# Chapter 15

## Strategic planning

15.1 As the sole purchaser of naval vessels in Australia, the Australian government exerts considerable influence on the performance and viability of the domestic naval shipbuilding industry. Noting that the defence department is a monopsonist, Mr Robert Wylie, a specialist in public policy analysis, was of the view that the defence industry in Australia is 'overwhelmingly a product of government decision'.[1] He explained:

> The classic argument then follows that what business it does and how it does that business has a direct and immediate effect on the nature and scale of the industry capabilities that we have in this country. Similarly, the choice between what Defence and the armed forces do in house and what they do in industry has a similar direct effect. The choice between what we import and what we decide to do ourselves, by whatever criteria, has far-reaching implications.[2]

15.2 Indeed, the committee has noted more than once that Defence cannot be a disinterested bystander of the national shipbuilding and repair industries and should have 'a strong and enduring interest in the industry's success'.[3]

15.3 In this context, this chapter has two parts. The first looks at key areas where the government and Defence may better assist Australian shipbuilders improve their productivity. It highlights the need for a coordinated approach between industry and state and federal governments to promote SMEs and invest strategically in infrastructure and skills. The second part deals with the need for Defence to moderate fluctuations in demand and formulate a strategic plan to clarify Defence's long-term objectives for the industry.

### Assisting industry improve productivity

15.4 The following section considers some of the key aspects of the industry discussed in the body of the report where submitters considered that strategic planning would substantially improve industry efficiency. They include: the supply network, infrastructure and skills.

### SMEs

15.5 The committee has noted the vital and valuable contribution that local companies are making to the naval shipbuilding industry. It found that Australian

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1 *Committee Hansard*, 4 September 2006, p. 23.

2 *Committee Hansard*, 4 September 2006, pp. 23–24.

3 Notion taken from comments made in ASC, *Submission 17*, p. 10.

SMEs not only deliver a particular good or service but add value to the shipbuilding industry.[4] Indeed, the committee used the network of shipbuilding and repair enterprises in Tasmania to demonstrate the depth of skills, knowledge and experience ready and willing to support the industry. It is important that the reservoir of local talent residing in Australia—and the Tasmanian example provides only a small sample of the potential—is properly harnessed and nurtured. The committee believes that Defence has a key role in developing this network and that considerations such as how best to nurture local SMEs should be part of Defence's overall strategic planning.

15.6 In some specialised areas involving complex systems, Australia benefits from overseas assistance that helps to fill capability gaps in the local industry. In many cases, overseas companies have established subsidiaries in Australia that have gone on to become valuable participants in the country's shipbuilding industry. They are working side by side with local firms to provide the shipbuilding industry with an extensive, reliable and capable network of enterprises supporting the construction of naval ships. Raytheon Australia, however, pointed to the importance of ensuring that overseas companies contribute to the development of Australia's industrial base. It noted:

> …simply contracting the work to an overseas company, or hiring overseas workers without ensuring the transfer of knowledge to local people, results in little or no increase in Australian industrial capability.[5]

15.7 Without doubt, many foreign companies are contributing to a vibrant and innovative naval shipbuilding industry offering employment opportunities and driving advances in science and technology. The committee underlines the need for the government to ensure that Australia takes full advantage of their presence in Australia, especially in the area of technology transfer.[6] This means that important considerations should also be given to matters such as IP. Such matters should be important considerations in any strategic plan.

## Infrastructure

15.8 Australia's naval shipbuilding and repair industry dates back to the mid 19th century. Since then it has evolved and, in many ways, is a product of its history. Some submitters suggested that the present state of the industry reflects investment tailored for specific past projects resulting in a lack strategic coherence.

15.9 For example, the Government of South Australia stated that 'Australian shipbuilding infrastructure has evolved on a project-by-project basis rather than in response to a national plan'. It maintained that 'the myriads of facilities that are left are old, underutilised and not cost competitive'. In its view, further infrastructure

4 See chapter 5.

5 Raytheon Australia, *Submission 35*, pp. 9–10.

6 See paragraphs 5.56–66.

investment beyond that already planned, can 'only add to the underutilisation of costly assets'.[7] The Government of Victoria surmised that fragmented single project based decisions had given rise to a situation where there was an oversupply in the naval shipbuilding and repair sector at the same time that Australian industry does not have the capability to undertake the AWD and LHD projects concurrently.[8] The New South Wales government also referred to what could be a better use of established facilities rather than putting in place a new facility.

