



Electrical Trades Union of Australia

Suite 701, Level 7, 5 Rosebery Avenue, Rosebery NSW 2018

Ph: 02 9663 3699 | Fax: 02 9663 5599 | www.etunational.asn.au

Notes and Talking Points

Future of Australia's naval shipbuilding industry (Part II)

Public Hearing on 14 October 2014. Adelaide

Key Points

- It is possible to achieve a sustainable naval ship building industry in Australia.
- Our national security interests are best served by keeping a home-grown ship building and submarine industry here in Australia.
- Since the election the Abbott Government has done nothing to support Australian ship building.
- The Coalition has broken their promise to build Australia's future submarines in South Australia.
- They have also excluded Australian companies from tendering for new Navy ships, sending jobs overseas.
- The government's decisions will result in thousands of jobs being lost, along with the skills and training that support this strategically vital industry.
- These broken promises are ripping the heart out of Australia's strategically-vital ship building industry and will have long-term implications for Australia's ability to defend itself.
- As an island nation the ability to build and maintain our own ships has always been vitally important for Australia.
- In these uncertain times, the Federal Government must grow the Australian ship building industry so that we can continue to build the ships and submarines that our Navy needs, right here in Australia.
- It makes military sense, it makes economic sense.



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Notes

On 6 June 2014, the government announced that it had given approval for Defence to conduct a limited competitive tender between Navantia of Spain and Daewoo Shipbuilding and Marine Engineering of South Korea for the construction of two replacement Auxiliary Oiler Replenishment ships (AOR).

The Minister for Defence claimed that the decision to exclude Australian companies from the tender and involve only two overseas companies was due to: the urgent need to replace the vessels and avoid a capability gap; the current low productivity of shipbuilders involved with the Air Warfare Destroyer (AWD) project; and value for money considerations.

The current Defence Capability Plan includes 48 vessels to be built over the next 30 years at a total cost of \$60-80bn, with through-life support of an estimated \$180-200bn. The Labor government spent an estimated \$1bn as part of the AWD project (11% of the project's budget) in order to assist industry to re-skill and purchase equipment to develop a native ship building industry capable of building those ships in Australia.

Based on an AIG review of the ANZAC Ship Project, BAE estimates that the benefit to the Australian economy of building the ships in Australia, rather than overseas, would be around \$117bn and 613,000 jobs over a 20 year period.

Today, the majority of ships built in Australia are for our Navy. The industry employs thousands of skilled, professional Australians around the country – in Newcastle, Williamstown, Adelaide and Perth.

The Navy ship building industry is now experiencing down turn in production, as the AWD projects comes to a close, but before the Future Frigate and Future Submarine projects begin. This is known as the "valley of death."

There have already been job losses at Forgacs in Newcastle and BAE in Williamstown, with more likely across the industry, including ASC in Adelaide. It is estimated thousands of jobs are at risk.

The government has broken a number of pre-election commitments to support the Australian ship-building industry and to build 12 submarines in Adelaide.



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South Australia is home to 3,000 shipbuilding defence jobs, as part of a total of around 27,000 defence jobs.

Since their election, the coalition government has excluded Australian companies from tendering for new Navy supply ships and is seriously investigating options for acquiring new submarines offshore.

The government's criticism of the Australian ship building industry relies on two reports:

- An unreleased report into the AWD project by Professor Don Winter and Dr John White.
- An ANAO Report which states that the project is \$300m over budget, with an expectation that it will continue to blow out.

By not investing in Australia's ship building industry now – through building the supply ships overseas – the government has reduced the industry's capacity and makes it more likely that future ship building projects, including the Future Submarines, will have a significant offshore component.

The naval shipbuilding industry (repair and construction) is not simply a matter about jobs, it is about Australia having the sovereign industry necessary to keep the Australian Navy operating every day at sea; having an industry with the ability to conduct expert maintenance and repair on complex warships; and an industry with the ability to build new warships that meet the specific requirements of the Australian Navy.

