



Australian Shipbuilding Federation of Unions

# Naval Shipbuilding Inquiry



# Naval Shipbuilding Inquiry Submission.



**The Australian Shipbuilding Federation of Unions'** (ASFU) is the peak national body that covers all workers in Australia's shipbuilding industry whether they be trade or non-trade, blue collar or white collar. We represent the approximately 5000 shipyard and defence workers that design, build and maintain Australia's current maritime strength and will deliver the projects of the future.

As an Island nation, Australia needs a strong naval shipbuilding industry, as this is vital for Australia's future. That requires we maintain a strategic sovereign capability to build, maintain and sustain Australia's naval fleet. This strategic requirement also offers the opportunity to create thousands, if not tens of thousands, of secure, high skill, well-paying local manufacturing jobs. With \$90 billion to be invested in new builds over the coming decades there is a nation-shifting opportunity to secure a diverse local shipbuilding and manufacturing industry. We can create

a robust domestic supply chain, engage in global supply chains for export opportunities and avoid the "valley of death" that has plagued the industry since federation.

Every time a contract for a new ship goes overseas the opportunity for skilled job creation and higher economic growth in the Australia is lost.

The ASFU is proud to represent shipyard and defence workers and we are ambitious for the future of shipbuilding in Australia. It is time that Australia gives its industries the support they need. We are proud of our shipbuilding members. Our members work at the cutting edge of technology in highly skilled, high value jobs. Their contribution to the economy of Australia is vital and for many communities it is essential for their survival.

Australia has a proud history of shipbuilding however, without

consistent and stable policies to support the industry there has been inconsistent work over previous decades. In order for the Government to deliver the on the commitment to build a strong, sustainable and innovative Australian naval shipbuilding industry it must ensure that Australian Industry Content (AIC) is maximised. We must also ensure that we maximise the Australian industry participation for the ongoing sustainment of the existing fleet, on top of future projects. The supply chain is crucial to ensure that Australia taxpayers get the maximum value added to the Australian shipbuilding industry and supply chain.

The Royal Australian Navy will be supported by 12 submarines, nine future frigates and 12 offshore patrol vessels.<sup>1</sup> A national approach a Naval Shipbuilding Plan is vital. It must be supported by policies to harness and develop the skills of our domestic shipbuilding workforce. Shipbuilding workers are highly skilled yet due to the valley of death critical skills have been lost.<sup>2</sup>

To overcome this issue, it is crucial that the government use contractual obligations to ensure that more

shipbuilding apprentices, trainees and graduates are attracted to supplement the existing skilled workforce, which faces its own issues around its age and gender profile.<sup>3</sup>

### **ASFU roadmap for strong and growing Australian shipbuilding industry**

- Invest in manufacturing and create an environment that encourages manufacturing employers to invest
- A procurement policy and strategy that supports Australian industries
- Negotiate trade deals that deliver for workers and industry
- Build a strong Australian-based supply chains to support local communities and create opportunities for Australian suppliers to enter global supply chains.
- Support equality and inclusion by tackling barriers to work wherever they exist
- Invest in skills, research and development, and the technologies of tomorrow

### **The Naval Shipbuilding Plan and Order**

The Naval Shipbuilding Plan must include a commitment to maximise

<sup>1</sup> Department of Defence, Naval Shipbuilding Plan, 16 May 2017

<sup>2</sup> Australian National Audit Office, Audit Report No. 39 2017-18, Naval Construction Programs—Mobilisation.

<sup>3</sup> Australian National Audit Office, Audit Report No. 39 2017-18, Naval Construction Programs—Mobilisation.

