



The Hon Niall Blair MLC
Minister for Primary Industries
Minister for Regional Water
Minister for Trade and Industry

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Senator Chris Ketter
Chair
The Senate Economics References Committee
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By email: committee.sen@aph.gov.au

Dear Senator Ketter *Chris*

I refer to your letter of 24 October 2016 to the former NSW Premier, the Hon Mike Baird, on behalf of the Senate Standing Committee on Economics inviting the NSW Government to provide a submission to the ongoing Senate inquiry into the future of Australia's naval shipbuilding industry.

NSW is home to more than 80 Defence bases and facilities and the Defence industry in NSW supports more than 26,500 jobs many of which are in regional NSW and contribute to regional economic growth.

The recently launched *NSW Defence and Industry Strategy 2017* outlines the NSW Government's vision for Defence and defence related industries. It focuses on maintaining and growing the sector in NSW enabling realisation of the Commonwealth's \$195 billion in planned investments over the next decade.

In relation to the naval shipbuilding industry, NSW supports the notion of naval shipbuilding as a Sovereign Industry Capability. For limited run or specialist vessels it may not always be practical and cost effective to undertake manufacturing locally; however, sustainment considerations are vital to an enduring and healthy naval shipbuilding industry.

NSW also supports government policy and programs being viewed as potential industry development tools. The continuous ship building policy is important to maintaining a strong skills base, with offshore collaboration building skills and transferring technology. Additionally, supply chain relationships can have a major impact on regional labour and skills development, while simultaneously connecting local companies to the global market. One of the key priorities in our *NSW Defence and Industry Strategy 2017* is to increase linkages between defence industry opportunities and available training infrastructure to meet the increased investments envisaged.

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The NSW Government's response to each priority area is further outlined below:

1. The development of contracts relating to naval ship and submarine building

Government procurement processes are an important consideration in contract development given their level of impact on the health of the local industry. This includes matters such as the level of local content required which increases sovereign capability, and the complexity and timeframe of the procurement assessment processes. The nature and complexity of procurement assessment processes can result in increased bidding costs, in turn increasing business risk.

Simplified procurement processes are needed for simpler acquisitions, in order to reduce the procurement paperwork through prequalification and assessment for repeat activities.

Further, NSW supports the principles behind the Capability Acquisition and Sustainment Group's Smart Buyer framework which scales the procurement process based on risk.

2. The design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia

NSW industry and local requirements for naval shipbuilding capacity are limited, especially when compared to other nations. However, the NSW supports the continuous ship building policy. This policy moves away from the previous practice of lumpy capital purchases over short time-frames to a smoother rate of construction over a longer period of time. The policy:

- provides certainty and enables better capacity utilisation of assets and retention of skills
- avoids the so called "valley of death", where there is no work to support the local workforce
- enables economies of scale to be captured
- supports industry development

Design and management of large naval shipbuilding would benefit from a focus on legacy to ensure Australian businesses can leverage these experiences to undertake similar projects globally. NSW has initiated an industry legacy program to match its investments in the infrastructure sector. Any export related issues would be administered by the Commonwealth's Defence Export Control Office in the Department of Defence.

3. The utilisation of local content and supply chains

NSW recognises the industry development and job creation benefits which stem from the utilisation of local content and supply chains. While supply chains are becoming increasingly globally sophisticated and interconnected, there is still reliance on the local content supplied by key manufacturing companies. Therefore, the local content and supply chain needs to focus on advanced production techniques, distinctive performance value proposition and high value links to the global supply chains. The

point of difference for local content in supply chains can be seen in innovative design, exceptional reputation for reliability, and collaboration to deliver a full-cycle service offering.

The health of the defence industry is determined by strong and consistent flow on effects across the economy. Positive economic impacts from using local content and supply chains can be achieved not only in the procurement phase, but also in sustaining the acquisition where much of the expenditure occurs.

NSW is supportive of the Commonwealth's Global Supply Chain program which drives inclusion of small-and-medium enterprises into the supply chains of defence prime contractors providing access to global markets. The state has a good mix of skills for defence's needs and is a major generator of engineering and information technology graduates. For example, NSW is home to 32 per cent of Australian professionals with skills of relevance to the defence industry, such as:

- aerospace engineering and communications technology
- information technology
- electrical engineering
- computer engineering
- communication technologies

4. The integration of offshore design work and supply chains in Australia

The integration of offshore design work provides a range of opportunities. It facilitates the entry of local companies into global supply chains, maximising export outcomes. It also supports the development of local industry capabilities through the transfer and adoption of the latest global technologies. This results in leading global designs being adapted to Australian requirements.

By prioritising the development of smart, high value and export-focused supply chains, industry can drive innovation, productivity and competitiveness of manufacturing supply chains.

Successful integration of offshore design work and supply chains will be supported by quality design, technology, by delivering in full and on time service support throughout the production stages, and providing value-add services associated with a sophisticated supply chain.

International investment attraction is another benefit stemming from offshore design work. As offshore companies increase their investments in Australia, they increasingly establish a physical presence, creating flow-on employment benefits at a local level. A good example of this is the Australian defence sector, where the global prime contractors such as Lockheed Martin and Thales have established Australian subsidiaries.

