

# Chapter 6

## Long term national strategic plan

6.1 If Australia is to have a vibrant, innovative and internationally competitive defence industry, it must have a steady and reliable flow of work. The committee made this point in its first report drawing not only on evidence from its inquiry but on decades of experiences from both Australia and overseas. It further emphasised this fact in the previous chapter. Despite world-wide recognition, countries, including Australia, continue to struggle with planning and implementing a continuous naval shipbuilding program that would support their indigenous defence industry.

6.2 A national strategic naval shipbuilding plan is central to achieving this goal of maintaining a continuous stream of work for Australian shipyards. In this chapter, the committee endeavours to reconcile government statements and planning documents with what is happening on the ground in Australian shipyards.

6.3 So far the committee has produced evidence that is stark and incontrovertible: Australia has suffered the consequences of feast and famine cycles in naval shipbuilding, which means that industry struggles to survive during the downturn and then has to rebuild capacity after a lull in construction. The AWD is the most recent example that demonstrates clearly the need for a strategic approach to Australia's shipbuilding industry. In this particular instance, Australia, without proper planning, found itself in a situation where Defence needed to acquire concurrently the LHDs and replace the AWDs.<sup>1</sup> Indeed, the shipyard at Williamstown was stretched, working on two major projects at the same time—steel blocks for the AWDs and the superstructure and integration of the LHDs.<sup>2</sup>

6.4 There are numerous problems encountered when starting major shipbuilding projects, such as the AWD, from a cold start. They include the costs of finding, recruiting, training and retooling skilled workers, upgrading or cranking up disused or under-utilised infrastructure, re-establishing the critical supply network, and importantly, relearning lessons that normally would be part of the domain knowledge of a shipyard.

6.5 This is not to ignore the adverse consequences and wastage of skilled workers lost to the industry and idle infrastructure as demand tapers off after a peak in production. The committee has highlighted the leakage of skilled workers from the industry, the lost corporate knowledge and the detrimental effects that filter through the economy.

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1 Mr Warren King, *Proof Committee Hansard*, 21 July 2014, p. 32.

2 The Hon. Stephen Smith MP, Minister for Defence, Media Release, 'Changes to Air Warfare Destroyer Construction Program', MIN663/11, 26 May 2011, <http://www.defence.gov.au/minister/Smithtpl.cfm?CurrentId=11862> (accessed 2 January 2012).

6.6 The government and Defence have made commitments to supporting Australia's naval shipbuilding industry in key strategic documents—Defence White Papers, the Defence Capability Plan and Defence Industry Policy Statements. But, for many years, defence industry has criticised these documents as an ineffective means of providing assistance to the industry. In particular they provide no workable or practical solutions and, in some cases, pay no heed to maintaining a continuous flow of business.

### **Defence White Paper 2015**

6.7 The Prime Minister and the Minister for Defence announced on 4 April 2014, that Defence would produce a new Defence White Paper to be released in 2015. Defence white papers are key strategic documents that present the government's long-term strategic forecast and commitments for Defence including its future capability. Such documents have a critical role in providing guidance to government about Australia's long-term defence capability. They allow the government and community 'to understand the opportunities and challenges for Australia's future defence and security needs'. According to the Prime Minister, the 2015 Defence White Paper would be 'a whole-of-government product that reflects the Government's overall strategic, fiscal and broader policy priorities'.<sup>3</sup>

6.8 Following the release of the 2015 White Paper, Defence would publish a 10-year Defence Capability Plan and a Defence Industry Policy Statement.<sup>4</sup> Both documents should 'provide defence industry with greater certainty about the Government's key priorities and timeframes'.<sup>5</sup> In conjunction with the White Paper, the government will also publish a fully-costed 10-year Defence Investment Plan and an enterprise-level Naval Shipbuilding Plan. According to the government, together these policies and plans will ensure Australia has a sustainable and viable industry.<sup>6</sup>

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3 Australian Government, Department of Defence, '2015 Defence White Paper', <http://www.defence.gov.au/whitepaper/> (accessed 14 May 2015).

4 Department of Defence Ministers, Minister for Defence – Speech – RUSI Submarine Summit – 25 March 2015, 25 March 2015, <http://www.minister.defence.gov.au/2015/03/25/speech-rusi-submarine-summit-25-march-2015/> (18 May 2015).

5 Australian Government, Department of Defence, '2015 Defence White Paper', <http://www.defence.gov.au/whitepaper/> (accessed 14 May 2015).

6 Australian Government, Budget 2015–16, Defending Australia and its National Interests, 2015, Department of Defence, p. 2, <http://www.defence.gov.au/Budget/15-16/2015-16-Brochure.pdf> (accessed 20 May 2014).