15.10 In pointing to problems created by this rather ad hoc approach to investment planning, including underutilisation of existing facilities and unnecessary capital expenditure at others, the governments agreed with the view that a national strategic plan could result in a better and more efficient use of resources.[9] The South Australian government, for example, cited the lack of strategic direction at the national level for the industry as the most significant factor contributing to the problems. In its view, government has the task of providing strategic direction and that 'industry alone cannot set the ground rules for how it must operate'.[10] It was looking for a longer term strategic plan that 'leverages off investments already made'.

> From the perspective of a state that has committed more than $250m in investment in critical shipbuilding infrastructure and skills development, there is an urgent need for a more proactive dialogue between Defence and the industry to ensure these critical capabilities are maintained for the future.[11]

15.11 Recognising that a long-term Commonwealth shaped shipbuilding industry plan is essential, the Government of South Australia urged the Commonwealth, as the only customer in the naval building and repair industry, to set the parameters by which industry can succeed.

15.12 Rear Admiral (retired) Kevin Scarce also drew attention to what he perceived as a fragmented industry with outdated infrastructure, underinvestment in skills and a volatile demand in shipbuilding and repair that impeded the delivery of cost-effective products. He reinforced the view that one of the major factors underpinning this situation was the 'lack of a strategic industry direction at the national level'.[12]

### *Committee view*

15.13 While individual shipyards and state governments develop their infrastructure to cater for a specific project, there is the potential for inefficiencies and

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7 Government of South Australia, *Submission 9*, p. 35.

8 *Committee Hansard*, 18 August 2006, p. 16.

9 See chapter 6.

10 *Submission 9*, p. 34.

11 *Submission 9A*, p. 1.

12 *Committee Hansard*, 19 April 2006, p. 22.

underutilisation of infrastructure across the industry. The Commonwealth government, as the major buyer of naval ships in Australia and the custodian of taxpayer money, together with state governments have an important role in ensuring that the pattern of infrastructure development benefits the industry as a whole and not just particular sites. This is especially important considering the two major naval ship projects that are underway.

### *Competition and collaboration*

15.14 In any future planning, the Commonwealth government and Defence should be aware of how individual projects affect the pattern of infrastructure development across the industry as a whole. Their approach should ensure that existing infrastructure and the current developments taking place are complementary and do not lead to inefficiencies in the industry. Although the opportunity is there for the Commonwealth government to take a leadership role, State governments should also assume some responsibility for contributing to a strategic approach to infrastructure development.

15.15 Indeed, the governments of Western Australia and South Australia are taking the initiative. They have signed a Memorandum of Understanding (MoU) which according to the Government of Western Australia 'promotes a co-operative approach in vying for the new work [stemming from the AWD project] and maximises the chances of our two States competing successfully against the more populous and politically powerful eastern states'.[13] The Government of South Australia stated:

> In the absence of a national plan both Governments decided to work together to ensure that their shipbuilding and repair industries and infrastructure developed in complementary manner.

It suggested that 'this template has the potential for national application'.[14] However, as Major General Peter Haddad told the committee:

> It is not the state government that decides where the work gets done; it is the federal government that awards the contract and it is the commercial firm that then places whatever work needs to be placed. It may be that these sorts of agreements are a helpful thing, but I do not know whether they are a critical thing.[15]

15.16 The final decision on which prime wins a contract does indeed rest with the Commonwealth government. However, the State governments, both competitively and cooperatively, must actively seek to retain and attract prime contractors through investing in infrastructure. While encouraging competition, Defence should also ensure that such activity does not lead to waste or inefficiencies.

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13 Government of Western Australia, 'WA Defence shipbuilding strategy'.

14 *Submission 9A*, p. 2.

15 Major General Peter Haddad, *Committee Hansard*, 18 August 2006, p. 21.

### *Committee view*

15.17 The committee believes that there is a need for sensible and efficient investment in major shipbuilding infrastructure, with State governments, the Commonwealth government and the private sector co-operating closely and taking into account the existing industry base. It supports the initiative taken by the South Australian and Western Australian governments in agreeing to a Memorandum of Understanding.

## Skills

15.18 Australia has a quality skilled labour base, with skills relevant to naval shipbuilding distributed across various heavy engineering sectors. This base has been developed through government investment—both federal and state—in past naval shipbuilding programs. The committee has noted the challenges associated with skilled labour shortages, given the future shipbuilding schedule and the current high demand in the resources sector. Clearly, strategic planning is crucial to the management of labour resources. Another important factor is investment in and coordination of skills and training programs.

