

Chapter 1

Introduction

1.1 The inquiry into the future of Australia's naval shipbuilding industry was conducted over the course of two Parliaments. On 11 October 2016, following the 2016 federal election¹, the Senate re-adopted the inquiry into naval shipbuilding from the 44th Parliament in the 45th Parliament. In re-referring the inquiry, the Senate agreed to an amended terms of reference to reflect advances in the inquiry:

The future sustainability of Australia's strategically vital naval shipbuilding industry, including:

- a) the development of contracts relating to naval ship and submarine building;
- b) the design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia;
- c) the utilisation of local content and supply chains;
- d) the integration of offshore design work and supply chains in Australia;
- e) opportunities for flow on benefits to local jobs and the economy; and
- f) any related matters.

1.2 On 27 November 2017, the Senate granted the committee an extension to report from 1 December 2017 to 27 June 2018.

Submissions and public hearings

1.3 The committee received 21 submissions following the re-referral in the 45th Parliament, as well as additional information, including answers to questions on notice, listed at [Appendix 1](#).

1.4 The committee held six public hearings:

- 3 April 2017 in Perth;
- 4 April 2017 in Adelaide;
- 20 June 2017 in Canberra;
- 8 September 2017;
- 13 October 2017; and
- 7 June 2018.

1 On 9 May 2016, the inquiry lapsed with the dissolution of the Senate and the House of Representatives ahead of a federal election on 2 July 2016.

1.5 Concurrently, the Joint Standing Committee on Treaties (JSCOT) conducted an inquiry into the Framework Agreement between the Government of Australia and the Government of the French Republic concerning Cooperation on the Future Submarine Program. Public hearings were held in Adelaide and Canberra on 8, 14 and 20 March 2017. The JSCOT tabled [Report 169](#) on 13 April 2017.

1.6 Evidence received at several Senate Estimates hearings in 2017 and 2018 is directly relevant to this inquiry and has been used throughout this report. The Finance and Public Administration Legislation Committee held Senate Estimates hearings with the Australian Submarine Corporation (ASC) on:

- 28 February 2017;
- 24 May 2017;
- 24 October 2017;
- 23 February 2018; and
- 27 February 2018.

1.7 The Foreign Affairs, Defence and Trade Legislation Committee held Senate Estimate hearings with the Department of Defence on:

- 30 March 2017;
- 29 May 2017;
- 30 May 2017;
- 25 October 2017;
- 28 February 2018; and a
- 29 May 2018.

Background

1.8 During the 44th Parliament, the overall terms of reference for the inquiry was first referred to the Senate Economics References Committee on 25 June 2014. The terms of reference was straightforward yet comprehensive in its coverage—the future sustainability of Australia's strategically vital naval shipbuilding industry. The inquiry contained several parts, including a more narrow terms of reference adopted by the committee on 10 July 2014 for Part I of the inquiry—examining the tender process for the Royal Australian Navy's new supply ships and any related matters given its significant impact on the Australian shipbuilding industry.

1.9 The previous terms of reference is contained in the committee's first report² and is also available on the [committee's webpage](#).

1.10 The committee tabled three substantive reports on Australia's naval shipbuilding industry:

2 Senate Economic References Committee, *Part I—Future of Australia's naval shipbuilding industry: Tender process for the navy's supply ships*, August 2014.

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- Part I - the tender process for the new supply ships, tabled on 27 August 2014;
 - Part II - the future submarines, tabled on 17 November 2014;
 - Part III - long-term planning, tabled on 1 July 2015.³

First report, Part I—Tender process for the navy's new supply ships

1.11 On 10 July 2014, as part of its broader 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. This 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 ships.

1.12 During this inquiry, the committee considered the strategic importance of the replenishment of 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. The committee [tabled](#) this report on 27 August 2014. 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. It further recommended that tender documents should clearly note that a high value would be placed on Australian content in the project. The report's recommendations are reproduced at Appendix 2.

1.13 On 11 May 2015, the [government's response](#) was tabled responding to the report's four recommendations.⁴ The government disagreed with three of the four recommendations, and agreed in principle with the recommendation that Defence should become actively involved in encouraging and to supporting Australian industry to explore opportunities to become involved in the replenishment ship project.

Second report, Part II—Future submarines

1.14 In the second report [tabled](#) 17 November 2014, the committee recognised the immense national importance of the future submarine project and of every decision relating to the project. The committee highlighted the vital importance of having ideas and proposals thoroughly tested and assumptions about the future submarines objectively and critically assessed by competent personnel in order to provide government with the best possible advice. In the committee's view, open and informed debate would confer much needed transparency on government decisions; it would allow genuine scrutiny of government decisions; and provoke robust and informed analysis.

3 A final report was due 28 August 2015. On the 28 August 2015, the committee tabled a fourth interim report in the form of a letter as an interim measure, noting the committee's intention to table a final report on or before 26 February 2016, after the conduct of a further public hearing. A final report was not tabled.

4 A detailed assessment of the government's response is discussed in Chapter 2, of the committee's Third report.

1.15 Such a process, the committee reasoned, would also enable public, industry and multi-partisan political support for the proposed acquisition to be obtained. The committee asserted that the decision to acquire future submarines was a decision in the national interest and should be owned by Australians. The report's recommendations are reproduced at Appendix 3.

1.16 On 21 March 2017, the [government's response](#) was tabled responding to the report's five recommendations. The government agreed in part with recommendation 5, and noted the remainder.

Third report, Part III—Long-term planning

1.17 The committee's third report [tabled](#) in July 2015, developed and expanded on the findings of the first and second reports noting concern with the limited tender process used for the acquisition of the new supply ships. In particular, the committee expressed concern that to select just one contender at this early juncture may be premature and that the government should consider proceeding with two tenderers who could then further refine their proposals and develop their design to a more mature stage. As part of the report's six recommendations, the committee recommended that the government adopt a specific procurement process to acquire the 12 future submarines.

1.18 The report also examined the competitive evaluation process for Australia's future submarines, the independent audit of the Air Warfare Destroyers project, the continuous build of vessels, the development of an enterprise-level naval shipbuilding plan, and industry investment. All six of the report's recommendations are reproduced at Appendix 4.

1.19 On 21 March 2017, the [government's response](#) was tabled responding to the report's six recommendations. The government disagreed with recommendation 3, agreed in principle with recommendations 5 and 6 and noted the remainder. Significantly, the government rejected a recommendation, also contained in the committee's first report, that the tender process for the two replacement replenishment ships be opened up to allow Australian companies to compete and place a high value on Australian content. The government awarded the contract to Navantia S.A. and the ships are being built in Spain.

Structure of the report

1.20 This report comprises 6 chapters including this introduction. In summary:

- Chapter 2 – Background
- Chapter 3 – National long term planning
- Chapter 4 – Workforce planning strategy
- Chapter 5 – An Australian sovereign capability
- Chapter 6 – Support available to small and medium-sized enterprises

Note

1.21 References to the Hansard transcript throughout the report refer to the official transcript, unless otherwise stated. Page numbers may vary between the proof and official transcript.

1.22 On 28 June 2017, DCNS officially changed its name to Naval Group.⁵ All references in this report are to Naval Group Australia except where direct quotations have been used.

Acknowledgements

1.23 The committee thanks all those who assisted with the inquiry, especially those who made written submissions and attended the committee's public hearings. Witnesses are listed at Appendix 5.

5 Naval Group, 'DCNS changes its name to Naval Group', 28 June 2017, <http://naval-group.com.au/2017/06/28/dcms-changes-its-name-to-naval-group/> (accessed 19 June 2018).

