From: Major General WJ Crews AO (Retd)
National President

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

Senate Enquiry into Naval Shipbuilding in Australia

The Returned and Services League of Australia offers the enclosed submission for consideration.

We welcome the opportunity to present our views on this significant Defence capability issue. Since the League was established in 1916, support for a strong and capable defence force has been one of our enduring objectives.

This submission draws on the expertise of our National Defence Committee, made up largely of retired senior service officers with considerable practical experience across all services, academics, and others.

The submission argues for Australia to continue to develop a cost effective and efficient naval shipbuilding industry.

Yours sincerely,

Bill Crews

The Returned & Services League of Australia (RSL) submission to the Senate into its Inquiry into Naval Shipbuilding in Australia

1. Introduction.

1.1 On 10 November 2005, the Senate referred the matter of naval shipbuilding in Australia to the Senate Foreign Affairs, Defence and Trade Reference Committee for inquiry and report by the last sitting day of 2006.

1.2 This submission by the RSL responds to the Senate's invitation for organisations with an interest in the subject to participate in its inquiry.

2. Issues for Consideration

2.1 Those specified by the Senate are:

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

2.2 Related issues which merit consideration include:

- strategic versus economic imperatives; and
- building for and focusing on the long term future.

3. The Scope and Opportunity for Naval Shipbuilding in Australia

3.1 One of the greater challenges for the future is to ensure Australia continues to gain the greatest benefit from its fortunate geo-strategic circumstances. The country's vast maritime surrounds provide a protective barrier. The ongoing value of this strategic asset will depend upon the extent to which the nation maintains the ability to operate and influence events within the vast area this encompasses. For the foreseeable future, the bulk of Australia's trade with other nations will continue to be almost exclusively sea borne[1] thereby placing an increasing and ongoing obligation on the nation to play its part in keeping open the vital international sea lines of communication.

[1] Only high value and/or light weight goods are imported or exported by air. Over 95% of Australian exports and imports (by weight) are carried by sea.

3.2 As an economically advanced democracy with its security bolstered by alliances with like-minded countries, it is incumbent on Australia to continue to be a participant in maintaining global security. 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. 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.

3.3 Because these fundamentals are likely to remain unchanged during coming decades, it would be irresponsible of the nation 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. It is equally important that Australia remains capable of the sea-borne deployment of its armed forces and of protecting these forces enroute to their destinations.

3.4 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, minewarfare and clearance diving forces, maritime air forces and maritime logistic support forces.

3.5 Because of these considerations and:

- the renascent status of the Australian naval shipbuilding industry,
- the need for Australian maritime combatant forces to be interoperable with those of major allies,
- the evolution of business partnerships between foreign defence companies and Australian defence suppliers,

there is both the scope and the opportunity for naval shipbuilding in Australia to develop and expand.

4. The capacity of the Australian industrial base to construct large naval vessels over the long term and on a sustainable basis.

4.1 The history of Australian naval shipbuilding during the past three decades has shown the industrial base to be remarkably adaptable in meeting the stop/start approach of successive Australian governments to building naval combatants in Australia. The construction of two FFG7 class frigates at Williamstown, Victoria in the 1980s was a clear demonstration of the capacity of the nation's industrial base to meet a requirement to construct two large surface combatants. The follow on construction of 10 Anzac class frigates at the same location demonstrated that provided there is a long term commitment to undertake the construction of naval combatants in Australian ship building yards, the Australian industrial base can adjust to cope on a sustainable basis.

4.2 Conversely, events which followed the earlier construction of an amphibious heavy lift ship at Tomago, New South Wales show how the lack of a long term commitment to build naval combatants in Australian shipbuilding yards can negate the adaptive efforts of the nation's industrial base. By opting to purchase several second hand support vessels offshore[2] thereby denying Australian shipyards the opportunity of tendering to supply these vessels, the Australian government reduced the capacity of the Australian industrial base.

