

Submission to Senate Standing Committee on Economics Inquiry - Future of Australia's naval ship building industry – Part 1: Tender process for the RAN's new supply ships

As respectively the State MP for the Williamstown District in Victoria (Wade Noonan) and the Legislative Council Member for the Western Metropolitan Region (Cesar Melhem), we have within our electorates the important shipbuilding operations of BAE Systems Australia.

The Terms of Reference for Part 1 of this inquiry are directly relevant to the future of employment in the 140 year-old shipbuilding industry in Williamstown and elsewhere in Australia:

“Part I of the inquiry: The tender process for the Royal Australian Navy's new supply ships, and given the significant impact that this decision will have on the Australian shipbuilding industry, in particular:

- a. The reasons for the Government's decision in June 2014 to exclude Australian-based 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.
- b. The capacity of Australian shipbuilding to carry out, in part or in full, the construction and fit-out of two auxiliary ships to replace the Navy's HMAS Success and HMAS Sirius.
- c. The role of the Department of Finance and/or Department of Treasury and/or Department of Defence, the Finance Minister and/or the Treasurer and/or the Defence Minister, in the Government's decision to exclude Australian defence industry from tendering for the auxiliary ship replacement project.
- d. The feasibility of including Australian industry participants in the tender process for the replacement auxiliary ships.
- e. The management and performance of the Defence Materiel Organisation (DMO) that contributed to the Government's decision to exclude Australian industry from tendering for the replacement auxiliary ships.
- f. Any related matters.”

A brief outline of Maritime Business Unit of BAE Systems Australia is contained in the extract from their Business Presentation (Appendix 1) which they provided recently to our offices. Williamstown is the site of their major shipbuilding yard, with operations also out of Henderson in WA and Garden Island in NSW. Of the 1,820 employees in the Maritime Business Unit of BAE Systems Australia, over 1,000 are located at Williamstown.

It is the prime contractor for Australia's largest warship, the 27,000 tonne amphibious Landing Helicopter Dock (LHD) project. This project will deliver two Canberra class vessels and associated equipment and logistics with the main subcontractors Navantia (in Spain), Saab Systems and L3Communications. While the main hulls were made in Spain, the Australian shipyards are manufacturing the superstructure blocks, and completing and fitting out the ships in Melbourne. The first has undergone successful sea trials.

The Williamstown dockyards are also one of the three shipyards in Australia constructing hull blocks for the \$8 billion Air Warfare Destroyer project producing Hobart class vessels. 18 blocks are being fitted out to BAE Systems under the project and this work will be completed in 2015.

The BAE shipyards in Williamstown are the pride of the West of Melbourne, using high-tech manufacturing practices to build world class naval warships. BAE has made substantial investment in skills and trades to ensure that it has the capability to undertake major projects.

BAE are one of the largest employers in the West of Melbourne and a showcase for manufacturing excellence. They are crucial to our local economy and with government contracts for air warfare destroyers and the helicopter docks nearing completion, there has been concern for some time about the need for continuing work to ensure the sustainability of our shipbuilding industry.

Lack of continuity in the shipbuilding industry has been a concern in the past with production and contract gaps leading to loss of skills – in the industry parlance this is called the “Valley of Death”. Such a problem occurred and skilled workers were lost following the completion of the Anzac frigate project in the last decade.¹

A similar crisis is currently facing our shipbuilding industry with the threat of loss of the Williamstown dockyards and the Newcastle dockyards unless there are contracts for new ships placed with those dockyards. In the March 2014 edition of the *Asia Pacific Defence Reporter*, Kym Bergman wrote extensively about this looming crisis in an aptly named article “Playing the fiddle while Rome burns”². He pointed out that August 2015 was the critical date when construction work will run out unless contracts are brought forward.

Kristian Hollins pointed out earlier in June 2013 that with a lack of new contracts up to 80 per cent of the 2,500 or so jobs in the Air Warfare Destroyer project including those at Williamstown would go.³ An extensive analysis has been provided by the Australian Manufacturing Workers' Union (AMWU) in their November 2013 paper *Australian Naval Shipbuilding*. It points out that over the next 30 years there are plans for the navy to acquire 12 submarines, 8 frigates, 34 patrol boats, 6 landing craft, 2 supply ships, 6 mine hunters and 2 hydrographic ships. Altogether the Australian Government is set to acquire about 80 ships at a cost of over \$100 billion.