15.19 The Western Australian and South Australian governments have taken a strong lead in investing in and coordinating defence and naval shipbuilding skills programs. Both governments have recently announced major defence skills programs with a focus on strategic collaboration with key stakeholders.[16] At the national level, the Skilling Australia's Defence Industry (SADI) initiative is a step towards Defence working with industry to address skills issues. Skilled labour shortages provide an incentive for the private sector to be innovative in recruiting and training staff.

### *Committee view*

15.20 The committee strongly supports collaborative, state based skills programs. It is important that these forums are used to connect the needs of industry, government and training institutes and focus on the state's training requirements for future naval shipbuilding projects. The common goal must be to develop programs that target both short and long-term skill requirements.

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16 In February 2006, the Western Australian government launched the Defence Industry Skills Taskforce (see paragraph 7.109). The Taskforce's membership includes representatives from the State Departments of Industry and Resources and Education and Training, Challenger TAFE, the defence industry and DMO. See the Hon. Alan Carpenter and the Hon. Ljiljanna Ravlich, 'New Defence Industry Skills Task Force announced', *Media Statement*, 3 February 2006. The Defence Skills Institute was recently established as a joint initiative of the South Australian government and the defence industry designed to help the state win more defence contracts. The Institute will work cooperatively with governments, industry and leading educational and training organisations to 'take a lead role in identifying and aggregating defence industry education requirements'. See Government of South Australia, 'Defence Skills Institute', http://www.defence-sa.com/pdfs/DSIbrochure.pdf (accessed 23 November 2006).

15.21 However, these programs will take industry only so far. It is crucial that there is also collaboration on skills issues between state governments, Defence and the Commonwealth. Western Australia's MoU with South Australia is an important example of a platform from which both states can implement their skills strategies for the upcoming AWD build. The Commonwealth should recognise opportunities for its defence skills programs—notably SADI—to complement and reinforce the states' initiatives.

## Summary

15.22 The committee has highlighted how three of the main components of Australia's naval shipbuilding industry are making significant contributions to the industry's viability. SME's and international subsidiaries form a vibrant and innovative network of suppliers; past and current investment in infrastructure places the industry on a sound footing to meet future demand; and initiatives by both the public and private sector are tackling the problem of skills shortages to ensure that Australia has the knowledge and skills to support the industry.

15.23 Despite the healthy state of the industry, a number of participants to this inquiry were of the view that greater efficiencies were to be achieved through a more coherent, strategic approach to planning. The committee agrees with their view and recommends that the government and Defence take note of the call for a more strategic approach by the Commonwealth to planning.

15.24 One area that underlines the importance of having a strategic plan is the issue of demand flow.

## Managing demand fluctuations

15.25 Recent overseas studies have highlighted the problems created by fluctuations in naval shipbuilding demand in both the U.S. and the UK.[17] With regard to Australia, Dr Mark Thomson of the Australian Strategic Policy Institute noted that the current schedule for ship construction is problematic:

> There are six year gaps between the first and second of class for both the Amphibious and Afloat Support programs which will prohibit a sequential build of each class and compromise the potential economies of scale. Also, the bunching of work early next decade will see the concurrent construction of three class of vessel. This will multiply the infrastructure and workforce requirements, and stretch Navy's ability to accomplish a timely acceptance and transition into naval service. In addition, there is no delay between the

17 See paragraphs 2.84–2.91.

> first and second AWD to allow lessons from the first-of-class trials of this very challenging project to be referred back into the remaining vessels.[18]

15.26 Indeed many commentators and witnesses pointed to the feast and famine nature of the naval shipbuilding industry and called on government to take measures to help smooth demand. They argued that volatility in demand for naval vessels creates significant costs for the industry and the taxpayer, including:

- 'ramp up' costs associated with attracting and training the required workforce following periods of low demand;
- the difficulty of retaining highly skilled, efficient teams and the tacit skills and knowledge gained during construction work; and
- costs of underutilised infrastructure.