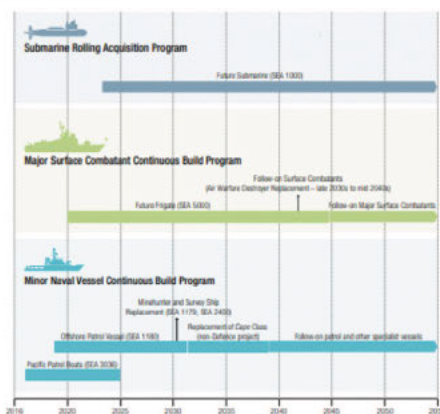
The Royal Australian Navy state that the three continuous build programs are:

**A.** A \$50 Billion dollar rolling acquisition of submarines, commencing with the future submarine (SEA 1000) project from 2022-23, and based at the Osborne Naval Shipyard in South Australia;<sup>4</sup>

**B.** A continuous \$35 Billion dollar build program for major surface combatants, commencing with the future frigate (SEA 5000) project from 2020, and based at the Osborne Naval Shipyard in South Australia<sup>5</sup>; and

C. A continuous \$700 million dollar build program for minor naval vessels, that commenced with the pacific patrol boat (SEA 3036) project in 2017 at the Austal facility at the Henderson Maritime Precinct<sup>6</sup>, and the \$3 billion dollar offshore patrol vessel (SEA 1180) project in 2018, initially commencing at the Osborne Naval Shipyard and transferring to the

Henderson Maritime Precinct in Western Australia when the future frigate project begins construction in 2020.<sup>7</sup>



The Government has confirmed that the 12 offshore patrol vessels will be built by Luerksen Australia<sup>9</sup>, the nine frigates will be built by BAE Systems Australia<sup>10</sup> and the 12 submarines will be built by Naval Group Australia. In

6 Department of Defence, Naval Shipbuilding Plan, 16 May 2017, page 15

10 Senator the Hon Marise Payne, Minister for Defence, 'Prime Minister, Minister for Defence - Future submarine program', Media release, 26 April 2016.



addition to this SAAB Australia and Lockheed Martin have been contracted for combat and tactical interface for the submarines and ship fleet.

## **Delivering with Industry**

Shipbuilding is an industry of national significance. The Naval shipbuilding industry has a high public profile in Australia, given the interest in the procurement of naval assets and the location of naval shipyards and support industries are highly politicized. The Naval Shipbuilding Plan, seeks to "establish Australia's continuous naval shipbuilding capability, representing a strategic national asset for future generations of Australians."<sup>11</sup> The ASFU supports the Government's aim of building a sustainable Australian naval shipbuilding industry.

In order to achieve the Government's priority of sovereign capability, an innovative and supported shipbuilding supply chain is required. There has been a significant shift in Australian industry policy from a focus on platform construction to through-life capability support. To facilitate industrial sovereign capability the ASFU believes that AIC must be part of the international partners evaluation criteria and contractual obligations. If

AIC is a central component of contracts it would assist in the development and sustainment of specific Australian industry capabilities. These strategically important industry capabilities are important for the defence of Australia, including modification, adaptation and through-life support of key assets. A dedicated Industry Development Unit to support and monitor the implementation of AIC should be established to ensure Industry Involvement commitments given are achieved.

There is scope for Australia to expand its approach to public procurement given the announcement of the Naval Shipbuilding Plan. The ASFU proposes for reasons of national security, these projects should ensure that all future RAN warships should have Australian-owned design, and, will be built and integrated in Australia. International partners should be encouraged to work with Australian Shipyards and other domestic supply-chain partners to produce the best possible commercial solution.

By ensuring AIC as a contractual obligation for international partners, opportunities will be created and developed for Australia industry value added activities and increased competitiveness by international

<sup>11</sup> Department of Defence, Naval Shipbuilding Plan, 16 May 2017

standards.

## **BOX 1: Fastener integration**

The ANZAC frigates' Blohm+Voss design specified that fasteners should meet German standards. However, the size standards were completely different to those used in Australia to manufacture fasteners. Manufacturing fasteners to German standards in Australia would have required a major investment in retooling which could not be justified for a single customer. However, the Industry Supplies Office identified a locally made fasteners business and produced a win-win situation for the prime contractor and the Australian fastener manufacturer. The prime contractor won because the local product could be supplied at a lower cost than the standard fastener. The Australian company won because they now had a major long-term contract to supply fasteners which would otherwise have gone to a foreign competitor.<sup>12</sup>

The Naval Shipbuilding Plan represents a major opportunity for Australian industry to support building Defence's capability, it also represents an opportunity for Australian industry to improve its defence capability.

