



Submission
Senate Economic References Committee Inquiry
'Australian Sovereign Naval Shipbuilding Capability'
From
The Australian Sovereign Capability Alliance

General

The Australian Sovereign Capability Alliance (ASCA) is a new industry grouping, which has come together to make the case for greater Australian sovereign industry capability, a critical component of which is naval ship building. This submission quantifies Australia's dependence on overseas industry and foreign governments for our vital manufactures and essential needs and provides new data to support the case for Australian manufacturing.

The submission notes that naval shipbuilding occurs in the context of Australia's whole of nation manufacturing ecosystem and that a whole of government manufacturing strategy offers the best umbrella for a vibrant defence industry. Australia is presently the lowest producer in the OECD of the manufacturing products it consumes, our dependency on imports is therefore the highest of OECD nations.

Naval Shipbuilding and Manufacturing Reform

This submission reveals the dramatic decline in industrial complexity within the Australian economy including shortfalls in the nation's science, technology, and engineering capabilities. With the demise of the Australian automotive sector, defence industries in particular naval shipbuilding, emerges as the manufacturing champion. It is critical that government ensures opportunities for Australian science, industry and skills are optimised throughout the shipbuilding endeavour.

The governments recent decision to step away from the French Naval Group Attack Class submarine in favour of a US/British nuclear vessel points to new opportunities for Australian manufacturing, science, engineering, and the university sector. Rarely before has the acquisition of an elaborately transformed manufactured capability by the Australian government offered up so much opportunity for vertical integration with related enterprises across the economy. It is an opportunity offering added value which must be measured, costed, optimised, and added into the national equation, not squandered in the pursuit of short-term savings to the defence budget.

To argue the case for greater Australian sovereign capability is therefore to make the case for Australian manufacturing reform, and in turn the case that as much of the work flowing from naval ship building must be performed by Australian manufacturers. The evidence in this submission relates directly to each of the eight terms of reference given to the committee listed below.

Committee Terms of Reference

That the following matter be referred to the Economics References Committee for inquiry and report by the last sitting day in June 2020:

Developing and delivering Australia's sovereign naval shipbuilding capability, with particular reference to:

- a. oversight and scrutiny of the national shipbuilding plan, to support a continuous build of vessels in Australia;*
- b. progress of the design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia;*
- c. progress of the Naval Shipbuilding College in building workforce capability, and developing the required skills and infrastructure to design, build, maintain, sustain and upgrade current and future naval fleet;*
- d. ongoing examination of contracts and scrutiny of expenditure;*
- e. the implementation of Australian Industry Capability Plans;*
- f. the utilisation of local content and supply chains;*
- g. the transfer of intellectual property and skills to Australian firms and workers;*
- h. the prospect of imminent job losses and redundancies;*
- i. opportunities and multiplier effects to local jobs and the economy; and*
- j. any related matters.*

ASCA Research

The Australian Sovereign Capability Alliance commissions industry funded tertiary research by leading Australian universities to inform public policy debate and government decision making. This first academic research report by Flinders University's 'Australian Industrial Transformation Institute' (attached) overviews the challenge ahead and was published on 13 September (media release attached). The findings are both revealing and of concern to the nation and were widely reported in the national press (AFR, New Daily, ABC, Newscorp daily papers, Commercial radio) on that day and subsequently. Articles covering the report are now emerging in industry publications. ASCA has passed the report to the Prime Minister, Leader of the Opposition and State Premiers for a response.

A key recommendation is that further detailed sector research is needed to examine the supply chains in five key industry sectors (health, defence and space, energy resources and infrastructure, science communications and technology and advanced manufacturing) to identify what must be made or controlled within Australia if we are to remain sovereign. Several sections of the report focus directly on defence industries and naval ship building. ASCA is engaged with industry about funding and commencing that subsequent research, though it would be better if government took up the task. **(Term of ref g)**

ASCA Findings and Recommendations

Whole of Government Strategy and Action of Sovereign Manufacturing capability.

ASCA's submission posits that sovereign naval shipbuilding capability will struggle to thrive unless a whole of government advanced manufacturing strategy and plan of action is applied. Government priorities, cabinet structures and budget processes will need to be reorganised if there is to be success. Cabinet arguments for funding for naval shipbuilding are more likely to succeed if they form part of a broader strategy involving other related industry sectors so there is vertical balance and cross benefits to and from related manufacturing. Australian taxpayers are more likely to support increased defence budgets and a 'made in Australia' premium on naval ship building costs if the investment results in local jobs, wealth creation and capacity building. There is a high level of cynicism and an absence of social licence, when Australians see their taxes spent creating jobs and enterprise someone else's country through 'off the shelf' purchases of ships or submarines. **(Term of ref i)**

Definitions.

