

Dissenting Report by Senator Rex Patrick

Sovereign Naval Shipbuilding Sunk

The Work of the Committee

1.1 I thank the committee and secretariat for the work that has been done in relation to this inquiry.

1.2 I note that the Committee says it "appreciates the intent of the Bill to ensure Australia continues to develop and sustain a sovereign naval shipbuilding capability". The Committee further states that it "recognises the importance of a strong sovereign naval shipbuilding capability".

1.3 Unfortunately, however, the Committee is supportive of Australian sovereignty in name only.

1.4 The report sells out Australian shipbuilders and, along with it, national security.

Internationalising the Australian Shipbuilding Landscape

1.5 This Government has made an unambiguous shift away from the use of local shipbuilders in Australian naval and maritime construction programs.

1.5.1 The RAN's French designed Durance Class supply ship was built by an Australian-controlled company. The RAN's two replacement supply ships are now being built in Spain by a Spanish company.

1.5.2 The RAN's Swedish designed Collins Class submarines were built by an Australian-controlled company. The RAN's new submarines will be built in Australia by a French-controlled company.

1.5.3 The RAN's Armidale Patrol Boats were built in Australia by an Australian-controlled company. The RAN's new Offshore Patrol Boats will be built in Adelaide and Perth led by German company Luerssen.

1.5.4 The RAN's German designed ANZAC frigates were built in Australia by an Australian-controlled company, as were the RAN's Spanish designed Air Warfare Destroyers. The RAN's new frigates will be built in Australia by a UK-controlled company.

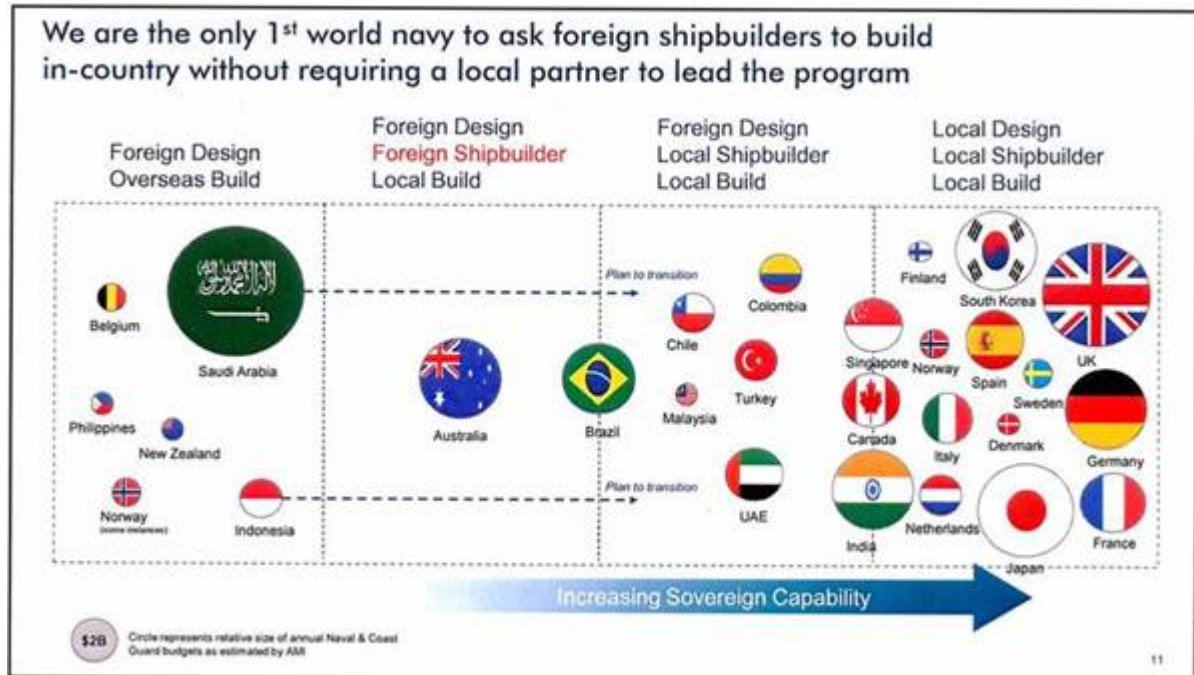
1.5.5 Aurora Australis, the Antarctic Division's Icebreaker was built in Newcastle by an Australian-controlled company. Australia's new icebreaker, RSV *Nuyina*, is being built by a Dutch company in Romania.

1.6 It is hard to avoid the conclusion that Defence bureaucrats advising Government are determined to see the quiet death of a sovereign shipbuilding

capability in Australia and its replacement with foreign entities operating on Australian waterfront real estate.

1.7 This approach is in contrast to the rest of the world, as illustrated by Figure 1. This approach is in contrast to the rest of the world, as illustrated by Figure 1.

