

Senate Economics Legislation Committee  
PO Box 6100  
Parliament House  
Canberra  
ACT 2600



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To the Senate Economics References Committee

**RE: Part I of the Inquiry into the future of Australia's naval ship building industry**

Thank you for your invitation to make a submission to the inquiry into the future of Australia's naval ship building industry. This is an issue that is very close to my heart, given my background as a Port Adelaide local, who spent some of my first few years at ASC welding the submarines themselves.

After leaving ASC, I went on to start my own business, Smart Fabrication, and then acquire and further grow an existing business, Adelaide Ship Construction International. We operate in a number of industries, all of which have benefited from our experiences manufacturing goods and providing services for the Collins Class submarines and Air Warfare Destroyer program; which in turn, is only possible due to the experience and knowledge I had gained as a first class welder at ASC.

The Government's decision to exclude the Australian defence industry from tendering for the replacement of HMAS Success and HMAS Sirius, and instead have a restricted tender for Spanish and South Korean shipbuilders must be reversed. The reasons upon which they based such a decision have many valid arguments against them. Over the next few paragraphs I will explain why some of the reasons that have been given are invalid for deciding to offer the tender offshore.

It has been said that overall, it costs too much to build submarines and ships in Australia. However, the current cost of the Collins Class submarines and the AWD program includes other costs aside from the direct cost of the submarine or ship itself. Due to the lack of a Continuous Build Program, each time such a project is commenced; it is forced to first emerge from the Valley of Death, incurring massive setup costs, before once again returning to the Valley of Death and incurring massive decommissioning costs. These massive setup and decommissioning costs are borne from the cost of workforce attraction, training and development; infrastructure build and handover/sale; equipment purchase and sale; and other one-off cost items. If Australia were to continue building such key defence materiel, such as the replacements for HMAS Success and HMAS Sirius, by implementing a Continuous Build Program, these large setup costs would be absorbed, bringing the overall cost of such projects down in the long term.

The large costs of the current AWD program have been further exacerbated by poor criteria setting by the previous Government of the destroyer's requirements; by a poorly managed procurement process for the ship designs by the previous Government; and by the previous Government's inability to listen to the advice given by ASC when it was initially consulted to assist with each of the previously mentioned aspects. The Australian manufacturing industry is being unfairly blamed for the failures of the previous Government. By not being given the opportunity to tender for the auxiliary supply ships we are also being unfairly penalised for previous Governmental failures that the industry already tried vigorously to prevent.

Building the Navy's auxiliary ships in Australia will be a billion dollar investment in Australia's economy and socio-economy with fantastic positive impact. Every dollar spent on a ship or submarine within Australia goes further than the initial transaction. Australian primes engage Australian manufacturers who engage Australian subcontractors. The training and development required to build the ships and submarines not only contributes to our local economy, but also our local knowledge and skills base. If the Navy's auxiliary supply ships are built overseas, the flow-on effects of each dollar spent will not be felt in Australia. We would be investing billions of dollars in an overseas economy, in overseas communities, instead of our own. It would be detrimental to Australia's knowledge and skills base and akin to shooting ourselves in the foot.

Adelaide's former Thinker in Residence, Professor Goran Roos, has maintained that not just Adelaide, but Australia as a whole, needs to transition the economy from a traditional manufacturing focus based around products to a service industry focus. We also need to remain a smart economy, not just a country that digs holes in the ground and exports the raw material with very little processing. We agree with this perspective and believe it would be a boon to Australia to provide the through-life support required of its own defence fleet by maintaining a smart, service-based economy. However, the decision to not allow Australian companies to build, let alone tender for, the supply of the Navy's replacement auxiliary supply ships, means we will lack the knowledge and skills necessary to service and maintain the assets once we acquire them. If servicing is not carried out offshore, we would need to build our knowledge and skills base up to a level comparable with that required to build the ships in the first place. Thus, we will enter a Valley of Death in relation to service and maintenance if Australia does not build the Navy's new ships. This would also have a substantial impact on our ability to remain self reliant as a nation in times where major allies simply pack up and go, as the British did in 1942 in Singapore. The ability to service our own fleet is crucial to maintaining a strong, capable defence force.

Australian shipbuilders have the capability to build in full or in part, the two auxiliary supply ships to replace the Navy's HMAS Success and HMAS Sirius. This is obvious from our track record, whereby Australia has already built: all eight Anzac Class frigates; two of the six Adelaide Class frigates; all six Collins Class submarines; the one and only HMAS Tobruk; all eight Balikpapan Class heavy landing craft; all fourteen Armidale Class patrol boats, the incumbent HMAS Success; two Leeuwin Class survey ships; and all four Paluma Class survey motor launches. If a Continuous Build Program had been in place for the above listed vessels, I have no doubt that Australia would be in a far greater position than it is now, to successfully build the Navy's two new auxiliary supply ships. Nevertheless, we still have the expertise and capability for the builds.

With regard to the feasibility of input from Australian industry, it is highly feasible that Australian industry participants could easily have been invited to contribute to the tender process, prior to the Government's decision. It would have been a far better approach for the Government, to have Australian industry plead their case to build the auxiliary supply ships in Australia; rather than make the decision without the industry's input, and defend it later down the track, as they are being forced to do now.

In conclusion, I think it is a disgrace that Australian defence industry participants have not been allowed to tender for the construction of the Navy's replacement auxiliary supply ships. I think it is unfair that we, as an industry, are being punished for the failings of the previous Government, which has caused massive cost blow-outs in current defence projects. If we are to successfully move forward, we need a Continuous Build Program based on a long-term strategy of fifty years or more, rather than the three year election cycle.

Yours Sincerely

Simon Kennedy  
Director and Owner  
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