15.27 Mr Geoff Evans of the Navy League of Australia, summarised:

> Australia's main problem as a naval shipbuilder is, and always has been, lack of continuity in orders for ships, making it difficult if not impossible to for shipbuilders to hold a highly trained workforce together.[19]

15.28 Mr Tunny, Managing Director of ASC Pty Ltd, expressed concern that demand peaks and troughs may reduce Australia's naval shipbuilding capacity in the longer term. He said:

> Feast and famine is an excellent Darwinian environment for the strong surviving, but it is an environment where a lot die as well. That is not always the best thing, because when a company goes under or scales back dramatically it is not always the case that the survivors pick up all of the key skills and experience that are let go by that company.[20]

15.29 The Australian Academy of Technological Sciences and Engineering reflected the views of many witnesses in arguing for 'a consistent long-term base workload':

> No industry can survive on a stop/start order book and while exports can fill in gaps, a base load of reasonably predictable local demand can provide the platform on which a competitive export industry can be developed.[21]

15.30 It submitted that:

> Costs cannot be divorced from the demand question and a steady flow of orders to naval shipbuilding yards will spread the establishment overheads,

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18 Mark Thomson, 'Setting a Course for Australia's Naval Shipbuilding and Repair Industry', a presentation to the Maritime Building, Repair and Maintenance Conference, 26–27 March 2003. Mr Thomson is the Program Director Budget and Management, Australian Strategic Policy Institute.

19 Mr Geoff Evans, OBE VRD, 'Shipbuilding a problem for Small Navies', *Submission 4,* p. 18.

20 *Committee Hansard*, 19 April 2006, p. 8.

21 *Submission 19*, p. 2.

> avoid recurring design or manufacturing errors, provide greater negotiation leverage over suppliers, amortise the training costs and reduce labour mobility. It would be particularly helpful if ship-procurement programs could be adjusted to ensure the timing of the order for the first in any class of ships allowed a sufficient interval before the rest were required, to allow full validation of design, construction and operating features, so avoiding costly later modifications.[22]

15.31 The Academy stated that it had every reason to believe that, should a steady stream of work be available, Australian costs and productivity would match the European, American and Japanese yards who would be the alternative suppliers.[23] Rear Admiral Doolan (retired) stated:

> …if we look out over 50 to 60 years and have a consistent pattern of building warships in Australia and fitting in…the various elements of them in a sensible replacement pattern rather than in an ad hoc knee-jerk reaction, that is the basis on which the naval shipbuilding and naval ship repair industry can plan into the future. We have no disagreement with that point and we support it.[24]

15.32 The South Australian government argued that 'over the long term demand must be smoothed, and shipbuilding infrastructure and skills development consolidated to ensure that the industry is sustainable and efficient. To achieve these challenging policy goals a national shipbuilding and repair plan is required'.[25] The AMWU supported this viewpoint. It was convinced that the Australian industrial base has the capacity to construct large naval vessels over the long term and on a sustainable basis but noted the problems created for the industry by the cyclical nature of demand.[26] The Australian Association for Maritime Affairs Incorporated joined the call for Defence to place a high priority on ensuring that the industry remains sustainable into the future:

> Long-term assured levels of government commitment over decades rather than over individual budget cycles are essential to achieve an effective growth and sustainment strategy. For a nation whose physical form, maritime responsibilities, history and trade dependence is deeply embedded in the security and integrity of its maritime boundaries and sea lines of communications, such a long-term investment is seen as paramount.[27]

15.33 Defence asserted that while smoothing demand for naval construction may appear relatively straightforward, naval acquisitions need to be considered in the

22 *Submission 19*, pp. 2–3.

23 *Submission 19*, p. 3.

24 *Committee Hansard*, 3 July 2006, p. 63.

25 *Submission 9*, p. 26.

26 *Submission 21*, p. 2.

27 *Submission 13*, p. 3.

context of Defence-wide procurement. For example, scheduling of high cost projects such as the AWDs and LHDs is influenced by funding considerations and other major projects, such as the Joint Strike Fighter. Also, Defence maintained that the capabilities of some acquisitions are dependent on other acquisitions and so cannot be scheduled in isolation. For example, the full capability provided by the amphibious ships is interdependent with other projects such as the Main Battle Tank Replacement.[28] Defence argued:

> To reschedule one capability would have a complex effect on the overall Defence capability which could result in considerable capability wastage with assets unable to be used effectively while related capability is delayed.[29]

15.34 Defence acknowledged that it ultimately 'pays for successful companies to adjust to fluctuations in market demand each time a contract is signed'. Defence also pointed to the costs of alternative industry models:

> While releasing and then attracting resources can be expensive, the overall costs for Government are generally lower than if selected defence companies are paid to retain spare capability on an extended basis.[30]

15.35 Overall, Defence did not consider that the naval shipbuilding industry was in a unique position in dealing with demand peaks and troughs. Defence argued that it is industry's responsibility to manage cyclical demand:

> The cyclical demand of project work is a factor for all industry sectors not just shipbuilding.
>
> Shipbuilding is no more or less cyclic than oil/gas or mining or construction. Those industries have coping strategies to mitigate expected cycles, as must Defence industry.[31]

15.36 Defence was clear that it primarily considers naval procurement decisions on the basis of defence capability and the ongoing support needs of the fleet, not in terms of market influence, industry needs or broader economic outcomes.

