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Committee Secretariat
Senate Standing Committees on Economics
PO Box 6100
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CANBERRA ACT 2600

FUTURE OF AUSTRALIA'S NAVAL SHIPBUILDING INDUSTRY

LeadWest welcomes the opportunity to provide input to the Senate Economics References Committee inquiry into the future of Australia's naval shipbuilding industry and the tender process for the navy's new supply ships.

LeadWest is the regional organisation for Melbourne's west. Focused on advocacy for the region, LeadWest is a nonpartisan and not-for-profit, membership-based organisation. LeadWest's objective is to foster and undertake actions that will support sustainable growth and development of Melbourne's west.

LeadWest's membership includes all six local governments in Melbourne's west and they are joined by major companies and other organisations, each with substantial operations or interests that are based in Melbourne's west. LeadWest also has a growing number of Affiliates, primarily not-for-profit organisations and each playing a significant role in our region. You can access more information on LeadWest at www.leadwest.com.au

Melbourne's west is home to Williamstown Dockyard, one of Australia's principal ship building yards. The Williamstown Dockyard is an asset that has benefited from over 100 years of public investment in its infrastructure.

In June 2014, the Australian Government made a decision that the Australian-based defence industry be excluded from tendering for the replacement of HMAS *Success* and HMAS *Sirius*. LeadWest views this decision as detrimental to the continued utilisation of the Williamstown Dockyard as a ship building facility. Consequently, LeadWest seeks reconsideration of this decision.



BAE Systems Australia Limited, which designs, builds, integrates and supports maritime platforms and naval weapon systems. LeadWest is supportive of BAE as it operates the Williamstown Dockyard and is a major employer in Melbourne's west.

BAE inherited the Canberra class Landing Helicopter Dock project from Tenix Defence. It now has approximately 1,000 workers (both blue and white collar) employed and engaged on fabrication of the superstructure and fitting out for ships that will be known as HMAS *Canberra* and HMAS *Adelaide*.

Local Workers

LeadWest has obtained information on the residential locations of workers engaged at BAE in Williamstown. The table below shows the numbers of workers that are residents of Australian electoral divisions within Melbourne's west.

Table 1: BAE Williamstown workers that are residents of Australian electoral divisions in Melbourne's west

| Division | Suburbs | Employees |
|-------------------|---|-----------|
| Lalor | Altona Meadows (part), Eynesbury (part), Hoppers Crossing, Laverton, Laverton North, Little River, Mambourin, Mount Cottrell (part), Point Cook, Quandong, Seabrook, Tarneit, Truganina (part), Werribee, Werribee South, Williams Landing, Wyndham Vale). | 231 |
| Gellibrand | Albion, Altona, Altona Meadows (part), Altona North, Ardeer, Brooklyn, Footscray, Footscray West, Kingsville, Maidstone (part), Newport, Seaholme, South Kingsville, Sunshine, Sunshine West, Spotswood, Tottenham, Yarraville, Williamstown. | 183 |
| Gorton | Albanvale, Brookfield, Burnside, Cairnlea, Caroline Springs, Deer Park, Delahey, Derrimut, Diggers Rest (part), Exford, Eynesbury (part), Hillside, Kings Park, Kurunjang, Melton, Melton West, Melton South, Mount Cottrell, Plumpton, Rockbank, Taylors Hill, Truganina (part), Toolern Vale | 81 |
| Corio | Anakie (part), Avalon, Batesford (part), Bell Park, Bell Post Hill, Breakwater, Clifton Springs (part), Corio, Curlewis, Drysdale, Fyansford (part), East Geelong, Geelong, North Geelong, South Geelong, Geelong West, Hamlyn Heights, Herne Hill, Lara, Leopold (part), Lovely Banks, Manifold Heights, Moolap, Newcomb, Newtown (part), Norlane, North Shore, Portarlington, St Albans Park, St Leonards, Rippleside, Thomson (part), Whittington. | 36 |



| Division | Suburbs | Employees |
|--------------------|---|-----------|
| Calwell | Attwood, Broadmeadows, Calder Park, Campbellfield, Coolaroo, Craigieburn (part), Dallas, Gladstone Park, Greenvale, Jacana, Keilor, Keilor Downs, Keilor North, Meadow Heights, Melbourne Airport, Roxburgh Park, Somerton, Sydenham, Taylors Lakes, Westmeadows. | 33 |
| McEwan | Broadford, Craigieburn, Doreen, Kilmore, Lancefield, New Gisborne, Riddells Creek, Romsey, Seymour, Sunbury, Wallan, Whittlesea. | 27 |
| Maribyrnong | Aberfeldie, Airport West, Avondale Heights, Braybrook, Essendon, Essendon North, Essendon West, Kealba, Keilor East, Maidstone (part), Maribyrnong, Moonee Ponds, Niddrie, St Albans, Sunshine North, Strathmore (part). | 27 |
| Other | | 613 |

