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The Secretary
Senate Foreign Affairs, Defence and Trade References Committee
Suite SG.57
Parliament House
CANBERRA ACT 2600

INQUIRY INTO NAVAL SHIPBUILDING IN AUSTRALIA

1. **Terms of Reference**

On 10 November 2005, the Senate referred the following matter to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report by the last sitting day of 2006:

That the Committee inquire into and report upon the scope and opportunity for naval shipbuilding in Australia and in particular:

- a. The capacity of the Australian Industrial base to construct large Naval vessels over the long term and on a sustainable basis;
- b. The comparative economic productivity of the Australian shipbuilding industrial base and associated activity with other shipbuilding nations;
- c. The comparative economic costs of maintaining, repairing and refitting large naval vessels throughout their useful lives when constructed in Australia vice overseas;
- d. The broader economic development and associated benefits accrued from undertaking the construction of large naval vessels

2. **AIDN**

The Australian Industry and Defence Network Inc (AIDN) is an industry initiative, with over 600 members nationally, with the primary objective of generating business opportunities for its members from the billions of dollars spent on both major and minor projects by the Australian Defence Department each year.

AIDN's focus is essentially on assisting Australian small to medium size enterprises (SMEs) to gain greater access to information, resources and key decisions makers in the public and private sectors of the Australian and international defence industries, in order to enhance the business success of its members in this highly competitive arena.

AIDN is endorsed and actively supported by the Department of Defence and the State & Territory Governments.

Accordingly, AIDN will take this opportunity to address the Terms of Reference based on its experience with previous shipbuilding Projects in Australia.

3. **AUSTRALIA'S INDUSTRIAL BASE**

The ability to deploy substantial resources of personnel represents a critical mass in large construction projects. Personnel requirements will require technology skill at both management and blue-collar levels. We do not see this as a major issue based on methodology adapted for previous surface ship building projects.

Australian shipbuilder i.e., Tenix, ADI and Austal have all demonstrated their capability to build Naval Ships to Australian, European and USA designs. The current Australian naval fleet is evidence of these capabilities. There should be no doubt that these shipyards can continue to exercise these accomplishments.

Clearly, companies with no Naval Shipbuilding experience would require a long learning curve requiring high costs and posing high risk to the project. However, the Federal Government in restricting bidders has eliminated high-risk companies. Additionally, risk can further be reduced by nominating a shipyard with access to a large manufacturing base, which can support the build without being totally dependent on the opportunity.

4. **COST BENEFITS**

Shipbuilding tends to be work of varying intensity with the associated costs of start up and wind down. Whilst these peaks and troughs can be moderated to some extent by the benefit of in-service support contracts they provide a more stable and continuous workflow to the shipbuilder and the SME's however, they do not alter the risk and cash relationships of the initial task themselves. Nor do they absorb the full compliment of the initial workforce.

On the negative side, in terms of Through Life Support, there are no guarantees that SME's, although they may have been deemed essential to the project, will undertake the necessary steps in the acquisition phase to prepare and invest in the Through Life Support phase.

But assuming high levels of Australian Industry involvement in the Amphibious Ships Project should ensure similar high levels of local participation in the Project's Through Life Support. The ability of Defence to rely on local sources for repairs, maintenance and spares will lead to substantial reductions in repair turnaround times. In turn this will have an impact on the quantity and overall costs of stock holdings.

In 2000, "TASMAN ASIA PACIFIC" did a study into the ANZAC ship Project. The report indicated that the Defence had estimated that these costs would be two or more times greater if the ANZAC's had been purchased from overseas. Given that the ANZAC ships have a 25 to 30 year service life, in terms of net 2000-year value, Australia stood to save in the order of \$520 million over the service life of the ships being able to obtain support from local suppliers. We should never forget that during the Falklands war, the British Government froze all spares for the Oberon Submarines.

Beyond repair and maintenance, involvement in the construction phase will position many Australian companies to play an active role in subsequent upgrades. Local industry involvement in these upgrades will bring benefits similar to those identified the construction phase.

If we look at other cost benefits incurred during the past decade with other major shipbuilding Projects e.g. ANZAC, Collins, Minehunter, LPA refurbishments and the Hydrographic ships the decisions to construct these ships in Australia brought about:

- Gross Domestic Product increases
- Internal Consumption increases;
- Employment in areas of high unemployment;
- Improved balance of payments;
- Reductions in the Trade Deficit;
- Technology Transfers;
- Improved potential for companies exporting;
- Cost savings for Defence in terms of outlay for In-Service Support; and
- Shorter turn around for repairs with In-Service Support.

Further amplification of the decision to construct the frigates in Australia rather than import them:

- Increased Australia's GDP by as much as \$500 million (\$1998-99) per year – over a fifteen year construction period this equates to gains to the economy of \$7,500 million (\$1998-99) in GDP which is considerably more than the total contract value of \$5,900 million (1998-99);
- Increased consumption by over \$300 million per annum; and
- Increased employment - in the absence of the ANZAC contract around 7,850 full time equivalent jobs would have been lost to the economy. As a consequence, unemployment would have been considerably higher. (Given the major role played by Victorian suppliers in the ANZAC contract, a substantial proportion of these jobs would be in Victoria.) Higher unemployment would have lead to increased government outlays. For example, adding 7,850 single adults to the unemployment queue would increase current annual social security payments under the Newstart Allowance by \$66 million. Higher unemployment would also indirectly increase the social costs associated with unemployment for the community as a whole, (Tasman Asia Pacific study).

5. **COMPARISONS WITH OTHER SHIPBUILDING NATIONS**

To compare the economic productivity of the Australian shipbuilding base and associated activity with other shipbuilding nations is not within the scope of this paper. But what needs to be stated is the level of protectionism exercised by overseas governments, whether it be legislation (USA), Subsidies, ownership. But here in Australia, it is a level playing field.

6. **CONCLUSION**

It is paramount from the point of view of the SME's which support the Australian Shipbuilding Industry that these vessels are built in Australia. But we should not ignore the benefits that the shipbuilding industry can bring to bear on other industries.

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Yours sincerely



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President AIDN

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