15.37 It should be noted, however, that a 2004 study by ACIL Tasman on the Australian Defence Industry, stated bluntly that:

> Where Defence is the sole customer for an industry, it is the management of defence demand, rather than a free market, that will determine the health and capacity of that industry.[32]

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28 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), question 31, p. 36.

29 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), p. 36.

30 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), p. 37.

31 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), question 4, p. 31.

15.38 Similarly, while the recent First Marine International study found that 'the successful implementation of best practice requires the full cooperation of the workforce and the unions', it added:

> The government and Navy could assist by working in partnership with the industry to smooth demand in order to provide more stable employment.[33]

15.39 The committee accepts that the naval shipbuilding industry is subject to cyclical flows in demand that to a degree characterise that industry. However, it considers that as naval shipbuilding is a monopsony market, the circumstances of industry players are substantially different to many other cyclical industry sectors. It is concerned that if Australian companies cannot survive and grow through peak and trough demand cycles, the capacity to meet defence's capability needs into the future will be reduced.

15.40 The committee is concerned that Defence does not fully accept how powerfully its demand scheduling shapes Australia's naval shipbuilding capacity and efficiency. The committee rejects the notion that measures cannot be taken to moderate demand peaks and troughs more effectively without adversely affecting Defence capability. Clearly, long-term strategic planning is required to address this problem.

15.41 The committee noted in chapter 14, in relation to Australian industry involvement and Defence's procurement, a possible disjunction between the government's broader interest in fostering Australian industry and Defence's primary concern with capability and value for money. The committee observes this disjunction again here, with Defence viewing demand planning in terms of its capability requirements and not necessarily with a view to sustaining a viable and efficient industry into the future. The issue of demand planning underscores the need for a clearly articulated policy on Australian industry involvement and a clear indication of the weight given to supporting the local industry in procurement planning and decisions.

*Demand flows for ship repair and maintenance*

15.42 With regard to repair and refit for major ships, Defence acknowledged that it has had a 'short-term focus that is detrimental to developing and sustaining a viable industry support base and is inefficient in delivering effective support outcomes'.[34] Defence explained:

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32 ACIL Tasman, *A Profile of the Australian Defence Industry: Helping align defence industry, defence industry policy, and Defence strategic planning,* commissioned by The Australian Industry Group Defence Council, The Australian Industry Defence Network, the Department of Defence, et al., November 2004, p. xviii.

33 First Marine International, *Findings for the Global Shipbuilding Industrial Base Benchmarking Study,* Part 1: Major shipyards, August 2005, paragraph 4.10, p. 27.

34 Department of Defence, *Submission 20,* pp. 6–7 and paragraph 1.23.

> Currently, Defence contracts each major surface warship maintenance availability separately. About 20 availabilities are conducted each year. Each availability is unique and the work load can vary significantly between availabilities. The four members of the ship repair panel are therefore faced with the need to frequently prepare and submit tenders to achieve ship repair work. Both Defence and industry are therefore focused on the short term, undertaking the current work and preparing for the next maintenance tender.[35]

15.43 It identified specific shortcomings resulting from these arrangements:

- The short term focus does not allow sufficient time for industry (and Defence) to conduct adequate planning. Industry bids may therefore be based on inadequate planning and understanding of the outcomes Defence requires.
- Inadequate planning is a factor in the very high level of contract change proposals raised during ship repair availabilities to meet the outcomes of the availability.[36]

15.44 Defence explained that it is intending to improve this situation by batching a number of successive maintenance jobs into one contract. Successful contractors will then be engaged for a longer period (3–5 years) than for a single maintenance contract (typically 2–4 months).[37]

15.45 The committee notes and commends Defence's endeavours to schedule its naval vessel repair and maintenance program in order to achieve greater efficiencies.

## A strategic plan

15.46 Without doubt many participants in this inquiry called for Defence to take a more strategic approach to planning its naval acquisitions program.[38] Some gave detail as to what they would like a strategic plan to do. Rear Admiral Scarce, proposed a strategy that would identify key capabilities and workloads to enable industry 'to consolidate and focus with government on platform and equipment affordability and productivity'.[39] He argued that the Commonwealth in implementing an industry policy needs to:

- determine what critical skills are necessary to sustain Australia's maritime capability;

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35 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), question on notice no. 47.

