Additional comments – Senator Mark Bishop

Introduction

It is Labor's view there could be a viable naval ship building industry in Australia which is efficient and competitive. Australia has the skills, technology and the management prowess. That view is based on our history of ship building, the capacity of our heavy engineering sector, and the all-round capability of the workforce.

Small to medium ship building in Australia provides an excellent example of those elements working successfully in a competitive world market place. Labor is confident that given the same conditions, the heavy naval ship building industry could do the same.

It needs to be recognised, however, the nature of large ship building has changed dramatically in former traditional ship building countries. There, demand has fallen, due to the high degree of specialisation, larger economies of scale and lower cost structures, particularly in Korea, China and India.

This is especially the case for large commercial shipping, where there is a reluctance in Australia to subsidise construction where there are considered to be more important investment and spending priorities for taxpayer funds. Indeed, for larger commercial shipping, Australia has not been competitive in this market for decades.

Maintaining a competitive base

For Australia to become competitive, ship building must evolve into a model which is not competitive between large yards, but between heavy engineering fabrication plants. Central assembly must be in one location only. With respect to naval ship building, Australia may not be able to sustain more than one such large assembler, supplied by a more competitive market of fabricators.

Such rationalisation of the industry is already observable, through subtle policies clearly aimed to concentrate naval ship building in South Australia. If, however, that site is sold, that would create a mixed model, but one in which the monopsony cost risks of Defence procurement policy would be tempered by a competitive supply market more suited to modular fabrication and ship repair, other heavy engineering work, and the currently very successful smaller end of the ship building market.

This would include continuing heavy engineering manufacture for the offshore energy industry, successfully operating in Western Australia. If this is a de facto industry plan, then perhaps it ought to be explored and developed more overtly. Certainly it’s a more flexible model and one more capable of sustaining continuity of work.

Labor supports such an approach for that reason alone. More than any other industry, ship building has been allowed to wane in line with the vagaries of naval ship building policy over the past 10 years. This attitude can only lead only to the atrophy of industry and the loss of valuable skills and investment in modern plant and capacity.

Regrettably, conditions needed for the existence of the small ship building industry do not exist for heavy naval ship building, though they could with good leadership and long-term focus by government, which is the only purchaser. While those conditions may have existed with respect to the ANZAC frigate project (and to some extent with the submarine project) that is no longer the case due to the lack of continuity in naval strategic planning and long-term policy.

The conclusion of those contracts and the long gap before the commencement of the next project means the potential to maintain and strengthen the industry has been lost. Establishing a new greenfield site is also far more expensive than an evolving policy of upgrading existing sites, made even more dubious when driven by designs of selfish political advantage.

The assertion that recent ship and submarine building programs have been internationally competitive regrettably has not been fully tested by the Committee. There is little evidence to guide us on the exact level of that competitiveness. Unlike commercial shipping, there are some shibboleths and assertions surrounding naval shipping, some of which are valid and others which are political by nature. This is an impossible context in which to make financially responsible decisions. Unfortunately it's this vacuum of data in which expectations of subsidy arise and are inevitably conceded.

That is the conundrum for so much of defence procurement, as openly acknowledged. It's obvious from some evidence to the Committee that the climate of industry cost plus dependency should continue for all the un-costed reasons of defence policy. This contrasts with the desire to maximise value for the taxpayers' dollar, and to achieve the productivity, which has been shown to be best achieved through healthy, measurable competition. The latter is the prevailing paradigm, but regrettably is difficult to accurately assess.

Protective policies

The claim that all countries engage in subsidised, secretive defence procurement policies and that Australia therefore should as well, is another protective assertion. This is supported by the other assertions that navy ships are different in design and so can only be built domestically due to familiarity and repair in times of emergency. This is barely plausible, particularly as the steel fabrication task is well established in Australia supported by a very skilled workforce. The telling statistic that only about 20 per cent of a ship by value is contained in the steel fabrication should encourage governments to take a broader view and take other parameters into account including the capacity of the industry in times of economic pressure, as well as the competitive state of international ship building.

