



**SENATE INQUIRY INTO THE FUTURE OF AUSTRALIA'S NAVAL
SHIPBUILDING INDUSTRY
PART 1: PROCUREMENT PROCESS TO REPLACE SUPPLY
SUBMISSION OF THE AUSTRALIAN MANUFACTURING WORKERS'
UNION**

Introduction

Thank you for the opportunity to make a submission into Senate inquiry concerning the tender process for the Royal Australian Navy's new supply ships. This is Part I of the Senate Economics References Committee inquiry into the Future of Australia's Naval Shipbuilding Industry. The Australian Manufacturing Workers' Union (AMWU) will be making a further submission to Part II of the inquiry.

As all Senators will be well aware, on 6 June this year the Minister for Defence announced the Government had given approval for Defence to 'conduct a limited competitive tender process between Navantia of Spain and Daewoo Shipbuilding and Marine Engineering (DSME) of South Korea for the construction of two replacement replenishment vessels based on existing designs.' The AMWU responded immediately to the televised announcement saying not only did this decision cost Australian jobs but that it also risked the entire Australian naval shipbuilding industry and ultimately the ability of the Navy to operate in support of national security.

The Union is clearly aware that the naval shipbuilding industry (repair and construction) is not simply a matter about jobs, it is about Australia having the sovereign industry necessary to keep the Australian Navy operating every day at sea; having an industry with the ability to conduct expert maintenance and repair on complex warships; and an industry with the ability to build new warships that meet the specific requirements of the Australian Navy. Our industry is critical to Navy's operations in support of peacetime activities like humanitarian assistance and disaster relief, as well as high-end warfare operations. The capability of Australia's naval shipbuilding industry is foremost a national security issue as well as being an issue for our economy and our manufacturing industry.

The AMWU are firmly of the view that the supply ships could be built in Australia. It is a fact that HMAS *Success* was built in Australia, at Cockatoo Island Dockyard in Sydney. The contract was placed in 1979, the ship laid down in 1980, launched in 1984 and commissioned into the Navy in 1986.

In his press conference and media release the Minister for Defence points to several factors that drove Government to the offshore the purchase decision. In summary they appear to be:

- the urgent need to replace HMAS *Success*;
- current poor performance of naval shipbuilders;
- the inability of Australian naval shipbuilders to build these large ships; and
- value for money considerations.

Project Urgency

On 6 June, the Minister said 'HMAS *Success* was commissioned in 1986, this ship should have been transitioned out of service much sooner than now and ... the costs of running that particular replenishment ship are climbing'.

The need to replace *Success* soon should not be a surprise to anyone. *Success* was delivered to the Navy in 1986 and with a 30-year service life it has been known for a very long time when the ship would need to be replaced. The Union is astonished that Government would be placed in a position where it has been given such late notice to approve a project to replace a major fleet warship. The project to replace *Success* should have been approved and announced many years ago and this reflects badly on Defence's project planning.

With many union members actually working on maintaining the ship, the Union knows that *Success* is getting old, more and more expensive to maintain and does need to be replaced soon. In the AMWU's white paper on naval shipbuilding released late last year, the Union said that if the condition of *Success* was so poor that the ship could not operate until a replacement could be built in Australia then an interim solution like leasing a warship should be found. This was what was done last year when Australia leased the Spanish supply ship *Cantabria* while *Success* was in extended maintenance.

The AMWU **recommend** the Senate Committee inquire into the work done by Government to investigate an interim option that would have given Australian industry the time to bid for and build the replacement.

The Union is also concerned that the urgency to replace HMAS *Success* has been extended to HMAS *Sirius*. *Sirius* is a commercial tanker built in South Korea, converted for naval use in Western Australia and commissioned into the Navy in 2006. While the service life of the ship is not published, if it was 20 years, the ship is not due to be replaced until 2024–2026. The Union imagine the reason to replace HMAS *Sirius* early is that it is an oiler, not a full capability Navy supply ship. In naval terms, *Sirius* is an Auxiliary Oiler (AO) not an Auxiliary Oiler Replenishment (AOR) like *Success*. But there is not the urgency to replace the ship because it is old and expensive to maintain. While it might be ideal to get the additional capability and replace the ship early, some compromise would enable Australian industry to build its replacement. By all accounts, *Sirius* has served the Navy well for the past eight years.

