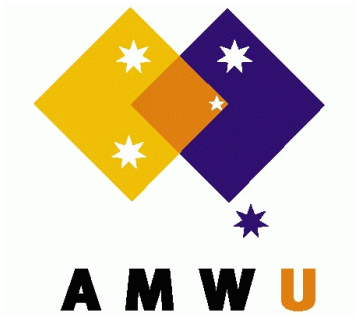
AUSTRALIAN MANUFACTURING WORKERS' UNION



SUBMISSION TO THE SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE INQUIRY INTO NAVAL SHIPBUILDING IN AUSTRALIA

MARCH 2006

Introduction

1. The Australian Manufacturing Workers' Union (AMWU) welcomes the invitation to make submissions to the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Naval Shipbuilding in Australia.

2. The full name of the AMWU is the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union. The AMWU represents approximately 140,000 workers in a broad range of sectors and occupations within Australia's manufacturing industry.

3. The AMWU is the primary union representing workers employed in the shipbuilding industry and takes a very active interest in the health of the industry.

4. No other country shares the characteristics of Australia's geographic and maritime circumstances. The defence of Australia is dependant on our control of the long maritime approaches to the continent, or at the very least denial to a potential enemy control of these approaches. To do this Australia needs a naval capacity that can be built, supported and upgraded in Australia.

5. The defence of Australia is one of the top priorities for any Federal Government and having a shipbuilding capacity that is a national strategic asset and reasonably independent of other nations is essential to this.

6. The Australian Naval Shipbuilding and Repair (NSR) Sector Strategic Plan prepared by the Defence Materials Organisation sets out the Government policy:

> "The policy of self-reliance has driven Government's preference for the local construction of major surface ships and submarines since the 1980's and *Defence 2000: Our Future Defence Force* reinforces the self-reliance policy of previous White Papers. It states that the ADF needs to be able to defend Australia without relying on the combat forces of other countries. To achieve this policy outcome, the Government's stated objective is *to have a sustainable and competitive defence industry base, with efficient, innovative and durable industries, able to support a technologically advanced ADF."*[1]

7. The AMWU agrees that the defence of the nation depends on having an independent and sustainable defence industry. Not only does this help our defence needs, it makes a valuable contribution to the wider economy.

8. It will be the AMWU's submission that the Australian industrial base has the capacity to construct large naval vessels over the long term and on a sustainable basis, as long as the work does not become overly cyclical.

9. The AMWU believes that the Australian shipbuilding industry is as productive as other shipbuilding nations. There is little data to determine this issue given the legislative and ownership issues that distort other nations' shipbuilding industries.

---

[1] Defence Materials Organisation, "Australian Naval Shipbuilding and Repair Sector Strategic Plan", Canberra, 2002, p.43

10. It is clear that the economic costs of maintaining, repairing and refitting large naval vessels throughout their useful lives is greatly lessened by constructing those vessels in Australia.

11. Finally, the AMWU will demonstrate the widespread and significant economic development and associated benefits that accrue to Australia from undertaking the construction of large naval vessels.

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

12. The AMWU submits that as long as there is an attempt to smooth the cyclical variations in demand for naval construction that Australia has the necessary industrial capacity to construct large naval vessels over the long term and on a sustainable basis.

13. Australian industry has been extremely successful at constructing large naval vessels. The construction of the ANZAC frigates and the Minesweepers were highly successful examples of this.

14. The ANZAC frigate project, based at Williamstown, Victoria, was extremely efficient. The project for 10 frigates, costing $5.6 billion (in 1999 dollars) over 10 years, was, until the new Air Warfare Destroyer project, the largest single defence contract ever entered into by Defence. All of the frigates have been delivered on time and on budget.

15. In 1994, Defence awarded ADI Limited a contract to build 6 Italian-designed minehunter vessels at a contract value of $917 million. ADI delivered the first minehunter, HMAS Huon, on time and on budget in March 1999.

16. Despite the criticism of the Collins Class Submarine project, this project has delivered on its objectives. A study by the Australian Strategic Policy Institute into the project concluded that the Commonwealth's $5 billion investment has not only provided Australia with a key strategic asset but also greatly boosted the skills base of our naval construction industry—a national asset that will be sustained and further enhanced over the next decade by the recently approved $6 billion Air Warfare Destroyer (AWD) project[2]:

> *"The government sought a minimum of 70% Australian industry content for the new platforms—an ambitious target given that Australia had never before attempted to build a submarine. Achieving and eventually exceeding that target involved extremely close cooperation between state and federal governments and Australian industry…The project achieved 73.5% Australian industry content for the platform and 45% local industry content for the combat system."*[3]

---

2 Walters, P., "Cutting Edge: The Collins Experience", Strategic Insights – Australian Strategic Policy Institute, February 2006, p.2

3 Ibid., p.5

17. The study found that the deficiencies in the build phase related more to design and contractual problems, including with overseas suppliers, than to any manifest shortcomings on the part of local industry. The only problems with the hull construction turned out to be associated with the welding in Sweden on two sections of the first boat in the class—the Collins. **In comparison, the US Navy's Seawolf submarine program saw the first two hulls scrapped because of welding problems.**[4]

18. Australia has the capacity to build large naval vessels here, but what are the advantages of constructing these vessels in Australia?

