



07 October 2014

Submission to the Senate Inquiry into the Future of Australia's Shipbuilding Industry Part 2

The municipality of Hobsons Bay, located to the west of Melbourne's CBD, is home to one of Australia's most important shipbuilding facilities, BAE Systems Australia, and an area of significant maritime history.

As the local authority responsible for promoting a secure future for business and industry in the region, Hobsons Bay City Council recognises the significance of the recent government decision to exclude Australian manufacturers from the tender process for the Royal Australian Navy's new supply ships, and the long-term impact that such a decision could have on Australia's shipbuilding industry.

On behalf of the Hobsons Bay community and the many local residents who will be directly and indirectly impacted by the potential loss of the local shipbuilding industry, we urge the Federal Government to demonstrate their commitment to securing a sustainable future for shipbuilding in Australia.

Maritime History and Shipbuilding in Hobsons Bay

There's no question that the history of Hobsons Bay and maritime history in Victoria are intertwined. As the site of the first permanent European settlement in Port Phillip Bay, Williamstown has played a key role in the history and development of Melbourne.

When European settlement began in Melbourne in the 1830s, Williamstown became the city's major port and a busy town centre that serviced interstate and international visitors arriving into Victoria. The Naval Dock Yards were built in the 1850s and quarries were established through Williamstown and along the Maribyrnong River to meet the needs of the shipbuilding industry¹.

To date, boatbuilding, boating and maritime activity continue to characterise Williamstown and its surrounds, and the area is a hub for maritime enthusiasts, local industry and tourists alike. The former Naval Dock Yards site continues to operate under the ownership of BAE Systems, one of Australia's leading Shipbuilding companies, and a range of maritime attractions, including Seaworks, Blunt's Boatyard, the Sea Shepherd, Gem Pier and the Williamstown Maritime Museum, operate along the Williamstown coastline.

What makes this part of Melbourne unique is its 'living history' and the opportunity it presents to the local community and visitors alike to immerse themselves in history, while witnessing firsthand the important role that local businesses continue to play in the building and maintenance of ships.

¹ Hobsons Bay City Council 2009, *Williamstown Neighbourhood Profile*, viewed 6 October 2014
<http://www.hobsonsbay.vic.gov.au/files/43f5f2ab-c0ea-4a7e-92e5-9fdb00ccd750/WilliamstownHistoryandDevelopment.pdf>

The Economic Contribution of Shipbuilding

In Hobsons Bay, shipbuilding plays an important role in the local and regional economy, and generates output of approximately \$1.2 billion each year. The industry accounts for approximately 9.4% of local expenditure and is one of the key drivers of the Hobsons Bay economy in terms of regional exports, employment, value-added and local expenditure on goods and services².

The shipbuilding sector in Hobsons Bay currently employs approximately 974 people, primarily at the BAE Systems site in Williamstown, with many of these staff holding specialised manufacturing skills specific to the shipbuilding industry. The majority of BAE staff live in Melbourne's western region, with more than 10% from Hobsons Bay.

With almost twenty five percent of gross revenue generated by the local shipbuilding sector being spent on inputs sourced from within Hobsons Bay, it is evident that the economic impact of BAE's operations is significant.

In 2005, the Victorian Government acknowledged the important role of the BAE site through the insertion of Part 3D of the *Planning and Environment Act 1987*, which came into effect on 16 August 2005. Part 3D of the Act ensures "the continued use of the Williamstown Shipyard Site for industrial and marine engineering purposes and ancillary purposes"³ and excludes any future reuse of the site for alternate purposes. Additionally, in March 2005 an amendment was made to the Hobsons Bay Planning Scheme to make the Minister for Planning the responsible authority for administering and enforcing the scheme at the site⁴.

In addition to its role as a driver of the local economy, BAE has proven itself a leader and innovator in the competitive Australian Shipbuilding industry. As outlined in part 1 of the Senate Report - Future of Australia's naval shipbuilding industry, tender process for the navy's new supply ships⁵, BAE has undertaken a number of high profile Naval projects at its Williamstown site, including as the primary contractor for two 27,000 tonne Canberra Class LHD Vessels and as a key supplier of building blocks for the AWD project.

Through these projects, and in response to recommendations made by the 2010 First Marine International (FMI) report, BAE has significantly improved its efficiency and exceeded productivity targets, while maintaining a commitment to continuous improvement across all its operations⁶.