Impact of job losses at BAE Williamstown

LeadWest has used the REMPLAN Economic Modelling and Planning System to model the potential impact on the economy of Melbourne's west should there be a loss of 1,000 jobs from BAE Williamstown.

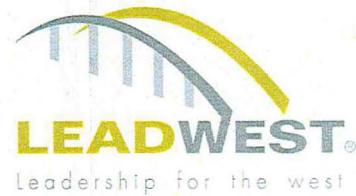
Within the REMPLAN "impacts" module the flow-on industrial and consumption effects are automatically calculated from a direct change to the regional economy. Behind the scenes REMPLAN modelling automatically calculates the multiple rounds of flow-on effects in terms of output, employment, wages and salaries, value-added and Gross regional Product (GRP).

Impact on Output

If 1,000 jobs are lost from BAE Williamstown there would be a direct decrease in regional output of approximately \$1.3 billion, and from this it is estimated that the demand for intermediate goods and services would fall by approximately \$805 million.

These industrial effects include multiple rounds of flow-on effects, as servicing sectors decrease their own output and demand for local goods and services in response to the direct change to the regional economy.

The decreases in direct and indirect output would typically correspond to the loss of jobs in the economy of Melbourne's west. Corresponding to this change in employment would be a decrease in the total of wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a



proportion of this expenditure is captured in the regional economy. The consumption effects under this scenario is estimated at approximately \$307 million.

Total output, including all direct, industrial and consumption effects is estimated to decrease by up to \$2.4 billion.

Impact on Employment

From the direct contraction in the regional economy due to the loss of 1,000 jobs at BAE Williamstown, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in the loss of a further 2,052 jobs.

The decrease in direct and indirect regional output and the corresponding loss of jobs in the economy of Melbourne's west are expected to result in a decrease in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated to further reduce employment by 1,172 jobs.

Total employment, including all direct, industrial and consumption effects is estimated to decrease by up to 4,224 jobs.

Impact on Wages and Salaries

From a direct decrease in regional output of approximately \$1.3 billion, it is estimated that direct wages and salaries would decrease by approximately \$193 million. From this direct contraction in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in the loss of a further 2,052 jobs and a further decrease in wages and salaries of approximately \$147 million.

The decrease in direct and indirect output and the corresponding loss of jobs in the economy are expected to result in a decrease in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further reduce employment in sectors such as retail therefore further decreasing wages and salaries by approximately \$66 million.

Total wages and salaries, including all direct, industrial and consumption effects is estimated to decrease by up to approximately \$407 million.



Impact on Value-Added

According to LeadWest's REMPLAN analysis, from a direct decrease in output of approximately \$1.3 billion the corresponding decrease in direct value-added is estimated at approximately \$307 million. From this direct contraction in the economy of Melbourne's west, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in a further decrease to value-added of approximately \$253 million.

The decrease in direct and indirect output and the corresponding reduction of jobs in the economy of Melbourne's west are expected to result in a decrease in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further reduce value-added by approximately \$156 million.

Total value-added, including all direct, industrial and consumption effects is estimated to decrease by up to \$718 million.

Impact Summary

Table 2: Impact Summary

| | Direct Effect | Industrial Effect | Consumption Effect | Total Effect | Type 1 Multiplier | Type 2 Multiplier |
|---------------------------------|---------------|-------------------|--------------------|--------------|-------------------|-------------------|
| Output (\$M) | -\$1,288 | -\$805 | -\$307 | -\$2,400 | 1.625 | 1.863 |
| Employment (Jobs) | -1,000 | -2,052 | -1,172 | -4,224 | 3.052 | 4.224 |
| Wages and Salaries (\$M) | -\$193 | -\$147 | -\$66 | -\$407 | 1.762 | 2.105 |
| Value-added (\$M) | -\$307 | -\$253 | -\$157 | -\$717 | 1.824 | 2.333 |



Impact on Gross Regional Product

Impact on Gross Regional Product (GRP) for Melbourne's west was calculated using the Expenditure method. As shown in table 2 (below), under the impact scenario involving loss of 1,000 shipbuilding jobs the GRP in Melbourne's west is estimated to decrease by \$717 million.

