



Defence Teaming Centre

Creating opportunities for defence industry

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Senator Chris Ketter
Chair
Senate Economics Reference Committee
PO BOX 6100
Parliament House
CANBERRA ACT 2600

By Email: committee.sen@aph.gov.au

17 July 2017

Dear Senator Ketter

RE: SENATE ECONOMICS REFERENCE COMMITTEE INQUIRY INTO THE FUTURE OF AUSTRALIA'S NAVAL SHIPBUILDING INDUSTRY – QUESTIONS ON NOTICE FROM ADELAIDE PUBLIC HEARING

The Defence Teaming Centre (DTC) is a nationally-focused member organisation supporting Australian industry to develop capability and increase overall competitiveness for opportunities in the Defence market.

DTC members include Prime Defence Contractors, Small to Medium Enterprises, Professional Service Providers and Academic Institutions who are involved in supplying and supporting Defence capability. The DTC provides services to facilitate market entry and ongoing business with Defence. Services are tailored to meet the needs of companies of all sizes engaged in activities across all domains within the sector – Air, Land, Sea, Space and Cyber.

At the Senate Economics Reference Committee public hearing in Adelaide on Tuesday 4th April 2017, the Committee asked that the Defence Teaming Centre take on notice a number of questions. This submission seeks to provide responses to those questions.

Senator Xenophon: Could you [Defence Teaming Centre] take on notice what level of engagement there is for the Supply Ships...In terms of the icebreaker, similarly.

In 2014 the Federal Government announced a limited tender for the construction of two Auxiliary Oiler and Replenishment (AOR) vessels, which would be built overseas. The two companies chosen were Navantia and Daewoo Shipbuilding and Marine Engineering (DSME). The Defence Teaming Centre understands that at the time, the Government considered that Australian shipyards would not have the capacity to construct the two Supply Ships.

In 2016 Navantia was selected as the preferred tenderer for the \$640 million program. At the time, The Minister for Defence, Senator Marise Payne said that “we [The Federal Government] do have an undertaking as part of the tender process for at least AUS \$100 million worth of Australian engagement in this particular project.”

The Defence Teaming Centre does not have any detail of the overall level of engagement with Australian industry for the AOR Ships. However, we have been advised that the following Australian companies have been awarded contracts within the program.

Australian Company Name	State	Relevant Scope	Contract Year
SMA Pty Ltd	Australian Capital Territory	Engineering Services - Integrated Logistic Support	2016
Raytheon Australia	Australian Capital Territory	Communication System	2016
Saab Australia Pty Ltd	South Australia	Combat System	2016
Bluescope	New South Wales	Steel Manufacture	2017
Baker and Provan Pty Ltd (Ind. FERRI)	New South Wales	Lifting Equipment	2016
Marine Plant Systems Pty Ltd	Western Australia	Osmosis Plant	2016
AMOG Ltd	Victoria	Safety & Human Engineering Consultancy – Human Engineering Development	2016
Taylor Bro's Marine Pty Ltd	Tasmania	Accommodation and Medical equipment	2017
Navantia Australia Pty Ltd	Australian Capital Territory	Engineering Support	2017
NSAG	Australian Capital Territory	Integrated Platform Management System Manufacture	2017
Total Contracted Amount to Australian Companies at July 2017		Above AU\$125 Million	

The contract with Navantia includes the sustainment of the two AOR ships for five years. Both the Commonwealth and Navantia have given a commitment to all sustainment activities being undertaken in Australia with Navantia Australia and its subcontractors.

In April 2016 the Federal Government signed a contract for the Antarctic Survey & Research Vessel (ASRV). The Defence Teaming Centre understands that Serco is the Prime Contractor to Australian Antarctic Division and responsible for the design, build, operation and maintenance of the ship. Dutch shipbuilder Damen is a subcontractor to Serco for the design and build of the ship.

Unlike the AOR ships, the ASRV contract was awarded to Serco following the release of an open tender. To the best of the Defence Teaming Centre's knowledge, no Australian

shipbuilder responded to the tender. The DTC has been advised that there is no current infrastructure capable of building and launching a vessel of this size in Australia (approximately 26,000 tonnes and 160m in length).

The DTC has no knowledge of the level of engagement with Australian industry for the build phase of the Vessel, but has been advised that “numerous” Australian companies have offered their services to Serco for the sustainment of the ASRV throughout its operating life cycle.

Senator Xenophon: Could you take this on notice. Is the Defence Teaming Centre planning to go to France in the next two or three months, six months, at some determined period – say by the end of this year – on behalf of your 250 members, contractor and supplier companies, to find out what promises have been made by DCNS to French companies?

The Defence Teaming Centre’s Margot Forster, CEO and Sarah Taylor, Director Strategy and Communications will be travelling to France in September 2017. During this trip Ms Forster and Ms Taylor plan to meet with a number of French suppliers to discuss the SEA1000 program and opportunities for Australian industry.

Senator Xenophon: ...the DCNS document [Australian Future Submarine Program – Australian Industry Capability Plan] is 104 pages and does not mention any Australian companies. You may wish to comment on that.

Since the DCNS Australian Industry Capability Plan (AIC Plan) was tabled, the Federal Government has announced changes that propose to strengthen the requirement for Australian involvement in Defence projects. In a media release dated 29 June 2017, Minister for Defence Industry, the Hon Christopher Pyne MP, said that;

“The Australian Industry Capability Plan Template has been strengthened in line with Government’s defence industry policy of maximising Australian industry involvement in meeting Australia’s defence capability goals, creating thousands of jobs across the country and economic growth.

This new template demands more than ever before from defence companies, driving them to outline how and where they will involve Australian industry, before we will even consider their bid.”

The Defence Teaming Centre understands that the new template was used for both the SEA1180 and SEA5000 programs and would now be rolled out across all relevant material procurements. On that basis, the DTC would expect the Commonwealth to seek supplementary information from Naval Group to ensure their AIC Plan meets the new template requirements.

The Defence Teaming strongly supports the requirement for maximised Australian industry involvement in the Future Submarine Program. However, we must turn the rhetoric from a flat percentage of Australian industry content (be it 90% or 60% as suggested in the joint submission from the SA, VIC, NSW and WA Governments) to a more sophisticated discussion around what Australian Sovereign Capability means. The Federal Government must then focus on developing a transparent plan with Naval Group as to how and when the

knowledge and skills to build the Future Submarine will be transferred to Australians. Australia will need to make itself ready for this knowledge and skills transfer.

The Federal Government should be reassuring the Australian people and our defence industry that they are requiring Naval Group to provide a detailed plan as to how and when the skills, knowledge and work is to be handed over to Australians. We should all know what the timeline is and there should be incentives for Naval Group to achieve the target early and penalties if they delay the transfer of this sovereign capability.

Without a transparent plan (and schedule) to transfer this work to Australian companies, industry will not be able to plan for the long and complex journey to achieve the high safety, high quality standards and highly skilled workforce required to work in the Future Submarine supply chain. Our companies need to have confidence that the question is not '*will we get the work?*', but rather '*when we achieve the standards and get the work*'. This journey will take significant financial investment, it can't be for nothing.

The Federal Government wants Australia to be a naval shipbuilding nation. Australian industry is up to this challenge, but can't be expected to carry all of the risk in this nation building endeavour.

Should the Committee wish to discuss this submission further, please contact Sarah Taylor, Director Strategy and Communications on _____ or at _____

Yours Sincerely

Margot Forster CSM
Chief Executive Officer
Defence Teaming Centre