² REMPLAN Economy 2014, *Hobsons Bay Economy Profile*, viewed 6 October 2014

³ Planning and Environment Act 1987 (Vic), viewed 6 October 2014, www.austlii.edu.au

⁴ Department of Planning and Community Development, *Hobsons Bay Planning Scheme*, viewed 6 October 2014, <http://planningschemes.dpcd.vic.gov.au/schemes/hobsonsbay>

⁵ Parliament of Australia, *Part 1 Future of Australia's shipbuilding- Tender process for the navy's new supply ships*, viewed 06 October 2014

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Naval_shipbuilding

⁶ BAE Systems Australia Limited 2014, *BAE Systems Written Response to the Senate Economics References Committee Inquiry into SEA 1654 PH 3 Procurement*, , viewed 6 October 2014,

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Naval_shipbuilding/Submissions

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In 2012, BAE Systems submitted an unsolicited proposal to the Government, outlining a Hybrid Build Program for the production of the two replacement ships. Through this proposal, BAE identified the potential to build the Replenishment ships in Australia, or share the build across shipyards both in Australia and overseas. Despite this proactive approach two years ago, it seems that no consultation or research was undertaken into the feasibility of such a build prior to the announcement of the closed tender.

An economic analysis of the shipbuilding industry in Hobsons Bay can be found in Appendix A – Shipbuilding in Hobsons Bay.

The Impact on Hobsons Bay

The Federal Government's recent decision to exclude Australian shipbuilders from the tender process for the replacement of HMAS *Success* and HMAS *Sirius*, and move production of the replacement supply ships to overseas suppliers, seemingly demonstrates a disregard for this valuable Australian industry, its employees and the many local and national industries that currently benefit from its operations.

If this closed tender process proceeds, and Australian shipbuilders are excluded from participating, the future of shipbuilding in Australia, and the jobs of workers at BAE in Williamstown, will be under threat. Additionally, the potential impact on local industries, residents and the economy will be significant.

If shipbuilding in Hobsons Bay became unsustainable, economic analysis conducted by Council suggests that it would have a significant, long-term impact on the local economy. The most significant impact would be an immediate loss of \$1.2billion in annual output and a \$395million decrease in demand for intermediate goods and services⁷.

The impact on employment would be similarly significant, with the direct loss of approximately 974 jobs, resulting in the loss of a further 1,812 jobs within the broader economy from related goods and services and consumption industries⁸. The ongoing impact of the loss of these jobs to the local economy, and the increased potential for future economic leakage must be taken into account, as should the impact of losing the advanced and highly skilled manufacturing workforce that is currently employed in Hobsons Bay.

When analysing the significance of losing Hobsons Bay's shipbuilding industry and the potential impact on the community, consideration should also be given to the local economic climate, particularly the current state of manufacturing in the area.

In February 2014, Toyota Australia announced the closure of its Altona Plant, which will cease operating in 2017 resulting in a loss of approximately 2500 jobs⁹. As the largest employer in the municipality, the impact of Toyota's impending closure will be significant, as thousands of highly skilled manufacturing workers reenter the workforce and more than \$2 billion is lost from the local economy.

⁷ REMPLAN Economy 2014, *Hobsons Bay Economy Profile*, viewed 6 October 2014

⁸ REMPLAN Economy 2014, *Hobsons Bay Economy Profile*, viewed 6 October 2014

⁹ Wallace, R & Ferguson, J 2014, *Toyota to Stop Making Cars in Australia, Follows Ford and Holden The Australian*, 10 February, viewed 6 October 2014, <http://www.theaustralian.com.au/business/news/toyota-to-stop-making-cars-in-australia-follows-ford-and-holden/story-e6frg906-1226822823246?nk=911b4050114747ce4fd755bd81d0f445>

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Despite the confirmed loss of Toyota, the Victorian Government has yet to confirm that it will be delivering programs to support workers from Melbourne's west who will be displaced by the closure. The recent announcement of Investment and Infrastructure Funds for Geelong and Melbourne's north, and the establishment of the Workforce Development Centre in Geelong, Dandenong and Broadmeadows, will provide opportunities for manufacturing businesses to increase their operational capacity and workers to enhance their chances of future employment, however such opportunities are yet to be made available to businesses and communities in Hobsons Bay and the wider western region.

A potential loss of both Toyota Australia and the local shipbuilding industry in the current economic climate, without adequate support from the State and Federal Governments, would cause significant detriment to the local economy, and the broader community.

With sufficient support from the Federal Government and greater access to fair and equitable tender processes for the construction of RAN ships, the future of BAE systems and its role as a key contributor to the Hobsons Bay economy could be secured.

BAE Systems has demonstrated its ability to deliver construction and maintenance services for a range of government contracts, and a willingness to adapt and innovate to meet the changing demands of the shipbuilding industry. BAE staff are highly skilled, with specialised shipbuilding knowledge that cannot be easily re-taught. Without support from the Federal Government to ensure the future sustainability of the Australian shipbuilding industry, these skills and BAE's reputation as an industry leader, may be lost.