4.3 As was demonstrated by the construction at Sydney of the large *Durance* class tanker and replenishment ship (AOR) HMAS *Success* in the late 1970s, Australia is quite capable of building large support vessels for its maritime combatant force. The major surface combatants of the Royal Australian Navy have been based on either side of the country since the late 1980s with each half requiring an AOR. As a short notice stop-gap measure to allow the two-ocean Navy basing policy to be put into effect, the Australian built support ship HMAS *Stalwart* was sold and the second-hand *Leaf* class tanker HMAS *Westralia* was purchased from Britain. When this vessel had to be deployed to the Persian Gulf during the 1991 Gulf War it could not meet the 'one stop shop' need of the warships it was supporting. This operational shortcoming has been perpetuated by the second stop-gap measure of acquiring the foreign built tanker *Delos* to replace HMAS *Westralia.* Even after conversion in an Australian shipyard it will not have the 'one stop shop' AOR capability when it enters service as HMAS *Sirius.* The support ship will be unable to replenish ammunition and will lack some of the other features normally built in to an AOR.[3]

4.4 The Australian naval shipbuilding industry and its industrial support base have demonstrated the capacity to construct large naval vessels over the past three decades on a sustainable basis[4]. The industry continues to adapt with teaming arrangements and by other collaborative means to meet varying government needs.[5] With this track record there is no reason to believe it cannot continue to adapt. Given the high probability of the ongoing need to continue to replace all major Australian warships over the next half century, there is a clear opportunity to continue to grow a national industrial capacity to meet the need. A consistent government policy of building all Australian warships in Australian shipyards would strengthen the industrial basis of the industry and give it the best chance of evolving efficiently and effectively.

4.5 The Australian Industry Group has no doubt about the ability of the nation's naval shipbuilders to meet the challenge. "The Australian defence industry has the capability, technical expertise and global manufacturing linkages to ensure the successful

[2] Two ex-USN amphibious ships, one ex-RFA tanker, the former Blue Nabilla and two ocean going tugs.
[3] The plan to replace HMAS *Westralia* in 2009 had to be brought forward because of a need to retire the ship early due to a change in the international maritime policy about single hulled tankers.
[4] 10 Anzac Class Frigates, six Collins Class Submarines, two FFG7 Frigates and HMA Ships *Success* and *Tobruk*.
[5] The recent announcement by Mr. Kevin Moak, Chairman of Gibbs & Cox, one of the most eminent warship designers in the world, that his company has established Gibbs & Cox Australia and intends to maintain this Australian Branch for the foreseeable future is relevant.

construction of the $2 billion (new amphibious ships) project."[6] The Chairman of Gibbs and Cox, the eminent American warship designer said on 2 February 2006 that "there was an opportunity of creating a world class design capability in Australia."[7]

5. The comparative economic productivity of the Australian shipbuilding industrial base and associated activity with other shipbuilding nations.

5.1 A specific response to this issue is not possible because it would be based on unverifiable or suspect data. There are several reasons for this assertion. For a variety of political, economic and security reasons, governments of countries with established or developing shipbuilding industries inevitably become involved when these industries construct warships for other nations. The extent to which national governments become involved depends on the style of government of the nation, the laws of the country with respect to the disclosure of economic and other information and other factors. It is not unknown for governments to provide their shipbuilding industries with assistance through taxation arrangements, shipbuilding bounties or other financial incentives or for the specific details of these measures to be kept out of the public arena. The transfer of technology, the need to maintain a bureaucracy to handle foreign military sales, the need to protect national security and inter-governmental agreements about other nationally sensitive issues are some of the reasons this information remains confidential.

5.2 A direct comparison between the economic productivity of the Australian shipbuilding industrial base and that or other shipbuilding nations would necessarily entail some form of measurement of the productivity of the workforces in relevant industries in relevant countries. As the industrial relations regimes and industrial relations laws vary between nations such comparisons have the potential to lead to erroneous conclusions. In the past, Australia has had a reasonably tolerant attitude towards industrial disputation which was not mirrored in other shipbuilding nations. In at least one instance this resulted in reduced economic productivity at one Australian shipyard constructing a large naval vessel.[8]

5.3 With so many variables and questionable data it would be imprudent to make any firm judgment about this issue. That said, there is reason to believe the productivity of Australian naval shipbuilding companies compares well with those of overseas yards.[9]

6. The comparative economic costs of maintaining, repairing and refitting large naval vessels throughout their useful lives when constructed in Australia vice overseas.