The economic and strategic benefits from a strong and growing Australian naval shipbuilding industry are closely connected. When examined over the life cycle of major defence platforms, Australian industry involvement

in major defence projects can cost effectively allow independence in operations and provide a sovereign capability to support a key national security capabilities.

It is important that government continue to support high levels of local content in platform construction. But that should not detract from the need for national security considerations influencing levels of local content in combat systems' maintenance and modification. The Australian Government continues to import naval ship designs, but the recent tendency is to reduce design customization to mitigate risks of "design parentage."<sup>13</sup> The current approach is to incorporate military-off-the-shelf (MOTS) components in imported designs and make use of overseas contractors' established supply chains.

Benefits of local Australian supply chain:

- Australian needs are a high priority
- Provides channels for the enhancement of skills and technologies in industry to address the future defence needs of Australia.
- Provides big opportunities for Australian companies to enter

<sup>12</sup> Australian Industry Group Defence Council, Impact of Major Defence Projects: A Case Study of the ANZAC Ship Project, February 2000

<sup>13</sup> Kerr, 'Armadales Back at Work'; and Kerr, 'Mobilising the Naval Industry.'

- global supply chains.
- Financial benefits in the area of through life support and running costs and increased availability of vital platforms, e.g. repair turnaround time (RTAT) local supply chain <30 days vs. overseas supply chain 9 to 18 months.<sup>14</sup>

## BOX 2: ANZAC Frigate Input-Out Analysis

There are significant benefits that can accrue to the Australian economy from major defence projects. Whilst industry involvement in defence projects creates higher quality outputs and new business opportunities, in addition to businesses improving their international competitiveness and productivity. There are also wider economic impacts of a major defence projects.

It is estimated that during the ANZAC frigates project 70 per cent of the \$56 billion (\$1998-99) ANZAC Ship contract was value added local content by Australian and New Zealand suppliers.

Further analysis of the program indicates that each additional \$100 million the Australian Government spends in Australia on a major defence project like the ANZAC frigates, generates:

- \$195 million in national output; and
- 1,022 Australian jobs per annum.<sup>15</sup>

work with Australian shipyards and the wider supply chain to develop:

- Opportunities for diversification
- Improved productivity
- Opportunities for innovation and future technology development.

The government must continue to develop an in-depth understanding of the shipbuilding industry to address barriers to and opportunities for exports. Working within the industry to ensure participants have adequate resources to maintain and grow their workforce and business.

Modern industrial practices require a modern workforce. Having the sovereign skills to design, build, repair, and supply certain equipment and systems and integrate naval ships (and security sensitive equipment in all naval ships) is a key factor in the successful delivery of naval capability. With the introduction of incentives to encourage shipyards to become globally competitive through the use of AIC, and for Australian companies to get themselves into a position to bid for future programmes.

The Government must continue to

<sup>14</sup> Australian Industry Group Defence Council, Impact of Major Defence Projects: A Case Study of the ANZAC Ship Project, February 2000, page 39

<sup>15</sup> Australian Industry Group Defence Council, Impact of Major Defence Projects: A Case Study of the ANZAC Ship Project, February 2000

Shipbuilding is a complex industry with a world class supply chain. The OECD has recently warned that prices within the shipbuilding industry for product are artificially low and that 'the



economic and financial situation of the shipbuilding industry has reached unsustainable levels, driven by the widening of market imbalances after the financial crisis and the weakening of vessel prices.<sup>16</sup> Unlike Australian companies, many international shipbuilding companies benefit from local content purchasing rules that provide a high degree of certainty over future orders. For example, the United States' Jones Acts requires domestic cargo routes to be operated by American built ships, while Brazilian shipyards benefit from similar local content requirements that retain at least some of the value from domestic orders within the home shipbuilding market.<sup>17</sup> Canadian military shipbuilding orders have been brought 'in-house' under a National Shipbuilding Strategy that the Canadian Government estimates will support almost 7,350 jobs a year until 2022.<sup>18</sup> The OECD recently warned that 'such imbalances are not sustainable in the near future.'<sup>19</sup>

Whilst the International design and build partners participating in Australian naval shipbuilding will be required to develop detailed Australian Industry Capability Plans outlining their strategy to maximise Australian industry involvement, there is no binding contractual obligation for the delivery of AIC.