However, the issue is not how much work is in the pipeline but the timing and the source of such work. The AMWU has provided a graphic presentation in their paper

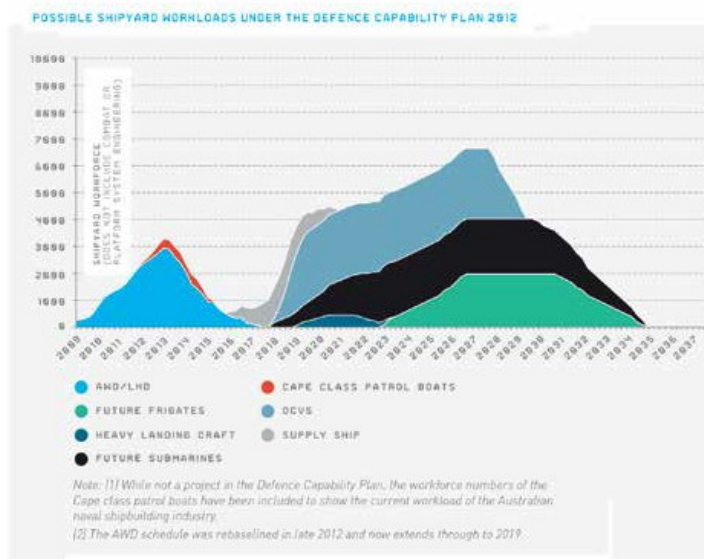
¹ See Nigel Pittaway, “Skilled labor shortage plagues Australian shipyards” in <http://www.defensenews.com/article/20121114/DEFREG03/311140001/Skilled-Labor-Shortage-Plagues-Australian-Shipyards>

² See <http://www.asiapacificdefencereporter.com/articles/395/Playing-the-fiddle-while-Rome-burns>

³ “That sinking feeling”, *Australian Defence Business Review* June 2013pp.18-23.

of the current procurement plans and the likely impact on local shipbuilding. Figure 1 details possible shipyard workloads based on Federal Government 2012 Defence Capability Plan. Clearly evident in that is the “Valley of Death” in terms of work from 2015 onwards. Both the AWD and the LHD projects are due to tail out that year with only the start of the Supply ship project to begin. The impact of such a contract and supply crisis will be the loss of jobs – up to 900 in Williamstown alone – and a loss of skills.

Figure 1



It could lead to even a loss of the shipbuilding industry, or a large part of it, in Australia. At the very least it would require a costly and time-consuming reskilling exercise. As Kym Bergman points out in his article⁴, it takes two years to train a welder in the naval sector and five years to train a boilermaker. Further already qualified people have to be retained and requalified and current workers continuously up skilled.

The AMWU in its paper has recommended that urgent action be taken by Government as encapsulated in their nine recommendations:

1. The Australian government should build more Air Warfare Destroyers to immediately help preserve national shipbuilding skills and capacity leading into future submarine and other major shipbuilding programs.
2. The Australian Government should bring forward the project to replace the Armidale Class Patrol Boats to help develop Australia's capability to design and build patrol boats.
3. The Australian Government should bring forward the project to replace HMAS Success and HMAS Sirius, and build the ships in Australia.

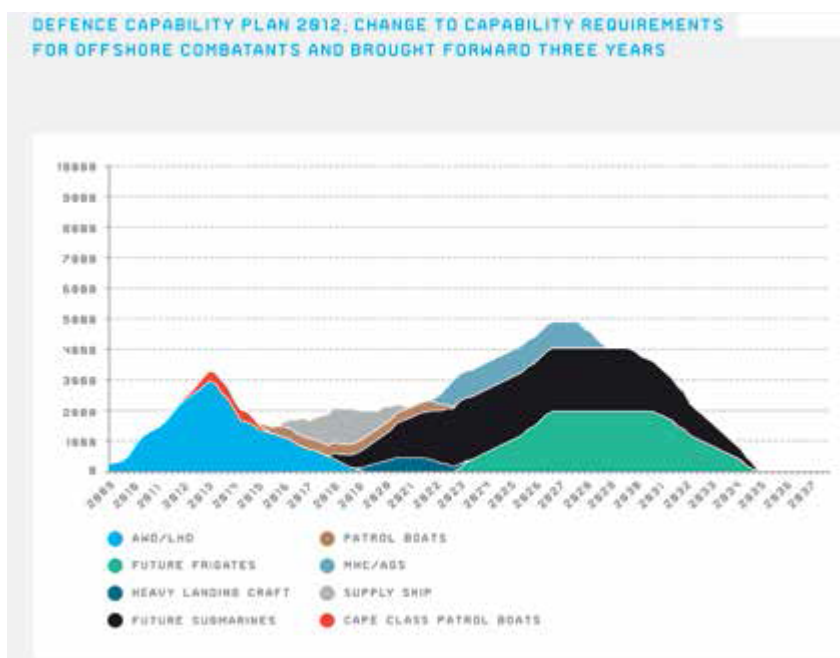
⁴ See footnote 2.

