



**Government
of South Australia**

The Hon Martin
Hamilton-Smith MP

14MDI/160

Senator Sam Dastyari
Chair, References Committee
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator

FUTURE OF AUSTRALIA'S NAVAL SHIPBUILDING INDUSTRY (PART 2)

Further to testimony provided on 14 October 2014, the Government of South Australia reiterates its commitment to a sustainable national naval shipbuilding industry capability. I also commend the Standing Committee on the early release of the Part 2 report and contributions to advance the case for a transparent and competitive Future Submarine Project Definition Study tender.

Australia's Future Submarine project should be built and sustained in-country for strategic and economic reasons. Sufficient work opportunity exists to ensure continuous viable work for the shipbuilding industry in advance of the submarine build. It is acknowledged that structural and programming changes are required. These two critical policy issues are worthy of further analyses in any addendum reports that the Committee may issue.

Programming reform

Work on current Australian naval shipbuilding programs will reduce over the next 18 months with resultant site closures and job losses anticipated. Here in South Australia, the effects will be more heavily felt towards the end of the decade as the Air Warfare Destroyer (AWD) program nears completion in 2019. Currently 1900 of the highly skilled 3000 national AWD project workforce are based at Techport Australia.

The Government of South Australia supports the Commonwealth Government attempts to recognise and address the detrimental effects of cyclical demand for naval warships. Immediate effort is required to bring forward, where practicable, one of the upcoming major ship replacement programs to retain skills and knowledge in Australia's naval shipbuilding industry. Retention of these skills is a first stage requirement to ensure the nation can fulfil the ambitious \$250 billion naval shipbuilding and sustainment programs without repeating mistakes of the past. We cannot, nor should not, 'start from scratch' again.

Minister for Investment and Trade
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Further consideration should also be paid to continuous builds in batches of three to four vessels, possibly with shorter active service lives to avoid expensive end-of-life upgrades/extensions and to enable evolutionary capability and system upgrades.

Structural reform

In our recent submission to the Defence White Paper 2015, the Government of South Australia advocated for a new shipbuilding model to provide significant, cost-effective increases in capability and productivity at low rates of production.

There are a number of international benchmarks and the UK model is worthy of consideration, providing mutual benefit to government and industry via a more collaborative approach to shipbuilding in a small domestic market.

This approach would involve:

- two commercial entities established separately for surface ships and submarines to holistically manage skills and infrastructure; and
- hub and spoke model centred at Techport Australia (SA) with module build and repair contractors in Victoria, Western Australia and New South Wales.

Coupled with a Commonwealth Government commitment to a continuous build program, there would be sufficient work for both entities to maintain a sustainable and efficient capability with opportunities for continuous improvement. This would also create the circumstances for competitive tension between the two entities as appropriate and potentially step-in by one entity if there is non-performance by the other entity over time.

The Government of South Australia has consistently stated its willingness to partner with the Commonwealth Government, industry and universities and training organisations to deliver the necessary skills and infrastructure required to sustain Australia's essential naval shipbuilding and major ship repair capabilities over the long term. We have demonstrated this commitment through ongoing investment in Techport Australia and through our consistent support and delivery of related skills programs across the education spectrum.

I welcome the opportunity to discuss any issue raised in this submission in further detail with the Committee.

Yours sincerely

Hon Martin Hamilton-Smith MP
Minister for Defence Industries

16 / 12 / 2014