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## Defence Capability Plan

6.9 The DCP is a 'classified and costed 10-year detailed development plan for Australia's military capabilities (including workforce requirements)'.<sup>7</sup> Defence also publishes a public version of the DCP designed to:

...provide industry with a synopsis of the projects including: confirmed scope; background; indicative schedule; Australian Industry opportunities; cost banding; and points of contact. The format of this Public DCP also introduces stakeholders to the concept of Program and Sub-Program management.<sup>8</sup>

6.10 Government approval for entry of projects into the DCP provides 'the foundation for subsequent capability work in Defence'.<sup>9</sup>

6.11 The DCP is one of the primary means whereby Defence has articulated its future naval shipbuilding demand and acquisition schedules. The DCP should provide industry with the assurances and guidance that allows businesses to plan with confidence.

6.12 For decades, defence industry has been calling for a strategic long-term naval shipbuilding plan on which industry could depend. For example in 2006, after a comprehensive examination of Australia's naval shipbuilding industry, including the cyclical flows in demand that characterise the industry, the Senate Foreign Affairs, Defence and Trade References Committee (FADT) found that:

...as naval shipbuilding is a monopsony market, the circumstances of industry players are substantially different to many other cyclical industry sectors. It is concerned that if Australian companies cannot survive and grow through peak and trough demand cycles, the capacity to meet defence's capability needs into the future will be reduced.<sup>10</sup>

6.13 The FADT committee also expressed concern that Defence did not fully accept how powerfully its demand scheduling shaped Australia's naval shipbuilding capacity and efficiency. It rejected the notion that measures could not be taken 'to moderate demand peaks and troughs more effectively without adversely affecting Defence capability'.<sup>11</sup>

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7 Department of Defence, *Defence Capability Development Handbook 2014*, paragraph 2.2.4, [http://www.defence.gov.au/publications/docs/Defence%20Capability%20Development%20Handbook%20\(DCDH\)%202014%20-%20internet%20copy.pdf](http://www.defence.gov.au/publications/docs/Defence%20Capability%20Development%20Handbook%20(DCDH)%202014%20-%20internet%20copy.pdf) (accessed 8 August 2014).

8 Department of Defence, Defence Capability Plan, public version 2012, p. 1, <http://www.defence.gov.au/publications/CapabilityPlan2012.pdf> (accessed 17 October 2014).

9 Department of Defence, *Defence Capability Development Handbook 2014*, paragraph 2.2.7.

10 Senate Foreign Affairs, Defence and Trade Committee, *Blue water ships: consolidating past achievements*, 7 December 2006, p. 264.

11 Senate Foreign Affairs, Defence and Trade Committee, *Blue water ships: consolidating past achievements*, 7 December 2006, p. 264.

6.14 At that time experts and commentators on defence procurement and those engaged in the defence industries were critical of the information made available through the DCP. They wanted accurate and reliable information on Defence's forward procurement plans: clearer guidance on the government's long-term plan. Moreover, they were looking for detailed information on the value placed on, and weight given to, Australian industry involvement; the industrial capabilities deemed to be strategically important, and the levels of funding likely to be available.

6.15 The concern with the quality and reliability of information available, particularly through the DCP, was also evident in the 2012 FADT committee report on Defence procurement for Defence capital projects. Again industry told the committee that key planning documents for industry such as the Defence White Paper and the DCP fell short in providing the level of certainty that industry required 'to be an effective partner in capability development'.<sup>12</sup> The evidence before this current inquiry reinforces those same messages of a decade ago and repeated just three years ago.

### **Need for long term plan**

6.16 Defence is the sole customer for Australia's naval shipbuilding industry and because of its dominance in the market is able to create policy settings to assist industry become more effective and competitive. As Austal observed:

Industry must, and can be competitive against international benchmarks, provided the government puts the right policy levers in place.<sup>13</sup>

6.17 Such measures include 'driving the most effective procurement plan to support capability and industry'.<sup>14</sup> Dr Mark Hodge, DMTC, was firmly of the view that Australia can build naval ships, but a framework or strategy has to be in place that ensures Australia has the skills and capability transfer mechanisms that are 'independent, or at least not specifically tied to, those feast and famine processes'.<sup>15</sup> He explained that if industry were not equipped with the skills and best practice programs in terms of productivity and access to technology to enable participation in the global supply chains when there is an upswing in production then it would 'not be in the game'.<sup>16</sup> He stated:

...while you might not know which designer is coming to build a particular ship, you might not know which prime or you might not know much about it, you do know it is going to be made of steel, you do know you are going to need to weld it and you do know you are going to need to drill holes in it. You know a lot about it. You know enough about it where there is an

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12 Senate Foreign Affairs, Defence and Trade Committee, *Procurement procedures for Defence capital projects*, Final report, August 2012, pp. 224–225.