19. The NSR plan outlined in a succinct and accurate way, the advantages of in-country construction of naval vessels:

> *"The advantages of in-country construction are as follows.*
>
> *a. Local construction significantly enhances the ability to tailor overseas designs to meet any unique requirements of the ADF and to maximise commonality of systems and equipment across classes.*
>
> *b. As argued in recent economic evaluation, the potential to deliver significant economic benefit to the nation as a whole.*
>
> *c. Having built the platforms in Australia, the ship-builder and subcontractors have a first hand knowledge of the vessel's design and assembly which facilitates cost-effective whole-of-life support and access to required intellectual property (IP).*
>
> *d. Enhancement of the repair and maintenance skill-sets base, as a result of the transfer of people and skills from the build phase to the whole-of-life support phase.*
>
> *e. Technology transfer resulting from local construction has substantially upgraded the nation's technological base and provided significant advantage beyond shipbuilding and Defence related production.*
>
> *f. It promotes the establishment of an in-country production design, re-design and upgrade capability, leading to the assumption of "parent navy" responsibilities.*
>
> *g. It provides protection against the disruption of overseas supply. In-country construction leads to the establishment of local supply chains which are more responsive to Navy's urgent requirements.*
>
> *h. A capable and cost-effective construction capability provides a sound base for promoting the export of similar products, especially within the near region. It may thus strengthen Defence cooperation with Australia's regional neighbours.*

---

[4] Ibid., p.6

i. It assists our balance of payments and retains investment within Australia."[5]

20. There are clear and distinct benefits from constructing naval vessels in Australia; however what are the costs and benefits of offshore construction? The AMWU agrees with the assessment of the Defence Materials Organisation that:

> *"Building major naval surface ships and submarines overseas (ie. not building any new ships/submarines in-country) would result in the loss of a 'high end' and production/construction capability, which would require significant expenditure and time to re-establish if required. As a result, local industry capability could be reduced to intermediate and depot level support, with more complex support dependent on overseas design assistance. In the long term, the residual depth and extent of local support would most likely erode, with the potential loss of leverage to achieve effective technology transfer to Australian industry.*
>
> *While off-shore procurement might offer potentially lower acquisition costs (although there is no definitive evidence to support this), there are several offsetting considerations. Firstly, there would be reduced scope for adaptation of design. Secondly, there would higher costs associated with ongoing support of these ships, as a result of less industry engagement in the build program. Thirdly, there is the potential loss of the economic benefit to Australia gained through the taxation and indirect employment multipliers associated with local naval construction. Lastly, there would also be a major strategic penalty, in that Australia would no longer have the infrastructure or workforce needed to build its own warships if a major conflict were to occur."*[6]

21. There has been recent media reports that the Navy may acquire the 2 amphibious ships either offshore completely or allow up to 50% of the construction to be undertaken overseas:

> *"Kim Gillis, who heads the Amphibious Ships project, indicated in a recent interview with ADM's (Australian Defence Monthly) Daniel Cotterill, that he'd call a halt to proceedings (Amphibious Ship tender) and consider another acquisition strategy. This suggests that if costs look like they might run away with an Australian build, the platforms could be built offshore and sailed to Australia as 'green hulls' for installation of specific RAN requirements. This approach could be significantly cheaper than contracting the selected ship designer/builder to incorporate the RAN requirements."*[7]

22. The AMWU is completely opposed to these proposals. As stated above there are crippling problems associated with overseas building of navy vessels. There are also significant problems with off-shore hull construction with local fit out. To quote the Australian Naval Shipbuilding and Repair Sector Strategic Plan:

---

5 Defence Materials Organisation, op.cit, p.46
6 Ibid., p.44
7 Muir, T., "Some LHD issues for consideration", Australian Defence Monthly, Vol.14, Issue 1. Dec 2005/Jan 2006, http://www.yaffa.com.au/defence/current/12-111.htm

> *"This option would see the construction of the ship's hull and structure in an established foreign shipyard whilst retaining an in-country systems design and integration capability to undertake local fit-out and ongoing systems support. If future local construction or major upgrades are envisaged, the following additional constraints would inevitably apply:*
>
> *a. Many naval platform systems, (eg. propulsion, steering & ballasting), are integrated with the hull to such an extent that it would be impracticable to separate them from the off-shore build as candidates for local design, installation or effective whole-of-life support.*
>
> *b. With the sequential hull construction and systems installation inherent in such a build strategy, the significant efficiency gains in both cost and schedule associated with the pre-outfitting of modules are unlikely to be fully realised.*
>
> *c. The ship's structure represents only a small component of the total program cost; thus the potential for offshore hull construction to deliver large savings is relatively small.*
>
> *d. Such an approach carries significant risk in apportioning blame and responsibility, particularly where problems and difficulties arise that cannot be resolved without protracted contractual and legal intervention."*[8]

23. The AMWU submits that not only does the Australian industrial base have the capacity to build large naval vessels here; it is inherently desirable to construct them locally.