The Government should adopt a public procurement policy based on the principle of 80% Australian Industry Content, whereby parts are procured from Australian businesses to encourage long-term investment and provide a consistency of orders that will encourage innovation in other areas. This can be achieved through an effective search for subcontractors to meet the local content targets.

In a poll conducted by the Lowy institute, 70% of respondents said that they wanted to build our next generation of submarines in Australia, even if it cost more.<sup>20</sup> We would expect that number to be even higher once we're able to show that a properly designed shipbuilding program can deliver the ships and submarines that our navy needs at no additional cost to taxpayers, over the life of the vessels.

<sup>16</sup> OECD, Imbalances in the shipbuilding industry and assessment of policy responses, April 2017 [http://www.oecd.org/industry/ind/Imbalances\\_Shipbuilding\\_Industry.pdf](http://www.oecd.org/industry/ind/Imbalances_Shipbuilding_Industry.pdf)

<sup>17</sup> Offshore Magazine, Local content rules, scheduling build up shipyard orderbooks, 14 July 2015 <http://www.offshore-mag.com/articles/print/volume-75/issue-7/engineering-construction-installation/local-contentrules-scheduling-build-up-shipyard-orderbooks.html>

<sup>18</sup> Government of Canada, 2016 National Shipbuilding Strategy Annual Report, page 4 <http://www.ptspcpgwsc.gc.ca/app-acq/amd-dp/documents/rapport-report-2016C-eng.pdf>

<sup>19</sup> OECD, Imbalances in the shipbuilding industry and assessment of policy responses, April 2017 [http://www.oecd.org/industry/ind/Imbalances\\_Shipbuilding\\_Industry.pdf](http://www.oecd.org/industry/ind/Imbalances_Shipbuilding_Industry.pdf)

<sup>20</sup> Lowy Institute, Australians on where our next-generation submarines should be built, June 2016, <https://www.lowyinstitute.org/majority-australians-favour-local-build-next-generation-submarines>



The ASFU proposes that supply chain market engagement is required to forecast demand for shipbuilding through the Naval Shipbuilding Plan. This allows local manufacturers to better plan for the capacity they need to bid more effectively for government contracts. The ASFU supports actively working within the sector to identify the capabilities that Australian businesses will need to pursue these opportunities.

The ASFU holds grave concerns that existing Government policy will not be able to maximise AIC on the \$90 billion shipbuilding program.

## Maximising the opportunity

It is the duty of the Department of Defence and the Minister for Finance to ensure that public funds achieve the best value for money for the taxpayer. In undertaking procurement decisions, all relevant, measurable national and local economic factors should be taken into consideration. The full current and future flow-on benefits from local content from the naval shipbuilding program to the Australian economy needs to be considered in any purchasing decisions.

More work needs to be done to fully model the impacts of building naval ships in Australia at both national and local levels. For example, literature suggests that an increase in shipbuilding helps to create demand for additional high-skilled manufacturing jobs in the surrounding area.<sup>21</sup> Considering the number of shipbuilding jobs created, the local area is likely to benefit from a net increase in jobs.

It is estimated that by 2026 “the industry will require over 5200 direct workers employed in construction activities, and more than double that number employed in sustainment activities and in supply chain and related institutions and industries that directly and indirectly support the enterprise, on both the customer (Government) and supplier (industry) sides of the activity. Over 15 000 personnel will ultimately be directly or indirectly employed in the naval shipbuilding enterprise.”<sup>22</sup> This creates opportunities to create additional training through increasing the scale of existing apprenticeship programmes.