13 *Submission 28*, p. 3.

14 *Submission 28*, p. 3.

15 *Proof Committee Hansard*, 6 March 2015, p. 12.

16 *Proof Committee Hansard*, 6 March 2015, p. 12.

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opportunity for a very marginal cost to invest through appropriate models to ensure that you are benchmarking your supply chain productivity and providing the opportunity to insert technology in a way that gives that supply chain a trajectory to tool itself up for when those opportunities come.<sup>17</sup>

6.18 Mr Wardell argued that for this industry to survive, it needs to have 10-year, 20-year plans. In his assessment, the industry cannot survive on the four-yearly cycle of one government to the next government. According to Mr Wardell, there has to be bipartisan agreement which allows for long term planning. He firmly believed that:

...if the government were to get its act together and put down a plan, it could foster competition between the likes of BAE and other prime contractors—Thales and SAAB or whatever—and if we could maintain continuity of work and benefit from the learning curves and the lessons learnt, the shipbuilding industry in Australia could be world class and very competitive. It is not going to take a lot to do it, but it cannot be done in a start-stop way.<sup>18</sup>

6.19 Along similar lines, Mr Saltzer, BAE, noted:

Ultimately, the government has to sit down and help us understand what their long-term plan is and what is strategically important to do in Australia, and the industry will rationalise around that. It does not make sense for us to go up to 8,000 or 10,000 people for a couple of years and then come down to zero to 500. It just does not make sense to do that. Get us to the point where we need to be, and allow us to produce without all the peaks and valleys, and the productivity, I guarantee you, will be there.<sup>19</sup>

6.20 In his view, the tender process for the Supply ships was an act of misgauging priorities:

...the government here needs to focus and decide on its priorities in terms of what is strategic for naval shipbuilding in Australia, and then to work with the industry to create that rationalisation that will be needed to support that level of capability. The fact is that we keep going back and forth to the idea that 'we have not done anything, so let's not do it on this ship,' and then the next ship comes along and you still say 'we have not done anything, so let's do it on the next ship that comes along.' It is an endless cycle with no result.<sup>20</sup>

6.21 Professor John Norris also spoke of the need to provide industry with certain guidance of future requirements to encourage investment in targeted areas. To his

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17 *Proof Committee Hansard*, 6 March 2015, p. 12.

18 *Proof Committee Hansard*, 6 March 2015, p. 2.

19 *Proof Committee Hansard*, 14 April 2015, p. 19.

20 *Proof Committee Hansard*, 14 April 2015, p. 21.

mind, "the certainty of ongoing orders" and investment in new technology remains an obstacle to productivity'.<sup>21</sup> He explained further:

To facilitate this approach the Australian shipbuilding industry needs adequate warning of the chosen design route so that it can explore the most productive manufacturing options. If overseas 'best practice' in shipbuilding is examined it is clear that significant productivity improvements could be made by employing automation, new welding processes, improved design tools and advanced metrology. These developments may need major investments to be made by the industry and this is only possible if there is a clear commitment to an ongoing Naval shipbuilding and sustainment program in Australia.<sup>22</sup>

6.22 The Defence Teaming Centre added its voice to the call for a strategic long-term naval ship building plan. Mr Burns stated:

These projects should be considered collectively in the context of a whole-of-government national shipbuilding vision and plan that has bipartisan support and is developed in collaboration with the crossbenches. Developing such a plan would not be an onerous or time-consuming task. Much of the data required already exists in the numerous studies and reviews of shipbuilding that have been conducted.<sup>23</sup>

6.23 Underlining the need for clarity and certainty from Defence, Mr Burns reinforced the argument that industry can only make investments based on a sound strategic Defence capability and acquisition plan. He told the committee that, from an industry viewpoint, the DCP had not been reliable for a number of years. Indeed, in his view, since 2009 industry had not been able to rely on the DCP because it has 'not been delivered, budgeted or funded'. He stated that industry still does not have a funded Defence capability plan at this time.<sup>24</sup> Put bluntly, if 'you do not know and you cannot rely on the plan, you cannot go to the bank and make your plans'.<sup>25</sup> He repeated his concern:

Industry cannot invest based on the Defence capability plan because it is not reliable and it is not funded and so a company cannot go to its bank and say, 'I need money to sustain myself in order to secure that project'.<sup>26</sup>

6.24 Mr Burns, was one of a number of witnesses who mentioned that the US, the UK and Canada have:

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21 *Submission 27*, p. [4].