24. Another issue is what would happen if Australia lost this capacity? According to a leading defence analyst:

> *"Paying a premium of 30% to re-establish warship building in the early 1980's has given Australia a strong basis for further cost effective major programs. But we are now at the cross-roads where we risk losing many of the capabilities and efficiencies that have resulted from policies of the conservative government in the late 1970s, particularly those of Sir James Killen who argued to re-establish local warship construction. If we do not take the opportunity now, we risk losing a highly competitive segment of the industry which will leave Australia with two main options: pay a substantial premium to re-establish warship building skills or accept that vessels of that type will never be built locally. We also risk much of the $10b investment made in warship building and warship systems integration of the past 15 years, and many of the full time jobs created by this work."*[9]

25. Not only will we lose the $10 billion investment and the thousands of full time jobs, there will be a serious undermining of our skills base. Our national independence will also be undermined with severe consequences for Australia

[8] Defence Materials Organisation, op.cit, p.45
[9] Tom Muir and Associates

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

26. It is difficult to compare productivity of Australian shipbuilding with other shipbuilding nations given differing levels of protection. The Jones Act requiring U.S. flagged vessels to be built in the United States increases the productivity of the US shipbuilding industry by increasing their construction volume, thereby reducing the cost of fixed inputs per vessel. Incidentally this reduces the productivity of Australian shipbuilders by forcing them to open shipyards in the United States, rather than constructing vessels for the US Navy in Australia which would boost economies of scale. For example, Austal ships was forced to open a shipyard in Mobile, Alabama in order to construct the sea frame of the US Navy's new breed of surface combatant, the Littoral Combat Ship. In some countries significant subsidies exist and in other countries major shipbuilders are publicly owned, making cost structures non-transparent.

27. It is pertinent to note that the recent Australia-US Free Trade Agreement excluded the US shipbuilding sector from the agreement, leaving the Jones Act supreme. Our closest ally put national independence ahead of the purity of economic theories. In other words, other countries recognise the strategic importance of a sustainable, independant naval shipbuilding industry and act accordingly. It is only countries like Australia who worship the 'level playing field' that ignore this strategic imperative. It is essential that the Federal Government change its attitude on this matter.

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

28. The AMWU agrees with the assessment of Mark Thomson of the Australian Strategic Policy Institute that

> *"…our strategic geography demands that we retain the ability to repair, maintain and upgrade our vessels here in Australia."*[10]

29. ACIL Tasman concluded that

> *"Responsive support by local companies located close to the home ports of the ships they serve helps Navy force element commanders meet the levels of preparedness specified by the Chief of Navy."*[11]

30. In other words, it is in Australia's strategic interest to retain the ability to provide through life support to naval vessels locally.

31. In February 2000, Tasman Asia Pacific (Economic, Management & Policy Consultants) Canberra, released a report Impact of Major Defence Projects: A

[10] Thomson, M., "Where to now for naval shipbuilding & repair?", Pacific 2004 International Maritime Conference, p.5
[11] ACIL Tasman, "A Profile of the Australian Defence Industry", November 2004, p.32

Case Study of the ANZAC Ship Project. The study found that the high level of Australian industry involvement in the ANZAC Ship contract will lead to similarly high levels of local participation in the ships' through-life support. More importantly, the study found that Australia stands to save in the order of $520 million, in net present value terms, over the service life of the ships by being able to obtain support from local suppliers.

32. The AMWU submits that constructing naval vessels domestically increases the ability of local companies to provide through life support. Repair turnaround times are significantly reduced by the Defence Department being able to rely on local sources for repairs, maintenance and spares. Therefore, Australian construction of navel vessels leads to a direct reduction in down time for those vessels, reducing the number of vessels actually required.

33. Beyond ensuring that local companies have the skills to provide through life support, the AMWU submits that local construction also ensures that Australian companies are able to participate in subsequent upgrades of those vessels.

34. The Australian Naval Shipbuilding and Repair Sector Strategic Plan concluded that:

> *"While a distinction is made between ship construction and repair and maintenance, a strong relationship exists between the two. Success as a shipbuilder undoubtedly provides a competitive advantage in the repair & maintenance activities associated with the whole-of-life support required for that class of vessel. Specifically, building a ship based on a whole-of-life philosophy establishes an effective configuration management and integrated logistic support regime from the outset. It also establishes capabilities that are essential for effective support in the sub-contractors responsible for ship sub-systems through the pre-existence of supplier networks and working arrangements."*[12]

35. The AMWU submits that the economic costs of maintaining, repairing and refitting large naval vessels throughout their useful lives is greatly reduced when those vessels are constructed in Australia.

36. Beyond the economic costs, it is vital to Australia's independence that we have an indigenous capacity to support, repair and upgrade our naval vessels. Local construction is inexorably linked to this. We must avoid repeating the situation we faced in 1982 when during the Falkland Islands conflict the Royal Navy froze export of all spare parts for the Oberon class submarines.

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

37. The Tasman report into the ANZAC Ship Project (ASP) found that this project increased GDP by between $3b and $7b over a 15-year term. This increase is above that which could have been created by purchasing a similar vessel overseas.