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[6] Press release of 1 August 2005 by Heather Ridout, Chief Executive, Australian Industry Group.
[7] Mr. Kevin Moak at the 2006 Sea Power Conference
[8] The decision of the Australian Council of Trade Unions to mount a 35 hour a week work case after the contract had been let to construct the Amphibious Heavy Lift Ship HMAS *Tobruk* resulted in unprecedented industrial stoppages at the building yard. Economic productivity was significantly diminished and the build delayed.
[9] The Australian naval shipbuilding company Tenix won the New Zealand 'next Navy' Project Protector contract (for seven warships of three classes) over international competition.

6.1 For the reasons given in paragraph 5, the value of making such a comparison is questionable.

7. The broader economic development and associated benefits accrued from undertaking construction of large naval vessels.

7.1 There are several broad national economic benefits which accrue from undertaking the construction of warships in Australia. These can be summarised as flowing from industrial activity, employment, technology, management and logistic issues.

7.2 Warships are some of the more complex machines built by mankind and a wide variety of industries are involved in their construction and fit out. Though shipbuilding industries are among the main economic beneficiaries of tenders let to construct warships in Australian yards, many other industries benefit. Engine manufacturers, steel makers, transportation companies, weapons producers, electronic and electrical firms are among the plethora of industrial activities which gain economic benefit from these complex and expensive national projects. In so doing these companies are provided with the impetus not only to grow but also to look for markets for their products in other countries. The long term beneficial economic flow on effects from naval shipbuilding projects such as that for the Collins Class submarine are substantial.

7.3 There are significant employment benefits to be gained in Australia by letting tenders to Australian shipbuilders to build Australian warships. These benefits have been claimed to be transitory in past years because of the stop/go attitude of successive Australian governments about this policy. For the reasons cited in paragraph 1, Australia will continue to need modern state-of-the-art warships for the foreseeable future not least to protect the maritime trade on which the economic well being of the nation depends. An ongoing regular process of building warships to replace those reaching end of life thus seems reasonable. Were this to be the case, long term employment benefits would be assured.

7.4 Advances in technology continue to revolutionise the work place and in no arena is this more apparent than in the development of defence force platforms, weapons and sensors. These advances bring with them economic gains. Australian developments such as the Nulka System for ship protection from missiles along with technology transferred from allied countries assist in this process.

7.5 The management and logistic aspects of building, operating, maintaining and repairing warships are a crucial part of their effectiveness. The use of world's best practice in arranging for these matters brings with it flow on effects for the broader Australian economy as well as maximising the cost effectiveness of the Australian fleet.

7.6 The Defence Council of the Australian Industry Group commissioned Tasman consultants in 1999 to examine the impact of major Defence Projects on the Australian economy. In undertaking this task Tasman Consultants opted to analyse a case study and, initially, chose the Anzac Ship Project. Though it is understood the extent of the broadly

beneficial findings of the consultants about the impact of the project on the Australian GDP are questioned by some economists, there is no doubt there was growth in economic activity arising from the Anzac Ship Project. This stemmed in part from increased productivity and competitiveness by the businesses involved in the project. Small and medium sized business enterprises raised their level of capability and competitiveness.

7.7 "Local construction of ships has facilitated 'Australianisation' of the vessels, such that much of the ship fitted plant and equipment is sourced in Australia and tailored to meet specific Australian standards. This results in equipment that is optimal for Australian conditions and requirements and equipment that can be supported locally. It is therefore capable of local evolution as technology advances, threats change and capabilities improve and mature. Australian naval shipbuilders have expertise in systems adaptation, design refinement and systems integration. Systems integration, in particular, has encouraged shipbuilders to enter into the strategically important areas of data management, signal processing, command, control and communications."[10]

8. The strategic versus the economic imperative.

8.1 When related to naval shipbuilding, some consider the economic imperative must prevail over the strategic. In a 2002 paper the Australian Strategic Policy Institute (ASPI) argued "it is strategically important to Australia that we should squeeze as much capability out of the money we have available for defence;" and that other factors "need to be kept subordinate to this simple and overriding priority."[11] ASPI asserted "there is in fact no strong strategic reason to build the Navy's warships here in Australia." In support of this argument the ASPI paper reminded readers that the 2000 White Paper on Defence did not include naval shipbuilding in its list of priorities. All this has since been called into question by the current Director of ASPI, Major General Peter Abigail. During a speech at the RAN Sea Power Sea Power Conference on Tuesday 31st January 2006, he said 'there is a strategic imperative in this country (Australia) having a naval shipbuilding industry"; and that "we want to have the option of building the next generation submarine in this country".