22 *Submission 27*, p. [3].

23 *Proof Committee Hansard*, 14 April 2015, p. 27.

24 Mr Christopher Burns, Defence Teaming Centre, *Committee Hansard*, 21 July 2014, p. 45.

25 *Proof Committee Hansard*, 21 July 2014, p. 43.

26 *Proof Committee Hansard*, 21 July 2014, p. 46.

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...developed 30-year national shipbuilding plans agreed by all parties of government. They develop these plans with the realisation that, when you take a truly long-term perspective and consider the whole-of-life cost benefits to the nation, you appreciate the value for money and return on your investment if you partner with and commit to work with your national industrial base.<sup>27</sup>

6.25 Along similar lines, Mr Dunk referred to the Defence White Paper and the Defence industry policy statement, which, in his view, had never made a demonstrable link:

...between the strategic requirement to build ships and the strategic requirement to maintain them and the crossover in skills necessary to ensure that we can achieve the maintenance through shipbuilding. It may well be that shipbuilding in itself is a strategic requirement, but it is not listed as one as far as the government policy is concerned.<sup>28</sup>

6.26 Defence industry's ability to plan for, and invest in, people and facilities in order to partner with Defence to deliver future naval ships depends significantly on the information Defence makes available. Clearly, from industry's perspective, Defence's strategic planning documents do not instil confidence and fall far short in providing the certainty industry requires to commit resources to proposed future projects. Further, the strategic planning that underpins these documents lacks foresight and commitment resulting in volatility in demand and confusion about future intentions.

6.27 The urgent need to forestall a capability gap and undertake a limited tender for the two replenishment ships is evidence of this lack of planning. It should also be noted that the need to avoid a capability gap in the 2020s when the Collins Class is scheduled for retirement from service has placed the delivery of the future submarine under increasing pressure. In addition, the fact that the start of the construction of the AWDs overlapped with work on the LHDs, which created heavy demands on the Australian shipyards, also indicates a lack of foresight. Further, now there is the prospect of a gap in production between the AWDs and the future frigates, from which the industry is already suffering, as well as the anticipated lull around 2035.<sup>29</sup>

### **Government's policies and plans**

6.28 The government's decision regarding the limited tender for the replacement replenishment ships was announced simultaneously with its decisions to bring forward work to keep open the option of building the future frigates in Australia; an open

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27 *Proof Committee Hansard*, 14 April 2015, p. 27.

28 *Proof Committee Hansard*, 21 July 2014, p. 44.

29 See, for example, John Birkler et al, *Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century*, Santa Monica, CA: RAND Corporation, 2015, p. xxvii, [http://www.rand.org/pubs/research\\_reports/RR1093](http://www.rand.org/pubs/research_reports/RR1093) (accessed 18 May 2015).

competition with Australian industry to construct the replacement Pacific patrol boats; and the development of an enterprise-level Naval Shipbuilding Plan as part of the White Paper 2015 process.<sup>30</sup> With regard to this plan, Defence informed the committee that the development of the White Paper and the enterprise-level Naval Shipbuilding Plan would:

...address issues associated with the Australian shipbuilding industry and develop a plan that aligns Defence capability requirements with industry capacity. The goal will be to ensure that the recapitalisation of the Navy over the coming decades can be undertaken in a way that ensures a cost-effective solution for Defence and provides Navy the assured capability and structure to fight and win at sea.<sup>31</sup>

6.29 In its 2015–16, Defence Budget Statement, the government stated that it would 'enhance its strong record of investment in Defence capability'. It noted further, a complete program of capital investment in new capabilities, including, as mentioned earlier, a detailed enterprise-level Naval Shipbuilding Plan, would accompany the 2015 Defence White Paper.<sup>32</sup> This shipbuilding plan, together with policies, is meant to ensure that Australia would have a sustainable and viable ship building industry. It is intended to:

- provide for the long-term future of the Australian naval shipbuilding industry; and
- provide greater certainty to industry about key priorities and timeframes.<sup>33</sup>

6.30 But as noted earlier, companies such as BAE and the many SMEs that support Australia's naval shipbuilding industry are already shedding jobs and, further, have little confidence that the government has a plan to help revive the industry.

6.31 Without doubt, there is a pressing need for the government to formulate a long-term strategic naval shipbuilding plan. This plan, however, must be credible, reliable and, of paramount importance, address the immediate problems confronting the industry. Defence industry wants a predictable and sustainable basis on which to plan ahead.