The Union also note that the 2004 project to replace HMAS *Westralia* with *Sirius* was referred to as the interim fleet oiler project, suggesting it was clear to Defence ten years ago that planning for supply ship projects was running late.

Industry Poor Performance

In the days leading up to the supply ships announcement, the Minister for Defence and the Minister for Finance announced the findings and recommendations of their independent review into the Air Warfare Destroyer project. While the report by Professor Winter was not released and few details provided, the announcement pointed clearly to problems with ship construction.

On 4 June, the Ministers said the AWD project Reform Strategy will:

- Improve shipbuilding productivity at the Air Warfare Destroyer shipbuilder ASC and its subcontractors BAE Systems, Forgacs and Navantia;

- Include the urgent insertion of an experienced shipbuilding management team into ASC; and
- After augmented shipbuilding capacity has been put in place, pursue the reallocation of blocks between shipyards to make the Air Warfare Destroyer program more sustainable.

The AMWU accepts that performance on construction of the three destroyers is a problem and has caused schedule delays and cost overruns. The AMWU would emphasise though that this is not the fault of the production workforce. The Australian National Audit Office (ANAO) released in March 2014 is a very extensive and detailed analysis of the AWD project. The ANAO report makes it clear that it was not the actual production work that caused the poor performance, but rather that it was poor management of ship construction, which aligns with Winter's apparent findings. The problems concern the translation of the design of the warship to detailed technical data packages that explain how the ship is to be constructed, the materials and parts required, the welding procedures, testing required etc. Referred to as production engineering, this production planning and control work also includes the careful scheduling of each element of work.

Productivity in shipbuilding is driven by good data packages, good preparation and good schedules. When that shipbuilding management process is performing well, the workers will find new ways to further improve shipbuilding performance.

The key issue for the Union, and voiced by many others, is that if you do not get to practice you never get good at something. The Air Warfare Destroyer is the first ship that ASC have built. At the beginning of the project they did not have a shipyard or a shipbuilding workforce. Certainly many people have come across from ASC's submarine maintenance activities, but fundamentally Australia is building these warships with new shipyard workforces in Adelaide, Melbourne and Newcastle. While the performance has not been to world best's standards, the reality is that much good work has been done, skilled people are doing a good job and gaining valuable experience every day.

By sending the supply ship work overseas, the Government has denied people the opportunity to keep building their skills. On current projections, major warship construction in Australia will cease in about 2020, years before production work will get underway on future submarines. Whether this gap in work is bridged by the future frigate project is not clear because schedules to "bring forward" the schedule have not been announced. Without firm decisions about that project now, there is a very real risk that production work on the first future frigate will not reach any serious level of activity to avoid this gap. Also, while the Pacific patrol boat project is a good opportunity for Australian shipyards, especially the smaller, non-naval shipbuilders, it is not the sort of work that will maintain the range and scale of skills needed for future frigates and submarines.

This broader issue falls within the scope of Part II of the Senate Inquiry, but the point the Union would make is that the poor performance of a re-emerging shipbuilding industry is a reason to give them more work (in a controlled manner) so that skills, experience and performance can improve. Performance will not improve if shipyards are idle.

Inability to Build the Ships

On 6 June the Minister for Defence said 'We assess that currently Australia is not in a position to manufacture those vessels 20,000 tonnes and above and accordingly we will see those ships produced either in Spain or in South Korea.'

This statement can be read in several ways, but the suggestion seems to be the ships are physically too large to be built in Australian shipyards. There can be no doubt that Australian industry has the ability to build tankers, they are relatively simple designs, and certainly nowhere near the complexity of destroyers and submarines. As said earlier, Australia has previously proven it has the ability to build these ships.

Today, Cockatoo Island Dockyard is closed and more recently so have the large docks in Brisbane, Newcastle and Melbourne. Forgacs sold their large floating dock in early 2013, and the graving docks at Forgacs in Brisbane and BAE in Melbourne are laid up and no longer in use. The shipyards and docks with the broad dimensions to build these supply ships are Defence's graving dock in Sydney, the South Australian Government's shiplift at their common user facility and the West Australian Government's floating dock at their common user facility. There are issues about the Sydney dock's availability given its role in sustaining the Navy fleet and commercial vessels, and it is generally not considered a new build location. The Union understands that plans have been prepared by both Government common user facilities to launch or dock a ship the size of a supply ship.