[12] Defence Materials Organisation, op.cit, p.51

This assessment is fairly consistent with other, similar studies. Essentially, therefore, **for every defence dollar spent in Australia on shipbuilding, a further dollar of GDP is created**. The report also found that the ASP has created about 7,800 full-time jobs over a period of 15 years. A table based on the information in the report highlighting the economic impact of the ASP if provided below.[13]

Table 1 – Economic Impact of the ANZAC Ship Project

Measure (above that which could be expected from overseas procurement)	Assuming No Unemployment (Where some technicians move to shipbuilding from another sector)	Assuming Some Unemployment (Where some unemployed move into the workforce as a result of ASP pressures on the job market)
Annual increase in GDP in 1998-99	$200 million	$500 million
Increase in GDP over the 15 year Construction Program	$3 billion	$7.5 billion
Increased Annual Consumption	$147 million	Over $300 million
Job Creation	-	7,852 full-time jobs

Employment

Table 2 – Shipbuilding Employment, Census

INDUSTRY OF EMPLOYMENT (a) - Persons (CC48), ANZSIC 282 Other Transport Equipment Manufacturing				
Counts of Persons for Australia				
	Male	**Female**	**Persons**	**Percentage of Total Employment**
Aircraft Manufacturing	9,570	2,253	11,823	41.92%
Boatbuilding	6,938	825	7,763	27.52%
Other Transport Equipment Manufacturing, undefined	93	15	108	0.38%
Railway Equipment Manufacturing	3,348	269	3,617	12.82%
Shipbuilding	4,392	501	4,893	17.35%
Total	24,341	3,863	28,204	100.00%

Australian Bureau of Statistics 2001 Census of Population and Housing

38. Shipbuilding employment as of the 2001 census was 4,893 persons. While the ABS does not release employment statistics at the 4 digit level between censuses, we can apply the ratio of shipbuilding employees to total 282 employment to get an approximate idea of employment levels. As the table below demonstrates employment in shipbuilding is in the vicinity of 5,100 persons.[14]

[13] Tom Muir and Associates

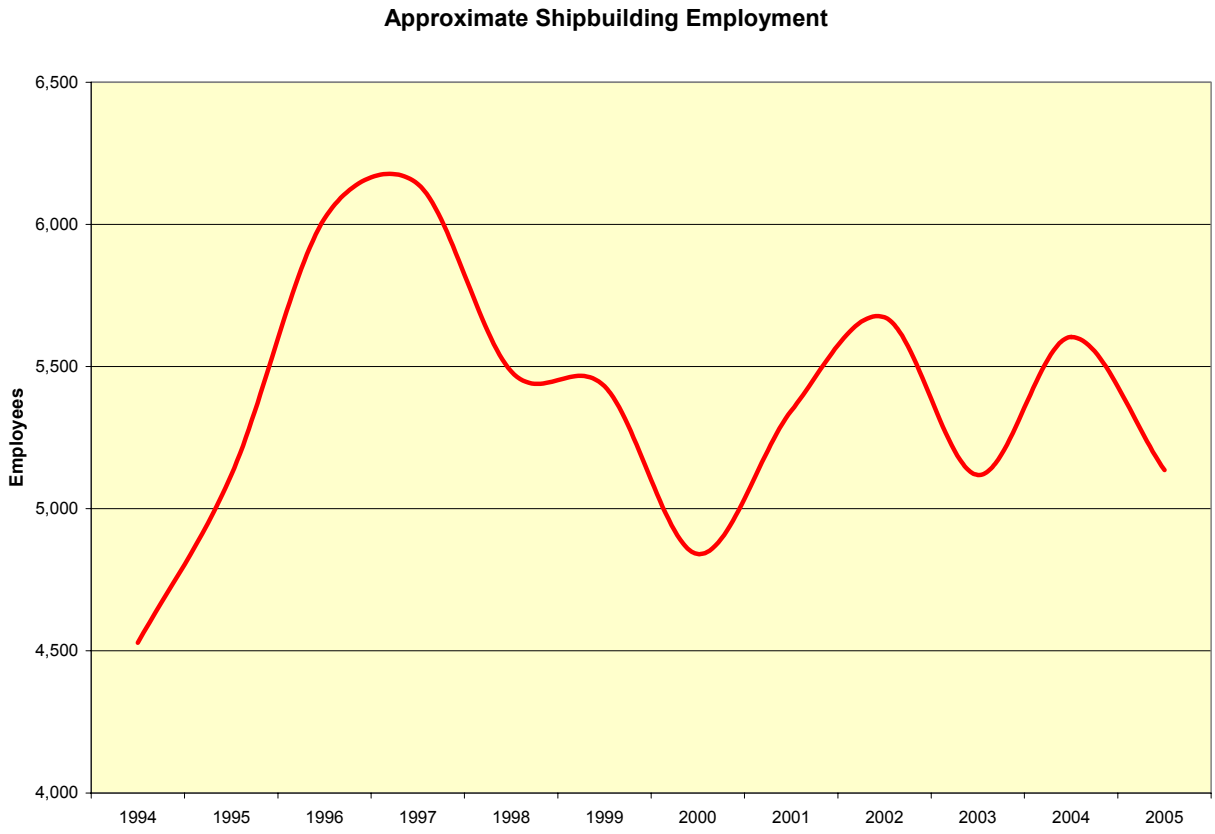
[14] Please note that census figures differ slightly from the figures from the ABS quarterly survey due to different collection methods.