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30 Australian Government, Australian Government response to the Senate Economic References Committee report: Part I—Inquiry into the Future of Australia's Naval Shipbuilding Industry Tender Process for the Navy's New Supply Ships, p. 1, [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Naval\\_shipbuilding/Additional\\_Documents](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Naval_shipbuilding/Additional_Documents) (accessed 24 May 2015).

31 *Submission 35*, p. 6.

32 Australian Government, Budget 2015–16, *Defending Australia and its National Interests*, 2015, Department of Defence, p. 6, <http://www.defence.gov.au/Budget/15-16/2015-16-Brochure.pdf> (accessed 20 May 2014).

33 Department of Defence Ministers, Minister for Defence—Speech—RUSI Submarine Summit, 25 March 2015, <http://www.minister.defence.gov.au/2015/03/25/speech-rusi-submarine-summit-25-march-2015/> (18 May 2015).



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## Conclusion

6.32 Experts, analysts and commentators on naval shipbuilding as well as those engaged in the industry were critical of the quality and reliability of information made available through the DCP and other planning documents. Witnesses wanted a greater level of detail on Defence's forward procurement plans, certainty in their implementation and improved understanding of Defence's expectations of the industry. They were asking for detailed information on the value placed on, and the weight given to, Australian industry involvement, the industrial capabilities deemed strategically important, and the levels of funding likely to be available. Importantly, they wanted greater fidelity in project timelines. But, above all, they want to be able to plan ahead, confident that the proposed projects together with their projected costs and schedules were true indications of the government's commitment to deliver those projects.

6.33 The committee underscores the importance of the government keeping the Australian defence industry informed of its future naval requirements so it can align its planning, investment and research and development to meet Defence's long-term needs. Without doubt, there is a need for Defence to take a more coherent and strategic approach to planning its major naval acquisition programs and to consult with industry when planning. The committee strongly supports the call for a long-term strategic plan, which should be developed within the context of Australia's broad national strategic framework and take account of how best to:

- optimise the use of Australian SMEs and overseas subsidiaries established in Australia;
- build on existing infrastructure and encourage future investment in people, facilities and research and development to ensure that Australian shipyards and their complementary supply chains are prepared to participate in and support Australia's naval shipbuilding industry;
- provide the Australian defence industry with a clearer sense of Defence's future plans, priorities and intentions, providing industry with the confidence to invest in Australia's ship building industry for the long term and to make informed and better targeted investment decisions;
- smooth the 'peaks and troughs' that have characterised Australian naval shipbuilding; and
- maintain a constant base load of work that would sustain a viable naval shipbuilding industry in Australia.

6.34 The proposed enterprise-level Naval Shipbuilding Plan should complement the Defence Investment Plan and provide a certain and reliable indication of Defence's future acquisition program, with sufficient information to enable the Australian defence industry to deploy resources with confidence. Based on previous reports and the evidence before this inquiry, the committee makes the following recommendation:

## **Recommendation 5**

**6.35** The committee recommends that the 2015 White Paper is prepared in such a way that all procurement proposals are costed and scheduled realistically, and informed by the need to have a continuous build program for naval ships.

**6.36** The committee understands that, following the release of its 2015 Defence White Paper, the government will also publish a Defence Investment Plan and an enterprise-level Naval Shipbuilding Plan.

**6.37** The committee recommends that both documents take note of the evidence provided in this report about the importance of having a continuous build program that will sustain a viable naval shipbuilding and repair industry. Further that both documents, provide:

- a schedule of anticipated timelines for the construction and delivery of all DCP projects, with continuity of production the paramount feature;
- a discussion about the nation's future strategic capability requirements that identifies the industrial capabilities deemed to be strategically important and Defence's expectations for Australia's naval shipbuilding industry;
- an assessment of the nation's existing shipbuilding and repair facilities, including the shipbuilding supply chain, and predicted investment needs;
- a comprehensive statement providing accurate and reliable information on Defence's future plans for its naval acquisition program that goes beyond ten year projections;
- a detailed explanation on the acquisition schedule indicating the reasoning behind it and the major factors influencing demand flows; and
- reliable cost estimates.

The committee recommends that both plans recognise that a 10-year span is insufficient and should cover at least 20 years.

**6.38** The committee recommends the establishment of an ongoing shipbuilding industry advocate to work with the Australian Government and the shipbuilding industry, including supply chain and SMEs. The shipbuilding industry advocate should advise Defence and industry during the development of the Defence Investment Plan and Naval Shipbuilding Plan.