4. The Australian Government should require all shipbuilding contracts to specify a level of block fabrication outsourcing appropriate to the type and number of ships required.
5. The Australian Government should build Australia's new multipurpose icebreaker in Australia.
6. The Australian Government should continue to support apprenticeship and other shipbuilding training programs, including requiring these schemes in all Australian Government shipbuilding projects.
7. The Australian Government should expand the role of the current Defence Expert Industry Panel to encompass Government's non-Defence shipbuilding projects and include members from associated Departments.
8. The Minister for Industry should convene an annual meeting of Ministers responsible for shipbuilding programs to review and provide direction to coordinated, long-term Government shipbuilding plans.
9. The Australian Government should direct that the future frigate project be established as a rolling build program for the Navy's future surface combatant fleet and structured so there is a seamless transition from the Air Warfare Destroyer project.

We **support these recommendations** as supporting jobs in Williamstown and in other shipyards in Australia.

Should these recommendations be adopted then as Figure 2 from the AMWU report shows there would be no "Valley of Death" and the loss of skills and the possible loss of an industry would be avoided.

Figure 2



This is not just the view of the major union in the industry. It is also the view of leading commentators on the industry. Writing in the October 2013 edition of the

Asia Pacific Defence Reporter, Kym Bergman asks “Will the LHDs mark the end of work at Williamstown?”⁵ He writes:

“What needs to be done is not more navel-gazing but the fast tracking of work – either the replacement of HMAS Success and HMAS Sirius...or the Armidale Class patrol boat replacement...Government has the opportunity to cut through quickly and to select BAE Systems as the prime contractor for the two new supply ships and to build them following a methodology similar to the LHDs.”

We **support that line of action** as ensuring the future of the Williamstown shipyards and jobs of skilled trades that might otherwise be lost.

Hence it was with dismay that we learnt of the Federal Government's decision last month to exclude the Australian-based defence industry from tendering for the replacement of the supply ships HMAS Success and HMAS Sirius, and restricting the tender to overseas shipbuilders.

We **strongly oppose such a move and condemn the Abbott Federal Government and Naphthine State Government** for such a short sighted policy that may well lead to the demise of shipbuilding in Williamstown. The Federal and State Governments are ignoring the possible impacts on families through the loss of jobs and the impact on the economy of the loss of industry.

Already unemployment in Victoria is at its highest in years and is likely to further increase as the impact of the loss of the car manufacturing industry is felt in the western suburbs and throughout Melbourne. University and TAFE cuts are set to exacerbate the employment opportunities of our young people here in Williamstown and in the western suburbs. In this context the loss of jobs and the potential closure of the dockyards is a disaster.

We agree that it is important to delve into the reasons and processes behind the decision in June as outlined in the terms of Reference. It is important for the Senate to consider the reasons for the decision to cut Australian suppliers out of the tender – is it simply a case of ideology? Or short sighted accounting that take insufficient account of secondary effects and contributions such as the contribution of wage-earners to the economy including to revenue as well as local suppliers or the potential drain on the government of further unemployment; Or insufficient understanding of Australian capacity and skills; Or poor advice to government?

In this regard we also draw the attention of Senators to the ACIL Allen Consulting report on the shipbuilding industry commissioned by the Australian Industry Group⁶. It was the subject of a number of news stories in February this year.⁷

⁵ *Asia Pacific Defence Reporter*, October 2013, pp.56-58.

⁶ *Naval Shipbuilding & Through Life Support. Economic Value to Australia – Maintaining Capabilities and Capacity, December 2013. See*

The report notes that naval shipbuilding directly employs some 6,000 workers and indirectly nearly 15,000 people. The industry contributes between \$1.5 and \$2.3 billion a year to the national economy (based on total multipliers). It further notes:

“..., the total FTE jobs generated across Australia – and including direct employees, contractors and other flow-on jobs – is nearly 15,000. Because this is based on the sample of the five large contractors only it is a conservative estimate.

