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Committee Secretary
Senate Standing Committees on Economics
Parliament House
CANBERRA ACT 2600

Dear Secretary

The Victorian Government welcomes this opportunity to provide input into the Senate Economic References Committee's Inquiry into the future of Australia's naval ship building industry, with specific reference to Part 1 of the Inquiry pertaining to the tender process for the Royal Australian Navy's new supply ships.

I request that the Committee accept this submission even though the time for submissions has passed. I do note that the advice of the Committee's inquiry was sent to the Premier's email address on 14 July 2014 inviting the Government to make a written submission by 17 July. Also I note that the Victorian Government was not invited to appear before the Committee at its hearing on 21 July 2014. The Victorian Government has been, and will continue to be, a strong supporter of maintaining an Australian naval shipbuilding industry and I am disappointed that earlier advice of the Committee's hearing was not provided.

With reference to the Terms of Reference (TOR) set out in Part 1 of the Inquiry, the Victorian Government responds to TOR (a), (b), (d) and (f) as follows.

- a. The reasons for the Government's decision in June 2014 to exclude Australian-based defence industry from tendering for the replacement of HMAS Success and HMAS Sirius, and instead have a restricted tender for Spanish and South Korean shipbuilders.***

The Victorian Government welcomes the Federal Government's decision to replace HMAS Success and HMAS Sirius. While we can appreciate why the Government has taken the decision to source the replacement vessels overseas we are disappointed that Australian shipbuilders were not given the opportunity to tender for these vessels. Victoria is aware that the Federal Government must get the Air Warfare Destroyer (AWD) program back on track after the delays and cost overruns of this project which commenced under the previous government. Addressing the issues around the AWD program should then allow the Federal Government to make decisions which will lead to a sustainable domestic naval shipbuilding industry.

Although restricting the tender to Spanish and South Korean shipbuilders sends a positive signal to these countries on our ongoing engagement with them, the potential negative impact on Australia's local shipbuilding capacities is deep and long-term. The Federal Government has an ongoing responsibility to address the potential "valley of death" for Australian shipbuilding that such a decision contributes to.

It is commendable that the Federal Government is making a significant investment in naval defence capability over the next 20-30 years. Critical to Navy's capacity to operate and sustain this expanded capability will be a local shipbuilding industry capable of maintaining and modifying these vessels throughout their lifecycle. Victoria is home to one of the region's most advanced shipbuilding dockyards in BAE Systems at Williamstown. It has contributed substantively to the Landing Helicopter Dock (LHD) program and is supplying blocks for the AWD program. The Williamstown shipyard has been one of the cornerstones of maintaining, developing and building Australia's shipbuilding capability with the ANZAC Class Frigates a prime example of their capability. This capability will not be available in the future unless companies such as BAE are afforded the opportunity to participate in major defence projects.

The Victorian shipbuilding industry has demonstrated its skills and capabilities in design, engineering, fabrication and maintenance of naval vessels over a long period of time, and this has brought substantial benefits to Defence and the national and state economies. However, without a commitment to a continuous investment program and continuity of projects, the Victorian shipbuilding industry remains under substantive threat.

For several years the naval shipbuilding industry has been warning the Commonwealth Government (both the current and the previous government) of the pending 'valley of death' in which there is a substantial gap between completion of current naval shipbuilding projects and commencement of major new projects. One impact of this scenario, should it come to fruition, will be substantial job losses. In Victoria the impact on our major naval shipbuilder, BAE Systems, would be the loss of up to 1,000 jobs at the company's Williamstown facility.

The impact to BAE Systems' supply chain in Victoria is also significant with up to 45 small to medium businesses likely to be affected by any loss of capability at the Williamstown naval shipyard. There are an estimated 900 Victorians directly employed in the shipyard's local supply chain. Any restrictions placed upon opportunities for Australian-based naval shipbuilders to compete for defence contracts places these jobs at risk.

Beyond the obvious risk to existing Australian defence and shipbuilding industries this decision created, it also has knock-on effects to Australia's industry depth and resilience. It has equal potential knock-on effects to Australia's defence preparedness, as Australia is unable to effectively integrate its Defence requirements with its onshore industry skills and capacities. Australia's ability to encourage a confident Australian defence industry is undermined directly by such apparently uncoordinated decision-making.

While the Federal Government has taken the decision to source the replenishment ships overseas the Victorian Government strongly believes opportunities must be maximised for local participation in this project.

b. The capacity of Australian shipbuilding to carry out, in part or in full, the construction and fit-out of two auxiliary ships to replace the Navy's HMAS Success and HMAS Sirius.