There are two vital factors here. The first is the need to be flexible in an industry so capital intensive and where demand is erratic. The second is that government has a vital role in defence strategic planning, especially for naval ship building, which by nature has been cyclical, and so capital intensive that only government can sustain it. The biggest single threat and opportunity to this industry is the competence of government decision-making; that is the nub of the current problem.

Self sufficiency

It's also argued that Australia must retain an element of defence manufacturing capacity, even though we are largely dependent on alliances and overseas suppliers for much of the technology in ship fit out, especially in weaponry. Self sufficiency in case of emergency is an undeniable ambition, though it’s doubtless becoming less attainable given the sophistication and security attached to that technology. It is true, however, that given the benefits of technology transfer, the ambition should be optimised by securing strong partnerships and alliances.

There is no sign internationally that the environment of political decision-making on naval ship building is any different to that in Australia. It has not been possible in the current procurement policy framework to identify any sustained attempt to distinguish rational economic approach to naval ship building based on adequate cost benchmarking, from one based on the uncosted values of traditional defence policy. That emphasises self sufficiency, with nationalistic overtones of the asserted broader economic benefits of such investment to industry and the economy.

It is this dilemma which confronted the Committee and which it has not been able to satisfactorily resolve. This is reflected in the evidence from Defence. In the context of current ship building plans, it began with the rational economic assertion that it preferred a market-based response to its ship building tenders, with the downside cost of erratic and unpredictable demand borne by the industry and taxpayer. This was later revised with a more thorough explanation of the dilemma faced by defence procurement policy in Australia, where the demand was from a monopsony, with a highly dependent industry, unable to achieve competitiveness.

Hence Labor's acceptance of evidence given to the Committee that the prospects of a viable naval ship building industry in Australia are dependent on the political, strategic defence decision-making process. As long as decisions to invest in new navy ships are limited to small production runs and for expensive and technically-sophisticated ships regardless of their strategic role as determined by government, the less likely the industry can be sustained without a significant financial impost which (to the Committee's knowledge) has not been calculated.

Unquantifiable costs

Government and taxpayers are held captive to uncertain and unknown costs. Until that research and analysis is undertaken, based on thorough benchmarking of costs, and better estimates of the other non-economic and political values such as that of self sufficiency in defence industry support, a more rational approach to industry development will not be found.

This Inquiry report must be qualified, and in the interests of formulating better policy responses, that is disappointing. It might be hoped the government has undertaken this analysis, in which case the full economic assessment of current ship building projects should be revealed.

Hence some frustration on Labor's part in not being able to get to the heart of the issue, which continues to be clouded by these traditional values. The Committee has been unable to get beyond those barriers of tradition, simply because the evidence has not been provided in sufficient detail – including by the Government and any of its economic agencies. Nor has the Committee been able to properly assess the overall economic benefits, noting current economic circumstances are such that large investments of this kind at this time may cause further pressure on an economy at full stretch. To that extent therefore, the intent of the Committee's terms of reference has not been satisfied.

The Committee's conclusions and recommendations must be qualified by the paucity of research and evidence available necessary for well considered and economically defensible outcomes. Labor supports the Committee's report, simply because in the current circumstances we have been unable to develop a viable alternative addressing the hard questions which flow from the heart of the terms of reference. That is a serious shortcoming which can only be remedied by more committed political leadership and commitment over decades, based on sound long-term strategic defence policies, rather than ad hoc decisions driven by short-term considerations motivated by domestic politics.

Conclusion

Labor is also conscious that responsibility for the development of the naval ship building industry in Australian rests exclusively with the Government. The single most important ingredient for a successful, long-term, viable naval ship building industry is continuity of demand. This can only flow from proper defence strategic planning based on practical considerations, including the needs of industry. It is unacceptable as Defence asserted in evidence, to rely on market forces with the costs of short-term ad hoc decision making to be borne by industry and the taxpayer. The critical issue for the industry, therefore, is government decision-making and that's where the buck should rest.

SENATOR MARK BISHOP