

# Chapter 12

## The strategic imperative

12.1 The last three chapters concentrated mainly on the costs and savings involved in building and maintaining a naval ship through its life in Australia compared with overseas. Naval shipbuilding, however, is not exclusively an economic activity—it is a Defence activity with national security its foremost concern.

12.2 This chapter focuses on the strategic needs of Australia and how they shape Australia's policy toward its indigenous shipbuilding industry. It looks at the uniqueness of Australia's security requirements especially those stemming from its geographical isolation and the environment in which Australian ships operate. Against this background, the chapter considers the importance attached to having an indigenous shipbuilding industry and a domestic capability to support Australia's naval ships through their working lives.

### Defence capability and the national interest

12.3 Nations feel strongly about having control over the capability and technology necessary to have operational independence in areas vital to their country's defence. A country's desire to have an appropriate degree of self-sufficiency when it comes to protecting its borders, people and broader national interests shapes its defence procurement policy.

12.4 Australia is no exception. It has adopted a policy that gives great weight to local industry as an important element of its defence capability.<sup>1</sup> Defence advised the committee that its strategic aims for industry are centred on 'having a sustainable and competitive Australian defence industry base to support a technologically-advanced ADF'.<sup>2</sup>

12.5 The following section focuses on the naval component of Australia's defence capability. It considers Australia's unique security needs and how they interact with other considerations such as costs and affordability. The committee's principal concern is to determine the extent to which Australia should be self-reliant on the design, construction, maintenance, repair and upgrading of its naval fleet.

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1 Australian Government, Department of Defence, *Australia's National Security, A Defence Update 2005*, p. 19. The Government's Defence Update 2005, recognised that its defence capability is 'the most potent of the range of instruments Australia employs to promote and support its security interests'

2 Department of Defence, Overview, answer to question on notice, 28 March 2006 (received 29 May 2006) p. 1.

## Australia's unique strategic requirements

12.6 Over recent decades substantial changes have taken place in the international security environment deriving mainly from globalisation, the activities of terrorist groups, rapid advances in technology and the growing worldwide demand for energy resources.<sup>3</sup> In considering its national security, Australia must take account not only of these worldwide trends but also its traditional security concerns that emanate from a region characterised by political, ethnic, cultural and religious diversity. There are latent and active tensions in the region that threaten to undermine the complex and changing web of relations.<sup>4</sup> As noted by the Department of Foreign Affairs and Trade 'the Asia-Pacific area is still home to eight of the world's ten largest armies and, after the Middle East, the world's three most volatile flashpoints—the Taiwan Straits, the Korean Peninsular and Kashmir'.<sup>5</sup> More immediately, pockets of political instability among some of Australia's closest neighbours, such as the Solomon Islands and East Timor, create significant security concerns.<sup>6</sup>

12.7 Many submitters suggested that the size and nature of the Australian continent calls for 'a military strategy fundamentally oriented to the maritime environment'.<sup>7</sup> They argued that as an island nation with vulnerable northern approaches, Australia should attach great importance both to its capability to defend its land mass and people and also to securing its maritime approaches.<sup>8</sup>

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3 See for example, Commonwealth of Australia, *Defence 2000: Our Future Defence Force*, pp. 15–26; Ministry of Defence, United Kingdom, *Defence Industrial Strategy: Defence White Paper*, presented to Parliament by the Secretary of State for Defence by Command of Her Majesty, December 2005, p. 15. See also Department of the Navy, *Australian Maritime Doctrine*, 2000, chapter 2.

4 See for example consideration of the region's security concerns in Senate Foreign Affairs, Defence and Trade References Committee, *China's emergence: implications for Australia, March 2006*, pp. 127–172, 194 and chapter 11. Although this report is focused on China, it provides an overview of security concerns in the East Asian region.

5 Commonwealth of Australia, *Advancing the National Interest*, Australia's Foreign and Trade Policy White Paper, 2003, p. ix.

6 See for example consideration of the region's security concerns in Senate Foreign Affairs, Defence and Trade References Committee, *China's emergence: implications for Australia, March 2006*, pp. 171–3, 177. Australian Government, Department of Defence, 'Operation Astue, 25 May 2006, <http://www.defence.gov.au/opastute/default.htm> (accessed 26 May 2006).