This report reveals there are no nationally agreed definitions of terms such as 'Australian Work', 'Australian Industry content' and 'Sovereign Capability' and there exist an array of interpretations over what is, and what is not, a genuinely Australian owned company or enterprise. Although Defence is more advanced than other quarters of government on these matters, the report makes clear that within both government and industry, there is confusion over terminology. Consequently, governments, industry and academia are all talking about the challenge of naval ship and submarine manufacturing reform in different and disconnected conversations. It is difficult to solve a problem if the definition of the problem has not been agreed by stakeholders. **(Term of ref j)**

Sovereign Control of Multinational Primes

Multinational primes should not be allowed to use their market power and superior financials to win ship building related contracts until Australian owned companies have been given the opportunity to win the work. First and second tier suppliers to multinational defence primes should not be able to relocate and set up in Australia and redefine themselves as Australian companies, until they have been compelled through contracts with government, to exhaust every opportunity to partner with and uplift genuinely Australian owned enterprises to the required standard. Where foreign companies relocate to Australia, they should be required by contract to employ Australians, or bring with them from overseas skilled migrants and their

families on a path to permanent residency. All operationally critical IP and technology used by overseas firms must be genuinely relocated and controlled from Australia by Australians.

When the Australian motor vehicle industry folded, many first-tier companies affiliated with Holden, Ford and Toyota left Australia to redeploy to the parent prime's new factory locations at the direction of foreign boardrooms. If similar business models are allowed to develop with shipbuilding, any naval or combat systems prime withdrawing from Australia, perhaps because of priorities reset by a foreign government, will be able to diminish Australia's operational maritime capability at short notice, during a crisis.

The Senate Committee would be advised to inform itself of the legal, governance and commercial arrangements the United States Government uses to control foreign primes like BAE and Navantia, operating in the USA. Washington ensures these companies have US Boards and management, and propriety ownership of essential functions in the homeland. ASCA understands that Australian ship builder Austal, when setting up its shipyard in Alabama was required to hire a 100% US citizen workforce with US control of key IP and essential functions. In a crisis, primes cannot be allowed at the direction of parent foreign governments, to denude or strip people, IP, or capability away back to home markets, thus putting at risk Australian naval capability.

Anecdotal evidence suggests multinational primes are hiring large numbers of senior defence personnel, directly from government employment. Independent research is required to put statistics around the anecdotal evidence and to ascertain whether future job prospects are influencing decision makers, presently within the Defence acquisition bureaucracy. Decisions by public officials unfavourable to primes and advantageous to smaller Australian companies may not be conducive to employment opportunities with international companies. There is visibility and public accountability of post career employment of ministers, but post government employment from within the defence bureaucracy appears not to be monitored and could have a corrosive impact on government decision making if not properly managed. Such arrangements are difficult for government to interdict. Tighter sovereign control of primes operating in Australia may help to ameliorate the development. **(Term of ref b)**

Reliance and Dependence.

There must be agreed definition of the term's 'reliance' and 'dependence'. A level of reliance on overseas governments to sustain our warships may be unavoidable and operationally acceptable. Dependence on the other hand risks delivering our warship capabilities to the control of foreign governments. No matter how closely we are aligned to an overseas partner, dependence means that priorities during a war, conflict or emergency will be determined for Australia by a foreign government, a point demonstrated in the health sector during the Covid-19 pandemic. This is an unacceptable risk to the nation's security. **(Term of ref g)**

Sovereign Operational Capability and Sovereign Industry Capability.

The operational capabilities our nation requires, need to be determined before launching into conversation about manufacturing capability. Similarly, before determining which component parts or systems in a warship, military vehicle or aircraft must be built or

controlled within Australia it must be decided what we want the warship, vehicle, or aircraft to be able to do independently, where, for how long and under what operational conditions.

There is concern that Australia may remain dependent upon multinational primes and the corresponding foreign governments not only for design and construction of warships but for sustainment, repair, and support on operations. The supply chain for goods and services linked to warship manufacture must be analysed to identify the component parts of the capability deemed essential for the ships to independently do the things we require of them, and to measure those things are under Australian control. The nation must not put the industrial 'cart' in front of the operational 'horse'. **(Term of ref f)**

The Role of Government.

Individual ministers and departments, through successive governments over many years, appear to have been working in silos when dealing with Australian manufacturing policy. Our research has not found an overarching 'whole of government' strategy or plan of action for manufacturing. The report makes clear that federal and state government spending and investment behaviour has encouraged imports of essential items rather than local manufacture. In some cases, multinational companies and overseas owned industry primes have outmanoeuvred both governments and local industry to dominate markets, marginalising genuinely Australian owned businesses and their workers. **(Term of ref a)**

Science, Engineering, Research and Development

ASCA understands that only a small fraction of the spend on science, engineering research and development from the naval shipbuilding budget appears destined for Australian universities and research centres of excellence. A supply chain examination of the intended and actual dollar spend would help to determine what is being spent in Australia, compared to overseas in the IP space. Genuine transfer of the most complex IP, engineering and science must be demanded as a condition of contract. Tertiary partnerships between foreign universities and Australian universities must be mandated and security concerns managed to facilitate the transfer of knowledge.