Of the potential \$2.3 billion contribution from naval shipbuilding and through life support to the economy, the majority comes from the production side (\$1.3 billion); however, the contribution from TLS [through life support] is still highly significant (\$975 million).⁸

Scenarios modelled in the report include one for a reduction of 30 per cent in workforce caused by a gap between projects. This is a less severe scenario than the closure of shipyards. The report summarises its analysis as follows:

“If several shipyards in Australia were to close due to this insufficient demand and 30 per cent of the workforce retrenched, the cost of retraining these staff could range from \$227 million to \$379 million for the industry.

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The report continues with a real options analysis of naval shipbuilding, canvassing the value of continuing capability, providing an analysis of the value of including this in decision making rather than relying simply on price (relevant to this inquiry given the decision to confine tenders to overseas builders), and emphasising the need to ensure flexibility and adaptability. In examining the policy option of continuous build for naval shipbuilding, the report concludes:

Were continuous build to be used, interleaving vessel classes and, as appropriate, exercising options to evolve the design of the new vessels within classes and even to substitute between classes in term of numbers of vessels, then it is at least plausible that this could deliver substantially greater fleet capability and capability value across the lives of the vessels. It is even possible that this increased value could be sufficient to allow reassessment of whether the same number of vessels need to be maintained in each class – for example, if the use of evolving design has resulted in

http://www.hunterdefence.com.au/SiteFiles/hunterdefencecomau/Shipbuilding_report_to_AIG.pdf.

⁷ See Phillip Coorey, “Tide on the way out for naval shipbuilding”, *AFR*, 21 February 2014, p.6 and the ABC <http://www.abc.net.au/worldtoday/content/2013/s3949599.htm>.

⁸ Executive Summary, p.ii.

⁹ Section 3.4.3 Avoided costs: summary and implications, p.34.

reduced risk of a vessel being lost in conflict. Such possibilities could certainly feed positively into the economics of local shipbuilding, alongside the avoidance of ramp down/ramp up costs and associated capacity to support a range of onshore build (and support) capabilities.”¹⁰

On behalf of the people of Williamstown and the western suburbs of Melbourne we are concerned at the loss of jobs and the possible closure of the shipyard at Williamstown due to Federal Government decisions and the appalling lack of action and ineffective lobbying by the Premier Napthine and his government in Victoria.

As the local representatives we are determined to fight for the preservation of local jobs and industries. We call upon the Federal Government to ensure that in any contract let for the supply ships that at the very least there are subcontracting arrangements in place that assure the maintenance of some 900 jobs that would otherwise be lost.

Our firm preference would be that the Abbott Government at the insistence of the Senate stop the tender process and adopt immediately a plan to fast-track adequate project work to ensure the future of shipbuilding here in Australia and in particular the jobs of Victorian workers at the Williamstown dockyard.

We are willing to appear before the Committee and we ask that the Senate Committee conduct a hearing in Williamstown so that it can learn in the most direct way the potential impact of the tender process for the supply ships.

17 July 2014

WADE NOONAN | Labor Member for Williamstown
Shadow Minister for Police | Emergency Services | Bushfire Response
101 Douglas Parade, Williamstown VIC 3016
p: (03) 9399 9022 | w: wadenoonan.com.au
e: wade.noonan@parliament.vic.gov.au

CESAR MELHEM | Labor Member for the Western Metropolitan Region
231 Hyde Street, Yarraville VIC 3013
p: (03) 9689 6536 | w: cesarmelhem.com.au
e: cesar.melhem@parliament.vic.gov.au

¹⁰ Chapter 4 Value to Government – real options analysis of naval shipbuilding, p.41.