7 Government of South Australia, *Submission 9*, p. 10; Gregory Tunny, *Committee Hansard*, 19 April 2006, p. 18; Rear Admiral (Retired) Kevin Scarce, Port Adelaide Maritime Authority, *Committee Hansard*, 19 April 2006, p. 21; Government of Western Australia, *Submission 23*, pp. 9–10; Gregory R. Copley, Future Directions International, *Submission 28*, pp. 3–5.

8 Government of South Australia, *Submission 9*, p. 10; Gregory Tunny, *Committee Hansard*, 19 April 2006, p. 18; Rear Admiral (Retired) Kevin Scarce, Port Adelaide Maritime Authority, *Committee Hansard*, 19 April 2006, p. 21; Government of Western Australia, *Submission 23*, pp. 9–10; Gregory R. Copley, Future Directions International, *Submission 28*, pp. 3–5.

12.8 The South Australian and Western Australian governments were among the many submitters who underlined the importance of Australia having a maritime capability.<sup>9</sup> The South Australian government stated:

The physical environment of Australia as an island nation dictates the criticality of having an independent and effective maritime capability to contribute to our national defence and security requirements into the foreseeable future. To deliver this maritime capability, shipbuilding, repair and maintenance must be recognized as a national strategic industry.<sup>10</sup>

12.9 Its submission suggested that 'any military threat to Australia would have to be made through or over our maritime approaches'. It observed that 'a key strategic priority for successive governments has been the capacity to deploy independent naval strength into the ocean and archipelago areas adjacent to the continent.<sup>11</sup> The state government also noted that deploying Australian forces would require 'heavy lift ships and their effective protection to traverse our nearby archipelagos and oceans to their area of operations'.<sup>12</sup>

12.10 The Australian Manufacturing Workers Union (AMWU) similarly contended that the defence of Australia depends on 'control of the long maritime approaches to the continent, or at the very least denial to a potential enemy control of these approaches'.<sup>13</sup> The Submarine Institute of Australia Inc and the Returned & Services League of Australia (RSL) also highlighted the uniqueness of Australia's maritime security needs, including the increasingly critical strategic issues in the context of energy and trade, which, they argued, demanded unique solutions.<sup>14</sup>

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9 See also Aerospace, Industrial and Marine Technology (AIMTEL) Pty Ltd, *Submission 15*, p. 2. AIMTEL recommended that Australia continue to procure Australian made ships for the benefit of its future skills base and that any economic matters be treated under the banner of training to maintain our independence. See also the Australian Association for Maritime Affairs Incorporated, *Submission 13*, p. 4.

10 *Submission 9*, pp. 4 and 11. The submission listed the factors that make giving an effective marine capability a priority: notably, one of the longest coastlines in the world, territorial seas and exclusive economic zone amounting to an area greater than the continent itself. See also Mr Gregory Copley, *Committee Hansard*, 3 April 2006, p. 2.

11 Government of South Australia, *Submission 9*, p. 10.

12 *Submission 9*, p. 10.

13 *Submission 21*, p. 2.

14 *Submission 3*, p. 2. The RSL noted important factors determining Australia's defence planning. They included:

- For the foreseeable future, the bulk of Australia's trade with other nations will continue to be almost exclusively sea borne thereby placing an increasing and ongoing obligation on the nation to play its part in keeping open the vital international sea lines of communication;
- The country should expect to be called upon by the United Nations to assist in military operations authorised by the UN Security Council in diverse parts of the world. Alliance partners may also seek Australian involvement in mounting security operations distant from the Australian continent;

12.11 The RSL's view of Australia's key maritime interests was that it:

would be irresponsible of Australia not to provide itself with the wherewithal to maximise its maritime security advantages, including an ability to play its part in maintaining the security of sea-borne trade.

12.12 Of equal importance to the RSL was for Australia to remain capable of the sea-borne deployment of its armed forces and of protecting these forces en route to their destinations.<sup>15</sup> This need to maintain a naval capability is in the context of rapid changes in technology. As the RSL noted:

All these considerations demonstrate the ongoing need for a state-of-the-art and broadly capable maritime combatant force capable of sustained operations throughout the sea-air gap surrounding the continent and of deploying to areas of conflict in other parts of the world. This will require Australia to acquire, maintain and operate modern surface combatants, submarines, amphibious and troop carrying warships, mine warfare and clearance diving forces, maritime air forces and maritime logistic support forces.<sup>16</sup>