<sup>21</sup> OECD, Imbalances in the shipbuilding industry and assessment of policy responses, April 2017 [http://www.oecd.org/industry/ind/Imbalances\\_Shipbuilding\\_Industry.pdf](http://www.oecd.org/industry/ind/Imbalances_Shipbuilding_Industry.pdf)

<sup>22</sup> Department of Defence, Naval Shipbuilding Plan, 16 May 2017

## Access to skills

The ASFU encourages a greater certainty in RAN procurement plans which will encourage supply chain firms to invest for the long term in its people and its assets to raise productivity and innovation. This will improve their competitiveness in the domestic and overseas markets and deliver dividends for the government and create a more resilient industry with sustainable long-term growth. The ASFU encourages the government to work with Industry to increase trade and drive innovation within the sector.

In order to deliver on the goals of the Naval Shipbuilding Plan there must be a focus on training and skills. Throughout the supply chain, industry must support apprentices, cadets and graduate programs, and up-skilling existing workers. This leads to qualifications and opportunities in our industry for local workers.

Over time the shipbuilding industry will require more sophisticated facilities and skilled labour. Shipbuilding workers are highly skilled, and their skill profile means that the sector is comparable to aerospace and other advanced engineering industries that play a foundational role in improving productivity, building supply chains,

and training the next generation of skilled workers.

To meet the skills gap, the Government should work with the VET sector, universities, training providers and trade unions to set contractual targets for high-quality apprenticeship employment for all publicly funded shipbuilding orders. Further, the government should explore options for more proactively supporting the skills development of the existing workforce. We believe that there should be contractual obligations to ensure that more shipbuilding apprentices are delivered to meet the industry's skill and workforce age gap, such as fixed ratios.

As we approach the 2020s there is a sense of optimism about the future of shipbuilding in Australia. The government acknowledges that the Naval Shipbuilding Plan is the "largest, most complex and technically difficult advanced manufacturing challenge this nation has ever contemplated."<sup>23</sup> To achieve this we need to maintain the current highly skilled workforce. Yet shipbuilding workers are continued to be let down by continued job losses and uncertainty. The continued policies of offshoring of jobs and

<sup>23</sup> Department of Defence, Naval Shipbuilding Plan, 16 May 2017, Page 19

orders being lost to overseas firms that enjoy uncompetitive advantages over Australian employers harms the industry, its employers and its workforce. In the long-term, it will harm the government and its bottom line as new workers need to be engaged when production ramps up.

Australia demands a strong and sustainable shipbuilding industry. Yet the current policies undertaken by the Government actively work against that interest. It is difficult to avoid the impression that Australia is the only shipbuilding nation that holds true to the principles of the free market while its competitors do not hesitate to use their full range of state powers to support their own industries. Building our navy through international orders does not just harm the shipbuilding industry - it represents bad business for the wider Australian economy too. The Governments Naval Shipbuilding Plan signals the need for a better way. Shipbuilders needs a steady and predictable demand over a long term.

## List of Recommendations:

**The ASFU is calling on the Government and opposition parties to adopt and implement the following recommendations:**

- 1. The Government should adopt a public procurement policy based on the principle of 'Australisation.' As part of this policy RAN ships and parts would be procured from Australian shipyards and supply chain companies to encourage long-term investment and provide a steady order book that will encourage innovation in other areas.**
- 2. The Government should clarify its definition of the term 'building sovereign capability' when used in relation to shipbuilding procurement.**
- 3. To meet the skills gap the Government should work with trade unions to set contractual targets in all contracts for apprenticeship, trainee and graduate employment as part of all publicly funded shipbuilding orders and explore options for more proactively supporting the skills development of the existing workforce.**



4. **The Government should seek to amend the international partners evaluation criteria and contractual obligations. In doing so the Government ensure that the development and sustainment of specific Australian industry capabilities that are considered to be strategically important for the defence of Australia, including modification, adaptation and through-life support of key assets.**
5. **The Government should establish an Industry Development Unit to implement the processes and procedures to support Australian Industry Content, and to ensure Industry Involvement commitments given are achieved.**

