

Executive summary and recommendations

In the previous Parliament, this committee tabled three reports on the future of Australia's naval shipbuilding industry. The committee's first and second reports dealt with the tender process for the navy's new supply ships and the pre-tender process for the future submarines, respectively. The committee's third report reaffirmed recommendations made in earlier reports, and also made findings applicable to the wider topic of Australia's future shipbuilding industry, including a recommendation that particular matters be included in the government's Naval Shipbuilding Plan. In this final report, the first in this Parliament, the committee builds on its earlier findings and recommendations, and has also examined the naval shipbuilding plan, and recent procurement and policy announcements made by the government.

The committee remains concerned about the government's management of the naval shipbuilding programs, particularly given the findings of the Auditor General in Audit Report No. 39 *Naval Construction Programs—Mobilisation*. The Auditor General concluded that in order for the submarine program to be successful, implementation of the programs must be 'seamless'. There are early warning signs that the government's management of naval shipbuilding is far from seamless. Further, the committee is concerned that the government has at times actively excluded Australian workers and shipbuilders from participating in naval shipbuilding programs.

In relation to the Future Submarine Program, the committee was disappointed to hear that the Strategic Partnership Agreement (SPA) between the Commonwealth and Naval Group Australia is still under negotiation, placing enormous cost and scheduling pressures on work programs reliant on a completed SPA. The committee is concerned that in the absence of a signed SPA, the delay in the transfer of background intellectual property and information between the parties will place the whole submarine project under enormous cost and scheduling pressures. The committee is also concerned that delays related to the future submarine program risk leaving a sovereign capability gap.

In relation to the Future Frigate Program, the announcement of the successful designer for the future frigates program is due by the end of June 2018. The committee is concerned that there will be minimal participation from the Australian shipbuilding industry because the government's request for tender does not require the three shortlisted foreign designers to subcontract Australian businesses in their proposals. This decision undermines the government's publicly stated commitment to the local shipbuilding industry and its workforce, and runs counter to the development of domestic and sovereign capability. The committee believes that it is not too late to include a mandatory requirement that Australian businesses be involved in the future frigate program, and evidence suggested that such inclusion would accelerate the program rather than delay it.

In relation to the Offshore Patrol Vessel Program (OPV), the procurement process was poorly managed. The government inserted Austal into Luerssen's commercial negotiations after the announcement that Luerssen was the preferred tenderer. This approach did not put Austal in a strong negotiating position, nor was there any incentive for Luerssen to reach a mutually beneficial settlement once it had won the prime contract.

The Auditor General expressed concern that the OPV program had progressed through second-gate approval without detailed sustainment costs and finalised commercial arrangements. The committee shares these concerns and notes that any disruptions to the OPV build will result in subsequent disruptions to the Future Frigate Program.

Other examples of cost blow outs, delays and poor management include the following.

- The delay and cost increases related to the establishment of the Naval Shipbuilding College. The cost of the college has increased from \$25 million to \$62 million, even before the College's ongoing costs have been considered. The College was scheduled to commence operations in January 2018 but is still not operational.
- The Naval Shipbuilding Advisory Board, established in December 2016, has already cost taxpayers more than \$2.4million in payments to board members alone. The committee has not been provided with any evidence that the board represents value for money, and remains unclear as to the role of the board. The committee is also concerned at recent attempts by the board to avoid public scrutiny.
- The appointment of former Defence Minister, David Johnston to the position of Defence Export Advocate is perplexing given his failure to recognise the skills and strategic importance of the Australian Submarine Corporation (ASC) and his potential conflicts of interest. The committee is also concerned about the lack of transparency relating to his appointment and his remuneration.
- The government's lack of planning and failure to communicate regarding the future role of the ASC and its staff, as the numbers of ASC staff continues to fall.

Nevertheless, throughout this inquiry the committee was reminded of the tremendous capacity of Australian industry and Australian workers to contribute to the naval shipbuilding enterprise. The committee notes that the decision on the Future Frigates is imminent. It is critical for the development of Australia's sovereign capability that Australian shipbuilders have a significant role in the build of the Future Frigates.

National long-term planning

National long term planning is vitally important for Australia's naval shipbuilding industry to sustain and consolidate its sovereign capability. The release of the naval shipbuilding plan on 16 May 2017 attempted to formalise a long-term plan for the industry. However, the committee believes that further work is required to provide a more comprehensive and holistic long-term plan for the Australian naval shipbuilding industry.

The naval shipbuilding plan failed to include key information identified by witnesses as vital for inclusion. For example, the plan lacks guidelines about mandated levels of Australian industry involvement and content in defence projects. As a result, information about when Australian industry involvement and content should be achieved in these projects, how these requirements would be enforced, and what penalties exist for not adhering to the mandated requirements, is absent.