12.13 The 2000 Defence White Paper also noted the growing sophistication of naval vessels and improved technology in the region. It cited in particular anti-ship missiles with longer range, better guidance and more capable systems which allow several missiles to be launched at a target simultaneously from different directions. It maintained that the number of types of platform that can launch these missiles has also increased to include not just ships, but submarines and several types of aircraft. It expects these trends to continue over the current decade. For example, it anticipates that the supersonic anti-ship missiles will enter service in several countries in the region within the next ten years and the capability to target ships at long range will improve.<sup>17</sup> Defence contended that:

Over the coming decade it is likely that the capabilities of submarines being operated by regional navies will improve significantly, and a number of navies will acquire sub-marines for the first time. Anti-submarine warfare capabilities will also improve.<sup>18</sup>

12.14 The Victorian government similarly drew the committee's attention to the growing naval defence capability in the region. It stated:

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- Nearer home, the security of the region requires that Australia remains capable of deploying significant forces in response to requests from regional governments or to assist in bolstering security in the vast area stretching from Papua New Guinea into the South Pacific. *Submission 6*, pp. 1–2 and also *Submission 3*, p. 20.

15 *Submission 6*, p. 2.

16 *Submission 6*, p. 2.

17 *Defence 2000—Our Future Defence Force*, p. 25.

18 *Defence 2000—Our Future Defence Force*, p. 25.

A review of the acquisition policies and practices of the largest Asian-Pacific militaries reveals that buyers are seeking more sophisticated capabilities, particularly long-range precision strike, command and control and intelligence systems. ...

In particular, China, India, South Korea, Japan, Taiwan, Singapore and Thailand have launched ambitious naval acquisition programs intended to provide their respective militaries with greatly increased regional power projection capabilities. These efforts will dramatically increase the region's number of advanced diesel-electric submarines, aircraft carriers, amphibious assault ships and destroyers and frigates with long-range air and missile defence systems.<sup>19</sup>

12.15 Clearly, there are compelling reasons for Australia to have a navy capable not only of defending its shores but ensuring the safety of the surrounding seas. As a large island nation in a region where there is significant expansion of naval capability, the protection of Australia's security interests relies heavily on an effective and modern naval force. The general acceptance that Australia needs such a force opens up debate about the relationship between self-sufficiency and capability. The section below considers the importance of an indigenous shipbuilding industry to Australia's defence capability.

### **The relationship between defence capability and an indigenous naval shipbuilding industry**

12.16 Defence's 2000 White Paper stated that with Australia's national defence expenditure accounting for only one per cent of world military expenditure it would be unrealistic to aspire to complete industrial self-sufficiency.<sup>20</sup> It noted:

The Government will also seek to make greater use of off-the-shelf purchases, especially where the additional capability from Australian specific modifications does not justify the increased cost and risk. However, total reliance on off-the-shelf purchases is neither achievable nor desirable. It would risk our forces having inferior technology in key areas such as combat systems, and place the ADF at a serious disadvantage if local industry were unable to repair or modify critical equipment in wartime.<sup>21</sup>

12.17 The Defence 2000 White Paper and DMO's 2002 Strategic Plan noted that the policy of self-reliance had underpinned the Australian Government's preference for the local construction of major surface ships and submarines since the 1980s. It stated further:

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19 *Submission 31*, p. 44.

20 Department of Defence, *Defence 2000, Our Future Defence Force*, Commonwealth of Australia, 2000, p. 99.

21 Department of Defence, *Defence 2000, Our Future Defence Force*, Commonwealth of Australia, 2000, pp. 100–101.

Our Future Defence Force reinforces the self-reliance policy of previous White Papers. It states that the ADF needs to be able to defend Australia without relying on the combat forces of other countries. To achieve this policy outcome, the Government's stated objective is to have a sustainable and competitive defence industry base, with efficient, innovative and durable industries, able to support a technologically advanced ADF.<sup>22</sup>

12.18 This policy stance, as noted in Defence's 2000 White Paper, allows for the purchase of overseas ships. The 2002 Strategic Plan also explained the limits on self-sufficiency:

The concept of self-reliance does not imply complete self-sufficiency in the supply of goods and services. Self-sufficiency is neither affordable nor practicable due to factors such as Australia's remoteness, economies of scale, and the need to access global technologies and supply chains as required. In conjunction with developing local support capabilities, there must be the capacity to ensure that support can be drawn from overseas must be retained whenever necessary. Therefore, careful investment judgements are required in order to achieve an optimum combination of combat strength and supportability.<sup>23</sup>

