

Senate shipbuilding inquiry dissenting report

1.1 The Economics References Committee report, *Naval Shipbuilding — Part III*, repeats many errors of the previous two reports and therefore is not supported by Coalition Senators.

1.2 The report is undermined by two key oversights. The first is its failure to consider the role of the Competitive Evaluation Process' Expert Advisory Panel. The panel has a direct bearing on the outcomes of this project and to that end, the unquestionable standing of its appointees should have been considered. The second significant oversight is in respect of recent commitments by the Prime Minister and Defence Minister in relation to the implementation of a Continuous Build Program.

1.3 Both oversights significantly undermine the value of this report, and these issues must be given due consideration in the formulation of the Committee's final report.

1.4 Coalition Senators support the Government's position that defence procurement decisions should not compromise Australia's defence capabilities so as to meet economic development objectives.

1.5 Decisions about the next generation of submarines need to be made on the basis of what is best for our national security and the Australian Defence Force – not what is best for a particular region or what might be best for a particular company in Australia. Of significant concern is that the Committee has not made a clear commitment to this crucial principle.

1.6 Labor's delays to the Future Submarine Program have put time constraints on when decisions must be made and we are now subject to the risk of a security and capability gap for Australia's defence force. Over the six years of the previous government, Defence spending dropped to levels not seen since 1938 – a cut or deferral of some \$16 billion.

1.7 For these reasons and for those enunciated herein, the Coalition questions the extent to which this report adds value to the debate on Australia's future naval shipbuilding program.

Recommendation 1

1.8 The Coalition's view is that while defence acquisitions like the supply ship program should occur with due consideration being given to maximising Australian industry benefits, that consideration cannot negate either defence capability imperatives or the assurance of the reasonable expenditure of public money.

1.9 Navy needs these replenishment ships urgently. They are a vital Defence capability and we face a capability gap if we do not act now.

1.10 The advocacy of a local build is undermined by the economies of scale enjoyed by foreign shipbuilders and delivery time implications of an indigenous build due to Labor's defunding of Defence in general and its inaction in shipbuilding programs specifically.

1.11 No Australian shipyard has the capacity to build the supply ships without substantial funding for new infrastructure. Currently, shipyards are struggling to build ships a third of that size.

1.12 The report disingenuously attributes alleged damage to industry confidence and the industry's relationship with the ADO to the actions of this government. That is disingenuous given Labor's historic defunding of Defence and its shipbuilding programs to an extent that saw major acquisitions left idle for up to six years.

1.13 That defunding means not only does Defence face reduced timeframes to produce crucial defence infrastructure, Australia also lacks relevant infrastructure to make that a realistic option with due consideration to speed and cost.

Recommendation 2

1.14 The report claims that evidence was heard confirming the Competitive Evaluation Process was not designed to deliver three competition contract options. No evidence has been heard that confirms this.

1.15 The appointment of a CEP Expert Advisory Panel that includes no less than a former High Court Judge and Secretary of the US Navy, whose terms of reference are to ensure the adherence to due process, is evidence the report is wrong.

1.16 The report asserts the alleged primacy of a Japanese bid. However, this is a claim based on gossip rather than evidence. That the CEP is overseen by a highly credentialed Expert Advisory Panel refutes this claim.

1.17 The report involves itself in gossip and conjecture in respect of the size of the Future Submarine fleet. Indulging such uninformed gossip demotes the standing of the Committee. That the report attaches commercial consideration to the size of the fleet, rather than a strategic or operational imperative, betrays a level of ignorance that cannot pass unnoted and certainly cannot be endorsed.

1.18 The report fails to note calls for a procurement process for such a strategically and technologically sensitive project simply cannot be open to all comers as to do so would constitute a significant threat to security.

1.19 The Coalition opposes this recommendation.

1.20 The report fails to realise that the size and nature of the Future Submarine fleet are considerations determined on the basis of Navy advice and strategic considerations that reside well outside of the brief of the Committee.

1.21 The report fails to acknowledge the time frame imperatives that now apply to the Future Submarine Program and the Competitive Evaluation Process as a result of Labor's six years of inaction in respect to this crucial Defence capability.

1.22 Owing to Labor's neglect, there now exists is a very real risk of Australia's submarine capability going offline for a period before the Future Submarine fleet becomes available, if this acquisition is delayed further.

1.23 The report reaffirms Recommendations 3 from the earlier report, *Future of Australia's naval shipbuilding industry - Future submarines*, in respect to which the Coalition reaffirms its response:

- The draft report calls for an Australian build at all costs. This could give rise to national security outcomes being compromised by a prioritisation of industry policy over defence policy and it could force the taxpayer to underwrite an economically uncompetitive project.
- While we want to see the Future Submarine contract awarded to Australian shipbuilders, it must also be the result of a competitive tender process and it must be awarded on merit. This will ensure that Navy receives a fit for purpose product of the highest standard while Australian taxpayers receive the best possible value for money.
- The committee heard evidence from Dr John White that an open tender was the best way to stress test claims by manufacturers that they are able to meet Navy's requirements while constituting the responsible expenditure of taxpayers' money.
- It is therefore both unwise and entirely unnecessary to compel that special consideration be given to Australian-based tenderers. Recommendation 3 effectively relegates national security policy to second place behind industry policy.
- Recommendation 3 also compels government to commit to an Australian based sustainment programme even though the Prime Minister is already on the record doing exactly that.

1.24 The Coalition opposes this recommendation.

Recommendation 3

1.25 The release of the documents referred to and the form in which they may one day be released is a matter for Government and the Committee commits significant overreach in issuing these demands.

1.26 The Coalition opposes this recommendation.

Recommendation 4

1.27 The report's comments in respect to a Continuous Build Program are made obsolete by recent public statements by the Minister for Defence and the Prime Minister and therefore the inquiry must revisit this issue.

1.28 The Coalition opposes this recommendation on the basis that it must be reviewed in light of Government policy.

Recommendation 5

1.29 The upcoming Defence White Paper is the Government's most important guidance on long-term defence capability. It will allow the Government and community to understand the opportunities and challenges for Australia's future defence and security needs. It will be a whole-of-government product that reflects the Government's overall strategic, fiscal and broader policy priorities. The Defence White Paper is being developed in a deliberate and methodical manner.

1.30 The report commits gratuitous overreach by making extensive prescriptive recommendations in respect of a White Paper document that has not been released and is not in and of itself the business of the Inquiry to examine in such specific terms.

1.31 The report offers speculation in respect to future Defence planning documents and the Coalition elects not to countenance such speculation.

Recommendation 6

1.32 The recommendations herein, principally that a broad understanding of the true value of major shipbuilding works is acquired before acquisition decisions are made, is precisely what the Competitive Evaluation Process already does and reflects the approach the Government has always taken.

1.33 The value of local investment does not escape the Government's consideration, as evidenced by the fact that the CEP already requires participants to deliver maximum local investment via their proposals.

1.34 The Coalition believes that the sentiment expressed in Recommendation 6 is an obvious one but cautions against the corporate welfare that may tempt Labor and Senator Xenophon.

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