A plan should be a strategic document for industry and provide a framework for action. However, this plan is little more than a repetition of decisions and announcements already made. The plan does not provide a detailed project schedule for the continuous build and it does not specify the related dependencies between projects. Further, limited detail is provided about projects. For example, little information is available in the Plan regarding the \$100 million naval infrastructure investment in Western Australia promised by the government. A further weakness is that the Plan does not mandate regular reporting or updates. The committee considers that a status report and an updated plan should be provided to Parliament every 6 months.

In sum, the committee considers that the government's Naval Shipbuilding Plan is limited in scope and falls short of contributing to the goal of a continuous building of ships in Australia.

The committee considers that a continuous build of ships and utilisation of Australian industry is more readily achievable through the development of a truly national shipbuilding plan that includes all Commonwealth vessel procurements and leases, state vessel procurements, as well commercial opportunities and support for a growing exports industry. The committee considers that one national plan is required. This plan should incorporate the government's existing naval shipbuilding plan, along with plans for other Commonwealth and state/territory vessels, commercial vessels, and all existing Australian shipbuilding yards. Australia can only plan for, and achieve, a continuous build of ships, if all ships produced in Australia are included in a national plan.

The committee notes that state and territory procurements are a matter for state governments and that procurement frameworks differ across jurisdictions. Moreover, the committee is aware that in the past decade a large number of state and territory vessel procurements have been awarded to Australian industry. On balance, the committee considers that there is value in developing a shared principles framework to ensure that:

- state involvement in industry continues;

- the Commonwealth can learn from the states; and
- the Commonwealth and state and territory governments work together to ensure a national continuous build of ships, maximising Australian involvement.

Recommendation 1

3.116 The committee recommends that the Commonwealth and state governments work together to develop a national shipbuilding plan, incorporating the existing naval shipbuilding plan. A national shipbuilding plan should include the following:

- agreed procurement principles focused on support for a continuous build of vessels in Australia utilising Australian industry and Australian shipyards;
- at a minimum, all vessels procured by the Commonwealth, scientific and research vessels, federal police and customs and border protection vessels, and agriculture vessels. These procurements should be subject to the same level of scrutiny as naval procurements have been, and be planned accordingly in the national interest;
- how remaining shipyards not identified in the government's naval shipbuilding plan will be utilised in a continuous national shipbuilding build program;
- how Australia's commercial and exports industry can be supported and planned for into the future;
- the requirement that reporting against the plan be provided every six months to the Commonwealth Parliament for scrutiny; and
- any other matters deemed essential to the development of a holistic national plan.

Recommendation 2

3.117 The committee recommends that in the absence of a national shipbuilding plan in the short term, reporting against the government's current naval shipbuilding plan and its four key enablers and three major continuous build programs be provided to the Commonwealth Parliament every six months.

Workforce planning strategy

Workforce planning is critical for the successful implementation of the naval shipbuilding plan and the government's continuous build of naval ships in Australia.

The committee examined the government's workforce plan, industry demographics and key skills required for the industry, and training opportunities available for new employees. The committee also examined of the future of the Australian Submarine Corporation (ASC) and its workforce.

On 11 October 2016, the government announced that the ASC would be separated into three individual government owned companies: shipbuilding, submarine sustainment

and infrastructure. This announcement was not widely publicised until much later and the practical implications remain unclear. During the course of the inquiry the committee learned that the separation had not in fact occurred.

The government is considering moving ASC Collins Class submarine heavy sustainment activities from Adelaide to Perth, leaving hundreds of workers in limbo about their future. The naval shipbuilding plan provided no detail about the long term plan for the location and usage of Australian shipyards. The committee does not understand how a naval shipbuilding plan could have been published without holistic consideration of all Australian shipyards and their employees. This has led to uncertainty for Australian industry and for Australian workers, who need certainty about where this work will occur and need to know the government's plans for Australian naval yards. A lack of transparency about these decisions is a significant failure on the part of the government.

Further, the number of ASC staff continues to fall. The committee finds it difficult to understand why the additional appropriation for scholarships, valued up to \$29.4 million, was not made available to prevent the recent loss of ASC jobs. The build of the first offshore patrol vessel is imminent and the future frigate and submarine programs will soon follow. In this environment, retaining the shipbuilding workforce in readiness for a rapidly expanding workforce should be a priority.

The complexity of the continuous shipbuilding task requires seamless transferability and mobility of skills between the various projects. The task will not be assisted by incoherence between training structures and the development and validation of training products. For these reasons, the formation of the Naval Shipbuilding Industry Reference Committee (IRC) is puzzling. The Naval Shipbuilding IRC appears to duplicate the work of existing IRCs, yet adequate measures have not been implemented to prevent significant overlap with the work of the current IRCs. The committee heard no evidence to suggest that existing IRCs are failing to meet the specific needs of naval shipbuilding.

Recommendation 3

4.115 The Committee recommends that the government prioritise finalising the future location of Collins Class sustainment activities and confirm plans for the future of the ASC and its employees.

Recommendation 4

4.116 The committee recommends that the funding announced in MYEFO expenditure of \$29.4 million over three years from 2017-18 for ASC job retention scholarships be immediately released to the ASC to prevent further job losses from the strategically vital naval shipbuilding industry.