12.19 In 2004, Senator the Hon. Robert Hill, Minister for Defence, restated the government's preference for self-sufficiency in its procurement policy but conceded there were practical constraints.<sup>24</sup> Even so, he stressed that Australia:

must be able to support and maintain our equipment and the investment in Australia in systems integration, weapons integration, electronic warfare protection, new generation radar, advanced communications and other critical areas remain very important.<sup>25</sup>

12.20 The Allen Consulting Group maintained that there has never been the view that Australia should build all the missiles and military systems that it requires. It went on to state, however, that while these types of assets and other hardware can be stockpiled to meet defence needs in any emergency, 'in other areas there is a need for significant in-country industrial capacity to maintain defence assets in a state of operational readiness'.<sup>26</sup>

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22 *Submission 21*, p. 2. Defence Materiel Organisation, *Australian Naval Shipbuilding and Repair Sector*, Canberra, 2002, p. 43; Commonwealth of Australia, *Defence 2000: Our Future Defence Force*, p. xi.

23 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. 17.

24 Senator the Hon Robert Hill, Minister for Defence, Opening Address, Pacific 2004 International Maritime Exposition and Congress, Sydney Convention and Exhibition Centre, 3 February 2004.

25 Senator the Hon Robert Hill, Minister for Defence, Opening Address, Pacific 2004 International Maritime Exposition and Congress, Sydney Convention and Exhibition Centre, 3 February 2004.

26 The Allen Consulting Group, *Future of Naval Shipbuilding in Australia: Choices and Strategies*, May 2005, p. 19.

12.21 Chapter 2 discussed the difficulties facing maritime nations wishing to retain a degree of control over their domestic naval shipbuilding industry for national security reasons. Many countries provide direct and/or indirect subsidies to keep their industry viable but even then they do not have the wherewithal to retain absolute sovereignty over their naval capability. Indeed, the Allen Consulting Group noted that not even the U.S. can produce everything it needs purely from its own resources (see chapter 2).

12.22 The UK Ministry of Defence took the view that maintaining control of domestic defence capability, including the ability to respond to urgent operational requirements, 'does not necessarily mean "procurement independence" or total reliance on national supply of all elements'. It noted further that the degree of control will differ across technologies and projects:

In many, even high priority areas, we can, and do, rely on overseas sources, and have made progress in recent years in developing increased assurances of security of supply, but there are critical areas where not maintaining assured access to onshore industrial capabilities would compromise this operational independence and hence our national security.<sup>27</sup>

12.23 Thus, Australia is not alone in endeavouring to reconcile the desire for self-sufficiency in naval defence capability as a national security priority with the practical limitations imposed by cost and technology. Indeed, the tension that exists between the desire to maintain self-sufficiency in naval shipbuilding for national security reasons and the practical considerations of affordability was pronounced in evidence before the committee.

12.24 A number of submitters were certain that an indigenous naval shipbuilding capability should be a critical component of Australia's defence capability. For example, when the committee asked witnesses why Australia could not simply purchase the ships it needs off-the-shelf from countries producing such vessels, the response drew heavily on the strategic argument that Australia needs to retain some degree of self-sufficiency so that it is not left vulnerable. Rear Admiral Kevin Scarce stated:

I would say that with warships, whilst not as critical perhaps as with a submarine, it is just as vital for us in the longer term to understand what we are buying, to warrant the safety of the ship and to be able to amend it, to update it and to upgrade the systems. It is not about building steel, it is about managing the design and build program and ensuring the quality of what you produce to meet the end customer's requirement. I do not believe you can do that by just importing the ship. I do not think it is just the skills

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27 Ministry of Defence, United Kingdom, *Defence Industrial Strategy: Defence White Paper*, presented to Parliament by the Secretary of State for Defence by Command of Her Majesty, December 2005, p. 15.

transfer, and the Collins program shows us quite clearly what happens when you do not make provision for that knowledge transfer.<sup>28</sup>

12.25 The RSL cited the views of Major General Peter Abigail, who stated that there is a strategic imperative for Australia to have a naval shipbuilding industry.<sup>29</sup> The Submarine Institute of Australia Inc noted that 'naval shipbuilding (including large, medium and small surface ships and submarines) is at the high value/high (smart) end of the technology spectrum and is regarded as a strategic asset important to Australian security and increased self-reliance'.<sup>30</sup> Mr Michael Gallagher of Nautronix Ltd, argued that:

The government's stated policy for strategic self-reliance will be potentially eroded if we start to move key activities such as shipbuilding offshore. We need that security. We need to have the flexibility. We need to be able to respond and react in good time to changing scenarios, particularly given our geographic disposition and the large maritime area that we are responsible for.<sup>31</sup>