Hobsons Bay City Council urges the Federal Government to reconsider its decision to hold a closed tender for the construction and build of two replenishment ships for the Royal Australian Navy, and to introduce a long-term strategy to support the future of the Australian shipbuilding industry.

Council would like the Federal Government to commit to:

- Developing a long-term strategic plan for naval acquisitions, as identified in part 1 of the Senate Report into the future of Australia's Naval shipbuilding industry
- Reviewing the recent decision to offer a closed tender to only two overseas suppliers
- Prioritising local people and local jobs
- Giving consideration to new and hybrid build options for future shipbuilding programs and what could be achieved by the Australian industry if given sufficient projects and security; and
- Focusing on opportunities for collaboration between local and international suppliers, rather than prioritising a single supplier for future projects.

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Conclusion

With a 140 year history in Hobsons Bay, the shipbuilding industry continues to play a key role in the local community. In addition to being one of the region's key industries for economic output, shipbuilding brings jobs, skills and activity to the local community, while increasing local expenditure and minimising economic leakage.

Shipbuilding belongs in Hobsons Bay and, along with the many maritime attractions and boating businesses in Williamstown, the industry remains an important part of local history. Hobsons Bay City Council is committed to advocating for the sustainability of the local shipbuilding industry, and to ensuring that this key industry continues to be recognised for its historical and economical contribution to the local community.

Without the support of the Federal Government to secure a sustainable future for this important industry, the continuation of shipbuilding in Hobsons Bay seems doubtful.

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Appendix A – Shipbuilding in Hobsons Bay

Industry analysis of the ships and boatbuilding industry in Hobsons Bay. Information sourced from REMPLAN Economy.

Total annual output (\$M):	\$1,255.026
% of total regional output:	8.6 %
Number of people employed by this sector in the region:	974
% of total regional employment:	3.1 %
Annual wages and salaries earned by people employed by this sector in the region (\$M):	\$188.170
% of total wages and salaries earned in the region:	8.2 %
Value of annual regional exports by the industry sector (\$M):	\$1,255.253
% of total regional exports:	15.4 %
Value of annual regional imports by the industry sector (\$M):	\$648.544
% of total regional imports:	9.5 %
Value of sector's contribution to Gross Regional Product (\$M):	\$299.499
% of total Gross Regional Product:	6.7 %
Total value of local expenditure on intermediate goods and services (\$M):	\$306.982
% of total local expenditure:	9.4 %
Total value of sales to industry sectors in the region (\$M):	\$23.527
% of total sales to industry sectors:	0.7 %

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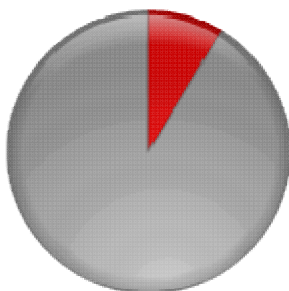


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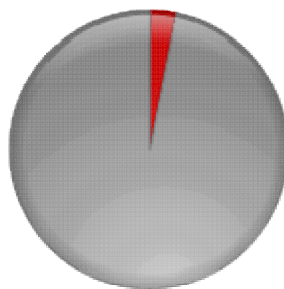
Output (\$M) - Output



● Ships & Boat Manufacturing \$1,255,026
● Other \$13,323,777



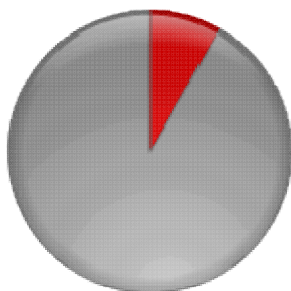
Employment (Jobs) - Employment



● Ships & Boat Manufacturing 974
● Other 30,133



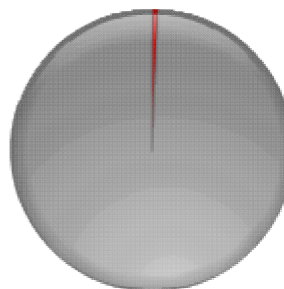
Wages and Salaries (\$M) - Wages and Salaries



● Ships & Boat Manufacturing \$188,170
● Other \$2,098,141



Local Sales (\$M) - Local Sales



● Ships & Boat Manufacturing \$23,527
● Other \$3,256,282

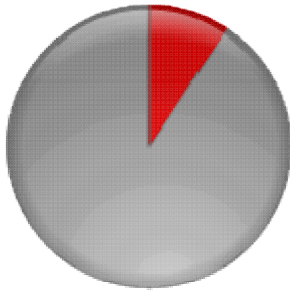


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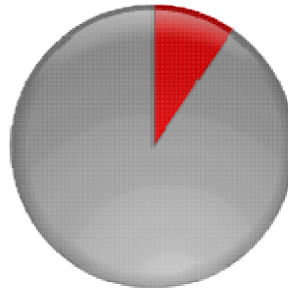
Local Expenditure (\$M) - Local Expenditure



