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Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Attention: Dr Kathleen Dermody

Inquiry into the Future of Australia's Naval Shipbuilding Industry – Part 2

Introduction

The Australian Industry & Defence Network (AIDN) welcomes the opportunity to make a submission to Part 2 of the Senate Economics Reference Committee Inquiry into the Future of Australia's Naval Shipbuilding Industry. This Submission complements our Submission dated 17 July 2014 to Part 1 of the Inquiry.

AIDN notes that the Committee hearings on the Inquiry have been conducted and that the Committee has already produced a Part 2 Report. AIDN supports the recommendations made in that Report. AIDN also notes that the Final Report is not due until mid 2015 so there is an opportunity to consider the matters made in this Submission.

Our Submission of 17 July 2014 advised that a more detailed submission would be made to Part 2 of the Inquiry. This was under the assumption that Part 2 would focus on broader issues relevant to naval shipbuilding. Noting that the Part 2 Report largely addresses issues relevant to submarines this Submission focuses on matters relevant to the production and sustainment of submarines.

Submarine industry work presents significant supply chain opportunities for industry. The DMO currently spends around $700 million per annum on operating and sustaining the Collins Class and, should an upgrade or Service Life Extension Program proceed, it is likely that this amount will increase. In addition the potential acquisition costs for the Future Submarine have been estimated in the range $20 to $30 billion.

Industry Capability

There have been a number of recent comments from the Commonwealth Government expressing concern about the domestic naval ship building capability. While the public

evidence suggests that there are many challenges in the naval shipbuilding sector, there is also evidence to indicate that under the right conditions, Australia's naval ship building sector can perform at the level desired by Government. The ANZAC Frigate Project and the LHD Project are two relevant examples.

While the motivations for seeking an off shore solution for LAND 121 Phase 4 were different to the situation applying to SEA 1000, there is an interesting lesson to be learned from the LAND 121 Phase 4 experience. In that case, Government sought to mirror the Joint Strike Fighter (JSF) experience by gaining early entry into the US Joint Light Tactical Vehicle Program (JLTV). Unlike the JSF Program however there was no global supply chain commitment for JLTV thereby limiting opportunities for Australian industry gain access to the supply chain of the successful JLTV contender. This action also denied local industry the chance to compete for this project.

Subsequent lobbying by a number of entities, including AIDN, to 'give local industry a chance' led to a review of the acquisition strategy and an opportunity for local companies to bid. The intent was to evaluate local options against the JLTV solution. This led to the local development of the Hawkei vehicle by Thales Australia which is currently the preferred candidate for the LAND 121 Phase 4 requirement and has the potential to open up new export markets.

The lesson learned from the LAND 121 Phase 4 experience is that Government should manage project risk in a way that leaves local industry with the opportunity to demonstrate its capability. A competition that allows a domestic option will achieve this.

It is AIDN's view that it would be unreasonable of Government to seek an offshore solution for SEA 1000 – Future Submarine Project based on the claim that doing the work in Australia is too 'risky' and without the opportunity for bidders to provide a domestic build option as part of their tender submission.

Importantly, the Small to Medium Enterprises (SMEs) who are currently involved, or who have the potential to be involved in the naval shipbuilding and submarine supply chains, have a strong record of performance. Also, those work opportunities are important to the ongoing viability of the companies concerned.

While for many companies, the quantum of this work is not significant, it is usually long term and demands innovation and the use of quality and management systems in the company that are the foundation of ongoing success. As such, work in the submarine industry supply chain can be a critical component of the ongoing viability of these companies.

The above point is particularly relevant for SEA 1000 which offers the prospect of 15 + years of work for companies that are successful in that supply chain, with the prospect of further work in the sustainment phase of the Project. A failure to provide access to this work for Australian SMEs will limit the future potential of these companies, with the possibility that such action might be the catalyst for market failure. This has strategic implications for the viability of an ongoing sovereign submarine sustainment capability.

Recommendation: Government should ensure that a domestic build option is included in tenders to supply the SEA 1000 submarine.