12.26 In its submission, Defence noted and broadly agreed with the findings of the 2002 ASPI report that asserted 'There is in fact no strong strategic reason to build the Navy's warships here in Australia'.<sup>32</sup> The ASPI report argued that:

Australia cannot and should not aim for self-sufficiency in supporting our naval capability. There is simply no way we could design, build, and equip our own ships without relying on imported systems and technology. The benefits of self-sufficiency would be low, and the costs very high. Strategically it would result in a major reduction in overall capability. So we will import all or most of the design work needed for our major warships, and all or most of the sophisticated weapons and systems that make up a large proportion of the value of our ships.<sup>33</sup>

12.27 Clearly it is beyond the means of any country to retain absolute control over all aspects of its defence capability. Delineating the point at which a country relinquishes its control over the design or construction of a major defence acquisition depends on the weight it gives to security, economic and other national interest considerations.

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28 *Committee Hansard*, 19 April 2006, p. 38.

29 *Submission 6*, p. 6.

30 *Submission 3*, p. 14.

31 *Committee Hansard*, 3 April 2006, p. 35.

32 *Submission 20*, paragraphs 1.6–1.7, p. 2. Australian Strategic Policy Institute, *Setting a Course for Australia's Naval Shipbuilding and Repair Industry*, An ASPI Policy Report prepared by Mark Thomson and Simon Harrington, August 2002, p. 11.

33 Australian Strategic Policy Institute, *Setting a Course for Australia's Naval Shipbuilding and Repair Industry*, An ASPI Policy Report prepared by Mark Thomson and Simon Harrington, August 2002, p. 10.



## **The relationship between defence capability and an indigenous naval ship maintenance and repair industry**

12.28 Although Defence acknowledged that industrial capability had 'always been a critical partner for the Australian Navy, essential to the delivery and sustainment of warships throughout their life', it was prepared to accept that Australia did not need the capability to construct its naval vessels.<sup>34</sup> The strategic argument applying to the maintenance and repair of naval ships is different. Indeed, a number of key studies have underlined the importance of being able to repair, maintain and upgrade vessels in-country. Although the 2002 Strategic Plan did not suggest that a shipbuilding industry was essential it found that 'Without an effective long-term repair & maintenance regime the very function and purpose of the Navy are jeopardised'.<sup>35</sup>

12.29 It acknowledged up front the strategic importance of Australia's naval shipbuilding and repair sector. It stated forcefully that the repair and maintenance of naval vessels is vital to operational effectiveness of the fleet. The Strategic Plan adopted the tenet that 'the development and sustainment of NSR capabilities and skill-sets is critical to the long-term delivery and management of naval capability and to the viability of the sector'.<sup>36</sup>

12.30 It left no doubt that Australia's self-reliant defence could not be assured unless the capabilities exist in Australian industry to maintain, modify, upgrade and repair the nation's warships.<sup>37</sup> The plan spelt out the requirement for 'competent ship repairers supported by an experienced workforce able to repair and maintain equipment that spans a range of technologies from the early 1960s to today's leading edge'. In its view, they need to be able to respond promptly to pressing operational requirements and have the capability to meet the demands that arise during periods of increased operational commitments, including the urgent repair of unforeseen work such as major battle damage.<sup>38</sup>

12.31 The ASPI report reinforced this view stating that the real strategic priority is to have the ability to repair and maintain our ships, including the ability to keep them in operation during conflict.<sup>39</sup> It highlighted the impracticality of not having this capability:

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34 *Submission 20*, paragraph 1.1, p. 1.

35 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. 12.

36 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. 7.

37 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. xi.

38 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. 12.

39 *Submission 20*, paragraphs 1.6 and 1.7, p. 2.

The transit times to foreign maintenance locations would be prohibitive in peacetime and operationally compromising in wartime.<sup>40</sup>

12.32 The majority of evidence presented to the committee supported the view that Australia should have a naval shipbuilding and repair industry. Many participants in the inquiry, however, saw a direct and critical link between maintaining the country's defence capability and having an Australian naval shipbuilding and repair industry.<sup>41</sup> It should be noted that the 'modification and adaptation of a vessel through its service life to meet unanticipated capability requirements and changes in technology such as obsolescence' are included in activities associated with ship maintenance and repair.<sup>42</sup>

