

RINA

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The Chairman
Senate Economics References Committee
Parliament House
Canberra ACT 2600

Dear Senator Dastyari

Inquiry into Naval Shipbuilding

Your Committee's invitation to make a submission to the Inquiry has been forwarded to the Division by our ACT Section.

The Royal Institution of Naval Architects (RINA) is an internationally renowned professional institution, based in the United Kingdom, whose members are predominantly professional engineers involved at all levels in the design, construction, maintenance and operation of marine vessels and structures. A high proportion of our Australian members are involved in the engineering, design, construction, equipment and operation of ships for the Royal Australian Navy, through their employment by shipbuilders and repairers, companies providing services and skills to the naval sector, government agencies and research bodies. We would emphasise that our role is as a specialised professional institution that operates in parallel with Engineers Australia and that we are not a trade union.

The Division is concerned that the conduct of naval shipbuilding projects in recent years has been on a project by project basis, resulting in large swings in demand for the specialised input by naval architects that is needed for the projects, both individually and collectively. These swings are graphically illustrated by the "valley of death" in relation to the naval shipbuilding sector as illustrated in the Future Submarine Industry Skills Plan issued by the previous government in association with its White Paper in May of 2013.

The Division submits that these fluctuations have a detrimental effect on not only the employment prospects of our members but also on retaining the skills developed within the industry for application to future projects. This has become particularly important with the rise in value of the Australian dollar over recent years and the consequent problems for Australian shipbuilders in competing internationally, followed by major oil and gas projects moving beyond the planning and

engineering phase; skilled personnel displaced from the naval shipbuilding industry therefore tend to move into employment elsewhere where their knowledge and experience become unavailable for future projects. The loss of such skills inevitably results in new projects starting with very low productivity, and initial under-design leading to long term supportability challenges.

We therefore consider that substantial attention needs to be given to the size and timing of future naval shipbuilding projects so as to reduce these wild fluctuations and secure the ability of Australian industry to efficiently provide the ships required by the Royal Australian Navy. Ships required by other government agencies, such as the Customs and Border Protection Service, Antarctic Division and CSIRO could be added to this planning process to provide a net Budget benefit.

The lack of such a planning process is perhaps best illustrated by the coincident timing of the AWD and LHD projects, leading at least in part to the hulls of the latter being built overseas. While there is currently no Australian shipbuilding facility constructed and fitted to build hulls of this size, appropriate project planning and linking of the LHD, sea lift capability (provided by the acquisition of *HMAS Choules*) and supply vessel projects may have enabled all five vessels to be built in Australia.

Another illustration is the fact that *HMAS Success* is understood to have been extensively modified and refitted at considerable expense over the past four years, and is likely to require further refitting. However, the current need for it to be replaced appears indicative of lack of long-term planning for these modifications and refits through to end of service life and securing the requisite Budget coverage for timely replacement.

Earlier this year we approached the Government with a view to opening these broad issues for public consideration or obtaining the Government's view on them.

Shortness of the deadline for this submission prevents us from extensive consultation with our members. However, the following comments are made (in italics) in relation to Part 1 of the Committee's Terms of Reference for this Inquiry:

1. The tender process for the RAN's new supply ships, and given the significant impact that this decision will have on the Australian ship building industry, in particular:
 - (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 Division understands that no Australian shipbuilder is currently equipped to either design or build these vessels without drawing on foreign design and/or shipbuilding resources. Although it may be possible for Australian industry to complete the fit-out of such vessels, given the integration of fit-out with construction in modern shipyards, it would most likely be inordinately expensive and time-consuming to develop a domestic capability for building just two vessels of this size and type compared with what might be available off-the-shelf from existing shipbuilders in Spain or South Korea or elsewhere.*
 - (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*. *Refer comment (a).*

- (c) The role of the Department of Finance and/or Department of Treasury and/or Department of Defence, the Finance Minister and/or the Treasurer and/or the Defence Minister, in the Government's decision to exclude Australian defence industry from tendering for the auxiliary ship replacement project. *While individual RINA members may be privy to such information, the Division has no knowledge of the respective roles and would not request its members to divulge such information.*
- (d) The feasibility of including Australian industry participants in the tender process for the replacement auxiliary ships. *Refer comment (a).*
- (e) The management and performance of DMO that contributed to the Government's decision to exclude Australian industry from tendering for the replacement auxiliary ships. *Refer comment (c).*
- (f) Any related matters. *Refer to the general comments preceding coverage of the Terms of Reference.*

Please feel free to contact me in relation to this submission, using the details provided above.

Yours sincerely

R C Gehling

Secretary