All high-end IP required for the RAN to independently operate its systems for a prolonged period of conflict must be located and controlled within Australia. No dependence on any foreign company, product or service supplier, university or government for vital operating or combat systems can be acceptable during a crisis.

Skills

Government should demand from primes a complete listing of skilled employee requirements for shipbuilding, by project, at the relevant contract stage so that workforce and skills planning can occur. Primes should be required to ensure every worker is an Australian citizen or resident. Where skill sets cannot be met with graduates from Australian institutions the government should advertise globally and attract shipbuilding and combat systems skilled migrants to fill the roles, if necessary, by direct recruitment overseas. Contracts should require primes to cooperate with these arrangements. Arguments from primes that skills do

not exist in Australia, requiring work to be done overseas need greater scrutiny. **(Term of ref c)**

The AUKUS Nuclear Submarine

The decision announced on 16 September 2021 not to proceed with the French Naval Group diesel electric submarine in favour of a nuclear-powered vessel comes in two parts. First, Australia will get the vastly superior capability the navy always wanted. The government has not at the time of writing confirmed if the UK Astute Class or the larger US Virginia submarine will be chosen, but all signs point to the Astute. Both are 'best of class' when it comes to size, speed, endurance, weapons, EW countermeasures and sensors, and nuclear propulsion solves a lot of problems for the RAN.

Then there is the other matter; convincing Australian taxpayers that their multibillion-dollar investment will not be spent creating jobs and enterprise in someone else's country but at home. We had this debate back in 2014 when the Abbot government proposed import of submarines from Japan for local painting and minor fit out in Adelaide. The ball is now back up in the air. A social license for the massive submarines investment of public funds depends upon government convincing the electorate of the programmes broader nation building economic benefits. The mountain of money is too big for this to be considered a decision for Defence alone.

If we are a courageous nation, we will demand contracts with the new US and UK based multinational primes that guarantee genuine technology transfer to our universities and centres of excellence, which add manufacturing complexity to our economy and which upskill local workers, while drawing in skilled migrants to fill the gaps. But if we are still the relaxed and comfortable 'lucky country' keen to please important friends, we will cave in and become the simple users of technology provided by others.

American and British international defence firms will be just as savvy and just as determined to hold onto the money, as were the French. The same arguments will arise, that time is short, that Australian industry is not up to grade, that local workers don't have the skills, that it will be cheaper and quicker to build overseas and that the nuclear technology is too complex for Australia to understand and safely manage. The same solution will be proffered by multinational primes with the tacit approval of their parent governments, that the high tech, high value work must be retained in the US and in Britain. We can't allow it.

Our international standing will be lifted by this resolute decision and the region will take notice. Military capability is one thing, so too is national wealth, demonstrated leadership in technology, engineering and enterprise and evident control of our own destiny. Whether we finish up with a truly sovereign submarine capability or remain dependent on foreign multinational primes and their governments in a crisis will test our mettle, and it will demonstrate to the world, whether the new AUKUS alliance is truly an alliance of equals.

Supply Chain Study

The submarine and frigate acquisition projects would benefit from a thorough supply chain study to ascertain which parts of the build must be sovereign. Government would be advised to set out the supply chain detail for the Collins Class submarine and the ANZAC frigates to determine the level of Australian content as a base case for the new acquisitions. Primes delivering the new AUKUS nuclear submarine, and the BAE designed Hunter Class frigate should be held to account to justify any shortfall in Australian content from the base case.

Deep Blue Tech

The ASC, which built the Collins submarine, was working on a plan to evolve the Collins class into a new class of submarine under the project header 'Deep Blue Tech'. Industry and the SA government were surprised at the decision by the Abbott and Turnbull governments to exclude SAAB and an ASC evolution of the Collins class into a new vessel from the competitive evaluation process. The decision to complete a Life of Type Extension (LOTE) to the Collins vessels raises questions about whether it was wise to walk away from the Deep Blue Tech initiative. ASCA understands the local industry content in Collins may be as high as 80%. Although the Naval Group Attack Class offering has floundered, the new AUKUS nuclear submarines class having taken its place, the government and the parliament would be well advised to revisit the prospect of an evolved Collins subject to operational considerations, timeframe, and budget. There are risks with the new nuclear submarine. Dealings with Naval Group were disadvantaged by the absence of an alternative design as a fallback. We should not repeat the mistake.