12.33 The South Australian government pointed out that all significant maritime nations maintain a core naval shipbuilding and repair capacity. This applies not only to the major maritime powers but also to medium-size countries, such as Sweden, the Netherlands, Spain, Italy and Canada and, in our region, South Korea, Singapore, Indonesia, Malaysia and New Zealand. It argued that Australia's 'great distances from major North American and European suppliers means that having an indigenous shipbuilding industry greatly enhances our defence self-reliance'.<sup>43</sup> It added:

Maintaining an Australian shipbuilding and repair capability is a critical element in providing the government with options to deliver defence and foreign policy objectives in this uncertain strategic environment.<sup>44</sup>

12.34 Building on this line of argument, the Government of Western Australia was of the view that a reliance on off-shore industry to maintain, repair, upgrade or modify navy vessels puts Australia's defence interests at risk. It maintained that:

...if a dispute occurred between Australia and a regional country, third country governments may be reluctant to permit their industries to support Australian naval combatants. It is equally plausible that overseas shipbuilders and repairs may accord the task of supporting Australian naval combatants involved in such a dispute lower priority than other business. The consequences for Australia of inadequate off-shore support could be serious: The ability of the Australian Defence Force to conduct naval operations on its terms could be seriously impeded and the Australian Government's ability to conclude hostilities in a way that protected and advanced Australia's interests could be substantially compromised.<sup>45</sup>

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40 Australian Strategic Policy Institute, *Setting a Course for Australia's Naval Shipbuilding and Repair Industry*, an ASPI Policy Report, Prepared by Mark Thomson and Simon Harrington, August 2002, p. 11.

41 See for example, Rear Admiral (Retired) Kevin Scarce, Port Adelaide Maritime Authority, *Committee Hansard*, 19 April 2006, p. 21; Gibbs & Cox Inc, *Submission 10*, p. 5; Engineers Australia, *Submission 24*, p. 23.

42 See DISplay Pty Ltd, *Submission 40*, p. 4.

43 *Submission 9*, p. 12.

44 *Submission 9*, p. 34.

45 *Submission 23*, p. 8.

12.35 With equal force, the Submarine Institute of Australia Inc underlined the importance of Australia having the industry 'continually engaged so that in the unfortunate but potential event of battle damage or accidental damage, major repairs can be conducted expeditiously within country; design experience is especially important in this case'.<sup>46</sup>

12.36 As noted above, Defence saw no strong strategic reason to build the Navy's warships in Australia. It did, however, place a high priority on self-sufficiency in the through-life support of its naval ships.<sup>47</sup> Indeed, two of its key stated strategic aims are clear about the importance of retaining control over the repair and maintenance of its naval vessels. Defence stated that its aims are:

- the ongoing sustainment of a vibrant, competitive, cost effective Australian maritime industrial capacity able to conduct repair and maintenance, upgrade and systems integration of Navy's surface ships and submarine force; and
- an industry disposition that can efficiently support the Navy fleet basing strategy.

12.37 It explained that the strategy would continue maintenance and home-porting of major surface ships on the East Coast in Sydney at Fleet Base East and the West Coast near Perth at Fleet Base West. With regard to the submarines, full cycle dockings are carried out in South Australia with the remainder of submarine maintenance activities carried out at Fleet Base West.<sup>48</sup>

12.38 On strategic grounds, the argument supporting the existence of a naval ship repair industry in Australia presented a stronger case than for having a naval shipbuilding industry. Even so, the relationship between the two sectors, particularly any interdependence between shipbuilding and ship repair, must also influence national security concerns and warrants the committee's consideration. The following section looks at nature of the relationship between the naval shipbuilding industry and the repair industry and whether it has implications for defence marine capability and national security.

### **Connection between shipbuilding and maintenance, repair and upgrades**

12.39 As noted above, Defence's policy allows for ships to be purchased overseas. Defence has made clear, however, that 'the most important thing that the shipbuilding industry can add to the Defence of our country is the onshore capability for upgrade of the platforms and maintenance through-life...we need to develop enough skills in the country to maximise Australian content in the upgrade and maintenance cycles'.<sup>49</sup> DMO's 2002 Strategic Plan, which accepted that ships may be able to be built

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46 *Submission 3*, p. 9,

47 *Submission 20*, paragraph 4.7, p. 25.