Table 3 – Shipbuilding Employment, annual approximation

November Quarter	ANZSIC 2 - Manufacturing	ANZSIC 28 - Machinery and Equipment Manufacturing	ANZSIC 282 - Other Transport Equipment Manufacturing	ANZSIC 2821 - Approximate Shipbuilding Employment
1994	1,114,400	217,600	26,100	4,528
1995	1,114,400	228,600	29,500	5,118
1996	1,137,800	247,900	34,700	6,020
1997	1,139,500	257,000	35,400	6,142
1998	1,084,800	219,800	31,600	5,483
1999	1,078,100	220,100	31,300	5,431
2000	1,108,500	229,400	27,900	4,841
2001	1,077,800	245,700	30,800	5,344
2002	1,131,100	252,800	32,700	5,673
2003	1,037,700	217,400	29,500	5,118
2004	1,082,600	224,600	32,300	5,604
2005	1,076,900	239,600	29,600	5,136

Source: AusStats 6291.0.55.001 Labour Force, Australia, Detailed

Figure 1 – Approximate Shipbuilding Employment



Source: AusStats 6291.0.55.001 Labour Force, Australia, Detailed

Regional Impact

39. It is indisputable that the shipbuilding industry is a significant employer in marginalised areas. To put it into context we should examine the four regions with the highest dependence upon the shipbuilding industry. These regions are set out below in a table with their unemployment rate. These figures are derived from the 2004-05 State of the Regions report prepared by the National Institute for Economic and Industry Research and the Australian Local Government Association. The employment rate takes as a base the number of people that the government provides social security to, who could reasonably be considered unemployed.[15]

Table 4 - Regional Significance of the Naval Shipbuilding Industry

Region	% of workforce unemployed, 2004
Adelaide Plains (Osborne)	15.3%
NSW Hunter (Newcastle)	13.7%
Melbourne West (Williamstown)	11.6%
Perth Outer South (Australian Maritime Complex)	8.6%

Source: National Economics/Australian Local Government Association, "State of the Regions Report, 2004-05"

40. As the table above shows, the areas with the highest dependence upon shipbuilding employment have unemployment rates far above the national average. If shipbuilding employment declined this would have a drastic negative multiplier effect on these already severely disadvantaged local communities.

Skills

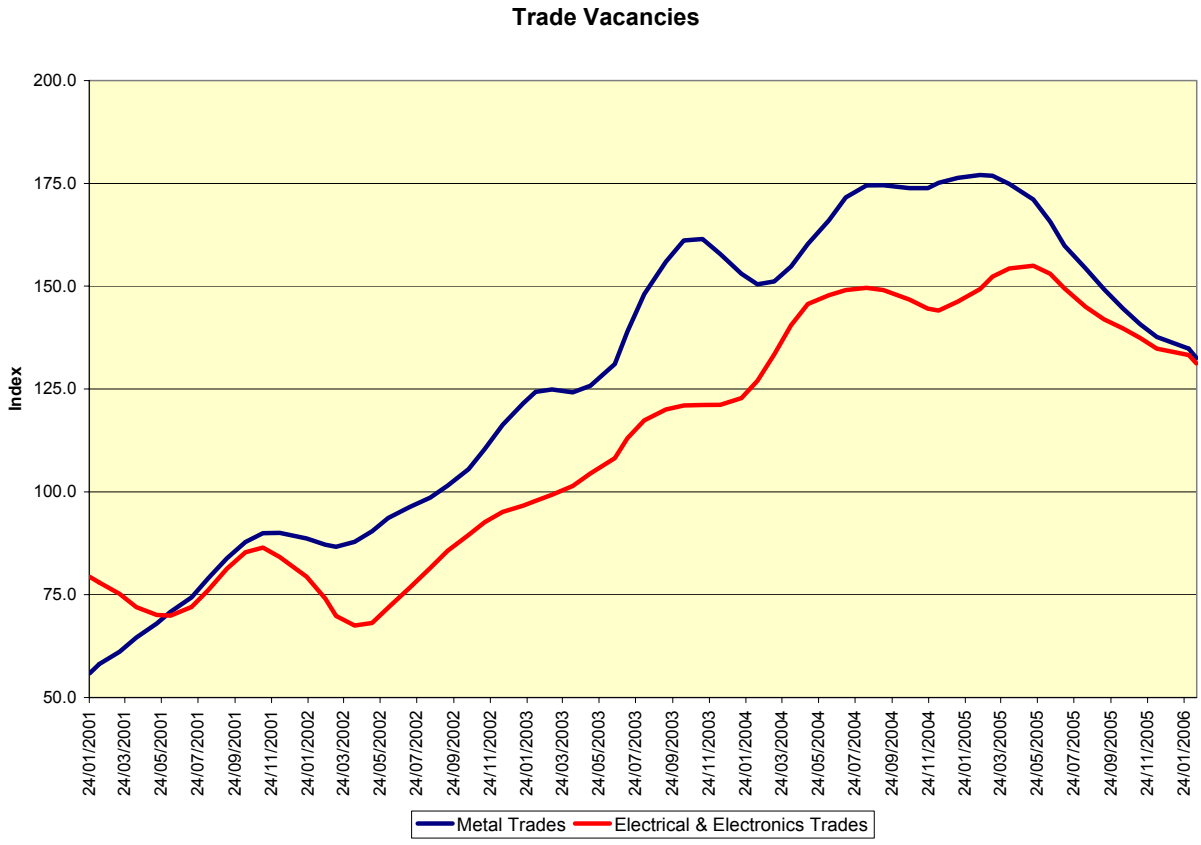
41. The naval shipbuilding industry makes a vital contribution to skills development, for example through apprentice training in fabrication, welding and sheet metal working.