36 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), question on notice no. 48.

37 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), pp. 8–9.

38 See also DISplay Pty Ltd, *Submission 40*, covering letter.

39 *Committee Hansard*, 19 April 2006, p. 22.

- formulate a ship demand plan which narrows the peaks and troughs over the longer term;
- introduce a comprehensive skills investment program for both primes and SMEs; and
- invest in modern, internationally competitive infrastructure that enables Australia to produce quality, cost-effective products.[40]

15.47 Engineers Australia noted that Defence's current approach to acquisition 'involves assessing the costs and benefits of Australian industry involvement in each program, and selecting the option that provides the best value for money in each case'. It expressed the view that, although this series of decisions provides valuable work to Australian companies and employees, it lacks strategic coherence. According to Engineers Australia, 'the work has little long-term value in developing new large scale industries or capabilities'.[41] It suggested that Australia:

> …could choose to develop a long term strategy for Australia's naval shipbuilding and repair sector, which would involve an evaluation of the costs and benefits of each project's option in terms of the national strategy.

15.48 In its view, the option that 'provides best value for money in terms of achieving the longer term strategy would be selected'.[42] Some witnesses wanted Defence, through strategic planning, to exert more direct control over the industry. For example, Mr David Miller, Executive General Manager of Tenix Defence Pty Ltd, suggested that there should be a more focused industry policy that addresses questions such as where is the right place to have common user facilities and what is the correct timing of work so that the shipbuilding and the resource sectors can coexist as 'happy neighbours in Western Australia'.[43] He argued that if the market is based 'only on competitive tenders, each project may be optimised but the longer-term interest of the nation is in some cases suboptimised'.[44] Along similar lines, other submitters also were asking for the strategic plan to address competition issues. The South Australian government advocated a rationalisation of the industry around a centralised hub.

15.49 Recently a number of leading experts on Defence industries called for an improved statement on strategic industry policy. Professor Paul Dibb of the Defence and Strategic Studies Centre at the Australian national University said:

> Australia needs a new Strategic Industry Policy Statement, which will focus on managing demand and competition, and state what industrial capabilities are of strategic importance and why. It would confirm that the government

40 *Committee Hansard*, 19 April 2006, p. 23.

41 *Submission* 24, p. 1.

42 *Submission* 24, p. 1.

43 *Committee Hansard*, 27 April 2006, p. 14.

44 *Committee Hansard*, 27 April 2006, p. 14.

> continues to seek to maximise the economic benefits to Australia's economy, while retaining preference for the best value for money.[45]

Admiral Chris Barrie, a Visiting Fellow at the Australian National University, reinforced this view:

> We need a comprehensive statement of government policy that sets out the broad principles, establishes the decision-making framework, and brings to bear an active approach to solving this important set of problems in utilising all the skills and talents available in industry, government, the bureaucracy and in the armed forces.[46]

### *Committee view*

15.50 The committee suggests that because of Defence's dominance in the market place, it should recognise and use its influence to assist industry gain greater efficiencies and to perform better. Strategic planning is central to Defence achieving this objective. The committee has not received sufficient evidence to recommend in detail the specific nature of a strategic plan. It has received strong evidence, however, that there is a need for Defence to take a more coherent and strategic approach to planning. Furthermore, this planning should take account of how better;

- to encourage and use Australian SMEs and overseas subsidiaries;
- to build on existing infrastructure and guide future investment to ensure that Australian shipyards are used to their capacity; and
- moderate fluctuations in demand.

15.51 In addition, the committee's evidence suggested that Defence could take a more active leadership role in ensuring that the contribution by the states and the private sector to sustaining and developing Australia's naval shipbuilding industry is complementary.

15.52 Strategic planning relies not only on a thorough knowledge of the industry but on an understanding of how it fits into the broader industrial landscape. The committee has noted the merging of technologies and the opportunities for the industry to gain greater efficiencies. In Western Australia for example, the naval shipbuilding industry and the oil and gas sector are taking advantage of the growing similarities in their requirements. The CUF at Henderson is expected to service the oil and gas, resources, marine and defence industries. Transferability of skills between sectors is also considered important for addressing labour demands. Similar opportunities may well exist for the naval shipbuilding and the commercial shipbuilding industries.

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45 Paul Dibb, 'A Defence Industry Development Strategy', *The Business of Defence: Sustaining Capability*, CEDA, August 2006, p. 19.