Recommendation 5

4.117 The committee recommends that the Naval Shipbuilding College establish structured consultations mechanisms with Industry Reference Committees associated with Naval Shipbuilding Occupations.

Recommendation 6

4.118 The committee recommends that the Australian Industry Skills Committee task the existing Industry Reference Committees, responsible for the development of training products associated with naval shipbuilding occupations, with establishing Technical Advisory Groups to ensure that skills gaps identified through their own industry consultations or by Naval Shipbuilding Colleges are integrated into existing training package development and maintenance work.

Australian sovereign capability

It is vitally important that Australia develop and maintain a sovereign capability to design and build ships in this country. By doing so, Australia will have a naval shipbuilding industry that will generate sustainable, long-term jobs in our country. The committee was dismayed to learn that Austal had been cut from the \$3 billion Offshore Patrol Vessel program. This decision by the government reveals how poorly the project has been managed.

An Australian sovereign capability in naval shipbuilding is vital for the defence of the nation and the capacity of Australian industry to meet future defence needs. However, without clearly defined and mandated requirements outlining the level of Australian industry involvement and content required in defence projects, the survival of an Australian naval shipbuilding industry with sovereign capability is at risk.

The recent Industrial Capability Plan has moved in the right direction by requiring an Australian company to have more than an ABN to be considered local.

The government states that it is committed to achieving 'maximum participation' of local industry. But the phrase 'maximum participation' does not describe what is being evaluated. Does this phrase refer to Australian labour involvement in the build, the percentage of Australian products used, or both? The committee did not receive advice about what constitutes Australian involvement, or definitions of terms such as 'involvement', 'content' and 'participation'. Clear and precise definitions agreed to by industry and the government are essential in order to examine any mandated requirements. This is a necessary first step in securing Australian sovereign capability for each of the major projects set out in the government's naval shipbuilding plan.

The committee has seen a copy of the draft Naval Group AIC plan for the future submarine project, obtained through a Senate order for production. The release of this draft document enabled the committee to examine the plan, and discuss its contents with industry witnesses and the Department of Defence at public hearings. The final document was provided to the Department of Defence in April 2018. The committee notes that the Department has indicated an intention to comply with the order for the production of the document. The document is yet to be released to the committee or tabled in the Senate.

Draft tenderer AIC plans submitted to the Department of Defence during the competitive evaluation processes for Defence projects should be made available for

scrutiny by the Senate. This would occur after a successful tenderer has been selected, but before the AIC plan is finalised between the Department of Defence and the successful tenderer. This is preferable to using coercive measures, such as an order for production in the Senate, before such information is made available.

In addition, the committee believes there is value gained through prescribing a formal, periodic Senate examination of these plans against actual project progress to ensure that Australian industry commitments outlined in the plan are met. The drafting and finalisation of contracts and AIC plans should not take place behind closed doors. These processes should be transparent and subject to parliamentary and public debate considering how much taxpayer money is at stake.

Recommendation 7

5.94 The committee recommends that the government provide clear definitions about what constitutes Australian involvement, content, and participation, and how this will be achieved in each project outlined in the government's naval shipbuilding plan. These definitions and requirements for Australian industry involvement are to be stipulated in each contract

Recommendation 8

5.95 The committee recommends that Australian Industry Capability plans for new Defence naval projects are subject to examination by the Senate – conducted in a manner similar to international treaties. The committee further recommends that finalised Australian Industry Capability plans are subject to six monthly reviews against progress by the Senate.

Support available to small and medium sized enterprises

The committee examined the difficulties encountered by small and medium sized enterprises when attempting to become part of supply chains.

The Naval Shipbuilding Plan outlines the government's commitment to the inclusion of Australian industry in supply chains. One way that this is achieved is by a requirement that tenderers complete an Australian industry participation plan as part of their bid for major defence contracts.

The committee acknowledges the value of creating an Australian Industry Capability Plan during the tender process for government programs. However, without mandated Australian industry requirements for involvement and content, or enforcement to ensure that the successful tenderers' industry plan is adhered to, the committee is not assured that the government has taken all steps available to fully support Australian SMEs.

The committee is supportive of the industry briefing days that took place in 2017 and the effort demonstrated by both the Department of Defence and prime companies to engage with local industry about upcoming programs. While it is still too early to evaluate the effectiveness of the support provided to SMEs by the CDIC and the NGTF, the government must continue to support SMEs while these evaluations take place.

In the absence of other support, industry briefing days are not enough. The committee notes that SMEs require meaningful, practical assistance as they begin to develop technologies and work to improve their products so that they meet the standards required by the primes. This includes support for crucial research and development.

The committee is concerned that delays could affect the ability of industry to participate in naval shipbuilding programs.

However, while the government appears to have been providing multiple avenues of support to SMEs, particularly in the past 12 months, unless recommendations seven and eight are implemented, SMEs will continue to face uncertainty about their long-term involvement in government programs.