8.2 The earlier ASPI stance is also at odds with the recent history of naval shipbuilding in Australia. Since the delivery of the fourth FFG7 from its USA shipbuilder in the mid 1980s, Australia has built all its new major (large) warships in Australian shipyards. The fifth and sixth FFG7 frigates, the Collins Class submarines and the Anzac Class frigates have all been built in the country and the only additions to the fleet apart from these warships being support and amphibious ships purchased second-hand. The reality is Australia has a de-facto policy of building its new warships in Australian shipyards.

8.3 Though some may argue the term 'large naval vessels' does not include submarines, it would be imprudent to make this distinction given the importance of this

[10] Speech at the Australian National University titled 'Whole of Nation Concepts – Industry Perspectives' by Hector Donohue AM, General Manager, Strategic and Business Development, Tenix Defence Systems, October 2003.
[11] *Setting a course for Australia's naval shipbuilding and repair industry*, ASPI Ltd. 2002, Chapter 2

force element to the overall combatant and deterrent capabilities of the Australian fleet. Australia has an ongoing need for the foreseeable future to keep up to date with submarine design, submarine technology integration and all facets of submarine construction and upkeep. The Collins class submarine design evolved to meet Australia's unique underwater warfare requirements resulting from the nation's enduring geo-strategic circumstances. The build of these submarines in Australia met a strategic need which could not be met by 'off the shelf' designs from overseas. The resultant development of the engineering, management and other skills by the Australian industrial base is a national strategic asset which should ensure the vessels can be maintained to a high standard of operational effectiveness. It would be both strategically and economically irresponsible to allow these capabilities to diminish.

8.4 The contention that economic considerations should be the primary consideration when deciding whether to purchase warships constructed in the shipyards of other nations or to build them in Australia is entirely dependent upon accurate and detailed proof that one option is more economically beneficial than the other. With so many variables and intangibles involved it is virtually impossible to obtain such proof. The reality is that foreign shipbuilders and foreign governments build warships for Australia only when its serves their best interests. These may include a variety of considerations e.g. the need to bolster employment, or other economic considerations unrelated to the defence portfolio. The bottom line is that any claim of economic advantage resulting from building Australian warships in foreign shipbuilding yards will always be questionable and may be illusory.

8.5 There are no strategic advantages in building Australian warships in foreign shipyards but significant disadvantages. It has not been unknown for foreign governments to forbid the export of warships built for other nations.[12] Of much greater significance is the strategic gain to be made in skill and expertise by keeping up to date with world's best practice by building Australian warships in Australia. Foreign shipbuilding and defence companies have teamed with their Australian counterparts presumably in the expectation that Australia will continue to build its major warships in Australia.

9. Building for and focusing on the long term future.

9.1 With a recent history of having constructed all its major warships in country, and an undeniable need to have a broadly capable state of the art maritime combatant force for the foreseeable future, there should be no uncertainty about the need to build for the long term future. Instead of considering the acquisition of foreign built warships, the challenge for Australia is to continue to nurture and develop an effective and efficient naval shipbuilding industrial base capable of bidding for tenders to build all Australian

[12] In 1969 five Missile Boats (the Cherbourg Boats) built in France but paid for by Israel were spirited out of France by the Israelis after France had imposed an embargo on their export. In 1979 the supply of four improved Spruance Class guided missile destroyers (subsequently the Kidd Class) ordered by Iran was suspended by the USA following the overthrow of the Shah. The new Iranian Government subsequently cancelled the contract and the warships were absorbed into the USN.

warships. There could also be economic and strategic gain for the nation if these industries could meet the needs of friendly and allied countries[13].

10. Conclusion.

10.1 There is both the scope and the opportunity for Australia to continue to develop a cost effective and efficient naval shipbuilding industry to supply both its own needs and those of friendly and allied nations.

[13] A precedent is the supply of two Australian built Anzac class frigates to New Zealand in the 1990s.