46 Chris Barrie, 'Defence Industry Policy', *The Business of Defence: Sustaining Capability*, CEDA, August 2006, p. 11.

**Recommendation 7**

**15.53 The committee recommends that Defence conduct a full analysis of, and identify, how the naval shipbuilding industry and the commercial shipbuilding industry and heavy engineering activities can better integrate to produce increased efficiencies and productivity gains for these sectors.**

15.54 The committee supports the call for a strategic plan and considers that it should address the factors listed above. The committee further considers that the Defence Capability Plan can be improved as a document to reflect a more strategic approach.

## Strategic planning—Defence Capability Plan

15.55 Defence acknowledged that industry needs a predictable and sustainable basis on which to plan ahead.[47] It recognised the importance of keeping industry abreast of its future requirements so that industry would be able to align its planning and development to meet Defence's long-term needs. The committee has drawn attention to concerns about the lack of data available on past and current projects—costs, productivity, overall performance. It now proceeds to consider Defence's Capability Plan (DCP), the key document that informs industry about Defence's future acquisition program.

15.56 Those in the shipbuilding industry rely on astute forward planning to manage their business effectively. In many cases, the respective companies look to government to provide a blue print that would clearly indicate the intention behind, and the schedule for, future naval acquisitions. Such information would enable them to make informed business decisions based on sound intelligence.

15.57 For example, Mr Proctor, Saab Systems Pty Ltd, told the committee that 'lack of assurance is the biggest deterrent to a positive attitude'.[48] Similarly, Mr Geoffrey Barker, a journalist and long-standing commentator on Defence procurement, stated:

> If you are a defence business, you have to ask yourself: 'Will I make long-term capital investment in the hope that there will be Australian industry involvement in the project going this way?' You would have to say, on reading that, that you are not getting much assurance that your punt is going to pay off. There is that uncertainty. So there is that need for, I think, greater transparency to the extent that one can have it. It is very difficult, I acknowledge, to give businesspeople a greater sense of certainty about the plan. But we need to do more than just saying: 'Here's your plan, but it could all change—or a fair bit of it could change—and you'll carry the

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47 Department of Defence, *Defence 2000: Our Future Defence Force*, Commonwealth of Australia, 2000, p. 98.

48 *Committee Hansard*, 20 April 2006, p. 11.

> investment risk if you buy in too early in the hope that you are going to be able to do this.'[49]

15.58 Currently, the public version of the Defence Capability Plan is the primary means by which Defence articulates future naval shipbuilding demand and likely acquisition schedules.[50] It provides a ten-year outline on Defence capability requirements. Defence's long term capability needs and objectives are also set out in the Defence Update and Defence Capability Strategy. In addition, Defence 'uses various industry councils to discuss on a regular basis long term capability development programmes that are outside the ten year DCP time frame'.[51]

15.59 Defence maintained that its capability plan 'provides some certainty to Australian Industry as a whole'.[52] While the DCP aims to 'provide industry with sufficient guidance to enable broad business planning', commentators and industry experts identified perceived shortcomings in the DCP for planning purposes.

15.60 As noted earlier a number of leading experts on Defence industries, including Professor Dibb and Admiral Barrie, called for an improved statement on strategic industry policy. They wanted such a statement to set out broad principles, establish the decision-making framework and include the identification of strategically important industrial capabilities. Dr Brabin-Smith also levelled criticism at the current Defence Capability Plan:

> Removal of ambiguities in the government's defence policies would help, as would the development and publication of a new Defence Capability Plan, consistent both with a coherent interpretation of the government's policies and with the levels of funding likely to be available.[53]

15.61 Participants in this inquiry also called for changes to the DCP. ADI underscored the need 'to create a single integrated plan that pulls together operational issues, resourcing and industry aspects of shipbuilding and whole-of-life repair and maintenance'.[54] Mr Mark Proctor of Saab Systems Pty Ltd acknowledged that Defence

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49 *Committee Hansard*, 4 September 2006, p. 22.

50 While the DCP aims to 'provide industry with sufficient guidance to enable broad business planning', submitters pointed to inadequacies in the DCP for planning purposes. For example, Engineers Australia considered that the Defence Capability Plan should attempt to look further ahead than a ten year period. See also Saab Systems Pty Ltd, *Committee Hansard,* 20 April 2006, p. 12. The committee also notes that DMO produced a naval shipbuilding and repair sector strategic plan in August 2002 but it was not adopted by government.

51 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006), question 37, p. 5.