A Naval Ship Building Authority.

Government's job with Defence advice, is to determine how many submarines and ships are required, the operational capabilities needed, timelines and to provision funds. Management and implementation of shipbuilding operations would in ASCA's view, be better managed by a National Shipbuilding Authority comprising a professional Board and Chair, an industry accomplished CEO and savvy and experienced executive staff drawn from the commercial sector but reporting to government. The Authority should be free to access the best legal, academic, and engineering expertise in the nation when dealing with multinational corporations. A whole of enterprise rather than a project-by-project scope of work should apply.

Current arrangements see a variety of Defence agencies manned by uniformed and civilian Defence officials and Crown Law with little commercial experience, trying to build warships by negotiating and managing contracts with prime multinationals ostensibly on a project-by-project basis. This is high risk. Government appears to have been regularly outfoxed and outsmarted by well advised and savvy major global primes determined to optimise the benefits for overseas industry parents, usually with the tacit support of their foreign governments. Sharp Australian businesspeople are best equipped to deal with the foreign defence primes and with the challenges of delivering vessels on time and on budget. When Australia built the Snowy Mountains Scheme, we created a Snowy Mountains Authority to get the job done. A similar approach to naval shipbuilding is needed.

A further advantage of a National Shipbuilding Authority is that the practical aspects of the nation's entire enterprise can be managed as one industrial continuum, from construction through sustainment, project by project, through to decommissioning and replacement. The same companies bidding for work on construction are often involved in sustainment of ships. A National Shipbuilding Authority could work with the states, industry, universities and TAFE's and Registered Training Organisations (RTO) to balance infrastructure and workforce across the country to ensure resources are at the right place and time and could be scaled up in a crisis.

Given the scale and scope of the naval ship building enterprise and the breadth of ministers and government agencies involved a Naval Ship Building Authority should report to The Prime Minister as Chair of the Naval Ship Building Enterprise Governance Committee, supported by Defence. The decision to build a nuclear submarine has added new layers of complexity to the shipbuilding enterprise. The current arrangement where one-star and two-star equivalents in the Capability Acquisition and Sustainment Group (CASG) and elsewhere in Defence, try to guide and execute a multibillion-dollar commercial naval shipbuilding enterprise without the requisite commercial skillset has been found wanting.

An enterprise of this scale and complexity of Australia's naval shipbuilding programme cannot be run by committees of public servants or transiting service personnel on two- or three-year rotating postings in CASG. Government supported by Defence, should select vessel designs and quantities based on strategic assessments and operational needs, determine what is to be done and when it is to be done, and set the budget. Businesspeople should be tasked to get it done, on time and on budget. The shipbuilding enterprise needs to be lifted into a sharp, efficient, professionally run and internationally competitive state-owned commercial business.

Request of the Senate Committee.

Lifting levels of Australian sovereign capability in key domains should form the basis of a revitalised national manufacturing strategy. Naval Shipbuilding will be best advanced as part of an overarching whole of government reinvention of manufacturing policy. ASCA asks that the Senate References Committee consider the following recommendations contained in this submission for inclusion in its inquiry and report to parliament.

1. That government appoint a senior minister for sovereign capability supported by a dedicated agency to determine and implement a plan of action, and that a separate agency under a different minister be tasked with independently reporting performance.
2. That cabinet form a dedicated committee for sovereign capability, chaired by the minister for sovereign capability which brings together all relevant portfolios.
3. That government conduct a President Biden style (Executive Order 14017) 100-day top-down review of Australia's sectoral supply chain resilience

that is underpinned by nomination of key operational capabilities for independent sovereign control and ownership.

4. That government resets its industry policy, the \$1.5bn 'Modern Manufacturing Strategy', the \$800m Australian Research Council Grants programme, the Defence acquisitions budget and whatever additional resources are needed around ensuring Australia's essential manufacturing requirements are under sovereign control. That the alternative government consider a similar manufacturing policy position using its proposed \$15Bn 'National Reconstruction Fund'.
5. That government establish a National Ship Building Authority reporting to Prime Minister as Chair of the Naval Shipbuilding Enterprise Governance Committee.

Conclusion

ASCA notes that the government has already acted on many of the challenges identified in this research but that much remains to be done, requiring new approaches and a concerted effort. We look forward to seeing the committee's report and thank you for considering this submission.

Martin Hamilton-Smith

Hon Martin Hamilton-Smith
Director Australian Sovereign Capability Alliance

15 September 2021

www.australiansovereigncapability.com.au

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| 1. Attachments: | 1. Report |
| | 2. Media Release |
| | 3. Facts Sheet |
| | 4. letter to PM |

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