The AMWU **recommend** that the Senate Committee ask the Governments of South Australia and Western Australia to provide precise details on what capacity their facilities currently have and what might be required to lift the Navy's largest ships.

Furthermore, in Part II of the inquiry, the Senate Committee should examine the reduction on the number of large docking facilities in Australia noting three of the six facilities have been closed/sold in the last two years. The question is whether there are enough to support scheduled maintenance and emergency dockings of the current fleet and construction of new warships?

Value for Money

The Minister for Defence did not say what the specific value for money considerations were that influenced the Government's decision. In the past, much has been said about the 'cost premium' of building ships in Australia. Data that allows the accurate comparison of costs is not so common. Most countries do not reveal the true costs of warships and there are numerous ways that budgets and costs are obscured, and their local industries are subsidised.

The Union accepts that costs are higher to build a first of class warship in a shipyard, whether it is a new design or just the first time the shipyard has built an existing design. But the Union reject any assertion that Australian workers are any less capable of being good shipbuilders as any other people. The difference is Australian industry and our workforce has not had the opportunity to grow and retain skills, experience and generate the know-how to

be great shipbuilders. The peaks and troughs of work in naval shipbuilding destroy this learning.

The issue for the supply ships decision is what was the lost value by not building these ships in Australia? Building the supply ships would have allowed industry further practice to get better at shipbuilding. Obviously, these ships do not have the same combat system challenges of a frigate or submarine. By missing out on this opportunity, what will be the cost later when the less well performing industry starts work on the frigates and submarines? Given those projects will cost more than \$50 billion, there is real potential for premium costs from a green workforce. The additional cost could easily dwarf the so-called premium cost of building the supply ships in Australia. The problems being experienced on the Air Warfare Destroyer project caused by starting with a green workforce will be hugely amplified on the bigger future projects and especially with the more complex submarine project.

The AMWU **recommend** the Senate Inquiry examine the envelope of work that was considered in Government's value for money consideration and determine if it accounted for the downstream impact of not building these ships in Australia and hence not building up industry capability? Also, what exactly were the items where value for money was not acceptable?

Terms of Reference

By the terms of reference, the Committee will examine the 'feasibility of including Australian industry participants in the tender process for the replacement auxiliary ships'. This could be difficult to achieve because the two international companies may not be prepared to cooperate with Australian companies to offer local build options.

If local build options could be prepared in addition to the international offers, the tender process would have to be guided by clear instructions about the value for money evaluation. In particular, some value would have to be attributed to the downstream benefit of increasing Australian industry's ability to more effectively and efficiently deliver the multi-billion dollar future frigate and submarine projects.

In terms of what might be a better approach to this project for Government, the Union (and Senate Committee) need to understand what genuine options exist for an interim solution to replacing HMAS *Success*. If a short-term replacement can be acquired, then the Union believes the best outcome for Government is to build the supply ships in Australia, to obtain the capability Navy requires and also as an investment to build up industry capability before the seriously big and complex frigate and submarine projects come along.

If there is no realistic interim option, the Union believes the best solution is to build the main hull of the first ship in the parent shipyard, and install the superstructure and complete the fit out in Australia. This is a hybrid build approach similar to that used for the Landing Helicopter Dock (LHD) amphibious ships. Then, because there is not the same urgency to replace *Sirius*, the second ship would be built in Australia. This solution allows work to commence just as quickly on the first replacement, and delivers shipbuilding work later

when activity on the destroyers comes to an end and before the build up of construction work on frigates and submarines.

Conclusion

The AMWU is certain that Australian industry and workers could build the Navy's two new supply ships. The decision to build these ships overseas was driven by very late planning for the project to acquire replacements. The decisions means the capacity of industry will decline substantially over the next five years and this is an issue for Australia's ability to support the Navy and deliver new frigates and submarines. Ultimately, the capability of Australia's naval shipbuilding industry is an issue for national security.