Industry Survey

AIDN's Victorian chapter recently conducted a survey of local industry as part a project to assess the potential for Victorian SMEs to be involved in the national submarine industry supply chain. While the results of that work are applicable to Victoria, the information gained is believed to be indicative of the national situation.

The purpose of the survey was to identify companies with experience in the submarine supply chain and to gain information on areas of concern regarding the submarine industry sector. The survey was sent to around 300 companies in Victoria, with 136 companies responding.

Some of the key demographics of the respondents included the following:

- Of the 136 companies that responded to the Survey, 61 have supplied into the national submarine supply chain. Of these, only 14 companies advised that they are currently part of that supply chain.
- 70% of the respondents had 50 or less employees.
- 90% have supplied to the defence sector, 45% to the submarine industry and 56% to the maritime industry.

The Survey also identified a number of issues of concern to industry. Significant among these were:

- A need for information about what is happening in the submarine industry sector. The conflicting messages in the media about the likely shape and timing of support work to Collins and the nature of the future submarine capability is creating confusion and uncertainty in the market place.
- A lack of knowledge of current and potential opportunities in the submarine industry supply chain.
- Concern about the real or perceived barriers to entry to participation in the national submarine industry supply chain and the need for action to assist companies to overcome these barriers.

An important conclusion from this work is that if local SMEs are to realise their potential to be part of the domestic submarine supply chain they will need assistance to gain the accreditations and to develop the business systems and practices necessary to participate in that supply chain.

Recommendation: Government should ensure that SMEs have access to business development programs that assist them to be competent and effective participants in the national submarine supply chain.

SME Capability

The Victorian chapter also conducted a review of local industry as part a project to assess the potential for Victorian SMEs to be involved in the national submarine industry supply chain. As with the above Survey, while the results of that work are applicable to Victoria the information gained is believed to be indicative of the national situation.

The companies on the database were identified from industry capability databases held by AIDN–Victoria and the Industry Capability Network. Company capabilities were mapped against the technology areas involved in submarine construction and sustainment. Over 300 SMEs were identified in the database as having current or potential capability to participate in a national submarine industry supply chain.

Around 95 per cent of the companies in the database are not currently supplying to the submarine industry but with the appropriate accreditations for submarine industry work, they are considered to have the potential to participate in the submarine industry supply chain.

Capability areas where Victorian industry (and, therefore national industry) is assessed as being competitive to participate in the submarine industry supply chain include:

- Design and Engineering
- Research and Development
- Module Construction
- Stealth Solutions – Composites and Materials
- Heating, Ventilation and Air Conditioning Systems
- Propulsion and Power Systems
- Pump and Hydraulic Systems
- Modelling and Simulation

The above information only represents a sample of the local capability but it suggests that there is a strong capability in the national SME sector to support a local submarine industry for the production and sustainment of submarines.

The 'Offshore' Option

AIDN notes the current advice from Government that an 'offshore' option for the SEA 1000 requirement is being considered and it is accepted that this is a matter for the Commonwealth Government to decide. Our concern is that if an 'offshore' solution is selected, the opportunities for local companies to participate in the production supply chain might be limited. This will be the case if the Commonwealth Government does not set the conditions to maximise the opportunities for local companies.
Our experience with offshore acquisitions has been that if Government does not set the conditions during contract negotiations to maximise supply chain opportunities for local companies, it is difficult to penetrate the supply chain of the offshore company. In most cases there is no contractual requirement to place work in Australia so the opportunities are usually at the mercy of the prime that has won the project. Even when these opportunities are made available, they are more token than real and the behaviours and practices of the offshore prime usually limit the chances of a successful bid by an Australian supply chain company.

An example of a successful application of the above outcome has been the Joint Strike Fighter (JSF) Project. Australian companies have won contracts in the JSF supply chain because Government set the necessary conditions for success as part of the Project.

Recommendation: In the event that an 'offshore' solution is selected for the SEA 1000 requirement, the Commonwealth Government should set the necessary conditions during contract negotiations that allow Australian supply chain companies to bid for work and to have realistic chances to succeed.

Contact

Should you need any additional information, I invite you to contact Sue Smith, Executive Officer, AIDN.

Yours sincerely,

Alan Rankins
AIDN President