The naval shipbuilding industry is critical to Navy's operations in support of peacetime activities like humanitarian assistance and disaster relief, as well as high-end warfare operations.

The capability of Australia's naval shipbuilding industry is foremost a national security issue as well as being an issue for our economy and our manufacturing industry.

The government cite several factors that drove the decision to the offshore the purchase.

Key factors that we want to address are:

- current poor performance of naval shipbuilders;
- the inability of Australian naval shipbuilders to build these large ships; and



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- value for money considerations.

Performance

Productivity in shipbuilding is driven by good data packages, good preparation and good schedules. When that shipbuilding management process is performing well, the workers will find new ways to further improve shipbuilding performance.

The key issue is that if you do not get to practice you never get good at something.

The Air Warfare Destroyer is the first ship that ASC have built. At the beginning of the project they did not have a shipyard or a shipbuilding workforce. Certainly many people have come across from ASC's submarine maintenance activities, but fundamentally Australia is building these warships with shipyard workforces in Adelaide, Melbourne and Newcastle.

While some may criticise and say the performance has not been to world best's standards, the reality is that much good work has been done, skilled people are doing a good job and gaining valuable experience every day, and most importantly, it is ever improving.

By attempting to send the supply ship work overseas, the Government has denied workers the opportunity to keep building their skills.

The performance of a re-emerging shipbuilding industry is a reason to give them more work (in a controlled manner) so that skills, experience and performance can improve. Performance will not improve if shipyards are idle.

We reject any assertion that Australian workers are any less capable of being good shipbuilders as any other people. The difference is Australian industry and our workforce has not had the opportunity to grow and retain skills, experience and generate the know-how to be great shipbuilders. The peaks and troughs of work in naval shipbuilding destroy this learning.

Capacity

The suggestion seems to be the ships are physically too large to be built in Australian shipyards. There can be no doubt that Australian industry has the ability to build tankers, they are relatively simple designs, and certainly nowhere near the complexity of destroyers and submarines. Australia has previously proven it has the ability to build these ships.



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It can be suggest to the Senate Committee to examine the reduction of the number of large docking facilities in Australia, noting three of the six facilities have been closed/sold in the last two years. The question is whether there are enough to support scheduled maintenance and emergency dockings of the current fleet and construction of new warships?

Value for Money

In the past, much has been said about the 'cost premium' of building ships in Australia. Data that allows the accurate comparison is not readily available. Most countries do not reveal the true costs of warships and there are numerous ways that budgets and costs are obscured, and their local industries are subsidised.



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Senate Committee Report (Part 1)

The committee in its Part 1 Report into the tendering process highlighted a number of concerns. They relate to the lack of contestability and competition in the limited tender, the level of industry engagement in the process so far and the absence of long-term strategic planning that led to the decision.

The committee recommended that:

- the tender process for the two replacement replenishment ships be reopened to include Australian companies.
- the government undertakes open tender processes for any future naval acquisition.
- the tender must make clear that a high value will be placed on Australian content in the project.

We need to commend the committee on their recommendations, which we fully support.

Additional Comments by Senator Nick Xenophon

The report also contains additional comments from Senator Xenophon that are worth noting. Some key excerpts are:

This first part of the inquiry was brought about due to the Government's rash and misguided decision to exclude Australia's naval ship building industry from tendering for Project-SEA 1654, a \$1 billion to \$2 billion project to supply the Royal Australian Navy with two replenishment ships.

Instead, as announced by the Defence Minister on 6 June 2014, the Government decided to proceed with a limited tender including only two non-Australian ship builders, Daewoo Shipbuilding and Marine Engineering (DSME) from South Korea and Navantia of Spain.

It is imperative that Australian industry be permitted to competitively tender, in whole or in part, for the replenishment ship project.

That Australian industry has been excluded from the usual competitive



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tendering process is outrageous and must be reversed.

This is especially so due to the impending closure of Australia's local car making industry and the flow-on effects in South Australia and Victoria of the expected loss of more than 30,000 manufacturing jobs.

