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Committee Secretary
Senate Standing Committees on Economics
Parliament House
CANBERRA ACT 2600

Dear Secretary

The Victorian Government welcomes the opportunity to provide a submission to Part 2 of the Senate Economic References Committees' inquiry into the future of Australia's naval ship building industry. The Victorian Government was pleased to make a submission to Part I of the Inquiry.

The Victorian Government also intends to make a formal written submission in relation to the Defence White Paper and the Defence Capability Plan supporting an indigenous shipbuilding industry.

With reference to Part 2 of the Inquiry, *The future sustainability of Australia's strategically vital naval ship building industry*, the Victorian Government responds as follows.

The economic contribution of naval shipbuilding to Victoria

Victoria is Australia's home of advanced manufacturing. Victoria's manufacturing industry contributes \$26 billion a year to the Victorian economy, generates \$17 billion in exports and employs 275,000 people. The manufacturing industry is, and will continue to be, central to Victoria's economic prosperity.

Victoria's defence industry is a critical component of Victoria's advanced manufacturing capability supporting high value jobs and the diffusion of innovative capability through the supply chain. Over 5000 Victorians are employed by more than 300 defence companies with the industry generating \$2 billion in annual revenue, with some \$200 million in exports annually.

Our defence industry is at the forefront of modern naval shipbuilding techniques. It is a leader in naval design, construction and through-life support, with unrivalled performance in systems integration and modular construction. In 2012-13, estimated revenue from defence maritime activities in Victoria was around \$500 million, or a quarter of Victoria's total defence industry revenue.¹

The Australian Bureau of Statistics estimated that the production value of civil and military shipbuilding and repair to the Australian economy was \$2.637 billion in 2009-10, with the industry value added estimated at \$979 million.² This is consistent with the recent report undertaken by ACIL Allen Consulting, which estimated the potential value of naval shipbuilding and through life support to the economy to be \$2.3 billion.³ Nationally, the production and through-life support of naval vessels is estimated to generate nearly 15,000 FTE jobs across Australia. Victoria accounts for a quarter of the national production value.

The ACIL Allen report also identified significant indirect benefits to the economy through the transfer of technology and skills to other areas of the economy, and improved practices in areas such as quality assurance, business planning and subcontracting. Victoria therefore has a vital economic interest in supporting this industry.

The future of Australia's naval shipbuilding industry

The Victorian Government considers that a local shipbuilding industry capable of building, maintaining and modifying vessels throughout their lifecycle will be critical to the Royal Australian Navy's capacity to operate new naval capability.

BAE Systems' facility at Williamstown directly employs 1000 Victorians and is capable of providing Australian content for naval ships across Defence's future programs. BAE Systems Australia has invested heavily, with the support of the Victorian Government, in modernising the Williamstown shipyard. Williamstown now possesses the equipment and facilities needed for modern naval shipbuilding and integration projects.

In March 2014, the Australian National Audit Office (ANAO) released an audit report into the Department of Defence's (Defence) SEA 4000 Air Warfare Destroyer (AWD) project. This report cited the Defence Materiel Organisation's (DMO) view that Williamstown is the best performing of Australia's shipyards.

The Victorian Government noted in its submission to Part 1 of the Inquiry that a local shipbuilding industry capable of maintaining and modifying the Navy's replenishment ships will be vital to the Navy's capacity to operate and sustain its expanded capability in these ships.

¹ Australian Industry and Defence Network – Victoria (AIDN-Vic) *Results from the survey of economic activity in Victoria's defence industry in FY12/13 on behalf of the Victorian Government*, September 2014

² Australian Bureau of Statistics, 81590DO001_200910 Experimental Estimates for the Manufacturing Industry, 2009-10, p. 19 [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E8CB4B604E2453B2CA257961000E7173/\\$File/81590_2009-10.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E8CB4B604E2453B2CA257961000E7173/$File/81590_2009-10.pdf)

³ ACIL Allen Consulting, *Naval Shipbuilding and through life support: Economic value to Australia*, December 2013

In that submission, the Victorian Government also recommended that the Federal Government include a requirement for local industry participation in the Request for Tender that is provided to Navantia of Spain and Daewoo Shipbuilding and Maritime Engineering (DSME) of South Korea that have been invited to tender for the replenishment ships.