Figure 1



Source of image: Austal submission to the Senate Inquiry into the Future of Australia's Naval Shipbuilding Industry

1.8 Ultimately a sovereign shipbuilding sector will need to be largely self-sustaining. This point has been made by Austal's chief executive, David Singleton:

...we need to work on creating an industry that stands on its own two feet, free of government subsidy. We cannot afford for the naval shipbuilding industry to be addicted to government welfare for its survival. The key lies in exports and the key to exports lies in Australian companies owning the intellectual property behind every ship they build. The ability to conceive new ship designs, develop them and build them in Australia needs to be a clear focus of the future Australian shipbuilding industry.

1.9 It is absolutely vital that, through our very large investment in submarines, frigates and patrol boats, the Federal Government secures the intellectual knowledge in the minds of Australians, resident in Australia and working in Australian companies, so that we have the capacity to design new ships for ourselves and for our export markets, and to maintain and sustain our new warships.

1.10 Yet the Government's approach is to see foreign companies take the lead in these nationally significant programs; foreign companies that will control the programs, foreign companies that will install their own management teams in Adelaide and elsewhere, foreign companies that will control the intellectual property and determine our shipyards' strategic direction.

1.11 When an export opportunity arises, it won't be for the Australian shipbuilder and shipyard to determine if we can export; the decision will be made in the context of the corporate plans of executives in Paris, Bremen, London and Madrid. These will be decisions that will be made on the basis of the global commercial perspectives of those companies without Australian government consultation or control.

1.12 The Government's decisions to implement our naval construction programs in this way have been fundamentally flawed. This approach will not serve Australia in the long term.

A Case Study in Destroying a Sovereign Naval Shipbuilding Capability

1.13 ASC provides the perfect example of the internationalisation of Australia's otherwise sovereign naval shipbuilding capability.

Building A Capability

1.14 ASC, then the Australian Submarine Corporation, was conceived in 1985 by a consortium to tender for the design and build of what would later become the Collins Class submarines. In 1987 ASC won the \$5 billion dollar contract and in 1989 the Osborne shipyard was opened by Prime Minister Bob Hawke.

1.15 Construction of the Collins Class submarines began and in 1996 the first submarine was delivered to the RAN. The remaining five submarines were delivered in 1997, 1999, 2000, 2000 and 2003. During the build, in 2000, the Government acquired 100% of the company.

1.16 While the Collins Class submarines were plagued with reliability issues, this was not attributable to the build quality of the boats, rather the design and the submarine enterprise.

1.17 In 2003 ASC were awarded a 25 year contract for through life support of the Collins Class submarines. The first Full Cycle Docking (FCD) on HMAS Farncomb was completed in August 2004.

1.18 In 2004 the name of the company was changed from the Australian Submarine Corporation to ASC in preparation for being selected as the shipbuilder for Australia's Hobart Class Air Warfare Destroyer (AWD), which occurred in 2005.

1.19 In 2010 shipyard upgrades were completed and construction of the AWDs commenced in earnest in three shipyards across Australia; in Newcastle, Port Melbourne and Osborne. The keel of the first AWD arrived at Osborne in 2011, with the keel laying occurring in 2012. By 2015 the first AWD was launched. The second was launched in 2016, the third in 2018.

World's Best

1.20 According to the company's public statement, by the time the third AWD was launched in May 2018, ASC had reached world benchmarks for both submarine sustainment and shipbuilding. The shipyard was nothing but a success and was a truly sovereign capability.

Death by a Thousand Cuts

1.21 Unfortunately plans to kill off ASC were well underway by 2018.

1.22 In 2016 the Government announced the breakup of ASC into three parts - submarine sustainment, shipbuilding and infrastructure.

1.23 Infrastructure was sold off to a new entity, Australian Naval Infrastructure, to gut ASC of its shipyard facilities in preparation for the upgrading and ultimate leasing of larger shipyard facility to foreign entities. This effectively allowed foreign entities to compete with ASC on unfair terms. The planned death of ASC Shipbuilding was signalled when the Future Frigate tender was released with the following direction to the overseas ship designers selected for the program:

Tenderers should be aware that the Commonwealth has selected the Tenderers on the basis of their Reference Ship Designs and their ability to undertake the design and build of the Ships. As such, the Commonwealth's expectation is that the core design work relating to the Ships and the management and supervision of build activities will be undertaken by the successful Tenderer (or its Related Bodies Corporate) and **not** subcontracted to a third party entity. In particular, while the successful Tenderer may decide to engage a Subcontractor to provide shipbuilding labour resources, the Commonwealth expects the successful Tenderer (or its Related Bodies Corporate) to personally and directly manage and supervise the workforce and, in particular, the shipbuilding activities.

1.24 This paragraph was an act of sovereign shipbuilding treachery only to be outdone by Minister Pyne in May 2017 when he wrote to Naval Group advising that:

The Government of Australia has formally decided that DCNS will be the builder of the future submarine fleet, which will be constructed in Australia as previously announced.

1.25 In writing to DCNS, Minister Pyne made it absolutely clear that DCNS will have *"operational control of the [Government funded] future submarine program shipyard facilities"* and *"will be responsible for selecting and managing its subcontractors for the for the purpose of Future Submarine Program"*.

1.26 This decision was made despite the fact, as confirmed by Defence in response to an October 2018 Estimates question, that Naval Group had offered to partner with ASC on the build of the future submarine. They had done so during the Future Submarine Competitive Evaluation process and had reaffirmed the offer in the months after they had won the job.