Australian shipbuilding has demonstrated its capacity to deliver the Royal Australian Navy's capability requirements on their own and in concert with overseas companies. It has done this supported by a process of continual improvement to facilitate the needs of the Navy in the context of a changing strategic, economic and industry environment.

In Victoria, BAE Systems at Williamstown has demonstrated its capability to succeed in the highly competitive shipbuilding market. Its recognised leadership in Australian shipbuilding rendered it an obvious candidate to carry out the replacement program for HMAS Success and HMAS Sirius.

At a minimum, approaching BAE Systems to offer them the possibility of a partnered solution with either of the two ultimately preferred tenderers – Navantia of Spain and Daewoo Shipbuilding and Marine Engineering of Korea – will allow BAE to effectively enter into partnership arrangements with Navantia or Daewoo to complete works on these ships locally.

The Victoria Government strongly recommends that the Federal Government includes a requirement for local industry participation in the Request for Tender that is provided to the Spanish and South Korean companies on these two ships.

d. The feasibility of including Australian industry participants in the tender process for the replacement auxiliary ships.

For the reasons listed above, it is critical that BAE Systems be seriously considered as a possible partner with either Navantia or Daewoo Shipbuilding to deliver the replacement auxiliary ships for the Royal Australian Navy.

There are a number of areas in which BAE Systems could make a valuable contribution to such an overseas partnership:

- The new Australian replenishment ships will require adaption to Australia's specific operational, strategic, and geographical environments. BAE Systems Australia has significant experience in that area through their role as the prime contractor for the construction of the LHDs and their lead role in overseeing the ANZAC Class Frigate Anti-Ship Missile Defence (ASMD) Upgrade program;
- There will be some unique Australia systems (such as combat and communication systems) that will need to be integrated with the new replenishment ship platform. These combat and communications systems will need to be compatible with the rest of the Royal Australian Navy Fleet. BAE Systems Australia has significant experience in systems integration activities, and their intimate knowledge of other in-service Australian platforms gives BAE a distinct advantage in achieving necessary platform commonality; and

- Minimising the through life cost of the new replenishment ships will be critical to securing a successful outcome for the contract once it is awarded. BAE Systems Australia is the leading provider of Through Life Support and Training for Naval ships in Australia. BAE Systems would almost certainly be interested in working with either Navantia or Daewoo in those areas alongside others.

Additionally, BAE Systems has close relationships with the Navy and a detailed knowledge of their unique requirements. It has invested heavily in Australian shipbuilding. The Victorian Government has provided significant financial assistance for BAE to assist in the modernisation of the Williamstown shipyard, its equipment and its facilities which are required for modern naval shipbuilding and integration projects. Uniquely among providers, BAE Systems Williamstown has the capacity, capability and necessary experience to support an overseas tender solution for the replacement of the Navy's replenishment ships.

The Victorian Government considers that the Federal Government should maximise opportunities for local industry participation in the replacement of HMAS Sirius and HMAS Success. This can be achieved by including mandatory requirements for Australian Industry Content in the Request for Tender which the Spanish and South Korean companies are to respond to.

As noted above, it is expected that the specifications for these supply ships will include customisation to Australian needs and conditions, including activities such as the installation/integration/testing of RAN compatible communications and combat systems. Even if the ships are constructed in either Spain or South Korea, it will be vital to their future support and upgrade to have companies like BAE involved in the project from the beginning, installing and testing sensitive systems here in Australia.

f. Any related matters.

The importance of developing and maintaining indigenous defence industry capability is recognised globally as a critical element not only for national defence and security purposes, but also for the important role that defence industry plays as a major employer, as a significant investor in research and development and innovation, and in generating wider economic benefits.

The Victorian Government considers that Defence and the Federal Government must take a more strategic and coordinated approach to the planning and procurement of major naval defence projects and capabilities. This will ensure a domestic defence industry remains viable which will support Australia's strategic defence capability requirements and generate local employment.

The long term survival of Australia's naval shipbuilding capability requires a commitment from the Federal Government to a continuous flow of projects and timely decision making. This will enable companies to make investment decisions with a degree of certainty, to further develop their capabilities and retain their highly skilled workforce.

The Victorian Government commends the Federal Government for undertaking the development of the 2015 Defence White Paper and Naval Capability Plan. We hope that this work will map out the future for Australia's naval shipbuilding industry

The Victorian Government is pleased to provide this submission to the Senate Economics References Committee and looks forward to making a further submission to Part II of your inquiry.

~~Yours sincerely~~

THE HON DAVID HODGETT MP
Minister for Manufacturing