

Chapter 1

Introduction

1.1 On 25 June 2014, the Senate referred the matter of the future of Australia's naval shipbuilding industry to the Senate Economics References Committee for inquiry and report by 1 July 2015. The term of reference for the inquiry is straightforward yet comprehensive in its coverage—the future sustainability of Australia's strategically vital naval ship building industry.

Conduct of inquiry

1.2 The committee advertised its inquiry on its website and in the *Australian* seeking views directly from a range of people interested in the future of Australia's naval shipbuilding and repair industry. In addition, the committee wrote to, and invited submissions from shipbuilders, suppliers, unions, professional associations and individuals engaged in the shipbuilding industry such as engineers and architects as well as academics and economists. The committee also invited state governments and relevant Commonwealth government departments to lodge written submissions.

Submissions and hearings

1.3 To date, the committee has received 26 submissions as well as additional information, listed at Appendix 1. The committee also received over 250 brief messages supporting strongly Australia's naval shipbuilding industry and urging the government to ensure that the future submarines would be built in Australia. The committee has held five public hearings so far in 2014:

- 21 July in Canberra, which concentrated solely on the tender for the Navy's two new supply ships;
- 30 September in Canberra, which focused on the acquisition of the future submarines;
- 8 October in Newcastle;
- 13 October in Melbourne; and
- 14 October in Adelaide.

A list of witnesses is at Appendix 2. References to the committee Hansard are to the proof Hansard and page numbers may vary between the proof and the final Hansard transcripts.

Site visits

1.4 The committee also undertook site visits to shipbuilding and Defence facilities. In Melbourne, the committee visited the BAE Systems Williamstown dockyard and, accompanied by Captain Craig Bourke and Mr Bill Saltzer, toured BAE

facilities including the plate shop, panel line and profile cutter, a module hall, blast and paint, the dry dock and slipway. The committee also inspected the Landing Helicopter Dock (LHD) ships at Nelson Pier.

1.5 In Adelaide, committee members visited the Air Warfare Destroyer (AWD) Systems Centre, where they were briefed by Mr Warren King, CEO, Defence Materiel Organisation (DMO), Mr Peter Croser, AWD Program Manager and Commodore Steve Tiffen, General Manager Stakeholder Engagement. Committee members met Mr Roger Duffield, AWD Platform System Coordinating DAR and toured ASC's AWD shipyard to see construction progress of AWD Ship 01 and Ship 02.

1.6 Committee members then visited ASC North, where Commodore John Chandler provided an introductory briefing. Members toured the shipyard to view maintenance reforms and work being carried out on the submarines. They inspected a Collins class submarine. To conclude the visit, ASC CEO Stuart Whiley provided an ASC presentation and was available to answer questions.

Part I—tender process for Navy's new supply ships

1.7 As part of this broad inquiry into Australia's naval shipbuilding industry, the committee resolved to inquire into the tender process for the Royal Australian Navy's (RAN) new supply ships as its first order of business. The committee's decision was prompted by the government's announcement on 6 June 2014 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 (AOR) ships. 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 AWD project; and value for money considerations.¹

1.8 During this inquiry into the acquisition of the AORs, the committee considered the need and importance of the supply ships to the Australian Navy, the capacity of Australian industry to build the ships and the contribution that such construction could make to sustaining Australia's naval shipbuilding industry. Evidence taken on the tender process for the new supply ships highlighted a number of concerns. They related to the lack of contestability and competition in the limited tender, the lack of industry engagement in the process undertaken so far and the absence of long-term strategic planning that led to the decision.²

1 'Minister for Defence—Boosting Australia's maritime capabilities', Media Release, 6 June 2014, <http://www.minister.defence.gov.au/2014/06/06/minister-for-defence-boosting-australias-maritime-capabilities/> (accessed 4 August 2014).

2 Senate Economics References Committee, Part 1, *Future of Australia's naval shipbuilding industry: Tender process for the navy's new supply ships*, August 2014, p. 98.

