

## **NAVY LEAGUE of AUSTRALIA**

### **SUBMISSION to SENATE ECONOMICS REFERENCES COMMITTEE**

#### **Inquiry into the future of Australia's naval ship building industry**

##### **Part 1** The tender process for the RAN's new supply ships.

As far as is practicable, we should build the ships the RAN needs in Australia. In particular we should build our warships and submarines. By doing so we will maximize the long-term benefits of developing the industrial capability essential for the long-term support and modification in service of such vessels. We will maintain independence in the support of our naval assets.

Apart from those organisations currently engaged in naval programs, Australia no longer has a significant shipbuilding industry. Such commercial industry as does exist has survived by developing specialized products and skills and by seeking to be a world leader in their market place. However, the industry is small and faces stiff competition from offshore industry for skills and from overseas shipbuilders for orders. The high Australian dollar and the high cost of doing business in Australia has driven one of the leading shipbuilders, Austal, to establish a yard in the Philippines where they intend to build the bulk of their commercial orders. Strategic Marine, another Australian shipbuilder, one of the few engaged in steel shipbuilding, extensively builds overseas in Vietnam, Singapore and Mexico.

Sustaining the capability of the current participants in Australian naval shipbuilding is vital if we are to maintain the strategic industry capability they provide.

The key to maintaining this capability is continuity of orders and a concentration on building those ships most relevant to this aim, warships and submarines. In maintaining this capability we may have to pay a premium, although this is not necessarily so if the programs are of sufficient size to allow Australian industry to benefit from continuous production. The ANZAC frigate program of 10 ships, 8 for the RAN, 2 for the RNZN, is a good example.

Australia is not alone in facing the dilemma of local versus overseas construction. Britain, once a shipbuilding powerhouse, now has an industry primarily devoted to building ships for the Royal Navy. The commercial shipbuilding industry in the UK is small. Like Australia, Britain has a similar need to sustain a naval shipbuilding program. As the aircraft carrier project draws to a conclusion the Type 26 frigate program assumes great importance in sustaining industry capability in the UK. Submarine capability is committed long term to the Astute class and the SSBN successor program. It is significant that the order for 4 Royal Fleet Auxiliary MARS 37,000tonne fleet tankers was placed in Korea with Daewoo. They are being built to a British design by BMT Defence Services.

It is understood that Norway is acquiring a similar but smaller ship from the same builder. It is believed that Norway considered that their domestic shipyards would benefit more from building smaller, higher value, specialist vessels.

The decision to call limited tenders from two overseas yards is driven, at least in part, by the urgent need to replace HMAS *Success* and HMAS *Sirius*. HMAS *Success* is now 28 years old and at an age when she would normally be replaced. It is believed that the ship is now more difficult to support as her equipment ages and its reliability reduces. She has recently completed a major refit. It is understood that further work is planned to address equipment deficiencies to enable the ship to remain in service until a replacement can be acquired. HMAS *Sirius* is relatively new but is a converted commercial tanker that lacks the comprehensive support capability provided by HMAS *Success*.

Plans to replace HMAS *Success* have been around for some time. Project SEA 1654 arose from the 2000 Defence White Paper. The first phase of this project was intended to examine options for replacing the capability represented by HMAS *Success* and HMAS *Westralia* and to plan for acquisitions. The second phase was to replace HMAS *Westralia*, a converted commercial tanker, with a purpose built ship when she reached the end of her design life. The third phase was to replace HMAS *Success* at the end of her design life around 2015. However, obligations under the MARPOL Convention, which limited the use of single hull tankers brought forward the out-of-service date of HMAS *Westralia*. The SEA 1654 plan was abandoned in favour of replacing HMAS *Westralia* with another converted commercial tanker (HMAS *Sirius*) and fitting a double hull to HMAS *Success*.

The passage of time without further action has led to the urgent need today.

Were the two replenishment ships to be built in Australia two locations appear possible – with modifications.

The Common User Facility south of Perth. The floating dock at the facility would need to be extended to accommodate the new ships. The facility and local resources are at present heavily committed to the off-shore industry. The ASC at Techport in Adelaide. The ship lift would probably need to be lengthened and possibly strengthened. ASC has suggested that one of the two ships be built at Techport, proposing the AEGIR18A in association with DSME of Korea and BMT Defence Services. However, experience shows that the construction in Australia of a single ship of the complexity of a modern naval replenishment ship to a foreign design can be a risky and expensive exercise.

Extending facilities at great cost and harnessing resources to build a limited number of ships of considerable size is likely to be an expensive and time consuming exercise of little benefit to the long-term industry capability objective. The decision to construct the hulls of the two 28,000 tonne LHDs in Spain therefore made sense.

In view of the commitment of ASC and the Techport facility to the Air Warfare Destroyer program the priority there should be to ensure the success of that

program and to prepare for the construction of the future frigate and future submarine, bringing forward the frigate program if necessary. It is already too late to prevent a run-down of capability at the major AWD sub-contractors Forgacs in Newcastle and BAE Systems in Melbourne.

There are cogent reasons for placing orders for the two support ships overseas. The decision of the Government to call restricted tenders for the construction of the two ships to replace HMAS *Success* and HMAS *Sirius* appears essentially pragmatic. It is a decision which faces the reality of ship building in Australia.