42. These are areas where there are some skill shortages. There has been a serious failure of business to train skilled workers over an extended period. Growth in total employment for tradespersons and related workers was only 8.0 per cent between 1996-97 and 2004-05, or less than 1 percent per annum.

43. As the graph below demonstrates there remains a high level of vacancies in shipbuilding related trades.

[15] National Economics/Australian Local Government Association, "State of the Regions Report, 2004-05", p.29. NIEIR Unemployment = (Newstart + Mature Age Allowance + Excess growth in Disability Support Pension + Estimate of unemployed youth) / (Adjusted Labour Force = Official Labour Force + Excess growth in Disability Support Pension)

Figure 2 – Vacancies in Shipbuilding Related Trades



Source: DEWR Trade Vacancy Report

44. A sustainable naval shipbuilding industry with regular contracts will be part of the solution to the skills shortages. If it is decided to purchase vessels offshore, not only will we lose the skills to provide through life support to the vessels, we will lose a valuable skills base for the wider economy.

Economic Contribution of Shipbuilding

45. The shipbuilding industry makes a very valuable contribution to the Australian economy. For the latest year available, the industry generated output of $735.7 million and paid $474.5 million in wages and salaries.

Table 5 – Economic Impact of Shipbuilding

Year	Sales and Service Income ($million)	Wages and Salaries ($million)	Industry Value Added ($million)
1996-97	289.9	1,595.3	490.3
1997-98	1,662.2	309.0	570.8
1998-99	1,544.8	312.1	507.8
2001-02	1796.4	387.4	584.2
2002-03	1,934	474.5	735.7

Source: ABS Manufacturing Industry 8221.0

Trade and Innovation

46. According to the ACIL Tasman analysis of the Defence industry

> *"Ferries and, to a lesser extent, patrol boats dominate Australia's maritime exports – mostly to South East Asia. While such exports reduce the exposure of Australian shipbuilders to cyclical variations in Australian defence demand, they are lumpy and correspondingly volatile: After reaching $321.9 million in 1999-00, they fell to $8.8 million the next year, rising to $83.9 million in 2001-02. This was equivalent to 6% of total income of the shipbuilding sector in that year."*[16]

47. It is self-evident that if we are to have any export success in naval shipbuilding, then we must at a minimum construct vessels for the Australian Navy in Australia.

48. Local construction of naval vessels can make a significant contribution to Australia's expenditure on research and development. In the present inventory, the surface combatants, submarines, mine warfare and oceanographic ships were all built to overseas designs which were adapted here to suit Australian circumstances. This can entail substantial innovation, for example in 2001-02; Australia spent nearly $27 million on research and development in maritime engineering. Of this total, some $7.6 million (28%) was for defence purposes.[17]

49. This represented nearly 3% of Australia's total expenditure on defence-related R&D in that year and was incurred by primarily business, followed by the universities. Such local R&D was vital in, for example, developing the anechoic tiles optimised for the Collins class submarines and their operating environment.

50. Over last 15 years, and with the limited exception of the ANZAC ships and the examples above, Australia has not exported any naval combatants. This suggests that, while reliance on overseas Intellectual Property does not of itself preclude exports, the need to pay royalties and to negotiate marketing rights erodes the international competitiveness of Australian builders. The upshot has been that, with some small exceptions, Australian naval combatant builders have been confined to the local defence market.[18]

51. Since 1997 the growth in imports of elaborately transformed manufactures (ETMs) has greatly exceeded ETM export growth (see the graph below). Elaborately transformed manufactures have the greatest trade potential, the highest wages and the most value added. If we are to transform the economy in to one specialising in knowledge intensive industries, we must boost our ETM exports and reduce ETM imports.

52. The purchase of naval vessels overseas would increase our imports of ETMs by a massive margin. For example, if the Federal Government had decided to source the Air Warfare Destroyers completely from overseas that would have added