According to the Australian Industry & Defence Network Inc, naval shipbuilding directly employs some 6,000 people and indirectly nearly 15,000 people. The additional multiplier effect must also be taken into account.

Cost effectiveness must include active consideration and quantification of through-life benefits of engaging local navy ship building industry, including but not limited to:

- (a) The strategic advantage of building and maintaining Australia's essential naval assets in Australia, including and especially during periods of conflict and tension overseas when Australia should not be reliant upon overseas suppliers
- (b) The multi-plyer effects for the economy of spending defence funds in Australia
- (c) Reductions in through-life maintenance and sustainment costs due to investment in infrastructure and skills during the construction phase
- (d) The development of a highly skilled workforce and increased innovation that comes through research and development and knowledge transfer for the wider economy
- (e) The project's contribution to national economic growth and employment. These benefits are recognised by the Canadian Government in its National Shipbuilding Procurement Strategy (NSPS)³
- (f) The tax revenue advantages to Government of engaging local industry, estimated to be up to a third of the cost of the project, as outlined in a 2012 paper published by the Royal United Services Institute of the UK.⁴

No-one should be under any illusions as to what is at stake here. If the Australian government does not do what is necessary to significantly involve local industry then the country stands to lose up to 7000 naval ship building jobs⁵ and many thousands more in supply industries.

The current Government appears to be walking away from Australian industry involvement in navy shipbuilding.

This is unacceptable and risks the loss of more than 10,000 skilled and semiskilled jobs. Leadership must be demonstrated so as to restore adequate and competitive involvement for Australian naval ship building companies.



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The Government's decisions and public comments since June do not support the Government's promise of a Navy Capability Plan in 2015 which will include an 'enterprise level shipbuilding plan that will bring together navy capability requirements, available resources and recommendations around Australian industry requirements.'

Recommendation 1

1.27 That the Government reverse its decision to exclude Australian industry from tendering for the navy's replenishment ship project and permit Australian industry to tender, in whole or in part, as is usual for such projects.

It is disappointing that the Government kept secret from Australian industry for two months its decision to exclude local participation in a project that would provide much-needed additional work for thousands of Australians.

It is further disappointing that it has used a secret report to partly justify its decision, once it was finally announced.

The Senate has voted twice on my motions to have the Defence Minister produce the Winter Report and on both occasions the Government has refused.

Recommendation 2

1.44 The Government must release the Winter Report, in whole or in part, so that Australian industry and all Australians know the basis upon which it is making decisions on the future of thousands of Australian workers and their families.



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Useful Quotes

Senator David Johnston doorstep at ASC in Adelaide (08 May 2013):

*I want to confirm that the 12 submarines as set out in the 2009 Defence White Paper and then again in last Friday's Defence White Paper are what the Coalition accepts and will deliver. We will deliver those submarines from right here at ASC in South Australia. **The Coalition today is committed to building 12 new submarines here in Adelaide.***

...

Right across Australia there is only one place that has all of the expertise that's necessary to complete one of the most complex, difficult and costly capital works projects that Australian can undertake. It's ASC here in Adelaide. We believe that all of the expertise that is necessary for that project is here.

Senator David Johnston on ABC Newcastle (9 August 2013):

I get really fired up when I find us giving away our manufacturing Base in the Defence space to foreign manufacturers. It's just not on.

Julie Bishop Hands Across the Seas, Brendan Nicholson, The Australian (17 June 2014)

"Having the Japanese so prepared to discuss not only their technology but even the prospect of purchasing even an entire submarine brings a different flavour to the discussions."

Senator David Johnston Lateline (12 June 2014)

"Japan is one of several countries we are talking to actively about our new submarine program. So we're talking to the French, the Germans, the Japanese, we're also getting assistance from the United Kingdom and from the United States. We're taking small steps as to initially small technological exchanges based around hydrodynamics and other related matters."

Warren King, CEO of Defence Materiel Organisation Senate Estimates (26 February 2013)

"The [AWD] program is still within budget."