To drive innovation, links should be established and partnerships developed between local research and development institutions, local companies and offshore designers. The NSW Government suggests that the Centre for Defence Industry Capability (CDIC) could consider funding activities that include partnerships with off shore designers to build up local capability through either the Next Generation Technology

Fund and/or the Defence Innovation Hub. Such an initiative would help establish long-term relationships between designers working on current Australian projects and Australian SMEs and research institutions. Intellectual property issues for these collaborations would be guided by the relevant Defence Science and Technology Group regulations and funding from the CDIC.

5. Opportunities for flow-on benefits to local jobs and the economy

Providing strong linkages between defence investments and local research institutions should be a main focus of the national shipbuilding program.

NSW hosts 11 research universities and a number of applied research centres that will be able to support this endeavour. Industry clusters around defence bases promote skilled jobs and lifestyle benefits in regional areas, and development of regional economies.

Due to the developed and elongated supply chain of high-technology manufacturing, the multiplier effect of final jobs can be large. Benefits to local jobs and the broader economy from defence investment will be more successfully realised when based on innovation, quality and productivity.

Enhancing future skills and capacities of workers must be a vital component of future industry development and can be achieved by more closely linking training programs and skills development with future workforce needs. Many of the shipbuilding and sustainment activities are regionally based, which creates a need to supply the skills required for shipbuilding and sustainment activities over the long-term.

Key skills in defence industries transfer readily between sectors such as rail, mining, and advanced manufacturing and greatly benefit regional areas. Defence is a major investor in new technologies including automation, information and communication technologies, and advanced materials.

6. Related matters

NSW offers many advantages that are beneficial to defence and the nation's continued naval shipbuilding prowess. These include:

- being home to existing and valuable defence infrastructure
- having large, complex and resilient defence industry clusters
- having a deep skills base that is well-tuned to Defence's needs

Naval shipbuilding is a contributor to developing sustainable regional economies across NSW regions, including: Sydney (Garden Island), North Coast (Port Macquarie and Harwood Island), Illawarra (Wollongong), and Newcastle.

Examples of key naval shipbuilding capabilities in Sydney and regional NSW

Garden Island:

Garden Island is a key east coast asset for the Royal Australian Navy (Navy) due to its existing sustainment infrastructure, strong maritime support industry and strategic location for Navy recruitment and retainment. It hosts the Fleet Base East and is the headquarters of Maritime Command. The island will also host Landing Helicopter

Decks ships and Air Warfare Destroyer ships. The increased activities in the Fleet Base East will require continuous investment to maintain and upgrade infrastructure.

The NSW Government is willing to assist the Navy to manage the increasing demands on the Garden Island infrastructure, as outlined in the *NSW Defence and Industry Strategy*, for example, by examining options to enable some sustainment activities to be performed in regional locations.

Wollongong:

Wollongong has a strong track record in the research, development and manufacture of advanced materials that have made a significant contribution to Navy's shipbuilding projects over the last 30 years. Wollongong's research institutions and companies are in a strong position to continue this contribution.

Leading defence research and development organisations in Wollongong include the maritime arm of the Defence Materials Technology Centre and the Steel Research Hub. These institutions are national and global leaders in the research and development of world-leading steel materials and welding procedures. This knowledge continues to guarantee that the Navy platforms are able to perform in complex and demanding high-threat environments.

Wollongong companies Bluescope and Bisalloy have been at the forefront of transforming cutting-edge knowledge into manufactured product which serves on the Navy platforms. Armoured steel for the Collins-class submarines, Adelaide-class frigates and Hobart-class Air Warfare Destroyers were all sourced from Bluescope and Bisalloy. Bisalloy steel is a world leading company and exports to foreign militaries across Europe, the Middle East and North America.

Wollongong technology companies also have a track record in providing highly-complex, technological solutions into the Navy platforms. Wollongong is well-placed to continue to make a significant contribution to Australian naval shipbuilding over the coming decades.

Newcastle:

Newcastle is well positioned with capabilities and expertise to construct and maintain naval ships and hull modules with two key purpose built shipbuilding facilities: Fitzroy Street Carrington (previously Forgacs Engineering Pty Ltd), owned by the Port of Newcastle; and Tomago Shipyard, now owned by Cimtec Construction and Engineering Pty Ltd (previously Forgacs Engineering). Over the years, these companies have constructed many large vessels, both commercial and naval. At peak production Forgacs employed over 900 staff for the construction of the Air Warfare Destroyer project, which demonstrates that skills, knowledge and expertise can be mobilised within the region.

Locally, the Australian Department of Defence is currently funding a Hunter training based program, the Manufacturing and Education Program (ME Program, administered by Regional Development Australia Hunter). The ME Program equips students with skills and expertise that will prepare them for careers of the future, and is focused on encouraging Science, Technology, Engineering and Maths career pathways within the Defence industry. Many of these students had or have been

working alongside marine specialists over the last six years. This program¹ has been a great success and has grown significantly in participation.

Defence's Integrated Investment Plan

Defence's Integrated Investment Plan is an ambitious program that is a great opportunity for Australian industry as it:

- improves whole-of-life view of costs, so a purchasing decision does not include only the upfront costs sustainment
- could take a national industry view to maintaining key naval assets. If capacity is a risk, then consideration should be given to distributing some of the work across states, not just South Australia and Western Australia.

If you require additional information or wish to discuss this matter further, please contact Mr Duncan Challen, Executive Director, Industry Development, NSW Department of Industry

Yours sincerely

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¹ <http://www.meprogram.com.au/>. Please note: Department of Industry, through the Newcastle Office of Regional Development office also provides financial support to the ME Program.