48 Department of Defence, *Submission 20*, p. 1.

49 *Committee Hansard*, 18 August 2006, p. 31.

overseas, also made clear that there was no practical alternative for conducting repair and maintenance of the Fleet in Australia.<sup>50</sup> The 2005 Allen Consulting Group study, however, drew a very firm connection between in-country build and the capability to maintain and repair the vessel. It concluded:

...in undertaking local build of both the *Collins* and *ANZAC* classes Australia put itself in the position whereby it has significant parent navy responsibilities for both classes of ships and has achieved a high level of self-reliance in maintaining them.<sup>51</sup>

12.40 Many submitters made a similar connection between the acquisition of the skills necessary for the effective and efficient maintenance, repair and upgrade of a ship to an in-country build.<sup>52</sup> They believed that the two sectors were linked and could not, or should not, be separated. The Western Australian government tied navy preparedness—and by extension the credibility of Australia's maritime strategy—to a dependency on local industry support. This in turn rests on the construction of naval vessels in-country:

...the case for construction of naval combatants in Australia rests primarily on the contribution that such activity makes to the preparedness of the naval units operating the vessels so constructed. Navy preparedness is based on the availability of vessels and their crew and is currently measured in Unit Ready Days (URD). The number of URD achieved by naval combatants depends fundamentally on the efficiency and effectiveness with which they are supported in-service. In-service support of naval combatants comprehends their routine maintenance, their repair should they sustain damage, their upgrade so as to remain competitive in military terms and their adaptation to meet the requirements of specific missions.<sup>53</sup>

12.41 The Western Australian government considered that:

Australian industry involvement in the supply of naval ships is a means of conditioning our companies and workers for support of navy preparedness. Local construction of navy ships is therefore an investment in local industry capability for support of Australian Navy preparedness; it is not an end in itself.<sup>54</sup>

12.42 The Western Australian government cited the cases of the *Collins* class submarines and the *ANZAC* ships where Australians working on the construction of both vessels gained the platform, system and engineering knowledge and crucial skills

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50 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. xvi.

51 The Allen Consulting Group, *Future of Naval Shipbuilding in Australia: Choices and Strategies*, May 2005, p. 45.

52 *The Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002, p. xvi; Display Pty Ltd, *Submission 40*, p. 10.

53 *Submission 23*, p. 5.

54 *Submission 23*, p. iv.

that would carry over to support the ships through their life. Arrangements are now in place dedicated to the in-service support of the Collins and ANZAC vessels that 'make for rapid response to and resolution of defects as well as facilitating the routine and ad hoc maintenance requirements and engineering support'.<sup>55</sup>

12.43 Taking the same approach, the AMWU stated that:

Beyond the economic costs, it is vital to Australia's independence that we have an indigenous capacity to support, repair and upgrade our naval vessels. Local construction is inexorably linked to this. We must avoid repeating the situation we faced in 1982 when during the Falkland Islands conflict the Royal Navy froze export of all spare parts for the Oberon class submarines.<sup>56</sup>

12.44 The Submarine Institute of Australia Inc argued that it is important to have the industry 'continually engaged so that in the unfortunate but potential event of battle damage or accidental damage, major repairs can be conducted expeditiously within country; design experience is especially important in this case'.<sup>57</sup> Mr Greg Tunny, Managing Director and CEO of ASC Pty Ltd, told the committee:

...at any one point in time over the life of a vessels we do not necessarily know that we can go back to where we got it from to get the latest and greatest upgrade enhancement that we need at an affordable price within an affordable time to meet an emergent contingency which may be coming on us very rapidly. If we have not built it, we do not necessarily have the capacity to do that in country.<sup>58</sup>

12.45 It should be noted that DITR informed the committee that part of the reason 'that more complex vessels are self-built rather than purchased is that building them is a way of developing the domain knowledge required to maintain and operate the vessel'.<sup>59</sup> Indeed, officers from DMO made a direct and strong connection between the construction of a ship and the development of a skills base needed for future ship builds and repairs. They saw local involvement in the construction of a ship as setting the necessary foundations on which to build future ships in Australia. Mr Warren King, Deputy CEO of DMO, told the committee:

...we would not embark on the AWD program as a nation today if it had not been for all the skills sets that have been built up and which are broadly retained in the industry base as a result of Collins, Anzacs and minehunters.<sup>60</sup>

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55 *Submission 23*, p. 9.

56 *Submission 21*, p. 8.

57 *Submission 3*, p. 9.

58 *Committee Hansard*, 19 April 2006, p. 18.

59 *Submission 38*, p. 6.

60 *Committee Hansard*, 18 August 2006, p. 34.