52 Department of Defence, answer to question on notice, 28 March 2006 (29 May 2006) question on notice no. 37.

53 Richard Brabin-Smith, 'Defence innovation in Australia', *The Business of Defence: Sustaining Capability*, CEDA, August 2006, p. 31.

54 *Committee Hansard*, 28 June 2006, p. 2.

has produced a number of documents about its defence needs and strategic requirements. He gave the example, however, of the amphibious ships and the possibility of them being designed and built overseas which to his mind 'immediately puts people on the back of their heels to say: "That's a change of tune. That wasn't in the documents" '.[55]

15.62 Engineers Australia considered that the Defence Capability Plan should attempt to look further ahead than a ten-year period. It should be noted that while the current DCP extends only until 2016, naval shipbuilding workforce projections submitted to the inquiry by Defence extended to 2025, acknowledging an anticipated replacement frigate and submarine program beyond the DCP.

15.63 Defence acknowledged that some in the industry were calling for it to do more about informing industry 'of its future requirements…and a concept led and capability based approach to developing capability'.[56] In response to suggestions to extend the timeframe of the DCP, Defence stated that it was 'hard to see how a projection beyond the 10 to 20 years influenced by the DCP can be prudently extended'. It maintained that 'to do so would require a faith in the linearity of the development of technology and war fighting concepts that might, for example, be foolhardy'.[57]

### *Committee view*

15.64 Both experts and commentators on Defence procurement as well as those active in the shipbuilding industry were critical of the information made available through the Defence Capability Plan. Witnesses wanted accurate and reliable information on Defence's forward procurement plans. Indeed, one of the strongest messages coming out of the inquiry was that Australian industry wants clearer guidance from government on its long-term plan and objectives for the industry. In particular they want a comprehensive statement providing accurate and reliable information on Defence's future plans for its naval acquisition program that go beyond ten year projections. They are looking for detailed information on the value placed on, and the weight given to, Australian industry involvement, the industrial capabilities identified as strategically important, and the levels of funding likely to be available.

15.65 The committee notes Defence's response to suggestions that the DCP should extend over a longer period. It is of the view, however, that there is scope for the plan to provide industry with a better appreciation of Defence's longer term requirements. The plan currently seems to bring industry into the discussion about capability development too late. It believes that the DCP should provide the opportunity for Australian industry, and indeed the wider community, to engage with Defence in the earlier stages of analysing and identifying Australia's strategic priorities and the

55 *Committee Hansard*, 20 April 2006, p. 12.

56 *Committee Hansard*, 18 August 2006, p. 27.

57 *Committee Hansard*, 18 August 2006, p. 27.

capabilities needed to meet them. An analysis of Australia's strategic priorities in the DCP would facilitate discussion on capability development at a higher level before decisions and commitments are made about particular acquisitions. It would not only allow projections to be made about technology developments into the future but include industry in considerations about defence capability.

### *Summary*

15.66 This chapter has highlighted the need for a more strategic and collaborative approach to using and investing in Australia's naval shipbuilding resources. It has reviewed calls for a strategic plan and assessed the value of Defence's Capability Plan as an informative and instructive means of keeping industry abreast of current and future developments in the industry. It found the need for Defence to improve its Defence Capability Plan so that industry has clearer guidance on Defence's long-term objectives for Australia's shipbuilding and repair industry and the intentions underpinning its acquisition program. In brief, the committee believes that the DCP is inadequate as a means of informing the industry, parliament and the public about Defence's future plans and intentions regarding its acquisition program.

### Recommendation 8

**15.67 The committee recommends that Defence make their DCP a document that provides industry with a much clearer sense of Defence's future plans and intentions. In particular, it recommends that the DCP provide:**

- **a statement on the way the DCP accords with Australia's broad national security strategy including the nation's strategic priorities;**
- **a discussion about the nation's future strategic capability requirements that identifies the industrial capabilities deemed to be strategically important;**
- **an assessment of the nation's existing shipbuilding and repair facilities and future investment needs;**
- **a comprehensive statement providing accurate and reliable information on Defence's future plans for its naval acquisition program that goes beyond ten year projections;**
- **a clear indication of the government's policy on Australian industry involvement in government projects and how Defence would apply this policy to its acquisition program; and**
- **a detailed explanation on the acquisition schedule indicating the reasoning behind it and how Defence has taken into account demand flows.**

15.68 While the committee is asking Defence to provide more detail in their DCP and include information that provides a much clearer indication of Defence's future acquisition program, it accepts that the document can only be as good as the quality of the strategic planning it represents.