● Ships & Boat Manufacturing \$306.982
● Other \$2,972.827



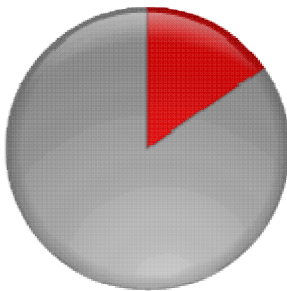
Regional Imports (\$M) - Regional Imports



● Ships & Boat Manufacturing \$648.544
● Other \$5,149.418



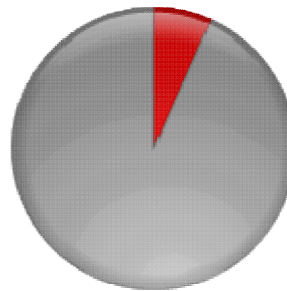
Regional Exports (\$M) - Regional Exports



● Ships & Boat Manufacturing \$1,255.253
● Other \$6,874.628



Value-Added (\$M) - Value-Added



● Ships & Boat Manufacturing \$299.499
● Other \$4,201.531



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Appendix B – Impact Report

If shipbuilding became unsustainable in Hobsons Bay and the industry ceased operating, the impact on the local economy and community would be significant. Economic analysis based on the loss of 974 shipbuilding jobs, or \$1.2 billion in output would have the following impact.

This data was sourced from REMPLAN Economy.

Impact on Output

From a direct decrease in output of \$1,254.726 million it is estimated that the demand for intermediate goods and services would fall by \$395.630 million. This represents a Type 1 Output multiplier of 1.315. These industrial effects include multiple rounds of flow-on effects, as servicing sectors decrease their own output and demand for local goods and services in response to the direct change to the economy.

The decreases in direct and indirect output would typically correspond to the loss of jobs in the economy. Corresponding to this change in employment would be a decrease in the total of wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated at \$209.550 million.

Total output, including all direct, industrial and consumption effects is estimated to decrease by up to \$1,859.906 million. This represents a Type 2 Output multiplier of 1.482.

Impact on Employment

From a direct decrease in output of \$1,254.726 million the corresponding loss of direct jobs is estimated at 974 jobs. From this direct contraction in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in the loss of a further 1,045 jobs. This represents a Type 1 Employment multiplier of 2.073.

The decrease in direct and indirect output and the corresponding loss of jobs in the economy are expected to result in a decrease in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated to further reduce employment by 767 jobs.

Total employment, including all direct, industrial and consumption effects is estimated to decrease by up to 2,786 jobs. This represents a Type 2 Employment multiplier of 2.860.




Impact on Wages and Salaries

From a direct decrease in output of \$1,254.726 million it is estimated that direct wages and salaries would decrease by \$188.125 million. From this direct contraction in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in the loss of a further 1,045 jobs

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and a further decrease in wages and salaries of \$75.448 million. This represents a Type 1 Wages and Salaries multiplier of 1.401.

The decrease in direct and indirect output and the corresponding loss of jobs in the economy are expected to result in a decrease in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further reduce employment in sectors such as retail therefore further decreasing wages and salaries by \$42.857 million.

Total wages and salaries, including all direct, industrial and consumption effects is estimated to decrease by up to \$306.430 million. This represents a Type 2 Wages and Salaries multiplier of 1.629.

Impact on Value-Added

From a direct decrease in output of \$1,254.726 million the corresponding decrease in direct value-added is estimated at \$299.428 million. From this direct contraction in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in a further decrease to value-added of \$130.506 million. This represents a Type 1 Value-added multiplier of 1.436.

The decrease in direct and indirect output and the corresponding reduction of jobs in the economy are expected to result in a decrease in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further reduce value-added by \$111.321 million.




Total value-added, including all direct, industrial and consumption effects is estimated to decrease by up to \$541.255 million. This represents a Type 2 Value-added multiplier of 1.808.

Impact Summary

Impact Summary	Direct Effect	Industrial Effect	Consumption Effect	Total Effect	Type 1 Multiplier	Type 2 Multiplier
Output (\$M)	-\$1,254.726	-\$395.630	-\$209.550	-\$1,859.906	1.315	1.482
Employment (Jobs)	-974	-1,045	-767	-2,786	2.073	2.860
Wages and Salaries (\$M)	-\$188.125	-\$75.448	-\$42.857	-\$306.430	1.401	1.629
Value-added (\$M)	-\$299.428	-\$130.506	-\$111.321	-\$541.255	1.436	1.808

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