Senator David Johnston –Doorstop at Keel-laying ceremony for Air Warfare Destroyer (AWD) HMAS Brisbane, Techport Australia, Adelaide (3 February 2014)

"I can confirm that the contingency has not been spent already."



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Chris Burns, Defence Teaming Centre SA CEO. Opening Statement to the Senate Standing Committee on Economics Inquiry into Naval Ship Building - Part 1 (21July2014):

"It is an industry that truly questions if the Australian Government and the Department wants a defence industry. If it does, then it needs to support and partner with it to collaborate and deliver military capability. If it doesn't, then let us know and we can put on our Banana Republic T Shirts, learn how to pick fruit, dig ore out of the ground and serve drinks to wealthy tourists."

Glenn Thomson, AMWU. Opening Statement to the Senate Standing Committee on Economics Inquiry into Naval Ship Building - Part 1 (21July2014):

"The AMWU are firmly of the view that the supply ships could be built in Australia.

The navy shipbuilding industry is facing serious gaps in work. We have just recently had 110 skilled jobs come out of the Newcastle Tomago yard."

Senator David Johnston Defence's Air Warfare Destroyer delayed project \$500M over budget (Ian McPhedran, Adelaide Advertiser, 15 Aug 2014)

<http://www.adelaidenow.com.au/news/national/defences-air-warfare-destroyer-delayed-project-500m-over-budget/story-fni6ulvf-1227024542952>

"That is a disgraceful mess of a program,"

...

"The AWD will be one or two years late, if we are lucky, and several hundred millions over budget."

...

"People are not wanting to be frank about how bad this project is,"

...

"This is a bit of skunk."

Senator David Johnston Doorstop at Keel-laying ceremony for Air Warfare Destroyer (AWD) HMAS Brisbane, Techport Australia, Adelaide (3 February 2014)
<http://www.minister.defence.gov.au/2014/02/03/minister-for-defence-transcript-keel-laying-ceremony-for-air-warfare-destroyer-awd-hmas-brisbane-techport-australia-adelaide-2/>

"At the moment we have two options on the table – the son of Collins, and a wholly new bespoke design. Now I have seen nothing at this point in time to suggest that we should deviate from that plan."



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Rear Adm. Moffitt, AO, RAN, Head Future Submarine Program Senate Estimates, FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE, Wednesday, 19 October 2011.

"To meet the high end of all of the capabilities of the submarine as outlined in the Defence white paper—which is not the only way of meeting those requirements—is to describe a design of submarine that does not exist. There are submarines that can come close; they may or may not be available to us. For example, in terms of size overall—but not capabilities overall—the Japanese Soryu class could come close. But to execute a high end of capability of all of the things described in the white paper is to undertake a new design."

Cosgrove P., "WHY OUR SUBMARINES NEED TO BE BUILT IN AUSTRALIA"
published in www.asiapacificdefencereporter.com on 13 July 2013.

- *"Whenever I am asked why we should build submarines in Australia, my short reply is that we can't afford not to."*
- Whenever I am asked why we should build submarines in Australia, my short reply is that we can't afford not to.
- In reality we have built and maintained one of the most capable and powerful conventional submarines in the world.
- There is nothing to be gained and everything to lose by dealing ourselves out of an industry we have spent 25 years building.
- Quite simply, **there is no conventional submarine in the world available for purchase today that can meet Australia's unique requirements.**
- The Government's recent announcement that it will use the United States AN/BYG-1 combat system for future submarine design work is extremely illuminating. The fleet will be fitted with sensitive US systems, which will need to be installed and integrated in Australia for security reasons. It cannot be done in the US, as it doesn't build conventional submarines. **And it makes no sense, even if it was possible, to retrofit the systems in a hull built overseas. It would be high-risk, costly and time-consuming.**
- It bemuses me that these fundamental considerations are simply ignored by those calling for our submarines to be purchased off the shelf, superficially attracted to a marginally cheaper up front price tag. **This is short-sighted thinking.**
- Let's use confidence and common sense and build the subs here.