1.27 Instead of building on the hard won success of ASC, Minister Pyne was determined to sink the company, along with a truly sovereign capability.

1.28 With the only substantive task left for ASC at Osborne being submarine FCDs, that too is in the process of being secretly killed off.

1.29 The first recorded thoughts of shifting FCDs to Western Australia first emerged in 2011 in a paper by Commander D.L. Stevens RANR entitled *FSM BASING STUDY*. Behind closed doors and out of sight, Defence has slowly worked on the shift. In 2016 they commissioned a study to look at moving FCDs to the west, stopping and re-starting the study's progress in response to media questioning, Estimates timetables and South Australian elections.

1.30 In October 2018 Defence were questioned on the likely use of ASC North for building of the Future Submarines, the location of the current FCD work. The exchange went as follows:

Senator PATRICK: *The other discussion that took place yesterday with Mr Whiley, was to do with the submarine infrastructure review team, looking at how to facilitate the build of the Future Submarine. He confirmed at a very top level that there have been discussions, that ASC North, where the current full cycle dockings are done on submarines, that area may be required for the Future Submarine build. Can you confirm whether there's discussions taking place with Defence in that regard?*

Rear Adm. Sammut: *I can confirm that we have developed a number of options for the submarine construction yard. We've looked at the way that we best optimise construction of the Future Submarines. We have looked at some of those options. We've also mentioned in the past in Senate estimates that we are continuing to investigate how we can best manage the ongoing sustainment of the Collins class alongside the build of the Future Submarine so that we ensure that we have efficient production of the Future Submarine in a shipyard that is best suited to coming down the learning curve and getting maximum efficiency in the build, alongside the requirement to ensure that we can continue to sustain Collins. No firm decisions have been made on those as yet.*

Senator PATRICK: *I've seen some documents relating to basing of submarines where it was talked about FCDs being shifted to WA.*

Rear Adm. Sammut: *Options.*

Senator PATRICK: *I understand, but I'm just joining a few dots. I have now seen a study that's been done by Defence to shift it, and now I'm hearing that ASC North may well be the site for construction of the Future Submarine, which would be inevitable ending to full cycle dockings in South Australia.*

Rear Adm. Sammut: *Depending on which options are taken. It wouldn't say that it's just the ASC North site that ASC currently occupies. It will be a larger area of the Osborne precinct that will be required for the construction of the Future Submarines.*

Senator PATRICK: *Perhaps on notice, could you provide what the list of options are, just at the very high level?*

Rear Adm. Sammut: *We'll take that on notice. To the extent that we can provide the information, we certainly shall.*

1.31 No definitive answer has been received, but Defence's intended path is clear.

1.32 Meanwhile Minister Pyne, a South Australian MP, and South Australian Premier Marshall appear content to let this assassination of ASC occur.

The Committee's view

1.33 The Committee has uncritically accepted the Defence Department's submissions in favour of its preference for foreign shipbuilders. In doing so it has

accepted a policy framework that provides for an Australian sovereign naval shipbuilding industry in name only.

1.34 The Committee expresses concern about the provisions of the bill in so far as they would apply to the naval construction programs the government has committed to before and more particularly since the introduction of the Bill. This is a consequence of the Committee's uncritical acceptance of the existing policy framework which amounts to a fraudulent claim of Australian sovereign capacity.

1.35 The reality is that, in the absence of the framework provided by the Bill, Australia will remain critically dependent on foreign designers, builders and suppliers to support the Australian Navy and will lack a truly national naval construction capability to meet our own defence needs and pursue export opportunities.

Opportunity Lost

1.36 Nearly one hundred and ten years ago the then Prime Ministers Alfred Deakin and Andrew Fisher committed the funds and signed the contracts for the acquisition of the first vessels for the Royal Australian Navy.

1.37 Contrary to the wishes of some who argued that the Navy's new ships should be built at the cheapest possible price in British shipyards, the Deakin and Fisher Governments took a different path.

1.38 While those early contracts provided for the purchase of a number of vessels from British shipbuilders, they were also designed to lay the foundations for naval construction in Australia by specifying that one of Australia's new ships, a torpedo boat destroyer, HMAS *Warrego*, would be assembled not in the United Kingdom but at the Cockatoo Island dockyard in Sydney, thereby ensuring the transfer of new shipbuilding skills and capabilities to Australia.

1.39 It was recognised then, by Deakin and Fisher, that the new Royal Australian Navy had to be supported by a sovereign Australian shipbuilding industry.

1.40 More than a century later, this Bill seeks to give effect to that vision—an Australian Navy built in Australia by Australians.

1.41 Australia's uncertain strategic future demands a much greater measure of national self-sufficiency as a Pacific naval power, supported by a sovereign naval shipbuilding and support sector.

1.42 The Defence Amendment (Sovereign Naval Shipbuilding Bill) 2018 is designed to inject the concept of sovereignty back into the Australia's purported 'sovereign' Naval shipbuilding program.

1.43 The bill can be a turning point. It should be passed.

Senator Rex Patrick

Senator for South Australia