BAE Systems and Navantia are currently in a partnership to deliver the Landing Helicopter Deck (LHD) program. This partnership has taken the form of an 'Assembled and Supported in Australia' (ASA) approach where Navantia has been responsible for the manufacture of the LHD Hulls and major components, and BAE Systems has been responsible for assembly and systems integration of the capability in Melbourne.

A similar partnering arrangement with the successful tenderer for the build of the new replenishment ships could be a simple means by which Australian industry content could be included in the production process.

In relation to the SEA 5000 Future Frigate program, there is considerable scope for BAE Systems and its Williamstown facility to be engaged in the preliminary engineering and design work. BAE Systems is also strongly placed to compete for work under the Pacific Patrol Boats program as the most mature builder of steel-hulled ships in Australia.

The supply chain

BAE Systems supports a supply chain of 89 companies across Australia, with 50 per cent of those suppliers being SMEs located in Victoria. Between 2011 and 2013, BAE Systems committed \$154 million with Australian suppliers, \$77 million of which was committed to Victorian SMEs. An estimated 900 Victorians in highly skilled jobs are employed in the local supply chain for BAE Systems at Williamstown. The Australian Industry Defence Network (AIDN) submission to this Inquiry notes that around 7400 full time equivalent (FTE) jobs across Australia can be attributed to the production of naval vessels by the five largest prime contractors in the industry. Any limitations placed upon opportunities for Australian-based naval shipbuilders places these businesses and jobs at risk.

The Victorian Government has regularly raised the future of the Williamstown shipyard with the Federal Government and will continue to engage with relevant Government and Department of Defence stakeholders on behalf of BAE Systems and its suppliers.

Certainty and timelines for industry

The Victorian Government welcomed the recent decision to allocate fabrication of three additional Air Warfare Destroyer (AWD) 'blocks' to BAE Systems in Williamstown. This decision recognises BAE's performance as the best performing subcontractor on the AWD program. As noted in Victoria's submission to Part 1 of this Inquiry, this reallocation sent a much needed positive signal to the industry and workforce that Williamstown is an important part of our national shipbuilding capability. However, this work will be completed by September 2015 and decisions on other Navy projects need to be made well in advance of that time to enable the industry to plan accordingly.

As also noted in its submission to Part 1 of the Inquiry, the Victorian Government considers that a more strategic and coordinated approach to the planning and procurement of major naval defence projects and capabilities is critical to a viable national defence industry. A continuous flow of projects and timely decision making would provide companies with the necessary certainty upon which to base investment decisions.

In the case of a shipyard such as Williamstown, certainty of future work is critical to Williamstown's ability to build a sustainable workforce and to maintain the skills required for the sophisticated manufacturing and construction involved in naval shipbuilding. The ACIL Allen report identified considerable costs associated with stopping and then re-starting shipbuilding work. It estimates that a loss of 30 per cent of the workforce would result in retraining costs of between \$220 and \$380 million and 'significant but unquantifiable costs' arising from the loss of expertise.

Conclusion

The Victorian Government considers that developing and maintaining an indigenous defence industry capability, including a national shipbuilding industry, is of national strategic importance and vital for the economic development of Victoria. It is critical to Victoria's future as a centre for advanced manufacturing and for the creation and retention of highly skilled jobs. Therefore, the Victorian Government remains committed to securing the future of the Williamstown shipyard and building a competitive local shipbuilding industry. The Victorian Government will welcome any action by the Commonwealth to this end.

Yours sincerely

THE HON DAVID HODGETT MP
Minister for Manufacturing

31/10/2014