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NAVAL SHIPBUILDING IN AUSTRALIA INQUIRY

I refer to my telephone call to you yesterday, 13 February, and confirm that my article "Shipbuilding a Problem for Small Navies" published on pages 17/18 of THE NAVY October-December 2005 issue, may be considered as a submission to the above inquiry.

Yours sincerely,

Observations

By Geoff Evans

SHIPBUILDING A PROBLEM FOR SMALL NAVIES

An article and follow-up correspondence in recent issues of the United States Naval Institute's journal *PROCEEDINGS* concerning naval shipbuilding in that country has some relevance to Australia and other countries with relatively small Navies who, for reasons ranging from national pride to security issues, wish to build their own major warships.

It is well known that national armed forces have become more and more costly to equip and maintain: Not only has equipment become more expensive with unceasing advances in technology, but the people needed to operate and maintain the equipment are hard to find (and to retain when found) and must be recompensed and provided with appropriate facilities and a 'lifestyle' earlier generations of sailors, soldiers and airmen could only dream about.

The author of the *PROCEEDINGS* article, Captain David H Lewis USN, on the staff of the Commander Naval Surface Forces, San Diego, California, maintains that ship price changes outpace inflation, that the Navy is unable to articulate a shipbuilding strategy acceptable to Congress and that over the past decade "...the industry consolidated from six independent, largely undercapitalised companies down to two large, well capitalised, diversified corporations both of which are quite profitable". In subsequent comment by Rear Admiral Stuart F Plant USN (Rtd) it is stated that Northrop Grumman Newport News and General Dynamics Electric Boat are the only two companies capable of building capital ships for the USN and that they co-operate rather than compete for contracts.

Captain Lewis maintains that shipbuilding prices are controlled, by two major factors – combat capability and economics – and that the latter has become the major factor in ship affordability issues. As examples he quotes the budgeted cost of a competitively awarded Aegis cruiser in 1985 as USD\$884 million and a similarly awarded Aegis destroyer, incorporating many combat capability improvements, at USD\$918 million in 2001 – an increase of only 4% over 16 years, well below the rate of inflation. In comparison, a competitively awarded nuclear-powered attack submarine budgeted at USD\$638 million in 1987 had risen to USD\$2.5 billion in 2005 for a cartel-built nuclear submarine, an increase of nearly 300% in 18 years.

The cyclical and capital-intensive nature of shipbuilding are discussed in the article, together with various ways in which the industry can operate today:

- Full competition. Many suppliers, many customers; price and quality, innovation and cost control maximised. The situation existing in the commercial shipbuilding industry today.
- Limited competition. Two or three suppliers for one customer, the latter driving innovation and cost control. The situation prevailing in America until recently.

- Monopoly/Cartel. One company dominating the industry and able to set prices and control production. If protected by government it becomes a national monopoly: Submarine, aircraft carrier, amphibious shipbuilding today.
- Regulated. Government may establish a regulated monopoly; in return for a guaranteed customer base lower profits and a higher degree of customer involvement are accepted. A situation similar to utilities.
- Publicly owned. Profit and marketing issues eliminated. Public financing of capital improvements may occur; permitting better innovation and price control than in a monopoly or regulated industry, but possibly less than in a competitive industry.

The Aegis-equipped American cruisers and destroyers were built under the 'limited competition' model but given the present trend towards monopoly/cartel shipbuilding and ever-increasing costs, inevitably influencing the size and quality of the USN, the author concludes that limited competition for both surface ships and submarines is the best solution of the problem.

America's industrial strength and the size of its Navy make it hard to relate naval shipbuilding in that country to shipbuilding in Australia, or indeed any other country. Nevertheless increasing costs provide some common ground and in this regard, to look at the Opportunity for competition in the local industry.

Australia has quite a large number of shipyards that have built and/or are building ships for naval purposes over the years, but only four could be considered relevant at the present time to the RAN's current requirements:

- Tenix Defence – currently completing an order for 10 Anzac class frigates for the RAN and the RIIZN at the Williamstown Dockyard in Victoria. The only 'Yard' at this time with the facilities to build major surface combatants such as frigates and destroyers.
- Australian Submarine Corporation (South Australia) has built and is maintaining six Collins class submarines but at present lacks facilities required to build surface combatants.
- Incat in Tasmania and Austal in WA. – have built and are building high-speed aluminium multi-hull vessels for commercial purposes and for the United States Navy (see *THE NAVY* April-June 2005 issue p20).

It therefore appears that so far as surface combatants and submarines are concerned, there is no prospect of real (economically sound) competition in the local shipbuilding industry other than in the sub-contracting area. The recent 'competition' to build three air warfare destroyers (AWDs) for the RAN was somewhat unreal in the sense that although the Aegis weapon system, a very expensive item in the overall cost, had been chosen, the design of the ship into which it was to be fitted had not been decided and in any event, only one Yard (Tenix) had the facilities to build on hand – and was not selected.

With regard to Defence's requirement for two large amphibious ships, although Australia has built quite large merchant ships in the past, including the former RAN training ship JERVIS BAY, converted from the roll-on/roll-off merchant ship *AUSTRALIAN TRADER* which was built at the State Dockyard in Newcastle, a one-off order now for only two ships may cause some problems: In this respect it is possible Incat and Austal could be considered as competitors, depending on experience gained by the United States Navy and more importantly, whether or not aluminium multi-hull vessels would meet Defence/RAN requirements.

Given the fact that the process for building the AWDs locally has already commenced, it is probably too late to suggest other, less costly, ways of acquiring such ships for the RAN. In the distant past it was customary to select a (usually tried) Royal Navy ship or design, to modify as necessary for Australian conditions and build in either the government's Williamstown Dockyard or the privately owned Cockatoo yard. In the more recent past, apart from the Anzacs, combatants have been acquired 'off-the-shelf' from American yards or built locally to an American design. The FFG-7 frigates and Perth class destroyers were successful acquisitions.

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 for shipbuilders to hold a highly trained workforce together. If costs are to be kept within bounds in future it would seem Captain Lewis' "regulated" private shipbuilder is the model for relatively small Navy countries such as Australia.

While the Navy could no doubt plan its requirements a sufficiently long way ahead, enough to provide the shipbuilder with reasonable continuity of work, could the gaze of governments stretch the same distance?

GIFT WILL BENEFIT CADETS

A generous gift to the Navy League by Mr John Strang to honour his father, the late Donald John George Strang, AO, has enabled the League, among other events marking the 200th Anniversary of the Battle of Trafalgar, to establish an essay competition for Australian Navy Cadets: The winning cadet will receive \$1,000 and the cadet's Unit a further \$1,000.

The Strang name is well known in shipping circles, both in Australia and overseas. The original firm of stevedores bearing the Strang name was established by John's grandfather, Captain Francis Strang in 1928 and now known as the Strang-Tradex Group, has been managed by successive generations of the family ever since.

John Strang's father had a diverse range of interests apart from business, including the Australia-Polish Chamber of Commerce of which he was the Foundation President, the Latrobe University Council, the Victorian Rugby Union and the Australian Institute of Political Science, in all of which he held office.

Honorary public service is clearly a family tradition and John is a member of a number of organisations including the Australia-Russia and NIS Business Council of which he is President, the Global Foundation, the Australia-New Zealand Business Council (past Chairman) and the Australia-Papua New Guinea Business Council; he is also a member of the Navy League's Federal Advisory Council.

The Navy League and the Australian Navy Cadets, once known as the Australian Sea Cadet Corps, have been well served by its members over the years; long may the spirit of service without pursuit of reward, continue.



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