1.9 In particular, the committee found that Defence had not consulted with industry or encouraged open discussion about possible Australian engagement with the project. Indeed, it appeared as though local shipyards were shut out of all consideration. In this regard, the committee formed the view that Defence should have consulted with local shipyards and allowed them to present their case when it came to building the supply ships in Australia. The committee was not convinced that a limited tender involving only two companies was the best way to obtain the necessary information to proceed to second pass.³

1.10 The committee also believed that the way in which the decision for a limited tender was taken and announced was a significant blow to Australian industry. The absence of consultation was at odds with Defence's stated industry policy objectives, which seek to promote competitive, collaborative and innovative industry.⁴

1.11 Overall, the committee concluded that decisions, such as the acquisition of the supply ships, were extremely important for both Defence capability and for the sustainability of defence industry in Australia. They involve huge amounts of taxpayers' money and have long-term implications for Navy's future procurement strategies and, importantly, its capability. In the committee's view, such decisions should be well considered, based on sound research and analysis, and informed through close consultation with industry. The committee recommended that the tender process for the two supply ships be opened up to allow all companies, including Australian companies, to compete in the tender and to make clear in the tender documents that a high value would be placed on Australian content in the project.⁵

1.12 The committee tabled Part I of its report on 27 August 2014. The report is available on the committee's website.

Part II—acquisition of future submarines

1.13 Shortly after presenting Part I of its report on the tender for the Navy's new supply ships, the committee's focus was drawn to developments regarding the future submarine project. The statement by the Foreign Minister that discussions with Japan had included the possibility of purchasing 'entire submarines' fuelled public speculation that the government planned to break its commitment to build 12 submarines in Adelaide. The major concern centred on the possibility that the government was about to make pre-emptive decisions that would effectively shut down potential and viable avenues for acquiring the submarines and again undertake a limited tender. Questions were also raised about the effects that such a decision

3 Senate Economics References Committee, Part 1, *Future of Australia's naval shipbuilding industry: Tender process for the navy's new supply ships*, August 2014, pp. xii–xiii and 93–98.

4 Senate Economics References Committee, Part 1, *Future of Australia's naval shipbuilding industry: Tender process for the navy's new supply ships*, August 2014, p. 98.

5 Senate Economics References Committee, Part 1, *Future of Australia's naval shipbuilding industry: Tender process for the navy's new supply ships*, August 2014, pp. xiii and 98.

would have on the future of Australia's shipbuilding industry and the overall success of the future submarine project. Rather than subside, talk of a possible agreement with Japan to acquire submarines for the Australian Navy persisted.⁶

1.14 In light of these developments, the committee resolved on 25 September 2014 to hold a public hearing on 30 September to further investigate the various statements and assumptions being made about the future submarine project. As noted earlier, the committee also held public hearings in Newcastle on 8 October; in Melbourne on 13 October; and in Adelaide the following day, where the committee took evidence on the future submarine project.

1.15 Given the importance of the decisions that are to be taken on the future submarines and the thrust of the evidence gathered so far, the committee resolved on 28 October to report its findings to the Senate. The committee took this step because it feared that critically important decisions were about to be made without adequate public consultation and moreover without a fair, proper and transparent competitive tender process.

1.16 The committee is firmly of the view that the future submarine project is of immense national importance and every decision relating to the project should be based on the best advice available. Having access to such advice requires that ideas and proposals are thoroughly contested and assessed objectively. Open and informed debate would confer much needed transparency on government decisions; it would allow genuine scrutiny of government decisions, provoke robust debate and engender public, industry and multi-partisan political support for the proposed acquisition. The decision to acquire the future submarines is a decision in the national interest and should be owned by Australians.

1.17 This report is intended to start this process of much needed transparency and informed debate and the committee encourages all those interested in the purchase of the future submarines to assess critically the evidence taken by the committee and to agitate for a more open and inclusive process.

6 See for example, Minister for Defence—Transcript—Interview with Tony Jones, Lateline, 27 August 2014, <http://www.minister.defence.gov.au/2014/08/27/minister-for-defence-transcript-interview-with-tony-jones-lateline-3/>; ABC News, 'Japanese submarine experts visit Adelaide, sparking fears for shipbuilding future', 27 August 2014, <http://www.abc.net.au/news/2014-08-27/japanese-delegates-spark-fears-submarine-future/5699076>; 'Johnston plays down SA submarine fears', 27 August 2014, <http://www.news.com.au/national/breaking-news/sa-govt-fears-over-submarine-project/story-e6frku9-1227038567300>; Minister for Defence—Transcript—Interview with Justin Smith, 2UE Drive, 9 September 2014, <http://www.minister.defence.gov.au/2014/09/09/minister-for-defence-transcript-interview-with-justin-smith-2ue-drive/> (accessed 27 September 2014); ABC News, 'Soryu submarine deal: Japanese insiders warn submarine program will cost more, hurt Australian jobs', <http://www.abc.net.au/news/2014-09-15/japanese-concerns-over-submarine-deal/5743022> (accessed 27 September 2014).

Acknowledgements

1.18 The committee thanks all those who assisted with the inquiry, especially those who made written submissions and appeared before the committee at such short notice.