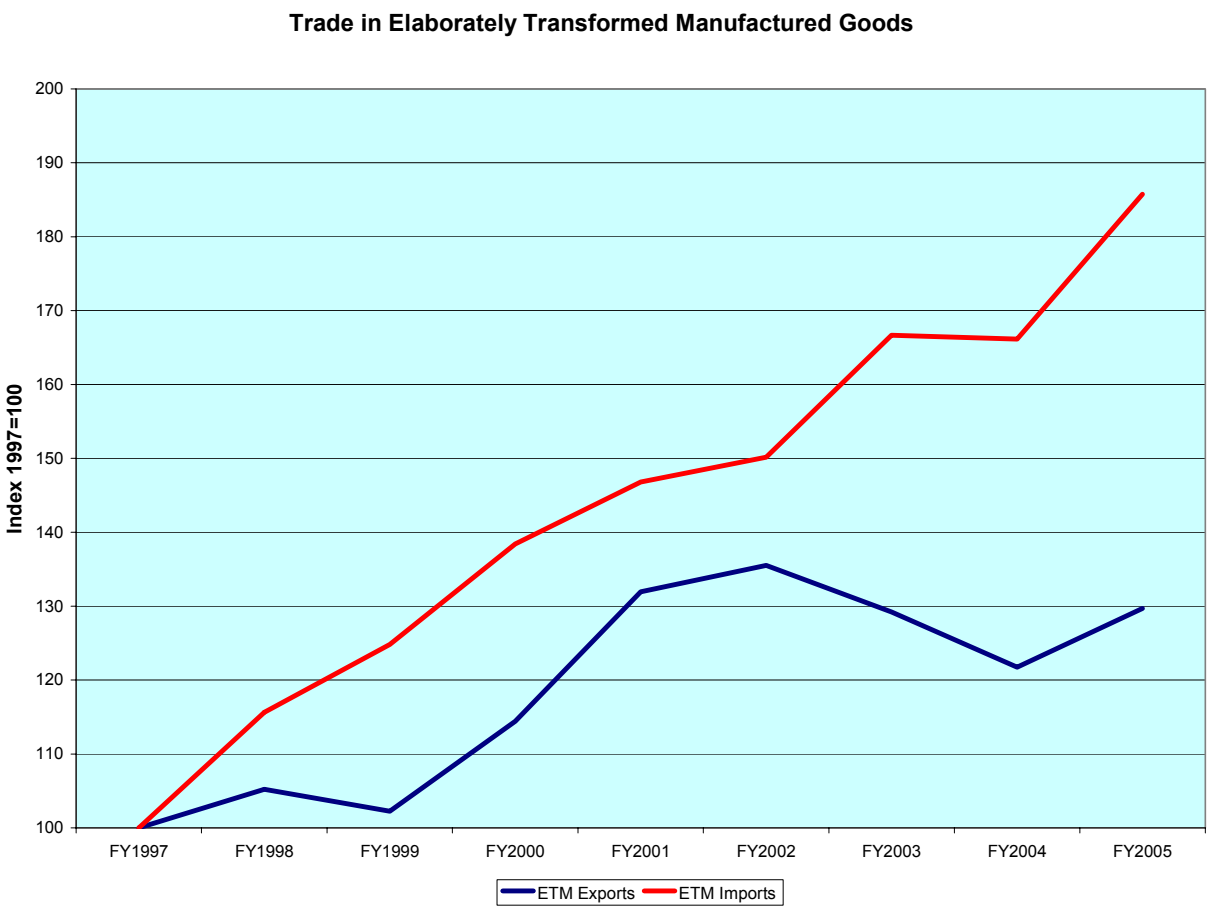
---

16 ACIL Tasman, Op.cit., p.30
17 Ibid., p.31
18 Ibid.

approximately $6 billion to our ETM import figure, representing 4.4% of total ETM imports or increasing our trade deficit by 26.3%.

53. As discussed earlier, local procurement of naval vessels for the RAN provides the base for exports of naval vessels. Thus not only does local construction reduce our ETM imports it may lead to more ETM exports.