Table 3: GRP impact (expenditure method)

| | Before \$M | Impact \$M | Change % |
|--|---------------|---------------|----------|
| Household Consumption | \$28,232.801 | \$27,973.934 | -0.92% |
| Government Consumption | \$7,480.684 | \$7,453.483 | -0.36% |
| Private Gross Fixed Capital Expenditure | \$8,604.766 | \$8,539.914 | -0.75 % |
| Public Gross Fixed Capital Expenditure | \$2,557.929 | \$2,474.174 | -3.27 % |
| Gross Regional Expenses | \$46,876.180 | \$46,441.506 | -0.93 % |
| plus Regional Exports | \$18,605.657 | \$17,169.270 | -7.72 % |
| minus Domestic Imports | -\$26,953.717 | -\$26,629.498 | -1.20 % |
| minus Overseas Imports | -\$9,921.557 | -\$9,450.760 | -4.75 % |
| balancing item | \$0.000 | \$358.688 | |
| Gross Regional Product | \$28,606.563 | \$27,889.206 | |
| Population | 716,511 | | |
| Per Capita GRP (\$'000) | \$39.925 | \$38.924 | -2.51 % |



Impact on GRP for Melbourne's West was also calculated using the Income method. As shown in table 3 (below), under the impact scenario involving loss of 1,000 shipbuilding jobs the GRP in Melbourne's west is estimated to decrease by \$717 million.

Table 4: GRP impact (income method)

| | Before \$M | Impact \$M | Change % |
|--|---------------------|---------------------|----------|
| Wages and Salaries | \$13,472.182 | \$13,065.567 | -3.02 % |
| Gross Operating Surplus | \$10,998.176 | \$10,717.047 | -2.56 % |
| Net Taxes - Products & Services | \$3,237.197 | \$3,229.259 | -0.25 % |
| Net Taxes - Production | \$899.009 | \$877.333 | -2.41 % |
| Gross Regional Product | \$28,606.563 | \$27,889.206 | |
| Population | 716,511 | | |
| Per Capita GRP (\$'000) | \$39.925 | \$38.924 | -2.51 % |

Conclusion

LeadWest has determined that the loss of 1,000 jobs from BAE Williamstown would have a significant negative impact on the economy of Melbourne's west.

LeadWest is displeased with the Australian Government's decision in June 2014 to exclude Australian-based defence industry (such as BAE Systems) from tendering for the replacement of HMAS Success and HMAS Sirius. LeadWest views that decision as injurious to the continued utilisation of the Williamstown Dockyard as a ship building facility and, consequently, harmful to the economy of Melbourne's west.

The economy of Melbourne's west has also been dealt a blow by the Australian Government's decision to withdraw support for the automotive manufacturing industry in Australia. Melbourne's west faces a struggle to recover from the accumulative impact of the end of automotive manufacturing from Ford's facilities in Geelong and Melbourne's north, Holden's facilities in Port Melbourne, and Toyota's Altona manufacturing plant.

LeadWest sees a viable path for the Australian Government to alter its decision on procurement for the replacement of HMAS Success and HMAS Sirius and thereby potentially ensure continued utilisation of the Williamstown Dockyard as a ship building facility, secure the 1,000 jobs at BAE Williamstown.



LeadWest understands that the approach of BAE Systems to the “SEA 1654 Ph 3 Replenishment Ship replacement project” was to offer a Hybrid Build Program, with part of the ship built overseas and part of the ship built in Australia at BAE Williamstown. The Hybrid Build Program would be a similar model to the LHD Program which is successfully in progress at BAE Williamstown. LeadWest urges the Australian Government to consider the Hybrid Build Program.

I understand that the Committee will meet in Williamstown on October 13. I am available to appear before the Committee and would welcome an invitation to do so.

Yours sincerely

Craig Rowley
CEO
LeadWest