ease of transferring skilled workers across AUKUS countries. The ability to move employees more freely, particularly through mechanisms like the AUKUS passport, would facilitate better knowledge transfer and enhance project execution.

4. **Advanced Manufacturing Technology:**

- Austal's Additive Manufacturing Centre of Excellence in the US exemplifies cutting-edge technology supporting the Virginia Class supply chain. However, there are limited avenues for transferring this advanced manufacturing technology to Australia, and the current Defence R&D strategy does not fully capture the potential of such innovation.

Recommendations:

1. **Support Australian Companies in the AUKUS Supply Chain:**

- Defence and government should continue to support Australian companies entering the AUKUS supply chain and find ways to accelerate this process if possible.

2. **Conduct Regular Reviews:**

- Ensure there are regular reviews so that lessons learned can be captured quickly and opportunities maximised. Austal is happy to support these initiatives, with our significant footprint in the US Naval shipbuilding sector, including building modules for Virginia SSNs.

3. **Pursue the AUKUS Passport:**

- Defence and government should continue to pursue the AUKUS passport and other relaxations on working visas to ease the flow of skilled workers between Australia and AUKUS partner countries.

4. **Review R&D Strategy for Advanced Manufacturing:**

- A more strategic R&D plan focused on enhancing advanced manufacturing in Australia could provide significant benefits.

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Uncrewed and Autonomous:

Key Observations:

1. **Austal's Leadership in Autonomous Vessels:**
 - Austal is one of the few companies qualified to participate in the US Navy's autonomous vessel panel. The collaboration between Austal Australia and Austal USA on several autonomous projects has positioned the company as a key player in this field. These projects have a higher likelihood of receiving support and funding through the US government, compared to Australian domestic supported programmes.
2. **US MAST Program and Austal's Ambitions:**
 - The connection to the US MAST (Maritime Autonomous Systems Technology) program formally integrates Austal's capabilities into an internationally recognised framework. Austal plans to pursue similar autonomous projects both in Australia and the US, enhancing its global position in this space.
3. **Supporting Australian SMEs in Autonomous Development:**
 - Austal has successfully assisted Green Room Robotics, an Australian SME, to enter the US supply chain with its vessel navigation autonomy systems. This highlights Austal's commitment to fostering innovation and collaboration with local companies, enhancing Australia's technological footprint in autonomous systems.
4. **Australia's Need for Autonomy in Maritime Operations:**
 - With a vast coastline and limited resources for manned patrols, Australia faces significant challenges in maintaining persistent surveillance and deterrence. Autonomous systems offer a viable solution to this challenge by reducing crew requirements while ensuring continuous coverage of Australia's maritime borders.
5. **Successful Autonomous Platform Development:**
 - Austal led the conversion of an existing platform into the largest fully autonomous patrol boat in the Southern Hemisphere. Despite significant industry interest in deploying smaller autonomous vehicles from the platform, Austal has faced challenges in securing R&D funding (around \$500,000 per year) to maintain and further develop the technology.
6. **Support Platform for UxVs:**
 - Austal believes that small to medium UxVs alone cannot cover the distances required for surveillance and operations; they will need a support platform to extend their operational range and effectiveness. This insight emphasises the importance of developing integrated, multi-platform autonomous systems.

Recommendations:

1. **Develop and Support an Autonomous Strategy:**
 - Continue investing in the development of a comprehensive plan for the use of autonomy within Australia's defence strategy. It's crucial to ensure that this plan is understood and supported across the wider defence enterprise.
 - A clear roadmap from initial concept to operational use by the warfighter will guide the integration of autonomous systems into Australia's defence capabilities.

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2. **Secure Long-Term R&D Funding for Autonomous Systems:**
 - Address the gap in funding for continued research and development of autonomous platforms. Austal's previous experience highlights the potential of relatively small funding amounts (around \$500,000 per year) to sustain and advance autonomous capabilities. Securing this funding is essential to maintain the momentum and industry interest in these technologies.
3. **Encourage Industry Collaboration:**
 - Foster further collaboration between larger companies, such as Austal, and Australian SMEs (like Green Room Robotics) to enhance innovation and build a strong, local autonomous systems ecosystem.
 - This will strengthen Australia's global position and ensure that domestic companies play an integral role in advancing autonomous technologies.
4. **Leverage the US MAST Program:**
 - Continue to explore opportunities within the US MAST program and work towards expanding Austal's involvement in both the US and Australian autonomous initiatives. This will allow Austal to stay ahead in the development of cutting-edge autonomous systems while leveraging international partnerships.

All of our responses and recommendations can be discussed further if required. We have an excellent working relationship with Government, Defence and war fighters. We are excited and encouraged by the Strategic Shipbuilding Agreement and the long-term partnership it brings. Thank you again for the opportunity to respond.

Kind Regards,

Paddy Gregg,
CEO, Austal