Figure 3 – ETM Trade

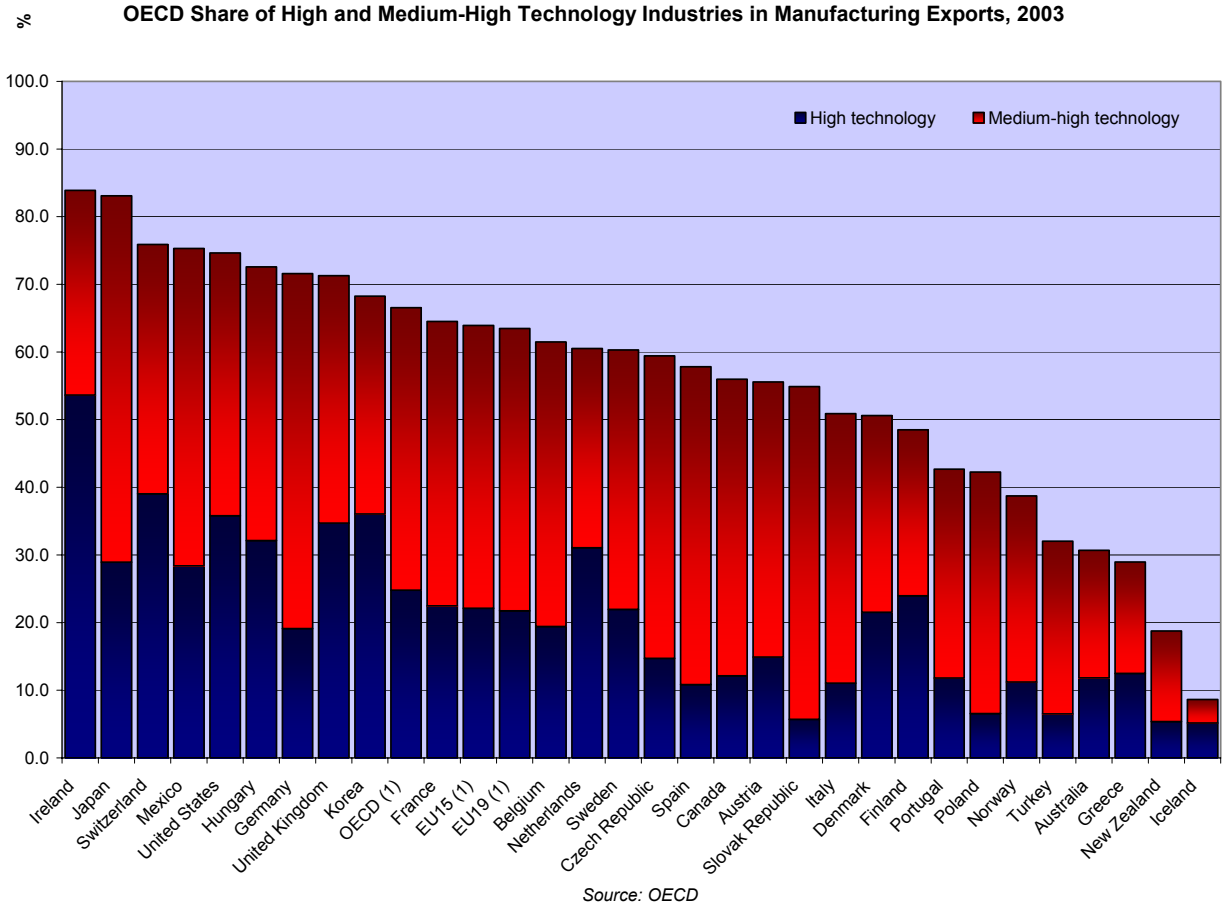


DFAT Stars Database

54. A prosperous and expanding shipbuilding export industry is vital if Australia is to avoid remaining the world's farm and quarry. We are steadily falling behind the rest of the world in terms of export of high and medium-high technology manufactured goods. These are the industries with the greatest trade potential, the highest wages and the most value added. If Australia does not reverse this trend we will be stuck on the 'low road' as the world's farm and quarry; to be used by other nations to climb the ladder of economic development.

55. The graph below sets out the performance of OECD economies in this context. In the last year Turkey overtook us and we now rank fourth last among advanced nations.

Figure 4 – Share of High and Medium High-Technology Industries in Manufacturing Exports



56. The construction of naval vessels in Australia makes a significant contribution to Australia's trade and innovation. Any move to end local construction would have a deleterious impact on our trade and innovation performances, at a time when we can least afford it.

Conclusion

57. The Australian Naval Shipbuilding and Repair Sector Strategic Plan summarises the issues surrounding this inquiry in the following:

- Australia's Policy of defence self reliance is an important determinant for conducting the construction of major surface ships and submarines in Australia.
- In-country construction provides flow-on economic benefits to the nation.
- In-country construction supports a key strategic requirement by transferring capabilities and skill-sets from the construction phase to the upgrade, adaptation and repair phase involving through life support.

- In addition to self reliance, other issues such as home porting of naval ships and parent navy responsibilities also drive the need for upgrades and repair and maintenance to be done in-country.[19]

58. No other country shares the characteristics of Australia's geographic and maritime circumstances. The defence of Australia is dependant on our control of the long maritime approaches to the continent, or at the very least denial to a potential enemy control of these approaches. To do this Australia needs a navy that can be built, supported and upgraded in Australia.

59. The defence of Australia is one of the top priorities for any Federal Government and having a shipbuilding capacity that this reasonably independent of other nations is essential to this.

60. It is pertinent to note that the recent Australia-US Free Trade Agreement excluded the US shipbuilding sector from the agreement, leaving the Jones Act supreme. Our closest ally put national independence ahead of the purity of economic theories. In other words, other countries recognise the strategic importance of a sustainable, independant naval shipbuilding industry and act accordingly. It is only countries like Australia who worship the 'level playing field' that ignore this strategic imperative. It is essential that the Federal Government change its attitude on this matter.

61. The Australian industrial base has the capacity to construct large naval vessels over the long term and on a sustainable basis, as long as the work does not become overly cyclical.

62. The AMWU believes that the Australian shipbuilding industry is as productive as other shipbuilding nations. There is little data to determine this issue given the legislative and ownership issues that distort other nations' shipbuilding industries.

63. It is clear that the economic costs of maintaining, repairing and refitting large naval vessels throughout their useful lives is greatly lessened by constructing those vessels in Australia.

64. There are widespread and significant economic development and associated benefits that accrue to Australia from undertaking the construction of large naval vessels. For every dollar spent in Australia on shipbuilding, a further dollar of GDP is created.

65. In the end it is the AMWU's submission that the best way to reduce costs and maintain sustainability in the Australian naval shipbuilding industry is to have an efficient industry that has continuity of work rather then the cyclical variations in demand that currently plague the industry.

66. The AMWU would like to thank the Senate Foreign Affairs, Defence and Trade References Committee for the opportunity to make this submission. The AMWU would value any further opportunities for consultation with respect to this inquiry.

---

[19] Defence Materials Organisation, op.cit, p.53