Appendix 1 – Extract from BAE Business Presentation

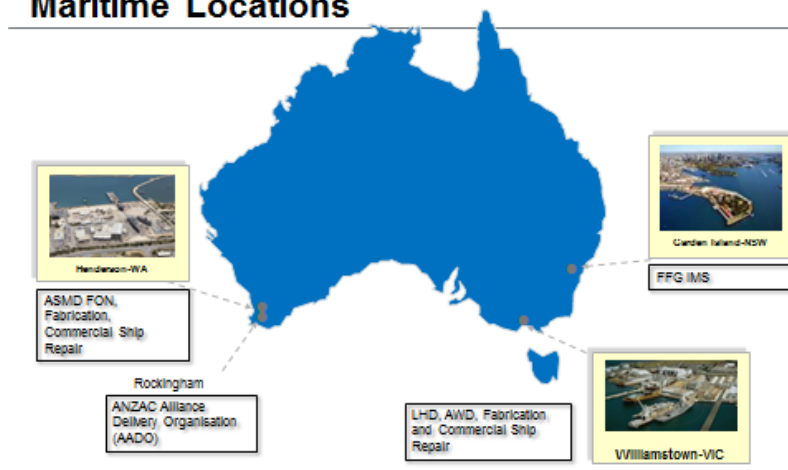
BAE Systems Australia



Maritime Business Unit



Maritime Locations





Maritime - Australia

Employees	1,820
Annual sales	\$594 million

The leading capability provider to the Royal Australian Navy, supporting maritime platforms and naval weapon systems

Prime contractor for Australia's largest warship, the 27,000 tonne amphibious Landing Helicopter Dock (LHD)

Operates from key locations in Melbourne, Henderson and Sydney



Maritime - Capabilities

- Shipbuilding**
- Demonstrated capability in building frigates for Australian and NZ navies
 - Shipyards at Williamstown (VIC) and Henderson (WA)



- Communication Systems**
- Communication system design and installation and set-to-work services

- Through Life Support**
- Ships and support systems
 - Integrated materiel support for RAN FFH Class frigates under the ANZAC Alliance
 - FFG Class frigates
 - Landing Craft Heavy
 - Hydrographic survey vessels and motor launches



- Systems Engineering**
- Systems engineering, design and integration services
 - Platform design, sensor, weapon and communication systems
 - Whole-of-ship integration



- Deeper Maintenance**
- DM for naval weapon and communication systems



Williamstown, Victoria





Major projects



Project
Building two Landing Helicopter Docks for the RAN
 Prime contractor for the supply of two LHD ships

Location
 WILLIAMSTOWN VIC

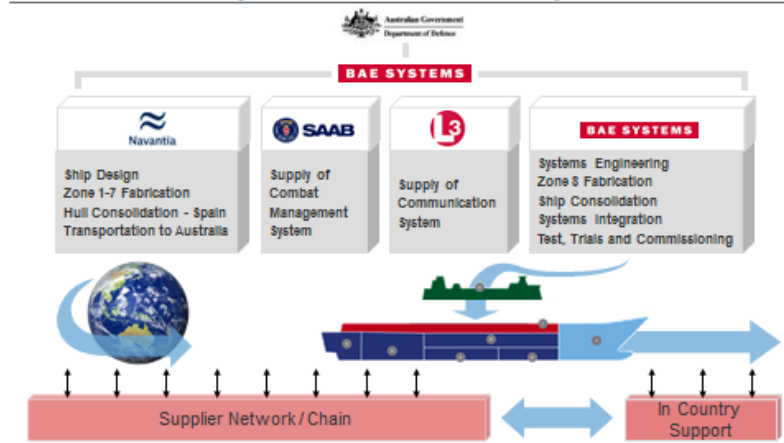


LHD – Landing Helicopter Dock

- Largest ships ever built for the RAN
- Roles to:
 - Embark, transport and deploy an embarked force (Army in the case of ADF)
 - Carry out/support humanitarian missions
- Requirement therefore is for a multipurpose ship able to operate in both these roles but not necessarily simultaneously
- LHD 1 delivering Q3 2014
- LHD 2 superstructure consolidation in process



LHD – Principal Contractor Responsibilities



Major projects



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AWD – Air Warfare Destroyer

- \$8 billion AWD project- largest Defence procurement project undertaken in Australia
- Navantia designed F100 selected as basis for future Hobart Class AWDs
- Block construction shared by three shipyards, ASC in Adelaide (Prime), BAE Systems in Williamstown and Forgacs in Newcastle
- ASC Subcontracting construction, fit out of 18 blocks to BAE Systems:
 - 11 blocks for ship 1 and 2 delivered
 - 7 additional blocks contracted for completion 2014 - 2015



Commercial market entry – Williamstown

- Commercial repairs – Williamstown & Henderson
 - Survey dockings servicing Bass Strait PSVs
 - Williamstown peak docking capacity 2014
- Fabrication
 - Oil and Gas and Resources
 - Regional Rail Project
 - Bidding on work for Port of Melbourne



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