Referring to when the AWD build is finished, DMO's Chief Executive Officer Dr Stephen Gumley added:

But when we look at the size of the skill base, the many hundreds of engineers that ASC employed to build the AWD, those people, hopefully, will be ready for the next round, whenever that might be. It is the generic skill base that matters more than the specifics of any particular class or company.<sup>61</sup>

12.46 He further emphasised the critical link between skills needed to maintain and upgrade a vessel with a local build:

In the shipping area, it really is the upgrade and maintain capability. To get that...we have been able to piggyback off the successful builds of Anzac and Collins. It is my hope that, with the successful build of AWD and whatever might happen with the LHD, we will have a base for the next phase, whatever that might be.<sup>62</sup>

12.47 When asked pointedly whether it was possible to sever the link between the construction of a naval vessel and its through-life support, Defence's response was qualified. It believed that the connection was not always strong. It told the committee that in many cases it was preferred to maintain the link by having ships constructed in-country. Even so, it stated that 'it is possible to meet the strategic imperative to maintain and modify Navy ships in Australia without building ships in Australia'. It found only a small linkage between the need to build ships in Australia and to maintain them when ships are relatively simple. It stated that 'As complexity grows, the link becomes stronger. Patrol boats and the refit of the oiler SIRIUS are at the simple end, while the frigates, submarines and AWD are at the other end'.<sup>63</sup>

12.48 Defence cited a number of projects involving the purchase of ships from overseas where repair and maintenance was successfully carried out in Australia. It made the following points:

The first four FFGs were supported in Australia before the final two were constructed here; navy operates the two LPAs constructed in the US and the Fleet replenishment ships HMAS WESTRALIA constructed in the UK.

Major warship repair and maintenance is conducted by members of the ship repair panel. Of the four members of this panel (Tenix, ADI, Forgacs and United-WA) three have not previously conducted major warship construction.

Ship repair generates a significant demand for skills and knowledge regardless of the construction demand.

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61 *Committee Hansard*, 18 August 2006, p. 34.

62 *Committee Hansard*, 18 August 2006, p. 38.

63 Department of Defence, answer to question on notice, 28 March 2006 (received 29 May 2006), p. 3.

12.49 It included the proposed LHD project in its consideration of the relationship between building and repairing a ship. Defence categorised the LHD as a low moderate technology basic platform where only a low correlation between build capability and the maintenance and upgrade capability exists. It concluded:

The key skills to nurture for the long-term in this technology area are in systems integration and upgrade. In this sense, the skills used during platform construction are of less importance in the through life support phase of ships.<sup>64</sup>

## **Conclusion**

12.50 Without exception, all witnesses accepted that national security concerns are central to any consideration about whether Australia should have a naval shipbuilding industry. The government, however, noted that practical and economic circumstances place limitations on the extent to which Australia can be self-sufficient in the construction of naval vessels. The argument for self-sufficiency in maintaining and repairing naval vessels, however, was stronger especially when it came to the ability to respond to urgent operational requirements. Defence stated unequivocally that for strategic reasons there is a high priority on being able to repair, maintain and upgrade vessels in Australia. It did not accept, however, the necessity to build a ship in-country in order to have the capability to support it through its service life. Some submitters argued otherwise. They saw a direct and strong connection between a ship's build and the knowledge and resources needed to support the ship especially when a rapid response is required.

12.51 The committee accepts that to protect the nation's security interests, Australia must have the capability to maintain, repair and upgrade its naval vessels. While always present, this requirement becomes urgent and critical when the country's security is under threat. Furthermore, the committee is persuaded by the evidence that there is a strong connection between Australian involvement in the construction of a naval vessel and the acquisition of the necessary knowledge, skills, experience and resources to support effectively that vessel throughout its life. As noted earlier, however, the committee accepts that Australia cannot be fully self-sufficient in the construction of its naval vessels.

12.52 The committee underlines the importance of recognising the contribution that the construction of naval vessels in-country makes to the capability to maintain, repair and upgrade them—a requirement central to the nation's security. Importantly, the committee believes that there are critical areas where reliance on overseas suppliers may compromise operational independence and ultimately Australia's national security. In such cases, security concerns must take precedence over economic costs.

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64 Department of Defence, answer to question notice, 28 March 2006 (received 29 May 2006), pp. 1 and 3.

12.53 This chapter and the previous one looked beyond the narrow costs of building and repairing a large naval ship in Australia compared to overseas. They noted a range of considerations that highlighted the advantages of building naval vessels in Australia including the broader economic gains that benefit the Australian economy and the security reasons for building in Australia. The following chapter summaries the committee's findings to this stage of the report.